

September 9, 2005

Support Reform of the Multilateral Development Banks

Dear Foreign Operations Subcommittee Conferees:

We are writing to commend members of the House and Senate Foreign Operations Subcommittees for the important steps taken in H.R. 3057, the FY 2006 Foreign Operations Appropriations bill, to promote critical reforms at the World Bank and regional multilateral development banks (MDBs). We urge you to adopt the Senate bill's extractive industries transparency requirements and Title VII, which establishes accountability and transparency policy goals and requires a report from Treasury on additional means of helping poor countries fight corruption, in the final Foreign Operations conference report.

Leadership by the House of Representatives was critical in adopting important MDB transparency and accountability reforms during the last Congress. This year, bi-partisan support has elevated the importance of effective anti-corruption procedures at the MDBs. In turn, thorough investigative work by the Senate Foreign Relations Committee (SFRC) led the Senate to adopt provisions by unanimous consent that set out policy goals for the U.S. Treasury Department to encourage increased MDB accountability and improved anti-corruption coordination among the relevant institutions. These measures would help to ensure better alignments between staff incentives and project quality, stronger whistleblower protection consistent with the Sarbanes-Oxley Act of 2002, and public cross-debarment of firms and individuals that engage in corrupt or fraudulent activity in MDB-supported projects. Additionally, the Senate bill calls for borrowing countries seeking budget policy support to have transparent budgets and procurement processes, promotes independent forensic audits of MDB projects where fraud is suspected, and states that MDB operations should include "code of conduct" contracts with each borrower, grantee, and contractor that embodies the relevant standards of section 104 of the Foreign Corrupt Practices Act.

The reforms in the Senate bill would also promote the transparency of budgets and revenues derived from natural resources extraction in borrowing countries, facilitating public scrutiny and better citizen participation. Revenues from natural resource extraction often have been misappropriated or mismanaged at the expense of development and poverty reduction; transparency of resource revenues is crucial to combat corruption and ensure that citizens are better able to hold their governments to account for the use of natural resource revenues. Section 6074(c) in the Senate bill, (also included in the 2005 Consolidated Appropriations Act), calls upon the MDBs to require governments to disclose accurately and audit independently all payments and revenues for natural resource extraction as a condition for receiving assistance in the extractive industries sector.

Finally, we strongly support two provisions in the Senate bill which provide funding to further promote resource revenue transparency: 1) \$1 million to support the Extractive Industries Transparency Initiative (EITI), an international initiative working to ensure that revenues from natural resource extraction promote poverty reduction and sustainable development; and 2) \$1 million to strengthen the capacity of the Iraqi government to transparently manage its revenues,

including oil revenues [Section 6093(b)]. We believe these are important provisions to help foster transparency and accountability in the extractive industries.

It is not only the U.S. taxpayers who lose when funding for development assistance is siphoned off by corrupt governments, individuals and institutions, but also the poor in the developing world. When MDB operations are ineffective and/or plagued by mismanagement and graft, it is the citizens of poor countries who are left to pick up the tab in the form of debt repayments. The MDBs have an important role to play in promoting resource revenue transparency in resource-rich countries, both in terms of ensuring high standards from borrowing countries and companies as well as having effective internal controls to combat corruption and mismanagement of public funds. It is clear the House and the Senate are aligned in understanding that MDBs must be held more accountable for the results of their lending and for the management of the funds themselves. The Joint Economic Committee is conducting an investigation into alleged irregularities in the handling of World Bank finances and weaknesses in internal controls and board oversight. The U.S. Treasury Department, with strong direction from Congress, should work actively with other Member nations and stakeholders to ensure that accountability and transparency reforms are enacted at all of the MDBs.

Hundreds of thousands of our members believe that the abovementioned measures represent the minimum reforms necessary to improve transparency and prevent corruption in MDB operations. **We urge you to include all of the Senate's Title VII language on MDB reform provisions and the extractive industries transparency provisions in the FY06 State, Foreign Operations, and Related Agencies conference report.**

Thank you for your consideration.

Sincerely,

ActionAid International USA

Earth Rights Institute

Bank Information Center

Gender Action

CARE USA

Global Witness

Catholic Relief Services

Government Accountability Project

Center for Economic Justice

Human Rights Watch

**Center for International Environmental
Law**

International Accountability Project

Environmental Defense

International Rivers Network

Development Gap

Pacific Environment

Public Citizen

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