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Corruption is Barrier to Breaking Global Debt Trap

At this Week's Annual Meetings, Will the World Bank and IMF Finally Address the Issue?

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Washington, D.C. – Investors, World Bank and IMF leadership and other stakeholders convene this week in Washington, D.C. for the Annual Meetings of the world's two largest multilateral international financial institutions. The meetings are being held at a time of unprecedented global debt that is undermining progress toward sustainable economies, especially in low- and moderate-income ("LMI") countries in the Global South.

"To understand the real-world impact of misaligned IMF policies and government corruption, just look to the recent experience of Kenya," said **Diana Gichengo, Executive Director of The Institute for Social Accountability** in Kenya. "IMF Loan conditions require crippling austerity measures and extractive tax hikes while largely ignoring fiscal opacity and a lack of accountability that fuels wealth draining corruption." Gichengo added that, "Despite both the Kenyan Ethics and Anti-Corruption Commission and the Office of the Auditor General confirming soaring levels of fraud, waste, and abuse at national and county government levels, the lenders pay lip service to these issues when developing new loan programs."

The crisis in Kenya is tragically similar in an alarmingly large number of LMI countries noted **Annalise Burkhart, Program and Research Associate at Transparency International U.S.** Burkhart pointed to a 2022 analysis by the UK-based Debt Justice, that found 97 countries are in or at risk of public debt distress. Of this list, 54 countries are already experiencing a debt crisis, while the remaining 43 countries are at risk. "When aid funding is diverted or stolen, it's a tragic loss of opportunity. When loan funding is lost, it compounds the tragedy by adding financial burdens to future generations and a cycle of unsustainable revolving debt," Burkhart said.

Given the severity of impact on creditworthiness of defaulting on IMF loans, few countries have ever done so. Governments may, instead, choose to borrow from private lenders or restructure or default on privately backed bonds. "This record of IMF repayment should not be confused with success," said **Sarah Saadoun, Senior Researcher at Human Rights Watch**. "A rapid succession of loan programs suggests more of a debt trap than economic progress. When Kenya finishes its current loan program early next year, it will still be in economic distress and likely return for another IMF loan. Already, approximately 60% of

the nation's revenues and almost 50% of its budget is allocated to servicing its debt, far outpacing funding for any other single line item such as health, education and other vital services. It is hard to imagine how another loan without a dramatically different approach will yield better outcomes for human rights," Saadoun explained.

Advocates and experts with the Kenyan-based coalition Okoa Uchumi are in Washington, D.C. this week to push for more responsible lending. The delegation will call upon the IMF and the Executive Board for a change in direction. Rather than repeat failed austerity and fiscal measures, they are calling for building into the loan program accountability measures to ensure the government uses any new resources for projects that create shared prosperity and a sustainable economy. They will also call for the IMF to actively engage civil society organizations to meaningfully consult on funding priorities and account for human needs.

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The **Okoa Uchumi campaign** is a civil society platform committed towards working with stakeholders to resolve Kenya's public debt crisis. The campaign advocates for balanced and equitable budgets as a means of achieving debt sustainability and economic inclusion. The campaign seeks to bolster constitutional safeguards in public debt management and to push for the accountability of political leaders in public debt management.

Human Rights Watch investigates and reports on abuses happening in all corners of the world. We are roughly 550 plus people of 70-plus nationalities who are country experts, lawyers, journalists, and others who work to protect the most at risk, from vulnerable minorities and civilians in wartime, to refugees and children in need.

Transparency International U.S. is part of the world's largest coalition against corruption. In collaboration with national chapters in more than 100 countries, through research, policy development, and advocacy, we are leading the fight to turn our vision of a world free from corruption into reality.

Related Resources

- Read Okoa Uchumi's Issue Brief;
- Read TI US's white paper *Corruption and Debt: The Case for Leveraging U.S. Diplomacy for Governance Reforms in IMF Lending*;
- Read Human Rights Watch's article *Kenya/IMF: Align Economic Reform with Rights*.

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