

Good Governance & Transparency: Their Impact on Development

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The market-friendly approach to development in the 1990s has coincided with a movement to promote "good governance" in nations throughout the world. Governments cannot engage in good governance - i.e., good management of the country - without promoting "transparency." This usually means managing government institutions according to clear and accessible rules (i) that make government officials and agencies accountable to the country's citizens and (ii) that provide members of the international community with the predictability and stability they need to function efficiently and productively.

At bottom, discussion and debates about good governance focus on corruption and efforts to eradicate it. As you will learn in the first two parts of this section, the World Bank and the IMF believe rooting out corruption - or promoting good governance, if you prefer more diplomatic language - will promote sustainable and equitable development.

Eliminating corruption is easier said than done, however. As part C demonstrates, corruption has long roots, reaching back to the colonial administration of today's developing countries. Post-colonial conditions gave rise to patterns of behavior that seemed quite rational to those who are now accused of being corrupt, as explained in part D. Nevertheless, as we note in part E, many believe that corruption, whatever its causes, can negatively affect you and your communities.

The IMF and the World Bank believe they can contribute to anti-corruption efforts. Part F describes some of the ways the two institutions are tackling the problem, ranging from World Bank initiatives regarding civil service and judicial reform to IMF guidelines that help the Fund and member countries improve the management of economies.

Like virtually all other activities of the Fund and the Bank, critics of these institutions have become concerned about the underlying motives behind the anti-corruption campaign. Are we in the midst of a new form of colonialism that is driven by Western notions of corruption? Is the anti-corruption movement a front for foreign interests seeking to exploit emerging economies? Part G will address these questions.

The last two parts of this section describe various observations and proposals to improve World Bank and IMF anti-corruption programs. In keeping with today's

philosophy of development from the ground up (grassroots), various observers have called upon the two institutions to be more sensitive to the needs and interests of its member countries. These observers believe that, instead of dictating anti-corruption policy from above, the World Bank and the IMF should encourage countries to develop their own anti-corruption plans tailored to each country's economic, social, cultural, and political circumstances.

As you read this section, we invite you to think about what corruption means to you in your daily life and whether programs designed by your government or international organizations such as the IMF and the World Bank are worthwhile.

A. The World Bank and the IMF Work with Member Nations to Develop Good Governance and Transparency in Order to Foster Sustainable Development and Economic Growth

As part of their programs to help foster sound economic frameworks and encourage stable economic growth for developing country members, the World Bank and the IMF have stressed the necessity of good governance and transparency.

According to a 1991 World Bank report, governance "is the manner in which power is exercised in the management of a country's economic and social resources for development." The report defined three aspects of governance: (i) the form of political regime; (ii) the process by which authority is exercised in the management of a country's resources; and (iii) the capacity of governments to design, formulate and implement policies and discharge functions. The first aspect of governance is a political function, the World Bank has concluded, and, therefore, falls outside the scope of World Bank authority to offer policy advice. The other two aspects, however, have been central to the Bank's program of good governance.

According to the IMF, every developing country that is committed to gaining the confidence of the international financial markets must dedicate itself to good governance. Good governance fosters a path for strong and stable economic development. Poor governance could adversely affect private market confidence and reduce private capital inflows and investment, retarding economic growth in developing countries.

The IMF stresses that its staff should assess whether poor governance would have a significant current or future impact on macroeconomic performance in the short or medium term and on the capacity of the government to credibly pursue programs that would attain

external viability and growth. Its staff has kept up with economic trends and developments in member nations that would foster good governance. When the staff is alerted to policies that may bring about poor governance, it has been instructed to discuss these matters with the appropriate governmental authorities.

In its quest to promote market confidence in the policies of developing countries, the IMF has adopted guidelines regarding **good governance**, which stress public sector transparency and accountability. The IMF has advised emerging economies to improve the management of public resources through public sector institutional reform. This includes close work with a developing country's treasury, central bank, public enterprises and civil service. It also includes the reform of administrative procedures, such as export control, budget management and revenue collection.

The IMF, like the World Bank, has continuously emphasized that its charter limits the Fund's involvement in governance issues to matters relating to the economy and that primary responsibility for governance issues lies with national authorities. The Fund cannot interfere in political issues or state affairs. Thus, it claims to tailor its policy advice and technical assistance to areas of traditional expertise and knowledge. In particular, the IMF is concerned with macroeconomic stability (relating to employment, production and growth in the economy), sound economic relations among countries and orderly economic growth in member countries. To this end, the IMF is encouraging countries to face macroeconomic imbalances, reduce inflation, undertake key exchange, trade and other market reforms, and eliminate government allocation of credit.

B. The World Bank and the IMF See Corruption as the Major Obstacle to Good Governance and Transparency

In their campaign for good governance and transparency, the World Bank and the IMF have identified corruption as the major barrier to sustainable economic growth and development. Corruption has been a persistent problem that has affected many, if not all, nations, be they emerging economies in Latin America, Asia and Africa, or the industrial countries of Europe and North America. In their programs against corruption, the World Bank and the IMF have turned their attention to corruption in developing countries because they have both concluded that developing nations need urgent reform if they are to realize stable economies in the near future. It is important for us to analyze what qualifies as corrupt behavior before we can understand the strategies to alleviate it.

1. Corruption, According to the World Bank, Is the Abuse of Public Office for

Private Gain and It Negatively Affects Equitable Development and Sustainable Growth.

Corruption has many meanings and has been addressed by a number of scholars. The World Bank, hoping to find a suitable framework to address this problem, recently used this definition of corruption: "The abuse of public office for private gain." Corruption can be said to exist where the benefit of acting against the expectation outweighs the cost, or where a public good, service or office is sold for personal gain. Corruption in this sense can have a negative impact on equitable development.

In many nations, the government clearly favors the wealthy at the expense of the rest of the populace. In Haiti, for example, the government has placed high import duties upon basic necessities used by all. By contrast, imported luxury items, which most of the citizenry cannot afford, have often arrived into the country duty free for the upper classes to enjoy. The disparity in duties can be seen as a form of corruption, as a minority of the population is favored by the government over the much larger lower classes who lack the financial status, political connections or the social clout to receive governmental benefits. Corruption has led to the diversion of funds which could have been used for development, and developing nations suffer in the areas of education, health care and infrastructure advancement.

C. To Understand Corruption in Developing Countries, Policymakers Must Come to Terms with Historical Circumstances that Fostered State Authority

We can only comprehend the reasons for governmental corruption if we understand the historical circumstances that shaped the developing nations of today. Two historical circumstances that can be analyzed are those of Africa under European colonial administration and Latin America under Spanish rule.

1. Colonialism in Africa Led to Post-Colonial Leadership Structures that Used Power and Wealth to Survive Politically and Subscribed to the View that Africa had to Adopt Western Notions of Development.

Under colonial rule in Africa, the colonial state decreed what was to be produced, how it was to be produced, and who was to produce it. The colonial state legislated ordinances and taxation to break up the force of traditional tribal bonds. The colonial African state grew to completely dominate all facets of the economy. For all intents and purposes, the colonial state became omnipotent. The colonial justification for this type of absolute power was two-fold: to preserve power for fear of local resentment, and to fulfill colonial economic goals.

The power of the colonial state was arbitrary as well as absolute. Colonial governments dictated what commodities were to be produced according to colonial need. Before colonization, the Gold Coast (now Ghana) did not cultivate cocoa. The colonial government, however, decided to grow cocoa and worked to transform the Gold Coast into a cocoa-producing colony. By 1901, thirty-six years after the initial planting of cocoa, the Gold Coast became the leading producer of cocoa in the world.

The arbitrary nature of colonial state power did not entrench a sense of legitimacy among Africans, and the accumulation of power in all its forms - economic, social, and military - was seen as essential for colonial state security.

The eventual independence of African nations earlier this century did not bring about a change in the foundation of state power and control. The African state, at its base, still commanded absolute and arbitrary power, to be enforced by violence and coercion if need be. The poor economic conditions brought about by colonialism further bolstered justification of state control, so that leaders could develop a broader base of power.

The legacy of colonialism left African leaders with a fear of political opposition from all sides. Their willingness to retain power at all costs has been documented by several African historians. Realizing the potential conflicts among ethnic, communal and tribal ties, modern African leadership often sought to manipulate these in order to bolster their power, at the expense of popular unity. Coercion was seen as a tool to control possible political dissidence.

Issues of sustainable economic development and growth were secondary to African leaders. Their priority was the accumulation of power and political survival, at the expense of everything else. If anything, the development rhetoric used by African leaders was created to bring about popular unity. African leaders turned to increase national wealth rather than the people's welfare. This rhetoric fell short of its ability to transform these nations economically.

The ideas surrounding development in Africa engendered a notion of "catching up with the West." Thus, African dependence on the West for technology and development assistance grew immensely. This led to the rapid decline of African economies in the 1970s and early 1980s. The manufacturing sector, mining sector, and food sector all experienced marked drops in growth. Furthermore, this drop has validated the theory among many African intellectuals that they need to follow Western archetypes much more closely and

shun the agrarian, rural (and, therefore, backward) ways of their African past. Western knowledge, expertise and production, they concluded, is superior on all levels, and Africans must do all they can to adopt Western methods and mentality.

2. Latin America's Colonial Legacy Helps Explain the Concentration of Power in the State and the Development of Unfettered Administrative Discretion that Leads to Corruption.

Latin America inherited its hierarchical political structure and outlook from European powers, and Spanish, Portuguese and French political rudiments still play an important role in understanding Latin American governmental institutions and functions. Hence, the notion that the state should have absolute authority in political, economic, and social life has been deeply imbedded in Latin American culture for hundreds of years. This explains, in part, the tradition of the Latin American dictator and the predominance of executive authority in the region. Today, even if leaders are democratically elected in Latin American countries, the legacy of political absolutism runs deep enough to shape the characteristics of the government - and the people's attitudes towards the state.

Observers have thus noted that the state in Latin America has exercised almost unfettered discretion in the economic sphere. Administrative bodies have had the ability to seize or halt private resources. The state has central control of import and export tariffs and licenses, currency exchanges, prices and virtually all savings and credit. The state controls exporters and the allocation of subsidies. And the state has been able to redistribute the country's resources based on arbitrary political policies.

Observers also commonly note that citizens of such states have no practical recourse against government infringement, as the legal system and the judiciary are not independent, but, rather, function under government control. In this type of environment, people find it logical to come to terms with a massive bureaucracy to protect their interests. These circumstances create opportunities and incentives for activity that many today label as corrupt.

D. People in Developing Nations Use Bribery to Obtain Services that They Cannot Practically Obtain Otherwise

Since the goal of most private business owners in developing nations is to gain friendly and enduring access to government bureaucracy, those who study corruption have concluded that bribery of government officials is, by far, the single most effective and widespread form of corruption in developing nations today. The use of bribery has given

civil servants tremendous power and allowed people who pay bribes a privileged form of access.

1. Bribes are Used to Manipulate Access to Scarce Benefits or Services.

Bribes can be used for a number of different purposes. For example, bribes can be paid to officials to obtain a scarce benefit, such as access to import and export permits, government contracts, or a license to open a business enterprise where the number of licenses is limited by the government. Bribery can also consist of money which is paid for a benefit that is not scarce in and of itself, but which requires discretion of the government official, such as the reduction of tax bills, waiver of duties and regulations, avoidance of price controls, or exemption from law enforcement.

Bribery may entail payment for services connected with obtaining inside information (such as inside information on contract specifications), or the expediting of an official procedure (such as a reduction in paperwork). Bribes can also be paid to prohibit others from sharing in a benefit, such as owners of an illegal business paying police investigators to raid their competition, or an owner of a legal business entity paying officials to place excessive constraints on the competition or requesting that the official deny the license application of a potential competitor.

2. The Amount of Discretion Bestowed upon the Civil Servant Corresponds to the Civil Servant's Ability to Accept Bribes.

Observers have identified key factors relating to corruption. Weak institutions and government policies seem to much more rapidly invite civil servants to abuse their positions and seek "economic rents." The IMF has defined "economic rent" as "the extra amount paid to somebody for something whose supply is limited by nature or human ingenuity." Thus, the opportunity for corruption corresponds to the discretion of the official to allocate such rents. When Peruvian Tax Department officials enjoyed discretion in classifying imports and applying duties ranging upwards of 300%, bribery was used to obtain advantages not available otherwise.

3. Civil Service in Developing Nations Has Historically Been Low Wage Employment, and Many Civil Servants Feel Justified, from an Economic Point of View, in Accepting Bribes.

Experts believe that in many cases civil servants feel justified, on economic grounds, in taking bribes. For the most part, civil service positions are accompanied by low wages.

This puts civil servants at an economic disadvantage, and they may take bribes for further financial assistance. The financial opportunity in bribery attracts people from all facets of society to work for the government, including highly educated people who seek profitable rent-producing activities.

4. Complex Regulatory Schemes May Lead to Corruption.

Another major cause of corruption, according to those who favor less government regulation, is the procedural schemes in many nations that make following their legal order a cumbersome and practically impossible task. Corrupt actions of civil servants are encouraged by the complex nature of governmental regulations. People who want to conduct business in a developing country may be overwhelmed by the number of laws, regulations, filings and payment requirements. Often, there is little explanation as to the purpose of these laws and requirements. Commentators frequently cite Peru as an example, where over 500,000 laws and executive orders emanated directly from the president and governmental departments. Such a system resulted in corruption, where bribes were seen as a logical method to alleviate the complicated entanglement of the bureaucracy.

5. Legal Systems Do Not Protect Citizens from Corruption.

Anti-corruption proponents frequently point out that officials who accept bribes are usually protected by a lax legal system which is under the control of an indifferent government. The courts of many developing nations are often used not to eradicate corruption, but to punish and eliminate any perceived threats to the government. In the Soviet Union, for example, cases of corruption were frequently raised to punish dissidents - not to improve the conditions of the economy or the marketplace.

6. Foreign Entities Lock in Corruption in Developing Countries by Viewing Corruption as a Business Expense.

Industrialized countries have contributed to and have helped to define corruption by their business practices. This is because foreign firms seeking to do business in developing countries have figured bribes into their overall costs and are only discouraged from a transaction if the bribe is considered too expensive. A bribe may be essential to starting a business in a country, and officials may seek to take a percentage of the profits after the business is operational, functioning much like a tax system. All of this has led many government officials in developing nations to limit their contacts to foreign firms that are willing to pay bribes.

Bribery has been a widespread phenomenon that industrial countries have had to address in dealing with developing nations. Virtually every industrial country has used bribery in some form or another in business negotiations with firms of emerging economies. It has been stated that the current nature of international corporate transactions will not change until nations take positive steps to criminalize bribery.

Although European and North American countries have pondered appropriate methods to combat corruption in recent years, the United States remains the only country to have introduced effective legislation to criminalize bribery. Only a small number of firms outside the United States have formulated corporate codes of conduct aimed at bribery. Currently, the International Chamber of Commerce is encouraging all of its national committees to push for firms to adopt corporate codes which focus on bribery.

The OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions entered into force on the fifteenth of February of 1999. All twenty-nine member countries of the OECD signed the Convention, along with five non-member countries. A recommendation of the Council was attached to the Convention concerning the tax-deductibility of such bribes. The [Council](#) recommends that those member countries which do not disallow the deductibility of bribes to foreign public officials re-examine such treatment with the intention of denying this deductibility.

E. Corruption Has Numerous Negative Consequences

Corruption has caused a wide variety of negative consequences, which is the reason multilateral institutions such as the World Bank and the IMF are interested in addressing corruption and finding ways to eradicate it. Here are some of the negative consequences cited by anti-corruption experts:

1. Corruption Among Civil Servants Impedes Overall Equitable and Efficient Development.

Experts have noted that because funds are diverted from programs that would benefit the poor and society as a whole (e.g., education, health care, and infrastructure) to civil servants or those within the civil servants' intimate circle, corruption undermines equitable economic development. Also, allowing particular government employees to choose who receives aid destroys procedural neutrality and diminishes the legitimacy of the governmental institutions by shaking public confidence in dealing with the government.

Corruption among civil servants causes inefficiencies as well. While corrupt civil

servants will most likely reward the person or company who is willing to offer the greatest amount of money to them, this does not mean that the highest bidder is the most efficient organization in the market. The highest bidder may very well have achieved such status by eradicating any competition.

Observers also believe that corruption need not necessarily be widespread to have a negative impact on development. The potential destructiveness of even one corrupt civil servant can have devastating consequences. A corrupt official may cause a chain reaction of events to occur, culminating in economic losses of tremendous proportions.

2. The Secret Nature of Corruption Limits Entrants into the Market.

The nature of corrupt activities propagates a system which is hard for outsiders to penetrate. Participants in corruption do everything within their power to keep their transactions secret. As a result of this code of silence, information, which is integral to an optimally functioning market, is not practically accessible. Since a tremendous amount of distrust exists in corrupt markets, people who normally conduct business in these transactions are extremely cautious about letting strangers into the marketplace. The contracts entered into between beneficiaries and government officials are illegal, and, therefore, unenforceable. This leads participants in the corrupt market system to minimize the risk of losing money to those with whom they lack extensive business dealings. Therefore, entry into a corrupt market is limited for all participants. As a result, the range of distribution of benefits in corrupt markets is normally quite small, thereby impeding the entry of potential private enterprises into the market.

3. Corruption May Lead to Inflexible Prices.

Once a price has been fixed for a bribe or a fee has been set, price inflexibility may take place. Once the prices for bribes or fees become known to the members of the business community, these prices may not adjust properly if market conditions change. This means that markets riddled with large amounts of corruption may be much more dependent on the bribe price-setting tradition than private markets, where prices move depending on market factors such as supply and demand.

4. Today, Corruption May Hinder Foreign Investment.

Even though foreign companies have for a long time participated in bribery, today corruption may actually hinder foreign investment. If investors become convinced that a

government that operated on the basis of bribery has become unstable because of anti-corruption campaigns, they are highly unlikely to enter that country's market and risk heavy financial losses. Lack of foreign investment may lead to less innovation and eventual stagnation among local producers. As a result, consumers pay a higher price for products and suffer the possible harm of inferior products.

F. The World Bank and the IMF Have Initiated Anti-Corruption Programs

Anti-corruption campaigns are shaking up governments around the world. Members of the international community are no longer ignoring the problem of corruption and its debilitating consequences. The World Bank and the IMF have become deeply involved in the movement.

1. The World Bank Has Called for Sweeping Anti-Corruption Reform.

In theory, the World Bank has been dedicated to ensuring that the projects that it funds are not touched by corruption of any kind. Although there is no specific language in the World Bank's Charter that points to anti-corruption, there are clauses that require the bank to ensure that the money it gives to nations will be used for the stated purposes. In furtherance of those clauses, many officials of the Bank have called for sweeping anti-corruption reform. While it may be unable to restrict all actors, the Bank does reserve the right to cancel financing on any contract whenever it has knowledge that fraudulent or corrupt practices were engaged in by the representatives, the borrowers or the beneficiaries of the loan.

a. The World Bank stresses the need for civil service reform.

For the Bank, reform starts with the civil service. Because of the poor economic conditions in which most civil servants in developing nations find themselves, the World Bank sees civil service reform as a necessity. Too many members of the civil service in developing countries do not have the proper education or experience to perform their jobs effectively. Furthermore, most of these government employees are not held accountable for the negative consequences of their actions. As a result, the World Bank is working to outline a program which will address the areas of recruitment and compensation of civil servants.

The Bank believes that the countries most deeply affected by corruption need to ensure that their civil servants are selected on the basis of their qualifications and their capabilities to perform well. These servants also need to be compensated adequately for the

jobs that they perform, which should eliminate some of the motives to embezzle or accept bribes in return for favors.

To combat the seeking of rents by civil servants, the World Bank has suggested that countries open multiple governmental offices that perform the same services. This strategy could frustrate the quest for high rents, as people who sense that they are being exploited financially by one official would not be dependent on that person and would have the ability to find another office that may offer the same or similar service at a reasonable rate.

b. The World Bank is helping developing countries strengthen institutions and transparency.

In addition to civil service reform, the World Bank is working to help countries strengthen their institutions, and thereby provide a framework for greater transparency. The Bank has been looking for ways to develop legal means to combat corruption. To this end, it has stressed the importance of independent judiciaries. Such judiciaries would apply laws without the influence of governmental pressure, thereby enhancing transparency and reducing the effects of corruption. An independent judiciary would also be immune from the threat of possible backlash from government officials who are not pleased with its rulings and who have not previously been subject to the penalties of the law. In order to bring about transparency, all officials, regardless of their status or connections, will have to be subject to the law and legal sanctions.

To respond to complaints of a lack of judicial and legislative autonomy and abuse of public spending in Latin America, the World Bank responded by providing technical assistance and advice for improvements to the legislative and judicial branches. This included guidelines for the training and selection of judges and legislators, as well as a recommendation that they receive a sufficient stipend, lest they submit to the temptation of bribery in order to support themselves and their families. The World Bank also aided in facilitating access to information and assistance in monitoring and evaluating public spending.

c. The World Bank is formulating ways of monitoring corruption.

To aid in monitoring corruption, the Bank is currently working on formulating a program for anti-corruption bodies. These will consist of individuals who will serve as monitors of corrupt actions by government officials that hinder the realization of a fair system in which all members of society may participate. For example, one such program entails training journalists to help fortify the ability of the press to analyze and report about

corruption in all facets of public administration. The anti-corruption bodies will report back to the World Bank, which can take into consideration incidences of corruption in its future lending decisions.

d. The World Bank seeks to prevent corruption in Bank-financed projects.

The Bank is also tying anti-corruption efforts to Bank-financed projects. In its Procurement and Consultation Guidelines of August 1996 and January 1997, the Bank promised to disbar any bidder who it determined used fraud or corruption in Bank-financed projects. Bidders must also disclose any commissions or other forms of reimbursement paid to local or foreign agents. Furthermore, the Bank has recommended the implementation of "no bribery" pledges at the completion of a contract. It feels this will discourage bribery in international bidding. Proponents of this idea state that such pledges would send a strong message to bidders who think of using bribery in their business tactics. Critics claim that this will not discourage bolder firms from bribery, regardless of the signing of a pledge.

2. The IMF Has Undertaken Anti-Corruption Efforts of Its Own.

The IMF is equally concerned about corruption and has undertaken its own campaign - as illustrated by the adoption of the guidelines we described in a previous part of this section - in order to ensure transparency and proper governance. In the meeting of its Interim Committee of September 29, 1996, the IMF stated that its priority in promoting anti-corruption is the need for public sector transparency and accountability. In its analyses, the IMF is searching to uncover the relationship between poor governance, misappropriation of funds, and macroeconomic growth. For the IMF, each country must work to its utmost to eliminate the opportunity for bribery and corruption. To this end, the IMF has helped member nations formulate and implement economic policies which promote transparency in financial transactions. The IMF also stresses the need to create sound financial systems.

The importance of eliminating corruption is reflected in what Michel Camdessus, the former Managing Director of the IMF, called "high quality" growth. He stated that a broader range of reforms needs to be instituted in order to capture private sector confidence. Thus he called for developing nations to abandon their costly and needless military spending and redirect the saved funds to health care, educational programs, vocational training and the development of infrastructure.

While tackling difficult problems of economic reform, the IMF has realized that it must take into account the power of its member nations' respective cultures and the role

culture plays in corruption. For example, it has noted that in a country where family ties are central to social conduct and standing, a government official is much more likely to see that a relative receives help rather than a stranger, who may be equally - or more - deserving.

G. Critics Claim that the Policies of the IMF and the World Bank Are Not Wholly Based on Economic Considerations and Eventually Infringe on National Sovereignty

While the World Bank and the IMF have received praise for their efforts to combat corruption in the public sector of developing nations, these institutions have their critics in the international community. The critics believe that the World Bank and IMF are perpetuating "new colonialism," where Western economic and cultural values are imposed upon emerging economies at the price of their sovereignty. Furthermore, these critics are convinced that the World Bank and the IMF are acting primarily to ensure that Western investment in developing countries is protected and that Western investors have secure market environments to actualize the greatest return on their investments.

Prominent critics in developing countries argue that the World Bank and the IMF have failed to recognize that their programs cross the bounds of simple economic reform and encroach upon the sovereignty of member nations. The "second generation" of reforms of the IMF, intended to produce economic stability and development through increased transparency and a corruption-free environment, will require massive structural changes in emerging economies that may wreak havoc upon them. Should the IMF and the World Bank be allowed to enter into state affairs of developing countries?

1. Critics of the IMF Believe the Asian Financial Crisis Has Exposed the IMF's True Agenda of Forcing Fundamental Changes on Sovereign Countries.

The Asian financial crisis brought to the surface issues of national sovereignty in relation to the IMF. Asian economies suffered from severe economic woes. Lending institutions were over-exposed as a result of bad bank loans, and economies in Asia had a difficult time finding markets to export their goods and help stimulate economic revenues. A lack of investor confidence resulted in a steep drop in value in Asian stock markets. Many Asian countries called upon Japan to open its doors to their goods, but Japan, which was suffering from faltering banks and corporations as well, could do little to remedy or alleviate the pains of the crisis.

One of the countries most deeply affected by the crisis was Indonesia, and the response by the United States and the IMF was swift. Throughout the crisis, IMF officials

were deeply involved in discussions with then-President Suharto. The United States increased the pressure by sending a delegation of senior U.S. officials to Jakarta to assess the economic situation. President Clinton also called to emphasize the urgency and gravity of the situation. The delegation of U.S. officials impressed upon President Suharto the importance of Indonesian stability as a priority for the United States. They also made it clear to Suharto that Indonesian stability was contingent upon heeding the IMF's prescriptions.

In a revised agreement with the IMF, Suharto agreed to restructure the corporate and banking sectors, abolish most monopolies over commodities and remove all barriers to foreign investment in palm oil production. Critics called the agreement evidence of the IMF's broader goals of internal reconstruction of the country designed to make it more accessible to foreign interests.

2. Critics of the IMF Believe Western Criticism Unfairly Depicts Asian Governments and Values as Corrupt.

The crisis led many Western observers to attack the economic, political and cultural norms that make up Asian countries and governments. They attacked Asian governments as totalitarian, excessively meddlesome, and Asian government officials as corrupt. These observers concluded that it is the role of institutions like the IMF to ensure that developing countries follow sound economic policies that will lead to sustainable economic growth and protect them from further harm.

While Asian governments, values and officials were reprimanded for their roles in the current crisis, few, if any, voices in the West were willing to hold institutional investors responsible in the demise of these Asian economies. International capital flows are seen by the West as a natural regulatory force. Stanley Fischer, the IMF's first deputy managing director at the time of the crisis, stated that market forces have an integral disciplining effect upon the nations of the world, and that sound economic policies of a country will be rewarded and inferior economic policies will be punished. The reasoning, therefore, is that market forces always act properly, steering a nation on the correct economic path.

It is this type of thinking that entrenched bitterness among developing countries, and justified their feelings of a new colonialism. Mahathir Mohamad, Prime Minister of Malaysia from 1981 to 2003, was among the most vocal critics of Western institutional investors. In reflecting on Western reaction to the Asian crisis, Mahathir stated that free market proponents were really asking bailout recipients to "surrender [their] independence"

while they ignored the fact that "market forces are as prone to abuses as command economies."

Mahathir was also one of the most well-known champions of "Asian values" and he refused to blame Asian cultural traditions for causing the Asian financial crisis. Mahathir argued that the Asian brand of authoritarian government is well-suited to traditional Asian religious and cultural values, enabling the state to focus on resources and economic development. South Korea, for example, achieved rapid and remarkable amounts of economic growth under a strict authoritarian regime. By the year 2025, Mahathir observed, Asia is expected to lead the world economy.

H. Reform of IMF and World Bank Policies Could Bring About a Greater Understanding of Local Circumstances and More Effective Change

Critics of the anti-corruption and structural adjustment projects of the World Bank and the IMF have concluded that these programs are not rooted in a comprehensive understanding of each country's particular economic conditions, circumstances and culture, and as a result, any such reforms are at best short sighted and will lack the ability to transform the landscape of any particular nation. Many have argued that such reforms are impositions that ultimately infringe on the national sovereignty of member countries. What right, they ask, do the World Bank and the IMF have in dictating which policies and reforms these nations should undertake? Critics have argued that the World Bank and the IMF are more intent on imposing their own policies on the poor nations of the world rather than mandating that every country designate its own program.

1. Judicial Reform is Likely to Be Ineffective in Societies that Lack Strong Legal Institutions.

Although the World Bank's efforts to reform the judiciaries and legislatures of developing countries are commendable, it may not have the type of influence necessary to affect real social change. Making sure that judges have proper training and that new laws are put into effect may not change the societal views behind these legal institutions. Cultures with a legacy of adherence to custom and tradition - such as those of the Middle East or Africa - are unlikely to turn to courts of law for disputes. Change in the societal framework will surely take more than the outside imposition of the World Bank or the IMF. A particular legal strategy may work in one country and be completely ineffective in another.

2. Proposals by the World Bank and the IMF Foster Dependence in Developing Nations, Inhibiting Them from Creating Programs on Their

Own.

Western observers also claim that the financing by the World Bank and the IMF is undermining the willingness to undertake crucial reforms in their governmental economic policies in developing nations. To these observers, there is a disincentive to reform, because developing nations seem to always rely on the World Bank and the IMF to bail them out of economically harmful policies. Not enough attention is paid to policy reform in the negotiation and implementation of the IMF's conditions. In most situations, the IMF grants a waiver to those nations who violate the conditions of their agreements, which allows the conditions of the agreement to be altered or fulfilled at a later date. In other circumstances, the IMF and the violating nation negotiate a new agreement. This is why it is very important for each country to design its program itself.

1. In Renovating Their Anti-Corruption Programs, the World Bank and the IMF Need to Be Aware of the Real Conditions of Developing Nations

The very nature of today's anti-corruption campaigns makes them complex and difficult to carry out. In order for effective reform to take root and permeate each individual society, awareness must be raised as to what constitutes corrupt behavior and what actions are considered intolerable under any circumstances. Developing country experts have called for greater cooperation between developing nations and the World Bank and the IMF. Observers have proposed that developing country watch-dog committees of highly trained individuals be formed to keep the World Bank and the IMF updated. Adopting IMF and World Bank policies may have little impact if there are other policies which cause serious distortions in the borrowing country. The IMF and the World Bank need to confront the discrepancies and seek the best possible solutions. Here are some points the experts have made.

1. In Developing Effective Anti-Corruption Programs, the World Bank and the IMF Need to Acknowledge National Sovereignty and Discard Programs that Cause Resentment.

In order to reestablish credibility and quell suspicion that they are acting as dominating forces, the World Bank and the IMF will need to address the manner in which they formulate anti-corruption projects or cooperate with governments to structure methods to combat corrupt practices. Historically, there has been resentment from both the governments and the peoples of foreign nations who claim that the World Bank and the IMF tailor their programs to suit their institutional needs or those of advanced countries - not to further the interests of developing countries.

Many policymakers in the developing world are confident that the World Bank and the IMF can increase their effectiveness in the countries with which they work if they respect each member's right to make decisions and take into account their actual political, economic and social conditions.

The issue of cultural relativism is one that multilateral institutions will need to resolve. What is considered to amount to corrupt business practice in one particular nation may not be viewed as such in other countries. It seems unrealistic to believe that any tangible progress can be made in the area of corruption if the people whose actions are to be monitored do not have the opportunity to tell the World Bank and the IMF their perspectives on corrupt governmental behavior.

2. Individual Countries Have to Take Initiative in Developing Programs that Will Work for Their Societies.

If anti-corruption programs are to be effectively implemented in the future, then developing nations should be obligated to take the initiative and formulate their own programs. Such programs, experts argue, would not garner the resentment of developing nations' governments or peoples that may accompany the ideas of the World Bank and the IMF. Developing nations would be forced to face their corruption problems and take a proactive approach to devising solutions. These programs could gain popular support and enthusiasm, possibly ensuring full implementation by all sectors of society. With home-grown programs, the World Bank and the IMF would have to become more practical and realistic, acknowledging each country's individual needs without attempting to mold any one of them to conform to unachievable ideals. Holding developing nations responsible for agreements that they draft will help break the bond of dependence on the World Bank and the IMF for policy formation and decision-making.

Realistically, a nation is much more likely to follow a self-created program than rely on an outside program designed without first-hand knowledge of local politics, economics and traditions. While a country may justify breaking rules of the World Bank and the IMF on the grounds of outside imposition, observers believe that the same country will lose credibility with its own people and the world community for violating terms that it created.