

Wolfowitz era begins: Realpolitik 1, Democracy 0

Paul Wolfowitz' nomination as World Bank president was approved by the board 31 March. The approval was a formality after the controversial architect of the war in Iraq received the support of EU countries at a meeting of ministers in Brussels the previous day. Mr Wolfowitz will take over from departing president James Wolfensohn 1 June.

Observers from across the political spectrum have denounced the selection process. According to a long-standing 'gentleman's agreement', the US is entitled to nominate the president of the World Bank while the Europeans get to choose the head of the IMF. In the week after the Wolfowitz nomination there had been conjecture that European leaders might veto the choice, following the precedent set by the US in vetoing the European choice for head of the Fund in 2000.

What followed however was an unprecedented display of realpolitik. In the UK, Treasury and development officials were reported to be "incandescent" that prime minister Blair had given the go-ahead to the Wolfowitz nomination a month before it was made public. The UK is hoping to have its former development minister Baroness Amos take over the UNDP. The French are rumoured to have their eye on the leadership posts at the WTO and UNHCR. They and the Germans will hope to install a national as the next head of the World Bank's private-sector arm, the IFC. The Germans, along with the Brazilians and the Indians, will hope to gain a seat on the UN security council in upcoming negotiations on its reform. Such calculations, along with fears of US foreign policy reprisals, are what most observers blame for developing country silence on the Wolfowitz nomination.

Executive Directors from the G-11 group of developing countries on the World Bank board met with Wolfowitz 23 March. They raised concerns about "the pursuit of bilateral strategic issues through multilateral fora by some major shareholders." Mr Wolfowitz responded



that he "would not attempt to pursue any political agenda".

Civil society groups are now pushing shareholder governments to set a board date to discuss reform of the leadership selection process. They are also calling on their representatives to reject a national or regional carve-up of any new senior posts, including that of head of the IFC.

Loved by none

Opposition to the Wolfowitz nomination was centred on his key role in the war in Iraq. Many believe that

his predilection for unilateralism and his support for opaque and ideologically-driven reconstruction efforts bode poorly for the future of the Bank. Brussels-based NGO Eurodad compiled a list of 1650 organisations worldwide outraged by the appointment. Polls conducted by the *Financial Times* and the World Bank staff association showed support for Wolfowitz below ten per cent.

A further issue of contention is Wolfowitz' lack of development experience. Wolfowitz responded to these charges by pointing to his years as US

ambassador to Indonesia. This drew countercharges from academics and activists. Professor Jeffrey Winters pointed to Wolfowitz' key role in privatising and deregulating the Indonesian banking system—reforms blamed by many for the financial crisis of the late nineties. Abdul Hakim Garuda Nusantara, head of the state-sponsored National Human Rights Commission in Indonesia, said that Wolfowitz had been closer than any US ambassador to the Suharto regime, and "never showed interest in issues regarding democratisation or respect of human rights". This view is reinforced by Wolfowitz' description in 1997 of General Suharto as a "strong and responsible leader".

Silver lining?

Jubilee Iraq called on Wolfowitz to make good on his position regarding Iraqi debt cancellation by supporting the creation of a precedent-setting debt arbitration tribunal. Similar hopes exist that Wolfowitz may take a more principled stance on lending to autocratic regimes. NGOs were disappointed by the failure of the Bank under Wolfensohn to live up to his rhetoric on putting evidence-based poverty reduction before lending volumes.

Overwhelming such hopes are concerns that Wolfowitz will roll back environmental and social safeguards and push an aggressive programme of liberalisation and privatisation. Energy analysts have uncovered a significant conflict of interest. As Bank president, Wolfowitz will lead the International Advisory Monitoring Board, a body which as part of its oversight responsibilities is investigating contracts improperly paid out of the Development Fund for Iraq. Before the war, Wolfowitz authorised a contract to Halliburton without seeking bids from other contractors. According to Cray and Vallette, the Halliburton contract has become "a huge source of controversy with allegations mounting concerning Halliburton's long series of improprieties in executing it." ©

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www.worldbankpresident.org

Dancing with the Wolf

www.halliburtonwatch.org/news/wolf.html

Bank and IMF under pressure to re-think conditionality

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Bank funded drainage project wreaks devastation in Pakistan

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Controversial Lao dam approved

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New lending on trade as liberalisation agenda continues

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IMF and World Bank use of conditions under the microscope

Responding to stinging criticism from civil society and the Commission for Africa, the IMF and the Bank are under pressure for a fundamental rethinking of the use of conditionality. The results of a series of ongoing evaluations will be critical.

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In March, the report of the Commission for Africa called on the Bank and Fund to “micro-manage less and reduce the amount of conditions they place on poor countries”. The report’s authors blamed the Bank and Fund for taking “little account” of how their policies would impact on poor people in Africa. The Fund was singled out for applying “analytically unfounded fiscal rules”. The criticism echoed that coming from NGO ActionAid’s analysis of the detrimental impacts of IMF fiscal restraints on spending on HIV/AIDS and education (see *Update* issues 43, 44).

Evaluation of IMF use of structural conditions

In response to widespread charges that IMF conditionality had become intrusive, confusing and often inappropriate, the Fund first initiated a streamlining exercise in 2000. In September 2002, the board approved a new set of guidelines on conditionality which marked a shift from a test of “relevance” to a stricter one of “criticality for the achievement of programme objectives”. Most civil society observers felt the new guidelines did not go far enough, warning that IMF conditions might simply be moved to Bank agreements, and decrying the failure to address deeper problems concerning the content of IMF policies and the nature of the Fund’s relations with borrowing governments.

Just over two years later, the Fund is undertaking an internal assessment of the experience with the 2002 conditionality guidelines, and the Independent Evaluation Office (IEO) has announced an evaluation of structural conditionality. While the former will examine the whole range of Fund conditions, the latter will limit itself to so-called ‘structural conditions’—those involving changes in policy processes, legislation and institutional reforms.

The IEO has proposed dividing its evaluation into two stages. The first stage will look at programme design while the second will look

at whether structural conditionality has been effective. Under programme design, questions to be addressed include:

- Do negotiations leave enough ‘policy space’ to the authorities?
- What is the role of other stakeholders in the negotiation process?
- Has streamlining led to meaningful changes in the interaction between IMF staff and national authorities?
- What has happened to ‘aggregate conditionality’ (combined conditions of the Bank and Fund)?

Under the effectiveness of structural conditionality, questions to be addressed include:

- Have governments complied with structural conditionality?
- Has compliance led to improved policies, institutions or economic performance?
- Are outcomes-based conditions more effective than process-based conditions?
- What is the experience in controversial areas such as privatisation and liberalisation?

The evaluation will follow up on issues left unanswered in last year’s evaluation of the IMF’s lending for PRSPs. That evaluation was inconclusive on whether Fund conditionality had been reduced following streamlining efforts, and highlighted a general failure to explore alternative macro-economic policy options.

The evaluation will rely on statistical analysis of Fund and Bank databases on conditionality, 12–14 country case studies and stakeholder surveys. Comments on the draft issues paper can be sent to the IEO before 1 May.

Bank evaluation

Begrudgingly following the IMF’s lead, the Bank kicked off its review of conditionality July 2004 in Paris at a conference entitled *Conditionality Revisited* (see *Update* 40). A consultation process was started in December 2004 and is scheduled

to conclude in June. In February, civil society organisations from Europe met with the Bank in Paris to discuss a conditionality issues note.

Participants expressed concern that the issues paper focused too narrowly on adjustment lending, pointing out that conditions may appear in investment loans or as ‘desired policy actions’.

Aggregate conditionality of the Fund and the Bank remained a concern, as did the use of conditions in fragile states, and the transformation of policy scorecards such as the Country Policy and Institutional Assessment into a form of “mega-conditionality” (see at issue link below). Bank staff present indicated that a number of forthcoming papers would be addressing these concerns, including an IMF paper addressing the issue of aggregate conditionality to be released at the spring meetings.

A consultation in Germany in early April focused on the role of conditionality in policy-based lending. A further consultation is planned for the spring meetings of the Bank and Fund which will include csos and middle and low-income country governments. Comments received during the consultations and background papers are to form the basis for the policy paper that will be considered by the board at the annual meetings 2005. ©

IEO evaluation of structural conditionality
www.imf.org/external/np/ieo/2005/sc/031805.pdf

Send comments on IEO evaluation
ieo@imf.org

Review of World Bank conditionality
www.worldbank.org/conditionality

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Bank review of the use of loan conditions takes shape
www.brettonwoodsproject.org/wbreviewcondition

The World Bank policy scorecard: The new conditionality?
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too narrowly focused

failure to address deeper problems

VILLAGERS of Badin district in southeastern Pakistan are demanding compensation from the World Bank for a drainage infrastructure project that has wrought environmental devastation and led to the loss of lives.

The National Drainage Programme (NDP) is a massive plan to transport excess saline water generated upstream of the Indus basin through a network of surface drains for disposal into the Arabian Sea. The World Bank's International Development Association (IDA) has provided \$285 million for the programme, with co-financing coming from the Asian Development Bank and the Japanese Bank for International Cooperation.

The communities affected by the drainage projects organised a people's assembly in March. They have filed a claim with the World Bank's inspection panel for investigation of multiple safeguard policy violations. The panel members were supposed to attend the assembly to listen to the project-related problems of the people, but postponed their visit after receiving a letter from the regional government in Sindh.

More than five hundred men, women and children attended the assembly including a local member of parliament, civil society groups and journalists. After four hours of discussion the assembly passed the following judgments:

- Both projects have violated economic, social and cultural rights. The human and material costs of the projects are huge:
 - 32 people were killed during the rains and flooding in 2003;
 - 50,000 acres of crops have been damaged;
 - more than 100,000 people were displaced for three months;
 - 12,000 fishermen have lost their livelihoods;
 - more than 10,000 acres of land has been encroached by sea water; and
 - diseases are common due to unsafe drinking water and improper food, and children have been pulled out of schools as a result.
- The drains have made local people more vulnerable during the rainy season. Frequent flooding in the last seven years has led to malnutrition and disease.

People's assembly demands justice from World Bank

COMMENT

By Mustafa Talpur, ActionAid Pakistan

- The World Bank and Asian Development Bank provided over \$1 billion to finance the projects. Not only do the poor people of Pakistan have to pay back the loan with interest, but they must also bear the economic, social and environmental costs resulting from bad project design. These institutions and the government must take responsibility.

Members of the people's assembly are demanding steps be taken to solve the failings of the drains. This includes diversion and closure of offending effluent drains; de-linking the tidal link canal which is the main cause of salt water intrusion and wetland destruction; restoration of damaged wetland ecology; and the cancellation of any further plans for extension of the drains.

Short-term measures are urgently required including: compensation of families of people drowned in drains and of those who have lost crops, livestock, houses and land; creation of emergency employment programmes to protect the right to life and food; and the provision of equipment and inputs for those whose livelihoods have been threatened.

Villagers have vowed never to allow the World Bank and Asian Development Bank to provide another loan in the name of development in this area. They demand that existing loans for the project be written off and money diverted to the implementation of the suggested rehabilitation plan with the full participation of affected communities. There is no justification for paying back a loan for a faulty project.

If the above demands are not met in the next three months or appropriate measures are not taken which indicate the seriousness of the World Bank and the regional government, affected peoples plan to take the following measures:

- Dismantle the offending drains;
- Observe a hunger strike in front of the World Bank office in Islamabad;
- Refuse to pay either provincial or federal taxes; and
- Submit the case to human rights commission/international court of justice. ©

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Further violations at IFC-backed gold mine

A further killing has taken place, and local activists have received death threats for opposing the IFC-funded Glamis Gold Ltd's Marlin mine in the San Marcos department of Guatemala (see *Update 44*).

Following demonstrations in January, as a result of which one protestor was killed, international solidarity and national resistance to mining in Guatemala has gained strength. This has resulted in accusations that the IFC has violated the Bank's response to the Extractive Industries Review, and has been complicit in violating ILO convention 169 ratified by Guatemala in 1996, and in related human rights violations carried out by local authorities.

According to Amnesty International, Alvaro Benigno Sánchez López was killed by security guards working for the Glamis subsidiary Mon-

tana Exploradora 13 March. The father of Sánchez López is understood to be an active opponent of mining in the local area as is his local church. The security company, Grupo GOLAN reportedly offered money to the family not to denounce the killing.

On 25 March, a member of indigenous rights group the Fundación Maya, and two other local activists received death threats in an effort to intimidate them into ceasing their anti-mining activities. The three individuals have also been accused of inciting the protest that took place on 11 January, against the transportation of equipment belonging to mining company Montana Exploradora. Their lives are believed to be in serious danger.

In February, the Guatemalan NGO, Colectivo Madre Selva submitted a formal complaint to the Compli-

ance Advisor Ombudsman (CAO) on behalf of communities affected by the Marlin mine. The CAO is now investigating whether the IFC has failed to comply with the World Bank Group's own environmental and social safeguard policies.

Civil society and religious organisations have called on the IFC to suspend further processing of the existing loan to the Marlin mine. They are insisting on the establishment of an independent and thorough review of the project and for the IFC to support a process of dialogue between communities, the government and the company. They are also calling for a halt to mining concessions; for open and fair consultations with affected communities; inclusion of indigenous peoples in the decision-making process; a re-evaluation of national mining regu-

lations; and the implementation of ILO convention 169.

A report on mining in Guatemala and Honduras published by Canadian NGO Rights Action, charts the upsurge of metallic mining activity since the signing of the Peace Accords. It details the role of the Bank and IMF in bringing about mining legislation reforms and the role of the IFC and MIGA in perpetuating mining activity in both countries. One third of Honduras and one tenth of Guatemala are now covered by mining concessions and licenses. In Guatemala many of these are located in indigenous territory and have been granted without the consent of the local population. ©

IFC-backed mine violates Guatemalan law
 🌐 brettonwoodsproject.org/glamisgold44

Donors finalise commitments to Bank's low-income arm

Under the heading of Working together to achieve the MDGs, donor countries finalised their new financial commitments to the International Development Association. In return, the Bank has agreed changes to allocation procedures and improvements in results-based monitoring, transparency and harmonisation.

At a meeting in Washington in February, donors gave the International Development Association (IDA) \$34 billion in new resources for it to lend or give as grants to low-income countries—a 26 per cent increase over the previous replenishment three years ago. Some donors are still exploring the possibility of additional pledges in order to achieve the desired 30 per cent increase in commitments.

Red light, green light

Negotiations centred around a new system of allocating IDA funds. According to this system, the total volume of funds available to low-

income countries will be based on a 'performance based allocation' (or PBA). The PBA is a combination of measures of need (based on income per capita) and policy performance; the latter being drawn from controversial World Bank scorecards known as Country Policy and Institutional Assessments or CPIA (see at issue link below).

Once the total volume of funds available is calculated, the loan-grant mix is determined using a new debt sustainability framework. Countries judged at low-risk of getting into debt trouble will be given a green light. These countries will receive

their funds as low-interest loans. Countries judged as high-risk will get a red light and will receive their funds as grants. Yellow light countries will receive 50 per cent loans and 50 per cent grants.

Complicating matters is that 20 per cent of all funds given as grants will be kept back to be re-allocated. This second allocation is subdivided into two parts. The first part (11 per cent) goes into an automatic incentive-based reallocation mechanism rewarding countries with 'good' policies. The traffic light system will be applied a second time to determine if countries receive this allocation as a grant or as a loan (this time without the 20 per cent discount being applied to funds given as grants). The second part of the re-allocation (9 per cent) is an administrative charge. The funds from this charge are to be made available to lend at favourable interest rates to countries which receive funds from both IDA and the IBRD (so-called 'blend' countries). This would constitute an investment for IDA, the revenues from which would finance foregone principal reflows and interest income.

Under this proposed new system, approximately 30 per cent of IDA funds will be given as grants.

Other key elements of the IDA replenishment include:

Growth, private sector development and infrastructure:

An emphasis will be placed on work on investment climate, public-private partnerships in infrastructure and small and medium enterprise support in Africa.

Results-based systems:

The Bank will assist countries in preparing national strategies for the development of statistics, and will back a pilot programme to harmonise internationally-sponsored household surveys. The Bank will be embarrassed by the independent evaluation of its own progress on implementing a results-based agenda (see left).

Transparency and accountability:

CPIA scores will be made available for IDA countries only.

Harmonisation:

The Bank is to better align strategies and financing with PRSs and increase the use of country systems (see Update 42).

The OECD Development Assistance Committee's (DAC) forum on aid harmonisation and alignment, jointly convened with the World Bank, took place in Paris 2 March. This was the first review of the Rome agenda that was adopted by donors in the wake of the Financing for Development summit, in order to improve the effectiveness and accountability of development assistance.

The meeting took place in the context of a recent DAC survey of 14 developing countries that shows that negligible progress has been made to date in changing donor behaviour. Tellingly, it concluded that PRSs had failed to force donors to "adjust their aid response".

But instead of agreeing a forward looking strategy, donor bickering led to the indicators being put on ice until the MDG summit in September. In the interim, the DAC working group on aid effectiveness will aim to craft an agreement that satisfies all sides. Patrick Watt of Action-Aid UK, who attended the meetings as one of the few civil society observers, described this outcome as "an incredible fudge given that the donor preparatory process had lasted almost a year."

Contingent UK top-up

The UK has offered up to an additional £100 million to the IDA replenishment. Half of this will be made available if the Bank is able to achieve chosen performance indicators by September 2005; the other half based on indicators to be achieved by the IDA mid-term review in eighteen months time. The indicators measure progress on the Bank's harmonisation with other donors and success in first completing and then implementing the review of conditionality (see page 2). UK civil society groups had been pushing for additional funding to be linked to reform of the Bank's governance structures and an independent assessment of the validity of the Bank's policy scorecard.

The final IDA report has been circulated to executive directors for their approval. They will recommend to the board of governors that the paper be adopted at the spring meetings. ©

International Development Association
 www.worldbank.org/ida

The World Bank policy scorecard: The new conditionality?

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World Bank gets failing grade on 'results'

The annual report of the Operations Evaluation Department (OED) of the World Bank released in March is scathing in its critique of the institution's failure to become more focused on results on the ground. Prioritising development results—children schooled, clean water provided—over past emphasis on the measurement of inputs and lending volumes has been a stated priority of the ten years of the Wolfensohn presidency.

The report looks at how well the Bank has integrated results-based monitoring and evaluation (M&E) into its various activities:

- The report credits the Bank for progress in making Country Assistance Strategies more focused on results.

- The Bank's networks (such as environmentally and socially sustainable development, private sector and infrastructure) come in for heavy criticism. Guidance to staff on setting objectives and tracking their achievement has been "scanty". Three out of four sector strategies are rated as "less than satisfactory: vague, lacking both in selectivity and in practical operational guidance".

- Monitoring and evaluation of results achievement in investment lending is described as a "work in progress", while guidelines on adjustment lending contain "no specific guidance on M&E".

- In the Bank's analytical work, M&E "is still rare".

Having found so much lacking in the Bank's procedures for achieving results, the report's authors go on

to say that this is the easier part of re-orienting towards development outcomes. Harder still is fixing an organisational culture and incentive system "not designed for managing for results".

The only incentives for staff to align their work with a results-focus comes from shareholders. Staff interviewees raised questions about management's commitment to the results initiative and complained of a lack of operational guidance. They observed that recent messages on increasing infrastructure lending could "compete with the focus on outcomes". Worse still, interviewees feared "negative consequences for slow disbursements, but not for failing to achieve outcomes or for failing to distill and act on lessons of experience".

A 'results secretariat' has been established in Washington, along with 'results focal points' in each network and region. The report finds that these staff "are not clear about their mandate" and are "lacking a phased plan". The Bank's matrix management structure has led to "a dilution of the results focus". Overall, the report concludes that Bank efforts to address the organisational culture and incentives have "been lacking or, at best, weak". Alarming findings for an institution that has claimed the right to judge entire nations' progress in achieving development results. ©

OED 2004 annual report
 www.worldbank.org/oed

an
incredible
fudge

Responsibilities and structure of the board The board of executive directors (EDs) is based at the World Bank Group's headquarters in Washington DC. It functions in continuous session and usually meets twice a week. It is responsible for policy decisions affecting the World Bank Group's operation, and approval of the International Bank for Reconstruction and Development (IBRD) loan and guarantee proposals and International Development Association (IDA) credit, grant and guarantee proposals. It must also present an audit of accounts, an administrative budget, and an annual report on the Bank's operations and policies to the board of governors at the annual meetings. (The board of governors is a largely ceremonial body made up of finance and development ministers which meets only twice a year). The board of EDs considers the "evolving perspectives of member countries on the role of the Bank Group as well as the Bank's operational experience."

Appointment of executive directors There are currently 24 EDs on the board, one each for the five largest shareholders at the Bank—US, Japan, Germany, France and UK (see box). Other countries are grouped into constituencies, each represented by an executive director. Under the articles of agreement of IDA and the International Finance Corporation (IFC), the EDs of IBRD serve ex-officio to both of these institutions. The Multilateral Investment Guarantee Agency (MIGA) has its own separate board of directors, consisting of 24 members, all of whom are elected. However, in practice the same individuals are chosen to serve on its board.

The five largest shareholders appoint their ED, while the others must hold elections. Elections of EDs are held every two years, normally during annual meetings. Elections are coordinated by the Bank Group's corporate secretariat, which supports the day-to-day operation of the Board. The secretariat anticipates changes in constituency groupings resulting from new memberships or political events, as well as increases in members' capital subscriptions and the corresponding changes in voting power. The next elections will be held at the annual meetings in 2006 in Singapore. In the event that an elected ED terminates service before the next scheduled election, the affected constituency holds an interim election for a successor, either by mail vote or during an annual meeting that does not fall in a regular election year.

Decision-making The board makes decisions by consensus. Rarely does a decision require a formal vote. However, the relative voting power of individual executive directors, based on the shares that are held by the countries they represent is present in EDs minds when they calculate whether or not to support a project or policy. The president (or a delegate of his) chairs the regular board meetings. If there isn't sufficient support for a project, its discussion is postponed rather than pressing ahead with a divisive vote. This triggers further behind-closed-doors negotiations between EDs offices.

Standing committees Each ED also serves on one or more of five standing committees, which carry out in-depth examinations of policies and practices to assist the board with its oversight responsibilities: the audit committee, budget committee, com-

mittee on development effectiveness (CODE), personnel committee, and committee on governance and administrative matters (COGAM). Committee meetings are chaired by one of the EDs as decided by committee members.

CODE Established in 1994, the committee on development effectiveness oversees the operations evaluation system of the Bank and IFC. It considers such issues as operational policies and safeguards, and monitors the implementation of Bank activities to ensure that the overall purpose of reducing poverty is being achieved. The eight-member committee also: plays a key role in the Bank's efforts at harmonisation; reviews the work programme and reports produced by the Operations Evaluation Department of the Bank and the Operations Evaluation Group of the IFC and management's responses to them.

COGAM The Committee on governance and administrative matters makes recommendations to the board on issues of governance and administrative policy such as codes of conduct on corruption. It is the key committee in following up on the agenda to increase the 'voice' and participation of developing countries at the Bank. ©

Board calendar

📄 siteresources.worldbank.org/EXTABOUTUS/Resources/calendar.pdf

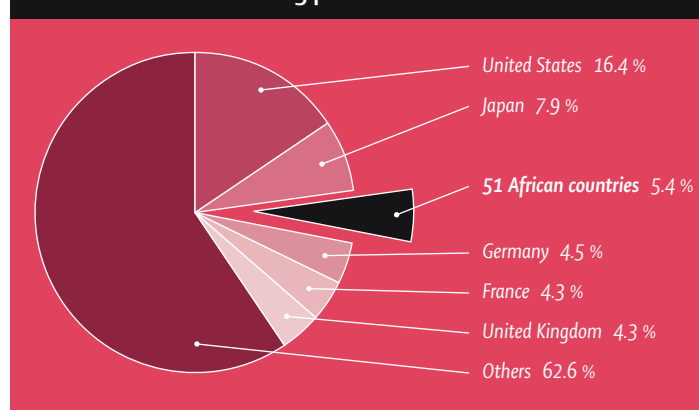
Executive directors' work programme

📄 siteresources.worldbank.org/BODINT/Resources/workprogram.pdf

ED Directory

📄 www.bicusa.org/bicusa/issues/misc_resources/92.php

Distribution of IBRD voting power



World Bank disclosure: disappointing progress

In early March the World Bank board approved an updated disclosure policy, bringing to a disappointing end a secretive two-year long review. Key changes include:

- Board minutes will be made public after they have been approved. Minutes do not provide a transcript of the meeting, and the names of executive directors who object or abstain will only be made public if they wish so. The proposed policy on minutes will exempt "executive sessions," and permit deletion of material "too sensitive for public distribution."

- Beginning 1 April, Country Assistance Strategies (CAS) will be disclosed, but only if countries agree to do so in writing. Any information deemed sensitive may be removed. Original suggestions to include drafts of CAS and programme documents for PRSCs were rejected. The World Bank continues to be the only IFI that does not require disclosure of country strategies.

- A programme will be piloted to disclose operational policy reviews simultaneously with their distribution to the board (limited to those reviews which are subject to an external consultation process). The pilot is significantly scaled back from the original proposal.

Wolfensohn punishes whistleblowers

The Government Accountability Project (GAP) has said that several Bank employees who reported misconduct have been personally retaliated against by Bank president James Wolfensohn. The salvo was a turnaround from the US-based public-interest law firm's report eight

months ago which had claimed that the Bank's whistleblower protections were the best of any international development bank. Bank officials have called the accusations "absolutely false". The board is to hear a management progress report on whistleblower procedures 13 April.

GAP was heavily critical of the Bank in a response to the US Treasury's report to congress on corruption in the multilateral development banks. The group censured the Treasury for not commenting on the Bank's ineffective whistleblower policy and for endorsing the Bank's Department of Institutional

Integrity as a model when "it has been misused to inflict reprisal on whistleblowers".

US pushes anti-corruption reforms

US replenishment of IDA (see page 4) will be contingent on reforms to deal with corruption, according to senate foreign relations committee chairman Richard Lugar. One recommendation under consideration would require mandatory financial disclosure for all World Bank officials and employees whose duties involve them in the contracting or procurement process. ©

World Bank disclosure policy: Additional issues follow-up consolidated report

📄 www-wds.worldbank.org/servlet/WDS_IBank_Servlet?pcont=details&id=000112742_20050316141535

Government Accountability Project

📄 www.whistleblower.org

IFI transparency resource
—Bank Information Center

📄 www.ifitransparencyresource.org

Board approves Nam Theun 2 dam in Lao PDR

In the wake of strong international opposition World Bank support for the controversial Nam Theun 2 dam was approved 31 March.

Nam Theun 2, the largest and most controversial of a series of hydro-power projects is located in Khammouane province in central Lao PDR. The \$1.3 billion project is being developed by Electricité de France, the Electricity Generating Authority of Thailand, Ital-Thai Development and the Lao government. Justification for World Bank support of the project, to the tune of as much as US\$270 million in funds, hinges on the ability of the Lao government to use project revenues, obtained from exporting electricity to Thailand, to benefit the poor. Additional funds awaiting World Bank endorsement have now been approved by the Asian Development Bank. The European Investment Bank support is currently being negotiated.

Opponents to the project have highlighted a range of severe prob-

lems, arguing that the project violates the Bank's own environmental and social safeguard policies and the recommendations of the World Commission on Dams. It fails to demonstrate compliance with the Bank's decision framework on NT2 which includes criteria on development and poverty alleviation; adherence to Bank safeguard policies; and broad support from donors and civil society. Critics also refer to the poor human rights record of the Lao government, and its poor record of transparent revenue management.

Flawed assumptions

The dam will displace at least 6,000 indigenous people living on the Nakai Plateau, and affect the livelihoods of another 100,000 people living downstream who rely on these rivers for fish, drinking water and

agriculture.

A series of in-depth technical reviews, which include hydrology, water quality impacts and resettlement plans for villagers have revealed serious flaws in the project's environmental impact assessment and social development plan and call into question the project's viability and scale of its impacts. The reviews cite flawed baseline data, inadequate due diligence on social and environmental issues and indicate that proposed mitigation and compensation measures, resettlement plans of local communities, and environmental management strategies have a high risk of failure.

A petition signed by 153 NGOs from 42 countries sent to World

dramatic and unexplained changes to the Bank's economic analysis

Bank president James Wolfensohn in March urged the Bank not to support the dam and detailed a number of the concerns listed above. The Bank response provided by Ian Porter, country director of Lao PDR and Thailand, disagreed with the conclusions of the technical reviews and claimed that: a sound framework for managing NT2 revenue transparently has been set up; Lao government capacity for managing revenue and expenditure is improving; and extensive information disclosure and discussion with civil society had taken place.

Cooking the books?

In an in-depth presentation to European executive directors in Brussels in March, Witoon Permpongsacharoen of Thai NGO TERRA, questioned the Bank's economic assumptions and provided evidence to suggest:

- that the Bank had manipulated Thailand's power development plan to reveal a shortfall equivalent to the electricity that NT2 would generate;
- exaggerated the growth of future electricity demand in Thailand;
- suppressed analysis of cheaper energy conservation and renewable energy; and
- ignored alternative options which are cheaper and cleaner.

Bank facilitates illegal logging in Cambodia

Bank officials have recently brokered the lifting of Cambodia's three-year ban on log transportation, with the result that illegally cut timber is now back in circulation. A request has been submitted to the World Bank inspection panel by Cambodian NGOs outlining numerous violations of Bank operational policies in relation to the implementation of the Bank-backed forest concession management pilot project.

At a meeting in December 2004, Bank officials persuaded the donor community to endorse Cambodian ministers' demands that the transport ban be lifted. The ban was introduced in May 2002 following pressure from international donors as a means of compelling logging companies to produce sustainable forest management plans. Statements and actions by the Bank have consistently revealed the resumption of log transport to be a key part of its policy for Cambodia's forest sector. The lifting of the ban sees an alarming backtracking of donors such as the FAO, Denmark and the UK who had previously told the Cambodian government that "the proposed log transportation can not be separated from the origin of the logs" and that "even with these clarifications provided we cannot endorse the movement of these logs".

Logging companies have subsequently begun transporting logs stockpiled across Cambodia. A high proportion of these were clearly cut in violation of the law and the legality of the others is questionable. Forest sector monitor Swiss company SGS, which receives funding from the Bank, is recording the quantity of logs but has taken no steps to investigate the legal origin of the wood, nor whether royalties have actually been paid. The transport process is poorly supervised, with ample opportunity for companies to move illegally harvested fresh logs into the supply chain. Such developments fly in the face of statements by president James Wolfensohn during a visit to the country of the need for Cambodia to "promote good governance and fight corruption in order to promote broad-based growth and poverty reduction".

The inspection panel request relating to the Bank's forest management project, submitted in February 2005 by the NGO Forum on Cambodia on its own behalf and on behalf of affected communities, states that "the Bank has violated a number of its operational policies leading to harm or potential future harm to people living in the project-affected

areas". The operational policies and procedures listed include: environmental assessment, natural habitats; indigenous people; and forestry. The request includes two signed letters from representatives of affected communities and a report prepared by UK-based NGO Global Witness for the affected communities.

The request also questions the Bank's classification of the project as environment risk category 'B', given that its environmental assessment policy mandates a category 'A' for controversial projects and those threatening indigenous peoples and critical natural habitats. The severe impacts that will result from the project include immediate environmental degradation caused by industrial-scale logging, damage to watersheds and related adverse effects on the Kuoy people who live in the forests in the north and northeast of Cambodia.

A reply to the request has not yet been made public.

Cambodia forestry campaign
www.globalwitness.org/campaigns/forests/cambodia/summary.php

Inspection panel request
siteresources.worldbank.org/EXTINSPECTIONPANEL/Resources/Cambodia_NoR.pdf

Since then, final versions of the Bank's two main economic analyses of the hydropower project, released just a week before project approval, contained dramatic new assumptions regarding assumed costs of natural gas alternatives. This was raised in a letter by Thai economic and energy analysts sent to Bank executive directors on 29 March. The unexplained changes also appear to justify recent increases in estimations of project costs.

All directors on the board voted in favour of the project except for the US director who abstained for political reasons. Support was apparently contingent on a number of requirements, including:

- a commitment that consultation concerns raised by civil society will be taken into account by management;
- measures will be introduced to build the capacity of CSOs to monitor the project;
- the international advisory group will continue its role on the project for 25 years and be allocated two extra members; and
- multilateral donors will commit to tightening arrangements if the project is deemed to have violated any part of the agreement. ©

Nam Theun 2 Campaign,
 International Rivers Network
www.irn.org/programs/mekong/namtheun.html

IFC safeguard review integrity in question

Following the extension of the timetable for public consultation of the IFC's review of its social and environmental safeguards, the IFC released its revised policy documents in February.

Despite the extended deadline and claims by the International Finance Corporation (IFC) that the revised timetable will allow "sufficient time for comment", heavy criticisms of both process and substance remain. (see *Update* issues 43, 42)

The revision sees the replacement of the current ten safeguard policies of the World Bank Group with nine IFC-specific 'performance standards'. The impact of the safeguard review is far-reaching in terms of private finance: IFC's standards serve as a benchmark for Equator Banks, other regional banks, Export Credit Agencies and private companies. The new documents consist of an 'indicative draft of the IFC policy on social and environmental sustainability and performance standards' which forms a summary of all comments received between August 2004 and January 2005; and 'guidance' notes, (formerly known as 'interpretation notes') which "explain the require-

ments in the performance standards" but are not intended to establish policy by themselves.

Public consultation on the performance standards is now set to end 29 April, after which the IFC has said it will issue a comprehensive summary of external comments it has received. The redrafted policy, performance standards and guidance notes, will be presented to IFC's management group and then to the World Bank Group's Committee on Development Effectiveness (see page 5). A further 30 days public comment period will follow before final presentation to the board expected late September.

Muddled process

The lack of clear definition between the guidance notes and the indicative draft makes for a confusing read, and it is unclear as to how they are intended to complement each other. For example, sug-

gestions are invited on "text in the performance standard which may be more appropriate for the guidance notes and vice-versa".

A letter to the acting director of the IFC, Assad Jabre, at the start of April expressed disappointment on a number of counts. The IFC has fallen short of its original commitment to provide a "redline draft" version of expected changes and instead provides only a partial summary of comments with no clear indication of its acceptance or rejection of stakeholder input. By the IFC's own admission the draft guidance notes are also incomplete as they do not fully reflect all of the external comments received to date. The letter calls on IFC management to release a revised second draft of the IFC policy and performance standards as soon as possible and to allow for a minimum of three months public consultation period on a second draft.

Substance watered down

The standards have failed to integrate internationally recognised environmental, labour and human rights standards, as well as the recommendations of the World Bank management response to the Extractive Industries Review.

For example, rural populations who do not have formal title to land will no longer have the right to replacement land if they are dis-

placed. Client companies will be able to determine if indigenous people are affected by a project, as well as if any cultural heritage is affected by a project proposal. The flexibility of the standards has allowed an alarming devolution of responsibility to the private sector, allowing companies to conduct their own assessments of compliance with environmental or social standards.

Right meets left

Private companies have expressed concerns that the policies are too vague and ill-defined: "The performance standards are lacking in the necessary detail for us to comment on anything but the most general way". A critique of the IFC activities for business news agency Bloomberg condemns the IFC for failing to uphold its environmental and social commitments and for subsidising billionaire businessmen. It refutes commonly made claims that without IFC support projects would not go ahead, referring to findings by the Operations Evaluations Group that "more than 40 per cent of IFC projects did not meet IFC benchmarks for business performance, economic benefit... or adhering to environmental standards". ©

IFC safeguard policy and disclosure review

www.ifc.org/policyreview

Civil society letters and analysis

www.grrr-now.org

IFC oil field in Kazakhstan flouts disclosure, safeguard policies

Emissions from the Karachaganak oil and gas field have resulted in serious environmental health problems in nearby Russian and Kazakhstani communities. Critical environmental information has been withheld and local activists have met with harassment by authorities.

The Karachaganak oil and gas field, in the west of the Republic of Kazakhstan and close to the Russian border is operated by a consortium comprising British Gas, ENI/Agip, Chevron Texaco and Russian company LUKoil. The latter has received \$150 million in loans from the IFC in 2002.

Since the field became active, the health of villagers in Berezovka, a Kazakh village five kilometres from Karachaganak, has declined precipitously. Forty-five percent of residents suffer from chronic health problems. Independent air samples identified dangerous levels of numerous toxins. Official data obtained by international NGO Crude Accountability indicated pollution levels above accepted norms in neighbouring Russian villages. The Berezovka initiative group, made up of local activists, is demanding compensation and resettlement to a safe location.

Activists and residents have been subject to intimidation, threats and harassment at the hands of local authorities over the past several months. In December women from the village, who volunteered to give blood as part of an independent medical study, were physically and verbally threatened by police who attempted to take them away for questioning.

Crude Accountability and villagers have been requesting environmental information about the emissions from the field from the IFC, the operating company and local authorities. To date, and in violation of Kazakhstani law, IFC standards and the Aarhus Convention, each of these bodies has refused to provide the complete environmental data about activities at the field.

Dialogue with the IFC

Crude Accountability has been engaged in discussion with the IFC about its support. A letter to Rashad Kaldany, director of the oil, gas, min-

ing and chemicals department of the IFC, in September 2004 stressed that the project may have violated World Bank safeguard policies on a number of counts as a result of gas-flaring,

water contamination, and atmospheric emissions exceeding permitted levels. They requested that the IFC make available all relevant information and documents from the project to the villagers in Russian. Crude

Accountability was disappointed by Kaldany's response, which denied many of their assertions. He stated: "The air monitoring results for the surrounding villages do not indicate the presence of a harmful level of ambient pollutants".

A formal complaint about lack of IFC due diligence in the Karachaganak case was filed with the IFC's Compliance Advisor Ombudsman (CAO) in September 2004. An investigation was carried out in December 2004 and a full report, with recommendations, is imminent. Crude Accountability also wrote to Bank president James Wolfensohn in January 2005, express-

ing dissatisfaction with Kaldany's response and requesting a full investigation. A response from Wolfensohn is not expected until the CAO report has been made public.

Pumping poverty

A report by UK NGO Platform explores the role that the UK department for International Development (DFID), plays in facilitating oil development. It points out significant inconsistencies in DFID's policy on oil development, and those on poverty reduction and climate change. While DFID acknowledges that oil extraction can hinder poverty reduction it continues to provide institutional, political and financial support to oil development at the level of the World Bank. ©

Karachaganak project summary, IFC

www.ifc.org/ifcext/eca.nsf/Content/SelectedProjectKazakhstan

Crude Accountability's letters with Bank and IFC

www.crudeaccountability.org/eng/IFCletters_en.html

Pumping poverty: DfID and the oil industry, Platform

www.carbonweb.org/pump_pov.htm

a formal
complaint about
lack of IFC due
diligence

IFIs on trade: “enormous investment” but to what end?

The World Bank's international trade unit presented a progress report to the board in early March describing an “enormous” increase in investment in trade-related analysis and policy advice over the past three years. The unit is now looking to translate that investment in to new lending—a serious concern for analysts who feel the Bank and Fund have got it wrong on trade.

Total trade lending over the next three years is projected at nearly \$4 billion, compared with just over \$2 billion over the last eight years. Lending for trade facilitation has risen from \$300 million over the last eight years to a projected \$1 billion over the next three.

The Bank's overall trade strategy has three elements: helping the wto Doha round achieve its development objectives; shaping the regionalism agenda; and helping developing countries integrate trade into national development strategies.

Under the heading of support for the development objectives of the Doha round, the Bank highlights its work on agricultural reforms, trade facilitation and supporting accession to the wto.

A Bank paper released in January argued that the benefits of agricultural liberalisation had been “substantially overstated” (see *Update* 44). Such admissions were glossed over in the current progress report: “the Bank is continuing to refine its analysis on the poverty impacts of agricultural reforms”.

The Bank is “offering information to country teams on key developments and their potential impact” and “bringing together negotiators from developing countries in fora where they can share experiences”. However, Bank and Fund involvement in wto negotiations continues to be politically charged. Speaking at the World Economic Forum in February, Kenyan trade minister Mukisha Kituyi said he “did not see any justification of the Bretton Woods institutions involvement in the negotiations”.

Bank views on regional trade agreements (RTAs) were set out in the January publication of *Global Economic Prospects (GEP) 2005*. The report takes an agnostic view of RTAs, concluding that their benefits depend on their design. Economist Parthapratim Pal, in a review of the GEP 2005 for Network IDEAS argued that the report “misses the fact that the growth in regionalism took place among developing countries because of dissatisfaction with the multilateral system”.

Bank work to help developing countries integrate trade into national development strategies is focused on

the Integrated Framework (IF). The IF is a multi-agency initiative, led by the Bank, to streamline trade-related assistance plans into low-income country development strategies. However, a recent evaluation of the IF by the OED found that the IF “created too many expectations on which it is unable to deliver” and is viewed by some countries as “run by and for the six international agency partners”.

Unjustified

Many analysts argue that the IFs pressure for unilateral trade liberalisation is part of the problem and not the solution. The Commission for Africa was unequivocal on this point: “policies should not be dictated within trade agreements, as part of mercantilist negotiations, or as part of World Bank or IMF programmes.”

A new book by Mehdi Shafaeddin of UNCTAD lays bare the faulty assumptions of the trade liberalisation hypothesis pushed by the IFs. Not only has trade liberalisation not achieved its objective, neither, argues Shafaeddin, can it “be justified either on theoretical grounds or by historical evidence”. He proposes an alternative approach which is “country-specific” and “development-oriented”. This approach emphasises the key role of government intervention in “compensating for market inadequacy, building up production capacity, creating markets, institutions and infrastructure, and correcting market failure”.

A new paper from trade NGOs 3D and the Institute for Agriculture and Trade Policy criticises the current approach to agriculture in the multilateral institutions for emphasising expanding exports over improving livelihoods, failing to tackle the market power of transnational commodity producers, and locking developing countries in to an uneven playing field. Amongst the authors' recommendations with ramifications for the IFs are the need for impact assessments of trade policy reforms and for IFs to ensure that they are not pressuring governments to “enter trade and financial agreements that undermine their social policies or their ability to meet their human rights obligations.”

Review of the GEP 2005, Network IDEAS

www.networkideas.org/news/jan2005/news28_Review_GEP2005.htm

Trade policy at the crossroads, Shafaeddin

www.palgrave.com

Planting the rights seed: A human rights perspective on ag trade, 3D and IATP

www.3dthree.org/pdf_3D/HRAgTHREADfineng

Bank/Fund spring meetings schedule

Members of staff of the Bank and Fund, board members, development and finance ministers are gathered in Washington 15–17 April.

Official meetings

- 15 April Meeting of G24 group of developing countries at IMF; G7 finance ministers' meeting
- 16 April International Monetary and Financial Committee meeting
Tentative agenda: Debt (gold sales), innovative sources of finance, Fund strategic review, IMF role in low income countries
- 17 April Development Committee meeting
Tentative agenda: Debt (multilateral debt cancellation), Global Monitoring Report, Financing for Development, voice of developing countries in BWIs

World Bank—civil society meetings

- 14–15 April Consultation on World Bank review of conditionality
- 18–19 April World Bank—civil society dialogues
- 20–22 April World Bank Global Policy Forum: PRSPs / engagement issues

For full details of events, contact information for groups in Washington, and links to documents released by civil society, visit [IFwatchnet](http://IFwatchnet.org).

www.ifwatchnet.org

Parliamentarians demand Bank and Fund respect their authority

The international parliamentarians' petition will be launched at the spring meetings. The petition demands that elected representatives be the final arbiter of all policies in their countries, not the IFs. The petition has garnered over 1000 signatures in over 50 countries and will continue to gather more support after the launch in Washington. MPs from around the globe will be travelling to Washington for the launch.

A high-level presentation of the petition is scheduled for the afternoon of 15 April, after which will be a workshop involving parliamentarians, IFI staff and shareholders and civil society. A public debate of the issues will be held at Johns Hopkins University 17 April. For event details see the IFwatchnet calendar.

Parliaments reign in IFIs: International campaign gains momentum

www.brettonwoodsproject.org/ipp

International Parliamentarians Petition

www.ippinfo.org



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