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

U.S. House Committee on Financial Services
Rayburn House Office Building, Room 2128
September 10, 2009, 10:00 AM

The House Committee on Financial Services hosted a hearing to examine options for reforming the World Bank into a more democratic and transparent institution, thereby improving development outcomes. The Committee heard expert testimony from **Professor Joseph E. Stiglitz** of Columbia University, **Richard E. Bissell** of the National Research Council, **Professor Alnoor Ebrahim** of the Harvard Business School, **Vijaya Ramachandran** of the Center for Global Development and **Thomas S. Blanton** of the National Security Archive at George Washington University.

In his opening remarks, **Chairman Barney Frank** (D-MA) lamented the "morally unacceptable" situation that the United States has not done more to eradicate poverty, given the country's immense wealth and called for increasing foreign assistance resources. However, any increase in funding would first have to be predicated by addressing the problems of opaque institutions and subsequent corruption within World Bank programs. **Chairman Frank vowed not to allocate any more funding to the World Bank until reforms are enacted to increase transparency. Rep. Gary Miller** (R-CA) explained how the financial crisis has completely changed global economic development and propounded the need for a more open World Bank that shares information with relevant parties and treats other actors as partners. **Rep. Melvin Watt** (D-NC) contended that more transparency is not only necessary at the World Bank, but all domestic and international financial institutions.

In his testimony, **Professor Stiglitz** argued that the United States has a strong interest in reducing poverty and encouraging economic growth globally and that the World Bank is one instrument towards that end. But for the World Bank to be strong, credible and effective, reforms are necessary to ensure good governance within the institution. Stiglitz lamented that the World Bank and other international institutions often export economic policy fundamentally at odds with domestic policy, as a direct result of poor governance. Stiglitz also illuminated the problem of allowing only finance ministers to run the World Bank, as it is not a bank in reality but a development institution. He advocated for granting an increased voice for developing countries, allow USAID to represent the U.S. at the World Bank, increase accountability to parliaments and the creation of an international panel of experts to oversee all international financial institutions.

Richard Bissell contended that **transparency is the most important objective to ensure long-term effectiveness**. In his testimony, he enumerated several weaknesses of the current transparency policy that result in insufficient disclosure of information, limits to information prior to decision-making, a lack of implementation information, a weak system of request for information with no appeals process, no access to shareholder positions, and finally insufficient translation services. To solve these issues, Bissell lobbied for increasing local stakeholder action and third-party monitoring.

Professor Ebrahim highlighted the importance of the World's Bank identity as a public institution charged with fighting global poverty. Therefore, any reform must strengthen its public purpose and hold the World Bank accountable to the people it serves. Accountability can be achieved through increased transparency and **granting opportunities for citizens to participate in decision-making and oversight.** In addition, levels of public participation should be added as a metric in performance reviews of World Bank staff to encourage such behavior.

Vijaya Ramachandran focused her testimony on the World Bank's unhealthy drive to increase the volume of lending without regard for effectiveness, transparency and results. To avoid the perverse incentives this culture of volume creates, Ramachandran proposed rigorous third-party evaluation of projects that focus not only on inputs but outcomes of projects as well as exploring financial products beyond the typical World Bank loan, such as risk mitigation products or concessional grants.

Thomas Blanton ended the expert testimony with a discussion of the lessons of enacting freedom of information policies in other institutions and governments. According to Blanton, the World Bank must operate under a presumption of openness that obligates the proactive publication of information, define exceptions to such obligations as narrowly as possible under a "serious harm" test and finally employ an independent review panel to evaluate secrecy decisions. Blanton concluded that **freedom of information directly correlates with better outcomes and less corruption.**

During the question-and-answer session, Chairman Frank observed the overreliance on the Treasury Department, with the State Department lacking sufficient influence on financial institutions. This imbalance of influence results in giving foreign aid recipients **mixed messages about the relative importance of pure economic growth versus democratic values**. In response, some of the experts emphasized how secrecy within financial institutions that confounds citizen participation exists not only at the international level but within both donor and recipient governments. Therefore, efforts should be undertaken to increase transparency across the board. In fact, **foreign assistance might even be conditionally given, dependant on the transparency and governance of the potential recipient country.**