



CONGRESS OF THE UNITED STATES

JOINT ECONOMIC COMMITTEE

VICE CHAIRMAN JIM SAXTON

PRESS RELEASE

For Immediate Release
December 13, 1999

Press Release #106-69
Contact: Christopher Frenze
(202) 225-3923

IMF LENDING'S POTENTIAL FOR CORRUPTION EXPLORED IN NEW JEC STUDY

– Current IMF Practices and Subsidies Unwittingly Invite Corruption –

WASHINGTON, D.C. – The lending practices of the International Monetary Fund (IMF) invite potential corruption and require much stronger safeguards, according to a new study released today by Vice Chairman Jim Saxton of the Joint Economic Committee (JEC). The new JEC study, *Can IMF Lending Promote Corruption?*, finds that the IMF's practice of providing deeply subsidized credit for longer-term development lending creates incentives for corruption.

“This study explains that the potential for corrupt misuse of IMF funds is unwittingly promoted by IMF practices,” Saxton said. “The IMF's provision of cheap credit for development purposes seems to be especially conducive to corruption. These development loans tend to be for longer periods than traditional IMF loans, and repeated borrowing can further promote the misuse of funds.

“The IMF loans to Russia or Indonesia, for example, at interest rates below 4 percent, are obviously far below market interest rates to these borrowers and thus are deeply subsidized. This exceptionally cheap IMF credit flows into a borrowing country, and the protection against its corrupt use is only as strong as the public integrity standards of the borrowing country. Often these public integrity standards are not very high, and in many cases are essentially non-existent. Under these circumstances, a reasonable person would expect corruption in some form.

“As I suggested over a year ago, the IMF has been negligent in not instituting much stricter accounting controls and safeguards to guard against misuse of IMF loans. Much stronger protections for taxpayer money are needed, not only in obvious cases such as Russia, but for virtually all IMF borrowers. If these safeguards are not sufficient to guarantee in a particular case that no corruption will occur, then no IMF loans to that country should be made.

“The potential for corruption will be strong so long as the IMF provides deeply subsidized cheap development credit to borrowers that are not creditworthy. The solution seems clear enough: end IMF credit subsidies; reduce the maturity of IMF loans to under one year; end IMF development lending; and provide IMF credit only for foreign exchange emergencies to pre-qualified borrowers. Under these constraints the potential for corruption and misuse of taxpayer funds would be greatly reduced,” Saxton concluded.

For more information on the IMF and international economic policy, please visit our website at www.house.gov/jec.

###