

Window of opportunity on IFI governance

Many people have long complained about the governance of the International Financial Institutions. Now there is a rare window of opportunity to change this. The Development Committee—the supreme decision-making body for World Bank strategy—is due to discuss reforms to the governance structure at the Spring Meetings this April. This represents an excellent opportunity for civil society groups to raise awareness about the institutions’ many governance shortcomings and press for significant change.

At the last Bank/Fund Annual Meetings it was agreed that Bank staff would draw up a paper on governance reform options. This is now being prepared by a team led by Thomas Bernes and is likely to be ready in early February. The Bank states that this is just a background document setting out various options put forward by a range of commentators. One well-placed aid ministry official told the Bretton Woods Project however, that they “were not expecting anything particularly radical and earth-shattering from the World Bank staff” who are not in a strong position to recommend a substantial shake-up of their own institution.

The South African, British and some of the Nordic governments have been championing governance reform in recent years. But they face strong resistance to change from some other major shareholders, including the USA and some European countries. Such unwillingness may well mean that little is decided in

“...the US gets the World Bank and Europe gets the IMF...
What about the rest of the world? This is disgraceful.”
Clare Short on the selection of the heads of the WB and IMF

April, just a limited announcement of minor measures and establishment of a vague future process.

The likely options that will be examined include: increasing the voting shares of developing countries in the Bank Board, increasing the number of Executive Directors on the Bank’s Board, and initiatives to assist developing country EDS to analyse and negotiate. On the capacity-building agenda there is a high degree of consensus which may result, for example, in the establishment of a new resource centre in Washington for African countries.

Significant change in IFI governance however, will mean going beyond increasing the number of researchers available to Southern

governments to tackle the structure of decision-making at the Bank and Fund. Many governments signed up to language at the UN conferences on Financing for Development and on Sustainable Development last year about the need to improve the governance of global economic institutions. At Monterrey it was agreed that the IMF and World Bank should “continue to enhance the participation of all developing countries in their decision-making”.

The arguments against giving more power to developing countries are weak. The Bank and IMF are now far less reliant on rich country contributions than when they were founded. As repayments of existing loans constitute a significant pro-

portion of the Bank’s income “the financial case for strong developed country dominance on the World Bank Board has weakened considerably”, argues Professor Stephanie Griffith-Jones. Other institutions, such as the regional development banks, already give a far larger voting share to borrower countries. Despite this, increasing the number of developing country representatives on the Bank and Fund Boards will be an uphill struggle, despite the fact that just two Executive Directors currently face the near-impossible task of representing forty-six African countries.

One of the most glaring problems with the governance of the institutions is the manner in which their leaders are selected. There is an unwritten convention that the head of the IMF is chosen by the European governments whilst the World Bank presidency and IMF deputy head positions are in the hands of the US administration. This arrangement was recently condemned by Clare Short, UK development minister, as “an outrage”, but it is by no means clear that there is sufficient political will in the USA and Europe to shift entrenched positions. A new Bank President will have to be found in about two years time, just at around the same moment that the head of the World Trade Organisation will be changed. The Bank and Fund should learn from the problems which occurred during the last head selection processes for the WTO and the IMF and institute new processes.

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Indonesian experience casts doubts on Bank anti-corruption efforts

In recent years the World Bank has made much of its commitment to combating corruption. But a recent briefing by Down to Earth—the International Campaign for Ecological Justice in Indonesia—complains that in Indonesia the Bank's Department of Institutional Integrity has not been sufficiently transparent and achieved limited results.

This is partly because the Bank has an incentive to maintain high levels of lending, even if this means turning a blind eye to money going missing.

By June 2002 the Bank office in Jakarta had received 231 corruption-related complaints, most of them alleging procurement irregularities. Seven cases involved specific allegations relating to bribery and misuse of funds. One hundred and ninety cases had been reviewed by Bank staff and the Government of Indonesia and considered closed.

The Bank says that actions taken relating to these complaints include barring firms from participation in future procurement, the government refunding the Bank for expenditures which were ineligible for Bank financing, re-tendering of procurement, and sanctions by government for fraudulent advertising.

But Down to Earth complains that the Bank "does not disclose critical information, such as the time frame for reviewing a corruption allegation, number of cases received within a certain period of time, types of cases, actions taken on each case and how proven corruption cases are settled".

The Bank's Department of Institutional Integrity conducted an audit on the Bank-funded Sulawesi Urban Development Project II (SUDP-II) in

early 2002. Despite a severe problem of missing documentation, the review found evidence of collusion among bidders and common ownership of shell companies. The review also found inadequate project oversight by implementing agencies and consultants, which resulted in contract non-compliance, failure to complete work, and changes in contracts without appropriate approvals. Similar problems were found in financial management.

Even some Bank staff have expressed scepticism about the seriousness of this review. John M. Miller, Team Leader from 1998 to 2002 of the Project Coordination Office of SUDP-II, categorized the Bank as a willing partner in the corrupt system in Indonesia. The Bank's focus, said Miller, has always been on "pushing money" rather than on the quality of loan design and preparation. ☹

The World Bank's Anti-corruption Strategy and Institutional Integrity Department: Effective in Combating Corruption?, Down to Earth Factsheet, December 2002
 ☹ dte.gn.apc.org/Af27.htm

Department for Institutional Integrity, World Bank
 ☹ wbln0018.worldbank.org/ACFIU/acfiuweb.nsf/Resources/OFDFFFE89E3669A285256820006500B7

Europeans urged to coordinate in WB, IMF

Senior officials have recently backed closer European government collaboration on World Bank and IMF policies.

European Trade Commissioner Pascal Lamy said the lack of a unified representation of the euro zone at the IMF or at the World Bank is "a strong handicap to our common external relations." Fritz Fischer, a former German Executive Director to the Bank said if current and future EU members pool their voting shares they would have 32.03 percent and 27.91 percent stakes in the World Bank and IMF, overturning the US majority. Such proposals have so far found little interest among government ministers however, who are keen to retain their governments' individual Board seats.

Send ministers, not officials, to WB & IMF

Dan Plesch, of the Royal United Services Institute, has proposed sending ministers, not officials to represent governments at key international institutions. He argues that this "would make the process far more open and clear as politicians exist to make change and get in the public eye, whereas the whole culture of diplomacy is just the opposite. We would at last start to build up a wider group of people who understand how international politics works... there are very few MPs with experience of international decision making."

☹ www.observer.co.uk/comment/story/0,6903,837351,00.html

Turkey to test Fund independence

A geo-political power struggle is emerging over Turkey's compliance with a host of proposed economic reforms included in a \$16 billion IMF loan package. Before November elections which brought the Justice and Development Party (AKP) to power, party chief Recep Erdogan pledged to "re-examine each article of the [IMF] program, and ask for the changes that we deem necessary." Erdogan later specified that his government wanted to re-negotiate IMF-backed farm policies, indicating that continued government support would be necessary for Turkish sugar producers to access world markets.

After meetings with the new government in early December, Michael Depler, the Fund's European Director put a positive spin on developments: "I've been quite impressed by the unity of this government. What is nice to see is a consistency of views across the government." This view may have come from progress made on a massive Fund-sponsored plan to sell off more than \$4 billion in state assets including an oil refinery, a petrochemicals firm, the tobacco and alcohol monopoly, and the national airline.

"We will re-examine each article of the IMF program, and ask for the changes we deem necessary."

No sooner had it been uttered than there was a breakdown in the "consistency of views across the government", as a 1 January deadline was missed for meeting yet another Fund conditionality, the establishment of a new system for awarding public works tenders. The World Bank claims Tur-

key lost more than \$50 billion from its failure to introduce such regulation in the 1990s. Opinion within the new government is divided between Abdullah Gul, the prime minister, who favours introducing the new system, and party chief Erdogan. Erdogan, who is likely to take over as prime minister in February, has said the new law would benefit big business to the detriment of smaller contractors.

After a meeting in Istanbul with Turkish government officials on 16 January, IMF First Deputy Managing Director Ann Kreuger sounded a cautious tone: "in the coming weeks, the government needs to take further steps toward ensuring a viable fiscal position, a sound banking system, and an improved business environment."

Struggles between the government and the Fund are being played out as Turkey prepares to play a key role in a US-led war on Iraq. Turkish Foreign Minister Yasar Yakis has said his country would not abandon ties with Iraq, and public opposition to a military operation is running high. This will make it very difficult for the US to obtain parliamentary approval to station troops on Turkish soil. Whether or not Turkey will be forced to use this bargaining chip in its negotiations with the Fund is likely to depend on the outcomes of behind-the-scenes negotiations between the Fund and the US administration. ☹

Kreuger: In Coming Weeks, Government Needs To Take Further Steps
 ☹ www.turkishpress.com/turkishpress/news.asp?ID=8591

Delay casts doubt on Ankara's reformist zeal
Financial Times, 3 January (subscription)
 ☹ news.ft.com/servlet/ContentServer?pagename=FT.com/StoryFT/FullStory&=StoryFT&cid=1_039524114774

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☹ www.observer.co.uk/comment/story/0,6903,837351,00.html

NGO & IFI accountability gaps laid bare

A new report compares the accountability mechanisms of 18 selected global institutions, transnational companies and NGOs. The detailed 50-page report analyses eight dimensions of accountability. "The Bank releases a summary of key decisions taken at its governing body meetings, but no agenda, draft papers or minutes." This is a particular concern as "the same small number of powerful states... dominate decision-making in most inter-governmental organisations". Over the next six months the producers of the report plan to consult widely on its accountability framework and indicators.

☹ www.oneworldtrust.org/Ch99/htmlGAP/GAP.htm

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New aspects of IMF voting inequity

A new study reveals complex aspects of the undemocratic nature of the IMF. The use of weighted voting gives the USA even more power than its contribution would entitle it to. For example, the US with 17.55 per cent of the votes has 8.86 times more weight than India, with 1.98 per cent of the votes. But the voting power of the US—how frequently it could decide an issue if a vote were taken—is found to be 14.11 times that of India.

Voting Power in the Governance of the IMF, Dennis Leech, Warwick University, July 2002
 ☹ www2.warwick.ac.uk/fac/soc/economics/research/papers/2002/

IN THE last five years, governance concerns have begun to move up the agenda in development. The multilaterals were among the last to change. What do we mean by governance? In simple terms, governance means openness, participation, accountability, help for the poor and achieving the common good. In Zambia, governance concerns have at various times in the past led to the withholding of bilateral support and most recently has led to debate over Zambia's agreement with the IMF. The Fund has required Zambia to privatise the Zambia National Commercial Bank, Zambia Electricity Supply Company and Zambia Telecommunication Company. The three—ZANACO, ZESCO and ZAMTEL respectively—are nearly fully owned by the state.

Finance Minister Emmanuel Kasonde signed the Letter of Intent with the Board of the IMF indicating that ZANACO, ZESCO and ZAMTEL would be privatised without consultation

of the people. The executive wing of the government agreed to the privatisation of these companies in the conditions of both the HIPC initiative and the Interim PRSP without consulting parliament. When Kasonde sought support in parliament for a bill to facilitate privatisation, the bill was rejected. Undemocratic and non-transparent negotiations between the government and the IFIs have continued despite the participatory principles enshrined in the PRGF and PRSP. The executive arm of government has, over the decades, become accustomed to being answerable to the multilaterals and not to the legislature—this is what has got us into the current situation.

The IMF representative in Zambia was quick to say in the press that Zambia would lose debt relief worth US \$1 billion if it did not privatise. Who will the government heed? It appears that the multilaterals will win the day. In effect, what has been exposed is the continued supremacy of the executive wing over the legislature. Is the IMF correct to point to the “participatory” formulation of the PRSP in explaining the inclusion of privatisation?

The answer must lie in what the common men and women of Zambia say. What these people say may not make economic sense in the eyes of

The Fund or the people?

COMMENT

By Mulima Kufekisa Akapelwa
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**Forced privatisation
leads Zambians to ask who their
government answers to**

the multilaterals, but development is about giving people a chance to try their way fully—this has not happened through the PRSP on macro-economic policies. Ironically, one of the PRSP goals in governance is to provide more space for people to contribute to policy

formulation in the country. Will the government privatise the Zambia National Commercial Bank and meet the conditions for HIPC relief but go against the will of the people, and consequently disengage them? Or will the government decide to make a political decision, lose \$1 billion but inspire people to indeed chart out a new path for themselves?

If governance is about openness and accountability surely the IMF should understand Zambians' concerns. People are saying that the past process of privatisation was not open, accountable and mindful of the poor. The IMF has argued that Zambians themselves chose privatisation through the PRSP process. In the formulation of the PRSP, civil society always asked if there was any room for alternative policies. We were told that the Boards of the IMF and World Bank expected “sound economic policies”. The Boards were the ones who finally approved the programmes. It was expected that the full PRSP would not deviate significantly from the already agreed-upon contents of the interim version.

Zambians are opposed to privatisation of the companies. The reason for this unease is the experience of the mess of privatisation. Take, for instance, the privatisation of one of the big copper mines, KCM. After many concessions were made to Anglo-American, the company pulled out after barely a year. The government is now saddled with the task of finding new buyers yet again. In the meantime, 10,000 people will lose their livelihoods. Another mine that was privatised about four years ago is still unable to pay workers. The Fund champions privatisation in the name of governance, yet none of the ideals of governance—openness, accountability, and participation—have been achieved in the privatisation process.

Catholic Commission for Justice and Peace, Zambia

www.ccjp.org.zm

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Among the proposals to make the selection process more open and merit-based are:

- opening selection to all qualified candidates regardless of nationality;
- establishing clear criteria and timetables for selection;
- de-linking selection of IFI heads from bargaining over other positions (heads or deputy heads of other international institutions);
- requiring short-listed candidates to state publicly their views on priorities for the institution.

Other institutions have recently experimented with new procedures. For example on 19 January the eight shortlisted candidates for the top job at the World Health Organisation held a two hour world-wide public

question and answer session linked across the world via video and teleconferencing. Given the scope that leaders of such institutions have to shape their institutions' work this is a vital, not just symbolic, decision.

Other proposals which should be considered include:

- Publishing and disseminating Board papers in a timely manner so that multiple inputs can be received;
- Making Board decisions transparent, including the positions of individual governments;
- Reducing donor contributions to the Bank through off-balance sheet Trust Funds;
- More use of Board sub-committees to deal with issues of importance to particular sections of the membership;

• Reducing the US voting share in the IMF so that no single country can veto decisions needing an 85 per cent super-majority;

• Quarantine clauses to prevent Board members and back office staff working for the World Bank and IMF for at least two years after that position terminates;

• Appointment of EDs and their advisers on merit, not through political patronage.

A number of civil society organisations are planning a campaign to stiffen political resolve to make significant changes in governance, focusing in particular on the selection of IFI heads and representation on their Boards. It will not be easy to shift the countries which currently wield the most power, but democratisation struggles at the national

level have often yielded dramatic results. The Bank's paper and government positions will be carefully monitored to see whether they move beyond capacity building to change the fundamental power inequities of the current governance arrangements. If not, the embarrassing gap between the Bank and Fund's good governance rhetoric and the mechanisms for their own governance will grow ever wider. ©

A listing of reports and quotes on IFI governance is at:

www.brettonwoodsproject.org/topic/governance

Update 16 on selection of IMF head

www.brettonwoodsproject.org/update/16/16a.html

Debt arbitration mechanism weakened

Recent discussions at the IMF have only partly clarified its approach to possible mechanisms for countries facing unpayable debts. But private creditors opposing the proposed 'sovereign debt restructuring mechanism' (SDRM) have become more vocal and the Fund seems ready to further dilute a plan that NGOs already considered flawed.

Final decisions on SDRM proposals should be made at the time of the Spring Meetings of the Fund and the Bank in April. In late December the Fund's Executive Board discussed the IMF staff's latest proposal. Though IFI debt will probably not be dealt with by the mechanism, it is still unclear whether claims of bilateral lenders would be included. Given the balance of power within the IMF, such claims will probably be excluded and dealt with through "coordination" with the Paris Club (a notoriously opaque club of rich countries which negotiates bilateral debt repayment with borrowing countries). NGOs have questioned why IFI claims should be excluded from the outset—partly because all creditors should pay a price for their mistakes.

While the Fund says its role in the proposed mechanism will be limited to convening and facilitating the relevant actors, some of its shareholders argue for a stronger involvement. To prevent potential abuse by borrowers, private lenders argue that a "third

party" (most likely the IMF) should give independent confirmation of a country's debt unsustainability. Similarly, NGOs complain the IMF's plan would lead to establishing a weak institution (the pithily-named Sovereign Debt Dispute Resolution Forum) on which the IMF would keep a grip—members of arbitration panels would be selected by the Fund's Managing Director for instance.

The Fund's plan is unworkable in the eyes of some Wall Street and European bankers. They have strongly opposed the plan, advocating a market-based solution in its place. As for US officials, while former US Treasury Secretary Paul O'Neill had expressed clear support for the IMF's approach, it is unclear what his successor will say. But critics argue that the Fund has already watered down its plan. The Fund seems to have given up on one of the 'bold' aspects of its proposal: an automatic stay on litigation that would prevent private creditors being able to sue a country until creditors have made a joint decision on the

status of the various claims. Instead private creditors would be entitled to claim back their money ahead of any arbitration, provided they reimburse it if arbitration says they were not entitled to this amount. European representatives unanimously rejected this compromise and argued for a legally binding approach.

The latest developments lead NGOs such as Germany's *Erlassjahr* to conclude that there is now "little common ground" left between the IMF's proposal and the 'fair and transparent arbitration process' (FTAP) that academics and NGOs have been promoting for years. The major differences include the requirement of full transparency, no *a priori* exclusion of any creditors' claims, a narrow role for the Fund to prevent conflict of interest, and a long-term view on debt sustainability.

Even in its modest form, the Fund's plan has failed until now to gain strong support—not only from private creditors but also from key borrowers. The G20 recently failed

to come to a common position on the issue. Governments of countries such as Brazil, Mexico, Poland, Turkey and Argentina are reported to oppose such a mechanism on grounds that it would deter foreign investors, while South Korea is supportive and India and China "agnostic". However the Fund considers it likely that it will be able to build sufficient buy-in to go ahead with its plan in April. ©

Summary of IMF Board discussion

🌐 www.imf.org/external/np/sec/pn/2003/pn0306.htm

Statement of big banks

🌐 www.iif.com/press/pressrelease.aggga?id=55

Misereor paper on FTAP

🌐 www.blue21.de/FTAP_english.pdf

Report of SDRM debate

🌐 www.cidse.org/en/tg3/sdrm0902.pdf

Krueger sets out IMF latest on debt arbitration, *Update* 30

🌐 www.brettonwoodsproject.org/topic/reform/r3012debtarb.html

Inside the institutions: the IMF and poverty

Three years ago the IMF announced that poverty reduction would be its new priority. In an emotional address to the Governors of the Fund on 28 September 1999, outgoing Managing Director, Michel Camdessus, sounded the clarion call:

“...it is the hard, the demanding, task—it is the honor—of the IMF, even if it is not a development institution, to try continuously to help governments, to be responsive to the cries of the poor. The cries of the poor!... During the past decade, in most countries implementing IMF-supported programs, education and health care has significantly increased in real per capita terms. At the same time there have been improvements in important social indices. But the voices of the poor around the world, are telling us in no uncertain terms that this is not enough. The time has come for a new and more decisive start!”

Camdessus stated that the meetings had “resulted in a clear mandate for the Fund to integrate the objectives of poverty reduction and growth more fully into its operations.” This acknowledgement that IMF programmes had deep, potentially adverse social impacts was long overdue. Many observers welcomed it but questioned the Fund's expertise to address and correct these impacts, let alone go beyond simplistic theories linking growth to poverty reduction.

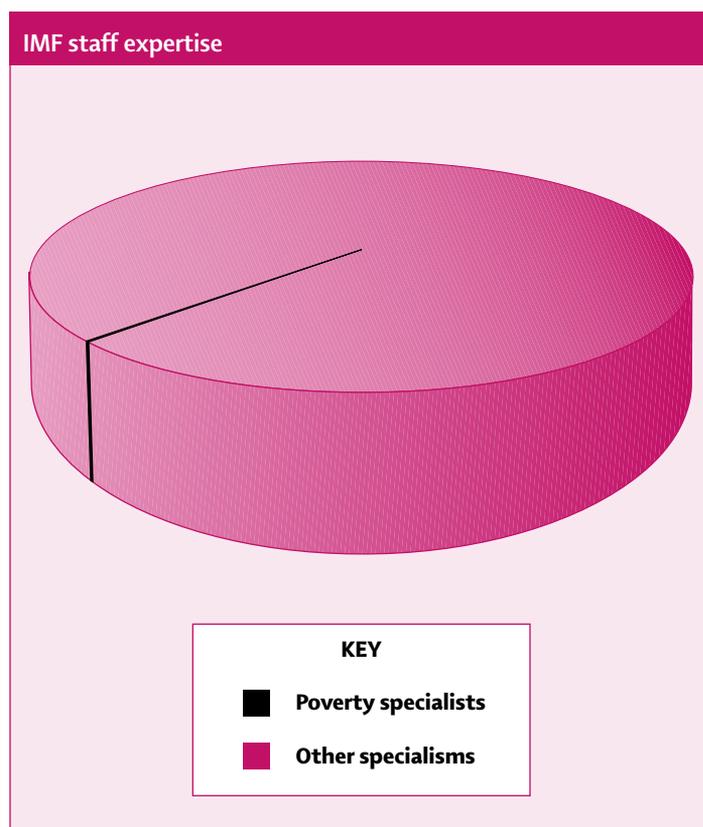
Over three years later, a quick look at the composition of IMF staff gives an indication of how well equipped the Fund is to address the multidimensional nature of poverty. Out of more than 2,600 staff members, only one is a poverty specialist. The IMF is, however, about to hire a second one and its External Affairs Department reported that “several” people work on poverty issues in other departments.

Caroline Robb, Social Development Advisor, Africa Department

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Address by Michel Camdessus to the Board of Governors of the Fund, September 28, 1999

🌐 www.imf.org/external/np/speeches/1999/092899.htm



South Asian PRSP processes slated

Civil society groups in Bangladesh and Pakistan have rejected the PRSP process in their countries. They complain about flawed participation and persistent IMF and World Bank influence on the content of the documents.

A civil society coalition formed in Bangladesh to challenge the PRSP process complains that the Interim Poverty Reduction Strategy Paper published last June was developed by a bureaucratic taskforce. Members of the coalition say the consultations carried out by “corporate NGOs” were rushed and partial, ignoring for example landless people who represent more than 50 per cent of the population. They have successfully campaigned to postpone the September 2002 deadline for a final PRSP, thanks to more than 90,000 letters sent to the Bank, the IMF and the government.

But the Bank repeated its pressure on the government to adopt a “faster pace on reform”, and the PRSP process is expected to be complete before the Spring Meetings of the Bank and Fund. According to Ziaul Hoque Mukta of Action Aid Bangladesh, “recently the IFIs have exerted tremendous pressure to implement further structural adjustment measures”. In

a statement at the Annual Meetings of the Bank and Fund last September, the finance minister of Bangladesh warned that “further reforms are not likely to be socially acceptable unless additional resources for safety net, investment in physical infrastructure and human resources development could be mobilized.”

Civil society organisations feel their demands for a transparent route map for the PRSP process and adequate participation have been ignored. Rather than participate in what they see as a flawed official process they have launched a parallel consultation process in 41 districts (three times more than the official process), which they hope will eventually influence the content of the poverty reduction strategy.

Donors heavily influence current public policies in Bangladesh. They gather every year under the auspices of the World Bank and the IMF for the ‘Bangladesh Development Forum’, officially to “provide the donor com-

munity an opportunity to hear the Government’s development priorities and to learn about Bangladesh’s future strategic directions”. Others see this as a symbol of the country’s financial dependence forcing it to bow to an externally imposed reform agenda. This year’s Forum will be held in Dhaka (it usually takes place in Paris) on 16-17 May.

Pakistan PRSP undemocratic

For reasons very similar to their colleagues in Bangladesh, Pakistan’s civil society groups “reject the PRSP, both as a process and its content”. They question why the Interim PRSP says it is based on broad participation while many groups are still only discovering its existence. In a letter to the Ministry of Finance they say that the PRSP process has “undemanded democratic political processes” and that the document reflects a vision largely inspired from existing IFI prescriptions. “The entire PRSP process has simply rein-

forced a previously tried and failed policy paradigm [...] Under the guise of poverty reduction, the IFIs are lending support to an undemocratic process designed primarily to ensure that the basic neo-liberal policy paradigm is allowed to flourish unhindered”.

The IMF and the Bank usually reply to such concerns that it is early days for PRSP processes and they will take time to bear fruit. But common, worrying patterns seem to emerge both on participation and content (see *Updates* 28–30). The IMF’s Independent Evaluation Office and the Bank’s Operations Evaluation Department will carry out a joint evaluation of the PRSP exercise this year. They will have to assess to what extent this approach has allowed the development of nationally-decided, extensively-debated policies or if they have mainly built ‘ownership’ around the core policies to which the Bank and the IMF say there is no alternative.

Bangladesh PRSP campaign

www.actionaidbangladesh.org/prsp/indexpage.html

The World Bank in Bangladesh

www.worldbank-bangladesh.org

PRSP rejection in Pakistan

www.eurodad.org/articles/default.asp?id=430

Fund deal with Argentina

After over a year of stalled negotiations, the G-7 in mid-January strong-armed the IMF into signing an agreement that will roll over \$6.6 billion of Argentina’s debt. The new agreement gives Argentina only enough money to roll over its debts to the IMF between now and August, crucially taking the country through elections called for May. The deal was supported by leading candidates of the Peronist and Radical parties, while Elisa Carrió, leader of the opposition group Alternative for a Republic of Equals, has reserved

judgement until the conditions of the accord are made clear.

In return for the postponement of its payments, Argentina has agreed to implement a series of policies, including raising tax and utility rates and reforming bankruptcy procedures. The Duhalde government has rejected the IMF’s proposals for reconstructing the collapsed banking system, but planned price hikes for gas and electricity have already been brought forward. The agreement will include fiscal targets for the provinces

as well as the central government.

According to Argentine observers, a last-minute call to the Fund from the French Finance Minister, Jean Pierre Jouyet, prevented the deal from ending up on the rocks as had occurred on two previous occasions. IMF Managing Director Horst Köhler struck a cautious note, saying that the transitional program involved “exceptional risks to the Fund”. With the signing of the agreement, Argentina is able to resume negotiations with the Inter-American Development Bank and the

World Bank to resume loans for social programs. ©

IMF Statement on Support for Argentina

www.imf.org/external/np/sec/pr/2003/pr0306.htm

Los candidatos apoyan con reservas el acuerdo con el FMI

old.clarin.com/diario/2003/01/20/p-505407.htm

Argentina default pressures Kreuger

www.brettonwoodsproject.org/topic/adjustment/a3115argentina.html

What roles for the IMF?

The French IFI network has published a report of a seminar on the role of the IMF. The seminar gathered NGOs, academics and activists from all continents and looked at issues such as conditionality and selectivity, dollarisation and regional currencies and the South Korean crisis. Participants’ recommendations for international financial institutions included: more transparency and democracy, going back to their initial mandate, and appeal mechanisms under the authority of the UN. Participants also emphasised the need for debt cancellation and capital controls, readjusting the terms of trade, and equal access to basic services.

Seminar conclusions (in English)

www.globenet.org/ifi/dossiers/propositions/quefaire/seminaire_en.htm

Pak Mun dam gates to be opened

The Thai government announced on 15 January that it is going to open the gates of the World Bank-supported Pak Mun dam for four months of the year. “We are very worried about the way the government excluded the views of the people affected by the dam,” said Chainarong Sretthachau, Thai Director of the Southeast Asia Rivers Network. Local groups have been pointing to award-winning research conducted by villagers detailing the damage to the river ecosystem, and an 11-month Ubon Ratchathani University study which concludes that the gates must be open year-round for five consecutive years for the river’s ecology to be restored.

www.searin.org

Bank President reply on human rights

James Wolfensohn recently replied to an NGO letter of last summer requesting clarification of what the Bank planned to do to implement a human rights agenda. Wolfensohn said he recently met the newly appointed UN High Commissioner for Human Rights and reiterated that “continued dialogue with human rights groups as well as with governments and other stakeholders is quite important to the Bank”. Yet the letter did little to take forward this dialogue, making vague references to collaboration in Poverty Reduction Strategies and community driven development.

Letter and NGO meeting report:

www.brettonwoodsproject.org/topic/social

Bengal opposition to Bank-backed water tax

Residents of the Kolkata Municipal Corporation (KMC) area in West Bengal will be the first to pay a new tax on water. The government decided to make water a taxable commodity in 2000, as desired by the World Bank for providing a Rs 20 billion loan. Congress party leaders have said they “will protest the move to tax poor domestic users.” Planned rallies in district centres and villages will denounce the tax as “anti-poor”. The issue looks set to play a key role in May elections.

www.hindustantimes.com/2003/Jan/02/181_130558,000900030001.htm

Cambodian catch-22

The World Bank is considering withholding funds from Cambodia in response to government moves against an independent monitor of the forestry sector.

On 5 December, Global Witness, a UK-based NGO, reported that community representatives were “threatened and beaten” while waiting to speak with forestry officials. Despite verification by both the UN and Human Rights Watch, the government has denied the report, and is threatening to sue for defamation. Global Witness rejects the government’s counter-accusations that it instigated the protests. At the time of writing, the NGO had yet to be notified of any formal proceedings taken against it.

Community representatives from affected areas had gathered outside the Forestry offices to demand a workshop on recently completed Environmental and Social Impact Assessments, carried out by the corporate owners of forest concessions. Bank funding had been made conditional on the presence of an

independent monitor, the findings of the impact assessments, and the need for community consultation. After the deadline for the assessments had been postponed by the government for over a year, companies finally submitted the documents on 11 November. Rosie Sharpe of Global Witness described the reports as “shockingly bad”, citing examples where sections of text relating to one part of the country have been copied directly into text about another part. Bank spokesperson Peter Stephens called the assessments “mixed”.

Gross mishandling of the process by the government has led to a storm of criticism. An initial deadline for consultation was set for 30 November, allowing a mere 19 days for what would normally take three to six months. The Bank’s lead forestry advisor, Bill Magrath, agreed that 19

days was “inadequate”, but said that people who had a problem with this should “take their complaints to the government.” The Bank’s responsibility, according to Magrath, was limited to “delivering advice, resources and a framework”.

Cambodian officials pointed a finger back at the Bank, saying that “in the law it states there is public participation, but it doesn’t mean our job is to distribute these documents. The World Bank agreed [the forestry department] would be unable to distribute the documents. We don’t have the money to copy.” Well it seems neither does the Bank. When forestry officials referred community representatives to the Bank, the Bank shut its gates claiming it did not have sufficient capacity to make photocopies. Stephens said this was a human mistake: “we weren’t properly prepared for it.”

Cambodia enjoys considerable financial support from the Bank. Global Witness is calling on the Bank to withhold the second payment of \$15m of a \$30m structural adjustment credit, as well as cancel extension of a \$5m Learning and Innovation Loan which funds forestry reform. The Bank had already

decided that the government was not in compliance with the terms of the adjustment credit and had downgraded the smaller forestry loan to ‘unsatisfactory’, meaning that it could not be extended. According to Stephens, a bad situation was simply made worse by actions taken against Global Witness.

There is suspicion that Cambodian officials may be manipulating the review process in hopes of squeezing money from the forestry companies to support election campaigns which loom in July. One of the only ways to pressure the Cambodian government is through threatened suspension of international funds. The independent monitor finds itself in a catch-22; only now that they have been threatened with expulsion has sufficient international attention been brought to bear on the government. ©

Global Witness

www.globalwitness.org/projects/cambodia/

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MIGA role in Ethiopian Nestlé claim unclear

In what must rank as one of the greatest PR gaffes in corporate history, Nestlé demanded \$6m from the Ethiopian government as compensation for the nationalisation in 1975 of a company that Nestlé subsequently purchased in 1986. Oxfam’s campaign against the claim has focused on the fact that a multinational company with sales of \$9bn and pre-tax profits of over \$6bn last year refused to accept even a \$1.6m compromise from a country facing its most severe famine in 20 years.

Stinging from a barrage of criticism, the company announced in late December that it would accept the compromise deal and donate the \$1.6m to famine relief. Defending its actions, Nestlé Chief Executive Peter Brabeck said, “We do think it’s important for the long-term welfare of the people of Africa that their governments demonstrate a capacity to comply with international law.” Campaigners reject this logic, continuing to call on the company to drop the claim altogether.

Relatively unnoticed in the media melée has been the role of MIGA, the World Bank’s Multilateral Investment Guarantee Agency. At the government’s request, MIGA and Ethiopia signed a Memorandum of Understanding in October 2000 designating the agency the official mediator for resolution of claims resulting from expropriatory actions taken under the Mengistu government totalling some \$500 million.

In 2001, Ethiopian authorities handed the Nestlé issue over to MIGA. According to Nestlé, the process “was an initiative of the Ethiopian government”. What is unclear is what role may have been played by MIGA in convincing the Ethiopians that settling such claims would be good for attracting foreign investment.

At the time Oxfam leaked the story to the press, the costly negotiations had been bogged down in technical points, such as deciding which exchange rate to use to calculate the amount of the claim. A World Bank spokesperson was quoted as saying that “\$1 million in our opinion is justifiable. But this is not the point of view of Nestlé. They are trying to get as much as they can.” The Ethiopian government might want to ask how effective MIGA’s negotiating skills have been on their behalf. Perhaps they would do better to put Oxfam on retainer. ©

Nestlé to plough debt money into Ethiopian aid

www.guardian.co.uk/international/story/0,3604,864621,00.html

MIGA press release

www.miga.org/screens/news/press/121802.htm

MIGA contact: Moina Varkie,

mvarkie@worldbank.org

Oxfam campaign

www.maketradeair.com

10-year-old privatises Estonian cement factory!

From KidsDevnews, the new World Bank web feature for 10–17 year-olds:

“Need a bit of a break? Looking for some fun, a splash of challenge, and maybe a few new ideas? Give these quizzes and games a try—and then get your friends to try them out and see how they do.

The game is ‘Buildit!’...Choose from the category ‘economic challenges’:

A/ Make peace last

B/ Build infrastructure, or

C/ Privatize business!

You have chosen to privatize business. Get the facts about the privatization of a cement factory in Estonia that has made people healthier and wealthier.” ©

www.worldbank.org/kidsdevnews

Bankspeak of the Year award

“Terminology would be simplified accordingly by discontinuing the use of special names and acronyms for sectoral adjustment loans (SECALS), structural adjustment loans (SALS), rehabilitation loans (RILS), and programmatic structural adjustment loans/credits (PSALS/PSACS). At the same time, the new OP/BP 8.60 would explicitly incorporate the distinct operational policy/pricing features of poverty reduction support credits, special structural adjustment loans, and the deferred drawdown option as applications of development policy support lending under the unified overall operational policy umbrella.”

From Adjustment Lending to Development Policy Support Lending: Key Issues in the Update of World Bank Policy, Operations Policy And Country Services, World Bank, June 6, 2002, p. 7

Complaints panel finds major problems in Coal India mines

A new official report has found that villagers in Jharkhand state, Eastern India, have suffered harm to their livelihoods as a result of a Bank-backed coal mining project. The report by the Bank's Inspection Panel concludes that World Bank staff violated many of the Bank's own policies, including those on resettlement, indigenous peoples, environmental assessment and project supervision.

The report vindicates the allegations made for many years by Chotanagpur Adivasi Sewa Samiti (CASS), a local NGO. CASS complained about two inter-related loans, one aiming to allow Coal India to expand open-cast coal-mining whilst the other aimed to improve its ability to conduct social and environmental planning and mitigation. The failure of this flagship project to deliver on the ground is extremely embarrassing for the Bank.

The Inspection Panel report was submitted to Bank senior management in early December and will be discussed by them in February. It finds that there were a number of problems with Coal India's resettlement policy in general and in the East Parej mine which was subject of the claim.

The Panel argues that "management's failure to ensure that the original Resettlement Action Plan (RAP) reflected reality on the ground resulted in many problems. Many of the displaced Project-affected persons (PAPS) have not been and are not being compensated at full replacement cost, with the result that many have suffered and continue to suffer harm". The Panel finds that this results from a failure to:

- be transparent in how existing land and housing was measured,
- realistically value the existing land and housing,
- offer a choice of resettlement sites,
- provide jobs or effective income generation schemes.

"What was originally meant to be a series of location-specific plans, arrived at through local consultation, tailored to the needs of villagers, quickly grew into a rigid, inflexible and largely unresponsive exercise."

Inspection Panel report

Apart from initial baseline interviews, the Panel found that "there is nothing to indicate that the people in Parej East were 'systematically informed and consulted during preparation of the resettlement plan about their options and rights'" (as is called for in the Bank's Involuntary Resettlement policy). The Panel found "no evidence" that documents such as the Sectoral Environmental Impact Assessment were available to local NGOs for their review. The Bank claimed that the project mid-term review report could not be released unless authorised by Coal India.

A local Public Information Center was established in one of Coal India's offices, but documents can only be consulted when Coal India staff are present. "Despite the low levels of literacy among PAPS, all information in the Center is in technical written documents. The Panel was surprised to see no pamphlets, or simplified informational materials, or sketches, photographs or visual materials to depict the Project, its sequence and effect on people. For

poor, vulnerable and now dependent people, it is clearly intimidating to approach an office in that location, let alone walk in and freely request information, register complaints and engage in dialogue".

Although this project was one of the most supervised World Bank projects ever (with 21 missions between 1996 and 2001) the Panel found that: "the supervision team's knowledge of ground realities was limited, and for that reason, their efforts to resolve problems had virtually no impact on the ground". Some of the planning for this project was also not at all grounded in fact.

For example the Environmental Management Plan for the Parej East mine suggested that only about half of the 253 hectare mine area would be reclaimed for agricultural land after mining, while the rest would be left to fill up with water. This water, it was argued, "will help the local population, as a source for irrigation, drinking or industrial demand". The Panel concluded, however, that the water would be inaccessible, as it would be

"tens of meters below the surrounding countryside and separated from it by vertical quarry rock faces". It would be very costly to pump it for irrigation, and impossible to use for drinking as it would be poisoned by contact with coal seams.

The Panel recommends that the Bank make good its promise to continue monitoring the social issues after the project closes. It also suggests establishing an Independent Monitoring Committee as was done for the Singrauli National Thermal Power Corporation loan. Panel recommendations are not binding, however. Because of this, CASS has drawn up its own Action Plan which it wants the Bank Board to support but allow to be implemented independently of the Bank. The Plan sets out ways to address the livelihood restoration of the project affected people, for example through granting secure title to sufficient land, and also through job opportunities.

NGOs had lobbied against the approval of the projects in 1995 and 1996, warning that the projects were being "done without the PAPS' consent, are usurping their resources and transferring their wealth to the mainstream economy". CASS claim that the Bank "oversold" the project, "appearing to exaggerate its value so that it would be approved by the Board" and mining could go ahead.

Many of the Panel's findings are uncomfortably similar to the conclusions of previous Bank reports—for example the independent review of the Sardar Sarovar project (1992) and the Bank-wide resettlement review (1994).

The response of Bank Management and the Bank's Board, expected in late February, will be closely scrutinised by NGOs. ©

Links, a sign-on letter, further report extracts and the CASS Action Plan:

🌐 www.brettonwoodsproject.org/topic/social

Romania forestry program criticised

In December the CEE Bankwatch Network asked the Bank's Board to delay approval of the Romania Forest Development Program. The Network said the project "does not meet the Bank's Environmental Assessment policy and thus does not provide a meaningful picture about the project's environmental and social impacts". It has no concrete and detailed mitigation plan or any serious analysis of illegal harvesting and corruption. "Good practices from similar projects in the region, such as the Georgian forestry project, should be applied", commented Jozsef Felier, Bankwatch Policy Coordinator. The Board ignored civil society concerns and approved the project.

🌐 www.bankwatch.org/issues/forestry.html

Climate change paper disputed

A draft paper on climate change from the World Bank and other development agencies has been criticised for not going far enough. Friends of the Earth International and Tear Fund said the report "does not suggest that industrialised countries need to address vulnerability outside the confines of their ODA policy", for example in trade policies. Global Commons Institute focused on the need for any reports on this topic to explicitly link their analysis to the overall requirement for climate change prevention/mitigation to avoid giving the impression that mitigation is easy or economically viable.

🌐 www.gci.org.uk/memos/WBank_draft_GCI_comment.pdf

Transparency of power agreements faulted

The World Bank recently argued that it could not release the Power Purchase Agreement (PPA) of the Nam Theun II dam in Laos because "it is a proprietary agreement and IDA is not at liberty to disclose it without the agreement of the signatories". This follows an independent analysis of the PPA of the Bujagali dam, Uganda, which was found by Prayas Energy Group to be "not in line with international standards, and to entail massive extra costs for Uganda." Campaigners are arguing that "if private sponsors seek public support, they must accept the basic principles of public accountability".

🌐 www.irn.org/programs/bujagali

Baku Ceyhan: IFC delay, IMF pressure

The International Finance Corporation has indicated that its decision on whether to support the controversial Baku-Ceyhan oil pipeline will be taken in the third quarter of this year, not in April as had been expected. Meanwhile the International Monetary Fund has suspended payments on a \$100 million loan to Azerbaijan partly because of concerns about the government's use of the Azeri Oil Fund. The government plans to use money from this fund to invest in the new pipeline, despite it being set up precisely to help diversify the economy out of oil.

🌐 www.bankwatch.org/issues/moilclima.html

Recommended resources 2002

Reinventing the World Bank

Fresh and varied exercise in imagining a new World Bank with contributions from a range of UK and US-based academics and activists.

Edited by Jonathan Pincus and Jeffrey Winters,
Cornell University Press, 2002, ISBN: 0-8014-8792-7

Governing Globalization—Issues and Institutions

Collection of scholarly essays on reform of international institutions, including chapters on the Bretton Woods Institutions by Jong-Il You and Joseph Stiglitz.

Edited by Deepak Nayyar, WIDER Studies in Development Economics,
Oxford University Press, July 2002, ISBN 0-19-925403-6

The Elusive Quest for Growth

Ex-World Bank economist argues that the problem with development is not the failure of economics but the failure to apply economic principles to policy work.

William Easterly, MIT Press, 2002 (paperback), ISBN 0-262-55042-3

World poverty: New policies to defeat an old enemy

A manifesto for international action to end poverty, including recommendations on reconstituting the international financial institutions.

Edited by Peter Townsend and Dave Gordon, The Policy Press, Sept 2002, ISBN 1 86134 396 5

Civil Society and Global Finance

Brings together twenty activists, officials and researchers from the five continents to discuss reform of the global financial architecture.

Edited by Jan Aart Scholte and Albrecht Schnabel, Routledge 2002, ISBN 0415279364

Reforming the Global Financial Architecture: Issues and Proposals

Topics include standards and regulation, reform of the IMF, exchange rate regimes and crisis management and burden sharing.

Edited by Yilmaz Akyüz, Third World Network/UNCTAD, Zed Books, 2002, ISBN 1 84277 155 8

Some common concerns: Imagining BP's Azerbaijan-Georgia-Turkey Pipelines System

Critical and forward-looking analysis of the potential impact of the Bank-backed pipeline project.

Platform, The Cornerhouse, Friends of the Earth International, Campagna per la riforma della Banca Mondiale, CEE Bankwatch, Kurdish Human Rights Project, ISBN 1 900175 49 5

A New Green Order? The World Bank and the Politics of the Global Environment Facility

Explains why Western governments created the GEF to deflect protest against the environmental impacts of World Bank projects leaving it unable to challenge damaging economic policies or powerful interest groups.

Zoe Young, Pluto Press, 2002, ISBN: 0 7453 1548 8

After Neoliberalism: Economic Policies that Work for the Poor

A collection of papers presented at a Washington conference in May 2002 including contributions from Dani Rodrik, Kunibert Raffer and numerous NGOs.

The New Rules for Global Finance Coalition, October 2002

www.new-rules.org

Deepening Democracy in a Fragmented World

UNDP Human Development Report 2002, including proposals for reform of the IFIs.

www.undp.org/hdr2002/complete.pdf

Do As I Say Not as I Do: A Critique of G-7 Proposals on Reforming the MDBs

In-depth paper setting out analysis of current World Bank reform issues, including its governance and its roles as a knowledge bank.

Devesh Kapur, Center for Global Development Working Paper #16, October 2002

www.cgdev.org/rp/publications.html

The Policy Roots of Economic Crisis and Poverty

Result of a four-year consultation process on four continents, this report of the Structural Adjustment Participatory Review Initiative (SAPRIN) examining the impacts of structural adjustment programmes was too hot for the Bank to handle.

www.saprin.org/SAPRIN_Findings.pdf

Citizens' Guide to the World Commission on Dams

International Rivers Network report provides background on the WCD, a detailed summary of its findings and recommendations, and responses from NGOs, institutions and governments.

www.irn.org/wcd

Can we discern the effect of globalization on income distribution?

Bank economist Branko Milanovic tears apart the standard views on trade held by his institution.

www.worldbank.org/files/17877_wp2876.pdf

Economic Development In Africa:

From Adjustment to Poverty Reduction: What is New?

The Bank's pursuit of trade liberalisation has led to growing wage inequality, a "hollowing-out" of the middle class and widening trade deficits. UNCTAD is alive and kicking.

www.unctad.org/Templates/Webflyer.asp?docid=2764&intItemID=1397&lang=1

New staff for IFIwatchnet

Catherine Fisher has joined Bretton Woods Project to work part-time with IFIwatchnet on implementing new, collaborative electronic communications. Catherine brings an academic background in social, political and development studies and work experience with advocacy, research and networking. Catherine will also be continuing her current work with the Global Development Network, based at the Institute for Development Studies.

✉ cfisher@ifiwatchnet.org

🌐 www.ifiwatchnet.org

Project strategic review: opinions sought

The Bretton Woods project is currently undertaking a strategic review of its work. Consultants Tess Kingham, Mark Luetchford and Jim Coe are examining the role of the Bretton Woods Project in relation to the changing nature of IFIs and the challenges posed for IFI watcher groups by the current and anticipated future global situation. They are keen to hear (before the end of March 2003) from anyone in the NGO, IFI, political or academic fields who have an interest in IFIs and holds views on the work of organisations such as the Bretton Woods Project. The strategic review will result in a series of recommendations for the future work of the Bretton Woods Project.

We hope to gather as wide-ranging views as possible so hope to hear from you.

Contact Tess Kingham or email the Project:

✉ tkingham@btopenworld.com

✉ info@brettonwoodproject.org

Research on World Bank revolving doors

As well as its formal power of lending money and setting conditions, the World Bank exercises influence by establishing institutions (which often become World Bank clients) and by training and placing people who end up in important positions. The Bretton Woods Project is initiating some research on this topic, including a listing of individuals who have moved between the Bank and prominent posts in borrower governments, borrower government institutions, or the private sector. This will be used to formulate recommendations on quarantine periods and other measures the Bank could adopt. Send any information or leads to:

✉ revdoors@brettonwoodsproject.org



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