

Bank plans private sector shake-up

In February the World Bank's Board will consider a new Private Sector Development Strategy. Long-time Bank-watcher Robert Wade, a professor at the London School of Economics, warns that this is the Bank's "biggest refocusing in a decade". He says it is not based on analysis of what will work best for poorer people but "owes everything to intense US pressure".

The strategy has also been strongly criticised by NGOs, trade unions and Bank researchers and is struggling to attract sufficient support from the Bank's Board.

The Bank's strategy plans to expand private sector provision of services such as health and education, and work to improve the "investment climate". It is a continuation of previous Bank policies to reduce the the state to a coordination and regulation role, leaving private companies to organise production and service delivery. Until now the Bank has sought to achieve this through structural adjustment programmes combined with private sector investment and guarantees from its IFC and MIGA arms. Major new elements include the move to support infrastructure and service provision through "output-based aid" and to conduct "investment climate assessments" for Bank client countries.

In sectors such as transport, telecoms and energy the Bank argues that pure private sector service provision can be arranged, with service users paying the full costs of what they use. In others, such as water,

health and education, subsidies "may be justified to address affordability or public good concerns". Subsidies should not, however, support inputs (such as building schools, hospitals or water pipes) but outputs (the delivery of actual services to target groups). The Bank would be able

"Bankthink tends to interpret investment climate in terms of foreign investors"


David Ellerman, World Bank

to provide subsidies from its IDA arm, to accompany private sector investment through the IFC. David Ellerman, a senior World Bank researcher, comments that output-based contracts "don't work too well". Attempts to measure public service "outputs" can distort service provision, as where teachers are rewarded on the basis of pupils' test results. The Bank's planned approach may damage the goals of universal and equitable service coverage. There is

major controversy about private sector service delivery in the US and Europe where there are highly developed markets, so it will be even harder to apply this approach in developing countries.

The proposed World Bank investment climate assessments would involve surveying companies on their views of what obstructs their activities in a particular country. These assessments would inform the Bank's policy advice and conditionality. A recent Bank paper states that "policy-based lending would be a major vehicle for advancing investment climate reforms". Ellerman comments, however, that: "improving the investment climate for one group may make it worse for some other groups." The assessment of foreign investors' needs is often "dangerously narrow". The Bank tends to favour labour market flexibility over job stability and human capital investment, and stock market liquidity over long-term, predictable investment flows. The Bank's record is poor. Advice to the Czech Republic and Bosnia to introduce voucher privatization funds, for example,

resulted in asset stripping by foreign "vulture funds", not sustained investment.

The Bank's proposed private sector strategy contains a number of interesting and innovative ideas. For example it seeks to transfer more risks to private companies to prevent governments taking on too much sovereign debt. However, the current cases of water privatisation in Ghana and Railtrack renationalisation in the UK demonstrate that companies are often very reluctant to take full responsibility for providing affordable public services and rely on implicit or explicit government guarantees. It is possible that some of the proposed reforms, such as making the IFC justify its activities according to commercial norms, may be motivated mainly by a desire to bring Bank activities in line with the General Agreement on Trade in Services, currently being negotiated at the World Trade Organisation. 

Concerns on this strategy may be sent to your country's Executive Director at the Bank. See list at:

 www.bicusa.org/mdbs/wbg/execdir.htm

 www.worldbank.org/privatesector/

 www.challengeglobalization.org/html/tools/private_sector_dev3.shtml

 www.ellerman.org/Memos/Sowing&Reaping.pdf

Further links are at:

 www.brettonwoodsproject.org/links/links-private.htm

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IMF shares blame for Argentina's collapse

Many eyes are now looking to see how Argentina will manage its financial and political crises. The country's failure to pay part of its US\$155 billion public debt due on 3 January has formally put the country in debt default. The Argentina experience may boost the argument for a formal debt standstill and rescheduling mechanism.

Talks in November between the IMF and the government of Argentina failed to reach agreement on the early release of a further US\$1.26 billion to cover debt payments coming due. The IMF withheld the money on the basis that the government would not be able to reach IMF budget targets without a further US\$4 billion cut. At the time, the country was already operating under a strict budget policy with drastic cuts to social spend-

ing. There were also restrictions on citizens withdrawing cash from domestic banks, and limits on the amount of dollars citizens could take out of the country.

"The delay in the debt restructuring dug the hole deeper and deeper until there was blood in the streets," commented Charles Calomiris, an economist at Colombia University in the *Financial Times* (22 Dec 2001).

French Foreign Minister Hubert

Vedrine was reported in the French media as putting partial blame on the international financial institutions for the economic crisis in Argentina. "There has been a chain of political and economic errors, not just by the Argentines but also by international financial institutions. Demands have been excessive or at the wrong time," he told French radio.

Peruvian Economy Minister Pedro Pablo Kuczynski also accused the Fund of mismanaging the crisis. He said the Fund "did not sound the alarm in time and then took a very hard line when things were incredibly difficult." The role and effect of the IMF's involvement in the crisis may be an appropriate first area to look into for the new IMF Independent Evaluation Office (IEO) (see story below).

In a letter in *Financial Times* (24 December 2001), Professor Stephany Griffith-Jones of the Institute for Development Studies, UK, also criticised the IMF for putting "incredible pressure on a fragile democracy." She called for a debate on a new interna-

tional financial architecture to prevent further crises. On the issue of orderly debt workouts and standstills she laments the fact that "though there has been recent progress in the discussion, an international framework is still not ready—after so many years—for Argentina to use," and calls for urgent action by the international community.

The Bush administration and the IMF indicated that Argentina's new government would have to agree on substantial reform plans before external assistance could be considered. They reacted warily to the appointment of Eduardo Duhalde as Argentina's president. Duhalde has sworn to end the orthodox free-market economic policies that the country has followed for the past decade, saying he would "end an exhausted economic model" (*Financial Times* 3 January 2002). ©

www.fpij.org/commentary/2002/0201argentina.html
www.ft.com/argentina

IMF Evaluation Office announces programme

After putting its first proposed work programme to public consultation, the new IMF Independent Evaluation Office (IEO) has revealed the topics it will investigate in 2002. These include:

- fiscal adjustment in IMF-supported programs in selected low- and middle-income countries;
- the role of the IMF in three recent capital account crisis cases (Brazil, Indonesia and Korea); and
- the IMF's role in countries which have been repeat users of Fund financial resources.

A short-list of twelve other issues, from which the following two years' evaluations will be selected, has also

been released for comments. The list will be reviewed annually. The IEO intends to consult with both internal and external stakeholders to derive the detailed terms of reference for each study. External stakeholders will also have opportunities to comment on completed reports.

While the consultation processes seems to offer opportunities for civil society engagement, some irregularities have already emerged. Whilst external stakeholders were being invited to comment on the draft work-programme, a document had already been circulated to the Board and Ministries with details of the finalised programme. This paper was

not available to external stakeholders wishing to comment. A letter from several NGOs commented that, "It is unclear why the large menu of topics is the basis for public consultation when the IEO has already made firm decisions about 2002/2003 reviews. This sends a signal to outside parties that they are commenting on outdated information that is no longer the basis for discussion or decision-making."

The letter also called for:

- a right for outsiders to submit suggestions for evaluation topics to the office and to receive a written response;
- clear guidelines as to when and how

outside stakeholders will participate in the evaluations;

- notice to all participants that reports are publicly available;
- reviews not to be changed in the light of comments from IMF management. To help assess this, management's comments on evaluation reports should be published alongside the evaluation report and both submitted to the Board. ©

For details of the work programme:

www.imf.org/external/np/ieo/2001/eng/wp101901.htm

The IEO invites anyone who has done substantive work on issues related to the IEO's work programme to send it to:

ieo@imf.org

Turkey's political reward

Despite being in similar difficulties to Argentina and resistant to IMF-advocated structural reforms, IMF Managing Director, Horst Köhler, said he would recommend lending another US\$10 billion to Turkey in addition to its US\$15 billion standby loan. This was announced after it was estimated that the government needed it to cover a gap in its finances in the aftermath of 11 September. The favourable stance towards Turkey is widely interpreted as a political reward for its swift offer to send its troops to back the US-led campaign against terrorism, and to prevent destabilisation of the government.

Tax investors to finance bailouts

An alternative proposal to debt standstill is to create larger bailout funds. Edwin Truman, a former Assistant US Treasury Secretary and head of the Federal Reserve, has called for a tax on international investments to create a US\$300 billion International Financial Stability Fund administered by the IMF. Truman claimed that standstills were likely to "exacerbate the crisis and contribute to its spread to other countries". An annual charge of 0.1 per cent on the stock of international investment would raise \$25-\$30 billion a year that could be used for bailouts.

"It Takes Two to Tango"

This report by Jubilee Plus aims to raise debate on "the legal mechanisms" for making debt standstill mechanisms work. As senior policy makers fail to resolve the current crisis in Argentina, and after the collapse of "voluntary arrangements for reducing the debt burden", Jubilee Plus proposes an independent, orderly resolution of the crisis, within the framework of justice and fair to both the sovereign debtor and legitimate creditors.

www.jubileeplus.org/analysis/reports/tango_exec.htm

Investment rules website

The International Investment Rules Project has launched a new website and list-serve dedicated to providing coverage, critique, and links to the emerging rule-making and governance of investment in international, regional and bilateral investment rules and markets. The International Investment Rules Project is working to develop a governance framework for foreign direct and portfolio investment that promotes environmental sustainability, human rights, global security, and economic inclusion.

www.nautilus.org/enviro/Investment.html

Brown's "New Deal" suggests enhanced Bank, Fund roles

Gordon Brown's recent speeches on a "New Deal" for the global economy have been generally welcomed, especially for their suggestions that aid budgets should be increased. But some of his more detailed proposals on the World Bank and IMF are controversial.

The UK Chancellor of the Exchequer's first speech was made in New York just before the reconvened World Bank/IMF annual meetings last November. The second was in Washington in mid-December. Both made significant references to the World Bank and IMF. Brown suggested that rich countries should provide more aid. This could be pooled in an "International Development Trust Fund" administered by a committee led by the World Bank and IMF. Aid should continue to be linked to policy reform but lent at zero interest rates or given as grants to avoid creating future official debt problems.

Brown directly tackled opponents of the international institutions. He said "we shall not retreat from globalisation. Instead we will advance social justice on a global scale—and we will do so with greater global cooperation not less, and with stronger, not weaker, international institutions. We will best help the poor not by opting out or by cutting cooperation across the world, but by strengthening that cooperation, modernising our international rules and radically reforming the institutions of economic cooperation to meet the new challenges."

He said there was strong agreement that markets, private investment and the private sector were important. Yet "experience has moved us on from the assumption that, just by liberalising, deregulating, privatising and simply getting prices right, growth and employment would inevitably follow". Brown emphasised the need for competition, not just privatisation, public as well as private investment, and for proper financial supervision as well as liberalisation. He suggested that all can benefit if the poorest countries pursue stability, open up to more international trade and create the conditions for investment, while rich countries open markets and transfer resources to developing countries. The four foundations of his "new deal" are:

- national codes and standards, particularly for fiscal and monetary policy;
- corporate standards backed-up by the

creation of investment forums involving the private and public sectors;

- an improved trade regime, particularly for agricultural products;
- a substantial transfer of additional resources from the richest to the poorest countries through untied aid and debt relief.

Brown suggested that in the longer-term the fiscal and monetary codes and standards should be a condition of IMF lending. Officials and researchers from developing countries have argued against this on the basis that they have not been involved in designing the codes and standards and that the standards are too universal, not reflecting different country circumstances. Brown argued that both rich and poor countries would be required to implement them, but in practice poor countries would be under greatest pressure to do so since they require funds from the IMF and World Bank.

Brown, who chairs the International Monetary and Finance Committee, called for the IMF's role be enhanced in order to take on the task of monitoring and reporting on the codes and standards. He suggested the IMF's surveillance remit, for example through its annual Article IV reports in each country, be made more "independent of the inter-governmental decision making process and of decisions about crisis resolution". It is, however, unclear exactly what this would mean for the IMF's structure. Brown also called for more effective systems of crisis prevention and management, suggesting the need for an "international bankruptcy procedure" and expand the work of the Financial Stability Forum—which combines the IMF and key regulatory authorities—as an early warning system. ©

W www.hm-treasury.gov.uk/Newsroom_and_Speeches/Press/2001/press_126_01.cfm

W www.hm-treasury.gov.uk/Newsroom_and_Speeches/Press/2001/press_146_01.cfm

W www.guardian.co.uk/Archive/Article/0,4273,4312894,00.html

IMF proposes new debt standstill mechanism

In late November the new number two at the IMF, Ann Krueger, proposed that the IMF should support temporary debt standstills for indebted countries. Krueger described a new mechanism which would fill a "gaping hole" in the international financial system.

IMF backing for a suspension of debt payments would protect a country against private creditors taking legal action to recover debts in full, giving the government breathing space to work out debts in a more orderly fashion. The IMF has also indicated that it would support the temporary use of exchange controls during the standstill period, limiting the amount of cash creditors could take out of the country. In return the government would be expected to negotiate a restructuring agreement with its creditors and implement sound economic policies.

Both the US and the UK governments have expressed support for the idea. The standstill proposal is regarded as an alternative to huge IMF loan packages—given in recent years to Mexico, Indonesia, Thailand, Korea, Brazil and Turkey—which have been severely criticised for bailing out foreign investors whilst failing to prevent crises or support domestic enterprises. By forcing foreign investors to help sort out crises, it is argued a standstill mechanism would encourage them to make better investment decisions. Backing a voluntary standstill approach, the Bank of England and Bank of Canada argued in a November paper for strict, clear limits on IMF lending to crisis countries.

Krueger's proposal stops short of suggesting that the IMF should act as a judge in the debt renegotiation process. Each country must itself reach agreement with its creditors. Several NGOs and researchers linked to the Jubilee debt campaign, such as Kunibert Raffer of Vienna University, have advocated clear rules for debt restructuring procedures which treat debtors and creditors fairly. Many argue that the IMF should not be the administrator of such a mechanism on the basis that it is often a major creditor and that debts to the IMF have privileged status. Ann Pettifor of Jubilee Plus commented: "the process of negotiation between international

debtors and creditors should be overseen by an independent arbiter which listens to the views of all stakeholders."

Although the IMF will refrain from adjudicating disputes and verifying creditor claims, Krueger argues that the IMF should be central to a debt-standstill procedure: "The Fund's involvement would be essential to the success of such a system. We are the most effective channel through which the international community can reach a judgement on the sustainability of a country's debt and of its economic policies, and whether it is doing what is necessary to get its balance of payments back into shape and to avoid future debt problems." She also commented that the IMF would monitor the progress of any standstill agreement: "like an IMF-supported adjustment program, the standstill could be endorsed for limited periods and renewed following reviews of the country's economic policies and its relations with its creditors".

UNCTAD contests the IMF's role. Its recent *Trade and Development Report* states that: "the IMF Board is not a neutral body and cannot, therefore, be expected to act as an independent arbiter, because countries affected by its decisions are also among its shareholders. An appropriate procedure would thus be to establish an independent panel for sanctioning such decisions."

Whilst there has been a sudden flurry of activity around the standstill idea, creating a bankruptcy mechanism under the auspices of the IMF could take several years. It would probably entail a change in the Fund's articles of agreement, requiring an 85 per cent majority of the Executive Board. Approval by the US Congress is vital since the US has 17 per cent of the votes on the IMF Board. ©

For a longer article posted in mid-December, plus a list of recommended links, see

W www.brettonwoodsproject.org/topic/financial/f26insolvency.htm

See also: *Bank and Fund Take on Terror*, an article analysing the agreement at the World Bank and IMF annual meetings that the World Bank and IMF should play new roles in countering money-laundering.

W www.brettonwoodsproject.org/topic/reform/r26terror.htm

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Bank staff criticise “thought police”

The World Bank’s clumsy attempts to censor its own researchers have resulted in stinging criticism by Bank staff.

The latest edition of the World Bank Staff Association newsletter carries two editorials about Bank staff members who were disciplined after publishing separate articles in the *Financial Times*. Both have now left the Bank. The editorials question whether the Bank’s “public image matters more than germane research findings” and complain about the Bank’s internal governance mechanisms. These are important issues given the Bank’s ever-expanding publication and training agenda.

The Staff Association editorial comments that staff guidelines on getting articles approved before publishing “come perilously close to saying that staff members must not publicly suggest changes in the institution’s practice, past or present. How can the institution share ‘best practice’ that inspires any public confidence, if research staff cannot discuss ‘poor practice’ based on high-quality scholarship?” Senior Bank researcher David Ellerman, also writing in the newsletter, raises concerns that public relations staff come to act as “the thought police to the black sheep in the organization who—within public view—are not ‘on message’”. He urges Bank decision-makers to “begin fostering an atmosphere where the public exercise of critical reason and the open contestation of alternative views is welcomed”.

“There is no ‘Knowledge Bank’ only an ‘Opinion Bank’ and, worse still, an opinion bank with monopoly power.”

Steven J. Klees in NORRAG News, July 2001

The two cases discussed in the newsletter are those of William Easterly, who was a senior researcher in the Development Economics Department, and Ashraf Ghani, who was a lead social scientist in the Social Development Department. Their crimes were nearly identical: publishing articles in the *Financial Times* without adequate clearances from the Bank’s External Relations Department. Ghani contributed an opinion piece in the *Financial Times* in late September making suggestions about US policy towards his native

Afghanistan. When permission to publish was denied he said he would rather resign than be silenced, and was forced to take unpaid leave from the Bank. He is now working on secondment to the UN. Easterly has also taken a new job after being investigated by the Bank’s Ethics Office. He appears bemused by his treatment: his article was clearly marked ‘Personal Opinion’ and merely summarised the findings of a book he wrote for MIT Press with the blessing of his managers.

The former head of the Bank’s Ethics Office, Anita Baker, is candid: “we are not consistent in enforcement regarding publication. The Bank does not have good government, a good self-governing structure”. The Bank has loosely-worded and contradictory guidelines, providing lots of leeway for management clampdowns. Ghani is clear where Bank staff responsibilities lie: “As human beings, apart from our employment at the Bank, we have an individual moral obligation to the poor. It is only through individual moral decisions that Bank staff can transform the mission of the Bank from a mere statement into a collective reality”. Ellerman also comments that if the Bank does not stop adopting particular views as official wisdom there will be a continuing danger that “critical reason gives way to bureaucratic conformity; a community of development researchers gives way to a company of intellectual clerks”. He goes further: “there seems to be little reasoned basis for a development organization to explicitly or implicitly adopt official views on some of the most complex and subtle questions facing mankind”.

World Bank Staff Association Newsletter
November/December 2001

[www.brettonwoodsproject.org/
topic/knowledgebank/sanews.pdf](http://www.brettonwoodsproject.org/topic/knowledgebank/sanews.pdf)

[www.ellerman.org/Memos/
Memos.htm](http://www.ellerman.org/Memos/Memos.htm)

Recent briefings

Selected critical comments on the World Bank as Knowledge Bank

[www.brettonwoodsproject.org/
topic/knowledgebank/quotes.html](http://www.brettonwoodsproject.org/topic/knowledgebank/quotes.html)

Development Through the Looking Glass: the Knowledge Bank in Cyber-space

[www.brettonwoodsproject.org/
topic/knowledgebank/gateway](http://www.brettonwoodsproject.org/topic/knowledgebank/gateway)

Gateway claim denied

The power and control problems associated with the World Bank’s ‘knowledge’ agenda are confirmed by the recent response to the anti-corruption claim filed on the Bank’s Development Gateway internet scheme. Two prominent Uruguayan civil society members filed the claim to the Bank’s Fraud and Corruption Hotline last July. It alleged serious malpractice involving Bank staff responsible for the Gateway and in how the contract to manage the portal was awarded to the Bank. It also alleged that the Gateway was guided by an external affairs agenda, not a neutral knowledge-sharing one.

After five months of ‘investigation’ the supposedly independent Hotline sent a curt one-page reply merely listing some official documents which were supposed to address the issues raised. Roberto Bissio, Director of the Instituto Tercer Mundo and one of the claimants, commented: “They didn’t seem to have taken much effort in trying to answer the points. It is outrageous.”

Meanwhile the Bank is trying to extend the Gateway’s reach by setting

up new Country Gateways. These are effectively national subsidiaries of the main internet site. Tanzania is one country the Bank is targeting for such a Gateway, but it is finding it hard to drum up support. A statement from the Tanzanian Association of NGOs urged a boycott of the Development Gateway and support for “smaller, African based websites which allow local communities to define their own development issues”.

www.tango.or.tz/cvsctbrf.htm
#Boycott World bank Gateway

[www.brettonwoodsproject.org/
topic/knowledgebank/gateway](http://www.brettonwoodsproject.org/topic/knowledgebank/gateway)

Gateway facts

- About half of the topic editors are Bank staff.
- The multi-million dollar contract to manage the portal was awarded to the Bank without competitive tendering.
- No independent governance structure is yet in place

Book examines World Bank campaigns

Civil society work on the international financial institutions is analysed in a new book. *Global Citizen Action* contains contributions from researchers and campaigners assessing Bank/Fund monitoring, Jubilee 2000, and other campaigns on issues such as landmines and the environment. The analysis will make stimulating reading for everyone working in related areas.

The introduction by Mike Edwards stresses that the book is not intended just to praise civil society achievements but to analyse problems with its legitimacy and effectiveness. He says that global citizen action on the World Bank and IMF is arguably “the area in which NGOs and others have made the most visible progress in their lobbying over the last ten years” but that a huge agenda remains.

In his chapter Paul Nelson comments that NGOs targeting the World Bank may have inadvertently contributed to “larger trends that are shifting key policy decisions and authority into the international arena”. Manuel Chiriboga, writing about Latin American civil society, also takes up this concern. He says NGOs have to target not only international institutions but also their own governments. He points to the Brazilian Network on the Multilaterals as a good but rare example of balancing international and national work. It

collaborates effectively with the Brazilian Congress to increase the accountability of government officials who negotiate with the World Bank and other multilaterals.

Jan Aart Scholte finds that IMF staff have normally “favoured debate with counterparts in mainstream think-tanks and business associations [while] civic groups that pursue a deeper critique have consistently had more limited access and a less attentive audience”. Thus little progress has been made in IMF policy on key social and environmental matters.

With other authors, Scholte also questions how representative are the civil society actors most active in advocacy towards international institutions. He urges civil society groups to “clean up their act as—and preferably before—it promotes better governance at the IMF”. In the book’s conclusion, John Gaventa aims recommendations at both civil society and public policy institutions. He says such global-level institutions will only become truly inclusive and participatory when they “alter their internal incentives and rewards, decision-making structures and knowledge systems”. Absorbing the knowledge in this book is a good place to start.

Global Citizen Action, published by Earthscan

World Bank role in Afghanistan unclear

After the first two donor conferences on the reconstruction of Afghanistan—in Islamabad in November and in Brussels in December—some people worry that reconstruction funds could easily be misused and fuel continued civil strife. Others worry that reconstruction efforts will fail unless regional concerns are addressed from the outset.

Kaiser Bengali, managing director for Karachi-based think-tank Social Policy Development Centre, pointed out that little effort had gone into involving Pakistani officials, NGOs and businesses in the Islamabad meeting. Instead the focus was entirely on forging new direct relationships between the international donor community and the Afghan people. He warned that “if foreign companies monopolize the entire bounty of reconstruction contracts in neighboring Afghanistan, the discontent will breed among the Pakistani middle class and business community. This is a recipe for militancy and extremism in the future”.

The Brussels conference stressed that unless donor governments make long-term commitments, the continued stranglehold of Afghan warlords will threaten the country’s redevelopment. US Agency for International Development administrator Andrew Natsios said funds for reconstruction, if misused, could “strengthen the centrifugal forces that will once again tear apart the country.”

UNDP estimates reconstruction of Afghanistan will cost US\$7-12 billion for the first five years alone. Yet these figures are at best guesstimates according to Bengali, who pointed out there is little reliable up to date data on Afghanistan’s economy and that more detailed needs assessments are urgently needed.

The World Bank’s approach paper proposes an external mechanism to manage reconstruction in the form of a trust fund “administered by an organisation which has the capacity to provide professional approaches to assistance strategy formulation, project appraisal, financial management, procurement, environmental and social safeguards and donor coordination.” It presumably means the Bank itself. An initial trust fund to support the interim government will be administered by UNDP. The World Bank’s role in financing reconstruction efforts is still unclear.

“We do not begin this work on a blank slate,” commented William Byrd, World Bank Acting Country Manager for Afghanistan at the Islamabad conference. “We will be

building on the analytical work that the Bank and partners have been producing in recent years and on international experience with post-conflict reconstruction elsewhere.”

The reconstruction strategy proposed by the World Bank intends, among other things, to “restart private sector-led growth” for the country while keeping bureaucracy and public administration to a minimum. It suggests scaling up the better existing programmes of service delivery by NGOs in the absence of a functioning public sector. A recent World Bank study (see article *Doing well out of war*) suggests that among the best ways to prevent civil war—which often spawns terrorism—is to promote economic growth and in particular manufacturing, so as to diversify economies away from dependence on commodities.

The serious need for international financing for reconstruction stands in contrast to what critics fear will be a “reborn colonialism” where coalition interests dominate strategies drawn up by the IFIs. The role of the IFIs in the security, peace and post-conflict sector is hotly debated. An article in the *Conflict, Security, Development Journal* (1:1, 2001) claims that a governance approach to the security and reconstruction sector is well within the mandate of the Bretton Woods institutions. Peace and security has also been defined as a global public good and, as such, should receive financing from global sources. Thus the World Bank, IMF and regional development banks have an important role to play in this sector.

Nonetheless, a report funded by the Swedish Ministry for Foreign Affairs (*Financing Global Public*

Goods, 2001) recognises that “decisions to provide loans and credits to other nations are inherently political and cannot be separated from the larger framework of international relations.” The report also says that while multilateral development banks (MDBs) play a significant role in detecting signs of instability or conflict, the strong position of large regional member states in the Board might make it difficult for MDBs to engage in an effective post-conflict dialogue.

This issue was debated at a seminar in Stockholm last October. One participant stressed that “banks have no role to play” in conflict situations because their loan financing is too expensive in a volatile situation. It suggests that grants not loans should be the main source of financing until basic institutional structures are re-established under UN auspices. Others agreed that the World Bank role in a conflict area should be very limited. “Political value systems underpin everything,” commented Francisco Sagasti, Special Advisor for University for Peace of the United Nations. “There are no technical answers to political questions,” he claimed.

Proposals from these two first reconstruction conferences will be debated at a ministerial-level conference on post-conflict Afghanistan in Tokyo 21-22 January 2002. ©

www.worldbank.org/afghanistan

specials.ft.com/afghanfuture/

A longer article on the World Bank and Afghanistan’s reconstruction is at:

www.brettonwoodsproject.org/topic/adjustment/a26afghanistan.htm

“It is vital to ask: what are the systems of collusion and exclusion that evolve in peacetime, how are these modified, transformed or preserved in wartime, and, finally, how are they institutionalised when peace is restored?”

David Keen, London School of Economics

Doing well out of war

The importance of economic agendas in contemporary conflicts has been the focus of a series of recent papers by Paul Collier, Director of the Bank’s Development Research Group. His basic argument is that recent civil wars have been driven overwhelmingly by greed rather than political grievances.

A number of people have criticised Collier’s findings. David Keen of the London School of Economics cautions about the validity of the econometric analysis Collier uses to back his conclusions. “You can’t directly put a number on greed or grievance”, he warns. A heavy reliance on the export of primary commodities—taken by Collier as a proxy for greed—could easily be taken as an index of underdevelopment and hence of the grievances which underdevelopment has instilled. Low educational levels are for example also taken as proxy for “greed” rather than for “grievance”.

“I think it is true that even intense grievances do not necessarily lead to rebellion. Indeed this is in large part how extreme inequality develops and persists in the first place,” commented Keen. “It may be more reasonable to conclude from Collier’s figures that severe political repression is often effective, than to conclude that rebellions, when they do occur, are not motivated by grievances.” He also points out that “stigmatising rebels as entirely illegitimate also carries the risk of legitimising brutal counter-insurgency and avoiding the difficult question of how reconstruction might lead to a society where grievances were less intense.”

The World Bank’s analysis also fails to analyse how greed and grievance interact. Part of this should involve looking at how greedy individuals manipulate the grievances of others. There is a lack of attention to the manipulation of conflict by ruling elites for profit and power. Collier touches on this problem only extremely briefly.

The World Bank claims, however, that the research is “directly policy-relevant and will produce several important insights and prescriptions, specifically ... to identify the best possible strategy for the Bank’s resource-allocation decision with respect to conflict.” ©

www.worldbank.org/research/conflict/papers/greedandgrievance.htm

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www.worldbank.org/research/conflict/policy.htm

Extractive Industries Review gets harsh reception

NGOs say the World Bank's Extractive Industries Review (EIR), launched at a workshop in Brussels at the end of October, has severe shortcomings. The EIR is an international consultation process aiming to produce recommendations to guide World Bank Group involvement in the oil, gas and mining sectors.

Four main "interest groups" are to be consulted during the review: governments, business, civil society and the Bank itself.

However many NGOs are concerned that the review process will not be adequately independent of the World Bank, that different stakeholders may not get their views adopted and that the Bank may not adopt its recommendations. An analysis by the Institute for Policy Studies, USA, comments that: "from the beginning, World Bank staff have promised a process that was transparent, inclusive, and participatory. To date, the EIR has failed on all of these counts". The Bank has claimed that this review will be similar to the World Commission on Dams (wcd). However, civil society organisations such as Philippine Indigenous Peoples Links argue that this process does not "bear comparison" with the wcd. Whereas the wcd had twelve commissioners, who were chosen by consensus among stakeholders, the EIR relies on a single "eminent person" as the ultimate decision-making authority.

The Terms of Reference has also come under fire, because it states that the oil, gas and mining "industries make a positive contribution to sustainable development and poverty reduction". NGOs feel this

predetermines the conclusions and, as Friends of the Earth put it, "the EIR [is] only a process for legitimising further World Bank engagement in the sector."

At the planning workshop in Brussels, concerns were raised about the tight time constraints for the review process. Emil Salim, the former Indonesian environment minister chosen by the Bank to be the eminent person leading the review, said this was because a draft report must be prepared by the World Summit on Sustainable Development in early September. NGO and company representatives also raised other concerns. These included the EIR's inadequate independence from the World Bank Group, especially as the EIR Secretariat will be located inside the Bank's buildings. They also said that the oil, gas and mining sectors were diverse and hard to assess in one review.

In early January there were signs that a number of NGOs are losing patience with the EIR and are unlikely to participate. ©

www.forestpeoples.org

www.minesandcommunities.org/Charter/pipletter.htm

www.eireview.org

Arrests of Tanzania mine activists

In late November the Tanzanian authorities took action against an organisation which has been investigating the death and dispersal of artisanal miners at a project backed by the World Bank Group. They arrested Rugemeleza Nshala, President of the Lawyers Environmental Action Team (LEAT), and raided the house of another LEAT lawyer, Tundu Lissu, as well as the National Chairman of the Tanzanian Labour Party.

LEAT had been investigating the alleged killings of 62 small-scale miners and eviction of thousands more at the Bulyanhulu mine in August 1996. The arrests came just a few days after LEAT had called a press conference to reiterate its demand for an international commission of inquiry to investigate the alleged killings.

International NGOs have supported LEAT's demands for such an inquiry and have been asking the Bank to help establish one. Since the arrests they have also been asking the Bank to intervene to help stop the intimidation of the Tanzanian organisations investigating the case.

The Bank is supporting the Bulyanhulu mine through its private sector investment arm, the Multilateral Investment Guarantee Agency (MIGA). In 2000, MIGA issued a US\$115 million guarantee against political risks to a syndicate of banks for their loan to Kahama Mining Corporation Limited, a subsidiary of Canada-based Barrick Gold Corporation. In March 1999 a US\$56 million guarantee was also issued to Barrick.

While the alleged killings and evictions took place prior to MIGA's involvement in the project, LEAT and others have pointed to what appear to be major failures in MIGA's due diligence procedures with regards to Bulyanhulu. LEAT claims that Barrick

failed to disclose to MIGA information on the alleged killings and forced evictions. Barrick also did not mention the existence of legal proceedings on these allegations that were pending in the Tanzanian courts. LEAT also claims that the Bank officials who visited the site were told of the forced evictions and killings by a representative of the Bulyanhulu Miners Committee, but did little.

LEAT has also challenged the legality of Barrick's prospecting rights to Bulyanhulu, maintaining that no licence was issued at the time the evictions and alleged killings took place. The Bank had plenty of information about the Tanzanian mining sector as it was backing a mining law reform programme throughout much of the 1990s. This involved rewriting mining sector legislation to liberalise licensing regulations and taxes to encourage private companies to operate. ©

A longer report, plus a selection of links on Bulyanhulu

www.brettonwoodsproject.org/topic/social/a26bulyanhulu.html

www.minesandcommunities.org/Company/bulyanhulu1.htm

Bankspeak of the year 2001

"Investment climate results need to be integrated into integrative due-diligence ESW products, such as country economic memoranda and development policy reviews and programs."

Private Sector Development Strategy, p. 49, 3 December 2001

Ugandan dam approved

In late December the World Bank approved the Bujagali dam, Uganda. This is a controversial project involving US power company AES. Ugandan and international NGOs have raised concerns that the dam is a bad economic deal which will not bring electricity to the majority of Ugandans. Alternative power sources have not been seriously analysed and the dam will destroy Bujagali Falls. Frank Muramuzi of Uganda's National Association of Professional Environmentalists commented: "It is not obvious how supplying electricity at these rates in such a poor country will contribute to poverty reduction."

www.irm.org/programs/bujagali/index.asp?id=011217.wbapprove.html

Database on 'dirty' Bank projects

A new database catalogues World Bank projects since 1992 which have involved fossil fuels. Produced by the Institute for Policy Studies, it catalogues 200 projects, with over \$20 billion of World Bank investment. For each project the anticipated lifetime greenhouse gas emissions are calculated. IPS points out that the efforts of the World Bank-hosted Global Environmental Facility in backing alternative energy and energy efficiency projects are dwarfed by the Bank's traditional energy sector investments. "From the local level to the global level investment in oil, gas and coal is destabilizing for all of us," says IPS's Daphne Wysham.

www.seen.org/db

Vietnam mangrove forests

The World Bank's role in damaging or endangering the mangrove forests of Vietnam (and their inhabitants) has been the subject of an article and exchange of letters in the Bulletin of the World Rainforest Movement. An article by Chris Lang examines the Bank-funded Coastal Wetlands Protection and Development project. Lang comments that "In the context of ever increasing shrimp exports, simply moving villagers and planting mangrove trees is unlikely to solve the problem". This provoked a strong response from the Bank, and a further letter from Lang.

www.wrm.org.uy/bulletin/51.html#Vietnam

www.wrm.org.uy/bulletin/52.html#Vietnam

World Bank grants plan 'crazy'

Disagreements between donors about how much grant money the Bank should give to the poorest countries has held up replenishment of the International Development Association (IDA), Bank's soft-lending arm. The US proposes to spend 50 per cent of IDA money in grants, but Clare Short, Britain's development minister has described this plan as "crazy." The UK is concerned that IDA might be weakened unless more money is provided. The UK is producing a briefing note on the grants issue prior to the next IDA negotiations in early February.

www.dfid.gov.uk

www.worldbank.org/ida/

Divergent views on PRSP progress

A new report compiled from workshops organised by Jubilee South, Focus on the Global South and other southern civil society groups claims structural adjustment logic and policies essentially remain unchanged in PRSPs. Other reports prepared for the World Bank and IMF's PRSP review have been more positive.

The Southern civil society study points out that the PRSP process limits national ownership. "When advising governments on PRSP preparation, Bank-Fund missions come prepared with their perspectives on the country's poverty situation, their analysis of the country's obstacles to economic growth, their menu of policy options, and their views on how to mobilise resources for the PRSP, including external donor assistance," the report argues.

The workshops, on which the report is based, also concluded that:

- focusing on poverty reduction and the PRSP has narrowed space for discussing broader development issues and alternative models;
- the IMF-WB growth-oriented development model could be in conflict with poverty reduction goals and in some cases "reproduce" poverty;
- debt relief and poverty alleviation (HIPC and PRSPs) should be delinked as linking the two causes unnecessary time pressures and greater leverage for the IFIs.

The report also argues that participation has not included the poorest and has been largely a process of consultation to legitimise pre-existing plans. In some cases, the report points out, civil society organisations may have been better off focusing their scarce resources on more pressing matters.

Another concern is that "PRSPs and IFI involvement at the level of civil society appears to be feeding a gradual, but growing segregation of societies into those who can, and those who cannot participate in negotiations over poverty and development planning." This in turn erodes local political capacities for representation.

In contrast, a review by the IMF of PRSPs in Uganda, Burkina Faso, Tanzania, Mozambique, Mali and the Gambia, found "increasing commitment to poverty reduction amongst government and donors, and encouraging broad participation in the policy dialogue". It also found diversity amongst PRSPs, attributed to differences in "country starting points; political, economic and social contexts; donor support; and country capacity" indicating that "a blueprint approach has been avoided."

However, it also admits that "in most of the sample cases the macro-economic framework and three-year policy matrix has drawn at least partly from the current Fund-supported PRGF [Poverty Reduction and Growth Facility] program". The paper finds that civil society engagement in policy dialogue on the macro framework has been impeded by a lack of capacity. It also notes that the linkages between macro policies, structural weaknesses, social policy,

good governance and poverty impacts were not clear.

The IMF review also notes that poverty analysis has typically focussed on income poverty and access to health and education although in some countries there has been an effort to assess security, vulnerability and powerlessness. It admits poverty monitoring remains weak but civil society has been involved in selecting criteria in the completed PRSPs. Assessment of the resource implications for funding a PRSP also remains very weak. Citizen involvement in budget processes can help to prioritise expenditures and increase transparency.

The IMF report further notes greater government ownership with key government officials managing the process (although sometimes limited to a small number of ministries). They see this as an indicator of "a greater commitment to broader participation in policymaking and a more diverse dialogue on poverty issues through direct consultations with stakeholders, including poor communities." ©

The World Bank and the PRSP: Flawed thinking and failing experiences.

www.worldbank.org/poverty/strategies/review/jsouth1.pdf

Other submissions to the PRSP review:

www.worldbank.org/poverty/strategies/review/extrev.htm

IMF paper, *Reviewing Some Early Poverty Reduction Strategy Papers in Africa.*

www.imf.org/external/pubs/ft/pdp/2001/pdp05.pdf
crobb@imf.org

Poverty Reduction Strategy Papers-Progress in Implementation, prepared for the IMF and World Bank Annual Meeting:

www.imf.org/external/np/prsp/2001/091401.htm

Ethiopia PRSP on the Web by InterAfrica Group

www.mesob.org/prsp.htm

Call to cease forestry lending overruled

The Centre for Environmental Law and Community Rights (CELCOR) in Papua New Guinea filed, in early December, a claim to the World Bank inspection panel after illegal logging made some 300 landowners "lose their land and forests through bad forest governance". This happened during a US\$90 million Governance Promotion Adjustment Loan (GPAL) by the World Bank to the government of Papua New Guinea. This was partly intended to improve forestry management "through legislative, institutional and economic reforms".

Landowners called on the World Bank to suspend the second tranche of the loan until illegal logging in the Western Province surrounding the Kiunga-Aiambak road project was stopped. They also demanded new logging concessions should be withheld until there is effective forest sector reform.

"It is high time the World Bank follows its approved policies on governance issues," commented Damien Ase, Executive Director of CELCOR.

The call to the World Bank inspection panel was registered on 3 December 2001. On 20 December, despite this call, the World Bank approved the release of the US\$35m second tranche under the GPAL for Papua New Guinea. In addition to forestry reform, the GPAL is to support fiscal transparency, combating corruption, budget and debt management, institutional reform, health and education services, privatisation of the banking and other sectors. ©

celcor@datec.com.pg

www.worldbank.org/inspectionpanel

World Bank support in Papua New Guinea:

www.worldbank.org/pg

Link budget to PRSP

The budget in Zambia should be linked to poverty reduction priorities, urged the Catholic Commission for Justice and Peace (CCJP) in a statement submitted to the government in October 2001. CCJP recommends that the 2002 budget be guided by the fundamentals underpinning the Poverty Reduction Strategy Paper. "The PRSP should not be seen as a stand-alone document but an integral part of the budget," the statement says. It calls for mid-term budget reviews at the provincial and district levels, involving civil society and other stakeholders outside the government.

www.ccjp.org.zm/2002pre_back.htm

PRSP monitoring unit established

The Overseas Development Institute (ODI) has set up a PRSP Monitoring and Synthesis Project. It is funded by the UK's Department for International Development and will provide analysis to DFID staff. The project will produce a regular newsletter, briefings and in-depth reports. The first two newsletters and a synthesis report on key findings of the PRSP process to date are available on the unit's website.

www.odi.org.uk/ppgp/synthesis_project.html

Bank shuns dialogue results

Two civil society groups have criticised the World Bank for failing to live up to its promise of working more with communities affected by its policies and operations. Civil society initiatives undertaken by the Bank in recent years have not been satisfactorily followed up, says a joint statement by The Development Group for Alternative Policies and the International Rivers Network. These groups played leading roles in the Structural Adjustment Participatory Review Initiative and World Commission on Dams, two major examples of Bank-NGO dialogue in recent years.

www.developmentgap.org/DGAP%20IRN%20Release.PDF

Rethinking development economics

Development economics needs to be revived "not as a 'deviant' branch of mainstream economics, but as a subject that can aid our understanding of the acute problems typically faced by developing countries," concluded a meeting organised by UNRISD and Ford Foundation in South Africa. Participants identified research themes, strategies of influencing policy debates and ways of disseminating new thinking on development.

The background papers are available at:

www.unrisd.org/engindex/research/rethink.htm.

Bank prepares major report for sustainability summit

A World Bank team is currently preparing the next *World Development Report* which will be launched at the World Summit on Sustainable Development this September. However despite the wide interest in the report's subject matter and the sensitive timing of its release, the Bank has produced no clear plan for outsiders to be involved in the drafting process.

The overall aim of the report is to examine how "poverty and marginality are associated with the fragility of ecosystems". Titled *Sustainable Development with a Dynamic Economy*, the report will try to assess the sustainability of different development paths over the next twenty to fifty years. Although the report team consists of six Bank economists it recognises the need to move beyond traditional analysis of economic output and consumption. A leaked September 2001 outline also says it aims to examine the relationship between economic growth, natural resources, quality of life and inequality, including global inequality. Rather than just pointing out theoretically optimal policies, it will discuss the "social and political context" which prevents or enables such policies to be pursued.

Bank steps up journalist training

At the World Water Forum, Bonn, the World Bank distributed flyers advertising a training programme for journalists running up to the World Water Forum 2003. The Bank is lending a deaf ear to the concerns of its own former Director of Information and Public Affairs that it is not an appropriate organisation to train journalists.

www.brettonwoodsproject.org/topic/knowledgebank/k23mediatrain.html

Many of these indications are welcome. However without adequate external scrutiny, some of the stronger arguments are likely to be diluted by the time that it is finally published and promoted. In particular, assertions such as sustainable development "will require changes in production and consumption patterns in developed countries in order to avoid risks of irreversible environmental degradation or social disintegration" will be vulnerable to attacks from major Bank shareholder countries. During the drafting of the *Poverty World Development Report*, powerful governments and Bank factions applied such strong pressure

to the report's lead author that he was forced to resign.

The lead author of this report, Zmarak Shalizi, intends to include a final chapter setting out "open questions which could not be resolved". This section, detailing the most 'controversial' aspects of issues where further dialogue will be necessary, would be an important innovation for the Bank, which generally believes that any issue can be resolved if you throw enough statistics and references at it. Again, however, it is unclear how to determine which issues remain controversial without a vigorous and wide debate.

The WDR team's September outline recognises that "credibility is enhanced by anchoring policymaking in transparency and open popular discourse" and that "civil society can be instrumental in providing the necessary pressure for government and its institutions to evolve positively". However, the same document recommended only allowing very limited and rapid external review on sections of this report. Shalizi argues that he has been given less time than previous WDR teams and says he will post some or all of the draft report to the Bank's website in mid-March.

For such a major report from a public institution which will be widely disseminated at a vital policy summit meeting, the Bank should be doing more. Rather than batten down the hatches after the resignations of his predecessor Joe Stiglitz and the fiasco of the Poverty WDR, the Bank's Chief Economist Nick Stern should realise that the only way to re-establish the WDR's credibility is to open up the process of report writing. The Bretton Woods Project will continue to press for a full draft of this year's report to be made available for consideration in an electronic conference. The Project is also discussing plans for producing a commentary on the report's content and process to coincide with its release. ©

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To be added to a mailing list for information on this Report during the year, contact:
● wdr2002@brettonwoodsproject.org

Further information about this report, and WDRs in general, is available at:
● www.brettonwoodsproject.org/topic/knowledgebank/wdrs

● www.worldbank.org/wdr/2002

Bretton Woods Project job available

The Project now has a vacancy for a Communications and Research Officer. The main tasks are to research and produce articles and maintain the database and website. Applicants need knowledge of the World Bank and IMF and proven experience writing on global policy issues for newsletters and websites.

Charlotte Carlsson is leaving the Project to join the European Centre for Development Policy Management, Maastricht. She will work on the Cotonou agreement between Europe and countries in Africa, the Caribbean, and the Pacific.

● www.brettonwoodsproject.org/about/jobs.html
● jobinfo@brettonwoodsproject.org

New UK ED at Bank and Fund

Tom Scholar has replaced Stephen Pickford as the UK's Executive Director at the World Bank and IMF. Scholar was previously an adviser to Gordon Brown based in the UK Treasury. He told the Bretton Woods Update: "Transparency is central to the work of the World Bank and IMF, and both institutions have done much to strengthen this in recent years. The UK government very much welcomes this and is grateful to the Bretton Woods Project and other NGOs for their work in pushing this forward. We are committed to maintaining an open dialogue on these important issues."

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For a full list of EDs see:

● www.bicusa.org/mdbs/wbg/execdir.htm

New briefings on brettonwoodsproject.org

The Project is now posting more regular briefings to our website in between Update postings. To get notice of these as they appear, send an e-mail to: subs@brettonwoodsproject.org marked "web alert" in the subject line.

Bank and Fund watchers must watch WTO

● www.brettonwoodsproject.org/topic/adjustment/a26wtobrief.html

Development through the looking glass: the Knowledge Bank in cyber-space

● www.brettonwoodsproject.org/topic/knowledgebank/gateway/index.htm

Bank and Fund take on terror

● www.brettonwoodsproject.org/topic/reform/r26terror.htm

World Bank-led meeting on Afghanistan causes concern in Pakistan

● www.brettonwoodsproject.org/topic/adjustment/a26afghanistan.htm

Glossary of World Bank and IMF terms

● www.brettonwoodsproject.org/about/basics.html

Calendar of selected international meetings, 2002

● www.brettonwoodsproject.org/action/Events/2002int.html



Published by Bretton Woods Project

Working with NGOs and researchers to monitor the World Bank and IMF

ISSN 1471-1168

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Supported by NGOs in the Development and Environment Group and by the CS Mott and John D and Catherine T MacArthur Foundations