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JOINT ECONOMIC COMMITTEE

VICE CHAIRMAN JIM SAXTON

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Contact: Christopher Frenze
(202) 225-3923

IMF LOAN LAPSES FURTHER BOLSTER CASE FOR REFORM – Many IMF Borrowers Rated as Highly Corrupt –

WASHINGTON, D.C. – New allegations about loan irregularities in connection with International Monetary Fund (IMF) lending to Ukraine further highlight the need for IMF reform, Vice Chairman Jim Saxton of the Joint Economic Committee (JEC) said today. Saxton pointed out years ago that IMF lending safeguards were insufficient and bound to lead to serious problems related to weak public integrity standards in many borrowing countries.

“Once again the IMF is investigating allegations that it has been misled by a borrower and that IMF funds may have been misused,” Saxton said. “As I have pointed out many times before, IMF loan safeguards are needed to prevent the potential misuse of funds. The IMF’s traditional hear no evil, see no evil, approach continues to raise serious questions about the IMF’s stewardship of taxpayer money. Effective IMF safeguards and accounting controls are needed to ensure that the proceeds of loans are not wasted or misused.

“IMF investigations launched after allegations of irregularities spill out into the press may limit public relations damage to the IMF. However, a proactive institutional reform of existing IMF procedures is needed to protect the interest of taxpayers. The IMF has a responsibility to ensure that the proceeds of its lending are used properly, but only recently the IMF admitted it has had no effective accounting controls in place.

“The IMF also has sent signals to potential borrowers that undercut its seriousness about public integrity standards. For example, last summer a top IMF official publicly acknowledged that it had been lied to by the Russian central bank, but then almost simultaneously the IMF approved a new Russian loan. Normally lenders do not reward potential borrowers who falsify loan information. **Even amidst the new allegations, yesterday an IMF mission arrived in Ukraine to discuss a resumption of IMF lending, according to press reports from Kiev.**

“The economic incentives under current IMF procedures tend to lead to problems. The IMF provides loans at interest rates that are far below market interest rates available to borrowers. Instead of extending loans for short-term balance of payments problems, much IMF lending is for economic development projects for purposes that are more in the traditional purview of the World Bank. The maturity of these IMF loans has become longer, and repeat borrowing further accentuates this trend.

“A recent JEC study, *Can IMF Lending Promote Corruption?*, examines the effects of the economic incentives prevailing under current IMF policies. Given these incentives, it would be surprising if there were no serious problems with IMF lending. It is also worthwhile to note that many of the largest IMF borrowers are rated as among the most corrupt nations by an index published by *Transparency International*.

“Fortunately, fundamental IMF reform can reduce the potential for corruption. IMF interest rates could be raised to market levels, IMF loans could be made only for economic emergencies, loan maturities could be reduced to below two years, and IMF development and structural lending could be ended. **Lending standards should be tightened, at least enough so that if a potential borrower misleads or lies to the IMF, it is disqualified from further borrowing for an extended period of time. Taxpayers rightly would expect no less. The IMF must reconsider its strong resistance to IMF reform,**” Saxton concluded.

For more information on the IMF and international economics, please visit the JEC website at <http://www.house.gov/jec/>.

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