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FEATURE

SOCIAL INVESTMENT FUNDS AND SOCIAL RESPONSIBILITY: DO INTERNATIONAL FINANCIAL INSTITUTIONS DESERVE SPECIAL TREATMENT?

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Abstract. *The instrumental value of Social Investment Funds (SIFs) in areas such as health, education, power, road, water, sanitation, transport, communication, in promoting growth and alleviating poverty is widely documented in academic and policy circles. International Financial Institutions (IFIs), particularly the World Bank Group and the International Monetary Fund (IMF), are the most prominent IFIs that provide SIFs and technical assistance for the reconstruction and development of the territories of their member states. However, the mixed results of SIFs suggest a causal analysis of the situation based on legal standards of responsibility. This study explores the case of KALAHI-CIDSS in the Philippines; a community-driven development project funded through World Bank's loans. The fact that the million US Dollars being contracted have so far brought little change on the official data on poverty incidence in the country, suggests that a gel to hold together SIFs and institutional and normative strategies for a successful development outcome may be missing. To be sure, this study employed a content analysis of policy documents and review of literature of relevant studies. The bulk of related studies generated from the World Bank experts and consultants, economic legal practitioners, and the academe, provides substantive insights to one of the major findings of this intellectual inquiry, which is that social responsibility is the missing ingredient for the achievement of the KALAHI-CIDSS's development objective of poverty reduction through participatory governance.*

Keywords: Social Investment Funds, Social Responsibility, World Bank, and KALAHI-CIDSS

Introduction

Built on the ashes of World War II, the public case for the establishment of the two prominent International Financial Institutions (IFIs); the World Bank and the International Monetary Fund rested on the argument that the war against terror is bound up to the war against poverty; and that these institutions would be essential to the establishment of global prosperity, without which the world would sink into chaos. The International Bank for Reconstruction and Development (IBRD), or World Bank, is an acknowledged leader in the field and practices of development. "The overarching mission of the World Bank is a world free of poverty" (World Bank, 2013, p. 5); a mission of development that might be described as "making a better life for everyone" (Peet & Hartwick, 2009, p. 1). In order to achieve its mission of development, the World Bank lends money to the governments of its member countries. However, the it does more than lending money; to a great degree, it also decides how its loans should be spent. It proposes, designs, and oversees the implementation of projects.

From its very inception in 1945, the World Bank focused only on the economic life of its borrowers' member countries; providing them, in the process, with operational directives deemed relevant to their economic development. However, since Dr. Lauchlin Currie's 1950s' report on Colombia, the World Bank came to believe that improvement of social services in education, nutrition, power, communication, housing, and transport facilities is the foundation on which all economic development must rest (Easterly, 2014, p. 106). The seed of the World Bank's social lending that Dr. Lauchlin Currie and Eugene Black planted eventually grew into a mighty tree with change of leadership of the World Bank.

The Emergence of KALAHI-CIDSS Project Within the Philippine Developmental Landscape

The Kapit-Bisig Laban sa Kahirapan-Comprehensive and Integrated Delivery of Social Services (KALAHI-CIDSS) is a poverty alleviation intervention of the Department of Social Welfare and Development (DSWD) that employs the community-driven development (CDD) approach. CDD is a development approach that emphasizes "community control over planning decision and interventions and investment resources" (Wong, 2012, p. 1). This development approach gives citizens control over decisions and resources, so they can undertake localized solutions to identified community problems.

KALAHI-CIDSS is a World Bank-sponsored project that is being implemented in the Philippines in three phases. First, KALAHI-CIDSS-Phase 1 took place from 2003 to 2010. Second, KALAHI-CIDSS-Extension was implemented from 2011 to 2014. Third, KALAHI-CIDSS National Community Driven Development Program or KC-NCDDP was launched in 2014 and will be implemented until 2019.

KALAHI-CIDSS-Phase 1: 2003-2010

The incidence on poverty of the 1997 Asian financial crisis was deeply felt in the Philippines until the year 2000 or so. Widespread poverty was one of the main features of the country's developmental landscape. Wong (2012) aptly noted that "the aggregate number of households below the poverty line in 2000 reached a high of 5.2 million and absolute poverty was 40 percent in 8 of the 16 regions in the country" (p. 66). It was in such a dire context that in 2002, the executive directors of World Bank approved a Bank's loan of US$ 100 million for the Government of the Philippines for KALAHI-CIDSS (World Bank, 2002).

Upon this approval and signing of the loan agreement between the World Bank and Government of the Philippines, the KALAHI-CIDSS project was launched in 2003 with the objective of reducing poverty through participatory governance. The project "targeted the poorest areas of the country. Specifically, it was implemented in 42 provinces out of a total of 81, among which are the 40 poorest provinces according to data from the National Statistical Office" (Arcand, Bah, & Labonne, 2011, p. 21).

KALAHI-CIDSS Phase-1 implemented from 2003 to 2010 covered a total of 200 municipalities and 4,229 barangays from the 42 poorest provinces and 12 regions in the three major islands of the Philippines: Luzon, Visayas, and Mindanao. Development partners also funded the project through grants. Three funds were specifically important in the implementation: the Japan Social Development Fund-Social Inclusion Projects (JSDF-SIP) with a grant amounting to PhP 8,410,909.96, the New Zealand Agency for International Development (NZAID) with a grant amounting to PhP 1,058,300, and the Grant Assistance for Grassroots Human Security Project-Japanese Embassy with a grant amounting to PhP 4,000,000.00.

In Figure 1 below, Yap-eo (2014) provides in percentage the KALAHI-CIDSS fund sources. It shows that 79 percent of the project fund are loans from the World Bank, and the remaining 21 percent are grants and budget allocations.

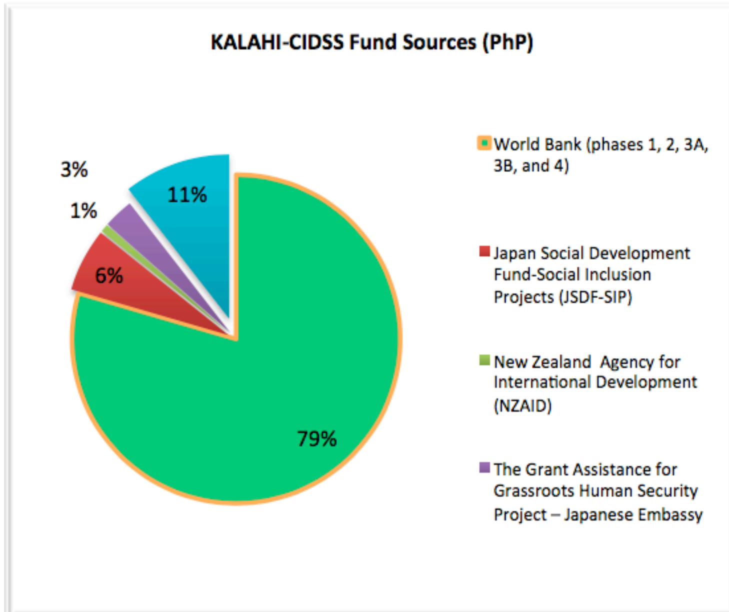

Figure 1. KALAHI-CIDSS Fund Source (PhP). Source: Yap-eo (2014, p. 5).

Data from the Government of the Philippines' DSWD as shown in Figure 2 below reveal that a total of 5,876 subprojects were funded and completed for a total cost of PhP 5,931,900,041. Sixty-five percent of that amount covered basic social services: Day care center, electrification, health station, school, water system, and tribal housing (2974 subprojects); rural access infrastructure such as ccess trail, foot or small bridge and road (1593 subprojects); community production, economic support and common service facility such as community transport, economic, livelihood support (training, trading center, market, mini port), multi-use building, pre-and post-harvest facility, and small scale irrigation (678 subprojects); environmental protection and conservation such as drainage, environmental preservation (artificial coral reefs, marine sanctuary, river, flood control, sanitation facility, sea wall and soil and slope protection (596 subprojects); skills trainings and capability-building (32 subprojects); light house and eco-tourism (3 subprojects).

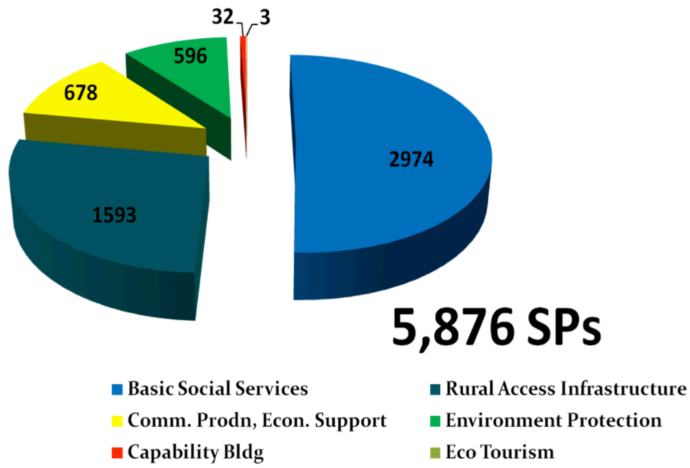

Figure 2. KALAHI-CIDSS funded and completed subprojects in 2010. Source: Philippines' Department of Social Welfare and Development (DSWD, 2011)

In its impact evaluation of KALAHI-CIDSS phase 1, the World Bank (2011) indicated that "while expenditures have increased, the increase alone attributed to KALAHI-CIDSS is not sufficient to reduce poverty significantly" (p. 37). Moreover, the World Bank found that "the project had a negative impact on the extent of participation in collective action activities" (p. 37). Furthermore, the World Bank reported that "impacts are recorded along a broad range of indicators, but they tend to be relatively small" (p. 38). The World Bank therefore recommended that:

> long-term impacts on poverty reduction will require sustained efforts and both social and physical investment. DSWD could explore increasing either the number of subproject cycles and/or the municipal allocations. Alternatively, DSWD could introduce different poverty criteria for barangays to be eligible to participate in the Municipal Inter-Barangay Forum or MIBF. (p. 38)

KALAHI-CIDSS-Extension: 2011-2014

On December 03, 2010, the executive directors of the World Bank approved additional loan of US$ 59.12 million for the Government of the Philippines for KALAHI-CIDSS to support the restructuring and scaling up of the parent project (World Bank, 2010). The KALAHI-CIDSS-Extension was launched in February 2011 and implemented until May 2014. The project targeted the 48 poorest provinces. These included the original 42 provinces of KALAHI-CIDSS-Phase 1 and six additional provinces. At the municipal level, municipalities with 70 percent poverty incidence or above automatically received the project, and municipalities with poverty incidence below 33 percent were automatically excluded from the project (Beatty et al., 2014).

The project covered 364 municipalities across 12 regions. Subprojects included basic social services (day care center, electrification, health station, school, water system, and tribal housing), rural access infrastructure (access trail, fool and small bridge and road), community production, economic support and common service facility (community transport, economic, livelihood support training, trading center, market, mini port), multi-use building, pre-and post-harvest facility, and small scale irrigation; environmental protection and conservation (drainage, environmental preservation, artificial coral reefs, marine sanctuary, river, flood control, sanitation facility, sea wall and soil and slope protection; skills trainings and capability-building).

KALAHI-CIDSS-Extension was assessed by the Millennium Challenge Corporation (MCC), a United States government corporation designed to work with developing countries, that funded the project with the amount of US$ 120 million. In 2011, "the MCC has contracted Innovations for Poverty Action (IPA) to carry out an impact evaluation of KC" (Beatty et al., 2014, p. 9). The results of the impact evaluation in the socio-economic domain do not reveal any overall improvement in access to basic services due to KALAHI-CIDSS. However, subgroup results indicate that KALAHI-CIDSS did improve travel time and cost to key services for barangays that had lower levels of baseline governance. Moreover, findings suggest that indigenous peoples (IP) benefited more than non-IP from the impact of KALAHI-CIDSS on socio-economic domain.

KC-NCDDP: 2014-2019

On January 18, 2013, the National Economic and Development Authority (NEDA) board headed by President Benigno Aquino III (then president of the Philippines) expanded KALAHI-CIDSS into KALAHI-CIDSS-National Community Driven Development Project or KC-NCDDP on a national scale. On April 02, 2014, the executive directors of the World Bank approved a loan of US$ 479 million for the Government of the Philippines for KC-NCDDP. In the same vein, early on March 26, 2014, the Asian Bank of Development (ADB) approved a loan of US$ 372,103.895 million for the government of the Philippines for KC-NCDDP. The project has a total coverage of 847 municipalities across 15 regions to benefit 19,647 barangays and approximately 5.5 million households.

As KC-NCDDP is ongoing, its assessment is something to look forward to. However, the major rationale of this study is the need to understand why more than a decade since the emergence of KALAHI-CIDSS within the Philippine developmental landscape with all US$ million loans are being contracted to reduce poverty, there is rather a decline in the country's human development index. Data from the UNDP as shown in Table 1 below reveal a decline in the performance and ranking of the country overtime. From 0.616 in 2003, the Philippine human development index regressed to 0.682 in 2015. The regression in the human development index of the country is equally visible in ranking. From the 64th position in 2003, the Philippines gradually regressed to the 116th position in 2015.

Table 1

Human Development Index and Ranking of the Philippines from 2003 to 2015

Year	2003	2004	2005	2007	2008	2009	2011	2012	2013	2014	2015
HDI	0.616	0.76	0.77	0.75	0.648	0.669	0.652	0.656	0.660	0.668	0.682
Rank	64	84	90	105	109	116	118	118	117	115	116

Source: United Nations Development Programmes (UNDP, 2015)
Human Development report

In addition, the government's National Statistical Coordination Board (NSCB, 2015) that releases data every three years on poverty incidence of the general population, as well as the poverty incidence among families based on the Family Income and Expenditure Survey (FIES), revealed an uneven poverty reduction incidence from 2003 to 2015. In Table 2 below, poverty incidence among families in 2003, corresponding to the date of the beginning of KALAHI-CIDSS was 24.4 percent. In 2006, poverty incidence increased to about 2.1 percent. Between 2006 and 2009, poverty headcount fell to -0.3 percent and the fall continued to -1 percent between 2009 and 2012. In 2015, the poverty incidence of the country was 21.6 and "remains the highest in the Southeast Asian region" (Raquiza, 2017, p. 17).

Table 2

Poverty Incidence among Families from 2003 to 2015

Years	2003	2006	2009	2012	2015
Rates	24.4	26.5	26.2	25.2	21.6

Source: National Statistical Coordination Board (NSCB)

In a global scale, Wong (2012) elucidates that "the World Bank currently supports approximately 400 CDD projects in 94 countries valued at almost $ 30 billion" (p. 1). Yet, many developing countries continue to suffer from adverse human conditions such as deprivation, greater vulnerability, persistent poverty, heightened inequalities, and external dependence. Lakhera (2016) corroborates this reality by stating that:

> [The] majority of developing countries, unable to catch-up, have experienced growth collapses and development traps. They achieve relatively little structural change, and have often proved unable to transform their production structure in order to create dynamic comparative advantage and climb the ladder towards the production of more technologically advanced products. (p. 2)

According to Lakhera (2016), the geography of global poverty is that today "the reality is that nearly two-thirds of the global total live in the developing regions far behind the developed countries and suffer from the agony of underdevelopment for so long" (p. 2).

The fact that social development remains backward in developing countries notwithstanding the vast amount of SIFs suggests that something is wrong in the way SIFs are being contracted. The UN-HABITAT (2009) defines SIFs as "a quasi-independent agency which stands parallel to a national government, to administer and distribute grants for small-scale community projects" (p. 3). The instrumental value of social investments in areas such as health, education, and other areas in promoting growth in order to alleviate poverty is unquestioned. However, the fact that social lending is visibly failing to alleviate poverty based on official data, is a major crack in the social investment contract between the World Bank and the government of the Philippines.

As the KALAHI-CIDSS project is visibly failing to achieve its development objective of poverty reduction through participatory governance, it is the government of the Philippines that suffers twice. First, from the direct consequences of the failure, and second, from having to repay the loans with interests to the World Bank. The World Bank is a partner in the project that gives operational directives on the use of the loans, makes propositions, provides a design, and oversees the implementation of the project. Considering this great deal of power of the World Bank (the power of money, the power of policy and strategic directions, and the power of institutional oversight), it becomes urgent to question the quasi-social irresponsibility of the World Bank in social investment contracts.

The International Organization for Standardization (ISO) defines social responsibility as the "responsibility of an organization for the impacts [sic] of its decisions and activities on society and the environment, through transparent and ethical behavior" (ISO 26000, 2010, p. 3). This definition evokes the significance of the impact of an organization's decisions and activities for the recognition of social responsibility. In the case of the KALAHI-CIDSS project, although the significance of the World Bank's decisions and activities through policy, strategic directions, and institutional oversight are well established, the World Bank does not get punished for the poor performance of its decisions, policies, and actions; and does "not have to bear the financial consequences of their decisions" (Chang, 2010, p. 125).

This special treatment of the World Bank violates the widely accepted principles of good faith and fairness and owes more to the persistence of poverty notwithstanding the emergence of KALAHI-CIDSS within the Philippine developmental landscape with all the millions of US dollars being thrown to reduce poverty. Acemoglu and Robinson (2012) corroborate this that "poor countries are poor because those who have power make choices that create poverty" (p. 68). Consequently, the responsibility for social development failures should be attributed to those that make the decisions, including the World Bank, since it is one of them, in the case of the KALAHI-CIDSS project. The unfairness that defines the terms of international social investment contracts in term of the social irresponsibility of IFIs has potentially alarming implications. Morris (2010) aptly noted that "it just needs one thing to go wrong for a whole system to crash" (p. 58).

The burning question is "Do IFIs deserve special treatment?" This question raises the pressing practical problem of the social conscience and responsibility of IFIs as well as the unfairness of loan agreements. The significance of this fundamental question of intellectual inquiry, will be well appreciated after a careful analysis and interpretation of the loan agreements between IFIs and a member country.

Clash of Values: Are Loan Agreements Fair?

The loan agreement between the World Bank and a member country is a contract in the legal sense of the term. A contract may be defined as an agreement between two or more parties to exchange goods, and/or services that is legally binding in law. The agreement generates certain rights and obligations that are legally enforceable (Poole, 2014).

A careful analysis of the loan agreements (number 7147-PH signed on October 7, 2002; number 7959-PH signed on December 3, 2010, and number 8335-PH signed on April 2, 2014) between the World Bank and the government of the Philippines for the KALAHI-CIDSS project, provides ample information on operational directives of the World Bank on the use of loans. The loan agreement number 7147-PH signed on October 7, 2002 states that "the objective of the Project is to assist the Borrower in strengthening local communities' participation in community governance, and developing their capacity to design, implement, and manage development activities that reduce poverty" (World Bank, 2002, p. 14). In order to achieve this objective, the loan agreement number 7147-PH made it abundantly clear that the World Bank intervenes in barangay grants, implementation support, monitoring and evaluation. However, according to terms of Article 3 Section 1 of the loan agreement number 7147-PH, only the government of Philippines is committed to the objectives of the project. Article 2 section 1 clearly states that:

> The Borrower declares its commitment to the objectives of the Project, and to this end shall carry out the Project, through DSWD, with due diligence and efficiency and in conformity with appropriate administrative, economic, educational, engineering, financial, and management practices, and sound environmental and social standards, and shall provide, promptly as needed, the funds, facilities, services and other resources for the Project. (World Bank, 2002, p. 6)

This sole commitment of the government of the Philippines to the project explains its sole responsibility to repay the loans with interests to the World Bank whether or not poverty is reduced. The terms of this loan agreements between the two parties present a clash of the value of fairness in the relational contract. Manesh (2013) elucidates that "the central aim of contract law is to protect and fulfill the reasonable expectations of the parties in forming a contract" (p.7). The case in point of the KALAHI-CIDSS project, looks quite similar with the past, such as the Structural Adjustment Programs (SAPs) of IFIs in 1980s. Chang (2010) clarifies that "the result of the SAPs—and their various later incarnations, including today's PRSPs (Poverty Reduction Strategy Papers)—was a stagnant economy that has failed to grow (in per capita terms) for three decades" (p. 118). Yet, the World Bank and IMF that played a major role in determining the nature of policy change during the SAPs did not lose anything for their poor performance. This implicit quasi irresponsibility of IFIs is an act of misrepresentation which is tolerated either by fear of 'financial embargo' with IFIs weaning the provision of financial resources to needed countries or the underestimation of the significance of fairness in contract.

McKendrik (2014) pointed out that "the laws of misrepresentation and duress demonstrate that the law of contract is concerned with fairness of the procedure by which a contract has been concluded" (p. 680). Fairness in contract provides institutional and normative guidance. It is useful towards preventing the implementation of wrong policy directions. UNRISD (2016) suggests that "the question of policy incoherence associated with global governance must be addressed for transformative outcomes, but it frequently remains off the policy radar" (p. 199). This suggestion seeks to cater to the demand for contract governance based on fair dealing and good faith in the terms of agreement.

It is worth noting that the loan agreements that IFIs sign with their member countries follow the pattern of their old Articles of Agreement signed in July 22, 1944 when these institutions were established. In his interpretation of the Articles of Agreements of the World Bank and the IMF, Bradlow (2009) clarifies that "in the case of these two institutions, their international agreements were written at a time when the landscape of financial transactions and the profile and even the number of sister international institutions was very different from today's realities" (p. 9). The world today is more complex, compared to the one during which the World Bank and IMF were established. In such a complex environment, exacerbated by the institutions' failure to operate within a fair contractual framework, the realization of the ideal social responsibility can be difficult to achieve.

Many inside and outside the World Bank and the IMF believe that these two powerful IFIs are engaged in international lending that may be needed but are unfair. "The World Bank currently supports approximately 400 CDD projects in 94 countries valued at almost US$ 30 billion" (Wong, 2012, p. 1). The need for social investments is unquestioned, but the wisdom of making them without explicit good faith and fairness has a lot to be clarified.

A World Bank economist for 16 years, professor of economics, and co-director of the Development Research Institute at New York in his book: *The tyranny of the experts: Economics, dictators, and the forgotten rights of the poor,* Easterly (2014) elucidates that "the lack of commitment of such ideals is exemplified by the World Bank's successful evasion of any responsibility" (p. 5). He goes on convincingly arguing that "the cause of poverty is the absence of political and economic rights, the absence of a free political and economic system that would find the technical solutions to the poor's problems" (p. 7). What more should we expect from institutions established with the mandate to make loans for productive purposes, then implicitly refuse to take responsibility for the impacts of their decisions and activities in their contractual arrangements?

For this reason, the distinguished United Nations Research Institute for Social Development (UNRISD, 2010) in the book *Combating poverty and inequality: Structural change, social policy and politics,* explains the reason for the new approach adopted as a result of the failure of SAPs by stating that "this approach emphasizes the crafting of institutions to promote the rule of law, protect property rights, lower expropriation risk, reduce levels of corruption and improve regulatory quality—policies that have come to define the good governance agenda" (p. 257). However, a major crack of the good governance agenda which constitutes another clash in the value of fairness is that, this approach is held up as a third way between the state and market failures, and lamentably excludes the responsibility of IFIs for the impacts of their decisions and activities in their contractual arrangements with the countries that were experiencing budgetary and balance of payment crises.

This failure of the good governance agenda to generate the social responsibility of IFIs in social investment contracts profoundly alters the range of solutions needed to address poverty and inequality in the current context. It is the contention of this study that the regulation of the social responsibility of IFIs must also be part of the solution of poverty reduction and inequality in poor countries. The impact of the decisions and activities of IFIs shapes the economic and social development or failure of countries. Therefore, it deserves to be regulated by social responsibility. What does it mean to say that the World Bank and the IMF should have social responsibility? ISO 26000 (2010) elucidates that "in the area of social responsibility, fair operating practices concern the way an organization uses its relationships with other organizations to promote positive outcomes" (p. 48). In this understanding, social responsibility implies the fundamental element of reciprocity which is dear to the relational contracts theory. Diathesopoulos (2010) expounds that "in relational contracts, reciprocity does not only concern quantified and measurable provisions but refers to the overall behavior anticipated from one party concerning the other" (p. 21). The value of reciprocity encourages parties to contract and interact in accordance with acceptable principle of good faith.

Good faith is the moral imperative that enables an organization to integrate social responsibility throughout its relationships, and to take responsibility for the impacts of its decisions and activities. In his dissertation: *Good faith, or a good fake? The role of good faith in the performance of commercial contracts,* Elvin (2015) stresses the importance of good faith in contractual performance. He argues that "good faith entails an unacceptable degree of commercial uncertainty. Legal obligations encompass a range of interests from pure self-interest to altruism" (p. 4). Good faith is definitely an indispensable ingredient in dealing with an unacceptable degree of development uncertainty. This suggests that the absence of duty of good faith would confuse existing contractual solutions. On this basis, good faith and social responsibility are complementary. The work shows that "good faith can apply both at the point a contract is formed and during the period of contractual performance" (p. 4). Such standards facilitate the operation of contract law by fostering security and certainty in commercial dealing" (p. 14). Enforcing social responsibility will result in the establishment of the duty of good faith through which IFIs will share either the joy or burden of their decisions and actions based on the outcome of the contract.

Given the significance of their decisions and actions, the social responsibility of IFIs can be based on the doctrine of implied covenant. Manesh (2013) elucidates that "the implied covenant is fundamentally a doctrine invoked to protect and fulfill each party's reasonable expectations" (p. 8). Consistent with this conception is the idea that "because no contract can address every aspect of every possible situation, what is unsaid in the contract must be left to the parties' good faith and reason" (Manesh, 2013, p. 42). It is worth noting that the failure of social investment contracts to include an explicit duty of good faith consistent with the universal implied duty on contracting parties increases legal uncertainty of the commitment of a party in a contract. Dorfman (2013) corroborates that "the omission of an overarching and explicit doctrine of fair and honest dealing produces legal uncertainty" (p. 92).

This reality of the omission of an overarching and explicit regulation of fair and honest dealing defines the relational contract between IFIs and the governments of poor countries. It is not surprising if inconsistent decisions and development uncertainty follow from this inequitable relationship in which IFIs enjoy a special treatment. For this reason, James (2012) suggests that "fairness in the global economy be seen as (1) equity in the structure of a kind of international social practice, where (2) equity is assessed in light of that practice's distributional consequences, within and across societies" (p. 35).

The sustainability of unfair social investment contracts fails to maximize the value that can be created through social responsibility. This condition indicates that there is a need for serious rethinking and restructuring of the existing contractual arrangements between the IFIs and their member countries. Empirical evidence from the past with the SAPs and with the KALAHI-CIDSS project suggests that, if little positive change in the country's poverty incidence is seen despite the rhetoric of technical expertise and financial assistance; then something must be wrong in the contractual arrangements. Wisdom and experience teach that even the best of motives can lead astray, if implied obligations of good faith and fair dealing are not inserted in contractual arrangements.

The whole point of social responsibility of IFIs boils down to the fact that with clash in values of fairness, good governance, and good faith, the loan agreements between World Bank and the government of the Philippines for the KALAHI-CIDSS is but unfair. In the face of evidence of this unfairness, the necessity to restructure the loan agreement represents one of the best ways forward to achieve poverty reduction through participatory governance. How should people go about restructuring these unholy alliances between IFIs and poor countries?

Restructuring Social Investment Contracts for Development through Effective Social Responsibility

A clear incongruity upon careful examination of the terms of social investment contracts is the tendency to underestimate the decisions, policies, and actions of IFIs and overestimate the application of those decisions, policies, and actions by the governments of poor countries. That the global community accepts these facts and winks at mild infringements, even when the desired outcomes are not achieved, demand is not something to continue to take lightly.

It is mind-boggling that the global community vastly overestimates the impacts of the application, by the governments of poor countries, of the policies, decisions, and actions of IFIs. As a matter of fact, who cares if the IFIs have more impact than the governments of poor countries? Obviously, it does not matter that the governments of poor countries are socially responsible for their application of the decisions and policies of the IFIs while the IFIs remain socially irresponsible for the impacts of their own decisions and actions. Goodman (2010) rightly points out that the "people from privileged groups not only lose a clear understanding of others, but of themselves" (p.94). It would not matter if this inequitable relationship was just a matter of opinions. However, it has a real impact as it results to policy incoherence and persistence of the widespread poverty. The fundamental question is whether this is the type of relationship that society needs the most in order to bring about development in poor countries. If society lets development projects to continue being distorted by an inequitable relationship, it is the contention of this paper that society will not reach the cherished ideal of development that comes through social responsibility.

Restructuring social investment contracts is a crucial step towards development through effective social responsibility. Restructuring international social investment contracts entails bridging the gap between the existing contractual practices and harmonizing them with social responsibility matrix, and provides unified answers to the big problems of policy incoherence and the persistence of poverty amidst numerous social development initiatives. Given that SIFs are poverty-reduction mechanisms to reach the under-served or marginal areas, and address emergency and reconstruction needs, it is important that SIFs should be guided by effective social responsibility prescriptions. ISO (2010) rightly noted that:

> social responsibility can provide numerous benefits for an organization. These include: encouraging more informed decision-making based on an improved understanding of the expectations of society, the opportunities associated with social responsibility. (pp. 20-21)

The potential for social responsibility to bring about changes in social development is grounded in sound empirical evidence. The consequence of the changes in social development according to Morris (2010) is that “as social development changes, the resources it demands change too, and regions that once counted for little may discover advantages” (p. 34). The changes brought about by social development are illustrated in the case of Nordic and East Asian countries where it stimulated their lagging economy leading to high growth. This is unfortunately not the case in many developing countries. Morris (2010) aptly observed that “in case after case we will see that when societies fail to solve the problems that confront them, a terrible package of ills—famine, epidemic, uncontrolled migration, and state failure—begins to afflict them, turning stagnation into decline” (p. 28). It is however interesting to note that, while social development is failing to stimulate the lagging economies of developing countries, “the financial sector has become more efficient in generating profits for itself in the short run” (Chang, 2010, p. 231).

Despite the fact that IFIs are established with the mandate to make loans for productive purposes, there is plenty of reasons to believe that they pursue policies that heighten their power and wealth, at the cost of poor countries. However, the restructuring of social investment contracts through the regulation of good faith fairness would minimize the very possibility that developed countries are using the IFIs as a vehicle to promote their own self-interests, at the expense of poor countries. The regulation of social responsibility, in this view, is not only politically sensible but also ethically viable in that it provides positive protection against irrelevant policies and unethical practices; showing that social investment contracts will be run on trust and loyalty, rather than suspicion and manipulation. In line with this reasoning, Bradlow (2014) suggests “to adjust the governance structures of the IMF and World Bank to reflect the evolving shifts in global political and economic power” (p. 32).

To what extent, can social investment contracts ensure social responsibility through good faith and fairness? To ensure that a social investment contract meet its social development standard, IFIs must not only devise technically sound, economically feasible, socially desirable, and well executed projects but also take responsibility for their outcome. This implies being repaid with interest in case of success and bearing loss in case of failure. Social investment contracted with these explicit elements of good faith and fairness will enhance the credibility of IFIs as well as increase the beneficial impacts of its decisions and activities while lessening the possibility of producing adverse impacts.

Conclusion

For many developing countries like the Philippines, SIFs do not have much impact on productivity. Studies are struggling to find the positive impact of SIFs within the current disequilibrium contractual framework. The common denominator between the SAPs in the past and numerous projects sponsored by IFIs like the KALAHI-CIDSS in Philippines is the persistence of widespread poverty despite the vast amount of money being contracted. The inequitable nature, in terms of social responsibility, between the IFIs and the governments of poor countries provides us with an important insight into the cause of policy incoherence and of the persistence of poverty in poor countries.

Many people think that poor countries are poor because of their governments. Indeed, the IFIs typically blame the governments for the poverty in their countries. Little do the IFIs realize, however, that these countries are poor not because of their governments but because of themselves. Since, the governments of poor countries apply the decisions and policy directives of the IFIs, so their usual diatribe that countries are poor because of their governments is somehow misplaced. Instead of blaming the governments for the poverty in countries, the IFIs should ask themselves why with the advantages of having the most talented economists from the best universities, the power of money, the power of policy and strategic directions, and the power of institutional oversight, they still refuse to be socially responsible in the final outcomes of their projects.

Shouldn't the IFIs be socially responsible? As main actors in development projects, shouldn't they have something to lose, if the projects fail? Isn't the whole point of social responsibility that actors in development projects should be held responsible for the impacts of their decisions and activities on society and the environment, through transparent and ethical behavior? Unfortunately, in spite of having the greatest impact in social investments, IFIs are the ones who have nothing to lose. In contrast, in case of social co-responsibility, both the IFIs and the governments will have a greater stake in the long-run viability of social investments. Social responsibility is exactly what will make the IFIs reliable partners to the sustainable development of countries.

There is a need to advocate the enforcement of the social responsibility of IFIs, if societies are to be built in a fair and sustainable manner. Of course, advocating the enforcement of the social responsibility of IFIs in social investment contracts is the same as advocating the enforcement of good faith and fairness in social investment contracts. This teaches one big thing: in order for social investment contracts to generate the type of societal change and behavior conducive to social development leading to poverty reduction, IFIs must be socially responsible. Social responsibility causes social change. Building on the above considerations, it becomes evident to answer the central question of this study by convincingly arguing that, IFIs do not deserve special treatment.

For successful social development projects, it is the recommendation of this paper that social investment contracts between IFIs and the governments of poor countries be regulated by social co-responsibility. The consequence of restructuring international social investment contracts to incorporate the social co-responsibility of IFIs and government is a blessing to look forward to.

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