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WHO'S MINDING THE STORE?

Legislator Oversight of the
Bretton Woods Institutions

EXECUTIVE SUMMARY & RECOMMENDATIONS

October 2004



Campagna per
la riforma della
Banca Mondiale

Copies of this report may be obtained by contacting Halifax Initiative at the address on the inside cover or by visiting www.halifaxinitiative.org

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EXECUTIVE SUMMARY & RECOMMENDATIONS

International economic and political relations have become increasingly integrated over the last sixty years, resulting in a significant transfer of power from the national to the multinational level. National independence and policy-making is yielding to increasing global interdependence, cooperation and compromise.

The declining authority of national democracies has not given way to democratic decision-making at the multilateral level, however. Mechanisms for accountability are absent or inadequate; there is no authoritative central rule-making body but rather a multitude of often poorly coordinated international laws, standards, treaties, regulations, agreements and institutions. The globe is dominated by supra structures including: the United Nations system, the World Trade Organization, the International Monetary Fund (IMF) and the World Bank, all of which are either unable or unwilling to respond adequately to the challenges of an increasingly integrated world.

The spaces between the institutions that have been established to govern the globe and the citizens on whose behalf the institutions operate form a “democratic deficit” in global governance. Global governance may be defined as a “framework of rules necessary to tackle global problems guaranteed by a set of institutions including both international organisations and national governments.”¹ At present,

the trail of public accountability is from governments to legislatures at the national level and from intergovernmental organisations to intergovernmental boards, composed of government representatives, at the multilateral level. The result is a world becoming, paradoxically, more and less democratic.

The World Bank and the International Monetary Fund² are the two most powerful financial institutions in the world. The IMF dictates economic, finance and social policy to over 100 developing country “members”, yet is effectively governed by a handful of industrialized country governments. The World Bank is the world’s largest public “development” institution, yet along with the IMF and bilateral donors, forms a creditor’s cartel, which significantly undermines space for both democratic engagement and meaningful development in recipient countries.

To explore the extent of the global democratic deficit with respect to these institutions, Halifax Initiative, with the assistance of Agir ici and Campagna per la riforma della Banca mondiale, conducted a written survey of World Bank and International Monetary Fund Executive Directors and Alternate Executive Directors of seventeen

industrialized countries.³ The purpose of the survey was to determine how each official is accountable to legislators and to what extent national legislatures maintain democratic oversight of the institutions.

“Most people do not know what is being done in their name at the global level. Even elected legislators know little about the international bodies to which their nations belong. Yet global rules matter more than ever.”

Titus Alexander,
One World Trust

¹ “About Us”. Centre for the Study of Global Governance. <<http://www.lse.ac.uk/Depts/global/AboutCsGG.htm>>

² Collectively known as the “Bretton Woods institutions” or BWIs.

³ Australia, Austria, Belgium, Canada, Finland, France, Germany, Italy, Ireland, Japan, Netherlands, Norway, Portugal, Spain, Sweden, United Kingdom and the United States.

While legislator authority and practice varies between countries, the extent of democratic oversight of the World Bank and IMF by legislators in the countries surveyed is weak. Legislators, like the citizens they represent, have minimal, largely non-binding influence over the institutions. Legislators are inadequately aware, unevenly informed and largely not consulted on issues related to the World Bank and IMF. The democratic link to bind citizens and institutional decision-makers is therefore fragile, at best.

The key findings of the survey are:

1. Legislators are largely not engaged in the selection of the most senior national Bretton Woods institutional officials.
2. National level priority setting and decision-making, while potentially guided by broad non-binding policy advice gained through the infrequent meetings of parliamentary or congressional committees, is a matter between the executive branch of government and its lead ministry. The World Bank or IMF Executive Director or Alternate and members of the constituency, where it exists, may also be involved in decision-making, to varying degrees.
3. Constituency level priority setting and decision-making, in which national and regional positions are reconciled with often diverse constituency member interests, is largely ad hoc and non-transparent.
4. For countries operating under a parliamentary system of governance, recent legislation provides a vehicle for approving financial allocations to the Bretton Woods institutions, not as a means for the adoption of binding policy directives.
5. Annual reports on government activities at the Bretton Woods institutions, produced by most surveyed countries, are

not subject to legislator analysis and debate. Legislators are not involved in decision-making as to what is reported or how.

6. Public participation in the Bretton Woods institutions is broadly limited to the engagement of civil society in ad hoc meetings with government and/or Bretton Woods officials on the occasions of the spring and fall meetings of the institutions or in infrequent parliamentary/congressional hearings or committee meetings which produce non-binding recommendations.
7. Governments do not independently audit their significant financial obligation to the Bretton Woods institutions, including direct financial contributions and callable capital.
8. Legislators have limited access to the Bretton Woods institutions, in part, due to restrictive access to information policies at the World Bank and IMF, which prevent critical documents from being publicly released. Bretton Woods' disclosure policies may be more restrictive than domestic access to information laws.

Legislators and citizens alike should be concerned that the democratic legitimacy of the Bretton Woods institutions is at risk as a result of the gaps in governance identified by the survey. The goals of democratic development internationally and democratic strengthening locally are undermined when gaps in accountability, transparency and public participation exist between national governments and multilateral institutions and within the institutions themselves.

Legislators are responsible to their electorate for international decisions taken in their name. Governments have a responsibility to engage the electorate in decision-making that will affect them. These democratic obligations are being compromised by international governance

shortcomings as evidenced at the Bretton Woods institutions.

In spite of these deficits, global democratic responsibilities remain high, particular for those countries surveyed, due to their disproportionate power in global decision-making. Through their dominance at the World Bank and IMF, the governments of industrialized countries are externally accountable to the millions of citizens in developing countries whose lives are directly and frequently negatively affected by the policies and practices of the institutions. Surveyed countries are signatories to and co-responsible for the implementation of international agreements and covenants, including the Millennium Development Goals, the achievement of which are directly linked to the actions of the Bretton Woods institutions.

If better governance, by definition, means “more transparency, more accountability, and more popular participation in the decisions that count,”⁴ then taking steps to improve these factors is a substantive step towards improvements in global decision-making. As legislators from around the world form supra-national alliances to engage in global issues, and as public concern and coordination grows, the potential for increasing accountability, transparency and public participation in multilateral institutions is enhanced.

Strengthening the capacity and willingness of legislators to engage in democratic oversight of the Bretton Woods institutions is a critical first step to holding governments to account for their actions at, and the collective actions of, the Bretton Woods institutions.

For legislators to gain a measure of political leverage over the multilateral institutions, both the institutions and the executive branches of government must become substantially more publicly accountable. The public and legislators, working together, must demand an end to the

democratic deficit in international institutional governance by strengthening the oversight role of legislators.

In an effort to increase the quality of democratic governance at the global level through increased accountability, transparency and public participation at the World Bank and International Monetary Fund, legislators and citizens may wish to consider:

Enhancing Education and Awareness

1. Utilizing the expertise of civil society organizations and movements, educate elected members on the issues associated with the World Bank and IMF through forums, briefings, speaking tours and newsletters.
2. Undertake targeted research on issues of relevance to legislators and their constituents related to the BWIs.
3. Engage in forums such as the Parliamentarians Network on the World Bank with fellow legislators with an emphasis on maintaining the integrity of the network through enhanced independence from the Bank.

Enhancing Cooperation and Engagement

1. Organize parliamentary or congressional caucuses to address the needs of legislators for research, education and advocacy on global issues of relevance for their constituents.
2. Work with parliamentary networks and forums to integrate aspects of concern related to Bretton Woods institutions into their remit.

⁴ Smith, Gordon, and Naim, Moises. *Altered States: Globalization, Sovereignty and Governance*, International Development Research Centre. 2000.
<http://web.idrc.ca/en/ev-5313-201-1-DO_TOPIC.html>

Enhancing Parliamentary Scrutiny and Authority

1. Work towards the establishment of greater legislator scrutiny of government activities at the Bretton Woods institutions using existing and new processes at the national level.

Activities may include:

- i. Work to strengthen legislator committees and independent agencies including commissions to foster more effective decision-making and to monitor the executive branch of government;
- ii. Establishing regular reviews of the Bretton Woods institutions (BWIs) through the appropriate Standing Committee or other representative structure or forum;
- iii. Create new Standing Committees that seek to integrate global issues and address economic, finance, trade and development aspects of issues concurrently rather than by individual ministry or department;
- iv. Establish a Standing Committee with a specific mandate of monitoring international development policies or programmes or the achievement of the Millennium Development Goals;
- v. Ensure a Budgetary or Finance Committee or other appropriate hearing process fully evaluates the implications of financial commitments to the BWIs and on a regular basis;
- vi. Hold regular parliamentary or congressional debates on issues associated with the Bretton Woods institutions including international development strategies as well as recommendations arising from the Standing Committees and the annual report to

- vii. parliament/congress on the Bretton Woods institutions;
 - vii. Undertake an independent audit to assess financial accountability of expenditures to the Bretton Woods institutions and oversee the implementation of recommendations;
 - viii. Evaluate the quality of annual reports and upgrade them to meet public and legislator information requirements;
 - ix. Require ministers to appear before the appropriate Standing Committee to defend their annual reports on the BWIs and the government to respond in substance to any recommendations of these Committees in a timely manner;
 - x. Encourage legislators to use their access to parliamentary/congressional processes to raise issues relating to BWIs.
2. Work towards the establishment of greater direct legislator scrutiny of the Bretton Woods institutions working both nationally and with international legislators and partners.

Activities may include:

- i. Establish regular dialogues and meetings between national legislator groups and Executive Directors/Alternates and their offices at the Bretton Woods institutions;
- ii. Hold inter-legislator meetings in conjunction with the spring and annual meetings of the Bretton Woods institutions, utilizing the opportunity provided by the gathering of hundreds of government officials and BWI staff from around the world;
- iii. Hold regular parliamentary/congressional hearings on the BWIs to which the

- Executive Directors/Alternates appear;
- iv. Encourage the engagement of legislators in the Parliamentary Network on the World Bank and a broadening and deepening of its work as watchdog and critic;
- v. Expand the mandate of the Parliamentarians Network on the World Bank to include the IMF. The network could become the Parliamentarians Network on the Bretton Woods Institutions;
- vi. Coordinate global legislator advocacy on particular Bretton Woods policies and practices deemed antithetical to the development and enhancement of democracy at the local, national and international levels;
- vii. Provide opportunities for civil society organizations from developing countries to engage with legislators in developed countries on the implications of BWI policies and activities in their countries;
- viii. Enhance political leverage through the use of media and engagement with civil society groups and organizations working nationally and internationally.

“States need to develop a deeper awareness of their dual role in our global world.

In addition to the separate responsibilities each state bears towards its own society, states are, collectively, the custodians of our common life on this planet — a life the citizens of all countries share.”

Kofi Annan, United Nations Secretary General