FOR MEMBERS OF

THE RAJYA SABHA,

THE LOK SABHA,

STATE ASSEMBLIES

AND

LOCAL GOVERNMENTS

PARLIAMENTARY SCRUTINY OVER INTERNATIONAL FINANCIAL INSTITUTIONS

Intercultural Resources

Environment Support Group

FOR MEMBERS OF
THE RAJYA SABHA,
THE LOK SABHA,
STATE ASSEMBLIES
AND
LOCAL GOVERNMENTS

PARLIAMENTARY SCRUTINY OVER INTERNATIONAL FINANCIAL INSTITUTIONS

Intercultural Resources
C 72, South Extension Part II
New Delhi 110049
Tel 91-11–65665677
Email himanshugreen@gmail.com
Web www.icrindia.org
and

Environment Support Group
105, East End B Main Road,
Jayanagar 9th Block East
Bangalore 560069
Tel 91-80-22441977/26531339
Fax 91-80-26534364
Email esg@esgindia.org
esg@bgl.vsnl.net
Web www.esgindia.org

Design Bindia Thapar

Layout and printing Systems Vision

FOR MEMBERS OF THE LOK SABHA, RAJYA SABHA, STATE ASSEMBLIES AND LOCAL GOVERNMENTS

PARLIAMENTARY SCRUTINY OVER INTERNATIONAL FINANCIAL INSTITUTIONS

A recent World Bank paper states that, 'The global landscape has changed dramatically as International Financial Institutions [IFIs] have realised that domestic oversight of governmental actions is crucial to the fight against poverty and that parliaments are key oversight institutions'.

Unfortunately, the reality reflects a very different story. While the Bank acknowledges the importance of the role of parliamentarians in exercising oversight of IFIs, the record so far has been one of operating secretively and with little accountability to the democratically elected representatives of the people. For instance, what India witnessed during the preparation and implementation of the Country Assistance Strategy [CAS 2005-'08] by World Bank leaves no doubt that, for institutions like the World Bank and the Asian Development Bank, the gap between rhetoric and action is vast. Recent research has shown that the IFIs continue to use their power to influence key decisions around economic and social policy reforms, often pushing state and central governments to overrule or sidestep elected representatives, or reduce their role to rubber-stamping agreements made between them and governments in power.

During the 1980s and 1990s, the IFIs exercised a powerful influence on developing countries to implement structural adjustment, including privatisation and trade liberalisation, despite widespread condemnation of the harmful effects of these policies on poor people. Evidence also indicated that the IFIs were seeking even deeper influence by adopting a ‘country system’ approach and persuading ruling policy makers that this approach should be ‘country-owned’.

By the late 1990s, the World Bank developed a programme ‘to enhance parliaments’ capacity to effectively fulfill their responsibilities’, with an emphasis on the national budget process and supporting parliamentary networks. In 2000, a group of MPs and the World Bank founded the Parliamentary Network on the World Bank (PNoWB), which claims to increase parliamentary involvement and encourage dialogue between the World Bank and MPs. While claiming to help parliamentarians develop a better understanding of how the Bank operates, there are questions about its composition and its independence from its chief financial backer.

Numerous examples suggest that much of this has never been institutionalized and is just plain rhetoric. For example, in 2003, the Ghanaian government introduced tariff increases on rice and poultry. Despite receiving parliamentary approval, and despite being consistent with the rates permitted by the World Trade Organisation, all it took were a couple of meetings with the International Monitory Fund (IMF) to persuade the government to overturn these tariffs. The IMF pressurised the Ghanaian government to act in contravention of stated agreements and commitments.

This example is by no means rare. It stems from the lack of democracy; transparency and accountability that pervades almost all levels of IFIs, from the appointment of their senior staff to the way they operate in developing countries. The issue has gained such seriousness that over 1000 MPs from all over the world, who believe that elected representatives of people should be final arbiters of economic decisions, have signed the international parliamentarian’s petition (IPP) for democratic oversight of the World Bank and IMF.

International Parliamentarians' Petition

In April 2005, members of parliaments and campaigners from around the globe submitted the International Parliamentarians' Petition (IPP) for Democratic Oversight of the International Monetary Fund (IMF) and the World Bank (WB) to the Bretton Woods Institutions at spring meetings. The IPP was signed by over 1,000 signatories from 50 parliaments from over 30 countries around the world and backed by a worldwide network of civil society organisations.

The IPP is a global petition calling for 'democratically elected representatives' to be fully involved in the development and scrutiny of IMF and World Bank policies in their countries – to deepen country level accountability and ownership of policies, improve democratic control over operations of International financial Institutions (IFIs) and nurture democratic processes in developing countries. The petition calls for all parliamentarians to be the final arbiters of all economic policies in their countries. IFIs are a threat to national sovereignty, in safeguarding that, the members of parliaments of every country have a vital role to play. It was signed by both developed and developing countries parliamentarians.

Need for a critical engagement

Significant efforts are now underway all over the world to institutionalise parliamentary scrutiny and oversight of IFIs. In Brazil, a 'parliamentary front' has united citizens' groups and parliamentarians to evolve legislative approaches to strengthen parliamentary and civil society involvement in decisions on IFI programmes and projects. In Southern Africa, groups have been working with parliamentarians to encourage them to use existing mechanisms and push for greater oversight of new loans.

In addition to these initiatives involving elected representatives, many civil society organizations continue to push for increased parliamentary oversight of the IFIs in order to make them accountable to elected government representatives and the public at large. The legitimacy and effectiveness of these powerful institutions can be improved only through stronger lines of accountability to the public. People's movements and parliamentarians need to strengthen a dialogic process to bring focus on the principles of accountability, transparency and democratic participation while also widening the debate on what constitutes development finance.

This brief note is to initiate such a dialogue, discussion and debate in India leading to informed discursive practices by bringing democratic principles to have a bearing on development. The evidence of the last six decades suggests that in the absence of this, not only does irreversible damage and destruction result but a country loses significant elements of its sovereignty.

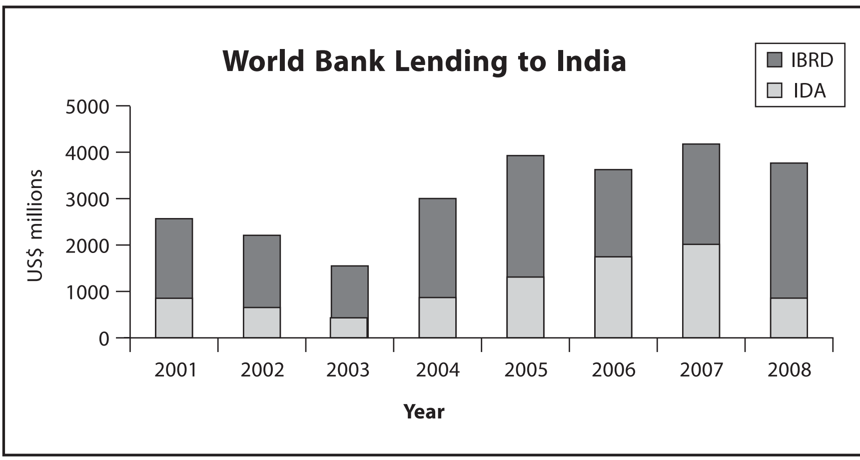
World Bank

The World Bank is one of the world's premier multilateral institutions with 184 member countries. Set up in 1944 as the International Bank for Reconstruction and Development (IBRD), the Bank is made up of two unique development institutions – the IBRD and the International Development Association (IDA) – each playing a different but supportive role in the Bank's mission of global poverty reduction and the improvement of living standards. While the IBRD focuses on middle income and creditworthy poor countries, the IDA focuses on the poorest countries in the world.

Formal decision-making power is based on the size of capital subscriptions. While significantly below the 42 percent share of voting power that US had at the time the Bank began operations in 1946, the 17.6 percent it currently possesses is above the critical 15 percent it needs to retain a veto over major lending decisions. Formal power is supplemented by other informal mechanisms.

By 'tradition' the Bank's president is always an American citizen appointed by the US government. In a study of fourteen of 'the most significant issues' that sparked debate at the Bank – ranging from blocking observer status for Palestine Liberation Organisation to halting Bank aid to Vietnam and Afghanistan – the US was able to impose it's will on Bank policy in an twelve cases.

World Bank lending to India



New lending to the country in FY06 (July 2005-June 2006) was US$1.416 billion. Of this, US$500 million was from the IDA, the World Bank's concessional lending arm, and US$916 million from the IBRD. At end of June 2006, the Bank group had 56 active projects with a net commitment of about US$ 11.3 billion.

Country Assistance Strategy [CAS]

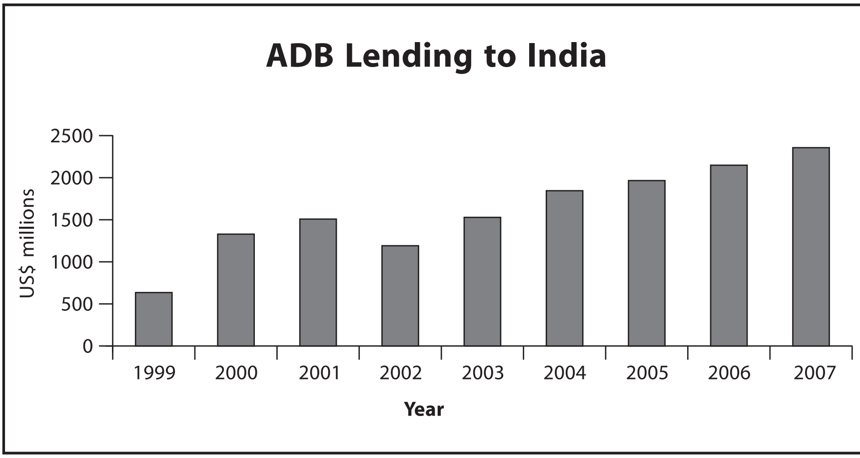
The Bank's Country Assistance Strategy [CAS] for India – which identifies the operation that the Bank intends to finance for the period 2005-'08 – that was approved by its Executive Directors on

August 26, 2004 came under criticism for inadequate consultation process and lack of transparency. Not only was civil society kept in dark, even the MPs, MLAs and peoples' representatives at local governance institutions were neither informed nor adequately consulted, thus violating and undermining the basic tenets of democracy. The CAS envisages far-reaching changes and imposes conditionality of reforms and privatisation of key sectors as its basis for extending lending to central and state governments. CAS does not reflect that the Bank has learnt from the history of its failures. It does not acknowledge that in the past fifty years, projects that it has provided loans to have been abysmal failures in sectors such as power, dams, forestry, poverty reduction, and environmental and social mitigation measures. The projects and proposals in the CAS have also not evolved out of a process to select least cost options among those available. While the Bank claims to have imposed conditionalities 'for implementation of the Government's poverty reduction strategy, embodied in India's Tenth Five Year Plan', a critical reading of CAS establishes that it has totally disregarded the thrust and content of the Common Minimum Programme adopted by the ruling United Progressive Alliance.

Asian Development Bank [ADB]

For the Asia–Pacific region, the ADB is the third largest donor, lending approximately $ 5 to 6 Billion a year to its developing member countries. ADB is increasingly focused on financing private sector operations, supporting SAPs, and implementing global trade rules. Just like the World Bank, it has a record of high failure rates, lack of accountability, and the same relatively unaccountable macroeconomic approach. ADB has also come under severe criticism by civil society for having an inadequate governance structure, a weak safeguard policy framework, and extending loans to military rulers that are least accountable to citizens. While the movement monitoring IFIs has met with some amount of success in compelling the MDBs – particularly the World Bank – to increase democratic spaces the ADB remains continues to uphold a culture of secrecy.

ADB lending to India



India is a founding member of the Asian Development Bank (ADB) and its fourth largest shareholder. Since the beginning of ADB assistance to India in 1986, 81 public sector loans amounting to $14.9 billion have been approved. A total of 212 technical assistance (TA) projects amounting to $115.789 million have been approved to date.

The current framework of ADB assistance to India is laid down in the India Country Strategy and Program (CSP) 2003, with updates of 2004 and 2005. The program is closely aligned with the Government's evolving development priorities and its core focus on reducing poverty through infrastructure-led growth. The three key pillars of ADB assistance strategy in India are inclusive and broad-based growth, social development, and good governance.

Annual ADB lending to India averaged around $600 million through the 1990s. This increased to an annual average of around

$1.1 billion between 2000 and 2005. In volume terms, infrastructure projects constitute the bulk of ADB's operations. About 89% of ADB's ongoing India portfolio as of 31 December 2005 focuses on the three core areas of transport, urban development, and energy.

Country Strategy Programme [CSP]

The CSP lays out the ADB's medium-term development strategy for a particular country and identifies thematic and sector priorities. ADB also produces CSP updates every year that takes into account the continued relevance of the CSP and its implementation.

Export Credit Agencies

Export Credit Agencies and Investment Insurance Agencies are public agencies that provide government-backed loans, guarantees, credit and insurance to private corporations from their home country to do business abroad, particularly in financially and politically risky developing world. Since, ECAs have come to be collectively among the largest sources of public financial support for foreign corporate involvement in industrial projects in the developing world, we hope that elected representatives would extend their oversight role beyond merely multilateral financial institutions to Bilaterals such as JBIC and DFID as well.

Endorsing Organisations

Ban Asbestos Network in India | New Delhi
Bank Information Centre | New Delhi
DICE Foundation | Kohima
Environics Trust | New Delhi
Environment Support Group I Bangalore
Equations | Bangalore
Intercultural Resources | New Delhi
Matu People's Organisation | Uttaranchal
National Centre for Advocacy Studies | Pune
Open Space | Bangalore
People's Science Institute | Dehradun
Rural Volunteers Centre | Akajan
Shruti | New Delhi
South Asia Network on Dams, Rivers and People | New Delhi
Urban Resources Centre | Bangalore

We look forward to your inputs, suggestions, and partnership in this initiative. For more details contact:

Himanshu Upadhyaya
Intercultural Resources
C 72, South Extension Part II, New Delhi 110049
Tel.: 91-11–65665677
Email: himanshugreen@gmail.com Web: www.icrindia.org

Leo F. Saldanha
Environment Support Group
105, East End B Main Road, Jayanagar 9th Block East,
Bangalore 560069
Tel.: 91-80-22441977/26531339 Fax: 91-80-26534364
Email:esg@esgindia.org
esg@bgl.vsnl.net
Web: www.esgindia.org