

Above the law? Battle over World Bank immunity in Bangladesh

Civil society groups, opposition parties and the media are calling for the repeal of a bill which would amend the scope of the Bank's immunities under Bangladeshi law. The call echoes the long-term efforts of campaigners worldwide to increase the accountability of the international financial institutions to the citizens they are supposed to serve.

In July, a draft bill to amend the International Financial Organisations Order 1972 was approved. Critics said that passage of the bill by parliament would mean that "the Bank cannot be taken to court, it cannot be held liable for its actions by the people and the government". Owing to the pressure, the bill's scheduled passage 16 September was stayed.

When a country joins the Bank, it signs the Articles of Agreement and agrees to recognise in its own laws the various provisions of the Agreement. Next, the country and the Bank draw up an 'Establishment Agreement' to cover various issues both sides feel need to be made more explicit. This includes the issue of immunities for Bank staff. It is this latter agreement that was never settled in Bangladesh.

Bank's plea rejected

The need to clarify the scope of Bank immunity was highlighted by legal proceedings brought against the Bank by a former employee for unfair dismissal. In 2002, the Bank's internal administrative tribunal found that the treatment of external affairs officer Ms. Ismet Zherin Khan "fell short of appropriate standards of procedural justice which caused her harm for which she is entitled to be compensated." After being granted compensation but not reinstatement, Ms. Khan took her case to the Bangladeshi courts. The courts found in her favour and rejected the Bank's plea for immunity.

A group of Bangladeshi NGOs, calling themselves the Alliance against World Bank immunity, believes that the amendment would be at odds with the Bangladeshi constitution by preventing a citizen "from the



right to access to court and right to protection of law". The group asserts that the proposed legislation grants immunities beyond those enjoyed by the UN or the Asian Development Bank in Bangladesh, or those enjoyed by the Bank in other countries.

The World Bank's legal department insists that the proposed amendment is "intended only to provide clarity on World Bank immunities." The Bank's immunities, say the representatives, are identical with the immunities accorded to the ADB or


the UN in Bangladesh, and identical with the immunities provided to the Bank in its 184 member countries."

The Alliance held a series of debates and rallies in Dhaka in September and has circulated a sign-on statement calling for greater scrutiny of the Bank's work. This would include legislation to provide parliament with binding oversight powers and ensure disclosure of information related to IFI projects in a timely manner; and mechanisms to facilitate civil society participation in the design of IFIs' country

work, and ensure that affected persons receive remedy.

The controversy has brought into relief the lack of democracy and accountability in the IFIs. The Bank argues that "it is not possible for an institution to be subject to the laws of 184 different countries at the same time." The practice of immunity, it says, is necessary for the UN and its specialised agencies, "of which the World Bank is one", to carry out its duties. Bangladeshi oversight of the Bank, say representatives of the legal department, is via its representatives on the boards of the Bank.

While the Bank enjoys the immunities granted to UN specialised agencies, it is not—unlike those agencies—accountable to the UN system. Nor does it want its lending activities to be held up for scrutiny against a growing body of international legal covenants. The Bank says that its only accountability is to its shareholder governments. What is not mentioned is that five countries hold 40 per cent of the votes and that the US holds a veto over any key decisions. Bangladesh, with a population of 133 million, has a voting share of 0.3 per cent. The entire region of South Asia with nearly one quarter of the world's population is represented by two board members (out of 24).

Some commentators believe that the whole question of immunity for international financial institutions should be revisited. Noreena Hertz in her recent book on the debt crisis, calls for the immunity of the IMF and World Bank to be waived: "Where professional negligence or lack of due diligence in lending can be proven, a claimant, whether a village, an individual or a nation, must be able to hold the institutions liable in the same way that a bank can be held liable by law." 

The World Bank and the question of immunity, The Innovators

www.unnayan.org/other/ifi%20watch%20bangladesh_vol_1%20no_1.pdf

subscribe free online
brettonwoodsproject.org/subs

Parliaments reign in IFIs:

International campaign gains momentum

Over 170 parliamentarians worldwide have signed a petition demanding a greater role in scrutinising the operations of International Financial Institutions within their nations as a way to reassert the sovereignty of legislatures in parliamentary democracy.

The international parliamentarians' petition seeks to strengthen the capacity for effective parliamentary oversight of national economic policy-making and interaction with the IFIs. It is being signed by parliamentarians from both developed and developing countries. On the 60th anniversary of the BWIs, a target of 60 parliamentarians in 60 different countries will be mobilised in support of the petition for presentation to the Bank and Fund at the spring meetings in 2005.

The petition has already received support in a wide range of countries, with preliminary national launches held. The Parliamentary Network on the World Bank (PNOWB) and the Committee of Parliaments of the Americas (COPA) have officially endorsed the petition and are distributing it amongst their membership. The Committee for a Democratic United Nations have expressed their support and will encourage individual members to sign on. Support is anticipated from the International Parliamentary Union, the European Parliamentary Forum and the Commonwealth Parliamentarians Association.

Unprecedented UK support

To date 134 MPs have endorsed the petition in the UK. The all-party group on Heavily Indebted Poor Countries (HIPC) with over 170 members from both houses of parliament is co-sponsoring the petition and has secured the support of the overseas and world government all-party groups. A briefing and launch of the campaign took place at the Palace of Westminster 8 September, attended by 40 MPs and Peers.

Ann McKechin MP and co-chair of the all party group on HIPC sponsored a private members' debate on 'oversight of IMF and World Bank policies'. She lamented the norm that ensures "little debate or scrutiny of the government's record in either institution, despite the fact that the UK holds a permanent directorship on the boards of both and are viewed as a key world player". Appreciating that the UK is not unique in its lack of parliamentary scrutiny, she voiced support for the petition: "the petition has struck a strong chord with elected representatives, who often feel powerless to influence decisions that have such an

International parliamentarians' petition for democratic oversight of IMF and World Bank policies

We the undersigned Parliamentarians:

- *Noting* this is the 60th anniversary year of the creation of the International Monetary Fund (IMF) and World Bank—the Bretton Woods Institutions (BWIs);
- *Recognising* that the IMF and World Bank have voiced a commitment to ensuring individual countries determine their own economic policies; and
- *Noting* that key economic policies continue to be imposed by both the World Bank and IMF as conditions for receiving debt relief and new loans, with the Boards of the BWIs retaining the power of veto over all measures including those in Poverty Reduction Strategy Papers.

We therefore call on the BWIs and their principal shareholders to ensure that the democratically elected representatives of recipient nations are the final arbiters of all economic policies in their countries.

It is vital that national parliaments in recipient nations have the right and obligation to be fully involved in the development and scrutiny of all measures associated with BWI activities within their borders, and hold the final power of ratification.

Ensuring the primacy of sovereign national parliaments in this way will improve implementation of measures to reduce poverty, enhance good governance, and foster democracy.

Translations are available in French, Portuguese, Spanish, Swedish and Kiswahili

info@brettonwoodsproject.org

impact on their electorate. The aims of the petition are relatively modest but can go a long way to establish better governance both in our multilateral institutions and in individual nation states".

On the question of scrutiny in the house, economic secretary to the Treasury, John Healey responded that Treasury's annual report on the UK's relations with the IMF, sets out the

UK's key agendas and general positions and conceded that it could go further in making clear the stance taken in the IMF board. He promised that the next report would be more explicit. The Department for International Development has committed to produce an annual statement to parliament on the positions that it has taken on the World Bank board.

All sides agree urgent need for governance reforms

Urging a move away from shareholders "micromanaging the Fund", former IMF staffer Leo Van Houtven has argued for reforms. He has recommended both a strengthening of individual executive directors through the provision of more expert staff and strong alternate directors and reforms to the size and country composition of the board.

Presently, member votes and representation are skewed in favour of creditor nations (see *Update* 39). Any new formula for calculating voting weights can only be considered during periodic reviews of the 'quotas' assigned to each country. According to the Fund's articles of agreement general quota reviews happen every five years. The latest general review was concluded January 2003 with no proposal to increase quotas.

Van Houtven proposes identical

quotas for the US and the EU given that they have "comparable GDP levels", and a reduction of the board size to 18 chairs arguing that the current 24 is too large to be effective. He proposes a single chair for the 25 EU member countries currently represented by seven. Under this formula, developing countries would get twice as many chairs as the industrialised nations. He believes such reforms would lay to rest persistent questions about the IMF's legitimacy.

A report from the Centre for Economic and Policy Research echoes these proposals. The authors argue for better alignment of the board with the relative economic importance of individual IMF members. They propose a reorganisation of the governance structure of the IMF through "streamlining of the European representation to make room for new significant play-

To further the principles of the petition UK parliamentarians are demanding the following reforms:

- *full parliamentary scrutiny and oversight of national Poverty Reduction Strategy Papers (PRSPs)*. This would shift the approval of PRSPs from the boards of the Bank and Fund to the national parliaments of recipient countries;
- *Ensuring parliamentarians can hold their governments to account for decisions made at the boards of the Bank and Fund by altering the structure and practices of the institutions*. For example, publishing detailed minutes of meetings of the executive boards and senior management. Obliging executive directors to make available their policy positions and statements made at meetings of the boards; and
- *Reforming the governance structures of the IMF and World Bank to have a more equal and fair distribution of votes that leaves no country with a veto and disproportionate influence*.

Civil society organisations in the north and south are urged to assist in mobilisation and to provide general support at national level for the campaign. Groups are encouraged to pledge network contacts and opportunities to rally support and signatures for the petition. Efforts should take advantage of existing campaigns, using the national context and identifying key moments within parliament, such as debates on IFI policy, budgets or economic conditionality as entry points to seek support from MPs. ©

Further information on the petition

andomo@brettonwoodsproject.org

Parliaments: the missing link in democratising national policy making

[brettonwoodsproject.org/parlscrutiny](http://www.brettonwoodsproject.org/parlscrutiny)

ers". They suggest a consolidation of the representation of the EU into two constituencies, one for the members of the euro area and the other for the rest of the EU countries.

Measures to increase the voice of developing countries within the IFIs' boards are being explored by a team led by South African finance minister Trevor Manuel. Detailed proposals and analysis are expected by spring 2005. A progress report will be presented at the annual meetings.

The G24 will hold a seminar on governance with the participation of ministers of finance and central bank governors from China, India, Brazil, Nigeria and possibly South Africa during the annual meetings. ©

Rethinking IMF governance

www.imf.org/external/pubs/ft/fandd/2004/09/pdf/vanhoutv.pdf

THE INDIA Country Assistance Strategy identifies the operations the World Bank intends to finance for the period 2005-08 and the rationale for these operations. On 7 August 2004, representatives of social movements, national alliances and civil society organisations met in New Delhi and issued a statement explicitly rejecting the strategy.

The Bank invited comments on the Country Assistance Strategy (CAS) for less than a month on its website. This was clearly insufficient for a public consultation as it excluded the vast majority of people and groups in India who do not have access to the internet. Moreover the CAS was incomplete; crucial annexes constituting important policy directives were unavailable to the public.

The central thread of the document with respect to the power sector is the key role of privatisation and investment; evident from the fact that the bulk of the Bank's initiatives are dealt with in the section 'promoting private sector led growth'. It is shocking that the Bank continues advocating privatisation as 'the policy option', when there have been serious demonstrated problems in the Indian power sector. Limitations of the existing regulatory mechanisms to handle private sector actors and market forces, complexities created by the existing information asymmetry, imbalances in service costs to various classes of consumers, and the limited role and ability of civil society organizations to provide checks and balances to market forces need to be taken into account before privatisation attempts can be furthered.

The Bank's plans to offer investments in hydroelectric generation ignore important lessons from the past. With dam projects such as the Sardar Sarovar in the Narmada valley, infrastructure lending has a contentious history in India but the Bank has consistently refused to accept its responsibility for the unresolved social and environmental legacy of its dam projects. Incredulously the CAS claims that some major actors including the National Hydroelectric Power Corporation (NHPC) have started to "improve their environmental and social safeguards practices". By deciding to work with the NHPC the Bank aids an institution that is notorious for brutal displacement without resettlement, no guidelines

Contradictions in the Bank's India strategy

COMMENT

Benny Kuruvilla, Focus on the Global South

for public hearing and poor environmental and social assessment. Violations have been reported from almost all the on-going hydro projects of NHPC—from Jammu and Kashmir to Arunachal Pradesh. The Bank is appreciative of the recent reduction in average tariffs on agricultural products and advocates for the improvement in the legal framework to enable the easy sale and transfer of lands. The former has already resulted in the dumping of agricultural products, causing a free-fall in farm prices whereas the latter will erode the very livelihood base of India's small-hold and marginal farmers. Considered one of the prime causes of suicides by farmers, it is unimaginable to think of these measures as solutions to the problems of the agriculture sector. The CAS comes heavily against subsidies in any form and advocates strongly for full recovery of the recurring cost of generating and distributing electricity. Electricity is not just a tradable commodity for farmers. Along with water and farmgate price, it is one of the three crucial elements for the sustenance of their occupation.

The Bank also seeks to increase its array of partnerships with local research and academic institutions in both developing its analytical work and disseminating important findings; re-shaped analytical and advisory activities will actually promote its reform and private sector-led development paradigm trying to change the country's face of information gathering and dissemination mechanisms. The Bank aims to use its immense financial resources to produce its own version of 'knowledge'. The Bank's strategy here is not to stifle dissent as much as it is to 'normalise' its view of the world and development issues.

The Bank through its reform programmes, knowledge activities and private sector dominated worldview will shape India's policy, economic and social environment. But the extent to which this is possible should be determined by India's democratic institutions. Civil society groups have mounted a campaign calling upon local governments, legislative assemblies and the Indian parliament to reject this document, as it is an affront to the social justice and democratic traditions of the Indian constitution. ©

Focus on the Global South www.focusweb.org

Country ownership of PRSPs is restricted to "officialdom"

The IMF's Independent Evaluation Office (IEO) review of the Poverty Reduction Strategy Paper (PRSP) concedes to shortcomings in the design of the initiative and points out that "actual achievements fall considerably short of potential". Focusing on the alignment of the Fund's low income countries lending tool—the Poverty Reduction and Growth Facility (PRGF)—to the PRSP process, the review also explored the Fund's role in low income countries.

Calling for greater country policy ownership, the report notes that PRSP processes are not well embedded within national processes. Country ownership is restricted to "officialdom". Although PRSP processes are perceived to be more participatory than previous IFI strategies "proc-

esses were typically not designed to strengthen existing domestic institutional processes for policy formulation and accountability such as through the involvement of parliaments". The report is not categorical on whether Fund conditionality has been reduced following streamlining efforts.

The report highlights a general failure to explore alternative macro-economic policy options and notes that little influence is exerted on policy outcomes.

The review acknowledges that Poverty and Social Impact Analysis has not been mainstreamed in programme design. Neither have improved poverty diagnostics informed intervention strategies.

The report notes donors' need for an IMF signal on the quality of the macro-economic environment, but

questions whether this signal necessarily has to involve the provision of financing and conditionality. Clarity in identifying what roles the IMF is being asked to fulfil is needed. The review recommends:

- Greater flexibility in the implementation of the PRS approach to better fit the needs of countries;
- Monitoring progress against an explicit set of country-determined benchmarks. Greater results-orientation is suggested;
- Making criteria and benchmarks used in Joint Staff Assessments more explicit. ©

IEO evaluation of PRSP

www.imf.org/external/np/ieo/2004/prsp/prgf/eng/report.pdf

Critical evaluation of PRSP, Eurodad

www.eurodad.org/articles/default.aspx?id=547

IEO to evaluate surveillance

Responding to the financial crises of the late 1990s, the IMF's Financial Sector Assessment Program (FSAP) assesses financial sector vulnerability and offers confidential advice to country authorities. Launched in May 1999, over 80 country assessments have been completed or are underway.

The IEO evaluation will concentrate on whether use of the tool has contributed to financial sector stability. A parallel evaluation by the Bank's Operations Evaluation Department will assess the Bank's role in the initiative. The draft has been posted on the IEO website and comments are invited by September 30. Field visits for country case studies begin in late 2004.

Evaluation of the Financial Sector Assessment Program

www.imf.org/external/np/ieo/2004/fsap/082504.pdf

failure to explore options

Two decades of environmental and social protection policies at risk

Bank watchers fear that a new plan to harmonise Bank environmental and social safeguard policies with national rules will sacrifice years of hard-won policy provisions “in one big sweep”. In conjunction with the proposed weakening of private sector safeguards (see below), this represents an unprecedented assault on the last line of defence for project-affected peoples.

US NGO International Rivers Network (IRN) has raised alarm bells after examining a leaked copy of an issue paper which was discussed at the Bank's board in mid-September entitled *Issues in using country systems in Bank operations*.

The issue of the use of country systems has been raised in the context of discussions on donor harmonisation since 2002 and more recently in the Bank's new middle-income country (MIC) strategy (see *Update 40*). At a board meeting on the MIC strategy in March, a number of serious concerns around the use of country systems were raised. The current issue paper was prepared in response to a request from board members for a “fuller exploration of the issues”. Their concern arose after Bank management proposed in May to push ahead with pilots of the use of country systems.

The Bank argues that the increased use of country systems to measure and alleviate the environmental and social impacts of projects will improve development impact. Backers of the plan say that increased ownership will lead to greater project sustainability. After an initial increase in costs in order to establish and monitor the use of national safeguards, backers say that the move “will eliminate the need for borrowers to set up programme-specific systems” leading to cost savings. In its issue paper, the Bank commits to “ensuring that policies are not diluted” and not altering the role of evaluation and complaint mechanisms.

Despite these claims, NGOs argue that dilution is exactly what the proposed plan amounts to. In determining the ‘equivalence’ of national standards with existing Bank policies, the Bank proposes using a summary which it claims captures the principles of the policies. Under closer examination, the Accountability Project has found that, in relation to resettlement issues, there are serious gaps between this summary and the actual policies themselves.

The International Accountability Project is worried that “planned improvements” in country rules may be considered as equal to existing Bank policies: “when peoples’ lives are at stake, what matters is what’s actu-

ally taking place, not what is promised or planned”. Governments may be allowed to self-assess the equivalence of their safeguards to the policies of the Bank; an obvious conflict of interest according to critics.

Also missing from the proposal are any concrete plans on how country safeguards will be assessed by the Bank, and what efforts will be made to increase the capacity of borrowers to take on these new responsibilities. The Bank itself admits, for example, that there will likely be more use of country environmental assessments than social ones since such policies “are typically much less developed”.

In June, 186 NGOs from 60 countries sent a letter to the board protesting the proposed weakening of safeguard policies. In his response letter, president Wolfensohn assured NGOs that “we are determined that this move towards using country systems will not weaken our existing safeguard policies”.

The issue paper is to be posted on the Bank's website for a two-month comment period. A final version of the paper is expected spring 2005 for presentation at the global meeting on donor harmonisation in April in Paris. If the paper is approved by the board, a two year programme consisting of 8–12 pilot projects is pro-

when lives
are at stake, what
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actually taking
place

posed, after which the use of national systems will be mainstreamed into all Bank project lending. ©

IRN critique of Bank country systems paper
www.irn.org/programs/finance/safeguardcritique09.04.doc

Middle-income strategy threatens safeguards
brettonwoodsproject.org/mic

Private sector safeguard review “fundamentally flawed”

Civil society organisations have expressed alarm at the process recently launched by the International Finance Corporation—the World Bank's private sector lending arm—to overhaul its safeguard policies, which sees an unacceptably short timeframe for consultation, and a dilution of principles for environmental and social protection.

The IFC launched a fundamental revision of the environmental and social policy requirements that govern its lending operations, as well as its information disclosure policy in mid-September. The draft proposal sees the IFC replacing its use of the current ten safeguard policies of the World Bank Group with nine IFC-specific ‘performance standards’. These standards would adopt a more flexible approach which critics say would make them less binding and harder to enforce.

Doubts over the recent proposals have been raised within the Bank. A leaked report by the World Bank's legal department and Environmentally and Socially Sustainable Development Council (ESSD), which was submitted to management accuses the IFC of attempting to dilute the environmental and social assessments attached to its lending. It also said that the proposed IFC approach of principles and guidelines rather than strictly enforced standards “deviated from the clarity attached to the decade-long effort to distinguish mandatory from discretionary action”.

A change in IFC rules would also apply to the group of over 20 commercial banks which agreed to follow the IFC's environmental and social rules in international project lending under an agreement known as the Equator Principles drawn up last year. The draft proposals place greater responsibility on the private sector client to ensure poverty reduction and sustainability as an outcome of its investments, rather than on the IFC itself. Civil society groups are concerned that the IFC's proposed new policies would inevitably result in double standards—one for the World Bank's public sector lending and another for the IFC.

No time for consultation

Unlike past World Bank safeguard policy revisions, which have sometimes involved up to several years of dialogue on just one policy, this proposal sees the IFC revising all of its safeguard policies at once, as well as its disclosure policy, with a consultation period of only four months. Current plans aim for the conclusion of the review by February 2005, motivated by the desire to complete the process before the retirement of IFC head Peter Woicke. However, Rachel Kyte, director of environment and social development at the IFC justifies such haste with the urgent need to “provide a clear framework for IFC projects, the Equator banks and export guarantee agencies”.

Four regional consultations are planned to take place between September and December of 2004 in Brazil, the Philippines, Kenya, and Turkey. NGOs fear that the timeframe is likely to marginalise the participation of civil society groups and those most affected by the proposed changes. In a joint letter to Bank president James Wolfensohn and IFC head Peter Woicke, a coalition of development, environment and human rights NGOs highlighted changes that must be made to the consultation process if civil society is to consider participation. These include:

- The immediate suspension of the safeguard policy update until all relevant information has been made publicly available in all appropriate languages at least 30 days prior to the first regional consultation;
- A significant extension of the consultation period on the first draft of consultation documents; and
- A self-selection process for civil society groups and indigenous peoples in the regional consultations. ©

For a copy of the leaked Legal/ESSD comment contact Bretton Woods Project
info@brettonwoodsproject.org

IFC safeguard policy and disclosure review
www.ifc.org/policyreview

Ombudsperson's report on IFC safeguard policies
www.cao-ombudsman.org

The World Bank and International Finance Corporation (IFC)—the Bank's private sector lending arm—are currently revising their information disclosure policies. Both institutions have a responsibility to provide the public with access to information about their projects and operations. Information disclosure not only facilitates public participation in Bank and IFC activities, but also enables the public to monitor how these institutions are meeting their goals of sustainable development and poverty alleviation.

While both the Bank and International Finance Corporation operate under a "presumption in favour of disclosure", in practice they only disclose those documents which their policies explicitly require of them.

Current disclosure requirements The Bank's disclosure policy (2002) requires that it make available information on its basic operations, the activities of its board, and the development of its strategies and projects. The box below outlines some of the information that it must routinely disclose through its website or in borrowing countries.

The IFC's disclosure policy is more limited in its requirements. It discloses environmental and social information for high-impact projects at least 60 days before board approval and a summary of project objectives and major environmental impacts at least 30 days before approval.

In-country access to information Public Information Centers (PICs) have been established in at least 60 borrowing member countries. Generally these act as regional information centres on the Bank's activities and receive public requests for information, and

provide assistance in finding project and policy-related information on the Bank and IFC.

In August 2003, the Bank approved a strategy to strengthen its PICs, and increase information dissemination and outreach about Bank projects in borrowing countries. Key features of this strategy are to enhance the training of PIC staff, maintain a complete library of information on WB activities in the country or region, help ensure compliance with the Bank's disclosure policy, and advise on the local translation of documents.

Translation In August 2003 the Bank approved a framework "that will address the issue of translation more systematically". However this does not include mandatory translation of all documents. Instead, the framework recommends which types of information should be translated, and into which languages. The public can request the translation of any Bank or IFC document by contacting their nearest PIC or the InfoShop in Washington DC. In 2005, the Bank will review the 'demand' for translation.

KEY DISCLOSURE ISSUES

Bank and IFC disclosure policy revisions While the Bank's revision process is internal and does not solicit public comment on proposed changes, it is expected to address the issues of board transparency and increased disclosure of project documentation. In contrast, the IFC's disclosure review is open to the public and will involve four international consultations as well as external comment on the consultation paper.

Transparency of the board of directors The board operates almost entirely in secrecy, although limited information about its operations has been made available in the past two years, such as a biannual Executive Directors' (EDs) work programme overview and a monthly board calendar. EDs are currently debating on whether or not to disclose minutes of board meetings and whether individual EDs should be able to disclose formal written statements on major project and policy discussions.

Disclosure of draft documents With the exception of environmental and social project information, neither the IFC or the Bank are required to disclose information in draft form before decisions on a project or policy have been made. In this regard the Bank and IFC have weaker requirements than the African Development Bank and the Inter-American Development Bank.

Disclosure during project implementation The public does not have access to how projects progress during implementation, which makes it difficult for the public to hold the institutions accountable to sustainable development goals.

CPIA disclosure The Country Policy and Institutional Assessment (CPIA) ranks a country's performance in key areas such as governance, macro-economic policy management, social protection and labor, and budgetary and financial management. The Bank currently provides minimal information on a country's CPIA rating but over the past year has been considering new requirements to increase CPIA transparency. ☺

Bank Information Center's transparency page

☺ www.bicusa.org/bicusa/issues/transparency_at_the_mdbs/index.php

Routinely disclosed information

Information on the board of directors

- Biannual executive directors' work program overview
- Monthly board calendar

Country economic and sector information

- Country Assistance Strategies
- Economic and sector work report
- Sector strategy papers
- Poverty Reduction Strategy Papers

Evaluation documents

- Operations Evaluations Department evaluations
- Synthesis reports from Quality Assurance Group

Information on projects and structural adjustment loans

- Project information documents
- Integrated safeguard data sheet
- List of factual technical documents
- Environmental assessment reports
- Project appraisal documents
- Program documents
- Letters of development policy
- Tranche release documents
- Implementation completion reports

For more information, contact Bank Information Center

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Board accepts management response to report on oil and mining

The management response to the Extractive Industries Review (EIR)—described by development and environment campaigners as "completely inadequate" (See *Update 41*)—was accepted by the board of the World Bank at the beginning of August. The management response rejected calls in the review for a phase-out of support for oil and coal, made merely symbolic gestures towards increasing support for renewables, and watered down language on the rights of indigenous peoples to oversee extractive developments on their land. It has since come under heavy criticism from civil society groups for endorsing business as usual and missing a historic opportunity to bring Bank lending more in line with its mission to alleviate poverty and promote sustainable development.

Executive directors at the August board meeting took up divergent positions: some argued for further strengthening on certain issues, while others sought to weaken the management response. Several southern governments, joined by Australia and New Zealand, effectively fought off efforts to move the management plan closer to the recommendations of the report particularly on the issues of governance, free prior and informed consent, and support for renewables.

The UK position at the board was to demand that the Bank go further to implement the report's recommendations. In particular it emphasized good governance, transparency, poverty reduction and sustainable development. However, it fundamentally neglected to hold

the Bank to account on a number of significant points, most notably the principle of free prior and informed consent, and the phase-out of fossil fuels. It also continues to grant the Bank an unquestioned role in the extractives sector, crediting it with the ability to raise standards, set benchmarks and establish best practice.

A spokesperson for Friends of the Earth welcomed "with caution the UK government's agreement that the World Bank is not doing enough for the people and the environment it is supposed to serve", but expressed disappointment at the failure to make this view public earlier on in the review process before a final decision had been made.

UK executive director to the Bank, Tom Scholar, revealed that he would

be pressing Bank management about the implementation of their plan. "We will only know by what is done in specific projects. They need to go out of their way to communicate how projects meet commitments made in the plan". The board has asked management for an annual report on implementation of the plan which is to include the "nuts and bolts at a project level" and not just vague summaries. ☺

UK position on management plan

☺ www.dfid.gov.uk/news/files/update-extractiveindustriessurvey-full.asp

Civil society views on the EIR

☺ www.eireview.info

WB management response to EIR

☺ www.worldbank.org/ogmc/files/eir-managementresponseexecsummary.pdf

Nam Theun 2 dam in Laos: Decision pending—serious problems remain

The deadline for the Bank's decision to finance the controversial Nam Theun 2 hydroelectric power project in Lao PDR is fast approaching. However, long-term opponents of the project predict that its environmental and social outcomes will be disastrous, and criticise the current consultation process as fundamentally flawed.

In September, the World Bank organized a series of "technical workshops" in Bangkok, Tokyo, Paris and Washington DC, to gather input into the voluminous documents examining project impacts. These workshops will be concluded at the end of September with a Lao government sponsored consultation in Vientiane.

The project's future hinges on the Bank's decision to approve a risk guarantee. International civil society organisations fear that the Bank is rushing to approve the project in time for the deadline for financial close in May 2005. There are concerns that the project would impoverish tens of thousands of Laotian farmers, saddle the Lao government with more debt and devastate two tropical river ecosystems upon which many depend for their livelihoods.

The \$1.3 billion project would be situated on the Theun River, a major tributary of the Mekong in central Lao PDR, just 50 km upstream from the Nam Theun 1 dam project, completed in 1998. This has had a severe impact on the livelihoods of more than 25,000 people living in the area, including significant declines in fish catches, and the destruction of vegetable gardens and dry-season drinking water sources. It is feared that the impacts of the much larger Nam Theun 2 will affect up to five times as many people.

About-turn for the Bank

Despite having hesitated over the Lao government's political and economic competencies in the past, the Bank now speaks favourably of the project. Christian Delvoie, infrastructure director at the World Bank states that income from the dam would constitute about five per cent of the government's revenues in the first ten years of the project and reduce the country's heavy dependence on external aid. The Bank currently claims to be working with the Lao government and NTPC on the remaining preparatory work required to comply with the Bank's safeguard policies.

Lost land and livelihoods

Critics remain highly doubtful of such claims, maintaining that any

benefits would be outweighed by the highly detrimental effects on local livelihoods, the environment and human rights.

In an open letter to the World Bank, 27 NGOs from 18 different countries raised concerns including: the displacement of 6,000 indigenous peoples from the flood plain; a collapse in the aquatic food chain along the tributary rivers upon which thousands of farmers and fishers are dependent; and the high possibility of resettlement failure given the poor quality of the proposed alternative land, and its unsuitability for rice production.

The strength of World Bank mechanisms to monitor the compliance of social and environmental safeguards was questioned in light of past experience of dams in the country, as was the ability of a government guilty of gross human rights violations to manage either an open consultation process or a just resettlement.

The World Bank claims that Nam Theun 2 gained acceptance in Laos through public participation programmes in 1997 and this year. However, a recent report by Guttal and Shoemaker claims that the public consultation process has failed to meet standards of either the World Bank or the more rigorous World Commission on Dams, on issues of ensuring the free, prior and informed consent of indigenous peoples and effective participation of all affected communities. In this single party state there are no independent local civil society organisations. The consequent lack of substantive criticism of the project within Laos has been interpreted by the World Bank and other external donors as consensus.

NGOs have also strongly criticized the international workshops for their failure to address fundamental questions such as whether the project is appropriate for World Bank support or not, and the strong support for Nam Theun 2 shown by World Bank staff present at the workshops.

Despite repeated requests from NGOs, a number of essential project documents, such as the complete power purchase agreement and concession agreement, and comprehensive economic analyses of the project, were not made available for public review prior to the workshops. ©

Nam Theun 2 campaign, International Rivers Network

www.irn.org/programs/mekong/namtheun.html

Debt cancellation ... or an exercise in book keeping?

Talk of full multilateral debt cancellation has been in the air since the June G8 summit against the backdrop of the impending end of the Heavily Indebted Poor Country (HIPC) initiative. The US Treasury is pushing for full multilateral debt cancellation and could announce this at the G8 ministers meeting ahead of the Bank and Fund annual meetings.

Debt campaigners have been calling for 100 per cent debt cancellation without harmful economic conditions for all impoverished nations. The cancellation should be paid for using the IMF and World Bank's resources. According to a UK official source, agreement on modalities for full cancellation is unlikely before the spring of 2005.

Cautiously welcoming these developments, CSOs are fearful that the benefits of a full write-off may be offset by reduced levels of aid. According to Romilly Greenhill of ActionAid UK: "It is vital that any deal results in real new money and is not just a piece of financial housekeeping".

Long live HIPC?

The World Bank and IMF's latest report on the HIPC initiative acknowledges that it has neither delivered debt sustainability nor ensured an exit from the debt crisis for impoverished countries. Nations that have successfully qualified under the programme still hold debt burdens equivalent to at least 150 per cent of exports—a level considered unsustainable by World Bank standards. Yet the report falls short of addressing the initiative's shortcomings, calling only for an extension of the programme with changes to the benchmarks for debt sustainability. The Bank and Fund paper on options regarding the HIPC sunset clause was discussed by the boards of the Bank and Fund in July and a decision taken to extend the initiative for a further two years.

The HIPC initiative has been heavily criticised. According to Barbara Kalima of AFRODAD, "HIPC is still framed within a conditionality regime whose macro-economic elements do not promote sustainable development". An analysis by the European Network on Debt and Development (EURODAD) points out that the initiative leaves the Bank and Fund in charge of calculations of debt sustainability and ensures a dominant role for creditors.

EURODAD and other CSOs are calling for discussions on a new initiative based on a set of fair and transparent rules with equal partnership between creditors and debtors. A multistakeholder evaluation of HIPC in the framework of the financing for development follow-up process is suggested. Short of this they conclude that the initiative "will remain essentially a simple exercise in book keeping".

Alternative forward looking strategies?

The Bank's latest debt sustainability framework is intended to reduce the accumulation of future debts to unsustainable levels unlike the HIPC initiative that sought to deal with the debt overhang brought about by past borrowing. The new framework assesses debt sustainability based on three factors: the ratio of debt to gross domestic product (GDP) and to exports, the quality of country policies and institutional capabilities, and vulnerability to external shocks. The HIPC initiative only used the debt to export ratio as an indicator for sustainability. The suggested use of the Bank's Country Policy and Institutional Assessment (CPIA) in the new framework is highly contentious. (See *Update 40*)

To deal with the debt crises in emerging market economies the IMF is considering linking debt repayments to country GDP. The idea of growth-indexed debt is seen by economists as a way to reduce vulnerability of countries to external shocks. This would offer them some kind of insurance, reduce the likelihood of crisis and mitigate against adverse effects on debt sustainability. GDP-linked debt has been promoted in Latin America and discussed in the context of Argentina's debt restructuring. ©

HIPC sunset clause: Haven't we been here before?, Eurodad

www.eurodad.org/articles/default.aspx?id=546

Trade and debt: Africa's experience, AFRODAD
www.ifwatchnet.org/doc/trade_debt.pdf

Sovereign debt structure for crisis prevention, IMF

www.imf.org/external/np/res/docs/2004/070204.pdf

G24 paper on debt sustainability framework for low income countries

www.g24.org/kapp0904.pdf

New debt sustainability framework: too little, too subjective

brettonwoodsproject.org/debtsust

new money
not financial
housekeeping

Report on investment "promotes interests of the north"

Researchers at the Geneva-based South Centre have argued that the Bank's latest World Development Report (WDR), oversells the benefits of foreign direct investment (FDI), advocates the restriction of government policy space, and promotes the agenda of northern countries in trade and investment agreements. The WDR, *A better investment climate for everyone*, will be launched at the annual meetings in September.

The WDR team, led by Warrick Smith of the Bank's private sector development department, worked on the assumption that increasing investment leads to reduced poverty and higher living standards. However, according to South Centre researchers Bernal, Kaukab and Yu, the WDR seriously underestimates the risks associated with FDI. These include negative impacts on balance of payments as foreign firms drastically increase imports of inputs; crowding out of local industry; abusive transfer pricing and profit repatriation; and social and environmental costs where regulation is in its infancy.

Even if most of these risks are avoided, the distribution of FDI is problematic. After over a decade of reform of investment policies—often imposed by the IFIs—"liberalisation alone has not been sufficient to attract FDI to the poorest countries." The share of 45 least developed countries in global FDI inflows is less than 0.5 per cent and is declining.

South Centre argues that "active and effective state intervention is needed in order to ensure that developmental benefits are obtained from FDI". They point to the record of Europe, America and the newly industrialised countries. This stance was reaffirmed at the recent eleventh

session of the UN Conference on Trade and Development. UNCTAD concluded that governments should have the leeway to "evaluate the trade-off between the benefits of accepting international rules and the constraints posed by the loss of policy space". This suggests that national treatment (granting the same rights to foreign producers as domestic ones) should be viewed with caution. Performance requirements, which force foreign investors to source inputs locally for example, should not be unduly restricted.

Finally, the WDR argues that "to complement the basics of a sound investment climate is to draw on the growing body of international rules and standards". It is suggested that by joining such agreements, governments increase their credibility and reduce the perceived risks of investing in their country. This, in turn, leads to increased investment. The South Centre team counters that there is no empirical proof of a link between the conclusion of investment treaties and increased investment flows. Furthermore, much of what the WDR advocates is exactly what has been opposed by developing countries. Opposition was first expressed in unsuccessful negotiations on the Multilateral Agreement on Investment and then during the debates over the so-called 'Singapore Issues' (investment, competition policy, trade facilitation, and government procurement) in the World Trade Organisation. ©

WDR 2005: An unbalanced message on investment liberalisation, G24

www.g24.org/kauk0904.pdf

WDR 2005: Investment climate, growth and poverty, World Bank

econ.worldbank.org/wdr/wdr2005/

Bank approves Ghana water loan

In August, the World Bank approved a \$103 million loan for the privatisation of Ghana's urban water system, two months before the projected board date. While the World Bank has approved the loan, the Ghanaian government has still not formally opened the bidding process. The Ghana National Coalition Against the Privatisation of Water says that resistance to the privatisation of water will continue and the ultimate objective is "to ensure that access to potable water is available to all and guaranteed as a human right."

Ghana National CAP of Water

www.isodec.org.gh/isodec/water_ncap.htm

The Bank, the Fund, the debt threat

Researcher Noreena Hertz, in her latest book *I.O.U.: The debt threat and why we must defuse it* argues that the resolution of third world debt is key to global stability. Hertz explains in her book how the Bank and Fund were alerted long ago to the destructive impacts of their programmes on growth, social well-being, the environment and debt levels. She recommends the cancellation of debts on the grounds of illegitimacy and unpayability, and the creation of bodies run predominantly by civil society to oversee the spending of debt savings on development goals.

I.O.U.: The debt threat and why we must defuse it, Noreena Hertz

www.4thestate.co.uk

Next World Development Report: Equity and development

An outline of the Bank's flagship annual report, the World Development Report (WDR), which will focus on inequality was released in August. The choice of this year's topic raises old questions about the role of the WDR. Critics of the Bank's self-proclaimed role as 'knowledge bank' question the additional value of this undertaking when the UN's World Institute on Development Economics Research (WIDER) has just released three volumes on inequality and UNDP will publish its next Human Development Report on the same topic.

The WDR will include three sections: measuring inequality, impacts of inequality and institutions/policies for reducing inequality. The first part will look at inequalities between individuals and households, between genders, and between groups (castes/classes/ethnic or social grouping)—within countries, between countries and at the global level. This will look at both income inequality and non-income dimensions of welfare such as education and health. The main conclusion is anticipated to be that "the world is a vastly unequal place".

The second part will examine the impacts of inequality on well-being, investment and conflict. One of the key assumptions will be that there is no general relationship between economic inequality and growth. A framework will be used which illustrates "circular causation between economic, social and political processes" with institutions playing a mediating role. The impact of inequality on conflict will examine struggles for public resources, crime, as well as violent conflict and civil war. The anticipated lessons are that inequality is bad because people have a "preference for social equality" and

"high levels of inequality can make overall development and poverty reduction harder to achieve."

The most contentious debates will likely centre on the institutions and policies to reduce inequality. The report will argue that "the common distinction between growth-oriented policies and redistributive policies is misguided", saying that such a distinction fails to recognise that both types of policies have equity and efficiency effects. Rather than requiring each policy to balance these considerations, the authors argue that "it is the overall mix that matters." The report will look at inequality and structural adjustment, and examine the impact of various international policies in trade, property rights, migration, and capital flows on inequality.

The WDR team will be led by Francisco Ferreira of the development economics research group of the Bank. Advisors will include the new chief economist Francois Bourguignon who holds a special interest in this area, and a host of US-based academics. The consultation process is being led by Christopher Neal of the external affairs department of the Latin American region. A six week online discussion and videoconferences are to be organised September-October. Face-to-face consultations will take place December to February, with a first draft to be released spring 2005.

The Bretton Woods Project will be maintaining a watching brief on the development of the WDR 2006 with the assistance of a number of specialists in this discipline. ©

World Development Reports, World Bank

econ.worldbank.org/wdr/

Bank fails to protect whistleblowers

Following a comprehensive assessment by the Government Accountability Project serious deficiencies have been uncovered at the World Bank in terms of its whistleblower protection policies. The assessment findings, published in the report *Challenging the Culture of Secrecy* and in an on-line score card, demonstrated that the World Bank and three other multilateral development banks have substantial deficiencies in their policies and do not have reliably safe channels for whistleblowers to expose corruption. Based on a 24-point check list, the Bank scored 60 out of a total of 100 possible points.

www.whistleblower.org/article.php?id=716&scid=128

Mozambique corruption unchallenged

The Bank's new country director for Mozambique and Angola, Michael Baxter appears hesitant to tackle murky allegations of corruption and murder in Mozambique's financial sector. 2001 saw the near-collapse of two of Mozambique's private banks, BCM and Austral due to bad lending practises, and the killing of the interim chairman of Austral, Antonio Siba-Siba Macuacua. At the time donors demanded a thorough investigation into both the murder and the financial scandal. However, three years on, as the Bank initiates its Country Assistance Strategy in Mozambique both issues appear to have been dropped from its agenda.

IMF's role put into question: Argentina crisis evaluation

Late July, the Independent Evaluation Office (IEO) of the IMF, released its report assessing the role of the IMF in handling the Argentine debt crisis for the decade from 1991 to 2001. The IEO found that the crisis has done sizeable damage to the Fund's reputation: associating it with inappropriate policies, creating a perception that it lacked even-handedness in dealing with member countries, and putting its role in signalling sound policy environments into question.

The report found Fund surveillance in the pre-crisis period severely lacking. There was no exploration of the implications to debt sustainability of less favourable economic developments. Staff repeatedly overlooked or waived reforms which the government failed to implement. Perhaps most damaging, instead of emphasising the policies needed to make the exchange rate regime viable, the Fund chose "to endorse the exchange rate regime itself." Many analysts attribute the severity of the crisis to the government's refusal to abandon the currency peg until it was too late. The report recommends strengthened, more candid surveillance of exchange rate regime choices. It argues that the Fund should avoid prolonged programme involvement if policies are not being undertaken to deal with fundamental problems.

On the Fund's handling of the crisis in 2001, the IEO argues that what Argentina needed was 'stronger medicine'. However, it finds that the Fund did not develop an exit strategy in case its assumptions proved wrong (which they did); failed to adequately assess exchange rate and debt sustainability; and was unwilling to discuss alternatives to their preferred strategy. The absence of a fallback strategy led to "repeated attempts to use the same strategy when it was evident that it had failed."

The authors were particularly scathing about the Fund's second rescue attempt, an \$8 billion loan in August 2001. The loan was approved to "ensure that the [Argentine] authorities, not the IMF, took responsibility" for the painful changes that had to be made. The prospects of success were "at most 20-30 per cent" and most staff recognised that the loan would disappear to overseas bank accounts in capital flight.

The IEO recommends that a set of criteria be developed—"stop-loss rules"—to determine if an initial strategy is working and to signal whether a change in approach is needed.

Considerable weaknesses were revealed in the decision-making process at the Fund. According to the report, there was "a lack of transparency regarding who is responsible for a particular decision". The board was often not provided with sufficient information to make an informed decision on which strategy to adopt. This reflects "a larger problem of governance in the IMF, where important decisions are made by major shareholders outside the executive board and chairs representing developing countries hardly, if ever, challenge the proposal brought to the board by management to support a member country."

The report recommends strengthening of the board. Enhanced transparency and accountability are urged, and directors should be able to formally request "additional staff analysis" on key issues. This would represent an improvement over the current situation where "some directors seek additional information through informal exchanges with senior staff, which are typically not shared with the entire board."

Fund staff agreed with the report's diagnosis of the crisis and with the analysis that "the Fund erred by not pushing strongly enough for needed reforms." However, they insisted that the report did not consider informal channels by which the board was given information.

Executive directors felt that defining stop-loss rules would be "difficult or impractical". They encouraged staff to keep them fully informed of the state of policy discussions, and called for improvements in the provision of full information on all issues relevant to decision-making, and open exchanges of views between management and the board on all topics.

Argentine finance minister, Roberto Lavagna, was more candid in his remarks. He characterised Fund surveillance efforts as "ideological assessments" which blur the capacity of the Fund to conduct objective assessments of policy reform. Fund support for the currency board exchange rate was "reckless". He agreed with the report's authors that a more participative decision-making process was needed: "the practice by certain prominent shareholders of by-passing the board raises serious transparency concerns". Lavagna demanded that the Fund bear responsibility for its failures.

IEO report on Argentina crisis

www.imf.org/external/np/ieo/2004/arg/eng/index.htm

World Bank-IMF annual meetings 2004

Members of the staff of the Bank and Fund, board members, development and finance ministers are gathered in Washington 1-3 October.

The formal agenda includes:

- 1 OCT G24 Ministers meeting
- 2 OCT International Monetary and Financial Committee Meeting (IMFC) meeting: World Economic Outlook; crisis prevention and resolution; IMF and low income countries; promoting debt sustainability; and progress reports on IMF quotas and governance, and activities of the IEO
- 2 OCT Development Committee Meeting: Aid effectiveness and financing modalities; Investment climate and infrastructure action plan, debt and voice and participation of developing and transition countries.
- 3 OCT G10 meeting; annual meetings plenary session

Development Committee and IMFC documents

www.worldbank.org/devcommittee

Civil society dialogues organised by NGOs include:

- IMF in low income countries
- Breaking poverty cycles: action in childhood
- How to make accountability mechanisms effective
- Debt relief, debt sustainability and other emerging issues
- Taking stock of the PRSP process

A comprehensive calendar of events, contact information for groups in Washington, and links to documents released by civil society are available on IFIwatchnet.

[ifiwatchnet.org](http://www.ifiwatchnet.org)

Fawly Powers: Sixty years of the World Bank and IMF

An alliance of eight UK-based development and environment NGOs are organising events in the UK throughout September and October to raise awareness of the vital role to be played by the UK government in reforming the Bank and the Fund.

The NGOs highlight the fact that:

- Chancellor Gordon Brown chairs the IMFC;
- Development Secretary Hilary Benn is a governor of the World Bank;
- the UK is the fourth largest shareholder in the institutions;
- there is extensive staff exchange between the Bretton Woods institutions and the UK Treasury and Department for International Development; and
- in 2005 the UK will head the G8 and the EU.

The alliance is calling on the UK to use its influence to:

- end failed economic policy conditionality;
- implement the recommendations of the extractive industries review;
- reform the institutions' grossly unequal governance structures; and
- cancel unfair debts

More details of events

[brettonwoodsproject.org/fawlypowers](http://www.brettonwoodsproject.org/fawlypowers)

Eyes on IFIs: the portal to independent video on the international financial institutions. Pilot site launches in October 2004.

www.ifiwatch.tv

Feedback, questions, and suggestions welcome

eyes@ifiwatchnet.org



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Bretton Woods Project

c/o Action Aid, Hamlyn House, Macdonald Road, London N19 5PG, UK

+44 (0)20 7561 7610

+44 (0)20 7272 0899

info@brettonwoodsproject.org

www.brettonwoodsproject.org

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