THE WORLD BANK'S DISCLOSURE POLICY REVIEW AND THE ROLE OF DEMOCRATIC PARTICIPATORY PROCESSES IN ACHIEVING SUCCESSFUL DEVELOPMENT OUTCOMES

HEARING

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THE WORLD BANK'S DISCLOSURE POLICY REVIEW AND THE ROLE OF DEMOCRATIC PARTICIPATORY PROCESSES IN ACHIEVING SUCCESSFUL DEVELOPMENT OUTCOMES

Thursday, September 10, 2009

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The committee met, pursuant to notice, at 10:04 a.m., in room 2128, Rayburn House Office Building, Hon. Barney Frank [chairman of the committee] presiding.

Members present: Representatives Frank, Waters, Maloney, Watt, Meeks, Moore of Kansas, Hinojosa, Baca, Scott, Green, Moore of Wisconsin, Ellison, Klein, Perlmutter, Carson, Himes, Peters; Royce, Miller of California, Neugebauer, Posey, Jenkins, Paulsen, and Lance.

The CHAIRMAN. The hearing will come to order. This is a hearing on the World Bank's disclosure policy review and the role of democratic participatory processes in achieving successful development outcomes. This is a matter in which this committee has a certain proprietary interest because in the early 1990's, this committee and the Subcommittee on International Monetary Policy in particular worked hard to urge the World Bank to create an inspection panel and to improve the openness. And we did it for a number of reasons. One of them is that these are decisions that are better made if there is participation. This is not simple arithmetic. These are not purely technical decisions. Lacking the information that you get from those most directly affected, you make bad decisions, first of all, because they will not take into account legitimate concerns of those directly affected, but secondly, because they have information that will benefit the process.

So we were pleased that these panels were adopted. We have been urging the other IFIs to do that with some success. But we do also want to make sure this is done in the appropriate way. And I will have to say that when we did this, it was without partisan division. There are some issues that get more ideological when we get into some of the economic development issues. But on this question of openness and transparency, it is clearly in everybody's interest. And in particular, I believe that we have not as a society globally provided the resources we need to alleviate poverty. Given the wealth that we have succeeded in creating through our private sector in much of the world, allowing children to go hungry, allowing basic human needs to remain unmet for some people is, in my judgment, morally unacceptable. We need to increase those resources.

One threat to our ability to do that is both the fact and the perception of corruption. Corruption is a terrible attack on the lowest-income people both in diverting resources from them and in eroding the kind of consensus you need to provide support. That is one of the major arguments in favor of the kind of issues we are talking about today because there are ways to uncover corruption. In the absence of this sort of openness, corruption flourishes. And so there are all manner of reasons why this is a good thing.

I do want to add one other point not directly relevant to this hearing. We may touch on it. We have the very distinguished former chief economist of the World Bank. And I have 2 regrets: one, that he is not still the chief economist; and two, they did not pay more attention to him when he was, because I think the policies that were there were felt. We have made improvements. I think we have made significant improvements from the 1990's when, for instance, the international financial institutions responded wholly inappropriately to the age of financial crisis in ways that, in fact, exacerbated it by misdiagnosing it and having misdiagnosed it and misprescribing. But we have continued to push. The World Bank has a Doing Business report, which I believe is a profoundly reactionary and misguided document. It is wrong not only ideologically but economically. With the great work of the staff of this committee and Mr. McGlinchey and others, we have pushed for changes. And we think things are getting better, but we recently saw the ranking of countries where it is best to do business. And it turns out that not being very fair to the workers still counts for more in the World Bank's rankings of countries than before.

Mr. Stiglitz pointed out that not simply is there a problem with a bias against treating workers fairly, but the public financing policies that it proposes are counter to what many of us think is appropriate. Certainly, we had the paradox, I think, during the Clinton Administration, of practicing one set of economic policies domestically but exporting the opposite set internationally. What is good for us here ought to be good for us to be exporting. So I will announce today that we will be having a hearing at some point and we have a priority on getting the financial regulation through. That will continue to be the priority. But sometime before the end of this year, we will have a hearing on this World Bank Doing Business report because I am determined to keep it up. And the World Bank should understand there will be, I believe, no further vote by this Congress to make funding available to the Bank until we get more progress in this regard. Now, I say that with some confidence because as chairman I cannot make things happen; but when a lot of people don't want to do them in the first place, it isn't hard to stop them from happening. A great demand from Members that we give more and more to the World Bank is containable, particularly in my role as chairman.

Hopefully, they will better understand that we are more serious about the revisions to this Doing Business report and its consequences than they appear to realize. I now recognize the ranking member of the subcommittee, the gentleman from California.

Mr. MILLER OF CALIFORNIA. Thank you, Chairman Frank. Your staff thinks you walk on water, so I don't know why you don't think you can accomplish more than you say you can.

The CHAIRMAN. If the gentleman would yield. Think for a minute about the composition of this committee and please don't suggest that I would walk on water.

Mr. MILLER OF CALIFORNIA. I was waiting to see, it is all I am saying. I don't think many of us really understood or expected the financial crisis that we have gone through in this country. But the global financial crisis has touched all nations and for some changed the economic development reality completely. And I think you have all witnessed that personally in trying to deal with that. Nations that worked hard to make strides developing their economies have been set back in those efforts, some a little and some, sadly, a lot. The World Bank has the difficult mission of assisting these countries as they struggle with challenges of poverty, disease, and as Chairman Frank said, corruption. With these changed global economic circumstances comes a need for change in the Bank itself and change, as we all know, is very difficult. I think that all of us were glad to see that the Bank is willing to break with past practices and making the difficult job of adopting a more effective information disclosure policy. I am pleased to learn of the Bank's plan to adopt a mechanism for declassification, establish greater openness of the board's deliberations, and ensure that the greater transparency results in greater partnership among interested parties. For these efforts, the Bank deserves our praise.

But I would like to stress the importance that these reforms not merely exist in a document, but become embodied and embedded in the culture of important institutions. The desire to be more upon, to share information, to see others as partners and not adversaries is a powerful tool and of the utmost importance. Formulating the policy is just the first step. The hard work will be implementing this approach among staff and the board member nations. I am sorry and I worry that the Bank officials in some instances may resist the compliance if they believe that disclosure of information will reflect poorly on themselves and thus affect their careers. Many people are dealing with careers and worried about the future in their careers. And we have seen some circumstances in government where that has come back to haunt individuals. Therefore, I would really urge the Bank to develop a separate policy to deal with the staff or leadership's timely disclosure. By enforcing disclosure, we will be able to prevent fraudulent and abusive bank practices in the financial—and the choices in the future. I look forward to your testimony and I yield back the balance of my time.

The CHAIRMAN. I thank the gentleman and I now recognize the gentleman from North Carolina for a few minutes.

Mr. WATT. Thank you, Mr. Chairman. Thank you for calling the hearing. I just wanted to make three quick points. I think this crisis in which we have found ourselves domestically and worldwide, the economic crisis has increased the pressure to find a more appropriate balance between privacy and nondisclosure and the public's right to know. And this is not unique to the World Bank. We are facing that same dilemma domestically with increasing demands for more transparency from the Fed.

Greg Meeks—who chairs the International Monetary Policy Subcommittee—and I just got back from Africa, increasing our demands on the African development banks for greater transparency and disclosure and more immediate information up on their Web sites about what they are doing. And this seems to be a mantra and a mandatory undertaking from all of the financial institutions in which we are involved domestically and internationally.

So I think this is an appropriate undertaking. I probably couldn't say it better than the briefing material that we got in preparation for this hearing. Three sentences kind of summarize it succinctly:

"Without timely access to information, individuals are unable to participate in decisions that may affect their lives and livelihoods.

"Without public access, communities are unable to hold decision makers accountable.

The right to access information is a fundamental prerequisite to meaningful participation and Democratic accountability."

I think that applies to our domestic institutions, the Fed and the call for more transparency there. And we have to carry that mantra internationally if we are going to carry it in our domestic sphere. So I support this greater call for transparency and I think this is an important hearing. Mr. Chairman, I yield back the balance of my time.

The CHAIRMAN. We will now begin the testimony. And we will begin with Joseph Stiglitz. Professor Stiglitz was chairman of the council for economic advisors under President Clinton and he was chief economist of the World Bank from 1997 to 2000 and won the Nobel prize in economics—not in any particular order of importance. Professor Stiglitz.

STATEMENT OF JOSEPH E. STIGLITZ, UNIVERSITY PROFESSOR, COLUMBIA UNIVERSITY

Mr. STIGLITZ. Thank you very much. First, let me thank you for this opportunity to discuss reforms in the governance, transparency, and accountability of the World Bank. What I have heard from all three of you so far is really music to my ears. These are things that I have been talking about for a long time. I have been pushing for this within the World Bank. On one occasion, I pushed so hard on this issue of openness and transparency that somebody aksed if the speech was my resignation letter, because they thought I was really pushing the envelope too hard. But I do think this is absolutely fundamental for Democratic processes.

While I will focus on the World Bank, I should add that most of what I have to say is equally relevant to other international financial institutions. I will begin by reiterating what I said in my testimony before this committee on May 22, 2007. First, America and the world has a strong interest in contributing to reducing poverty and promoting growth in the developing world. Aid can be an effective instrument in achieving these objectives. Second, the multilateral institutions of which the World Bank is a premier institution play an important role in this global effort. For a variety of reasons, assistance administered through the World Bank and other multilateral institutions can be very effective in achieving our objectives and can be an important complement to bilateral aid. Third, it is therefore in our interest that the World Bank remain strong, credible, and effective. The Bank has rightly emphasized good governance and corruption. But the Bank can only be effective if it is seen as having good governance itself.

This morning I want to elaborate on a few issues related to governance and transparency. The importance of this issue of transparency was brought home to me during my visit in the last couple of days to Iceland. The country has had a bank collapse of unprecedented magnitude. It followed the deregulation and liberalization policies that had become fashionable in the past quarter century, policies which by the way were often advocated and pushed by the international financial institutions. As in the United States, inadequate regulation in Iceland has imposed a huge cost on society, a cost that will be borne for years, perhaps even decades to come. The IMF has helped support Iceland with their program which was unusual, provided more fiscal space than it does in its typical programs, and even encouraged them to impose capital controls.

But a very large number of individuals with whom I talked and interacted have little confidence in the transparency of the institution. They worry that there are secret, yet-to-be-disclosed conditions. A widely shared sentiment is that, while the IMF approach may work in dealing with a less Democratic and less educated society, it is totally unsuitable for a vibrant, engaged, and educated citizenry such as that of Iceland.

Whether the accusations and concerns have any validity is not the point I want to raise: it is that the legacy of the past haunts the present. This is why it is imperative that reforms be made quickly.

Some reforms have already occurred. It may seem strange that it is considered a major victory in democratic governance in the 21st Century that the G–20 has agreed at last that the head of an international financial institution should be chosen on the basis of merit, but we should celebrate the victory and hope the decision gets implemented. Because these institutions have no system of direct democratic accountability, it is all the more important that there be confidence in their governance, that they be transparent, and that attention be given to a variety of other forms of accountability. The institutions have pushed a variety of policies whose benefits either for development or poverty alleviation are questionable. And as the chairman pointed out, they have often pushed policies that are inconsistent with those policies that we have here in the United States. They push policies of deregulation and capital market liberalization, which have played a large role in the crisis and help explain its rapid spread throughout the world. There may be a link between these failures in policy and the systems of governance. Had there been more transparency and better systems of accountability, perhaps the voices that were raised against these policies might have had more impact.

While the reforms that have been agreed to among the G–20 are steps in the right direction, it should be clear that the pace of reform is slow, and the reforms on the table are likely to have limited impact and are insufficient to address long-standing criticisms. For instance, while giving emerging markets more voting rights is desirable, there is little reason to believe that it will result in fundamental changes to the behavior of the institutions. More fundamental reforms such as double majority voting should be considered. Other ways of increasing accountability of the international institutions need to be explored. While proposals to strengthen reporting to a more politically accountable body, such as a council of finance ministers, might seem to do this, such reforms may have the opposite effect. If finance ministers are insufficiently engaged, it would in effect give more autonomy to the bureaucracy. The World Bank poses a particular problem as it is not really a bank but a development institution. Meanwhile, finance ministries, such as the U.S. Treasury, are not development agencies, so there is a double problem. Not only are some of the policies that are pushed more reflective of the distinctive perspectives of the financial sector, but also there is really no depth of understanding what makes for successful development.

Moreover, many critics of current governance are skeptical of the commitment of finance ministries to some of the major objectives of the Word Bank, including alleviating poverty and assisting developing countries in the provision of global public goods. Growth by itself need not lead to poverty alleviation. Growth pursued the wrong way, with policies for instance that increase in stability, can even increase poverty. Moreover, what is in the interest of some in the financial sector may run counter to stability, growth, and poverty reduction, especially in developing countries, as we have all learned in the recent crisis at a great expense. There is no simple way of addressing these concerns.

I want to put forward four sets of governance reforms. One of the underlying problems when we talk about improved systems of governance accountability is accountability to whom. Systems of accountability do affect behavior. A thought experiment might help clarify what is at stake. If the World Bank had to report to a council of labor ministers, there might be more concern about ensuring that the World Bank is pushing for the acceptance of core labor standards, adequate levels of minimum wages, enforcement of workplace health and safety standards, and other forms of job protection. Some of the concerns that—

The CHAIRMAN. Another 30 seconds, Mr. Stiglitz.

Mr. STIGLITZ. Okay. Some of the concerns that you raised would have been given more attention. In my written testimony, I talk about a number of governance reforms that I think would improve the system of accountability. I also talk about a number of reforms to increase transparency. Let me just highlight one of them, which is that just as we have been talking within the United States about making sure that the Federal Reserve respects the Freedom of Information Act, we should require the World Bank to adopt a standard that is at least as good as the Freedom of Information Act. The argument against this that has sometimes been put forward is that the bank has commercial secrets that should not be given away as though you are dealing with a public body.

The CHAIRMAN. Thank you. We will get into this in the question period.

Mr. STIGLITZ. Okay. Fine.

[The prepared statement of Professor Stiglitz can be found on page 111 of the appendix.]

The CHAIRMAN. Next is Richard Bissell, who is the executive director of the Policy and Global Affairs of the National Research Council, and he was a member of the first World Bank Inspection Panel in 1994. And he was chair of it for his last year. Mr. Bissell.

STATEMENT OF RICHARD E. BISSELL, EXECUTIVE DIRECTOR, POLICY AND GLOBAL AFFAIRS, NATIONAL RESEARCH COUNCIL

Mr. BISSELL. Thank you very much, Mr. Chairman. It is a real delight to be here today and talk about one of the most important subjects in the context of the World Bank and its long-term effectiveness. What I want to do in my time is take you inside the issue of how disclosure policy is set at the Bank, some of the directions we think it needs to go, and some of the barriers that may occur. I am speaking today in my capacity as a member of the board of directors of the Bank Information Center and I am also presenting this testimony on behalf of the Carter Center, the Center for International Environmental Law, Oxfam America, Revenue Watch Institute, Transparency International, and the World Wildlife Fund. As you said, I have served in prior capacities as a member of the Inspection Panel at the World Bank and also the Compliance Review Panel at the Asian Development Bank where I benefited enormously from your proactive support of these mechanisms and the kind of transparency which is essential for making them effective in the banks for accountability purposes.

In the context of development, public access to timely, relevant information is critical for a number of reasons. First, it respects democratic rights and norms that call for access to information held by public bodies.

Second, it strengthens development outcomes by enabling informed participation of local stakeholders and the incorporation of local knowledge. And finally, it improves accountability by enabling third party monitoring of development decisionmaking and programs. Any good policy for transparency should meet all three tests. As most of you know, the Bank currently operates under a disclosure policy adopted in the 2001–2002 timeframe. And the principle was conceded at that time, which was the last major rewrite of this policy, that timely dissemination of information to local groups affected by the projects and programs supported by the Bank is essential for the effective implementation and sustainability of projects. The issue since then has been how to implement that principle.

There are a number of weaknesses with regard to the 2000 policy that we have noted over the years. The first is there is no presumption of disclosure of information. Second, there are limits on access to draft or preapproval information. Third, there has been virtually no project implementation information available. Fourth, there is a very weak request system for information and no option for appeals that has any real significance. Fifth, there is no access to shareholder positions, that is, of the executive directors at the Bank. And last, there is a weak translation framework which is essential for allowing information to reach people who live in project areas.

From my own point of view, the question of access to information has arisen in virtually every case that was reviewed by the Inspection Panel of the Bank. The fundamental role played by open information in every healthy society becomes clear when you look at the range of requests that came before the Inspection Panel.

Earlier this year, the World Bank commenced a review of its policy on disclosure and information. They posted an approach paper that has a number of positive elements if it is adopted later this year. First, it has a true presumption of disclosure. Second, it has a functioning request and appeal system. Third, it allows for implementation information of certain kinds to be released. Fourth, it has a release of final draft information, that is, of drafts going to the board with regard to various strategies and programs. And fifth, there is some expanded access to board records.

We applaud these ideas and these proposals for moving forward. But we still have some concerns with this new policy if it is adopted. First of all, there is very limited transparency of the board, and the decisions and the approaches taken within the board are essential for understanding the decision making in the Bank. Second, there is an issue with regard to the narrowness of the exceptions allowed under the policy. Third parties, particularly shareholders, contractors, and others, are granted significant discretion over the release of information of information they have provided to the Bank beyond the set of required disclosures. That is of concern.

Third, we question the strenght of the appeals function. The appeals committee under the design will be essentially a bank management committee, not an independent appeals process. We suggest that there should be a second stage independent appeals function that would provide greater integrity to this request in the appeals system. Fourth, we think it is important to strengthen the role of translations. The Bank should ensure that all translated project materials, even those developed by the borrower, are readily available, including on the Bank's Web site. The access of people to the Web has significantly grown since 2002. And lastly, I would just emphasize that it is important that the Bank, when it is performing its information policies, see itself as setting the gold standard for all international financial institutions, many of which, in fact, are reconsidering their policies and watching what standard the Bank sets. At one time, the Bank's policies in this area were considered the gold standard for all MDBs. But the record is now quite inconsistent and in this key area of information disclosure, the Bank board and senior management have an opportunity to demonstrate the kind of leadership to which they should aspire. So we want to work with the Bank on its continuing journey to approve its transparency and accountability. We support some of the draft steps that have been proposed, but we will continue to press for further measures to build what is really a 21st Century approach to accountability in transparency in a global, public organization.

[The prepared statement of Mr. Bissell can be found on page 32 of the appendix.]

The CHAIRMAN. Thank you.

Next, we have Professor Alnoor Ebrahim from Harvard Business School.

STATEMENT OF ALNOOR EBRAHIM, ASSOCIATE PROFESSOR, HARVARD BUSINESS SCHOOL

Mr. EBRAHIM. Chairman Frank, members of the committee, thank you for your invitation to testify before you. In addition to my position as a faculty member at Harvard Business School, I have worked as a consultant to the World Bank. I have also worked as a consultant to a number of international civil society organizations. My testimony is in my capacity as a scholar and it is based on research on reform and accountability undertaken at the Bank, particularly where civil society organizations played an important part. I want to begin by emphasizing one overarching point and that is the Bank is a public institution with the mission of fighting poverty. This may seem obvious to those of you in this room, but it is something that I believe is easy to lose sight of in debates, particularly about reform. It has real implications. First of all, it implies that any reform effort must be directed towards strengthening and enforcing this public purpose. The second implication is that it means that the Bank must be accountable—this is Professor Stiglitz' question of accountability to whom. It must be accountable to the people that it is supposed to serve, the poor and particularly those who are most affected by its activities.

So the question then is, how can the Bank be accountable? And we know that essentially in global governance we have an absence of the kinds of accountability mechanisms we take for granted in democratic societies: elections; and checks and balances. So we must rely even more heavily on the practices that citizens expect of government agencies anywhere, transparency which I believe is just the beginning, reasonable opportunities for citizens to participate in decisions that affect their lives, good oversight, and responsive governance.

From this, I believe there are two critical questions we can ask of the Bank at this point. First of all, how can the World Bank use participatory processes to achieve better development outcomes through its projects and policies? And second, what would governance that is responsive to the poor actually look like? On the first question about participation in policies and projects, we have seen numerous reforms over the years. The information disclosure policy that is currently under review and is the key subject of this hearing; ten safeguard policies on environmental assessment, involuntary resettlement, indigenous peoples and so on; to complaints mechanisms, the Inspection Panel, which Mr. Bissell chaired; and public consultations on several lending practices, such as on structural adjustment, on extractive industries, on large dams. A look at each of these suggests that there are two major challenges. If transparency is the first step, these two major challenges become the next step. First of all, the Bank needs enforceable standards on public participation. Public consultations typically occur only after a project has been formulated, and in the Bank's own words, "in an arbitrary fashion with very short notice and/or very late in the process." They rarely occur at the most critical stages of the project cycle: early on, when key decisions are being made and later during monitoring and evaluation. This problem extends to how the Bank revises its own internal policies and lending practices. It holds public consultations that are well-intentioned, but are generally ad hoc. It reinvents the review process each time, and is rarely clear about what it aims to achieve. In essence, it needs two standards of public participation: one for projects; and one for how it reviews its own internal policies. That latter is not so different from what the U.S. Administrative Procedures Act from 1946 does for us.

The second related challenge is that in order for a policy of public participation to have teeth, it must be tied to the performance reviews of staff. And I believe this is the kind of point that Mr. Miller was getting at. The Bank is filled with dedicated professionals, but few have the incentives to actually engage project-affected communities because they are under immense pressures to get bigger loans out the door. Staff performance appraisals that reward public participation can make the Bank more effective at fighting poverty. Let me return now for a moment to the second broad question which was, what would governance that is responsive to the poor actually look like? We know that the Bank's structure is based on a corporate shareholder model that gives the greatest voice to the wealthiest donors. It is also very well documented that this arrangement creates a moral hazard problem. In the long run it is a crucial problem to address. And of course, it is a focus of the debate at the IMF at present. I do however wish to note an irony here. And that is that those members who stand to gain the most from voting reform, that is the borrowing countries, are also those that have tended to oppose reforms on participation, anti-corruption, environment, and gender equity. Changing the voting formula is critical, it is important, but it is not going to solve this problem. Sunshine on board deliberations might help. A related major opportunity at the governance level is actually with national parliaments who frequently have no idea what the Bank is doing in their own countries.

The Bank's founding articles of agreement prohibit it from the involvement in the political affairs of a state, but that does not mean that it can't promote better parliamentary scrutiny and oversight. Some civil society organizations have recommended that the Bank's executive board refrain from approving key documents and projects until they have been reviewed by the relevant national parliaments. In closing, I would like to emphasize once again that the Bank is a public organization with the mission of fighting poverty. Reforms that enhance accountability to the poor through better citizen participation will help it achieve its critical mission. Thank you for your attention.

[The prepared statement of Professor Ebrahim can be found on page 78 of the appendix.]

The CHAIRMAN. Next, we have Vijaya Ramachandran who is a senior fellow at the Center For Global Development.

STATEMENT OF VIJAYA RAMACHANDRAN, SENIOR FELLOW, CENTER FOR GLOBAL DEVELOPMENT

Ms. RAMACHANDRAN. Thank you, Mr. Chairman, and respected members of the committee. Thank you for this opportunity to share my views with the committee today. I, too, commend the Bank for this new disclosure policy. I think the Bank is a very important institution and we must make it work for poor people all over the world, but I also believe that the issue of accountability or real accountability, which this policy aims to address, is far more complicated than simply changing the rules on paper.

I believe that despite this new disclosure policy, it is still unlikely that the Bank would really move to a true sense of accountability, accountability to poor people, accountability to its shareholders, and I think the reason that we are really struggling with this issue of accountability is that the Bank has this very singular focus on the volume of lending. And as long as the goal is to send as much money out the door as possible, there are very strong disincentives around the entire chain of command, from the staff on the ground to management in Washington, to admit when things are going wrong, to stop projects before they are completed, to raise doubts about things when situations on the ground get bad. I think rather than that there is an embedded culture; Mr. Miller mentioned the culture in his opening comments. I think there is an embedded culture and huge bureaucratic pressure to keep things going and to keep sending money out the door. In other words, country loans are simply regarded as the gold star. The single metric of success at the way the World Bank defines it. I think as long as we have this enormous pressure to lend at all costs or lend at any cost, we will not see real accountability emerge in these organizations.

Releasing huge amounts of paper exposed or releasing information quicker than before might be a welcome step, but it is not going to be something that changes fundamentally the way the organization works as long as staff, management, and everybody else is defining success in terms of how much money is lent on any given year. People are very reluctant inside the organization to put their actual thoughts down on paper. And for us to read the paper faster or more of it is great. But as long as you have a culture of shoveling money out the door, without any concern when things go wrong on the ground because you have so much pressure to keep things going and keep lending volume up, I don't think we are going to see any real change in accountability in the truest sense of the word, by which I mean accountability to the poor.

So I think the question now is, what can we do to change this culture inside the Bank and to move it to a system whereby we really do get real transparency and real accountability? I suggest two things in my testimony here. One is, I think we really do need rigorous external third party evaluation of projects. If we can define successful development outcomes, the number of children who are fed by a particular program or the number of children who benefit from delivery of basic health care services, then we have a real metric by which we can hold the Bank accountable. As long as the Bank does not do the rigorous third-party evaluation, we are left with metrics that measure inputs. And really even all the papers that you are going to get with this new disclosure policy is going to be more information on the inputs that are going into the Bank's work, rather than the outcomes, the title of this session is about successful development outcomes.

We know little about that from what the Bank does because of this real sort of lack of emphasis on evaluation, rigorous third-party external evaluation of what the World Bank's projects actually accomplish on the ground. The other idea I suggest today is to think about how we might move the Bank away from this singular focus on loans. We might think about other products. We live in a very integrated global economy. Poor countries are demanding much more complex products than just the standard loan package that the World Bank offers and maybe we want to think about in particular risk mitigation products, catastrophic insurance, bonds that are linked to terms of trade, concessional grants or grant facilities that would deliver resources to countries in the wake of a natural disaster such as, for example, Indonesia experienced after the tsunami.

I think we need to encourage the Bank to move to a different set of projects and a more diversified set of projects that are linked to actual need that can be measured in terms of development outcomes. And until we get to that point, I think we are going to be stuck within this endless sort of conversation of trying to improve transparency in an organization which measures its success by one thing only, which is how much money it sends out the door. To this end, I request you, the members of this committee, to provide guidance to the Treasury to link future capital increases of the World Bank and the other MDBs to third-party evaluation so we do know what successful development outcomes are, and to encourage them to innovate, give staff other things to do, to think about products that might serve countries in this new era.

I think as long as there is pressure on the bottom-line for these MDBs from you and from other member, other shareholders, that will encourage the Bank to go down a different path and to change its embedded culture. Thank you.

[The prepared statement of Ms. Ramachandran can be found on page 106 of the appendix.]

The CHAIRMAN. Thank you. I will have to shift gears. This is the first time all year I thought about making financial institutions more complex. We have been spending a lot of time. They are not mutually exclusive necessarily. We may meet more in the middle.

Finally, Thomas Blanton, who is the director of the National Security Archive at George Washington University.

STATEMENT OF THOMAS S. BLANTON, DIRECTOR, NATIONAL SECURITY ARCHIVE, GEORGE WASHINGTON UNIVERSITY

Mr. BLANTON. Thank you, Mr. Chairman, and members of the committee. I really applaud this hearing because congressional pressure from this body has been essential to every major reform the Bank has undertaken in the last 2 decades, for transparency and greater accountability. That is just a fact. And my prepared statement has 30 years of the struggles where congressional pressure made such a huge difference. I won't belabor that history. There is more of it there than you can possibly consume in this hearing or any other. What I want to do is bring today some attention to the international Freedom of Information movement because that is how my archive of national security documentation got to the point where we have something to offer to the debate over openness and international institutions.

We were started 25 years ago to follow up Freedom of Information requests because it took so long to get information out of government. We made headlines every day. We got transcripts of Saddam Hussein's interviews with the FBI. We kind of serve as a snowplow in the secrecy blizzard and dig out some of the biggest drifts and hopefully keep the roads a little more open for everybody else. But the real point is that starting 20 years ago, folks like the dissidents in eastern Europe started coming to us and saying, we want to look at the secret documents, what does the CIA have on my country?

And they would look at our documents and then they would say, wow, this is fabulous, why can't we get this out of our own records? I still remember a friend, Sergio Aguayo from Mexico, we published a bunch of documents in Mexico about one of the big massacres carried out by the government. And Sergio says in the major newspaper, why are we learning this from Yankee records, why don't we have our own right to know, our own Right to Information Act? And they went out and passed one. So over the last, about 2 decades, I have been going around to country after country after country helping folks write Freedom of Information laws that can make a difference, that can open up secret files, that can bring people into the process of decisionmaking, that can hold government agencies accountable.

There are some lessons from that global movement that are directly relevant to the struggle with the international institutions to make them more accountable. And there are three kind of fundamentals. When Joe Stiglitz says we ought to make sure the World Bank disclosure policy at least rises to the standard of freedom of information laws, there are international norms today and they say fundamentally 3 things. There is a presumption of openness. That is, the governments—the public bodies don't own that information. We own it. And with that presumption comes an obligation to put it out there before anybody has to ask for it. Proactive publication.

Think about our own Federal Register in this country. Think about the ways in which we put out notice and comment of any rulemaking. There is an obligation to put it out there before people ask and that is a model. The second fundamental standard from the international freedom of information movement is that exceptions to that openness have to be as narrow as possible and with a serious harm test, meaning there has to be real evidence that the release of the information is going to damage something serious, like somebody's personal privacy or a decision-making process or the stakeholders involved. And usually when you apply a serious harm test, you end up with way more openness than you started with.

And the third core principle is that you have to have independent review of the secrecy decisions. You have to have what Richard Bissell was talking about. You can't just have the board management committee making the decision on what gets released. It needs to go to the Inspection Panel. It needs to go to an independent body. In this country, we have Federal judges who look at that in Freedom of Information lawsuits. And you often get some great results when just you have separate entities looking at that process. Those are court norms. And If you get engaged in freedom of information campaigns around the world, really quickly you come up against not just national governments, not just former dictatorships, not just residual communist parties, you come up against multilateral financial institutions who are driving so much of the decisionmaking on development and aid that is taking place in these countries.

So really quickly, as I went to places like India or the Philippines or South Africa or Argentina or Chile, you would run into the multilateral institutions and find that the things we were arguing for those countries to adopt, those institutions didn't even come close to those standards. And they still don't come close today. But there is a core lesson, I think, from 30 years of struggle to make them come closer to that ideal. And the core lessons are that pressure from the outside really works. Just in the period between the announcement of the draft disclosure policy this spring at the World Bank and today, we know from inside the Bank they have already changed it to fix criticisms made by the Global Transparency Initiative, by the Bank Information Center, by the Carter Center and others, they have already started to consider the release of summaries of board discussions, show who disagreed with whom. They have started to consider putting staff recommendations out to the public at the same time that the board receives them. That is a direct result of the criticisms from outside, the pressure from outside. That is lesson number one. Lesson number 2 is that congressional pressure really works. Congressional attention really works. I am really encouraged by this hearing and by this process; keep it up.

And there is more to come, I hope. The third great lesson is even when the Bank makes just rhetorical commitments to openness, it gives us and you handles to keep the pressure on, on them. It is like what Martin Luther King once said when asked, why are you trying to pass a Civil Rights Act up in Washington, that is not going to change any of these racists down here in Mississippi, and he said something like, change the law and their hearts and minds will follow. You can hold people to their own standard, to their rhetorical commitments to their disclosure policy. So we have an obligation to make that as solid and strong as possible because it gives us leverage.

And the final point, the lesson of the last 30 years of struggles is the Bank itself has to have reformers inside. They have to internalize it. It is that combination of outside pressure, congressional attention, and internal reformers that really make change. It is that old joke about the psychiatrist and the light bulb. How many shrinks does it take to change the light bulb? Only one, but the light bulb has to really want to change. The World Bank has to really want to change. And one of the reasons that it really wants to change its own disclosure policy today is that its own research from the World Bank Institute has shown over and over that openness measures like freedom of information laws are directly correlated with better development outcomes, better governance, and less corruption.

So, Mr. Chairman, we have great lessons from our past struggles. I think our current job is to keep it up. Thank you.

[The prepared statement of Mr. Blanton can be found on page 40 of the appendix.]

The CHAIRMAN. Thank you.

And that is a good segue into my questions. I have been reminded by Mr. McGlinchey that the World Bank will be coming to us for a capital allotment next year and some of the others. And let me be very clear. Yes, we will not be voting more money unless there are some changes. Now, it has been pointed out to us, it was pointed out to us in the 1990's when we said that we wanted there to be the Inspection Panel and disclosure, that we could not compel the World Bank to make changes, and that is true. We, the Congress, couldn't. We could have our vote.

We, in turn, pointed out while it was true that we could not compel them to make changes, they could not compel us to vote money. And that—I think it was a chance for them to understand a fundamental principle that has been very relevant legislatively in my own career that was best expressed musically and I won't sing it, but I will cite it. What they have learned is that the ankle bone is connected to the shoulder bone, that things that are logically separate are not necessarily politically separate. And I want to say now this committee—because I will be chairman no matter what happens through the end of next year—will not convene to take up the question of approving funding for the World Bank or any other institutions unless we get some further improvements. There have been improvements, but that involves the Doing Business report, that involves some of the issues we talked about here. And we are going to be reasonable. I just want to remind people, I am not claiming, as I said, to be all powerful. If everybody cooperates, getting increased funding voted as we saw with the IMF is difficult. If any of us who have a major role in that necessary job of assembling the support defects for various reasons, it becomes impossible. And I am simply noting that so what I want to ask then is—and my question here—but I am going to stick to the 5-minute rule. I am glad to see this kind of interest from the members.

For written suggestions or conversations with our staff, what things should we be asking them do? And we want to be reasonable. But the third-party evaluation, obviously the question is, which third parties, and how do you structure them? I will say there is one thing we can do legislatively. Professor Stiglitz mentioned it.

When I was chair of this subcommittee in the early 1990's, at one point, I invited the State Department to testify. And the Department of Treasury got very exercised. I was too junior at that point to do what I should have done which is to tell them to get over it. I think this is right.

Part of the problem is—well, there are two structural problems. One, there has been very little parliamentary input. Our colleague from Wisconsin who is here, Ms. Moore, has become active in that under a group started by our colleague from Minnesota, Betty McCollum.

In 1994, I convened in this room a meeting of parliamentarians from all over the world to deal with the IMF and the World Bank and we were able to get World Bank and IMF officials to appear before us which they could not do and should not do before any one parliament. That was in my last month as chairman of the subcommittee because elections previously had removed that from me. So it hadn't gone forward.

I want to continue to work on parliamentarian interactivity. But it is also the case—and I think Joe Stiglitz mentioned it and a couple of others—that this has been too much the province of treasury departments. I think if in the 1990's with regard to Asia, the State Department had more of a role in America's formulation of policies at the IMF you would have seen less harshness, less ignoring of political reality. One of the great mistakes I think we made with this insistence on great austerity, even when budgetary excess was not the cause of the problem, was to discredit democracy. Because in many parts of the world, we were giving people two messages: One, be more democratic in your society; and two, tax the poor more, charge more for necessities, be tougher on labor. People came to associate those kinds of harsh increases in their lives with democracy. I think a State Department would have been more relevant, a labor ministry. So one of the things I am going to be talking about is legislation that will increase the participation here. I hope our European allies will deal with it. You take both some pride and some comfort from the fact that one of the members of the staff of this committee, Scott Morris, is now the Deputy Assistant Secretary at Treasury for international financial organizations. I believe we will have a very cooperative response on the part of this Administration. So I am going to end it now. Please submit to us concrete suggestions of things we can ask the Bank and the other international financial institutions to adopt because we do intend to use our power of the purse to acknowledge what they have done and to thank them. I will just—I will cite that 1980 is the first time I ran for office and I had a difficult primary and then a difficult funding election. And after the primary, I wrote a letter to all the people who had given me money.

And I said, I am going to make my mother very happy because I am going to use two of the things she told me to use, thank you for what you did, please give me some more. So we are going to say thank you, and not so much please, but here is the condition to move forward in these areas.

Mr. Miller.

Mr. MILLER OF CALIFORNIA. Thank you, Mr. Chairman. I want to say we always say thank you to the panels. But I really enjoyed every one of you. Dr. Stiglitz, Professor, I know you thought you had 35 minutes. I saw you turning your pages at the end. It was 5 minutes. I know this is very difficult. But I would like to continue the conversation. And I enjoyed—and it went down—I kept saying I really liked that, I really liked that. You really did. You all were very, very good. You have great ideas. We are talking about disclosure policies that were last changed in 2001, 2002. But one thing I gleaned from what you are saying, you are talking about significant structural change at the World Bank is what you are talking about. And I am really glad to receive that testimony. I am not just trying to make you feel good.

But your testimony really was excellent, even to the conclusion. You did a great job. You just ad-libbed it. You turned your pages as you were doing it. But we are talking about increasing transparency, and that is problematic in a lot of situations. Are we going to force deliberation into a more private setting, rendering this initiative ineffective by what we are trying to do? Is that going to be problematic from your perspective?

Mr. STIGLITZ. I want to echo one of the things that Mr. Blanton said, which is that the secrecy both of the IMF and the World Bank and of governments with commercial contracts is a real barrier to citizen involvement. When Mr. Frank talked about what should be the conditions, I think one of the conditions ought to be that this impediment should no longer exist. That, in fact, they should be on the other side.

Mr. MILLER OF CALIFORNIA. But his comment was to increasing transparency. Do you know the structure of the World Bank? Are they internally going to take their conversations more private?

Mr. STIGLITZ. Part of what we are talking about here is making the World Bank help be an enforcer of more openness within countries. For instance, before the IMF or the World Bank puts money into a country that is rich in natural resources, it has to subscribe to the extractive industries transparency initiative, because what sense does it make for us to be putting money into the country if it is in effect pouring money out and not getting the full value from its natural resources. We don't know if there is no transparency. That part, I think, is unambiguously positive. The other part is I don't think that the World Bank will make things secret because of the procedural issues that have been put forward. Before they adopt their program, if they make it a requirement that they put it out in the open like we do in our notice, they will have to have more transparency. They may have less public discussion, but at the critical points, there will be the kind of public disclosure that will enable more public participation.

Mr. MILLER OF CALIFORNIA. So the board meetings, if they were made more public, do you all agree that would be a beneficial move or would it be detrimental?

Mr. BLANTON. I think we have some tangible evidence that Joe Stiglitz published in looking at—this was the great fear when we made the Federal Reserve in this country more public. And Arthur Burns back in 1976, had all these quotes in there saying all this will be terrible, it will turn it into theater and it will increase volatility in the markets. Well, we have a few decades of experience showing that the opposite occurs. It is far more stable if the expectations are—the information flows keep up with what the market needs. That is a core lesson I think from market economics.

The CHAIRMAN. If the gentleman would yield. By the way, you can thank Mr. Gonzalez up there. They used to not even announce the vote of the Open Market Committee for 6 weeks. How you decide to set monetary policy by not telling anybody what you were doing with secrecy above your objective, but I do want—and thank you for yielding because I am told that one of the pending proposals that maybe this was mentioned was to release the transcripts after 10 years of board meetings, which would seem, I think to both of us, not enough. Any comments on this, on this proposal if you don't mind. That is the current wording. I do know that the gentleman's concern is that if they have to be released, maybe they will talk more informally. But they can do that anyway. I grew up politically in Boston where I was told early on to never write when you can talk, never talk when you can nod, and never nod when you can wink. So I assume some people already know how to do that. But what about this 10-year disclosure policy?

Mr. MILLER OF CALIFORNIA. That is fine. Sure.

The CHAIRMAN. Does anybody have any comments on this 10-year wait? Is that unreasonable?

Mr. BISSELL. I would just say with regard to the proposals being considered and there are not major improvements in release of the executive board documentation at this stage. The idea of waiting 10 years to know what was said at the board meetings is from our point of view overreach in terms of secrecy. They could release them in far shorter time so that people can understand the context in which decisions are made with regard to projects.

The CHAIRMAN. That is fairly generally agreed to.

Mr. BISSELL. Could I add one other point about that? One of the key issues from our point of view is the deliberative documents that go into the board. This has to do with project appraisal documents and other documents that are prepared by the staff and drafted by the borrowing countries and so forth. Those documents actually are already floating around a great deal. The only people being denied access to those documents are the people who are supposed to benefit from the projects. In other words, they are shared among the borrowing governments, the project managers, the people all around the Bank. They are copied in thousands of copies. So we are trying to just move that to the point where people who really have a stake in it ought to be able to get access.

Ms. RAMACHANDRAN. I think my concern about the 10-year period, and these documents more broadly is, are we actually able to use them to identify real concerns with these projects? Whether it be corruption, whether the project is not going well. And I think I still have a lot of doubts. I think the wording that is used when things are going wrong are things like institutional weakness or lack of capacity. People are not I think forthright enough when things are going wrong to stop a project because the culture is to not stop projects. And I am not sure disclosing these documents is going to help us judge whether these projects are working or not or whether the money is ending up in corrupt hands.

The CHAIRMAN. Let me return the time which I took from my colleague.

Mr. MILLER OF CALIFORNIA. That is my pleasure. Is there concern on the part of the panel that the proposed appeal mechanism is going to be a direct arm of the Bank staff still? Would that in any way create an inherent bias?

Mr. BLANTON. Yes.

Mr. MILLER OF CALIFORNIA. What would you propose?

Mr. BLANTON. I think in Dr. Bissell's testimony, he specifically proposes using the Inspection Panel as an independent review process. This is actually what the international norm is in freedom of information. You can't let the folks who make the withholding decision also decide on the appeal of that secrecy decision. You have to create some independent review.

Mr. MILLER OF CALIFORNIA. And Ms., is it "Ramachandran?" I can't say it. I am from Arkansas. What do you expect?

But you talked about how the effectiveness of a new policy will depend on its implementation and a buy-in basically from the staff and management. Is that going to be problematic?

Ms. RAMACHANDRAN. That is, I think, where my concern is. If the incentives for staff are changed, you mentioned the embedded culture, I think that has to change for these documents to have real value and for us to be able to participate meaningfully in this process. As long as the embedded culture is the singular focus on loan volume, it is going to be very difficult, I think, for staff to actually put down their real thoughts, real concerns on these pieces of paper. That is kind of why I am arguing we need this external evaluation. I realize it is a difficult thing to do, but my colleagues at the Center for Global Development have thought about this very carefully. There are ways to do it.

Mr. MILLER OF CALIFORNIA. I agree with your testimony and your comments, and I thank you all. You were very informative, and I yield back.

The CHAIRMAN. I am going to take 10 more seconds to say this because it is relevant. The one thing I hope we will never hear, and I think you suggested it, the Bank used to say to us, oh, well, we can't do that because the recipient country won't allow us to. You know, we have a constitutional question about whether the donor can put an unconstitutional condition on a gift, but I never heard of a doctrine that said that the recipient had the right to impose binding conditions on the terms in which the offer was made. So let the Bank please never tell us again, oh, we are sorry, but these people won't accept our money unless we do this or that.

Mr. MILLER OF CALIFORNIA. Will the gentlemen yield for 1 second?

The CHAIRMAN. Yes, I yield.

Mr. MILLER OF CALIFORNIA. Do you think it is appropriate to have some type of accountability to the policy being implemented of basically a punishment if you don't implement it properly on the part of the staff? There has to be some accountability to not doing your job if there is a bias on the part of staff.

The CHAIRMAN. Why don't we get that in writing. I think that is an important question and one people look like they want to think about. So we would like that in writing.

Next, the gentlewoman from California. Let me just preface this by saying that one of the great triumphs I think we had on behalf of trying to aid low-income people was the movement for debt relief for the highly indebted poor countries over the objection of the Clinton Administration and the Democratic and Republican leadership of the House by a coalition that included the gentlewoman from California, the gentleman from Alabama who was then a senior member of this committee, myself, and a former chairman of the committee, Jim Leach from Iowa. The four of us did do this on the Floor, and we got that debt relief, and it has clearly been very helpful. It has not resolved all the problems. So the gentlewoman from California comes with a great record of leadership in this area.

Ms. WATERS. Thank you very much, Mr. Chairman. I appreciate the leadership that you have provided on debt relief, and I am very proud of the work that we were able to do.

I was just reviewing some of the history of the debt relief that we were involved with, and I suppose that this issue emerges as the most significant issue for being able to help developing countries. But I am interested in a statement that was made, I suppose, earlier. And I would like to follow up with—am I pronouncing your name correctly? Is it "Stiglitz?"

Mr. STIGLITZ. "Stiglitz."

Ms. WATERS. Stiglitz. You mentioned earlier that one of the problems with the World Bank is that it is a development institution run by finance ministries, such as the U.S. Department of Treasury. As we have seen in our own country, whether it is former Secretary Henry Paulson or the current Secretary's Chief of Staff Mark Patterson, Treasury officials have often strong ties to investment firms. What kind of impact do you think this has on the World Bank's policies about debt forgiveness?

Mr. STIGLITZ. Almost surely it colors every decision, because if you are a creditor, the last thing in the world you want is debt forgiveness. There was an old joke during the Argentina crisis that the IMF couldn't take yes for an answer. Every time the IMF gave the conditions, if Argentina said yes, that meant they hadn't been squeezed enough, and they wanted to raise the conditions to make it more painful. They wanted to send a clear message that it is very painful to walk away from your debts.

It is understandable from the point of view of creditors that you want to get repaid. But in the United States, we have bankruptcy codes. We have an understanding that sometimes you need a fresh start. I think this is just one of the examples where to whom you are accountable makes a very big difference in the behavior of the institution. In my written testimony, I gave some other examples of that kind.

Ms. WATERS. What suggestions do you have to reduce the influence of the finance community and increase the influence of the developing community at the World Bank?

Mr. STIGLITZ. The particular suggestions I had were that within our process in the United States, to try to make the World Bank accountable to an interagency process, and to make sure that, for instance, the views of Labor, State, and other departments get involved. I know for a fact, reflecting what the chairman said, that the policies in Indonesia would have been markedly different had the State Department been making the critical decisions rather than Treasury.

Ms. WATERS. Thank you very much, Mr. Chairman.

The CHAIRMAN. The gentleman from New Jersey.

Mr. LANCE. Thank you very much, Mr. Chairman.

Good morning to the distinguished panel.

Dr. Ramachandran mentioned that the effectiveness of the new policy will depend on implementation and a buy-in from the staff and management. What incentives do you think exist where that will actually occur in fact and not just in principle?

Ms. RAMACHANDRAN. I think it is a difficult question. My sense of the Bank is that staff promotions, staff rewards are all linked to the volume of lending. That is the only metric that the Bank has. I think if these promotions and hiring decisions and so on can be linked to a broader set of variables where staff are encouraged to say when things are going wrong that they are going wrong, that when corruption is emerging as a problem to stop a project midway, to think about a more diverse range of products for the world we live in now—I mean, these are not things that I think are yet being implemented inside the institution. It is still very much focused on loan volume.

Mr. LANCE. I would ask other members of the panel to comment as well. And let me say that I certainly agree completely with the chairman that we ought to move forward in this session regarding this issue, and I compliment the chairman for his remarks in that regard. But obviously our power is somewhat limited, and we have to work with other G–20 countries, for example. But to other members of the panel, how do you think that we can get buy-in from the professionals who are there?

Professor Stiglitz?

Mr. STIGLITZ. Actually, there are many staff within the Bank who are sympathetic with some of these views, so I don't think we should color this as black and white. I think in a sense it has to do with the leadership of the Bank, if they send a strong message. It is not just a question of incentive pay. It is sort of, you might say, the corporate culture.

Mr. LANCE. We are aware of that on this panel.

Mr. STIGLITZ. Corporate cultures can change. And I think that some of the things that we are talking about today could help change that corporate culture.

Mr. LANCE. Thank you.

Professor Ebrahim?

Mr. EBRAHIM. The Bank does have a performance appraisal process for its staff, as any major organization does. In a sense that is partly where the rubber hits the road; that if there is a possibility to actually change that, to include elements that are very explicit about citizen engagement, about transparency, about the evaluation of outcomes not just at the closing of a project, but 5 years down the road, I think these are very tangible kinds of things that are possible to do. But in order for those performance appraisals to be taken seriously, they need to be connected to internal policies within the institution, which is why I believe a participation policy that actually mandates a look at participation within any project or policy would be crucial.

Mr. LANCE. Well, I hope through this hearing that the Bank takes notice of what we are discussing today. I am sure that is the case, but will actually act on that.

Others who wish to comment perhaps?

Mr. BISSELL. I would just say that my experience on the Inspection Panel, which was very much bringing an alien body into the Bank to actually have the ability to examine from an independent point of view whether or not compliance with policies was occurring, generated widespread cooperation from the staff. And quite specifically in that context, it was directed in the resolution establishing the Panel that all documentation should be shared with the Panel.

Mr. LANCE. Thank you.

Mr. BISSELL. And we did not have a problem in that regard. We may have had a problem when the Bank considered the implications of what we found, and certain senior managers found that their position was threatened. But in the process of doing it, of simply carrying it out, in fact, there is a strong, I think, culture to follow if there are clear regulations which they should do as staff members.

Mr. LANCE. Thank you very much to the panel. And, Professor Stiglitz, let me say that when I was at Princeton, I think you were there, but I was too scared to take a course from you. I do believe I took a course from Professor Hanaway, but I was scared to take a course from you.

Thank you, Mr. Chairman.

The CHAIRMAN. The gentlewoman from New York.

Mrs. MALONEY. Thank you, Mr. Chairman, for your leadership.

And I welcome all the panelists. Thank you for your testimony today. But in particular I would like to welcome Professor Stiglitz, who is not only a Nobel Laureate, but probably more importantly is a professor at an important university in the State of New York, Columbia University. So we appreciate your tenure and your work at this important university helping young people move forward who are not afraid to take your courses. But I would probably be with you, Mr. Lance, I would be afraid.

In any event, related to the development outcomes in the World Bank is the meetings that are taking place by the G–7, now G–20. I believe it is next week they are meeting in Pittsburgh. And the G–20, I have been told, represents 87 percent of the GDP, but 80 percent of the geography of our world is outside of the G–20. And I would like to ask whether you believe that those representing 20 percent of the geography can make proper economic policies for the 80 percent that are not part of the G–20. And I have been told that some developing countries, their treasury secretaries have made public statements that it is easier to borrow from China than from the World Bank or from the IMF, and I would like to hear your comments on that. And any time remaining related to the health of the World Bank is probably the most important issue we are confronting in this committee under the chairman's leadership, and that is regulatory reform. Any comments that you can make on how our regulatory reform will help the World Bank, the world economy, and what areas do you think are the most important for us to focus our sharp pencils on?

Thank you all for being here. First, Professor Stiglitz.

Mr. STIGLITZ. Thank you. I think that there are two problems facing the G–20. One is political legitimacy. The countries that are there are somewhat arbitrarily chosen. Some are obvious, but some, for instance, representing the Middle East may not be. The other problem is inclusiveness, and that is the point that you mentioned, that, for instance, there is only one country from sub-Saharan Africa, South Africa, which is distinctly different from most of the other countries in sub-Saharan Africa. The result of that is that many of the decisions and focal points are markedly different from what would have been the case had there been more inclusive representation.

Let me give you a couple of examples. One of them is that almost all the money that was given to developing countries, while it was a good thing that they recieved the money—almost all of it was channeled through the IMF, which meant it would be in the form of loans. We talked about the initiative for debt forgiveness and the importance of that in 2000. It would be a mistake for these countries to wind up in the situation that they were before with another overhang of debt. What was needed was more grants and less loans. Because of the legacy of the past with the IMF, many of the countries feel reluctant to accept these loans. It is politically difficult, to put it euphemistically, for them to accept money from the IMF. One of the reasons is this issue that we are discussing in the panel today, the lack of transparency. The fact is that countries always worry, are there some secret conditions that we don't know about? That is why these transparency disclosure reforms are so important.

On the second issue that you asked about, regulatory reform, which is a very big issue, of course, about which you have been having many hearings, let me just make one comment. I think probably the biggest issue is what to do with the too-big-to-fail, too-big-to-be-resolved, too-intertwined-to-be-resolved institutions. The fact is that these institutions have an implicit subsidy, because what we have done in both the Bush and Obama Administrations has been to bail out bondholders and shareholders. That means that these institutions have a competitive advantage: everybody knows that if you buy a credit default swap from these institutions, you don't have to worry about counterparty risk, because if a problem happens, the government will bail them out. We need a comprehensive agenda for dealing with these too-big-to-fail, too-big-to-be-resolved, and too-intertwined-to-be-resolved institutions, which include taxes, restrictions on the degree of risk taking, more capital, and a whole variety of measures. There is no single instrument that can deal with the problem because it is very big, and the problem has gotten worse because the way we addressed the crisis has led to institutions that are even larger, relative to our economy.

Mrs. MALONEY. Thank you.

The CHAIRMAN. Thank you.

I just want to respond briefly to that; I agree. And the two things that you mentioned that are in our jurisdiction, restrictions on too much risk taking, basically from derivatives in part, and greatly increased capital, we will be legislating. The only thing I differ with you on is I think when we are through, too-big-to-resolve will not be the problem. We intend to amend that statute so nothing will be too-big-to-resolve. And we do think with these—I agree with you it has to be a package. We won't have taxes. But we will be mandating a resolution authority that I think will be adequate to the task.

Mr. STIGLITZ. Can I just make one comment? It is not just a legal issue. Let's say that you had the legal authority right now, or you had it 12 months ago. My view is that both Administrations would have said that if they used that power to resolve the banks in a way that would have harmed shareholders and bondholders—

The CHAIRMAN. Let me break through here. First of all, I have to differentiate. We have not done a great deal, and they have not done a great deal. It has been the executive entry shareholders. Bondholders, yes. Shareholders have not done well.

Mr. STIGLITZ. Not done well, but they—

The CHAIRMAN. Well, shareholders—for instance, in Fannie Mae and Freddie Mac, shareholders were wiped out. In Bear Stearns, the shareholders were essentially wiped out. Bondholders have done better.

But secondly, the problem is—and there is a question of legal authority—their interpretation now is either they put them in a bankruptcy with no alleviating things, or they pay off everybody, because if they start to pay off somebody and not others without bankruptcy, somebody can sue. What we are going to give them is the ability to pay off some and not others, which is the way out of that issue.

Let me go on now to Mr. Posey.

Mr. POSEY. Thank you, Mr. Chairman, and thank you for your interest in this subject.

I want to thank Mr. Blanton for the depth of your written testimony and the examples of intentional or unintentional misguided loans to the Philippines, Brazil, India, Chile, China, etc., and any more that you ever feel like telling us about, please feel free.

Also, Ms. Ramachandran, you had indicated, I guess, in your written testimony that oftentimes the money is ill spent and at worst ends up in corrupt pockets. Could you give us some practical examples of that?

Ms. RAMACHANDRAN. I think there have been examples that have been discussed recently in the media. The loan to India, which was clearly being sort of frittered away through midlevel corruption in the government. It took a very long time for the World Bank to respond to the queries that were being made in the Indian press, in Washington by organizations that watched the Bank. I think there was an enormous reluctance to stop this loan. It was a very large loan. And, you know, this was sort of at the core of business. And it was really only eventually addressed when the external pressure became so much that the Bank had to respond.

Another case that I can think of recently is the tourism project in Albania where through a series of bad decisions, a lack of paying attention, and some ignorance, a number of small homes in a very poor village got demolished unintentionally, and that created an enormous sort of backlash for the Bank.

I think the question I have when looking at these kinds of projects that go very wrong is, can we put in place systems where we can respond to these signals earlier, because in both cases we had signals that things were going wrong quite early on, but it took months and in some cases more than a year for the project to grind to a halt.

I am happy to send more examples to you.

Mr. POSEY. I would appreciate it. Thank you.

And for anyone who would want to answer this, how does the World Bank's proposed approach compare to that of other multilateral institutions such as the IMF? Are there differences in their respective policies that can make the World Bank proposal more effective or less effective? Do any other institutions take the exceptions list approach as opposed to a positive list of items which may be disclosed? And then, you know, what should the Bank's goal be when crafting such an information disclosure policy?

Mr. Bissell?

Mr. BISSELL. That is a very good question. And, in fact, there is an extensive survey that I can provide you put together by the Global Transparency Initiative, which is a group of organizations that have literally gone through and catalogued all of the characteristics, including things like which operate on a presumption to disclose approach and that sort of thing. And I think in that you will understand the array of policies across the international community and why it is relatively inconsistent.

On several of those points you just asked about, the World Bank is not different from most of the other international financial institutions. They have roughly the same standards, although several of them are thinking about strengthening them just as the World Bank is. And that is why I said in my comments that this is an important opportunity for the World Bank to show how one can build a responsible new disclosure policy that actually advances it down the road, and it also enables the institution to work better. And I think you will see a strong precedent effect from what the World Bank does on the African Bank and Asian Bank and Interamerican Bank and so forth.

Mr. POSEY. Mr. Ebrahim?

Mr. EBRAHIM. Just one other comparison with the IMF, and this is not on transparency, but it is on governance reform. The IMF generally has been really pretty far behind the Bank in terms of developing explicit internal policies. But on governance reform, surprisingly actually, it has been having quite a debate this past year, galvanized by a couple of internal reports, and the latest was, I think, just delivered last week, a report from a collection of civil society organizations. That will be something that they will actually discuss with the managing director at the meetings, the Bank-IMF annual meetings, in Turkey next month.

So I think there may be something to be learned about governance reforms by looking at what the IMF is talking about since actually a lot of the governance challenges are similar.

I did want to mention one additional point also related to this question about corruption, and that has to do with monitoring and evaluation of projects. The people who are the most able to actually know what is going on on the ground are the project-affected communities. The Bank has a very explicit project cycle with stages along it where there are certain kinds of reviews when the Board gets involved, different levels of the organization get involved. And in that project cycle, there are actually very explicit opportunities for participatory monitoring and evaluation, and there is plenty of evidence that getting people involved that are actually being affected by the projects contributing directly to monitoring an evaluation can reduce corruption.

The CHAIRMAN. The votes are going on. I have a proposal to make. We can get in two more questions. This is the first vote. We can get in Mr. Meeks and Mr. Moore. We then have only one 15-minute vote followed by the recommit. That means if Members who have not yet asked questions want to go over and vote and then come right back, I will come back. We will have a half-hour in which we can accommodate these four, because there is only the one vote, then the 10 minutes of debate and the 15-minute roll call on recommit.

So I would advise the other four members, you go over there. I promise to vote and come back. If the witnesses can wait, give us about a 20-minute delay, we can then finish everybody, because this has been a hearing with a lot of interesting people. And with that, we will be able to get in Mr. Meeks and Mr. Moore for 5 minutes each.

Mr. Meeks.

Mr. MEEKS. Thank you, Mr. Chairman.

I think Mr. Watt had indicated that we just came back from a trip to Africa, and one of the things I think that we found, which is critical in the development with reference to development efforts, is that there is very little analysis, a methodical analysis, that can be done to draw long-term conclusions of causality between aid and development efforts and the success of their stated missions.

More specifically what I am saying is countries that emerge as success stories, I think, as you said, as well as those that become economic and social disasters, are typically due to their own internal leadership, both political and military.

And what we found on the ground, for example, and the reason why we selected certain countries, one being Rwanda, is that in 15 years, we saw that they had made some significant progress due to their own internal leadership and determination to make a difference. And as a result there seems to be some projects that can work, but because they are such a small country, they don't generally get the attention that they should from the World Bank or some other financial institutions, nor is there the coordination at all—and we were there to see the African Development Bank about their transparency—but coordination with the small or other IFIs who are on the ground and who could make sure that certain of the projects are working.

And it seems as though when we talk about success, the World Bank is doing this, and the ADB is doing that, and the IMF is over here, and that whole piece coming together to help a development happen is not happening on the ground. And as a result, you know, what I found in the countries that we went to, the ADB, for example, had greater credibility or much greater credibility than the World Bank because of how they handle things on the ground. And the ADB was very clear in certain countries that they were not going to invest in because it was not stable on the ground.

So my question is—for example, let's use Rwanda. How can we expect a small country like Rwanda, who I think is on track to make a great economic recovery story, how can we carry greater sway and attract a greater proportion of greater resources from the development communities so that they get success stories as opposed to—for example, I know the World Bank and its IFC, International Financial Corporation, you know, its role attracting private dollars. I look at what has taken place, for example, in Ghana. I know that there are people who have been investing there in the oil fields. The government changed, then some of the deals that were supposed to have happened now they say they want to renege on, and so you have those kind of problems, and so you have another project that looks like it is not going to be successful.

So I am just throwing it out to the panel. How can we have better coordination and/or attract better attention to those governments even if they are small countries, even if they are small, where governance is working?

Mr. EBRAHIM. I think there are a couple of ways to think about that. One is the Paris Declaration on Aid Effectiveness, and it was followed on by the Accra Agenda for Action, essentially quasi agreements between especially bilateral donors, trying to look at what are the critical issues especially for coordination and country ownership. And they actually lay out some relatively measurable kinds of outcomes for coordination. What does it mean for a country to take ownership of all of the development work occurring within it?

Essentially, it seems to me that critical to this is not just the coordination among donors, but building the internal capacity in a country like Rwanda. To be able to oversee what each different donor is doing, this requires capacity at the level of the executive branch of government, but also some degree of oversight by parliamentarians in terms of what is happening by different kinds of donors. And so unless that feeds into national development planning, I have a hard time imagining how one can get that kind of coordinated action. And so perhaps by actually asking multilateral institutions, as well as our bilateral agencies, to coordinate and to feed that through both executive as well as legislative branches to enable that coordination, I don't see how else it can happen.

The CHAIRMAN. Mr. Moore.

Mr. MOORE OF KANSAS. Thank you, Chairman Frank, for holding this important hearing. I think we are all very committed to improving transparency and oversight of any financial-related organization, firm or activity. Transparency and oversight encourages better public policy decisions.

As an example, almost a year ago, when this committee received a three-page TARP draft report from Secretary of the Treasury Paulson, what amounted to a $700 billion blank check, we said, thanks, but no thanks. Instead this committee, led by our distinguished chairman, added layer upon layer of oversight protection creating a three-pronged approach: One, ongoing audits by the GAO; two, criminal investigations through the Special Inspector General for TARP, or SIGTARP; and three, policy oversight through the Congressional Oversight Panel led by Professor Elizabeth Warren. These efforts and vigilant oversight of TARP have led to better protection, I believe, to United States taxpayers and hundreds of pages of oversight reports that anyone can access online and read for themselves.

So turning to the World Bank, Professor Stiglitz, would it be helpful to have a similar oversight approach, encouraging decisionmaking to be as open and transparent as possible that is accessible to the general public? And I would like to ask the same question to the other witnesses if you have a comment after Professor Stiglitz. Please, sir.

Mr. STIGLITZ. Yes, I think the answer is yes. Let me just really congratulate you. Particularly, I followed the work of the Congressional Oversight Panel on TARP, and they have done a fantastic job. The information that has been disclosed, for instance, on the deals that were done in the first set of transactions have really been an eye-opener. I think they should have gotten more attention, as they are really important. I think that kind of framework is one that needs to be generalized to other public bodies.

Mr. BISSELL. I would just add that there is a very interesting experience after the establishment of the Inspection Panel in 1993 and the first year or two of the Bank experiencing the impact of independent review, of its projects was that, in fact, it spawned within the Bank several bodies that were established to try to head off the kinds of problems that were being identified. For instance, the Quality Assurance Group was created by the President because they all of a sudden recognized that there were probably quite a number of projects that were in equivalent trouble and wanted to fix before they reached the Inspection Panel. And then they subsequently several years later reorganized the evaluation function, called the OED, into the Independent Evaluation Group to try to enhance its effectiveness in the same front.

So sometimes, rather than having to legislate all these layers you were describing on the U.S. experience into the Bank, simply getting the snowball rolling causes the Bank itself to create internal mechanisms to try to get it right. And that doesn't mean they have gotten it fully right, but that they saw the opportunity to strengthen their development effectiveness.

Mr. MOORE OF KANSAS. Thank you, sir.

The CHAIRMAN. Let me just say that we are going to leave right now. The motion to recommit is now being voted on. There may be people who want to come back. I will ask you to wait. I will let you know in 10 minutes, because it could be people could vote on the motion to recommit, and there are four or five Members, some of them may want to come back. I won't hold you excessively. If you can give us about 10 minutes, I am going to go over and vote, and I will call over. If any Members want to come back and ask you questions, they will. Otherwise I thank you. It has been very useful. And please take me seriously about written suggestions.

[Whereupon, at 11:40 a.m., the hearing was adjourned.]

A P P E N D I X

September 10, 2009

Financial Services Committee

Opening Remarks by Rep. Maxine Waters

Hearing: "The World Bank's Disclosure Policy Review and the Role of Democratic Participatory Processes in Achieving Successful Development Outcomes"

Thursday, September 10, 2009
2128 Rayburn, 10:00AM

I would like to begin by thanking Chairman Barney Frank and Ranking Member Spencer Bachus for organizing this hearing on "The World Bank's Disclosure Policy Review and the Role of Democratic Participatory Processes in Achieving Successful Development Outcomes." I especially appreciate Chairman Frank's continuing interest in the issues of transparency and democratic participatory processes at the World Bank.

The call for greater transparency and participatory processes at the World Bank has been a recurrent theme in the United States Congress for well over a decade. As a leader of efforts to expand debt relief for poor countries, I know that transparent and participatory processes go hand-in-hand with poor country debt relief.

Ten years ago, I worked with my colleagues on this committee to free poor countries from the burden of debt. On November 18, 1999, the Committee on Banking and Financial Services marked up and passed H.R.1095, the Debt Relief for Poverty Reduction Act of 1999. This legislation directed the Clinton Administration to negotiate with world leaders to develop and implement the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative, which provides multilateral debt relief to the world's poorest countries. The legislation included provisions to ensure that debt relief programs would be transparent and participatory.

H.R. 1095 included the following provision regarding transparent and participatory processes by poor countries:

> "Debt reduction under the modified HIPC Initiative shall not be provided for the benefit of a country unless the government of the country has established, through transparent and participatory processes, including the participation of civil society-- (A) a plan of action for human development...which includes policies, programs, and projects designed to reduce the number of persons living in poverty, expand access of the poorest members of society to basic social services, including health, education, clean water, and sanitation, and prevent the degradation of the environment..." *(See Section 3, amendments to Title XVI of the International Financial Institutions Act, SEC. 1623(a)(4), of H.R. 1095, as reported, in the 106th Congress.)*

H.R. 1095 also included the following provision regarding transparent and participatory processes by the World Bank and other international financial institutions:

> "All decisions under the modified HIPC Initiative concerning the amount, terms and conditions, and timing of debt relief for a country, and the processes by which such decisions are made, shall be subject to procedures which-- (A) are transparent...[and] (B) are participatory, including the participation of civil society and organizations with social sector expertise..." *(See Section 3, amendments to Title XVI of the International Financial Institutions Act, SEC. 1623(a)(8), of H.R. 1095, as reported, in the 106th Congress.)*

As a result of our efforts, the HIPC Initiative now provides complete debt cancellation to qualifying poor countries. In order to qualify, poor countries are required to develop and implement a Poverty Reduction Strategy Paper, through transparent and participatory processes, including the participation of civil society. Unfortunately, there is still a need for greater transparency and participatory processes at the World Bank itself.

In the 110th Congress, I introduced H.R. 2634, the Jubilee Act for Responsible Lending and Expanded Debt Cancellation. The Jubilee Act would expand debt cancellation to additional needy and deserving poor countries and preserve the benefits that debt cancellation has provided to impoverished people worldwide. The Jubilee Act also includes a provision requiring the establishment of a "Framework for Creditor Transparency," in order to promote greater transparency at the World Bank and other international financial institutions and allow informed participation and input by affected communities.

The Jubilee Act was passed by the House of Representatives on April 16th of last year by an overwhelming, bipartisan vote of 285 to 132. A similar bill was introduced in the Senate by Senator Robert Casey. It was passed by the Committee on Foreign Relations on June 24, 2008. Unfortunately, it was not brought before the full Senate prior to adjournment. I am currently updating the text of the Jubilee Act, and I plan to re-introduce it this year.

Of course, debt relief is not the only World Bank program that would benefit from transparent and participatory processes. That is why I welcome the opportunity to examine the World Bank's Disclosure Policy Review and hear the testimony of the witnesses at this hearing. I appreciate the interest of a diverse group of World Bank experts, advocates and stakeholders in these important issues, and I look forward to a constructive discussion.

I thank the Chairman for the time.

Statement of Richard E. Bissell
on behalf of
Bank Information Center
The Carter Center
Center for International Environmental Law
Oxfam America
Revenue Watch Institute
World Wildlife Fund

Regarding the World Bank's Policy on Disclosure of Information

Before the
Committee on Financial Services
U.S. House of Representatives

September 10, 2009

Introduction

Thank you for the opportunity to address a number of important issues regarding access to information at the World Bank.[1] I am speaking today in my capacity as a Member of the Board of Directors of the Bank Information Center and present this testimony on behalf of the Bank Information Center, The Carter Center, Center for International Environmental Law, Oxfam America, Revenue Watch Institute, and World Wildlife Fund. I have served in prior capacities as a member of the World Bank's Inspection Panel and the Asian Development Bank's Compliance Review Panel. I received my Ph.D. from Tufts University and served with the U.S. Agency for International Development from 1986 to 1993.

In the context of development, public access to timely, relevant information is critical for a number of reasons. First, it respects democratic rights and norms that call for access to information held by public bodies.[2] Secondly, it strengthens development outcomes by enabling the informed participation of local stakeholders and the incorporation of local knowledge. Finally, it improves accountability by enabling third-party monitoring of development decision making and programs.

It is also important to note that international norms regarding transparency are advancing – changes that the Bank should consider as it revamps its information disclosure framework. Over 80 countries have now adopted access to information legislation, and the right to information is increasingly viewed as applicable to international organizations. For example, ""[t]he right to access information applies to all intergovernmental organizations, including the United Nations, international financial institutions, regional development banks, and bilateral and multilateral bodies, These public institutions should lead by example, and support others efforts to build a culture of transparency."[3]

As the Bank itself has noted:

> "[T]imely dissemination of information to local groups affected by the projects and programs supported by the Bank, including nongovernmental organizations, is essential for the effective implementation and sustainability of projects. Experience has demonstrated that consultation and sharing of information with cofinancers, partners and groups and individuals with relevant knowledge of development issues help to enhance the quality of Bank-financed operations."[4]

The World Bank's "Policy on Disclosure of Information" should thus be viewed, in this light, as a means for respecting people's rights, for integrating stakeholders into development decision-

[1] I use the term "World Bank" and "Bank" to refer only to the public-sector arms of the World Bank Group: the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). The International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and the International Centre for Settlement of Investment Disputes (ICSID) operate under different policies than IBRD/IDA and are not considered here.

[2] See Mendel, Toby, *Freedom of Information: A Comparative Legal Survey* (New Delhi: UNESCO, 2003), on how the right to information has been recognized by international, regional, and national bodies, at http://portal.unesco.org/ci/en/ev.php-URL_ID=26159&URL_DO=DO_TOPIC&URL_SECTION=201.html (accessed August 21, 2009).

[3] The *Atlanta Declaration and Plan of Action for the Advancement of Right to Access Information*, The Carter Center, February 27-29, 2008, at http://www.cartercenter.org/documents/Atlanta%20Declaration%20and%20Plan%20of%20Action.pdf. See also *Americas Regional Findings and Plan of Action for the Advancement of the Right of Access to Information*, The Carter Center, at http://www.cartercenter.org/resources/pdfs/peace/americas/conference2009/ATI-AmericasPlan-full.pdf (both accessed September 6, 2009).

[4] World Bank, "Policy on Disclosure of Information" (Washington: World Bank, 2002), para. 3, at http://go.worldbank.org/32ZO2P03Z0 (accessed on August 18, 2009).

making, and for ensuring public accountability. While the Bank's current policy addresses some of these dimensions, it could also be significantly improved.

The World Bank's Current Policy on Disclosure of Information[5]

As civil society organizations began in the 1980s to more closely monitor projects financed by the World Bank, they found a significant lack of publicly available information. They encouraged the Bank to adopt more rigorous environmental and social policies and to be more forthcoming about its activities.[6] In 1985 the Bank adopted its first disclosure rules. In 1991, it began to release environmental assessments prior to project approval. In 1993, faced with further civil society pressure from around the world as well as the US (including clear positions taken by this Committee with regard to IDA-10), the Bank adopted a formal information disclosure policy that introduced pre-approval Project Information Documents and expanded access to project appraisals once approved.[7] In 2001, the Bank revised its policy and for the first time started to release documents related to structural adjustment loans (although only after approval), project completion reports, and the Board calendar.[8] In 2005, the Bank began to release abridged minutes of its Board of Executive Directors meetings.[9]

In terms of openness, today's Bank hardly resembles the rather closed institution of the 1980s. It publishes vast amounts of development-related analysis and data. Bank management is much more forthcoming in providing information to the public.

Despite these welcome shifts, the Bank's current "Policy on Disclosure of Information" continues to limit public access in a number of important ways:

1. *No presumption of disclosure:* Public bodies should presume that information they hold would be released unless there is a compelling reason to withhold it. The Bank's current policy provides a list of documents that are to be disclosed (a "positive list"). For everything not on the list, there is a general presumption of non-disclosure. In addition, overly broad exceptions to disclosure could justify withholding nearly any type of information. For example, disclosure may be precluded if it would be "detrimental to the interests of the Bank, a member country, or Bank staff."[10] This approach generates public distrust of the Bank.

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[5] The following two sections rely in part on the work of the and the Global Transparency Initiative (GTI) (www.ifitransparency.org) and the Bank Information Center (www.bicusa.org) which have carefully tracked the disclosure policies of the international financial institutions. GTI's "World Bank Model Policy on Disclosure of Information" articulates detailed disclosure standards for the Bank, at http://www.ifitransparency.org/?AA_SL_Session=24e08f7da061c240bcbe3c067bfb9c0b&x=67865 (accessed September 2, 2009.

[6] For details on the Bank's adoption of social, environmental, and disclosure policies in response to civil society pressure, see Wade, Robert, "Greening the Bank: The Struggle over the Environment, 1970-1995," in Kapur, Devesh, John P. Lewis, Richard Webb (editors), *The World Bank: Its First Half Century*, vol. 2 (Washington: Brookings Institution, 1997), pp. 611-734.

[7] For background on U.S. Congressional interest in the Bank's disclosure policy, see "World Bank Disclosure Policy and Inspection Panel: Hearing before the Subcommittee on International Development Finance, Trade and Monetary Policy of the Committee on Banking, Finance and Urban Affairs, House of Representatives," 103rd Congress, 2nd Session, Serial No. 103-146, June 21, 1994 (Washington: U.S. Government Printing Office, 1995).

[8] See World Bank, "Policy on Disclosure of Information" (Washington: World Bank, 2002) at http://go.worldbank.org/32ZO2P03Z0 (accessed on August 18, 2009).

[9] See World Bank, "World Bank Disclosure Policy: Additional Issues – Follow-up Consolidated Report (Revised)," Operations and Policy Services, February 14, 2005, at http://go.worldbank.org/32ZO2P03Z0 (accessed on August 18, 2009)

[10] World Bank, "Policy on Disclosure of Information," para. 90.

2. *Limits on access to draft and pre-approval information:*

   a. Country strategies: While the Bank considers it best practice to consult selectively with country stakeholders as it develops its overarching country lending strategy (know as the Country Assistance Strategy or Partnership), the Bank's policy does not provide for release of working drafts to facilitate dialogue, unlike the policies of the Asian Development Bank,[11] African Development Bank,[12] and European Bank for Reconstruction and Development.[13]

   b. *Projects:* Through environmental assessments and Project Information Documents, communities that may be affected by World Bank-financed operations are provided important information before projects are approved. However, the Bank does not release project appraisals (the Project Appraisal Document, PAD) until after approval.

   c. *Conditionalities:* Development Policy Operations (formerly known as structural adjustment programs) comprise over 30% of World Bank financing operations (loans and grants) and are often the most politically sensitive interventions in that they finance reforms to a country's economic policies, governance structures, and social sectors. Public information on these operations while under development is quite limited. A short (3-5 page) Program Information Document is disclosed that outlines the program's broad parameters. Some social and environmental background analysis may be available on an ad hoc basis. However, the specific matrix of conditonalities that form the centerpiece of development policy operations are only disclosed after Board approval.

3. *Virtually no project implementation information:* External monitoring of ongoing World Bank operations is constrained by the lack of published information during implementation. The degree to which borrowers release such information depends entirely on their internal regulation of governmental openness, and thus varies widely. Currently the Bank releases only one short paragraph annually on each ongoing project or policy loan, even though much more extensive and valuable information is collected by project monitoring teams from Bank staff. Supervision reports, project audits and financial statements are withheld.

4. *Weak request system with no appeals:* The Bank does not provide timelines and procedures for the handling of public requests for information. It also does not provide for an appeals process for those who feel their information requests were unduly denied. The right to appeal is an essential element of a well-functioning access to information system.

5. *No access to shareholder positions:* Citizens have few if any means of following their government's positions at the Bank. There are several causes of this "democratic deficit."[14].

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[11] ADB: "ADB shall make draft strategies and programs available to in-country stakeholders for comment before consultations. They shall be made available (i) after the initiating paper is completed; and (ii) after the strategy and program is drafted but before its management review meeting (para. 64, ADB Public Communications Policy, 2005)

[12] AfDB: "The draft CSP will be released to in-country target audiences, as part of the consultation process, to enhance information for CSP consultation." "Draft CSPs will be released via the Bank Group website at least 50 days prior to formal Board discussion...Such drafts will however exclude confidential information as agreed with the government" (AfDB Disclosure of Information Policy, October 2005, Sec. 4,3)

[13] EBRD: "The draft country strategy will be publicly released and posted on the Bank's web site, following a process which includes consultation with the country concerned. The draft country strategy will be posted for a period of 45 calendar days, during which time the public is invited to send comments to the Bank." Drafts are posted on the webpage "Invitation to Comment," which can be found on the country strategy pages" (EBRD Public Information Policy (Sep. 2008).

[14] Joseph Nye, Professor at Harvard's Kennedy School of Government, noted that at the international financial institutions the "long lines of delegation from multiple governments combined with a lack of transparency, often weaken accountability." ..."To outsiders...these institutions can look like closed and secretive clubs." See Nye, Joseph S., Jr.,

First, meetings of the Bank's Board of Executive Directors are closed and no substantive records of meetings are released (skeletal minutes that record key decisions became available in 2005). Statements presented by individual Executive Directors are not accessible. Secondly, most shareholder governments do not publish records of positions taken at the Bank. U.S. Treasury, encouraged by Congress, is an exception here.[15]

6. *Weak Translation Framework:* English is the official language of the Bank. It routinely translates general information and its flagship publications into Arabic, Mandarin, French, Portuguese, Russian and Spanish. For projects, however, borrower governments bear all of the translation responsibilities, and in practice, governments limit translations to summaries of environmental assessments and plans related to resettlement or indigenous peoples if the Bank requires it.[16] Furthermore, project information that is translated is difficult to locate. In my own experience investigating projects, such key translated documents would routinely be located only in the nearest administrative center, such as a provincial capital, making it impossible for ordinary citizens to take the time and money to access them. Core Bank documents on projects (Project Appraisal Documents) or development policy loans (Program Documents) are rarely translated, even in summary form. In April 2009 a Yemeni civil society organization filed a claim with the Bank's Inspection Panel after the Bank repeatedly refused to provide an Arabic translation of the main "Program Document" that explained a large-scale institutional reform program.[17]

The question of access to information has arisen in virtually every case that has been reviewed by the Inspection Panel at the Bank. The fundamental role played by open information in every healthy society becomes clear in a review of the requests submitted to the Panel. The concern about information is rarely the first issue that triggers public concerns – rather, the public suspects that the project is a source of harm in their lives, and when they attempt to determine the accuracy of their view, they are denied the information to know if their suspicion is true or false. At that point, the denial of information becomes an important element in their lives, whether to diagnose the problems, or to come up with solutions to their own problems and to enable the project to meet its development goals.[18]

Proposed New Disclosure Policy

In April 2009 the World Bank commenced a review of its Policy on Disclosure of Information. The Bank posted an Approach Paper as the basis for 30 public consultations conducted in all the

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"Globalization's Democratic Deficit: How to Make International Institutions More Accountable," *Foreign Affairs*, July/August 2001, p. 3.

[15] In response to US Congressional mandates, US Treasury publishes a monthly review of loan votes taken by the US Government at the MDBs. In addition, Treasury posts USG positions on inspection mechanism cases, positions on operational policies, and positions on projects with significant environmental impacts. See http://www.ustreas.gov/offices/international-affairs/multilateral_banks/index.shtml (accessed August 20, 2009).

[16] Borrower translation requirements are located in several of the Bank's operational policies (OPs): OP4.01 Environmental Assessment, OP 4.10 Indigenous Peoples, and OP 4.12 Involuntary Resettlement at www.worldbank.org/safeguards.

[17] See the Inspection Panel's "Notice of Registration" of the Yemeni complaint at http://siteresources.worldbank.org/EXTINSPECTIONPANEL/Resources/YemenNoR.pdf (accessed September 1, 2009).

[18] See the World Bank Inspection Panel, "Annual Report 2007-2008," for descriptions of recent cases, at http://siteresources.worldbank.org/EXTINSPECTIONPANEL/Resources/Insp_Panel_2008Final-LowRes.pdf (accessed September 1, 2009). Also see freedominfo.org, "Transparency Violations Common Theme for World Bank Inspection Panel," (21 April 2009) at http://www.freedominfo.org/ifti/20090421a.htm (accessed September 1, 2009).

Bank's regions.[19] The Bank received significant feedback. We anticipate that a revised draft will be posted for final comment and sent to the Bank's Board for consideration in late October 2009.

The revised policy, if adopted as proposed, will represent a significant – and welcome – shift by the Bank toward greater transparency, building off of earlier policy revisions. Below are some of the most significant anticipated changes:

1. *A "true" presumption of disclosure:* The Bank would drop the 'positive list" approach and adopt a presumption that all information held by the Bank would be disclosed unless it falls within the defined exceptions to disclosure.
2. *A functioning request and appeals system:* Process guarantees would be put in place for handling requests for information and requesters who feel their requests were inappropriately denied would have the right to appeal [see below for potential limitations on the appeal function].
3. *Implementation information:* for the first time the Bank would systematically disclose additional supervision information for projects during implementation. Also project financial statements and project audits will be disclosed, allowing for far greater public oversight of project budgets.
4. *Release of final draft information:* the final drafts of Bank sector strategies and policy papers would be publicly disclosed at the same time they are sent to the Bank's Board for consideration, allowing civil society groups a "final check" on the incorporation of public input. Final draft documents related to country strategies and project/program documents would similarly be disclosed, however, only if the respective country does not object.
5. *Expanded access to Board records:* The Bank would begin releasing "Summaries of Discussion" of Board meetings that provide, on an unattributed basis, a description of positions presented at the meetings. Transcripts of Board deliberations and statements by Executive Directors would be released after 10 years.

Some Concerns with the New Policy

The Bank is proposing to significantly increase public access to information held by the Bank. By adopting a true presumption of disclosure, the Bank will position itself as a "transparency leader" among the other international financial institutions.

At the same time, there remain a number of issues deserve further consideration as the Bank finalizes its new policy:

1. *Transparency of the Board:* There remains a lack of ready access to the deliberations of the Executive Directors. While disclosure of unattributed summaries of discussion would provide far more information on the direction of Board debates, citizens would continue to be kept in the dark regarding their government's positions. The policy did not propose public access to Board meetings and deferred release of Board transcripts and Executive Director statements for 10 years – an inordinately long delay.

[19] World Bank, "Toward Greater Transparency: Rethinking the World Bank's Disclosure Policy – Approach Paper," Operations and Country Services, January 29, 2009) at http://go.worldbank.org/FSBLXEWJ50 (accessed August 18, 2009).

As a public international organization, the Bank should further open up its deliberative process.[20] At a minimum, the Bank should launch a pilot program of conducting public Board discussion on a limited range of topics, such as Bank strategies, policies, and budget, and assess its affects on the quality and candor of discussion. Importantly, the Bank should further recognize the evolving dual role of Executive Directors – their increasingly important role as representatives of shareholder governments in addition to decision-making on behalf of the Bank – and facilitate greater accountability to citizens of shareholder countries through disclosure of Executive Director statements. To address concerns about affecting the deliberative process, these statements could be released once the issue under consideration has been decided upon. Transcripts could be released much earlier than the proposed 10 year time lag.

2. *Narrowness of the Exceptions:* Third-parties (shareholders, contractors, etc.) are granted significant discretion over the release of information that they have provided to the Bank, beyond a set of required disclosures. The policy allows too-much leeway here that could potentially be abused by governments that have little interest in public access and debate in their own countries. The Bank should ensure that claims of confidentiality are not abused by reviewing, and if need be, rejecting inappropriately classified material.

3. *Strength of Appeals Function:* During the consultation process, civil society organizations argued that the proposed one-step appeals process for denied information requests was inadequate, particularly given that Bank management would oversee this stage of an appeal.[21] The Bank should add a second-stage, independent appeals function to provide greater integrity to the request and appeals system. (As seen in countries with national freedom of information systems, the independent appeals function – mainly the courts – often countermand denials made at the administrative level.) The World Bank Inspection Panel, which is independent of Bank management and reports directly to the Board of Executive Directors, could perform this function.

4. *Support for Translations:* In order to strengthen participation of local stakeholders in development decision making as well as monitoring of programs, the Bank should affirm that it would fulfill translation requests, within reason, and certainly from communities potentially affected by Bank-financed operations. The Bank should ensure that all translated project materials, even those performed by the borrower, are readily available, including on the Bank's website.

5. *Active Promotion:* The Bank has created a vast network of county offices and Public Information Centers: over 100 of its own centers, and more than 230 centers run in conjunction with local partners or other development agencies.[22] It clearly possesses the means to ensure that relevant information (project and program documents, supervision reports, evaluations, financial statements, etc.) is pushed out to local communities and not

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[20] For arguments in favor of Board openness and examples of other public institutions with open executive decision-making bodies, see Bank Information Center, "Memorandum on World Bank Board Transparency," (April 2009), at http://www.bicusa.org/en/Issue.Resources.47.aspx (accessed September 2, 2009).

[21] See Global Transparency Initiative, "GTI Comments on World Bank's Approach Paper 'Toward Greater Transparency: Rethinking the Bank's Disclosure Policy," (May 2009), pp. 12-13, at http://www.ifitransparency.org/index.shtml?AA_SL_Session=84d037805907d62c550e5a6345fbe2a4&x=67862 (accessed September 1, 2009).

[22] See the World Bank's Public Information Services page at http://go.worldbank.org/E39AN1XM60 (accessed September 1, 2009).

just passively posted at some administrative capital far from a project site. The Bank should redouble efforts to proactively disseminate information in its client countries.

6. *Adequate resources to carry out the revised policy:* Strong, global information dissemination systems are not cheap. But they also do not have to break the bank if all the stakeholders understand their mutual interest in ensuring their respective contributions of time and people to make it effective.
7. *Setting a new gold standard:* The Bank should ensure, to the greatest of its ability, that these improvements in its policy, as well as future improvements, are matched by the regional multilateral development banks (MDBs) who face similar challenges. At one time, the Bank's policies were the "gold standards" for all MDBs, and now the record is quite inconsistent. In this key area of information disclosure, the Bank Board and senior management have an opportunity to demonstrate the kind of leadership to which it should aspire.

Conclusion

Thomas Jefferson once wrote, "No ground of support for the Executive will ever be so sure as a complete knowledge of their proceedings by the people." One has to wonder if the decline of support for the World Bank in recent decades has derived from the failure of its leaders to act promptly on the advice of that statesman. The Bank has responded grudgingly and only partially to build public understanding among its stakeholders as why and when it acts as it does in investing billions of the public's dollars in projects to alleviate poverty and improve the conditions of mankind. We want to work with the Bank on its continuing journey to improve its transparency and accountability. We support the steps taken. We will continue to press for further measures to build a 21st century global, public organization.

Statement by Thomas Blanton

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To The U.S. House of Representatives

Committee on Financial Services

Hearing:"The World Bank's Disclosure Policy Review and the Role of Democratic Participatory Processes in Achieving Successful Development Outcomes"

September 10, 2009

Mr. Chairman, thank you very much for the opportunity to testify today about openness at the World Bank. I am honored to serve on this distinguished panel of witnesses. I applaud this Committee's focus because Congressional pressure has been a prime factor in every serious transparency reform that the Bank has undertaken over the years, and I will come back to that point, since my purpose here is to provide some of the historical context for our discussions today, and my prepared statement contains far more of that history than you will want to consume at this hearing or any other! But at the outset, let me say how an archive of national security documentation has come to the issue of openness in the international financial institutions.

Journalists and historians founded the National Security Archive almost 25 years ago to follow up Freedom of Information Act requests – which often took years for the government to answer – and serve as an institutional memory for what was released. Since then, we have become the most active and successful FOIA requester among media and non-profit groups, and our documents have made headlines all over the world. For example, the front page of the *Washington Post* this summer when we obtained the transcripts of Saddam Hussein's interviews with the FBI after his capture in Iraq. We are a kind of snowplow in the secrecy blizzard; we can't uncover everything, but we take on the tough secrets and at least keep the roads open.

Almost from the beginning of the Archive, folks from foreign countries would show up to see what the American documents said about them. I still remember the distinguished Mexican analyst Sergio Aguayo remarking on some front-page headlines we made in Mexico, "why are we finding out what Mexican presidents said and did from American documents? We have the right to know ourselves from our own records!" Reactions like this helped spark the cascade of campaigns around the world for national freedom of information laws, and many of those campaigners asked us for our help, in drafting and implementing new laws in countries ranging from Japan to India to Mexico to Chile. Next week, in fact, I will be in the Republic of Georgia working with our partners there on monitoring FOI laws in Armenia, Azerbaijan, Georgia and Russia.

But those experiences all over the world led us right to the multilateral institutions like the World Bank. If you are campaigning for public bodies to be more open, more accountable, more participatory, then the World Bank comes right up on the radar screen. So when we at the Archive helped started the Web-based virtual network of freedom of information advocates, at **www.freedominfo.org**, our first launch included a major feature focused on the international financial and trade institutions, called IFTIWatch, edited and reported by the superb journalist Toby McIntosh. Yesterday's edition of IFTIWatch broke the news that the World Bank is considering a new breakthrough in transparency, perhaps in time for the new draft of the proposal disclosure policy this fall – staff recommendations would be disclosed to the public at the same time they are sent to the decision-making board. This is one of the several recommendations made by the Global Transparency Initiative, in which the Archive and our freedominfo.org network participate, and about which you have also heard today from Dr. Bissell. I endorse that analysis and those recommendations, made by witnesses far more expert than I am.

Here I simply want to point to some of the lessons learned from the decades of struggle for greater openness. I carried out this research, I should say, as part of a task force originally convened by Professor Stiglitz and ultimately published in the 2007 book *The Right to Know*, edited by Ann Florini.[1] My prepared statement has the details, including extensive quotations from inside the Bank about its own tangled process of reform. The bottom line is that real reform depends on four factors coming together: Pressure from outside critics, pressure from this Congress, rhetorical commitments by the Bank, and insider reformers who internalize the need for transparency. The Bank's own internal history, for example, explicitly cites the outside criticism from environmental NGOs as the main prompt for the governance reforms of the 1990s towards more transparency and accountability.

Perhaps most telling for our proceedings today, I should point out that the Bank finally installed the Inspection Panel in 1993 and issued its first information disclosure policy (inadequate though it was) only after the U.S. Congress threatened to hold up refunding of the Bank's capital accounts. Even that inadequate disclosure policy was helpful, just like so many other often-purely-rhetorical commitments by Bank officials to greater participation and accountability, because the rhetoric empowered challenges to power and provided handles for reformers both outside and inside the Bank. Finally, the Bank has now become a significant advocate of national-level freedom of information laws and greater transparency through the development aid process, because its own research shows better development outcomes and less corruption when stakeholders know what's going on. So I am left with the old joke asking how many psychiatrists does it take to change a lightbulb – only one, but the lightbulb has to really want to change. Thank you very much for your attention, I welcome your questions, and my prepared statement follows.

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[1] See Thomas Blanton, "The Struggle for Openness in the International Financial Institutions," Chapter 8 in Ann Florini, ed., *The Right to Know: Transparency for an Open World* (New York: Columbia University Press, 2007), pp. 243-278.

The History of a Legitimacy Crisis

One of the greatest challenges to democratic governance in the globalized world lies in the growing gap – the "democratic deficit" – between the power of the international institutions to affect human lives throughout the planet, and the power of the people so affected to hold those institutions accountable, much less participate in the institutions' decisions.[2] The growth of the international institutions, especially since the end of the Cold War, is particularly dramatic. The World Bank has more than doubled its annual commitments since 1979 and now lends in more than 100 countries, including the previously off-limits territory of the former Soviet Union. The multilateral development banks have emulated the World Bank in the growth of their own regional portfolios. The World Trade Organization replaced the earlier General Agreement on Tariffs and Trade in 1995 with a more restrictive set of rules and binding dispute settlement procedures. The end of the fixed exchange rate system in the 1970s and the debt crisis of the 1980s changed the International Monetary Fund from the world's exchange rate fixer into a key provider of development assistance as well as ultimate arbiter for many countries of whether international capital will be available at all. After 1991, the North Atlantic Treaty Organization expanded to take in the former Warsaw Pact countries of East and Central Europe, and now has troops on the ground in Afghanistan. But the governance structures of these international institutions have not changed.

Discussion of the resulting "democratic deficit" is no longer limited to the protest movement that gave the place names "Seattle" and "Genoa" significance both as generic anti-globalization reaction and as a more sophisticated challenge to the legitimacy of international institutions.[3] The policy and scholarly literature exploded in recent years with attempts to analyze the problem, but at the root of the issue is the genealogy of the IFIs and IGOs. The former descend directly from central banks, which even in the most

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[2] An earlier version of this testimony appeared as Thomas Blanton, "The Struggle for Openness in the International Financial Institutions," Chapter 8 in Ann Florini, ed., *The Right to Know: Transparency for an Open World* (New York: Columbia University Press, 2007), pp. 243-278.

[3] See Joseph S. Nye, Jr., "Globalization's Democratic Deficit: How to Make International Institutions More Accountable," *Foreign Affairs* (Vol. 80, No. 4, July/August 2001), pp. 2-6; for a more stringent critique, see Graham Saul, "Transparency and Accountability in International Financial Institutions," in Richard Calland and Alison Tilley, eds., *The Right to Know, The Right to Live: Access to Information and Socio-Economic Justice* (Capetown, South Africa: Open Democracy Advice Centre, 2002), pp. 126-137.

democratic countries tend to be the least directly accountable governance institutions; and the latter spawn from lowest-common-denominator alliances of nations, with concomitant governance processes that trend towards the bottom. In both cases, diplomatic confidentiality served as the norm for communications among nations that established these institutions; and such norms – although somewhat eroded – continue to shroud them today.

The fact of public attention to the problem of secrecy in international institutions should serve as the threshold signal of an opportunity for change. One cannot underestimate the ameliorative effect of embarrassment, or as the analyst Ann Florini termed this effect, "regulation by revelation."[4] Such exposure has compelled in particular the IFIs over the past 20 years gradually to expand the documentation that is available to the public and to improve their communication with stakeholders and other target groups. In fact, the public relations and publications functions of international institutions may well be the fastest-growing such bureaucracies in terms of budget and employee positions. But the new transparency more resembles a sophisticated publications scheme than it does an actual "revolution" in accountability. Even so, there are at least four other causes for optimism that more fundamental change may well be possible – if civil society seizes the opportunity, and the institutions themselves internalize the need for change.

First, what was once a marginalized, placard-expressed, protester critique of international institutions' secrecy and lack of accountability has now risen to the level of conventional wisdom. When the dean of Harvard's Kennedy School of Government compares the IFIs to "closed and secretive clubs," when the European Union's commissioner for external affairs (and formerly chair of Britain's Tory party) pronounces in passing that international institutions "lack democratic legitimacy," and when the World Bank's former chief economist describes increased openness as "short of a fundamental change in their governance, the most important way to ensure that the international economic institutions are more responsive to the poor, to the environment

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[4] See Ann Florini, *The Coming Democracy: New Rules for Running a New World* (Washington, D.C.: Island Press, 2003), p. 34.

[and] to broader political and social concerns" – one sees the makings of an emerging elite consensus on the problem and the potential role of greater openness in addressing the "democratic deficit."[5] In this formulation, openness becomes the next best thing to democratic governance, and when the latter is unlikely because those in control are unlikely to give up that control, then transparency will serve as the most important alternative control mechanism, and the possible threshold for addressing governance.[6]

Second, as a result of outside pressure and the emerging conventional wisdom, international institutions themselves are paying at least lip service to the need for greater openness, and in some cases, have actually achieved significant progress towards more transparency. Each of the multilateral development banks, for example, has promulgated formal policies on access to their internal documentation, and a wide variety of records that were previously secret are now routinely provided to the public – although host government veto power and ingrained bureaucratic self-preservation instincts still prevent the most controversial information from such routine publication. Starting in 1999, the almost simultaneous emergence of the anti-market critique featured in the Seattle and Genoa demonstrations, among others, with the pro-market critique offered by the Republican-dominated U.S. Congress and its Meltzer Commission about the banks and the IMF, pointed towards greater transparency as one of the few strategies that addressed both wings of the debate.[7] The real importance of these developments, however, was that the pro-openness rhetoric from IFI and IGO leaders, together with the existence of formal disclosure policies, provided extensive leverage points for activists

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[5] See Joseph S. Nye, Jr., op.cit.; Chris Patten, "Jaw-jaw, not war-war: Military success in Afghanistan has encouraged the US to ignore European doubts about confronting the 'axis of evil,'" *Financial Times* (London), 15 February 2002, p. 16; Joseph E. Stiglitz, *Globalization and Its Discontents* (New York: W.W. Norton & Co., 2002), p. 227; for additional evidence of the growing consensus, see Graham Saul, op. cit.

[6] Joseph E. Stiglitz, "Democratizing the International Monetary Fund and the World Bank: Governance and Accountability," *Governance,* Vol. 16, No. 1, January 2003, p. 133.

[7] A point made vividly by Marco Verweij and Timothy E. Josling in their introduction to the special issue of *Governance* (Vol. 16, No. 1, January 2003) titled "Deliberately Democratizing Multilateral Organization," at p. 3.

who are willing to test specific instances of secrecy and to pursue an "inside-outside" strategy of working with internal reformers and external watchdogs.[8]

Third, civil society organizations around the world have seized on openness as a threshold goal in struggles over the whole panoply of social issues, ranging from the environment to AIDS to poverty reduction to corruption. In India, for example, the Mazdor Kisan Shakti Sanghatan (MKSS) grassroots movement based in Rajasthan began in 1990 with a focus on securing the legally-required minimum wages for poor farmers and rural laborers, but soon realized that access to official records was key not only to that goal, but also to preventing corruption and enforcing a connection between government expenditure and human need.[9] Ironically, this tactical choice by NGOs has coincided at least rhetorically with the rise among elites – not least the professional staffs of the international institutions themselves – of the so-called "Washington consensus" for market-driven economic development, the fundamental assumptions of which require highly-distributed information to make markets work – thus adding efficiency arguments to the moral and political critiques already employed by activists.

Fourth, the past two decades have witnessed an extraordinary international movement for freedom of information, including successful campaigns for national FOI laws in more than 70 countries. While there is enormous variation in the effectiveness of these laws, and major difficulties remain in the implementation of such rights in transitional democracies with limited rule-of-law, one hallmark of the dozens of national campaigns has been their attentiveness to other national models and their outreach for international connections and support. In the process, international FOI campaigners have identified the problem of IFI and IGO secrecy as a major priority for future work, and have begun reaching out beyond the traditional FOI community to NGOs and civil society activists experienced in the various IFI accountability efforts. Over time, these new networks are likely to develop even more dramatic reform proposals for openness

[8] For the most extensive current reporting on disclosure policies, as well as specific links to actual texts at each of the IFIs, see www.freedominfo.org/ifti.htm and the IFI Transparency Resource (launched in February 2005) at www.ifitransparencyresource.org and the Bank Information Center web site www.bicusa.org.

[9] See the case study of the MKSS right-to-information campaign, including essays by Aruna Roy, Nikhil Dey, and Vivek Ramkumar, at www.freedominfo.org/case/mkss/mkss.htm.

and accountability in the international institutions, ranging from potential international treaties as an overarching framework based on human rights concepts, to notice-and-comment requirements for projects and policy changes.[10]

This essay provides a brief and admittedly selective history of the struggle for openness in the international institutions, a discussion of the founding secrecy norms and their erosion over time, summary descriptions of a few of the more important battles and campaigns in that struggle, an analysis of transparency policies and institutional structures within the international institutions, an overview of current issues and debates, and an outline of the two most likely areas for future transparency developments – the growing interest and role of parliamentarians, and the potential for restraining the power of international organizations through the development of global administrative procedures such as notice-and-comment. One major limitation of this discussion derives from the limitations of the available scholarly and popular literature on transparency in the international institutions, that is, the preponderance of focus on the World Bank, rather than on the regional development banks, the IMF, the WTO, NATO or others. While the latter do feature in a number of significant studies, and this paper will draw on that material for illustrative purposes, it is the World Bank that has occupied the central place in the protest movements of the past 30 years as well as in the international openness reforms of the past decade or more.

The Roots of Secrecy in International Institutions

Diplomats, central bankers, generals, and corporate lawyers founded the international institutions that exercise power in the globalized world today. It is no wonder that the habits of confidentiality ingrained in these men (and they were almost all men) became the ethos of the institutions they started. Government-to-government discussions in those days were supposed to stay secret for 50 years or more after they took place; freedom of information law existed only in Sweden and in the former

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[10] For description and analysis of the international freedom of information movement, see Thomas Blanton, "The World's Right to Know," *Foreign Policy* (July/August 2002), pp. 50-58, and in an expanded version, "The Openness Revolution," *Development Dialogue* (2002/1), pp. 7-21.

Swedish province of Finland (for reasons peculiar to bourgeois-versus-noble competition in the late 1700s); and central bankers inspired literature like *The Wizard of Oz*. Over the years since World War II and its immediate aftermath – which was the incubator period for the global order – those founding conventions of confidentiality have eroded in the face of scandal, political challenge, and efficiency arguments.

The first to lose their luster were the diplomatic norms, while central banker imperatives took longer, and both still persist in varying degrees of force. Diplomatic theorist Hans J. Morgenthau wrote in 1954 about the "vice of publicity" in diplomacy, and multiple other commentators have testified to the "ethos of confidentiality" in intergovernmental affairs.[11] The U.S. Supreme Court commented in 1936 that "The nature of transactions with foreign nations, moreover, requires caution and unity of design, and their success frequently depends on secrecy and dispatch."[12] Even in Justice Stewart's concurring opinion in the Supreme Court's 1971 decision not to enjoin publication of the leaked Pentagon Papers, he wrote, "[I]t is elementary that the successful conduct of international diplomacy... require[s] both confidentiality and secrecy. Other nations can hardly deal with this Nation in an atmosphere of mutual trust unless they can be assured that their confidences will be kept."[13]

But the Pentagon Papers represented a turning point for diplomatic secrecy. Secretary of State William Rogers had entered an affidavit saying that foreign diplomats had specifically told him relations would be damaged by the disclosures in the Papers, but then the government overreached. At a key appeals hearing, the government presented a sealed affidavit enclosed in three sealed manila envelopes, one inside the others, all three within a double-locked briefcase; the affidavit explained how certain cable intercepts in the Papers showed that the U.S. had broken the North Vietnamese codes. One of the temporarily enjoined journalists sitting with the *Washington Post* legal team, reporter George Wilson, "stunned everyone by pulling out of his back pocket a

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[11] See the discussion in Alasdair Roberts, "A Partial Revolution: The Diplomatic Ethos and Transparency in Intergovernmental Organizations," *Public Administration Review*, July/August 2004, Vol. 64, No. 4, pp. 411-412.

[12] *United States v. Curtiss-Wright Export Corp.*, 299 U.S. 304 (1936).

[13] *New York Times Co. v. United States*, 403 U.S. at 728 (1971) (Stewart, J., concurring).

verbatim record of the intercept, in an unclassified transcript of Senate Foreign Relations Committee hearings."[14] Years later, the Solicitor General who argued for the government in the Pentagon Papers case concluded that the arguments for diplomatic secrecy were vastly overstated: "I have never seen any trace of a threat to the national security from the publication. I have never even seen it suggested that there was such an actual threat."[15]

The U.S. executive branch continues to assert diplomatic secrecy, and to take a maximalist position, but with mixed success. For example, in 1999, the Department of State opposed disclosure of a British consul's letter related to an extradition case, arguing that "[i]t is a longstanding custom and accepted practice in international relations to treat as confidential and not subject to public disclosure information and documents exchanged between governments and their officials. . . . Diplomatic confidentiality obtains . . . even with respect to information that may appear to be innocuous. . . ."[16] The letter involved was so innocuous, however, that the consul had previously disclosed its contents to the plaintiff, unbeknownst to all involved, and the government, to its consternation, had to moot the case. As the *Weatherhead* case suggests, there co-exists uneasily both the proof of persistence of the secrecy norm (most prominently in the imposition by NATO of its information security policies onto new NATO members, helping state secrecy trump new freedom of information laws)[17] as well as previously unthinkable expressions of the norm's erosion (the CIA's National Intelligence Council carried out its recent 15-year threat assessments in a process of unclassified workshops and a series of unclassified final reports posted on the Web).[18]

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[14] Ben Bradlee, *A Good Life* (New York: Simon and Schuster, 1995), p. 320.

[15] Erwin Griswold, "Secrets Not Worth Keeping," *The Washington Post*, 15 February 1989, p. A25.

[16] Patrick Kennedy, Assistant Secretary for Administration, U.S. Department of State, Declaration in *U.S. v. Weatherhead* (Cited in 9th Circuit Opinion 6 October 1998, at http://www.fas.org/sgp/foia/weatherapp.html)

[17] Alasdair Roberts, "Entangling Alliances: NATO's Security of Information Policy and the Entrenchment of State Secrecy," *Cornell International Law Journal*, Vol. 36, No. 2, Spring 2003, pp. 329-360.

[18] See http://www.cia.gov/nic/NIC_2020_project.html (accessed 29 December 2004).

Similar erosion is underway for secrecy arising from the norm of central bank confidentiality. Perhaps the classic expression of the central banker attitude came from U.S. Federal Reserve Board chairman Arthur Burns Jr. in a 1976 speech reacting to the U.S. Freedom of Information Act and what he called a decade of "profound changes in the attitudes of Congress, the courts, and the public generally towards 'secrecy' in government." Under the title "The Proper Limits of Openness in Government," Burns said "it has been my purpose to question the premise that disclosure is a desirable end in and of itself. I particularly question the premise that disclosure is the cure for bad government." He cited the tradition of "elaborate safeguards" in bank examination "to protect the privacy of bank customers and to preserve public confidence in individual banks and the banking system as a whole." He noted with approval that "Very few of the world's central banks regularly inform their national legislature of their plans for the future course of monetary policy..." and argued that "premature disclosure" of Fed strategy would produce "greater short-run volatility in interest rates" and "exaggerated shifts in market expectations," thus making "speculators" the "chief beneficiaries of immediate disclosure." Most troubling to Burns was "the prospect that Board deliberations prior to decision may be opened to public scrutiny..." since that would convert reasoned debate into "theater."[19]

Each of these arguments has been challenged and many refuted in the years since Burns made his objections. The U.S. Congress for example decided that bank examination secrecy was less effective than deposit insurance in preventing runs on banks, and passed laws forcing transparency on bank practices such as "redlining" (discriminatory mortgage lending), money-laundering, and savings-and-loan accounting. The U.S. courts have reduced secrecy over bank customer data and taxpayer information by ordering disclosure in aggregate formats, stripped of personal identifiers, but allowing researchers to assess bank examiner and even IRS audit rates by income levels, geographic regions, job categories and industries, and thus hold regulatory bodies far

[19] Arthur F. Burns, "The Proper Limits of Openness in Government," Address to the 1976 International Monetary Conference, San Francisco, California, 19 June 1976, Arthur F. Burns Papers, Box E31, Gerald R. Ford Library, Ann Arbor, Michigan.

more accountable.[20] The most prominent claim by Burns – that releasing more information about deliberations of the Federal Reserve would benefit only the speculators, the insiders, and thus contribute to volatility in the markets – has largely been demolished today by the school of information economics, with studies showing more information from regulatory bodies actually stabilizes the markets and creates more of a level playing field, and that information asymmetries are the real problem underlying bank runs, capital flights, and crashes.[21] As the Nobel Prize-winning economist Joseph Stiglitz has commented on the International Monetary Fund, "The IMF holds that transparency could undermine its effectiveness, a view it shares with the central bankers who play such a large role in its governance. With few exceptions, most of them are committed to the proposition that public discussions of monetary policy would not contribute to economic stability and believe that even public disclosure of the IMF's deliberations would be counterproductive. Remarkably, there is little empirical evidence in support of these strongly held views. On the contrary, few untoward consequences have resulted from the Bank of England's movement towards improved transparency and disclosure."[22]

Professor Stiglitz may be surprised to find that leaders of the IMF now agree with him on this point. Thomas Dawson, the IMF's director of external relations, commented in 2003 that "information once guarded as closely as state secrets is now routinely published. And fears in some quarters that the release of this information would shake the pillars of modern civilization seem to have been unfounded. Financial markets are happy getting a steady stream of information from us and from our member governments. And they like it better than the old system when a sudden deluge of information which

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[20] Perhaps the leading example of recently won access to previously confidential data on matters like tax audits is the Transactional Records Access Clearinghouse at Syracuse University, which provides extensive databases and analyses of government law enforcement activities, much of it obtained through FOIA requests. See http://trac.syr.edu/aboutTRACgeneral.html.

[21] See, for example, Joseph E. Stiglitz and S.J. Grossman, "On the Impossibility of Informationally Efficient Markets," *American Economic Review*, Vol. 70 (3), 1980, pp. 393-408; and Joseph E. Stiglitz, "On Liberty, the Right to Know, and Public Discourse: The Role of Transparency in Public Life," Oxford Amnesty Lecture, 27 January 1999, p. 20.

[22] Joseph E. Stiglitz, "Democratizing the International Monetary Fund and the World Bank: Governance and Accountability," *Governance*, Vol. 16, No. 1, January 2003, p. 115.

had been bottled up would come out and destabilize markets and countries." Dawson described an IMF colleague who had come from a career in the British Treasury to work on the IMF's Code of Fiscal Transparency, and joked that he "spent the first 25 years of his career assisting ministers in hiding what was going on and the next five years trying to unveil what was actually happening."[23]

The Checkered History of Transparency at the World Bank

The World Bank's own authorized history of its first half-century mentions that direct contact with the people affected by Bank decisions "seemed to contradict two of the Bank's constitutional principles: that it would deal with citizens and legislators of member governments through the designated representatives of those governments on the Board of the Bank; and that it would maintain a fiduciary relationship with member governments, a relationship of confidentiality in which the responsibility for releasing information pertaining to a borrower lay with the borrowing government."[24] A leader of the Philippines-based Freedom from Debt Coalition stated the problem more directly and colorfully: "When we complain to the World Bank and the IMF, they tell us, 'So sorry, we don't talk to people. We only talk to governments. We only talk to your president. We only talk to your central bank governor. We only talk to your minister of finance.' This is a joint production of the international finance community with the cooperation of local elites and leaders in our own country. The majority of the people are shut out of the negotiations."[25]

But this opacity, insularity, and secrecy would change – not completely by any means, but markedly. Struggles over 40 years and in countries ranging from Brazil to

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[23] Thomas C. Dawson, "Transparency and the IMF: Toward Second Generation Reforms," Speech to Nordic and Baltic Monetary and Financial Committee, Tallinn, 17 March 2003, at www.imf.org/external/np/speeches/2003/031703.htm (accessed 28 June 2004).

[24] Robert Wade, "Greening the Bank: The Struggle over the Environment, 1970-1995," in Devesh Kapur, John P. Lewis, Richard Webb, eds., *The World Bank: Its First Half Century, Volume 2: Perspectives* (Washington D.C.: Brookings Institution Press, 1997), p. 657.

[25] Leonor Briones quoted in Kevin Danaher, ed., *50 Years Is Enough: The Case Against the World Bank and the International Monetary Fund* (Boston, MA: South End Press, 1994), p. 67.

India forced the change, and the struggle continues. Leadership in the change came from non-governmental organizations, the environmental movement, growing associations of indigenous peoples, and national parliaments, especially the U.S. Congress. The World Bank became the first international institution targeted and the first to change. Activists targeted the Bank for many reasons: The Bank had global impact and tangible projects, received contributions from the U.S. government over which taxpayers and the Congress had the right of oversight, was handily based in Washington D.C. within walking distance of many U.S. and international NGO offices, was not a foreign government that could exercise nationalist appeals in its defense, and already had at least rhetorical commitments to the environment and to ameliorating the conditions of indigenous peoples. The choice of the Bank was not because the Bank's practices were worse than the other development banks or institutions, but because there were more handles with which to grip the Bank.[26]

But the other institutions soon followed: After the financial crises in Mexico (1994), Asia (1997), and Russia (1998), IMF delegations found themselves surrounded by housewives beating tin cups and economists bearing hemlock. The IMF's Thomas Dawson summed up the lessons learned in a 2003 speech: "It was widely accepted that in reporting their financial positions some of the crisis countries had been, shall we say, 'economical with the truth'.... Not only were countries under pressure to come clean, but the IMF itself came in under unprecedented pressure to reveal its policy advice to countries, that is, to be less secretive."[27] Soon the IMF moved almost all of its documents onto the Web and began reaching out to parliamentarians and NGOs, although its decisionmaking remained extremely problematic from an accountability perspective.[28]

[26] From the activists' point of view, see the excellent collection by Jonathan A. Fox and L. David Brown, eds., *The Struggle for Accountability: The World Bank, NGOs, and Grassroots Movements* (Cambridge, MA: The MIT Press, 1998); from the independent scholar contributing to the Bank's authorized history, see Robert Wade, "Greening the Bank," especially pp. 658-659.

[27] Thomas C. Dawson, op. cit.

[28] Andrew Eggers, Ann Florini, Ngaire Woods, "Chapter One: Accountability, Parliaments and the IMF Board," in Barry Carin and Angela Wood, eds., *Enhancing Accountability in the International Monetary Fund*, Centre for Global Studies, University of Victoria (Canada), November 12, 2003 DRAFT, pp. 8-24.

In 1999, the WTO ministerial meeting in Seattle became the scene of violent and non-violent street protest; so subsequent location choices for WTO meetings favored islands separated from demonstrators by causeways, barricades and police. By 2002 the WTO was issuing press releases about its quicker release of restricted documents, sponsoring regular NGO seminars, and spending core budget funds to include lower-income countries in its Geneva proceedings.[29] In 2004, the former chairman of the WTO's Appellate Body called for opening "the proceedings of the panels and the oral hearings of the Appellate Body, both to press coverage and to overall public observation" and "the same for meetings of the General Council, the Dispute Settlement Body and all of the other major councils of the WTO" because otherwise "it's unlikely that members of the WTO will ever secure the public support needed to maximize the many gains to be made from trade through a rule-based world trading system."[30] The WTO has not yet adopted these suggestions, nor would they amount to a transparency revolution, only a "partial revolution" in Alasdair Roberts' phrase; but already the transparency changes have opened serious discussion of accountability and governance questions, and nowhere more so than at the World Bank.

For the World Bank openness struggle, the start date that activists point to is 1966, when the General Assembly of the United Nations passed resolutions condemning the apartheid regime in South Africa and the continuing colonial subjugation of Angola and Mozambique by Portugal, as violations of the U.N. charter. Despite its U.N. affiliation, the Bank insisted that Article IV, Section 10 of its own Charter, prohibiting interference in the political affairs of its members, required it to disregard the resolutions. The Bank proceeded with a $10 million loan to Portugal and $20 million to South Africa, even after a personal plea from U.N. Secretary General U Thant to the Bank's president, George Woods.[31] This was hardly the first, but certainly the most flagrant, of World Bank actions that raised the question of accountability. If the U.N. charter itself did not

[29] World Trade Organization, "WTO moves towards a more open organization," 16 May 2002, with Document WT/L/452 of 14 May 2002 attached.

[30] James Bacchus, "Open Up the WTO," *The Washington Post*, 20 February 2004, p. A25.

[31] Graham Saul, Bank Information Center, personal communication to author, 13 January 2004; Bruce Rich, "World Bank/IMF: 50 Years Is Enough," in Kevin Danaher, ed., *50 Years Is Enough*, p. 8.

apply, then the Bank had set itself up as an entity above national law but without international law. As activist David Hunter described it, because the Bank was insulated from any legal responsibilities to the people directly affected by its actions, it was therefore a "lawless institution."[32]

The first effective resistance by affected peoples came in the Philippines, only two years into the martial law imposed by Ferdinand Marcos in 1972. The World Bank had made the Philippines a priority, lending $2.6 billion for 61 projects between 1973 and 1981. In particular, the Chico River dam project in the Cordillera would have provided hydroelectric power in the wake of the oil crisis, but only by flooding nearly 3,000 hectares of rice terraces belonging to the indigenous Kalinga and Bontoc peoples. They only found out about the dam a year after project approval, when survey teams came to the valley. Protests escalated, from petitions to the government that were ignored, to a regional pact among indigenous leaders against working in the construction, to incursions by the New Peoples' Army guerrilla forces, to direct protest at the IMF Manila conference in 1977, where Bank president Robert McNamara felt compelled to say that "no funding of projects would take place in the face of continued opposition from the people." Ultimately, the Bank withdrew and the Philippine government postponed the dam indefinitely; "it was a silent retreat, but this did not detract from the fact that the Bontoc and Kalinga had accomplished something exceedingly rare in the Third World: the Bank's withdrawal in the face of popular resistance."[33] In partial response, the Bank developed its first policies on indigenous peoples, but it would be years before those policies explicitly mandated informed consent and self-determination as core principles.[34]

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[32] David Hunter quoted by Jonathan Fox, "Introduction: Framing the Inspection Panel," in Dana Clark, Jonathan Fox, Kay Treakle, eds., *Demanding Accountability: Civil-Society Claims and the World Bank Inspection Panel* (Lanham, MD: Rowman & Littlefield, 2003), p. xiii.

[33] Walden Bello, David Kinley, Elaine Elinson, *Development Debacle: The World Bank in the Philippines* (San Francisco: Institute for Food and Development Policy/Philippine Solidarity Network, 1982), p. 57.

[34] Andrew Gray, "Development Policy, Development Protest: The World Bank, Indigenous Peoples, and NGOs," in Jonathan A. Fox and L. David Brown, *The Struggle for Accountability* (1998), pp. 269-270, 287-288.

In retrospect, the Polonoroeste road-paving and forest colonization project in Brazil starting in 1982 may have been the "paradigm case" of atrocious World Bank projects, and of effective NGO opposition. Polonoroeste featured enormous environmental and social damage, and no consultation with indigenous peoples, while internal Bank warnings were ignored and government and extractive industry interests drove the process in Brazil. The project's road-paving, paid for with $457 million from the World Bank, doubled the population of the region in a decade, while deforestation pulped the rainforest. Of the development fostered by the Polonoroeste road-building, a professional forester wrote: "Visiting such areas it is hard to view without emotion the miles of devastated trees, of felled, broken and burned trunks, of branches, mud and bark crisscrossed with tractor trails – especially when one realizes that in most cases nothing of comparable value will grow again on the area. Such sights are reminiscent of photographs of Hiroshima, and Brazil and Indonesia might be regarded as waging the equivalent of thermonuclear war upon their own territories."[35]

But there's more than devastation to the Polonoroeste story. NGO protest, social networks of Brazilian and foreign anthropologists, and the first Washington-based international NGO campaign persuaded the U.S. Congress to intervene with hearings and an unprecedented meeting with the head of the World Bank. In March 1985, the Bank suspended the loans. "It was an extraordinary double precedent: for the first time, the Bank was forced to account to outside NGOs and a legislator from a member country for the environmental and social impacts of a lending program; also for the first time, a public international financial institution had halted disbursements on a loan for environmental reasons."[36] Perhaps equally important for the future of openness struggles against the Bank and the IFIs, international activists forged close connections with the rubber tappers from Acre, Brazil, and their leader Francisco "Chico" Mendes, whose subsequent assassination in 1988 by the hired guns of irate landowners put the rainforest issue on the front page of *The New York Times*. The connection transformed both parties,

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[35] Nicholas Guppy, "Tropical Deforestation: A Global View," *Foreign Affairs*, Vol. 62, No. 4 (Spring 1984, p. 943.

[36] Andrew Gray, op.cit., p. 279.

placing the human dimension of environmental change at the heart of the argument, adding sustainability proposals like Mendes' "extractive reserves" to the development debate, giving the tappers new access to international leverage, giving the internationals new approaches to environmental debates that were grounded in social relations rather than technical expertise.[37]

Another classic example of the Bank's failure to provide information to and consult local populations, the Narmada dam project in India resulted in mass protest and ultimately catalyzed two major reforms at the Bank – the new information disclosure policy and the Inspection Panel. Approved by the Bank in 1985 with a loan of $450 million, the Sardar Sarovar (Narmada) project was slated to displace more than 150,000 people from their homes and villages – most of whom found out not from timetables or resettlement locations but from the markers placed in their villages indicating the submergence level of the prospective reservoir. NGOs and individuals such as Medha Patkar (a social worker originally from Bombay) insisted on access to information, and by 1988 the grassroots movement known as Narmada Bachao Andolan (NBA, or Save the Narmada Movement) had mobilized thousands of the "oustees" in complete opposition to the dam. One turning point was a special U.S. Congressional oversight hearing in 1989 featuring NBA testimony; connections between the Congressman who chaired the hearing and members of the Japanese Diet, plus media coverage of a subsequent NGO forum in Japan, persuaded the Japanese government to end its support for the project. Gradually, Bank executive directors began questioning the version of events provided by the Bank's operations staff because it differed so strongly from the reports from the affected people themselves. The NBA launched a December 1990-January 1991 march to the dam site, but were stopped at the state border by police, which led to a 26-day fast by Patkar and other activists, and even more pressure on the Bank.

Finally, the Bank appointed an independent review team (the Morse Commission), but then voted to continue the project despite the team's findings that resettlement was "not possible under prevailing circumstances," that environmental impacts had "not been properly considered or adequately addressed," and that "progress

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[37] Margaret E. Keck and Kathryn Sikkink, *Activists Beyond Borders: Advocacy Networks in International Politics*, (Ithaca, NY: Cornell University Press, 1998), pp. 135-141.

will be impossible except as a result of unacceptable means," that is, police force. The Bank's approval of continuing the dam, according to Patrick Coady, the U.S. executive director, at the October 1992 board meeting, signaled "that no matter how egregious the situation, no matter how flawed the project, no matter how many policies have been violated, and no matter how clear the remedies prescribed, the Bank will go forward on its own terms."[38] But Narmada catalyzed protests at the 1994 Madrid meetings, multiple Congressional inquiries, a highly successful NGO campaign working with the U.S. Congress to hold back funding replenishment for the World Bank Group, and ultimately, the Bank responded with the Inspection Panel and a new disclosure policy. For the oustees, there was much less success – the Indian government proceeded with the dam, which continues under construction today, with reservoir levels rising and resettlement a debacle – yet more proof that transparency is necessary but not sufficient for real change. As Indian right-to-know expert Shekhar Singh has commented, more Indians wanted the electric power from Narmada than wanted not to move their homes, and India is a democracy.[39] (One outstanding question is whether the initial Bank funding was essential to the start of the project, or whether, as the Bank likes to claim, the Indian government would have proceeded without the Bank).

An all-too-similar episode of international campaign pressure occurred with the Bio-Bio River dam controversy in Chile – it produced major institutional reform, but too little and too late for the affected people at the local level. The case focused attention for the first time on the lack of accountability in the rapidly growing private sector side of the World Bank's operations, specifically the International Finance Corporation (IFC), while severely testing the nascent democratic processes in a country transitioning from the 17-year Pinochet dictatorship after 1990. The state-owned utility started planning for a series of dams on the Bio-Bio, a center of indigenous Mapuche/Pehuenche culture as well as a world-class whitewater rafting destination, in the mid-1980s; but neither the IFC (which approved the first dam in 1992, Pangue, which was finished in 1996) nor the

[38] Lori Udall, "The World Bank and Public Accountability: Has Anything Changed?" in Jonathan A. Fox and L. David Brown, *The Struggle for Accountability* (1998), pp. 400-401.

[39] Shekhar Singh, personal communication to the author, 19 June 2004, Washington D.C.

power company carried out serious environmental or social impact studies. A burgeoning protest movement brought together Chilean and international environmentalists and anthropologists with members of the indigenous groups and forced a series of significant reforms on the IFC, including its first compliance ombudsman, expanded environmental impact reviews, and a new disclosure policy. Remarkably, the Bio-Bio debates forced the IFC for the first time to release publicly an environmental assessment before the board's review, thus allowing debate about the assessment's deficiencies.[40] But secrecy habits die hard: the independent review ordered by the World Bank's president and carried out by the former head of the National Wildlife Federation ended up heavily censored by the Bank, with almost a third of the report never made public. According to the 25 July 1997 letter by Dr. Jay Hair to Wolfensohn, "numerous deletions that appear to have been made for no other reason than to avoid embarrassing the individuals who made certain decisions regarding the Pangue project or how it was supervised by the IFC."[41] At the same time that the Bio-Bio campaign produced reforms at the IFC, and even some significant success at the national level for the development of democratic institutions in Chile, the effort failed at the local level because the dams went forward, the power company succeeded in its divide-and-conquer tactics and dominated the local foundation set up to benefit the indigenous community, and only a handful of Pehuenche families were able to hold out for their original goal of stopping the dams.

Campaigners achieved more success against the Arun III dam project in Nepal, which became the poster child of the 50th-anniversary campaign against the World Bank, and the first claim presented to the new Inspection Panel, in 1994-1995. The Arun case ultimately obliged the new Bank president James Wolfensohn to take sides in the preexisting internal debate over the project's viability, and revealed how transnational advocacy networks can sometimes tip the balance. The claim and the Inspection Panel's report provoked Wolfensohn to withdraw the Bank's support for Arun III (the Nepal

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[40] David Hunter, Cristian Opaso, Marcos Orellana, "The Biobio's Legacy: Institutional Reforms and Unfulfilled Promises at the International Finance Corporation," in Dana Clark, Jonathan Fox, Kay Treakle, *Demanding Accountability* (2003), pp. 115-143.

[41] Ibid., pp. 128-129.

government has not since been able to finance the project), and established the Inspection Panel as a viable accountability institution. Even so, the Bank attempted to prevent the release of the final panel report in August 1995, but its hand was forced because portions had leaked out "which is causing distortion of the facts and embarrassment to the Bank."[42]

The China Western Poverty Reducation Project was perhaps the most recent "turning point" case in the transparency struggle at the World Bank. Starting in 1999, the Bank sought to support the Chinese government's plan to resettle some 58,000 poor farmers onto lands traditionally roamed by nomadic Tibetan and Mongolian peoples. Local people sent letters seeking international support against the plan, and Tibet solidarity groups worked with the Bank Information Center and other Bank watchdogs to generate skepticism in donor governments and intense media coverage – including television images of protesters scaling the façade of the Bank building with their signs. The campaign led to high-level diplomatic tensions between the Bank, its largest donor (the U.S.), and its largest borrower (China); an unusually intense level of board engagement; a scathing report by the Inspection Panel; and ultimately the cancellation of the Project. The Panel report not only documented the project's systematic violation of the Bank's "safeguard" policies, but went further to reveal weaknesses across the Bank's entire system for avoiding and mitigating environmental and social risks. The Bank responded with a new commitment to the safeguards and a series of checks and balances to ensure compliance.[43] Yet this victory for transparency did not ameliorate conditions for the Chinese and Tibetans affected by the project, because the Chinese government went ahead without the World Bank, whose president, James Wolfensohn, argued that "at the end of the day it would have been better if we were involved in the project than if we were not at all."[44] The Tibetan support groups disagreed, given the inadequacies of the

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[42] Richard E. Bissell, "The Arun III Hydroelectric Project, Nepal," in Dana Clark, Jonathan Fox, Kay Treakle, *Demanding Accountability* (2003), pp. 25-44, quote is on p. 42 from an internal Bank memo.

[43] Dana Clark and Kay Treakle, "The China Western Poverty Reduction Project," in Dana Clark, Jonathan Fox, Kay Treakle, *Demanding Accountability* (2003), pp. 211-245.

[44] Sathnam Sanghera and Stephen Fidler, "World Bank Chief Under Fire after Chinese Project," *Financial Times*, 14 July 2000, p. 5.

Bank's performance, the limitations imposed by China, and the legitimacy bestowed by Bank sponsorship.

These struggles over controversial projects from the Polonoroeste to Tibet also catalyzed a remarkable pro-openness dynamic – directed internally rather than externally – on the part of the professional staff of the Bank and the other institutions. For example, in the authorized history of the Bank's environmental dealings, based on almost complete access to the Bank's files, the author subtly denigrates what he terms the "extreme" rhetoric of the NGO activists, but he reserves his deepest scorn for the internal deception and secrecy evident from the Bank's own documents, and often deployed by Bank staff against management and even the Bank's board. For example, two years after the board had approved the first phase of the Amazon highway project, "some Board members expressed concern about Polonoroeste. To each the staff gave reassuring replies that concealed much contrary information. And the staff misled not only the Board but also the president. In a briefing paper on Polonoroeste to [A.W.] Clausen in December 1983, the staff wrote, '...Implementation of the Special Project [for Amerindian protection] is now satisfactory'... Evidence from the files shows that the division chief was busy telling the Brazilian government that implementation was very unsatisfactory. Few of the thirty-seven Indian reserves had been demarcated and registered, and many had been invaded by squatters, loggers, and others."[45]

This critique suggests one significant component of a growing commitment by the World Bank to greater openness: the realization by the Bank itself that internal barriers to information-sharing generated bad decisions and trapped the Bank in bad projects. For example, after NGO critics had shown the myriad ways in which the Narmada dam project failed to meet stated Bank policies, the Bank staff began to fool itself. The authorized history described the situation this way, in a remarkable soliloquy: "Retrofitting is difficult. The effort to do so in Narmada as NGO pressure built up then began to produce apparently deceitful behavior on the part of the operational staff [of the World Bank]. Their logic went like this. 1. We know things are not going well in the

[45] Robert Wade, "Greening the Bank," pp. 649-650, citing the summary of discussions at the meeting of the executive directors, 25 October 1983, the acting regional vice president's briefing paper dated 28 December 1983, and a Bank telegram to the Brazilian Ministry of the Interior dated 17 March 1983.

project. 2. But do we want to pull out or suspend? 3. No, it is potentially a damn fine project, and things will go better if we are in. (Anyway, management will not allow a pullout, for 'country relations' reasons.) 4. Therefore we need to justify staying in. We do so by sending up reports that things are going well or at least improving, making sure that if anything is said about things that are not going well the phrasing implies that they are minor or on the way to being fixed. The trick is to make the aroma of words do the work that the evidence cannot."[46]

One result of the openness battles at the World Bank has been an institutional commitment to encourage national and local freedom of information laws. The World Bank Group has produced a series of readings and training manuals for its country staff on government openness, has organized seminars and videoconferences in dozens of countries, has included transparency in its governance recommendations and conditions for financing, and has produced extensive research to the effect that "countries with better information flows also govern better."[47] Summarizing a host of papers and studies, the World Bank Institute's Daniel Kaufmann has concluded that transparency is "key to minimizing the risks of financial crises," "fundamental for enabling sustained development and growth" by encouraging competition and more efficient resource allocation, "a major deterrent to corruption" and state capture, and "a basic democratic right" that serves as a "major 'empowering' tool for the citizenry and, through it, for redistribution and poverty alleviation...."[48] Of course, having the World Bank make these arguments abroad makes it harder for the Bank to resist pressure for greater transparency within its own functions.

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[46] Robert Wade, "Greening the Bank," p. 708.

[47] Roumeen Islam, "Do More Transparent Governments Govern Better?" World Bank Policy Research Working Paper 3077, June 2003, in *Sourcebook on Government Transparency Law: Background Readings* for Making Government Accountable: An Introduction to Government Transparency Laws, World Bank Workshop, 10 December 2003.

[48] Daniel Kaufmann, "Transparency Matters: The 'Second Generation' of Institutional Reform," Special Report on Public Sector Transparency, Development Gateway, http://topics.developmentgateway.org/special/transparency/template2.do (accessed 22 April 2005). See also www.worldbank.org/wbi/governance for examples of the extensive research carried out by Kaufmann and his colleagues.

But the Bank's proselytizing is not the only model for international institutions; in fact, one of the most prominent of the IGOs – NATO – has actually encouraged greater secrecy among its members. In 2002, the North Atlantic Treaty Organization held its first-ever summit in the capital of a former Warsaw Pact nation – Prague – and formally announced the entry into NATO of seven new members from Eastern Europe and the Baltics. In the case of Romania, *The Times of London* commented that the invitation came "despite its endemic corruption, a systematic lack of government transparency and poor progress towards a Western-style civil society." Romanian president Ion Iliescu chose to emphasize that joining NATO would allow Romania "to be integrated into the civilized world, and to receive necessary support for internal reforms"; and NATO officials complimented the Romanian military for "satisfying its Membership Action Plan, a detailed set of changes in both the military and civilian sectors that NATO assigns applicant countries" including "promoting the rule of law."[49]

One of the most significant NATO assignments, however, has almost completely undercut Romania's halting progress towards greater freedom of information, by forcing Romania to adopt a state secrets law that conforms to NATO's own information security system – itself a relic of Cold War secrecy thinking. Romania's new secrecy law, enacted in 2002, creates a broad authority to withhold information that has been deemed sensitive by government officials, and trumps the 2001 Law Regarding Free Access to Information of Public Interest. In fact, the NATO accession process has contributed to new state secrets laws in 11 Central and Eastern European countries that otherwise had been in the vanguard of the international freedom of information movement in the 1990s. Yet NATO has refused to make its standards publicly available and has instructed NATO countries to decline requests for its policy under national FOI laws.[50] New intergovernmental cooperation in the war on terrorism is likely to deepen and expand this emphasis on information security rather than openness on the part of NATO, other

[49] See Adam LeBor, "Alliance bends its rules for strategic Romania," *The Times (London)*, 20 November 2002; for the Iliescu quote and the "Membership Action Plan," see Robert G. Kaiser, "Romania Sees NATO Membership as Remedy for Post-Communist Ills," *The Washington Post*, 21 October 2002, p. A18.

[50] For a detailed analysis and critique of the NATO-imposed secrecy laws, see Alasdair Roberts, "Web of Secrets: NATO's Security of Information Policy and the Right to Information," *East European Constitutional Review*, 11.3/4 (2003).

regional security alliances and international governmental organizations (IGOs), even though the various investigations of the September 11, 2001 terrorist attacks indicate that secrecy was part of the problem, and that greater openness rather than reflexive secrecy makes a better strategy against terrorism.[51]

Policies, Laws and Institutional Structures

Unlike NATO's information policies, those of the international financial institutions are largely on the public record and susceptible of analysis. One useful framework for such an analysis looks at institutional openness in three cross-cutting arenas: participatory disclosure, review mechanisms, and governance. Participatory disclosure means openness that empowers participation in the decisionmaking process of the institution, rather than end-stage disclosure of decisions that have already been made. All of the international financial institutions are demonstrably better at the latter than at sharing detailed information early in the deliberative process. Review mechanisms involve process guarantees such as requirements that information refusals be made in writing, that refusals be subject to a "harm test" or "public interest test" as in many national freedom of information statutes, and that requesters have the right of appeal for independent review of the withholding. Governance means simply the level of meaningful public oversight for the governing bodies of the institutions.

At the multilateral development banks, for example, almost total secrecy surrounds the operations of the boards of directors; while at the World Trade Organization, trade negotiations and arbitrations that have the force of law take place behind closed doors. This example also points to a key difficulty in comparing openness policies across different institutions. A comparative approach is essential to identify best and worst practices and to raise the overall standards of openness. However, the core problem for comparative analysis along any dimension, not only openness, arises from the institutions' differences in form, function, governance, process, and financial

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[51] See Thomas S. Blanton, "National Security and Open Government in the United States: Beyond the Balancing Test," in Alasdair Roberts, ed., *National Security and Open Government* (Syracuse, N.Y.: Campbell Public Affairs Institute, 2003), pp. 33-74.

instruments. For example, an IMF loan serves a very different function than does a World Bank loan; the Asian Development Bank has a very different decision-making process (dominated by Japan) than does the Inter-American Development Bank (dominated by the U.S.); and the World Trade Organization has no lending cycle at all.

Each of the international financial and trade institutions has promulgated a formal disclosure policy, and several have gone through two or more revisions of those policies based on actual experience and input from outsiders.[52] Several of these institutions have also included transparency procedures in their compliance requirements for host governments; yet those transparency requirements often fall far short of achieving openness – stated policy is one thing; actual practice is another. Likewise, experts based in Washington D.C. or other financial centers enjoy levels of access to IFI information far greater than that of indigenous people in the forests of Cambodia, to take only one recent example. Also, institutions that rank highly in one dimension may fail on others. The country of Singapore, for example, ranks at the top of the Transparency International index (measuring corruption perceptions) and serves as the baseline for the PriceWaterhouseCoopers "Opacity Index" (which measures lost foreign investment in relation to perceived opacity in given countries), yet when journalists affiliated with the Southeast Asian Press Alliance asked eight countries in the region for 45 specific items of government information, Singapore provided less than 50%, about equivalent to Cambodia.[53]

To begin the process of measuring and comparing the international institutions, a team of analysts from the Bank Information Center, a leading NGO in the campaigns for greater accountability at the World Bank and other financial institutions, and *freedominfo.org*, a virtual network of international freedom of information advocates, created a "matrix" database compiling policy and practice information on openness. The initial versions of the database, released in draft form in April 2004 and revised for release in February 2005, focused on ten key financial institutions: the World Bank,

[52] Links to each of the IFTI disclosure policies are included at www.freedominfo.org/ifti.htm

[53] See "Open for Business," sidebar in Thomas Blanton, "The World's Right to Know," op. cit., p. 54; also Sheila Coronel, ed., *The Right to Know: Access to Information in Southeast Asia* (Quezon City: Philippine Center for Investigative Journalism, 2001).

International Finance Corporation, Multilateral Investment Guarantee Agency, European Investment Bank, European Bank for Reconstruction and Development, Inter-American Development Bank, Inter-American Investment Corporation, African Development Bank, Asian Development Bank, and International Monetary Fund. This 255-item matrix made possible the most sophisticated comparison ever of IFI transparency policies and practices.[54] The matrix broke down the banks' processes into categories such as "general institutional information," "the lending cycle," "bank-wide policies, guidelines, procedures and strategies," "evaluations and audits," "country-specific analysis and strategy papers," "governing bodies," "accountability mechanisms," "process guarantees," and "archives-websites-information centers." Within each category were as many as 30 different information types. For example, "the lending cycle" included social and environmental review procedures, early identification of potential loans, project preparation including feasibility and environmental assessments, pre-approval notification and approval discussion, implementation and supervision reporting, and completion and evaluation reporting.

The findings of the IFI Transparency Resource indicated many common weaknesses – few open meetings, the delayed release of many documents, the confidentiality of many documents, and no clear procedures to request information. The contrasts indicated that there are some areas where one or more institution has moved ahead, such as the fact that the Asian Development Bank and the African Development Bank are the only institutions to release certain environmental information 120 days prior to project approval for both public and private sector lending, and the InterAmerican Development Bank became the first to release its board of directors minutes. While none of the banks stands out across all the transparency categories, the matrix does show the World Bank with the highest disclosure standards generally – no small testament to the focused campaigns on the Bank as well as to the internal Bank forces for reform, and a

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[54] Bank Information Center and *freedominfo.org*, *Opening the International Financial Institutions: The Complete Transparency Resource and Database* , (Washington D.C.: 22 April 2004, and 7 February 2005). Contributors included Abigail Parish, Toby McIntosh, Jen Kalafut, Graham Saul, and Thomas Blanton. Available at www.ifitransparencyresource.org.

signal that the Bank does have the opportunity now to set the "gold standard" to which the other IFIs should aspire.

But the "presumption" of disclosure, claimed by many institutions as cornerstones of their policies, was seriously undercut by a plethora of exceptions that turn disclosure on its head and only allow those documents specifically listed as releasable to come out. Nor were there procedural avenues for those who feel access has been unfairly denied, or "process guarantees" such as clear standards on what should be disclosed, a promise of timely response, or a right of appeal. The policies were not tested on any scale for balancing the legitimate need for confidentiality with the public interest in transparency. The disclosure policies also appeared to reflect substantial deference to private corporations. The matrix data revealed that there is little coherence in the transparency of institution-wide policy development; disclosure tended to come after decisions have been made; little information was released during project implementation; financial intermediary lending was generally exempt from disclosure rules; and some dissemination efforts lacked procedures. The study indicated that basic institutional information was consistently released, but that the institutions were generally weak when it came to giving the public specific information on how to contact directors or staff members. Meanwhile, the governing bodies were almost completely closed to public scrutiny, with no minutes, voting records or transcripts available, except at the IADB. The meetings of the major decision-making bodies were uniformly held in private, and post-meeting announcements came in different forms and levels of specificity.

None of the ten IFIs included in the matrix study had clear procedures regarding the transparency of policy review and development processes. Among other things, none of the institutions released external comments made during a policy review. Nor were drafts of proposed policies made available consistently before board action. Financial statements and audits were generally available, but more specific reporting on evaluations was often not disclosed. Most IFIs disclosed the final economic reports or analyses for specific countries, but the preparation of them was largely opaque. As for project lending, none of the IFIs released the draft board reports on potential projects, and background feasibility and technical studies were difficult to obtain. Policies on the release of environmental information varied widely. Project implementation and supervision was arguably the most secretive phase of the project cycle. Similarly, the lending activities of financial intermediaries were subject to a much lower standard of disclosure. Only a few institutions had accountability mechanisms – the systems that may allow IFI employees or outsiders to raise grievances – and few lived up to the most transparent mechanism, the Inspection Panel found at the World Bank. None of the IFIs had an institution-wide, binding translation policy. Many of the IFIs had archive policies with timelines for declassifying materials, among which the Asian Development Bank is the most progressive, with a five-year declassification period, but disclosure was still subject to government consent. In sum, the matrix study demonstrated that the highly-touted disclosure policies of the international financial institutions are more akin to sophisticated publications schemes than they are to the new national freedom of information laws.

Contemporary Issues and Debates

Probably the largest single debate, at least in the activist networks, is the argument over abolition versus reform of the international financial and trade institutions; and the greatest virtue of openness in this debate is that the concept works for both sides. One expert observer has characterized the World Bank inspection panel as "one of the first institutional reforms that was extracted by what has since come to be called a 'fix it or nix it' bargaining strategy. The 'fix it or nix it' slogan became prominent in the Seattle 1999 challenge to the WTO, but sums up a debate that goes back to the '50 Years Is Enough' campaign against the World Bank and the IMF in the early 1990s. This slogan can be read in two different ways: first, as a bargaining strategy, as in 'either you fix it or we will try to nix it'; and second, as referring to the more reformist and radical wings of the movement against corporate globalization."[55] Put another way, what the author Robin Broad terms the "global backlash" includes both those efforts to "roll back" the corporate-led globalization process, and campaigns that are trying to "reshape" it, and these two approaches often overlap and even coexist in practice, depending on variables

[55] Jonathan Fox, "Introduction," in Dana Clark, Jonathan Fox, Kay Treakle, eds., *Demanding Accountability*, p. xxvi.

such as the political moment, the issue, and the campaign.[56] Perhaps all the actors involved understand that winning full transparency along each of the dimensions of participatory decisionmaking, review mechanisms, and governance of the international financial and trade institutions would indeed revolutionize their operations, rather than simply reform them.

More specific debates revolve around the hangover of "business confidentiality" in the IFTIs. Before the campaigns and reforms of the 1980s and 1990s, this presumption of a fiduciary responsibility on the part of the IFTIs towards borrowers and contractors overrode all other considerations during decisions about transparency. This has changed somewhat, but the hangover continues, despite all the openness commitments. In November 2002, for example, it required no less than a Supreme Court decision in Uganda to break the World Bank's version of this barrier, with significant consequences. A Ugandan High Court justice overruled the Ugandan government and the World Bank to order the release of a key document defining the commercial arrangements relating to a controversial Nile River dam project supported by the World Bank. The $550 million dollar Bujagali dam will commit the already heavily-indebted country to pay billions of dollars to the private corporation that will own and operate the project for the resulting electricity, whether or not Uganda can re-sell the power elsewhere in Africa; yet the World Bank refused to require release of the Power Purchase Agreement between the corporation and Uganda. An internal World Bank ombudsman report in September 2001 noted that if the project's sponsor "wants to maintain a degree of secrecy consistent with a private sector project, perhaps public institutions should not be asked to provide guarantees for or subsidize the undertaking." Concerned citizens and civil society groups in Uganda went to court, citing Article 41 of the Ugandan constitution as requiring release of the document, and High Court justice Egonda-Ntende agreed with them. A subsequent NGO analysis of the document concluded that Ugandans "will pay hundreds

[56] Robin Broad, ed., *Global Backlash: Citizen Initiatives for a Just World Economy* (Lanham, MD: Rowman & Littlefield, 2002).

of millions of dollars in excessive power payments" as a result of the project.[57] Yet the biographer of the World Bank's president, James Wolfensohn, was able to interview a number of Ugandan families who would receive cash compensation for their land from the dam builders and conclude therefore that the story was a "tragedy for Uganda" because the protests were holding up electric power that would supply "clinics and factories" – never mentioning the excessive payments to the private corporation or the Bank's own internal critiques.[58]

The blame game of shifting responsibility between international organizations and the host governments also provides cover for continued opacity. In Phnom Penh, about 40 villagers from several Cambodian provinces showed up in front of the World Bank office on Monday, 11 November 2002, and vowed to sleep on the sidewalk until they received copies of the logging plans for the areas in which they lived. That Monday was the beginning of a 19-day public review period required by the World Bank for the plans, which indicate where and how cutting is to occur over the next 25 years. But the government's Department of Forestry and Wildlife apparently provided the World Bank – its biggest single funder – with only two copies of the plans, both in black-and-white, which obscured the color-coding that specifically outlined logging areas. Villagers demanded color copies to take back to their communities, and told the Bank that neither the logging companies nor the forestry department had consulted with them about which areas should be protected as community forest. Bank officials attempted to negotiate greater access, but simultaneously affirmed the release of a $15 million loan that had been held up while the Bank pressed the government for the public review. An NGO

[57] See "Ugandan Judge Orders Release of Key Document on Bujagali Dam," in *IFTI Watch*, www.freedominfo.org, posted 22 November 2002, with links to the judge's decision and the NGO analysis.

[58] Sebastian Mallaby, "NGOs: Fighting Poverty, Hurting the Poor," *Foreign Policy*, September/October 2004, at http://www.foreignpolicy.com/story/cms.php?story_id=2672. The Wolfensohn profile by Mallaby is *The World's Banker: A Story of Failed States, Financial Crises, and the Wealth and Poverty of Nations* (New York: Penguin, 2004). The Mallaby article and book include a similarly one-sided treatment of the China Western Poverty Reduction Project.

observer called the review process "a farce," but a Bank official told reporters "it's a first, it's a start... not insignificant."[59]

The Cambodian villager confronting her own authoritarian government faces an even more difficult task in the face of the international institution. The links from citizen to international institutions remain tenuous even in robust democracies, where elected representatives form governments that appoint high officials who then select directors for the World Bank or the IMF. For undemocratic countries, there is no chain of accountability and the attenuation of representation involved in arrangements like the IMF's, where a single executive director represents a whole group of countries, demolishes any notion of answerability.[60]

In response to the answerability problems in both directions (national and international), reformers inside and outside international institutions have welcomed the emergence of parliamentarians as a new source for dialogue, engagement, oversight, and even to a limited but growing extent, participatory representation. For example, the World Bank hosted in 2000 the first-ever formal meeting of parliamentarians with top Bank leaders, including 50 individuals from about 30 countries; and the Parliamentary Network on the World Bank subsequently separated itself from Bank sponsorship, set up independent offices, and greatly expanded its reach. Its 2004 annual meeting attracted 183 parliamentarians from 70 countries, and the Network has pressed the Bank not to approve Poverty Reduction Strategy Papers unless governments have them reviewed by their legislatures.[61] The IMF has experienced a wide range of parliamentary interaction,

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[59] Richard Sine and Nou Pohours, "Villagers Beg World Bank for Logging Plans," *Cambodia Daily*, 12 November 2002 (posted 2 December 2002 at www.freedominfo.org).

[60] For an eloquent expression of this attenuation and the possibilities of enhanced parliamentary engagement in the IMF context, see Andrew Eggers, Ann Florini, Ngaire Woods, "Chapter One: Accountability, Parliaments and the IMF Board," in Barry Carin and Angela Wood, eds., *Enhancing Accountability in the International Monetary Fund*, Centre for Global Studies, University of Victoria (Canada), November 12, 2003 DRAFT, pp. 8-24.

[61] Toby McIntosh, "Parliamentarians Seek Larger Role in IFI Decision-Making," 30 September 2004, www.freedominfo.org/ifti/worldbank/20040930a.htm; "Parliamentarians Flex Growing Organization, Make Request of Bank," 24 February 2004, www.freedominfo.org/ifti/worldbank/20040224.htm; Norbert Mao, "Experiences with the Parliamentarians Network on the World Bank: A View from the Inside," in Barry Carin and Angela Wood, eds., *Enhancing Accountability in the International Monetary Fund*, Centre for Global Studies, University of Victoria (Canada), November 12, 2003 DRAFT, pp. 25-27.

ranging from the "very hard oversight" exercised by the U.S. Congress in making the release of approved funding conditional on certain IMF reforms, to "soft oversight" such as the U.K. House of Commons' questioning of IMF officials in 2002, to the rejectionist positions taken by several national parliaments against IMF agreements in which they had no voice (such as the Turkish parliament forcing the national government to break its promise to the IMF in 1998 about holding down public sector salaries).[62] Even the former director general of the WTO has called for greater national engagement with the international institutions, especially through parliamentarians: "[A] group of senior parliamentarians, serving in their national legislatures, should form a democratic caucus to provide systematic oversight of international institutions, focusing particularly on increasing the transparency of these organizations.... Not [to] replace national governments, but only strengthen their role in holding these agencies to account."[63]

National openness analogies also offer some interesting principled approaches that hold great promise for cross-cutting application to the international institutions. Many commentators have described the rise of the administrative state in the 20th century as a major challenge to democratic governance in many of the same ways that analysts now criticize the international institutions, as secretive and capricious bureaucratic power unaccountable to those affected. The 20th century reform response to the administrative state was to limit, regulate, and legitimize that bureaucratic power, through more open and participative rulemaking procedures, appeal mechanisms, requirements for reasoned decisionmaking and substantive standards like proportionality, judicial review, and the expansion of citizen rights even more than legislative or executive responsibilities.[64] A classic example of this reform approach was the 1946 Administrative Procedures Act in the U.S., which included in nascent form what became in 1966 the Freedom of

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[62] Andrew Eggers, Ann Florini, Ngaire Woods, "Chapter One: Accountability, Parliaments and the IMF Board," in Barry Carin and Angela Wood, eds., *Enhancing Accountability in the International Monetary Fund*, Centre for Global Studies, University of Victoria (Canada), November 12, 2003 DRAFT, pp. 8-24.

[63] Mike Moore, "Multilateral Meltdown: It's time for another walk in the Bretton Woods," *Foreign Policy*, March/April 2003, pp. 74-75.

[64] A succinct expression of this analysis with extensive citations to the literature can be found in Alasdair Roberts, "A Partial Revolution: The Diplomatic Ethos and Transparency in Intergovernmental Organizations," *Public Administration Review*, July/August 2004, Vol. 64, No. 4, pp. 410-411.

Information Act. The APA compelled a notice-and-comment procedure by federal agencies for any regulation or policy change that would affect private parties or state and local governments. The procedure included litigation rights if the agency failed to provide notice or failed to take into account public comment, or otherwise flouted the participatory intent of the statute. Today, an entire section of the American Bar Association specializes in administrative law; and additional notice-and-comment-type provisions routinely show up in U.S. regulation and legislation (as the legal basis for environmental impact statements, for example). The experience has "not been a source of unmitigated joy in American rulemaking," since comment periods have "often taken on the look of an Internet poll where those interest groups with the most time and ambition can collectively submit thousands of replies about a proposed rule" and agencies spend "months and sometimes years responding in a substantive way to every individual comment no matter how trivial to pass judicial scrutiny."[65]

Yet the development of administrative law has dramatically restrained bureaucratic power and increased public participation in rulemaking and governance in the U.S., so much so that debates over its application to international institutions have become central to the discourse about answerability and participation in the globalized world, both inside and outside those institutions.[66] For example, the first decision of the WTO's appellate body in the 1996 Shrimp/Turtle case criticized the United States for curtailing shrimp imports without giving any of the affected countries the "formal opportunity to be heard, or to respond to any arguments that may be made against it."[67] A recent set of recommendations for reform of the WTO capped its list of proposed changes with the idea of a global "Federal Register" where all international

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[65] Rob Hennig, "Review of *Rulemaking, Participation and the Limits of Public Law in the USA and Europe*, by Theodora Ziamou," *Law and Politics Book Review*, Vol. 11, No. 11 (November 2001), pp. 495-498, accessed at www.bsos.umd.edu/gvpt/lpbr/subpages/reviews/ziamou.htm (10 May 2004).

[66] For an excellent overview, from which much of this discussion is drawn, see Benedict Kingsbury, Nico Krisch, and Richard Stewart, "The Emergence of Global Administrative Law," New York University, Institute for International Law and Justice, Global Administrative Law Series, IILJ Working Paper 2004/1, accessed at www.iilj.org/global_adlaw/index.htm (19 April 2005).

[67] See WT/DS58/RW, *United States – Import Prohibition of Shrimp and Shrimp Products*, Panel Report, 3.180 *et. seq.* (1996), quoted in Kingsbury, Krisch, Stewart, "The Emergence of Global Administrative Law," p. 24.

organizations, not only the WTO, would post notices of pending decisions, declarations and agreements, and seek comment from the public.[68] Some of the international institutions themselves have taken up such suggestions: For example, the Basel Committee of central bankers solicited comments from banks, industry groups, and other interested parties through a largely public process of establishing a new capital adequacy framework starting in 1999 (the final policy was issued in June 2004).[69]

Clearly, the international institutions have already built a global administrative space, populated with dense regulatory regimes such as the WTO, the Organization for Economic Cooperation and Development, the committees of the G-7 and G-8, the financial regulation carried out by the IMF or the Basel Committee, and the product and process rules adopted by the International Standardization Organization (ISO), to name only a few. Even this short list gives a sense of the wide variety of global administration, which is carried out by formal international and treaty organizations, by transnational networks of government officials taking collective action, by private institutions with regulatory functions, by hybrid private-intergovernmental arrangements, or by national regulators under treaty regimes or cooperative standards. The logic of applying administrative procedures restraints to the growing regulatory power of the international bodies seems widely accepted, even by many of the institutions themselves, but the debate has moved to a more complicated level where many of the most important questions remain outstanding. For example, at the basic level of review, what new arrangements will be required to provide the equivalent of judicial review to the international organizations? After all, even the U.N. Security Council has failed so far to establish an independent body to scrutinize its sanctions decisions. At the normative level, what is the democratic basis for global administrative law in the absence of electoral or other models of direct representation at the global level, or put another way, through what mechanisms can global participation or deliberation actually occur? And would global administrative accountability actually aggravate the North-South cleavages

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[68] Steve Charnovitz, "Economic and Social Actors in the World Trade Organization," *ILSA Journal of International And Comparative Law*, Vol. 7 (2001), p. 274.

[69] See the Basel Committee web site at http://www.bis.org/bcbs/aboutbcbs.htm (accessed 20 April 2005).

and distributional issues already present in the globalized world, by empowering primarily Northern populations, market actors, social interests, and states?[70]

Lessons Learned

The history of constant struggle for the past 30 years over issues of openness and accountability at the World Bank and the other international institutions holds significant lessons for activists, analysts, citizens and the institutions themselves. The extraordinary pattern of grudging reforms preceded and enveloped by clouds of rhetorical commitments, suggests that the eloquent abolitionist and former slave Frederick Douglass had it right: "Power concedes nothing without a struggle." The authorized history of the World Bank's interaction with environmental issues contains a constant refrain of pressure and reform: "[G]overnance reforms of the mid-1990s, intended to make the Bank more transparent and publicly accountable, reforms that were once again prompted mainly by environmental NGOs."[71] "[O]utside pressure was critical in getting the Bank to take action: 'There were a number of outside groups who were quite vociferous... in bringing this to our attention... groups like Amnesty International, the Harvard group of Cultural Survival... and others. They were quick to chastise us and rightly so.'"[72]

The lesson is that pressure works, and money pressure works best: The World Bank finally installed the Inspection Panel and issued its information disclosure policy after the U.S. Congress threatened to hold up refunding its capital accounts. Also important are rhetorical commitments, which provide leverage: It was the Bank's successive and nearly continuous violations of its own stated policies that gave activists and affected populations the handles to force accountability and openness. Such policy commitments may seem empty at first or in the face of systemic flouting, yet they empower challenges to power in unexpected ways (as did the Helsinki agreements of

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[70] See discussion in Kingsbury, Krisch, Stewart, "The Emergence of Global Administrative Law," pp. 31-39.

[71] Robert Wade, "Greening the Bank," p. 613.

[72] Ibid., p. 630.

1975 and the impetus thus given to the dissent movements that brought down the Berlin Wall).[73] Today, the primary dynamic is that of keeping up with the neighbors: In openness consultations with IFTI staff, the constant refrain is not about "best practices," but queries about what other IFTIs are doing. In this regard, the focused pressure on the World Bank has had significant ripple effects on all the regional development banks, to the point that several of them have gotten ahead of the others on one or more measures of openness (such as the InterAmerican Development Bank releasing its board meeting minutes). Now activists are producing report cards rating and comparing the banks as a key tool pushing toward openness reforms.

It is also clear that the biggest change occurs when external critics gain internal allies, such as the World Bank leadership that set up the Inspection Panel in 1993-94, or the anti-corruption unit within the Bank that has challenged the general counsel's office over continued secrecy around the contractors banned or penalized by the Bank for corruption, or the Scandinavian countries that pushed the European Union away from its initial lowest common denominator secrecy towards formal process guarantees on openness. This internalization process is vital to success. The Congressional Research Service analyst who has followed the transparency struggle most closely has commented that: "The main problem with seeking transparency, in my experience, is finding a way of getting information without pushing the real decision process into another place where it is away from the window and only the cleaned-up results are transparent. The institutions have to want to be transparent because they believe it is in their best interest. A hard nut to crack."[74]

The most successful campaigns bring human faces to esoteric policies and projects, link activists and analysts across national borders, and apply the same demands for transparency and accountability at every level of governance, from the local project to the national government to the international institution. More and more often, this

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[73] Daniel C. Thomas, *The Helsinki Effect: International Norms, Human Rights, and the Demise of Communism* (Princeton, N.J.: Princeton University Press, 2001).

[74] Jonathan Sanford, Congressional Research Service, Washington D.C., e-mail communication, 16 May 2003.

struggle bases its claims on a rights discourse,[75] much to the dismay of the international institutions. The World Bank's James Wolfensohn, for example, commented to a 2004 meeting of Greenpeace activists in London, "[I]f I talk about a rights-based approach, I get letters [from board members] saying I have exceeded my authority because we are a financial institution. Many countries on our board have signed the declaration of human rights but say this is not the job of a financial institution."[76] But the democratic deficit is compelling all the international institutions to take on the job of establishing legitimacy, while their critics and those affected by the institutions' decisions will continue to contest divergent notions of legitimacy and justice. The struggle for global transparency, like the history of administrative law reforms, demonstrates that all such change is the function of the power relations of various actors, who create new procedures and new openness as new actors gain power, particularly in moments of legitimacy crisis, like now.

[75] See Alasdair Roberts, "Structural Pluralism and the Right to Information," *University of Toronto Law Journal* 51 (2001), pp. 243-271.

[76] "Wolfensohn discusses human rights, environment at Greenpeace lecture," Bretton Woods Project posting, 24 May 2004, at www.brettonwoodsproject.org/article.shtml?cmd[126]=x-126-51253 accessed 28 June 2004.

Testimony of
Alnoor Ebrahim, Associate Professor
Harvard University

Before the
Committee on Financial Services, U.S. House of Representatives
September 10, 2009, Washington, D.C.

On
The World Bank's Disclosure Policy Review, and
the Role of Democratic Participatory Processes
in Achieving Successful Development Outcomes

Chairman Frank, Ranking Member Bachus, and members of the Committee: Thank you for inviting me to testify before you. My name is Alnoor Ebrahim, and I am an Associate Professor at Harvard Business School and a Principal of the Hauser Center For Nonprofit Organizations at Harvard University. I have worked as a consultant to the World Bank as well as to a number of international non-governmental organizations.

My testimony focuses on reform and accountability efforts undertaken at the World Bank over the past fifteen years, particularly those in which civil society organizations have played a significant role. It is based on research that involved interviews at various levels in the World Bank including mid-level managers, vice-presidents, and members of its executive board, as well as interviews with global civil society organizations (CSOs) that have engaged the institution on issues of accountability and reform.[1]

The World Bank is one of the most visible institutions of global governance and, compared to others — such as the International Monetary Fund, the World Trade Organization, various United Nations agencies, and other multilateral development banks, to name just a few — one of the most frequently targeted by civil society organizations. In comparison to its peer institutions, the World Bank has been relatively responsive to calls for greater accountability. This report examines accountability mechanisms at three basic levels in the institution: (1) project, (2) policy, and (3) board governance. There have been numerous improvements in accountability at the project and policy levels since the early 1990s, particularly through the establishment and enforcement of social and environmental safeguards and complaint and response mechanisms. But there remain major shortfalls. In addition, there has been very little change in staff incentives for better accountability to project-affected communities, or in improving board accountability through greater transparency in decision making, more representative vote allocation, or better parliamentary scrutiny.

[1] This testimony draws heavily on research carried out jointly with my colleague Steven Herz, and was originally commissioned by the civil society members of the World Bank-Civil Society Joint Facilitation Committee (see Herz and Ebrahim 2005). Follow up work and analysis were carried out independently (see Ebrahim and Herz 2007 and 2010 forthcoming). The civil society perspectives discussed here are limited to those organizations that have chosen to engage with the World Bank on its projects, policies, or reform processes.

Before elaborating, I would like to emphasize one key point that is easy to lose sight of in discussions about accountability and reform, and which runs through the analysis: the World Bank is a *public* institution with the mission of fighting global poverty. *Hence, the legitimacy of any reform efforts relies on strengthening and enforcing this public purpose.*

In this spirit, there are four main recommendations that emerge from the research, which are developed further in the final section of this testimony. For the World Bank to enhance democratic participatory processes that can achieve successful development outcomes, it should:

- Establish mandatory minimum standards for public participation, supported by improved staff incentives and performance appraisals.
- Systematically incorporate public participation in decision-making at each stage of its project/policy cycles.
- Improve the transparency of its governance and operations, particularly for project-affected people.
- Expand and protect political space for democratic and participatory decision-making in national political processes.

CHALLENGES OF DEMOCRATIC ACCOUNTABILITY

Among institutions of global governance, the World Bank is one of the most frequently critiqued in terms of its accountability, and particularly *democratic accountability*. What is meant by this term? In the United States government, when one speaks of democratic accountability, there are a number of mechanisms that immediately come to mind, for example:

- Elections that enable citizens to directly express their voices and to judge the performance of their representatives (*vertical accountability*).
- Checks and balances that enable controls within government, such as oversight of the executive branch by the legislature, as well as the role of the judiciary (*horizontal accountability*). These are supplemented by mechanisms such as hearings, inspectors general, ombudsmen, oversight committees, etc.

Each of these mechanisms of vertical and horizontal accountability enables, to varying degrees, democratic accountability and responsiveness of government to its citizens (Goetz and Jenkins, 2002). However, the institutional infrastructure necessary for such mechanisms does not exist at the global level. In its absence, what are the options and arguments for democratic accountability in global governance institutions like the World Bank?

There are two main normative arguments for accountability in the World Bank frequently offered by civil society organizations:

- First, as a **public** institution, the Bank's legitimacy depends in part on decision-making processes that conform to basic norms about transparent, participatory and responsive governance. As citizens increasingly evaluate their national governments against these democratic standards, they are also insisting on the same attributes from regional and global governance institutions. This has created significant pressure on bodies such as the World

Bank to democratize and pluralise their decision-making, *especially with respect to those who are most affected by its work: the poor.*

- Second, as a **development** institution, the World Bank's effectiveness depends on a degree of inclusiveness and responsiveness to those who are most affected by its work. The declared mission of the World Bank Group is 'to fight poverty with passion and professionalism for lasting results' (World Bank, 2009a).[2] The Bank has consistently found a high correlation between the extent and quality of public participation and overall project quality (World Bank, 1996; 2000c; 2002a; 2006d). Equally important, development is now understood to require more than alleviating income poverty (Bradlow, 2004: 207). It also includes improving the capacity of the poor to gain equitable access to resources and opportunities, and to defend their rights and interests in the political process (Narayan, 1999: 7, 12). The World Bank has now recognized that empowering the poor to influence the decisions that will affect their lives is a critical dimension of development (McGee and Norton, 2000: 68; World Bank, 2002b: vi; World Bank, 2004b: 79).

In other words, the World Bank faces two basic challenges related to democratic accountability: a challenge of democratic *legitimacy* premised on its public nature, and a challenge of *effectiveness* premised on its developmental purpose. These challenges may be considered at three different levels within the organization: 1) *projects* that the Bank supports in developing countries, coupled with staff incentives for improving accountability; 2) internal *policies* that guide the Bank's work; and, 3) *governance* in terms of the Bank's two boards of directors. Each of these three levels is discussed below.

PROJECT LEVEL ACCOUNTABILITY

At the project level, the World Bank has a number of highly developed mechanisms of accountability, many of which have emerged as a result of civil society pressure. The most widely known of these are:

- **An information disclosure policy** designed to increase transparency and access to Bank documents, and to make them available online and through *public information centers* in

[2] The World Bank Group comprises five organisations: the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and the International Centre for the Settlement of Investment Disputes (ICSID). The IBRD provides loans to governments for development and poverty alleviation initiatives, charging interest to recover the cost of borrowing. IDA provides grants, as well as loans on highly concessional terms, to governments of the poorest countries. The IFC and MIGA seek to encourage private sector investment in medium- and low-income countries: the IFC by providing loans and equity finance; and MIGA by providing political risk insurance. ICSID provides a forum for settling investment disputes between foreign investors and host countries (World Bank, 2006c). This testimony focuses primarily on the IBRD and IDA, which are intended to provide funding to Southern governments for development activities, particularly to countries which might otherwise find it difficult to secure financing.

various countries and languages. This policy is currently under review (see further comments below).

- **A series of ten safeguard policies** that detail the procedures and protections that must be followed when a project is likely to have significant social and environmental impacts. [3]The safeguard policies have become the touchstone of the Bank's accountability in terms of its projects. They set norms regarding planning processes and development outcomes that a project or program must meet to be eligible for Bank support. They also establish minimum standards for the protection of the rights and interests of locally affected communities and provide some assurances that the costs of Bank-financed projects will not be disproportionately borne by the most vulnerable members of society or their natural environment. Some of the safeguard policies also provide minimum guarantees that local communities will have the opportunity to participate in Bank decisions that affect them.

- **An Independent Evaluation Group (IEG)** that conducts detailed analyses of Bank activities and is accountable directly to the Bank's board rather than to management. The aims of the IEG's evaluations are "to learn from experience, to provide an objective basis for assessing the results of the Bank's work, and to provide accountability in the achievement of its objectives."[4] The unit has frequently been critical of Bank activities, and its reports are often used by civil society organizations to buttress their own claims. Internally, a *Quality Assurance Group (QAG)* supports staff in improving the quality of projects and impacts, and was created in the mid-1990s as a result of IEG evaluations pointing to the failure of one-third of Bank projects to achieve their objectives.

- **Two complaint and response mechanisms** are also available to citizens and civil society, through which they may report possible violations by the Bank of its own policies (particularly of its social and environmental safeguards). These quasi-judicial "redress" mechanisms are the World Bank *Inspection Panel* (IP) for the public sector arm of the Bank and the *Compliance Advisor/Ombudsman* for the private sector lending arm. The IP operates independently of Bank management, reporting directly to the executive board. In fiscal year 2008, it received 5 new complaints, for a cumulative total of 52 complaints, of which 21 had been investigated since its founding in 1993. The Panel's investigations focus on determining whether the Bank has violated its own operational policies and procedures, particularly the safeguards. In contrast, the CAO plays a more flexible role in the Bank's private-sector operations, sometimes responding to complaints as an ombudsman, but also overseeing audits of compliance with social and environmental performance requirements. In fiscal year 2008, it received 19 new complaints, for a cumulative total of 99 complaints, of which 61 had been assessed (or were under assessment) since its founding in 2000. The CAO reports to

[3] The ten safeguard policies are: OP/BP 4.01 Environmental Assessment, OP/BP 4.04 Natural Habitats, OP 4.09 Pest Management, OP/BP 4.12 Involuntary Resettlement, OD 4.20 Indigenous Peoples, OP 4.36 Forestry, OP/BP 4.37 Safety of Dams, OPN 11.03 Cultural Property, OP/BP 7.50 Projects on International Waterways, OP/BP 7.60 Projects in Disputed Areas. For all safeguard policies, see http://go.worldbank.org/WTA1ODE7T0

[4] See the IEG's website at www.worldbank.org/oed/about.html. This unit was formerly called the Operations Evaluation Department (OED).

the Bank president (rather than the board) and also functions as an advisor to the president and management on issues of social and environmental policy (World Bank 2006d: 12-13).[5]

Despite these innovations, World Bank project lending remains a source of contention with civil society. Some of the key concerns, with respect to public participation, are:

- **Public participation is impeded by persistent problems of information disclosure and transparency**. The World Bank is currently undertaking a review of its information disclosure policy. The present provides that "timely dissemination of information to local groups affected by the projects and programs supported by the Bank, including nongovernmental organizations, is essential for the effective implementation and sustainability of projects" (World Bank, 2002e). However, the policy does not require the release of many materials that are critical for informed participation, such as certain draft project documents that would provide citizens with information while decisions are still under consideration. Nor does the policy require the disclosure of supervision documents, which would enable CSOs to better monitor implementation. Even where the disclosure policy requires that documents are made publicly available, there is no independent review mechanism to ensure that Bank staff respond appropriately to information requests (Saul, 2003: 6-8).

  Failure to disclose project information at a time when it can inform public participation has constrained the abilities of citizen groups to assess proposed projects (Guttal and Shoemaker, 2004; Lawrence, 2004). Arguably these shortfalls in transparency have also undermined public acceptance of the Bank and its projects by creating an impression that the organization has something to hide. A global network of CSOs has issued a model policy on information disclosure designed to address these and other concerns (Global Transparency Initiative, 2009).

- **Opportunities for citizen and civil society participation throughout the project cycle remain severely constrained**. On one hand, stakeholder participation has increased in Bank projects, rising from 32 percent of new projects approved in 1990 to 72 percent in 2006 (World Bank 2006d: 23). Similarly, consultations in Environmental Assessments rose from about 50 percent in 1992 to 87 percent by 2001 (Rukuba-Ngaiza et al. 2002). On the other hand, participation is lacking during crucial decisionmaking stages. For example, the Bank does not require that borrowers solicit public inputs during the early stages of needs assessments and project identification and design, when fundamental decisions about project type and risk are made, and when the full range of policy and project options can be considered. Civil society participation has also been weak during monitoring and evaluation stages of the project cycle. The IEG found that only 9 per cent of sampled projects had participatory monitoring and evaluation (Rukuba-Ngaiza *et al.*, 2002: 16). Not surprisingly then, the Bank's Quality Assurance Group has identified poor quality monitoring and evaluation as one of four major 'persistent problems' that have

[5] See also www.cao-ombudsman.org and www.inspectionpanel.org. The relative advantages of these two mechanisms for enabling accountability — the highly visible and independent nature of the IP process, as compared to the more agile and lower key approach of the CAO — have not been systematically examined.

shown little improvement over the years (World Bank, 2000d: 25). A subsequent assessment found that, while the quality of project supervision had generally improved, monitoring and evaluation of results showed persistent weaknesses (World Bank, 2007b).

This neglect continues despite substantial evidence that participatory monitoring and evaluation can: (a) improve project sustainability, accountability, and local ownership; (b) help implementing agencies to identify and respond to unanticipated problems; and (c) capture lessons and disseminate lessons learned from individual projects (Ashman, 2002; IFC, undated). The Bank's own literature and research show that civil society participation in projects significantly improves project design, quality of service, and public support (Rukuba-Ngaiza et al. 2002: 14). It also increases transparency and accountability in contracting and procurement, while improving relationships between citizens and their public agencies (World Bank 2002c). Overall, it leads to better outcomes, lower risks, and increased development effectiveness (World Bank 2005b: 5-6, para 11, 13).

- **Participatory processes in Bank-supported projects are *ad hoc*, arbitrary, and poorly administered.** Civil society complaints include "lack of clear and consistent parameters for consultation and feedback, arrogance or defensive posturing by Bank staff, lack of transparency about who is invited, late distribution of consultation documents, lack of translation, and lack of funds to cover CSO time and travel expenses" and lack of attention to alternative project options (World Bank, 2005b: 16-17, para 32). Some consultations have amounted to little more than information dissemination exercises, in which affected peoples are notified of decisions that have already been taken elsewhere (Herz and Ebrahim, 2005: Appendix F, 24).

Overall, the Bank has lacked an effective organizational strategy for improving civil society consultation. The Bank's own reviews have largely concurred with this assessment. For example, in its *Issues and Options* paper on Bank-Civil Society engagement, the Bank noted that "consultation guidelines are not widely followed," and consultations "often occur in an arbitrary fashion with very short notice and/or very late in the process." In part, this is because task managers tend to "'tick the box" that CSOs have been involved, rather than take proactive steps to ensure engagement is viewed as satisfactory by all stakeholders (World Bank, 2005b: 16). The Bank does not collect satisfactory data to track, monitor, and evaluate engagement with CSOs, and nor has it developed appropriate indicators of impact and effectiveness of CSO participation.

- **Citizen access at various stages of the project cycle is further complicated by insufficient capacity for effective participation by local CSOs.** These actors often lack: (a) abilities to understand and critique technical issues; (b) sufficient knowledge of their rights under national law and Bank policy; and (c) skills to negotiate with more powerful actors. Bank efforts to build CSO capacity, where they exist at all, have tended to focus on technical information and typically do not seek to enhance negotiation and conflict resolution skills (Rukuba-Ngaiza *et al.*, 2002: 26; World Bank, 2000c: 21).

- **There are few, if any, meaningful avenues for redress for citizens who believe that participatory processes have not been sufficient**, or that the concerns that they have raised have not been adequately addressed in a project. The Bank's best-known accountability mechanism, the Inspection Panel, is not well suited to this task for two main reasons. First, while the Inspection Panel reviews compliance with mandatory and enforceable standards, there are few such standards with respect to participation for the Inspection Panel to apply. In most cases, public participation is considered to be discretionary and "best practice." And the policies that do require consultation, such as the Environmental Assessment Policy or the Indigenous Peoples Policy, do not provide clear standards for evaluating their adequacy. Because the operational procedures afford so much discretion to Bank staff, it is exceedingly difficult for the Inspection Panel to conclude that staff did not comply with consultation requirements. Second, because the Inspection Panel process can be cumbersome, it lacks the agility to respond to complaints about participation quickly enough that they can be redressed before the project moves forward and the issues are mooted.

- **The Bank currently lacks adequate systems for capturing lessons learned from citizen engagement and for tracking participation.** Various Bank reports have noted that there is a lack of reliable or accessible data to track, monitor, and evaluate engagement with CSOs. They have also noted that there has been a failure to develop appropriate indicators of impact and effectiveness of participation. This is compounded by training and knowledge management systems that are inadequate for the needs of task managers, and a recruitment process that favors technical competence over skills needed for participatory activities. Addressing these deficits remains a major challenge (World Bank 2000c: 27, 30; World Bank 2005b: 16, para 31).

In sum, World Bank efforts and reforms at the project level have resulted in increased consultations with citizens and improved social and environmental protections, but with limited meaningful influence for and accountability to citizens. The absence of stakeholder participation throughout the project cycle has led some to view the World Bank's consultations as mere gestures in which participants are "treated like decorations . . . but their inputs [aren't] taken into account."[6] In cases where inputs are considered but not accepted, the Bank does not generally explain its rationale. This sense of exclusion is aggravated by a disclosure policy that makes much information available only after key decisions have been made. And within the Bank, efforts to improve the quality of engagement are undermined by inadequate benchmarks and standards, as well as weak learning systems.

Staff Incentives at the Project Level

Efforts to improve World Bank accountability at the project level thus present a paradox. On the positive side, the Bank has developed policies on safeguards and information disclosure. Basic notions of citizen participation have also gained currency in the institution. But why does participation remain *ad hoc*? Why are improvements in the quantity of participation not

[6] This quote, made by a respondent in a consultation, is cited in two reports by the Bank's Independent Evaluation Group (World Bank 2001a: 3; World Bank 2002c: 2). It is not clear from the report whether the statement was made by a representative from a donor agency, government, or CSO.

necessarily accompanied by advances in its quality?

In some measure this disconnect may be ascribed to the Bank's failure to align accountability initiatives with corresponding adjustments to its staff incentive structure. Like most large and complex bureaucracies, the Bank has multiple and, at times, competing organizational cultures that influence how its procedures and stated priorities are actually implemented. Generally, World Bank task managers 'paint a sobering picture of the environment for participation within the Bank' (World Bank, 2000c: 25). Impediments to engaging project-affected people have included insufficient funding, inadequate time for work in the field, pressure to process loans and disburse funds rapidly, and inadequate support from management (World Bank, 2000c: 25-7; World Bank, 2005b: 16, para 30).

The main constraints may be grouped as follows:

- **Lending pressures reward quick appraisal and disbursement.** Moving money is valued for promotion, while attention to participatory planning, monitoring and evaluation generally is not. The pressure to lend results in rigid and short project cycles that do not allow for time-consuming and labor-intensive participatory processes. A 2005 Bank evaluation of its projects in Community-Based and Community-Driven Development (CBD/CDD) found that the pressures associated with short project cycles remain significant, despite a recognition that the one-year subproject cycle typical of most Bank activities is too short for participatory community projects (World Bank, 2005c: 21, 46). This problem of reward structures has been recognized for some time, but the Bank has done little to correct it (World Bank 1992: 14, 16) .

- **Staff performance appraisals do not evaluate the quality and impact of participatory mechanisms employed by staff.** Staff have neither positive nor negative incentives to improve the quality of participation beyond compliance with the letter of consultation requirements. Guidance and training are optional, and incentives to improve participation skills are weak. Arguably, better project outcomes as a result of participation could provide a positive incentive; however, these are offset by stronger incentives to move money and perform on short budget cycles, rather than to achieve results on the longer time horizons of project impacts.

- **Resources for civil society engagement are significant, but are not systematically available for all projects.** While there are considerable funds for conscientious task managers (or team leaders) who wish to seek them, they are not earmarked or allocated, a priori, across projects.[7] This means that task managers interested in citizen participation can obtain resources for it, but those who are less interested face no positive incentives. For example, the CBD/CDD evaluation found 'the Bank's preparation and supervision costs for CBD/CDD projects are already higher than for [other] projects, and there are no additional incentives for country directors to provide the additional resources required to

[7] Budgets for engaging the public have grown substantially and there are about 120 staff worldwide who serve as civil society focal points and have access to funds for organizing consultations with CSOs. Other resources to task managers include communications officers (some 300 across the institution) and about 100 public information centers worldwide (Email communication with World Bank Civil Society Team, August 31, 2007).

prepare and supervise these operations' (World Bank, 2005c: 21, 46). The problem thus remains that community participation and accountability are frequently viewed by managers as "add ons" and a drain on time and capacity. This is reflective of a broader climate within the Bank, in which participation is encouraged but not mandated.

- **Deference to technical expertise appears to be at odds with considering a full range of policy and project options.** Technical expertise is highly valued in justifying project and policy lending decisions, in staff recruitment and promotion, and for maintaining one's status in the organization. The emphasis on technical expertise serves as a disincentive to public engagement which instead require collaborative, rather than authoritative, use of knowledge. The emphasis on technical skills, combined with a dearth of incentives to undertake civil society consultation, serves to dissuade even well-meaning staff from spending scarce time and resources on developing means of downward accountability to citizen groups and affected communities.

These observations about the incentive structure for professional staff within the Bank are not new. An internal World Bank task force in 1992, headed by then Vice President Willi Wapenhans, famously described a *"culture of approval"* within the Bank. The Wapenhans Report called into question the credibility of the Bank's appraisal process, observing that many Bank staff used appraisals as marketing devices for securing loans – as part of "an 'approval culture' in which appraisal becomes advocacy" (World Bank 1992: 14, 16). Staff surveyed for that report provided various reasons for poor portfolio performance management, with the most significant factors being inadequate resources, especially inadequate time for supervision, deficient staff skills, distorted incentives, and pressures to lend (Thomas undated: 6; World Bank 1992: 17).

Furthermore, the pressure to lend may be increasing as the World Bank responds to changes in its traditional markets. The Bank has in recent years returned to higher-risk large infrastructure projects, particularly in middle-income countries with better repayment rates. Project staff have worried that the transaction costs of the Bank's environmental and social safeguard policies are a substantial impediment to doing business (World Bank, 2001a; World Bank, 2005a: 5, 8). Moreover, in poorer countries China is increasingly making available loans that are not encumbered with environmental and social conditions. This competition may further reinforce lending pressures at the expense of civil society engagement and downward accountability (Wallis, 2007).

Yet, despite the institutional disincentives and lack of management support, task managers who are willing to attempt participation tend to believe strongly in its benefits. The overwhelming majority of task managers that employ participatory processes believe that it has improved the quality of the operations that they manage. As a result, experience with public participation motivates more participation (Rukuba-Ngaiza et al. 2002: 8, 25; World Bank 2005b: 21).

Two units within the World Bank — the Civil Society Team and the Participation and Civic Engagement Team — have consistently sought to support staff in engaging with CSOs and to raise the profile of such engagement within the institution. These teams have offered detailed recommendations for more systematically drawing on civil society experience and for improving the Bank's responsiveness to communities and civic groups. Their report, *Issues and Options for Improving Engagement between the World Bank and Civil Society*, laid out a ten-point action plan (World Bank, 2005b). Proposals included a review of funding opportunities and procurement framework for civil society engagement, the development of new guidelines for collaboration with CSOs, holding regular meetings with senior management and the Board to review Bank-civil society relations, and better staff support through an institution-wide advisory service and learning programme. Progress on this action plan since 2005 has largely consisted of new training offerings and mechanisms for assistance with engagements.

In sum, while the World Bank has increased CSO consultations around its projects and improved social and environmental protections as a result, public accountability remains modest and uneven. Downward accountability is limited by a disclosure policy that makes much information available only after key decisions have been made, and by an absence of CSO participation throughout the project cycle. Although considerably increased resources are available to task managers for citizen engagement, performance incentives continue to reward the quantity and speed of fund disbursement rather than meaningful civil society participation for improved project quality.

POLICY LEVEL ACCOUNTABILITY

Civil society efforts to influence World Bank policies (as distinct from specific projects) can be traced back to the early 1980s and have booked a number of significant successes. In about 1983, a group of large membership-based advocacy NGOs with offices in Washington, DC began lobbying Congress and the US Treasury to reform the Bank's environmental practices. Their efforts, combined with those of other actors inside and outside the Bank, resulted in the creation of an Environment Department at the Bank in 1987 and the formalization of an environmental assessment policy in 1989. These early successes helped build momentum on Bank policy advocacy and reform by a range of CSOs throughout the North and South (Clark, Fox and Treakle, 2003; Fox and Brown, 1998; Keck and Sikkink, 1998; Long, 2001).

During the tenure of World Bank president James D. Wolfensohn from 1995-2005, the institution revised several of its most important environmental and social safeguard policies, including those on resettlement, indigenous peoples, and forests. It also conducted strategic reviews of some of its most controversial lending practices—including structural adjustment lending and support for extractive industry and large dam projects. Each of these processes included a significant public consultation component. This reflects the World Bank's recognition that these review processes would not be considered to be legitimate or methodologically rigorous unless they included the perspectives of affected stakeholders (Sherman 2001: 4). This was an important advance over its approach in earlier generations of policy revisions, in which transparency and public input were far more circumscribed.

There have been notable improvements in the access of civil society groups to World Bank policy revisions. Since 1997 the Bank has employed three different approaches: unilateral, independent, and collaborative. These approaches differ in the extent to which the Bank controls the nature and timing of the public inputs. In all three approaches the Bank remains the final arbiter of how those consultations would influence policy outcomes.

In the *unilateral approach*, public inputs to policy reviews are almost entirely structured by the World Bank itself. In these cases Bank staff devise the format and timing of public participation, convene the process, and evaluate the evidence thereby obtained. The unilateral approach is by far the most common. It has been used in policy reviews on forestry, resettlement, indigenous peoples, and IFC safeguards, as well as in consultations around the Country Systems proposal, all carried out between 1998 and 2005.

In contrast, the *independent approach* relies upon outside parties to drive the policy review and formulate the resultant recommendations. In the World Commission on Dams (WCD), for example, the World Bank and the World Conservation Union (IUCN) established an independent panel comprised of experts from civil society, government, and industry to conduct a review of the development effectiveness of large dams (WCD, 2000). Similarly, in the Extractive Industries Review (EIR) the Bank commissioned an 'Eminent Person' to evaluate the development impacts of its activities in this sector (Extractive Industries Review, 2003).

Meanwhile, under the *collaborative approach*, the Bank and its key stakeholders share responsibility for structuring the review and assessing its outcomes. The main instance of this review framework was the Structural Adjustment Participatory Review Initiative (SAPRI) launched in 1996. SAPRI was conceived as a collaborative exercise in which the World Bank, CSOs and government officials would agree upon methodology and jointly assess the impacts of structural adjustment (SAPRIN, 2002).

Numerous commonalities emerge from policy reviews using these three different approaches:

- **Civil society organizations do not believe that their most important concerns have been adequately considered or incorporated.** Civil society organizations recognize that the member governments of the World Bank have the final authority to define the operational policies of the institution, and that meaningful public participation does not imply the power to dictate policy outcomes. And they have generally given reviews (especially in the independent and collaborative formats) high marks for thoughtfully addressing civil society priorities. However, civil society participants in each of these processes have complained that the Bank has not adequately considered their most important concerns or made significant adjustments to its policy framework in response to the review findings and recommendations. (BIC, 2004; Dubash *et al.*, 2001; Herz and Ebrahim, 2005: Appendix F; Imhof, Wong and Bosshard, 2002; Lawrence, 2005).

- **The public often has had limited input into setting the scope and agenda for these reviews.** Civil society organizations often have had little opportunity to contribute to defining the parameters of a review, or conducting the background research that will help to frame the substantive agenda. In addition, limited civil society participation in the design of these reviews has caused them to get bogged down in disputes over process. Global policy reviews have almost invariably begun with an imbroglio between civil society and the Bank over the structure of the review. Since the Bank has no mandatory requirements for whether or how to conduct a consultation of civil society, the terms of engagement must be re-established each time. There have been marked differences between the collaborative and independent reviews on the one hand, and the unilateral reviews on the other. The WCD and SAPRI, in particular, were noteworthy in their inclusive approaches to identifying and answering the basic research questions that would inform the policy options.[8] By contrast, in the unilateral approach to conducting consultations, management and staff usually define the underlying research parameters of the review. Moreover, public consultations typically do not begin until after management and staff have developed a draft revision of the policy, that is, after internal consensus on key issues has already been reached. As a result, the Bank's unilateral approach to policy revision allows little space for participatory or collaborative identification of policy challenges to be addressed in the review process. Just as crucially, it fails to establish a shared base of information on which all parties can agree to move forward (Dubash et al., 2001: 53-57).[9]

- **The Bank has often not been clear about the range of issues that are under consideration.** In a consultative process, the Bank has seldom clarified which issues are, and are not, open for consideration, or what policy options are "politically feasible." This failure to make the parameters of the consultation clear early on runs contrary to basic norms of participatory and collaborative decision-making (Gray 1989; Sussking et al 1999). It has also falsely raised expectations about what could be achieved through engagement. This has been a particular issue in "collaborative" and "independent" reviews, in which there is greater latitude for deliberations and recommendations to depart from established Bank orthodoxies. For example, the outcomes of the WCD and SAPRI appear to have so thoroughly transgressed the unspoken boundaries of political feasibility that the Bank distanced itself from the processes and refused to explicitly adopt any of their conclusions or recommendations.[10] The EIR also appears to have exceeded its political constraints in similar, but more limited ways. In the EIR, civil society participants and the independent Eminent Person believed that the review was to consider the threshold question of whether extractive industries investments were an appropriate vehicle for achieving the Bank's mission of poverty alleviation through sustainable development. The Bank, however, was only prepared to consider a narrower set of recommendations on how to improve existing operations. As a result, the Eminent Person's recommendation that the Bank phase out certain operations was rejected by both management and the Board (BIC et al, 2004).

- **Many public consultations meetings have been implemented in a rushed, ad hoc, or unprofessional manner.** Both civil society and the Bank have identified a number of deficiencies in the conduct of consultative meetings that compromise the quality of the public input and deliberations. Some of the problems have been logistical, with

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[8] The EIR was less participatory in this regard. For example, it commissioned only a small number of independent research projects, and did not convene an advisory group to help identify critical issues until the drafting stage of the process.

[9] This process is typically referred to as "joint information search" or "joint fact-finding" in the negotiation literature.

[10] Letter from Former Commissioners of World Commission on Dams to James Wolfensohn, (July 12, 2002); World Bank (2005a: 17).

consultations being poorly planned and under funded. Participants have not always been notified of the consultation far enough in advance of the meeting to educate themselves on the issues, strategize with colleagues and constituents, or prepare their contributions. Moreover, the meetings themselves have sometimes been too short and insufficiently iterative to allow for meaningful exchange of ideas, reflection, or learning. Participants have also expressed dissatisfaction with the dissemination of background information. Key Bank documents have often been distributed to participants too late for them to digest their import before the consultations.[11] Translation of critical documents has been a consistent problem that has plagued nearly all the reviews. Finally, civil society organizations have sometimes found Bank participants to be arrogant or excessively defensive in their interactions. They claim that often Bank staff have not been willing to listen to different perspectives or to re-evaluate approaches (BIC 2004a, Sherman 2001).

- **The Bank has not provided adequate feedback to inform participants how their inputs have influenced policy development.** Participants expect to be informed about how their inputs have influenced outcomes. Where contributions are not adopted, they expect clear reasons for why other policy options were pursued. Such feedback mechanisms demonstrate respect for participants, introduce greater transparency into decision-making, and provide assurances that inputs have been meaningfully considered. However, Bank review processes have not consistently utilized feedback mechanisms to allow participants to understand how their insights and expertise have informed policy outcomes The Bank's failure to explain how public inputs inform policy making feeds the widespread perception that public inputs do not have a significant influence on policy (World Bank 2005a: 16).

- **Two feedback mechanisms emerged as being especially important for purposes of accountability: iterative drafts for comment prior to board review, and a matrix compiling all comments and their use.** These mechanisms were not consistently used in the reviews. The first mechanism involved the distribution of iterative drafts of policy revisions to civil society, allowing participants a chance to comment on how their inputs would be incorporated *before* final decisions were taken (BIC 2004b). The second mechanism was a matrix that compiled all comments and explained how each input was addressed in the policy revision, or why it was not accepted. This mechanism was used by the Bank in developing its "Issues and Options" paper for improving relations with civil society.

It is difficult to underestimate the debilitating impact these policy experiences have had on the World Bank's credibility as an institution that is willing to listen and learn from its constituents. For many organizations that repeatedly engage the World Bank on policy issues, these global consultative processes are iconic, and tend to define CSOs perceptions of whether their engagement in a proposed consultation process is likely to be useful or not. Negative past experiences prompt many CSOs to question whether it is worthwhile to devote organisational resources to a Bank consultation. The threshold question that those who are considering

[11] Letter from Sanjay Basu Mallick et.al to James Wolfensohn on December 14, 2004 (outlining complaints of Indian civil society organizations with organization of Country Systems consultation). Participants have also reported that this was a problem during the EIR consultations.

engagement in a World Bank policy consultation almost invariably ask is, "How will this process be any more productive than the WCD, the EIR, etc.?"

BOARD LEVEL ACCOUNTABILITY

If civil society contributions to World Bank accountability have been noteworthy in respect of projects but less certain in regard to general policies, the impacts have been negligible when it comes to the Board level. The Board refers here to the Board of Governors, which meets once a year, and the Board of Executive Directors (Executive Board), which supervises day-to-day operations of the World Bank. Members of the Board represent the member states of the World Bank. In principle, management and staff are accountable to the member states through the Board representatives, who in turn are accountable to their citizens.

The World Bank's governance model has, however, been widely criticized as being inconsistent with the basic tenets of democratic and accountable decision-making. Many critics, including governments, civil society organizations, other international institutions, academics and Bank staff have observed that the Bank is not sufficiently representative, transparent, open to public participation, or accountable to those who are affected by its operations (UNDP 2002: 112; Calieri and Schroeder 2003:4, Bretton Woods Project 2003; Woods 2003: 2). Only a handful of the major critiques are summarized here:

- **Representation of affected people is compromised by the disproportionate allocation of voting shares to donor countries.** Voting shares are apportioned to each member state roughly in accordance with the size of its economy. This weighted voting system decidedly favours the major donor governments. The Group of 7 countries control nearly 43 per cent of the voting shares, and the United States alone holds 16.4 per cent (World Bank, 2007: 57-61). Meanwhile, the 46 countries of Sub-Saharan Africa have a combined voting share of less than 6 per cent. This voting arrangement disenfranchises those with the greatest interest in Board decision-making – namely, the poorest countries that are most affected by Bank decisions (Griffith-Jones, undated; Nye *et al.*, 2003: 67-8; United Nations, 2005: 72).

- **This problem is compounded by the inequitable allocation of Executive Director seats**. The Board is comprised of only 24 Executive Directors to represent all 185 member countries. This means that many countries must share representation. Eight of the most powerful countries are represented by their own Executive Directors, while the remaining 177 countries are grouped into 16 constituencies of 4-24 countries each.[12] These "constituent" executive directors are typically appointed for only two-year terms, thus creating incentives for them to represent the interests of their own country rather than the multiple countries they represent, particularly where those interests are diverse. Thus, the Executive Director that represents 24 sub-Saharan countries for a two-year period can not possibly be as effective for all these countries as the United States Executive Director, who represents one country, and is appointed for an indefinite term.

[12] These are the United States, France, Germany, Japan, the United Kingdom, Russia, Saudi Arabia and China.

Moreover, those constituencies that include both donor and borrowing countries are almost always represented by an official from a donor country (Calieri and Schroeder 2003: 4).[13]

- **This disparity in voting power between developed and developing countries creates a substantial moral hazard problem**. Since the donor countries that wield the most voting power do not borrow from the Bank, they are not accountable to citizens who bear the risks of their decisions (Bradlow 2001: 18).[14] The separation of decision-making power from political accountability allows donor governments to govern the institution in accordance with their own domestic political interests. As Ann Florini has observed, "[g]overnments, answerable only to domestic electorates, face few incentives to act for the benefit of someone else's constituency" (Florini 2003: 14).

- **Increasing the voting shares of developing country governments is insufficient for improving accountability to citizens in their countries.** The problems of accountability to citizens in borrowing countries is more complicated than simply increasing the voting power of developing countries. Arguably, borrowing countries have less of an incentive than donor countries to increase transparency and disclosure practices or to strengthen social and environmental safeguards. It is the developing country members on the Bank's board that have tended to oppose reforms on issues such as gender equity, environment, participation and anti-corruption. Voting reform will not resolve this problem, although sunshine on board deliberations might help (see next point).

- **There is a dearth of opportunities for citizens to hold their own Executive Director accountable.** For one thing, Board secrecy significantly impairs public scrutiny of EDs. Since decisions are usually made by consensus, without formal votes, and since records of any votes and the deliberations that preceded them are not publicised, citizens simply do not know how their ED is representing them (Calieri and Schroeder, 2003). Even if citizens were to learn how their representative had voted, in the case of multiple constituency seats there is little that citizens in one country can do to hold an ED from another country accountable. While the board does actually make minutes of its meetings available, these are sanitized documents – neither transcripts of discussions nor voting records are typically available (the new information disclosure policy may make them available only after ten years). While individual directors are free to explain to their constituencies how they voted and why, few are required or choose to do so on a routine basis.

- **Representatives of borrowing governments are further disadvantaged by the balance of power between management and the executive directors.** Most Executive Directors do not have the time to closely scrutinize or take nuanced positions on the wide

[13] For example, all Eastern European borrowing countries are represented by a Western European Executive Director.

[14] While the board's work is mostly done by consensus rather than by vote, a cynical interpretation of this practice is that it serves as a cover to insulate board members from accountability to citizens they claim to represent. When votes are taken, they are typically kept secret.

array of papers, policies, and project proposals that management places before them. Representatives from borrowing countries are further disadvantaged as they often lack the kind of analytical support from parent ministries that helps donor Executive Directors to stay on top of the complex issues before them. Moreover, because Executive Directors that represent constituencies are rotated frequently, they have little time to master the issues before they are replaced. These Executive Directors are further disadvantaged by the widespread perception that Board approval is merely a ratification of decisions that have already been made by management in consultation with most powerful members, and that efforts to exercise influence are therefore essentially futile (IMF1999; Woods 2003). This is exacerbated by the fact that management and staff seldom divulge internal policy disagreements to the board, preferring instead to present a unified front in board discussions. As a result, the board is deprived of the opportunity to participate in these debates, or to hear and consider the alternative views of those whose arguments did not prevail within the organization.

- **Representation of affected people is compromised by the fact that finance and development ministries of member states dominate decision-making.** Although the World Bank is supposed to be the agent of its member states, it is in effect administered by a "club" of officials that represent only a narrow spectrum of the political apparatus of its member states—the finance and development ministries (Keohane and Nye 2001). Thus, the Bank is governed by "parts of governments working with similar parts of other governments," but excluding other, more democratically responsive, parts of their own governments (Nye et al. 2003: 4).[15] Representation by narrow and relatively unaccountable departments of the government raises serious questions about whether the broader public interest, or the interests of other constituencies are being adequately represented. In particular, citizens concerned about issues that have little to do with the authority or expertise of the finance ministries—such as poverty reduction, health care, human rights, gender equality or the environment—are not likely to enjoy responsive and accountable representation through this arrangement.

- **National parliaments, particularly in borrowing countries, have generally lacked oversight of Bank activities and their directors.** Legislators have often had limited access to major documents about World Bank operations in their own countries. Key decisions in this regard are typically made by the finance and development ministries, with only limited parliamentary involvement. CSOs strategies have thus included: (a) publishing the procedures (or lack thereof) used by different countries to hold their directors to account (Halifax Initiative *et al.*, 2004: 4); and working directly with parliamentarians on World Bank activities in their countries, particularly through the Parliamentary Network on the World Bank (PNoWB, 2009). Furthermore, many CSOs have argued that privileging finance ministries as the fulcrum of fiscal and development policymaking improperly distorts the balance of power between the ministries and parliament (ActionAid International *et al.*, 2005). In this vein CSOs have recommended

[15]While this problem may originate at the country level, with ministries of finance typically hold more power than others, it is reproduced and strengthened in global institutions where these ministries are accorded privileged positions.

that the World Bank Executive Board refrain from approving certain documents (such as the Poverty Reduction Strategy Papers required of heavily indebted poor countries) until they have been reviewed by the relevant national parliament (Rowden and Irama, 2004: 39).

- **Representation of affected people is further diluted by the selection process of the President of the World Bank.** The United States' informal prerogative to name the President of the World Bank is impossible to reconcile with basic principles of democratic governance (Bapna and Reisch, 2005; Bretton Woods Project, 2003; IFI Democracy Coalition, 2005; UNDP, 2002). Since the President has considerable discretion in shaping the agenda, rules and processes of the institution, this arrangement has greatly enhanced US power within the institution (Kapur, 2002: 60). Civil society groups have therefore advocated a reform of the selection of the Bank President guided by two basic accountability principles: transparency and competence without regard to nationality (New Rules for Global Finance Coalition, 2007).

  Support within the Bank for change is significant. At the time of the resignation of former President Paul Wolfowitz in 2007, nearly a hundred current and retired Bank staff, including several Vice Presidents, signed a civil society letter calling for change in the selection process. A year later, it was announced at the 2008 Annual Meeting of the World Bank Board of Governors that "There is considerable agreement on the importance of a selection process for the President of the Bank that is merit-based and transparent, with nominations open to all Board members and transparent Board consideration of all candidates" (World Bank, 2009b). If this apparent relinquishment of the US Government prerogative is indeed enacted in the appointment of the next President, it will mark a significant institutional change which has the potential to enhance the public legitimacy of the World Bank President and the institution overall.

In sum, the challenges of accountability at the level of board governance are the most daunting because the very foundations of governance — vote allocation proportionate to economy, representation by finance ministries, absence of parliamentary scrutiny, and the relative voicelessness of the poorest and most affected actors — are at odds with fundamental premises of democratic decision making and accountability.

CONCLUSION AND RECOMMENDATIONS

A number of notable successes have been achieved over the past fifteen years in improving the accountability of the World Bank to those who are affected by its operations. Improvements have mostly occurred at the project and policy levels, where sustained pressure from civil society and some governments has been instrumental in the establishment of social and environmental safeguards, greater transparency and consultation requirements, and the creation of the Inspection Panel for purposes of evaluation and redress.

Taken as a whole, however, these successes have been decidedly limited. In particular, persistent problems in the timing, scope, content, and quality of consultation processes have often limited their capacity to deliver public accountability. Many of these shortcomings can be attributed to the Bank's inability or unwillingness to fully integrate accountability to affected peoples into incentive structures for staff. In addition, there has been little improvement in terms of the accountability of the World Bank Board to affected citizens. These shortfalls of democratic accountability may be the most difficult to address because of their deep roots in power relations of the global political economy. Yet, reforms of Bank governance are among the most crucial for its legitimacy and effectiveness. The Bank's sister institution, the International Monetary Fund, is currently in the midst of an uncomfortable debate on governance reform, galvanized by a number of high-level internal reports including one from the IMF's own evaluation office, and another from a panel of eminent persons (IMF 2008; 2009). A new report from civil society organizations around the world was delivered to the IMF's managing director in the first week of September, 2009 (Lombardi, 2009).

Long-term governance reforms are central to the Bank's legitimacy as a global public institution. At the same time, there are numerous shorter-term actions the World Bank can take to greatly improve its accountability to the poor. Four key recommendations are provided here, with a more comprehensive set available in Herz and Ebrahim (2005):

1. Establish mandatory minimum standards for public participation, supported by improved staff incentives and performance appraisals. There is an overriding contradiction at the center of the Bank's approach to public participation. On the one hand, Bank literature and policy statements are replete with testimonials to the importance of participation and empowerment to achieving good development outcomes. However, on the other hand, the Bank has no required procedures for developing policy, and no clear minimum standards for soliciting or incorporating public inputs in its lending operations. As a result, public participation is usually *ad hoc* and discretionary, and the Bank generally only formalizes or requires it when forced to do so under external pressure. The Bank should develop two sets of mandatory process-based participation standards.

1. A fixed administrative procedure for developing and revising Bank operational policies and strategies (i.e., policy level participation)
2. A set of minimum requirements for public involvement in different types of lending operations (i.e., project level participation)

The participation policies/standards should include, for example:

- A predictable basis for including all parties that have a right or an interest at stake in the decision, or who may bear risks; and for establishing the range of issues under consideration. This includes identifying the specific interests and accessibility needs of various stakeholders, especially marginalized groups, and planning the outreach necessary for their inclusion;
- A process or set of ground rules for determining how decisions will move forward;
- Adequate notice and comment periods;
- A basis for building the capacities of less powerful participants;
- Procedures for public reporting and evaluation that might include: a list of stakeholders involved and how they were identified; details of the participatory process and schedule; discussion of main issues raised and how the process addressed them; an annex prepared by representatives of civil society on their views of the process and how those views have been addressed;
- Participatory procedures for background research and analysis, including for assessing and distributing costs, benefits, and risks from the proposed policy or project in a just and equitable way and
- Accountability mechanisms, including penalties or sanctions for failure to comply with the standards, coupled with guarantees of access to dispute resolution or other appeals mechanisms.

In order for a policy on public participation to have teeth, it must also be tied to the performance reviews of staff. The Bank is filled with dedicated and motivated professionals, but few have the incentives to engage project-affected communities under the current lending pressures. To ensure that best practice becomes routine practice, the Bank should revise its internal incentives for staff to improve participation through increased budgetary support, time allowances, capacity building and performance appraisals that reward quality participation. Staff performance appraisals that reward public participation will make the Bank more effective at fighting poverty.

Many bank staff object that such standards (particularly the second set) would be unworkable in practice, and could only result in "tick the box" requirements that would not enhance the quality of participation. Performance-based standards could indeed be unnecessarily restrictive if they were to specify strict and uniform outputs without regard to country context (e.g., number and diversity of participants, length of engagement). A workable option would be process-based standards that require a commitment to continuous improvement through mechanisms of transparent review, stakeholder involvement, and organizational learning, but do not set rigid output requirements. There is a wealth of Bank literature on how to implement high-quality, participatory decision-making throughout the Bank's operations, and many Bank staff, at their own discretion, strive to follow best practice. As a result, there is an ample basis for crafting effective participation policies within the parameters of existing Bank practice.

2. Systematically incorporate public participation in decision-making at each stage of its project/policy cycles. The Bank's existing project/policy cycle provides a structure for improving participation in Bank operations. Many of the constraints noted above can be addressed as follows:

- All stages of the project/policy cycle should be transparent and enable access to information for public deliberation before key decisions are made;
- The capacity constraints of citizens and CSOs should be identified, so that efforts can be made to improve capacities and accessibility at all stages of decision-making (including, for example, considerations of language, timing, location, negotiation skills, etc.). This is particularly important for politically marginalized groups such as women, rural populations, and indigenous peoples;
- The Bank should provide adequate budgetary resources for participation and capacity building through all stages of decision-making. Where direct capacity building by the Bank risks cooptation, resources should be made available to third parties for building the capacities of participants;
- The Issue Framing and Agenda Setting stage should be preceded by a comprehensive stakeholder analysis, and prioritization based on a rights-and-risks approach, with special attention to marginalized groups;
- The Identification and Preparation and Appraisal stages should be based on participatory identification of options and risks, comprehensive and public analyses of alternatives (including no-project options), assessment of distributional impacts and trade-offs, and openness to public scrutiny and challenge;
- The Negotiation and Approval stage should involve public disclosure not only of board minutes and voting records, but also materials that can help citizens understand board decisions, such as board committee minutes and reports, meeting summaries, and draft documents used for deliberation. The Bank should also encourage debate on the project or policy reform in national legislatures prior to board discussion;
- The Implementation, Supervision, and Completion stage should use participatory monitoring and evaluation and
- The Evaluation, Adaptation, and Learning stage should involve participatory design and implementation, should include benchmarks for determining whether engagements are meaningful, and should feed into a centralized system for informing future operations.

3. Improve the transparency of governance and operations, particularly for project-affected people. Transparency is, in many ways, the basis for participatory decision-making. Transparency enables people to participate meaningfully in public decision-making by providing them with the information they need to understand, evaluate, and influence the actions of decision-makers. Some basic criteria, from international best practices, for assessing the Bank's current review of its information disclosure policy include the following:

- A guiding principle of maximum disclosure, in which all information is subject to disclosure unless there is an overriding public interest in keeping it secret;
- Broad definitions of the scope of information subject to disclosure;
- An obligation to publish proactively key documents and categories of information, even in the absence of a specific request;
- Clear, accessible mechanisms for the public to exercise of the right to information, including an independent mechanism through which denials of information requests can be appealed;

- Specific and narrow exceptions to the presumption of disclosure that can be overridden by a determination that disclosure will not cause substantial harm, or that the public interests would be served by release;
- Practical steps to promote greater access to information.

Meeting such best practices would require the World Bank to:

- Improve the transparency of its own governance structure and decision-making;
- Expand the range of draft and final documents, as well as other key decision documents, that are required to be disclosed proactively;
- Specify strict timelines for the disclosure of information, and in a timeframe that enables public deliberation before key decisions are made;
- Require that any refusals be justified by a written, substantive explanation of the reasons for the denial;
- Establish an independent appeals mechanism to review denials of requests for information;
- Subject all exceptions to disclosure to substantial harm and public interest tests;
- Limit the discretion of borrowers to determine whether a document should be released.

Many of these issues, and others, are addressed in the model policy on information disclosure proposed by the Global Transparency Initiative (2009).

4. Expand and protect political space for democratic and participatory decision-making in national political processes. The potential for democratic, participatory decision-making processes is much higher at the national and sub-national levels than in global public institutions, such as the World Bank. As a result, while it is essential for the Bank to increase participation in its own governance and operations, it is equally important for it to respect and support local democratic institutions and processes. This implies:

- Promoting better oversight by national parliaments, who frequently have little information on what the Bank is doing in their countries. The World Bank's founding articles of agreement prohibit it from involvement in the political affairs of a state. But that doesn't mean it can't promote better parliamentary oversight. One option may be for the Bank's executive board refrain from approving key documents and projects (such as Poverty Reduction Strategies) until they have been reviewed by the relevant national parliaments.

- In countries in which democratic spaces are limited, the Bank should facilitate the use of more inclusive and democratic domestic decision-making processes. While the Bank is (and should be) constrained in the extent to which it can involve itself in domestic politics, there are a number of avenues for it to expand political space for affected people by: (a) minimizing conflicts between Bank operations and domestic democratic processes; (b) working with parliamentarians and a broad range of public agencies, and encouraging parliamentary review of loans (see above); (c) identifying opportunities for expanding political space by, at a minimum, providing an assurance that decision-making will be transparent and participatory, particularly for those that are marginalized in the domestic political process and (d) assessing the political risks faced by those who participate in its consultation processes, and taking steps to ensure that they will not be punished as a consequence.

The future holds numerous challenges and opportunities for citizens and civil society associations in enhancing the accountability of the World Bank, particularly to people who are most affected by its interventions. Potentially the greatest advances could be achieved by enhancing public participation across the project cycle and increasing staff performance incentives for greater citizen engagement. It is crucial to better understand the incentive and promotion structures for staff and then seek closer alignment of those arrangements with greater participation of affected people in project cycles and policy reviews.

It is equally crucial to explore new modes of governance, not only at the board level but also at the level of national parliaments. Some civil society actors are already usefully working with parliamentarians both to oversee the institution and to become more attentive to how Bank projects affect their citizens. The World Bank is, after all, an intergovernmental organization, and reform of the institution will be limited unless the member governments are made sufficiently responsive to their own citizens and civil societies.

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Alnoor Ebrahim is an Associate Professor in the General Management Unit, and in the Social Enterprise Initiative, at the Harvard Business School. His research and teaching focus on the challenges of accountability, performance, and organizational learning facing nonprofit and civil society organizations. He is also a Principal of Harvard University's Hauser Center for Nonprofit Organizations.

Professor Ebrahim is author of the award-winning book, *NGOs and Organizational Change: Discourse, Reporting, and Learning* (Cambridge University Press, 2003 and 2005), and is co-editor, with Edward Weisband, of *Global Accountabilities: Participation, Pluralism, and Public Ethics* (Cambridge University Press, 2007), which compares accountability dilemmas in nonprofits, business, and government. He has been the recipient of awards for best article in the journals *Nonprofit Management and Leadership*, and the *Nonprofit and Voluntary Sector Quarterly*.

His teaching experience includes courses on nonprofit and nongovernmental organizations, civil society, collaborative governance, and environmental policy. He currently teaches in the executive education program on *Performance Measurement of Effective Management of Nonprofit Organizations*, and teaches an elective course in the MBA program on *Leading and Governing High-Performing Nonprofit Organizations*.

Among his research projects, Ebrahim heads a global team studying how nonprofits seek to create "systemic change" by influencing national policies on poverty. This work is being carried out in six countries of the global South. His professional work has included commissioned reports on civil society relations with the World Bank, on NGO accountability at the Inter-American Development Bank, as well as projects with a number of nongovernmental organizations over the past two decades, such as the World Resources Institute in Washington, D.C., the Tata Energy Research Institute in New Delhi, and the Aga Khan Rural Support Programme in western India.

Prior to joining the faculty of the Harvard Business School, Alnoor Ebrahim was the Wyss Visiting Scholar at HBS, and a Visiting Associate Professor at the John F. Kennedy School of Government. He also taught at Virginia Tech for several years, where he was a founding codirector of the Institute for Governance and Accountabilities. He holds a BSc degree from MIT (1991) in civil and environmental engineering, and a PhD from Stanford University (1999), where he studied organizational behavior and environmental planning and management.

Center for Global Development

The World Bank's Disclosure Policy Review and the Role of Democratic Participatory Processes in Achieving Successful Development Outcomes

Testimony before the House Financial Services Committee

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Chairman Frank, Ranking Member Bachus, and Respected Members of the Committee,

Thank you for the opportunity to share my views with the committee today. As a citizen of the United States, and a member of the community of researchers working on development issues, and as a former staff member of the World Bank, I believe that the World Bank is an important institution and that we must make it work for the poor. To that end, I welcome the World Bank's disclosure policy and the willingness of the World Bank to increase the amount of information it discloses to the public. But I also believe that the issue of accountability—which this policy aims to address—is far more complicated than simply changing the rules on paper.

The real challenge lies in the implementation of this disclosure policy and more broadly, in the Bank's systems of accountability and transparency. In particular, we must ask the key question—will information be disclosed in a timely and open manner? I believe that despite the new disclosure policy, this is still unlikely, in large part because of the World Bank's focus on a singular measure of success—the volume of lending. As long as the goal is to send as much money out the door as possible, there will be strong disincentives along the entire chain of command—from staff on the ground to management in Washington—to say that things are going wrong or to stop a project before it is completed. I do not believe that a new disclosure policy—which might release hundreds or thousands of pages of information on an *ex post* basis—can do much to improve transparency and accountability in this very real sense.

Nancy Birdsall, the president of the Center for Global Development, will be giving a speech[1] this afternoon where she will argue that because of history, habits, culture, and bureaucratic pressures, the boards, staff and management at the MDBs continue to regard country loans as the gold star, the primary metric of success. In other words, the World Bank and the other multilateral development banks emphasize disbursements over all else, welcoming every opportunity to lend more money to their clients. In some cases, the loans are warranted and help countries achieve their goals. But in many other cases, the money is simply wasted or misused,

[1] "The Crisis Next Time: U.S. Leadership at the Pittsburgh Summit and Beyond", Nancy Birdsall, Center for Global Development, 9/10/2009

ending up in corrupt hands. In the latter situation, the Bank is often slow to acknowledge the problem, and in some cases, hides behind words such as "institutional weakness" or "lack of capacity" rather than terminating a project that is doing nothing to help the poor.

What can be done to improve accountability and the delivery of services to the poor? I propose two solutions—better evaluation of development outcomes and diversification of the product mix away from lending. Let me elaborate.

There has been a huge emphasis on monitoring the Bank's lending portfolio—by watchdog groups, by member country governments, and by the Bank itself. But monitoring of inputs is not anywhere near as useful as measuring outcomes. Funds provided by the World Bank and others to poor countries are best used if they are linked to *successful development outcomes* (as the title of this session suggests). Evaluation by a third party of development projects, with a focus on the beneficiaries—for example the number of additional children enrolled in school, or provided with basic healthcare—is of much greater use to both the Bank and its member countries than any effort to increase the *ex post* flow of information on financial inputs into development projects. My colleague Ruth Levine, an expert in impact evaluation[2], argued in previous testimony before the Senate Foreign Relations committee[3] that "knowing whether or not banks are succeeding in financing programs that directly improve people's lives is at the core of accountability."

To this end, I ask the respected members of this committee to insist that the World Bank and other multilateral development banks invest resources and provide information on outcomes rather than *ex post* information on loan disbursements and minutes of board meetings, as the proposed disclosure policy stipulates. While the latter may be of interest, it is emphatically not a development outcome, successful or otherwise. The lack of impact evaluation has not only hurt

[2] "Learning from Development: the Case for an International Council to Catalyze Independent Impact Evaluations of Social Sector Interventions", William D. Savedoff & Ruth Levine, Center for Global Development. 5/31/2006

[3] "Mulitaleral Development Banks: Promoting Effectiveness and Fighting Corruption", Ruth Levine, Director of Programs and Senior Fellow, Center for Global Development. Testimony to the Senate Committee on Foreign Relations, 3/28/2006

poor people but has also undermined the Bank's own credibility with its member country governments, who are often frustrated in their efforts to find out what exactly is going on inside its headquarters and in its field offices.

My second solution is to diversify the World Bank's product mix and move it away from the culture of lending. This will provide staff members with a wider range of productive activities and will also scale up the number alternative financial products that could respond to the changing realities—and risks and vulnerabilities—of an integrated global economy.

Guillermo Perry, Nancy Lee and Nancy Birdsall at the Center for Global Development have identified[4] several risk management and insurance mechanisms, some in a nascent but promising stage, which would offer a significant improvement over the current portfolio of products. For example:

- Global catastrophic reinsurance funds, a global bond, or even a global reinsurance facility—building on programs such as the World Bank's current weather insurance in the Caribbean—could help to insure governments' and households' cash needs in the instance of a natural disaster.

- Bonds linked to the terms of trade could enable countries to automatically reduce their debt service payments—that is, the payment they make on the bonds—if they are hit by a sudden spike in a the price of a commodity import or the fall of a commodity export.

- Regional and global markets for developing countries' domestic currencies would reduce poor countries' macroeconomic vulnerability by reducing their holding of foreign currency-denominated debt.

[4] "The Age of Turbulence and Poor Countries: The Case for MDB Help with Risk Management", Nancy Lee, Guillermo Perry, and Nancy Birdsall, Center for Global Development. 11/17/2008

- Contingency grant and concessional loan facilities could be automatically disbursed based on transparent guidelines on what constitutes an external shock. For example, Indonesia and Sri Lanka might have received such funds after the 2002 tsunami. Such facilities could finance all debt service for specified periods after a shock, and the default should be to make the transfer unless a country is ineligible, for example, because it lacks any means—even through non-government organizations—to responsibly channel the resources.

- In addition to these products, I believe that the World Bank's guarantee arm, MIGA, can underwrite service guarantee contracts between businesses and the government, to ensure the delivery of basic services to the private sector, such as electricity, telecommunications and water.

These innovations would not only improve the effectiveness of outcomes but would give staff a wider range of instruments to work with. On the client side, the cost of insurance would be determined by the soundness of their fiscal and monetary policies—a built-in incentive to practice good economic management.

I request that Congress provide guidance to the Treasury (as it has done so successfully in the past) so that future capital increases to all of the MDBs are based at least in part on their progress on project evaluation and product innovation. If they fail to do this, they are likely to be displaced by new entrants and even private sector businesses. Pressure on the future bottom line, exerted in a timely manner, might help the leadership of the World Bank and the other MDBs to overcome the entrenched culture of lending.

Again, I thank the respected members of this committee for the opportunity to share my views on making the World Bank work better for poor people all over the world.

The World Bank's Disclosure Policy Review and the Importance of Transparency and Democratic Participatory Processes in Achieving Successful Development Outcomes

United States House of Representatives
Committee on Financial Services

Testimony by
Joseph E. Stiglitz

September 10, 2009

Let me thank you for this opportunity to discuss reforms in the governance, transparency, and accountability of the World Bank. While I will focus on the World Bank, I should add that most of what I have to say is equally relevant to other international financial institutions (IFIs).

I will begin be reiterating what I said in my testimony before this committee on May 22, 2007:

1. America, and the world, has a strong interest in contributing to reducing poverty and promoting growth in the developing world. Aid can be an effective instrument in achieving these objectives.
2. The multilateral institutions (of which the World Bank is the premier institution) play an important role in this global effort. For a variety of reasons, assistance administered through the World Bank (and other multilateral institutions) can be even more effective in achieving our objectives than assistance provided by the U.S. directly.

Multilateral aid is often more effective than national assistance, in part because it is not so closely linked with the agenda of any particular country; that makes the aid more effective and the advice more readily accepted. Moreover, by bringing the brightest researchers in development from around the world together, there is a chance of greater progress in addressing what in some parts of the world seems an almost intractable problem. When multilateralism works well, the whole can be greater than the sum of its parts. Moreover, multilateralism helps "teach" democracy by showing how countries can act together, democratically, to advance common ends: it provides an example for others to follow.

3. It is therefore in our interest that the World Bank remains strong, credible, and effective.
4. The Bank has rightly emphasized good governance and corruption, but the Bank can only be effective if it is seen as having good governance itself. Good governance—a commitment to basic, democratic values—requires, for instance, that the head of the institution be chosen in an open and transparent process; it should be the most qualified

person for the job, regardless of race, gender, or nationality. It is in America's interest that the head of the institution not simply be chosen by the President of the United States.
5. There are other important changes in the governance of the World Bank and other multilateral institutions that will increase their effectiveness. These include more democratic accountability, increased transparency, and strengthened procedural safeguards.
6. It is important for the U.S. Congress to take an active role in reforming the World Bank and the policies which it pursues, if necessary by imposing conditionality in the provision of funds to the World Bank. Such reforms should include principles which should receive bipartisan support, e.g. that the multilateral institutions should be especially careful in imposing as conditions (or more broadly, even pushing) policies which have been rejected in the United States and that the World Bank can only be effective in conveying a message of good governance if there is a belief that its own governance conforms to the standards that it demands of others (including standards relating to the choice of personnel and due process).

This morning, I want to elaborate on a few issues related to governance and transparency. The importance of the issue of transparency was brought home to me during my visit in the last couple of days to Iceland. The country has had a bank collapse of unprecedented magnitude. It followed the deregulation and liberalization policies that had become the fashion in the past quarter century—policies, which, by the way, were often advocated and pushed by the international financial institutions. As in the U.S., inadequate regulation has imposed a huge cost on society, a cost that will be borne for years—perhaps even decades to come—by Iceland's citizens. The IMF helped support Iceland with a program which was unusual: it provided more fiscal space than it had elsewhere and allowed, even encouraged, them to impose capital controls. But the well-educated citizens of Iceland are well-informed about what the IMF has done elsewhere. There is, at least in the very large number of individuals I talked and interacted with, little confidence in the transparency of the institution. They worry that there are secret yet to be disclosed conditions. They view the pressure that they (rightly or wrongly) believe is being imposed by the IMF in shaping their response to the crisis (including with respect to the treatment of foreign creditors) as a violation of their economic sovereignty, and they resent it. A widely shared sentiment is that, while the IMF approach may work in dealing with a less democratic and less educated society, it is totally unsuitable for a vibrant, engaged, and educated citizenry such as that of Iceland. Whether the accusations and concerns have any validity is not the point I want to raise. It is that the legacy of the past haunts the present. This is why it is imperative that reforms be made quickly.

Some reforms have already occurred. It may seem strange that it is considered a major victory in democratic governance in the twenty-first century that the G-20 has agreed, at last, that the head of the international financial institutions should be chosen on the basis of merit, but we should celebrate the victory—and hope that this decision gets implemented.

Because these institutions have no system of direct democratic accountability, it is all the more important that there be confidence in their governance, that they be transparent, and that attention be given to a variety of other forms of accountability.

Given, for instance, the large role that finance ministries play, it is not surprising that the institutions advocated liberalization and privatization policies that have served so many developing countries so poorly. What is striking is how little basis there was in either theory or evidence behind the policies that they pushed. When the IMF attempted to change its charter to give it greater scope to push capital market liberalization, I asked where the evidence was that it promoted either growth or stability. There was ample evidence, even at that time, that it led to more instability—evidence which has since mounted. When the IMF finally conducted some studies on the impact on growth, it corroborated earlier studies (such as that done at Harvard by Dani Rodrik) that questioned the impact on growth, at least for many countries. My own theoretical work had helped explain why there might be a negative impact on growth and volatility.

I recite this example at length only to highlight two points: the institutions have pushed a variety of policies whose benefits—either for development or poverty alleviation—are questionable; and there may be a link between these failures in policy and the systems of governance. Had there been more transparency and better systems of accountability, perhaps the voices that were raised against these policies might have had more impact.

Improving Governance and Accountability

While the reforms that have been agreed to among the G-20 are steps in the right direction, it should be clear that the pace of reform is slow and the reforms on the table are likely to have limited impact and are insufficient to address long standing criticisms. For instance, while giving emerging markets more voting rights is desirable, there is little reason to believe that it will result in fundamental changes to the behavior of the institutions. More fundamental reforms, e.g. double majority voting, should be considered.

Other ways of increasing accountability of the international institutions need to be explored. While proposals to strengthen "reporting" to a more politically accountable body, such as a Council of Finance Ministers, might seem to do this, such reforms may have the opposite effect: if the Finance Ministers are insufficiently engaged, it would, in effect, give more autonomy to the bureaucracy.

The World Bank poses a particular problem, as it is not really a bank but a development institution. Meanwhile, Finance Ministries (such as the US Treasury) are not development agencies, so there is a double problem: not only are some of the policies which are pushed more reflective of the distinctive perspectives of the financial sector, but also there is really not a depth of understanding of what makes for successful development. Moreover, many critics of current governance are skeptical of the commitment of finance ministries to the major objectives of the World Bank, including alleviating poverty and assisting developing countries in the provision of global public.

goods. Growth, by itself, need not lead to poverty alleviation; growth pursued the wrong way—with policies, for instance, that increase instability—can even increase poverty.

Moreover, what is in the interests of some in the financial sector may run counter to stability, growth, and poverty reduction, especially in developing countries, as we have all learned in the recent crisis at great expense. Americans are now glad that they did not succumb to arguments for privatization of social security. Had they done so, the security of the aged would be in even greater jeopardy, and the magnitude of the downturn would have been even worse, as savings would have had to increase even more to make up for the loss in household wealth. However, the international financial institutions pushed privatization of social security in many countries. Privatization may generate more fees (more income) for the financial sector, but these gains for the financial sector come at the expense of the elderly, who see retirement benefits diminished and who face increased insecurity.

Not everyone may agree with the argument that I have just put forward, but the point I want to make here is different: the international financial institutions should not be pushing what might be viewed as a special interest agenda. They should be working to strengthen democratic decision-making processes, not selling questionable policies.

There is no simple way of addressing these concerns. I want to put forward four sets of governance reforms. One of the underlying problems when we talk about improved systems of governance and accountability is *accountability to whom.* Systems of accountability do affect behavior. A thought experiment might help clarify what is at stake: if the World Bank had to report to a Council of Labor Ministers, there might be more concern about ensuring that the World Bank is pushing the acceptance of core labor standards, adequate levels of a minimum wage, enforcement of workplace health and safety standards, and other forms of job protection. These are not part of the core concerns of finance ministers. Indeed, in some cases, they (perhaps mistakenly) even see these as antithetical to increased profitability of the financial institutions that are their core constituency.

The first set of governance reforms should increase the voice of the developing countries and emerging markets. The international financial institutions and the policies which they push can have a large impact on these countries. As a result, both the governments and the citizens of these countries are more engaged in the policies and practices of the IFIs. Few Americans may even know what conditionality means or what a structural adjustment program entails, but they are at the center of life in many developing countries. The consequence of the lack of broad engagement in many (but not all) of the advanced industrial countries is that special interests are given wider scope for pursuing their own agendas. Even in developing countries, finance ministries may actually have views that are more in tune with financial markets than with other sectors of society, but what they do and say may be more circumscribed than ministers in advanced industrial countries.

There are several ways in which the voice of developing countries may be enhanced. (Let me reiterate—I believe that doing so would enhance the effectiveness of these institutions, which would be in the interest of the U.S.) As I suggested earlier, the proposed reallocation of voting rights is likely to have only marginal effects. There are, however, a number of forms of double majority voting which would bring about more fundamental change: ensuring that a majority of developing (borrowing) countries support a policy will result in broader "ownership" of bank and fund policies, which in turn may strengthen support of their policies in the countries with IFI programs.

This may even be more so if there is some form of institutional support (e.g. to an independent developmental policy think tank) that enhances the capacity of developing countries to make more informed decisions and more persuasive arguments in favor of their positions.

The second set of reforms relates to who represents the United States. In spite of the important contributions that USAID has made in many important areas of development, I think it is fair to say that it has not had the impact of, say, UK's development agency, DfID, or that of some other countries. USAID has pursued a number of particular agendas but has often been less engaged in the broader developmental agenda, including in some of the key policy debates. Were there more confidence in America's development agency, one might argue that the US agency best equipped to exercise oversight over the World Bank, which is a development agency, is the US development agency.

Moreover, there is a risk that an American (or any other) aid agency might simply try to replicate on a global scale America's bilateral aid agenda. However, there is a distinct difference between national aid policies (which are often mixed with national geo-political or geo-economic issues) and the policies that should be pursued by an effective multilateral institution.

Perhaps one way of balancing these conflicting perspectives is to create a system of accountability to multiple agencies (an interagency process). The World Bank is involved in education, health, the environment, etc., and it would be a mistake not to draw upon this expertise in the oversight of the various programs of the World Bank.

There is a third pillar of improved governance: accountability to parliaments (Congress). Many citizens care passionately about the issues, for instance, of poverty reduction in the developing countries, and they communicate that concern to their Congressmen (Parliamentarians). I have spoken to the UK all-party parliamentary group on aid, trade, and debt, which is, I believe, the largest such parliamentary group. Somewhat surprised by its size, I asked the head for an explanation. The answer was simple and said a great deal: our constituents care deeply about these issues.

Issues of labor rights and the environment may not be central to the agenda of finance ministries, but they are central to the concerns of many citizens around the world. The strength of democracies is that Congressmen (parliamentarians) reflect what is of concern to their constituents. Having some form of accountability to an international Committee of Parliamentarians could make a major difference to how these institutions conduct themselves.

I want to come to the fourth, and perhaps the most important but the most complex pillar of improved governance. I described before the problems facing the U.S. in deciding to whom the World Bank should be accountable. Other countries face similar problems. The difficulties arise because successful development is "comprehensive" and entails multiple sectors—education, health, finance, energy, and agriculture. Our governments are designed have cabinets or agencies (ministries) that focus on only one of these areas. Today, by the same token, most of the decision-making in the international context is conducted in "smokestacks," with trade ministers talking with trade ministers, finance ministers with finance ministers, etc. Inevitably, issues are approached from an excessively narrow perspective, in which cross-cutting issues get short shrift (and concerns of special interests move to the center).

There is, within most countries, only one person that looks at matters from a "national" or "global" perspective, and that is the "leader." Reporting to G-20 leaders might be helpful, at least on certain key decisions such as the extent of conditionality in lending or the role of the international institutions in promoting global public goods.

There is a more fundamental change in perspective which may serve to diminish the significance of the IFI-governance reforms: recasting the IMF and World Bank as "implementing" agencies, which implement global economic policy on behalf of the international community with policies set by the political *leadership* of the international community. It is important that the responsibility be set at the "leaders" level, for only they can break out of the silos into which decision-making, especially at the international level, has been cast.

The hard part of this reform is deciding who the new policy body should be. It would be a natural function of the Global Economic Coordination Council, recommended by the UN Commission of Experts on Reforms of the International Monetary and Financial System, which I chaired. The size of the GECC would be similar to that of the G-20 but based on the "constituency" principle, where certain countries would speak not just for themselves but also represent the interests of their constituent countries. The determination of the constituencies is a matter of discussion and deliberation. Most could be regional, but there could be one or more representing countries in particular situations, e.g. there might be one representing the least developed countries. Terms would be sufficiently long that relationships would develop, maintaining the continuity that seems to be one of the strengths of the current G-20.

An alternative would be reporting to a slightly more "legitimized" G-20, which itself could be viewed as a consensus building, broad-based caucus within the UN.

The leaders themselves are not likely to be in a position to set policy, so they will inevitably delegate. How that delegation is done is critical. Given that the G-20 is concerned largely with economic matters, and in fact grew out of a Finance Ministers' meeting, there may be a temptation to delegate to a *financial* body like the Financial Stability Board. There is a risk in doing so, simply because that body may reflect perspectives of the financial market (paying less attention to concerns, say, of labor, business, technology, etc.). This might replicate some of the problems to which I have already referred.

A properly constituted International Experts Panel, to which the IFIs might report, would be able to exercise some check against possible distortions. It would have the further advantage that it would bring to the table expertise that might challenge that of the IFIs. (The UN Conference on the World Financial and Economic Crisis and its Impact on Development in June 2009 endorsed the idea of such a panel.)

These alternatives should be seen not as mutually exclusive but complementary. The fact that these are complex institutions that have an enormous impact on the well-being of the billions living in developing countries makes the task of designing accountability systems both difficult and important.

Economists emphasize that incentives matter, and that may be as true for those in the public sector as in the private. Within national governments, we have become aware of the problems posed by conflicts of interest, especially those associated with revolving doors. It is, of course, more than a matter of conflicts of interest. If the government hires someone from the financial sector, who returns to the financial sector after his public service, he will view the world before, during, and after his public service from the distinctive perspectives of finance—and that may not be the most appropriate for advancing poverty reduction and development.

Transparency

Transparency is an important ingredient in good governance. It is hard to hold an institution accountable if one doesn't know what it has done. The less well-informed one is of the choices confronting the decision-making and the circumstances under which the decisions were made, the less one will be able to assess performance. Indeed, both insiders and outsiders are less able to learn from the mistakes and correct them. Furthermore, as I illustrated in my prefatory remarks, lack of transparency generates lack of trust and undermines the effectiveness of the institutions.

Elsewhere, I have written of a citizen's basic right to know, as implemented in the United States by the Freedom of Information Act. In recent years, we have been particularly thankful of the access to information that this act has provided, as a check against government abuses.

The basic principle underlying this right is that government works for the people, and those that they were working for have a right to know what is being done supposedly on their behalf. As the expression goes, sunshine is the strongest antiseptic. Lack of transparency hides actions which benefit some groups at the expense of others and is also used as a way of a hiding mistakes and misguided policies.

There are certain exceptions to full transparency. One might not want to instantaneously disclose information about the weakness of a bank if the institution can quickly repair the deficiencies, as it might lead to a run on the bank. There is also a national security exception. However, as the late Patrick Moynihan pointed out in his great book *Secrecy: The American Experience*, that exception has been abused, and that has its costs which may exceed the benefits.

Much of the lack of transparency (secrecy) practiced by governments and international financial institutions has little justification. Central banks have become more transparent, and none of the fears of those advocating secrecy have materialized. There was a great deal of reluctance by the Fed to disclose the recipients of the AIG funds. The disclosures made clear why they were reluctant, with the largest recipients being Goldman Sachs and a couple of foreign banks. With so much of the money going to systemically significant institutions, questions were obviously raised about the supposed rationale for the massive bailout.

Many developing (and developed countries) have commercial contracts, especially with natural resource extraction (oil and mining) companies, the terms of which are not fully disclosed. It is argued that this is standard commercial practice. However, that is unacceptable: the citizens of the country are the owners of the natural resources, and they should be able to assess whether they are being cheated—which is the natural suspicion when the terms are not made public. That is why there is a global initiative to demand more transparency in the extractive industries.

It makes little sense for the World Bank to be putting money into a country if that country is pouring money out in sweetheart deals with mining and oil companies, but without transparency, one cannot tell whether that is being done.

This brings me to a difficult question: the countries say that they have no choice and that the mining companies insist on secrecy. But the international institutions sometimes say that they also have no choice and that it is up to individual countries to make their own disclosure decisions.

For the most part, I have expressed strong reservations against traditional policies of conditionality. Such conditionalities often undermine the effectiveness of programs and democratic processes and often are counterproductive because they impose the wrong policies. Obviously, those giving money to others have to have some assurances the money will be well spent. Some conditionality is inevitable, and conditionalities that strengthen democratic processes may have double benefits. That is my view on conditionalities associated with transparency. The citizens of the United States, I believe, have a right to know what the World Bank and the IMF are doing, and they have a right to know whether the countries to which they are providing assistance are giving money away in sweetheart deals to mining companies. Unlike other forms of conditionality, this transparency conditionality will strengthen democratic processes.

Of course, some countries may decide that they would rather not have a World Bank program than to allow their citizens to know the terms of the contracts. Some mining companies might say they would rather not have a business venture in a country that allows its citizens to know the terms of the contract. These are likely to be the exceptions. I believe such pressure would help set a new global norm in openness and transparency.

We should demand that the multilateral institutions themselves adopt a transparency policy consistent with the best global practices, at least as strong as America's Freedom of Information Act. We should consider whether this should be a condition for our providing continued support to these institutions.

Consequences

In the remaining few minutes, I want to provide two illustrations of how inadequate disclosure may have abetted distorted advice and decision-making.

The battle over the CPIA governance indicators at the World Bank illustrates in part what is at issue. It made sense for the World Bank to try to allocate funds to those countries where aid would be most productive—where, say, the marginal returns in poverty reduction would be the highest. The objective was lofty. (There are other factors, such as need, which of course also should play an important role in aid allocation.)

The Bank hypothesized that the countries with better governance would use the funds better and sought to construct an index which would measure good governance. Such a measure has played an important role in IDA aid allocations. But for many years, both the indicators and how they were constructed were kept secret. This made it impossible for outsiders to judge whether in fact they provided a good basis for aid allocation. After the disclosure, research has cast serious doubt on the use of these measures. Indeed, it appears that in some cases and at some times, they have been used as a form of hidden ex ante conditionality—worse even than the conditionality that has been the subject of so much criticism. Because of the lack of transparency, there was little "learning" that countries could do as they strove to improve their governance (or at least their governance scores). In some instances, good governance seemed to mean little more than doing what the World Bank and the IMF told them to do. Acceding to demands for privatization, liberalization, or so-called labor market reforms might lead to better governance scores, whether those policies were good for development or not.

Current research is addressing the relevant question, do these governance indicators provide information about marginal returns to aid that is additional to the information that would have been provided by the use of publicly available data on country performance? The preliminary answer suggests that they do not. They do not even provide a better forecast of future growth performance. The costs relative to the benefits of using these still not fully transparent (though at least now disclosed) indicators has thrown doubt on the desirability of their continued use.

A second example is the Doing Business indicators. The Bank's own internal review has explained well many of the deficiencies in these widely cited indicators. The most important critique is the suggestion that countries should strive to get higher scores on these ratings, because by doing so they will attract business and thereby grow faster, and by growing faster, poverty will be reduced and societal well-being enhanced. Almost every step in this logic is questionable. Of course, everything else being equal, companies like lower taxes. One doesn't need to pay an outside consultant to make that observation. But everything else is never equal—and the task of economic analysis is to explore the general equilibrium ramifications. This is notably absent in the Doing Business Report. Investments in education, infrastructure, technology, etc. can yield high returns, but these have to be paid for. Obviously, it is possible that there will be overinvestment in these areas, with the rates of return lower than the cost of capital. That is what an economic analysis would try to assess. Few of the World Bank clients are in that position. Thus, the suggestion that countries should strive to lower the overall tax burden is totally misconceived.

The question is, what is the best way of raising revenues? This is, of course, the subject of intense discussions among public finance economists. Most would agree, however, that there should not be a negative tax on private investment—that risks distorting the economy. However, some of the provisions that can give a high score on the Doing Business indicators can give rise to such distortions.

The employment indicators of the past have been rightly subject to criticism. The more that has been learned about them, the more dubious the indicators seem—to the point that I believe the IMF has decided not to rely upon them.

It is not just that the World Bank failed to take into account a broad perspective on societal values—the kinds of perspectives that underlie debates within our democracies about the kinds of social protections that are desirable. They even got the economic analysis wrong. Their analysis is predicated on the kind of market fundamentalism that this crisis has shown is so fundamentally flawed. My own research has shown that there are circumstances in which some forms of job protection, appropriately designed, can lead to greater efficiency and higher output.

Concluding Comments

The World Bank and the IMF should not be encouraging countries to adopt labor market policies, tax policies, or financial market regulatory policies that are based on a particular ideology—especially one that has been put into question by the recent crisis. World Bank pronouncements often seem to suggest that it is clear what is meant by "good policy." If countries only adopted those policies, they would grow well and poverty would be reduced. But we now recognize that some of the policies that they argued were good policies were in fact not so good. This should induce some humility and lead to more caution. It should also strengthen our resolve for the importance of democratic debate. However, this kind of debate can only occur if there is openness and transparency. Citizens need to know what policies are being advocated, the economic models underlying those recommendations, and the possible social consequences.

The international institutions have emphasized the importance of good governance in the advice they have given to others, and transparency, openness, and disclosure are an important component of good governance. Now is the time for the institutions to take their own advice and improve the governance of the institutions themselves. I hope my remarks this morning may provide some useful suggestions and guidelines for how this may be done.