

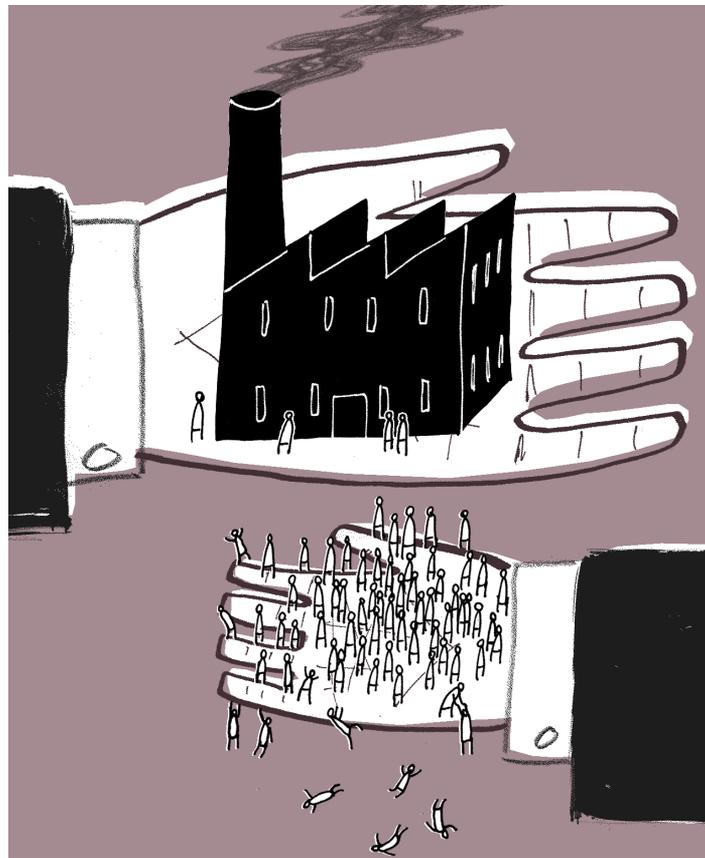
Which way the World Bank?

A report from the Bank's evaluation department assessing its contribution to growth and poverty reduction has provoked renewed debates over what development means and what the Bank's role in it should be.

As Paul Wolfowitz begins his presidency, a dividing line is being drawn between advocates of economic growth driven by big infrastructure and those defending redistribution through the provision of social services.

Protests greeted Wolfowitz at his first day on the job in Washington 1 June. A letter from over 300 civil society organisations in 60 countries laid down benchmarks by which they said that Wolfowitz would be judged. These included a u-turn on World Bank calls for an end to food subsidies in Iraq, and an extension of Iraqi debt cancellation to other countries whose debts were racked up by "unrepresentative, oppressive and corrupt governments".

In his first press conference at the Bank, Wolfowitz was at pains to illustrate continuity with the direction taken by his predecessor, James Wolfensohn. Africa, good governance and ownership were stressed. However Wolfowitz also said that he wanted to make World Bank loans more attractive to middle-income countries such as China and India and put more emphasis on infrastructure projects: "We have raised the transaction costs of dealing with the Bank and we need to look at that." These priorities echo those put forward by a working group of the Washington-based thinktank Center for Global Development (CGD) in a new report entitled *The Hardest Job in the World*. CGD has called for a "revitalisation" of the Bank's role in China, India and the middle-income countries, pointing out that the narrow range of financing products available and the "hassle" of transaction costs had led to a severe decline in Bank lending to these countries.



My pillar is bigger

The respective effectiveness of growth and social services in reducing poverty is the main theme emerging from the Operations Evaluation Department (OED) annual review of the effectiveness of Bank lending. The report is organised around the two 'pillars' of the Bank's work elaborated in the 2001 Bank strategic framework: building the climate for investment, jobs and sustainable growth; and empowering poor people to participate in development.

On the first pillar, the report finds that there is an "urgent need" to assess the impact of the Bank's work on public sector governance, citing "little evidence that governance is improving and corruption decreasing". This observation is backed up by a new report from Bank economists Kaufmann and Kraay which finds no significant global improvement in governance indicators in the eight years since they started measuring them (see page 4). During that time, spending on public expenditure management, rule of

law and administrative reform grew steadily, while that on privatisation and infrastructure fell (the latter has rebounded more recently).

The report argues that whether infrastructure services are publicly or privately owned matters less than that they are provided in a "business-like manner". It notes however that all but one of the best performing countries "have not implemented large-scale privatisations and have borrowed less than the other countries for privatisation". On extractive industries, the report concludes that the Bank "should sequence governance work in the extractive industry sectors ahead of promoting new investments", a recommendation similar to that of the Extractive Industries Review of 2003 which has been sidelined by the Bank (see page 7).

On the second pillar of the Bank's work, empowering poor people, the Bank comes in for some tough criticism. The Bank has conflated increased expenditures in education and health with reducing poverty, says the report, but "their actual impact on poverty has been inadequate". Furthermore, the Bank's work on empowering the poor has failed to demonstrate the poverty impact. The authors find that social development activities "are often limited to small parts of projects or are too rushed or superficial"; poverty and social impact assessments are carried out far less often than envisioned; community development projects establish parallel structures which have "weakened the capacity of local governments"; and participatory initiatives undertaken by governments in the context of drafting PRSPs "waned once the PRSPs were completed".

Supporters of a return to a focus on infrastructure-driven growth have used the report to bolster their case. But a more careful reading of the report suggests that its authors agree with the Bank's current approach of highlighting both growth and the social aspects of poverty reduction. Their fear is that the Bank is overlooking interactions between the two aspects of poverty reduction "inadvertently downplaying the role of certain sectors—such as infrastructure, rural and urban development and environment". However, while

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Setbacks to privatisation across Africa

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From the desk of the UK executive director

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Secretive WB tribunal confronts calls to open up

—page 6

Setbacks to privatisations across Africa

The collapse of a flagship water privatisation in Tanzania, and opposition to both a planned privatisation of the state cotton board and the completed privatisation of the state railway in Mali, highlight the continuing struggle over pressure from the Bretton Woods institutions to privatise in Africa.

In late May, the Tanzanian government pulled the plug on a deal with British company Biwater, which had been contracted in 2003 to bring water to the capital region. Privatisation of the capital's water system was a condition of both IMF support to Tanzania and for getting debt relief under the Heavily Indebted Poor Countries initiative.

Tanzanian water minister, Edward Lowassa, said the company had "failed to produce the goods", claiming that no new domestic pipework had been installed and that the company had invested less than half of the promised \$8.5 million which it had agreed. Larry Magor, chief executive of Biwater, conceded that the project had fallen behind schedule, but claimed that information provided to Biwater was "not only incomplete but also inaccurate". In a strange twist to the story, three executives of Biwater's Tanzanian subsidiary were temporarily detained and then deported in early June. A new institution, Dar es Salaam Water and Sewage Corporation, Dawasco, is being formed to replace the failed firm.

British campaigners from World Development Movement (WDM) are highlighting the role of the UK's Department for International Development (DFID) in the failed privatisation. DFID paid Adam Smith International, a right-wing thinktank, more than £500,000 to provide advice to the Tanzanian government on reform of the country's water system. DFID has admitted paying more than £36 million in the past seven years to Adam Smith International and Price Waterhouse Coopers to advise countries on privatising utilities.

Biwater's difficulties in Tanzania were likely at the root of its decision to withdraw from the bidding process for a controversial water privatisation in Ghana (see Comment, *Update* 43). Rudolf Amenga-Etego, head of Ghana's National Coalition Against the Privatisation of Water, has urged "other companies who are still thinking of bidding for this contract to do the same as Biwater". The World Bank approved a \$103 million loan for the privatisation of Ghana's urban water system in August 2004. Bidding for the contract is currently underway.

Bank enforces US subsidies

Concerns over Mali's impending privatisation of the cotton industry are growing amongst cotton producers, civil society groups and in some quarters of the government. The World Bank has been pressuring Mali for several years to privatise CMDT, a parastatal company responsible for the commercialisation and development of Mali's cotton production. The government recently managed to delay privatisation until 2008.

While most Malians agree that CMDT is poorly run, there is widespread concern from producers about the impact of full-blown privatisation on prices paid for inputs and those received for their crops. In 2004, the World Bank pressured CMDT to pay producers a 'world market price'. The price was below that previously agreed between CMDT and farmers—a price upon which the farmers had made their investment decisions. The government ultimately refused to drop the price and the Bank was

forced to back down, but only on the condition that CMDT did not create a gap in subsequent years between the world cotton price and the price paid to producers. Many trade analysts question the legitimacy of a 'world market price' which is a product of enormous US subsidies to its cotton farmers. One government advisor interviewed by UK NGO Christian Aid complained that "the World Bank office in Bamako has just one official for the cotton sector—fresh out of college—who has more power than all our civil servants put together."

The World Bank recently conducted a poverty and social impact assessment of cotton privatisation in Mali, but this is not yet in the public domain. Brussels-based NGO EURODAD has conducted an independent assessment which will be released shortly, pending release of the World Bank study.

Rail privatisation a "disaster"

Frustration with the Bank in Mali is compounded by the impacts of

a Bank-enforced privatisation of the state railway in 2003. Tiécoura Traoré, head of a national citizen's campaign "for the return of the rail to the people of Mali" has called the privatisation a "disaster". Traoré is a railway engineer and former director of the African Railway Institute in Brazzaville. He cites the loss of 600 jobs, the closure of two-thirds of the station stops and precipitous decline in passenger traffic. This has threatened the livelihoods of thousands who live along the route of the railway who depended on it both for the customers which it brought and as a means of getting their goods to market.

In return for voicing opposition to the privatisation, Traoré was sacked by the new owners of the rail line, Transrail SA, a Canadian-French consortium. Supporters are calling for his reinstatement and raising financial support for Traoré in the months that he has been without employment. Traoré's case before the labour tribunal could last for several months.

Last March, IDA approved a \$48.7 million loan to support a four-year "transport corridors improvement project". Part of the project will finance a social compensation plan to "mitigate the impact of the concessioning of rail services to a private operator".

Biwater kicked out of Tanzania, WDM
www.wdm.org.uk/news/presrel/current/biwateranzan.htm

Resistance to rail privatisation in Mali
www.france.attac.org/a4967

Evaluation of IMF and capital account liberalisation

A report by the IMF's Independent Evaluation Office (IEO) released in May concludes that the Fund's "cheerleading" on capital account liberalisation in the early 90s was unbalanced and inconsistent. However, the parameters of the evaluation precluded addressing whether or not liberal capital accounts are beneficial or whether the Fund's articles of agreement should be amended to give it an explicit mandate on capital account issues.

The authors assert that "in none of the programme cases did the IMF require capital account liberalisation as formal conditionality". Instead, they said, the process was driven by "authorities' own economic and political agendas, including OECD or EU accession and commitments under bilateral or regional trade agreements". The report's authors do not completely exonerate the Fund. While IMF management, staff and board were "aware of the risks of premature capital account liberalisation", such awareness "remained at the conceptual level". Moreover,

when advice was given, it was inconsistent. Sequencing of policy reforms needed prior to capital account liberalisation was "mentioned in some countries but not in others"; advice on managing capital inflows "differed across countries and time"; and on the use of capital controls "a range of views were expressed".

The Fund comes in for criticism for its failure to make any progress in reducing the boom-bust nature of capital movements through the use of regulatory measures targeted at investors in rich countries. The focus of policy advice "remains on the recipient countries". This is one of the key points raised by Washington Post columnist Paul Blustein in his new book on the Argentine crisis, *And the money kept rolling in (and out)*. Blustein points to incentives which push supposedly independent investment analysts to oversell emerging market investments and downplay the risk of default—Wall Street firms' profitability depends heavily on winning investment banking fees.

This point is the basis for one of the two major recommendations of the IEO evaluation. The authors argue that the Fund could provide more input into rich countries' financial supervision to reduce "herd behaviour". The second recommendation is for greater clarity on the Fund's approach to capital account issues. Simply spelling out the risks of capital account liberalisation is inadequate; the evaluation calls on the Fund to assist authorities "when and how to open the capital account", and provide a "gauge of the benefits, costs and risks".

The failure to address the question of whether the authorities should open the capital account at all suggests that the evaluation's authors have made up their minds about the question of "whether liberal capital accounts are intrinsically beneficial".

IMF role in capital account liberalisation, IEO
www.imf.org/External/NP/ieo/2005/pr/eng/pr0502.htm

And the money kept rolling in (and out)
www.publicaffairsbooks.com

GROWING civil society pressure for better performing international financial institutions (IFIs) has left the Bretton Woods institutions with little choice but to acknowledge the existence of civil society organisations (csos). Increasing efforts have since been made to consult with csos especially during the Wolfensohn era which has been viewed as the most accommodating of csos. Although this has not yielded much in terms of actual impact, it has been a step in the right direction for cso struggles. What remains to be seen is whether this will be maintained during the term of new president Paul Wolfowitz.

Engaging with csos has meant huge public relations exercises for IFIs and especially the World Bank, including setting up a civil society department responsible for arranging various cso-Bank meetings. The latest effort was the World Bank global civil society policy forum convened in Washington 20–22 April. The objectives of the forum were to:

- promote substantive policy discussion between cso leaders and Bank managers/staff on important development topics of mutual interest;
- analyse lessons learned on Bank-cso engagement and discuss ideas for improving this in the future, including a possible new framework for global Bank-cso dialogue; and
- promote greater mutual understanding of underlying positions and foster greater levels of trust.

The controversial forum was attended by more than 40 csos from across the globe to discuss poverty reduction strategy papers, millennium development goals, debt, trade, poverty and social impact analysis, and Bank-cso relations. The first day of the meetings was mainly for csos to discuss and consult amongst themselves on critical issues and thrash out specific points to bring to the attention of the Bank. These discussions were on both thematic and regional bases. The next two days were led by the Bank, and senior management addressed the meetings with continued emphasis on Bank commitment to engaging with csos. cso concerns from the forum include:

- the agenda and meeting were largely dominated by the Bank. Although csos made several recommendations on various ways forward, these are unlikely to have any impact because csos remain the lesser partner. The meeting objectives are unlikely to be met as

World Bank and civil society engagement: a new direction?

COMMENT

By Moreblessings Chidaushe, AFRODAD

guard against being used by the Bank to legitimise its operations;

- the issues of power relations and political will upon which the development industry's success rests are not being adequately addressed. The IFIs are still existing largely to strengthen US economic interests through their neo-liberal policies; and
- csos questioned the non-appearance of Wolfensohn's successor, indicating the uncaring attitude with which csos will be handled during the 'Wolf 2' era.

Given the lack of progress in dealing with the IFIs, in future csos might consider employing the following strategies to move forward:

- disengagement for strategic re-engagement: this would mean total disengagement with all IFIs. CSOs can try influencing IFI operations from the outside until such a time when the institutions are genuinely prepared to consider csos as an equal partner. The current set-up serves largely to legitimise the Bank's existence;
- continue to name, shame and expose negative IFI policies and operations; and
- northern csos whose countries are major shareholders in the Bank tend to have more access to their governments than their southern counterparts. Northern csos should therefore continue to push their governments for reforms in the IFIs' structure, policymaking and operations.

At the end of the meetings, outgoing Bank president James Wolfensohn addressed the meeting, highlighting that the Bank was still committed to dealing with csos. He also noted that csos remain too critical of the Bank without coming up with viable options. The Bank urged that it is time for csos to put aside differences with the Bank and work in partnership for the benefit of the poor.

While Mr. Wolfensohn may have had noble intentions regarding cso engagement, unless there is genuine political will to change the current structure of the board to whom the president is accountable, the talk will remain rhetoric for a long time to come. ©

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Which way the World Bank?

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the report rightfully calls for greater evidence of the poverty impact of expenditures in education, health and public sector governance, it fails to demand the same standard of the rest of the Bank's portfolio in investment climate reform, infrastructure, extractive industries and trade.

Democratic double standard

Any discussion of the future role of the Bank gets stuck on the question of the Bank's legitimacy. In his report on reform of the UN system, secretary general Kofi Annan said that "more significant steps are needed to overcome the widespread perception among developing countries that they are under-represented in

both [the Bank and Fund], which in turn tends to put their legitimacy in doubt." The report by the Center for Global Development cited above suggests four specific initiatives to "re-establish the legitimacy of the Bank's governance":

- formalise a credible, rule-based, transparent mechanism for choosing the Bank's president;
- provide two additional seats on the board for African countries;
- make an independent and public assessment of voting shares and board representation including options for changes; and
- commission an independent review of board functions and responsibilities.

A new report commissioned by the Friedrich Ebert Stiftung Foundation comes up with some interesting suggestions for governance reform. In addition to recommendations on the reform of voting shares and board seats, the report advises:

- the creation of advisory boards for country directors;
- the elimination of loan volume criteria from staff appraisals; and
- the creation of an autonomous evaluation unit akin to the IMF's Independent Evaluation Office (a similar proposal is put forward in the CGD paper).

The direction that Wolfowitz takes on infrastructure, governance and

the agenda manipulation might deter the promotion of greater mutual understanding, substantive and thoughtful dialogue;

- the Bank still has a long way to go in turning rhetoric into reality. Consultations remain superficial. Recommendations from civil society are ignored by the Bank. Yet they continue to highlight their commitment in dealing with csos, publicly acknowledging them as an important partner. csos must therefore

guard against being used by the Bank to legitimise its operations;

- the issues of power relations and political will upon which the development industry's success rests are not being adequately addressed. The IFIs are still existing largely to strengthen US economic interests through their neo-liberal policies; and
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other reforms in the coming months will play a key role in determining how civil society interacts with the institution during his presidency. ©

CSO letter to Wolfowitz on his arrival
www.cgdev.org/cms/action/may2005/signup

The hardest job in the world, CGD
www.cgdev.org/Publications/index.cfm?PubID=222

Annual review of development effectiveness 2004, OED
www.worldbank.org/oed/arde/2004

Governance reform of the BWIs and UN development system, FES
www.globalpolicy.org/soecon/bwi-wto/wbank/2005/05governance.pdf

Fund legitimacy under question

As the rich countries hit deadlock on IMF gold sales, Turkey's three-year stand-by deal is criticised for its negative social impacts, and speculation rises over the emergence of an Asian Monetary Fund.

No go on gold sales

Agreements for a 100 per cent multi-lateral debt cancellation plan failed to materialise during the spring meetings in Washington in April when the US administration opposed the UK's proposal for the sale of IMF gold to fund the cancellation of debts owed to the Fund. Since then there has been some movement in the US position following a proposal by Jim Saxton of the Joint Economic Committee of Congress to return a portion of IMF gold to member countries. Rich country members could then choose to use these resources to support a facility which would give condition-based grants to the poorest countries. This proposal is outlined in a recent study, *The debt of the poorest nations: A gold mine for development aid*. Talks on IMF gold will continue at the G8 summit in Scotland in July. Civil society groups are doubtful that a meaningful agreement will be reached.

IMF gold reserves are widely acknowledged to be undervalued. A report by the Washington-based Center for Global Development estimates that the sale of around 15 per cent of its current gold at re-valued prices would generate approximately \$7 billion. An NGO report signed by a number of member organisations from the 2005 Global Call to Action Against Poverty, states that the viability of using IMF gold sales for debt relief was recognised by the IMF ear-

lier in the year in a leaked paper that was never published. The NGO report calls for the phased sale of IMF gold reserves to fund debt cancellation for impoverished nations unable to meet the Millennium Development Goals by 2015, and states that gold sale proceeds should be used not just to cover debts owed to the IMF, but to other multilateral development banks as well.

Turkish loan approved

After approval of the IMF's new \$10 billion loan agreement for Turkey, critics charged that the programme will have serious social repercussions in a country where a quarter of the population lives below the poverty line, and real wages continue to decline. The three year stand-by deal, which makes \$838 million immediately available to the country, succeeds a previous accord that expired in February and marks the second phase in the country's recovery from a financial crisis that peaked in 2001. The deal is designed to consolidate economic reforms and boost foreign direct investment in Turkey. The Fund also agreed to delay about \$3.8 billion in debt repayments coming due in 2006. Turkish authorities are hoping that the successful completion of the deal will weigh favourably in the minds of EU governments considering Turkey's EU membership.

In anticipation of the agreement, the IMF's Anne Krueger declared the need for "a more flexible labour mar-

ket" in Turkey and that "labour market rigidities and high minimum wages act as a disincentive to hire new staff". Krueger may have wanted to check her facts first. A recent report by the Turkish government reveals that only 48 per cent of the country's total workforce is covered by the social security network. According to the Turkish central bank, following the series of financial crises in 1994, 2000 and 2001, real wages have plummeted by as much as 30 per cent on 1994 levels.

East Asian autonomy

Statements made at the Asian Development Bank's (ADB) annual meeting in May fuelled speculation regarding the re-emergence of the controversial Asian Monetary Fund (AMF). The AMF was originally proposed during Asia's 1997-98 crisis but was quashed amid US and IMF fears of the creation of an IMF counterpoint in Asia.

Top ADB official Masahiro Kawai stated that currency-swap arrangements agreed to by the region have "the potential to become an Asian monetary fund". These arrangements, otherwise known as the Chiang Mai initiative, were set up shortly after the Asian financial crisis by thirteen East Asian countries dissatisfied with the IMF's lending conditions. Since then a

number of high-growth Asian countries such as China, India and Malaysia have avoided borrowing from the IMF in order to avoid its structural and austerity conditionalities, while others, such as South Korea, Thailand and Indonesia have allowed their IMF lending agreements to expire in recent years. Critics of the AMF idea argue that a regional fund would duplicate the IMF's work and may be unwilling to impose the harsh financial conditions on Asian governments that could be required in an emergency. Supporters make the counter-argument that the IMF's mishandling of the Asian crisis is proof of the need to end its monopoly on macroeconomic policy advice. ©

Sell IMF gold to cancel the debt: decision time is now, EURODAD

www.eurodad.org/articles/default.aspx?id=612

Debt cancellation: historic victories, new changes, Foreign policy in focus

www.fpij.org/papers/0505debt.html

Gold for debt: what's new and what next?, Center for Global Development

www.cgdev.org/docs/CGD%20Note_IMF%20Gold.pdf

A goldmine for development aid

www.house.gov/jec/publications/109/hipc06-07-05.pdf

Ecuador stands ground

Ecuador's new president Alfredo Palacio has claimed he will not back down on the issue of the use of the country's oil revenues and Bank bond payouts. According to the World Bank's 2003 structural adjustment loan to Ecuador, the country is required to pay bondholders 70 per cent of the revenue received from any rise in the price of oil. A further 20 per cent of any windfall must be set aside for "contingencies". The document specifies that

Ecuador may keep only 10 per cent of new oil revenue for expenditures on social services. Palacio's stance differs from that of his predecessor Lucio Gutierrez, who had promised to break away from the austerity plan imposed by the World Bank before he won the election in 2002, but reneged on his commitments within a month of taking office. Palacio has made it clear that handing over 90 per cent of his nation's new oil wealth is unacceptable. ©

No improvement in governance

World Bank researchers Kaufmann and Kraay have released the latest edition of their governance indicators, measuring accountability, political instability, government effectiveness, regulatory quality, rule of law and control of corruption. Five of the six indicators form the basis for the US allocation of its bilateral aid programme, the Millennium Challenge Account. In this fourth update in eight years, the authors analyse changes over time. They find that, while governance in a number of countries has changed significantly both for better and for worse, there are no trends in global averages of governance.

www.worldbank.org/wbi/governance/pubs/govmatters4.html

Research network on the World Bank

In April, a conference of researchers was held in Budapest to "reflect on the past operations, policies and programmes and future directions of the World Bank". Sponsored by the Centre for the Study of Globalisation and Regionalisation, the World Bank, and the Center for Policy Studies, conference participants discussed the Bank's role in knowledge and norms, PRSPs and poverty, environmental issues and donor harmonisation; as well as discussing reform agendas for the Bank and engagement between the Bank and the research world.

Join the WB research discussion
www.groups.yahoo.com/group/research_on_the_world_bank/

www.ceu.hu/cps/eve/eve_wbank_program.htm

IMF, Bank reviews of financial sector reform

The Fund's board review of the joint Bank-Fund financial sector assessment programme (FSAP) emphasised the need for better follow-up of issues identified. Board members failed to agree on a suggested move to a policy of presumed publication of FSAPs. In April, the OED released an evaluation of the Bank's role in financial sector reforms. The evaluation recommends that the Bank should provide "much clearer guidance" to staff on financial sector issues, and make arrangements to "respond better to crises". A parallel IEO evaluation on the Fund's role in financial sector reform is expected in September.

www.worldbank.org/oed/financialsector/

Aid, death and dogma

A report released in May by UK NGO Christian Aid, documents case studies in India, Ghana and Jamaica where imposed liberalisation has ravaged local industry. The report links small-scale farmers' spiralling debts in India with the structural adjustment programmes of the World Bank. Numerous independent reports have identified the debt crisis as the root cause of a wave of farmer suicides. In Ghana, the report details the IMF's role in overturning rice and poultry tariffs which had been agreed by the parliament. Both industries are now teetering on the brink of collapse.

www.christianaid.org.uk/indepth/505caweek/

Inside the institutions **The executive boards of the World Bank and IMF**

From the UK executive director to the Bank and IMF, **Tom Scholar**

The IMF and the World Bank are international organisations, established by international treaty, and accountable to the 184 countries who are their members and shareholders.

For each institution the highest governing authority is the board of governors, which meets once a year; but responsibility for the day-to-day operations of the institutions, and for most decisions on policy and country issues, is delegated to the two executive boards. Each board is made up of 24 executive directors (EDs), chosen by the 184 member countries to represent them, and chaired by the managing director (in the Fund) and the president (in the Bank); and each meets, in Washington, for two or three (rather full) days each week. By tradition most decisions are taken by consensus, rather than by majority vote.

The UK is (with France) the joint fourth largest shareholder, with about 5 per cent of the shares of each institution; the chancellor of the exchequer is the governor of the IMF, and the secretary of state for international development is the governor of the World Bank. They appoint the UK's executive director—since 1945 we have had a single ED for both institutions—who is supported by two alternate EDs and six advisers (from the Department for International Development (DFID), HM Treasury and the Bank of England). We work very closely with our counterparts in London, who are responsible for our instructions on positions and lines to take.

So what do we do all day? Well, reaching consensus on complex and often controversial issues takes time, so board meetings are a major part of our work. But on any issue the board meeting is typically the end of a long process, and to get the right result it is crucial to intervene much earlier; so we also spend a lot of time in discussions with Bank and Fund staff, trying to influence their work, often on projects or policy items that may not come to the board for several months. Of course, in an international consensus-based organisation we can only achieve results by working with others, so we are also in constant touch with other EDs and their staff, listening to their views and

trying to build support for our proposals. We are in continuous dialogue with London and DFID's country offices, reporting on these discussions, giving advice on how to take forward our various objectives, and receiving new instructions. And it is also essential that we receive and reflect views and experiences from the world outside the institutions—NGOs, think tanks, visiting ministers and country officials, parliamentarians, and so on. All this information from these many sources is fed in and absorbed and reflected in our position at the board—and, where we are successful, in the policies and actions of the Fund and Bank.

Is this a good way of running an institution? Well, it has real strengths. Decisions are, in almost every case, taken genuinely by consensus, reflecting the views of 184 countries, and the international cooperation this brings about is a global public good. A board of 24 strikes a reasonable balance between inclusiveness (giving every country a way of influencing the debate) and effective and timely decision-making. The wealth of country experience often brings valuable and unexpected insights. But there are some clear

We need greater transparency around the decision-making process

challenges to address if the boards are to meet the highest modern standards of effectiveness and accountability. In particular, we need to do more to strengthen the voice of developing countries at the boards. Some progress has been made—for example, greater support to the two African EDs who between them represent 45 countries—but we must go further. And we need greater transparency around the decision-making process at the boards. Again there has been good progress—for example, most board documents are now released, and since April of this year the Bank has published the minutes of board meetings—but we need to do more, to improve effectiveness and strengthen confidence in the process. Progress on these two issues will not happen overnight, given the need for a broad consensus. But they are UK priorities and we will continue to press them. ©

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Parliamentarians go to Washington to demand greater oversight of IFIs

Parliamentarians from eight countries travelled to Washington for the Bank-Fund spring meetings to present the international parliamentarians' petition demanding greater oversight of the operations of the IFIs. Their concerns were echoed in a report published in May by the UK NGO World Development Movement (WDM).

MPS presented the petition, signed by over 1000 parliamentarians in over 50 countries to Ian Goldin, World Bank vice-president for external affairs and Tom Dawson, his counterpart at the IMF. In the two-hour workshop which followed, MPS highlighted instances of IFI infringement of parliamentary sovereignty. Drajad Wibowo, Indonesian MP, cited electricity, oil and gas laws driven by IMF conditions which had been implemented by the executive only to be later overturned by constitutional courts. Mario Cafiero, Argentine MP, decried a situation where parliaments rubber-stamp "measures pre-approved in letters of intent with the IMF".

Jean-Francois Rischard, World Bank vice-president for Europe, avoided responding directly to the MPS' points. He claimed that there

had been a "revolution" in the Bank in the "last few years", saying that 85 per cent of country staff reported meeting with parliamentarians on a regular basis. Rischard emphasised World Bank Institute efforts to "train parliamentarians about how to improve their oversight role". He claimed that the Parliamentary Network on the World Bank (PNOWB) is the place where parliamentarians can address their concerns. Tom Dawson seconded the comments of his colleague from the World Bank, and highlighted Fund efforts to establish a wide range of parliamentary capacity building programmes, particularly in the transition countries and Africa.

The second section of the workshop focused on positive steps which had been taken to improve parliamentary scrutiny. Senator Francesco Martone from Italy called on the Bank and Fund to disseminate information in a timely and effective fashion. He called for other countries to regularise the practice of executive directors reporting to parliaments, and for government departments in the north which liaise with the IFIs to draw up

medium-term plans with objectives to which civil society could hold them to account. Finally, he called for parliamentarians to demand that they be included in official delegations to the spring and annual meetings of the institutions.

Ivan Valente, Brazilian MP, described the work of a 'parliamentary front' on the IFIs (see *Update* 34) which works to ensure the observance of a constitutional requirement that all letters of intent and country assistance strategies have to appear before parliament. The group had introduced a bill to see that Brazilian representatives to the IFIs are vetted by congress and accountable to them.

Many of the MPS left the workshop frustrated that neither the Bank nor the Fund conceded any responsibility for the lack of parliamentary scrutiny. They expressed their commitment to continue to spread support for the petition, and to work from the national level to change the relationships with the IFIs.

Denying democracy

The WDM report, entitled *Denying democracy: How the IMF and World Bank take power from people*, points to four shortcomings in the democratic accountability of the BWIs: the design of the PRSP process to "deny

real country ownership", the IFIs "lack of interest in promoting parliamentary scrutiny", the imposition of policy choices on governments, and the "internal democratic deficit" at the IFIs.

On the issue of parliamentary oversight, the report highlights a case study of Ghana. In discussions over a new loan in 2003, the IMF insisted that a new tariff on imported poultry not be enforced. The legislated tariff increase was subsequently removed in early 2004. In August the Ghanaian poultry association began court proceedings against the government, arguing that the u-turn on the poultry tariff (which had been passed by parliament) amounted to a contravention of the constitution. In March 2005, the Ghanaian courts ruled that the government's overturning of the tariff under pressure from the Fund was indeed illegal. ©

Kept in the dark: The World Bank, the IMF and parliaments

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

International parliamentarians' petition

www.ippinfo.org/

Denying democracy: How the IMF and World Bank take power from people

www.wdm.org.uk/democracy/democracy.pdf

Secretive World Bank tribunal confronts calls to open up

The World Bank's International Centre for the Settlement of Investment Disputes (ICSID) resolves disputes between foreign investors and the countries in which they invest.

It operates in secrecy despite its power to make decisions that can significantly influence daily realities in developing countries.

Civil society is calling for the reform of ICSID. The ICSID secretariat itself has proposed a number of changes in an ongoing review process. However, the future of the reforms looks uncertain due to resistance from developing countries.

ICSID was established by the *Convention on the settlement of investment disputes between states and nationals of other states* in 1966, when it was ratified by twenty countries. There are now 142 members. ICSID claims to be an "autonomous international organisation" but is in fact part of the World Bank group. All of its country members are also members of the Bank and unless a government objects, its World Bank governor sits *ex officio* on ICSID's administrative council. The council is chaired by the World Bank's president. Annual meetings of the council are held in conjunction with the Bank/Fund annual meetings. There is also an ICSID secretariat, the expenses of which are financed by the Bank.

The Bank's official motivation for creating ICSID was the belief that an institution specifically designed to facilitate the settlement of investment disputes between governments and foreign investors could help to promote increased flows of international investment. This reflects a broader corporate mistrust of domestic judiciaries in developing countries, despite the high level of Bank funding for judicial reform programmes over the last decade. Almost all cases heard by ICSID are from companies in the industrialised north against southern governments.

The majority of rich countries ratified ICSID forty years ago, while developing countries have come on board more recently. Most Latin American countries ratified the convention during the nineties when they were implementing IFI-promoted privatisation programmes. ICSID created more favourable investment conditions for multinationals to enter poor countries. However, for domestic firms this smacks of a double standard: while the foreign investor can choose between a domestic or international dispute resolution procedure, national parties can only rely on the domestic option. This increased investment risk is

one of the reasons why domestic companies in Latin America have played such a minor role in privatisation processes.

For corporate eyes only

ICSID's proceedings are secret. Access to files and hearings is not permitted to anyone other than the parties involved. Decisions are also kept secret except when the parties agree to make them public. Unlike many domestic dispute resolution procedures, there is no possibility of participation by any other interested party. Hearings are often held in Washington, Paris or London—convenient for northern investors, but thousands of miles away from where the potentially affected citizen lives.

Until now ICSID has not allowed for the submission of *amicus curiae* (*amicus curiae*, the latin words for 'friends of the court', are documents provided by interested parties containing arguments that could help the decision-making process). However, a landmark decision in May indicated the willingness of the Centre to consider *amicus curiae* in a controversial water services dispute (see below).

Such secrecy often violates domestic or regional access rights and norms. It creates obscure mechanisms for decisions to which citizens have no access. Its rulings can have a tremendous effect on essential services, resulting in substantial changes in the way that consumers receive their water, gas, electricity, etc. It is on the basis of this concern that civil society groups are calling for public access to the tribunals.

In 2002, in the case *Aguas del Tunari S.A. and Republic of Bolivia*, three hundred civil society representatives from Bolivia and beyond sent petitions to the tribunal, urging it to: allow petitioners to intervene as *amicus curiae*; publicly disclose the prosecution and defence statements; make all arbitration hearings public; and ensure that the arbitrators visit Cochabamba, Bolivia (see *Update 33*). In a letter six months later the tribunal replied that it did not have the authority to decide on such matters.

It said that the relevant decision-making powers lay with the parties, who had not consented to the petition. It was not clear if only one or both parties were opposed.

In March 2005, a coalition of organisations from Argentina and the US presented a petition for transparency and participation in the case *Aguas Argentinas S.A., Suez Sociedad General de Aguas de Barcelona S.A., Vivendi Universal S.A. and the Republic of Argentina*. The petition argued that Argentina's legislation, including

international human rights treaties that have constitutional status, guarantees the participation of civil society in proceedings that may affect collective rights. Hence the Argentine government should not have signed the ICSID treaty in violation of its constitution, and any company doing business in the country must act in accordance with previously agreed norms. The government of Argentina responded affirmatively to the petition but the water company rejected it. In frustration, the attorney general of Argentina published all the information he had available on the pending cases on the internet.

In an unprecedented ruling in May, the tribunal acknowledged that the case "potentially involved matters of public interest and human rights" and that *amicus* submissions not only had the potential to inform the legal proceedings, but also "would have the additional desirable consequence of increasing the transparency of investor-state arbitration".

Winds of change

In October 2004, the ICSID secretariat prepared a discussion paper entitled *Possible improvements of the framework for ICSID arbitration*. The paper was sent to members of the administrative council of ICSID, arbitrators and business for comments. The secretariat also claims that that it was sent to civil society groups, although it is not clear which ones.

The paper examined many of the transparency and accessibility problems illustrated in the Bolivian and

Argentine cases, including the possibility of immediate public disclosure of all decisions, stricter disclosure requirements for arbitrators, the opening of hearings to the public, and the acceptance of *amicus curiae* briefs.

The proposal has not been distributed widely, but there have already been mixed reactions to it. The response from the South Centre, an intergovernmental think tank based in Geneva representing the views of southern country governments, has expressed opposition. It questions the authority of the secretariat to make such proposals. South Centre argues that greater transparency would act against the interests of southern governments by facilitating the participation of developed country organisations and interest groups with far greater resources. They also assert that it will increase the costs of arbitration. Finally, they defended the idea that arbitration is a "private dispute resolution process". This reflects the opinion of some southern government representatives who do not want to disclose classified information.

Alternatively, the International Institute for Sustainable Development (IISD), a think tank on international trade and investment based in Canada, has welcomed the reform proposals. IISD notes that the disputes are not essentially private and that the permission for *amicus* participation will not overwhelm the role or resources of the litigating parties. It also argues that the experience at the WTO, where this participation is now permitted, has shown that the system works smoothly and that the fears of higher costs and bureaucracy are unsubstantiated.

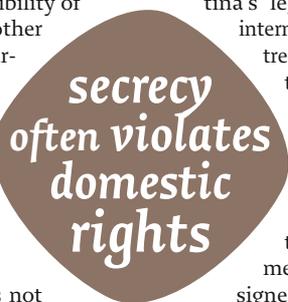
Antonio Parra, the current ICSID deputy secretary-general and backer of the reforms, is leaving the post at the end of September and southern governments' support will be required for the reforms to succeed. There is no official communication about reactions to the proposals or the follow-up steps to be taken. It is up to civil society, especially in the south, to pressure their governments to back the proposed reforms. ©

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ICSID discussion paper, World Bank
www.worldbank.org/icsid/improve-arb.htm

South Centre discussion of ICSID reform
www.southcentre.org/tadp_webpage/research_papers/investment_project/icsid_discpaper_feb05.doc

CSO petition to ICSID in Argentine case
www.ciel.org/Publications/SuezAmicus_27Jan05_English.pdf



Slow progress on World Bank's oil, gas and mining commitments

The World Bank has made slow progress in implementing the commitments made in its management response to the Extractive Industries Review in September 2004 (see Update 42).

Management had proposed reforms on: the explicit tracking of poverty reduction associated with extractive industry projects; the consideration of governance indicators for host countries; broader inclusion of local stakeholders; the development of a more systematic approach to revenue transparency; and increased lending for renewable energy projects. In a letter to Rashad Kaldany, director of the Bank's oil, gas, mining and chemicals department, 73 NGOs raised a number of serious concerns:

- the inadequacy of the Bank's draft poverty indicators to capture and measure the risks and costs of extractive industry projects, which rely too heavily on the client's assessment of poverty reduction benefits and project impacts;
- the failure of the Bank's extractive industry-specific governance indicators to include the rule of law and respect for human rights. A project-specific governance assessment based on these indicators should be made public before an extractive industry project goes to the Bank's board;
- despite an indication from Bank staff that the issue of environmental management and no-go zones would be addressed in the context of the IFC's safeguard policy review (see page 8), no-go zones have not been included in the IFC's latest drafts;
- csos requested information on the Bank's strategy to proactively identify potential renewable energy investments to meet its target of a 20 per cent annual increase in its renewable and energy efficiency portfolio and promote access to sustainable energy sources for the world's poor. The Bank has been criticised over its choice of a baseline period in which investments in renewables were especially weak; and
- the draft terms of reference for the 'extractive industries advisory group', states that the group will consist of 15 individuals from government, industry, civil society, academia and finance. However, NGO signatories to the letter had not been made aware of the Bank's selection process.

Violence as BTC pipeline opened

The need for fundamental reform of Bank support for extractive industry projects is illustrated by the IFC-funded Baku-Tbilisi-Ceyhan (BTC) oil pipeline, inaugurated on 25 May, in Baku, Azerbaijan. Days before, riot police in Baku intervened to prevent

Mining, communities and political risk insurance

Investment in extractive industries comes under further scrutiny in Roger Moody's new book *The risks we run*, which examines the "dangerous and damaging role" of political risk insurance in providing support to huge mining projects. It examines a system which protects investors but not people or environments. A significant number of damaging mines would not have been constructed had it not been for the Bank, which in many instances has been the single most important provider of political risk insurance, through its Multilateral Investment Guarantee Agency (MIGA), and through IFC investments.

The book describes the history of the Bank's role in 'reforming' rules of entry to mineral rich countries on behalf of hundreds of external private minerals companies and investors. This is done either through mining projects supported by IFC/MIGA, or IBRD/IDA structural adjustment programmes. It gives case studies of Bank-supported goldmine projects, all of which have had devastating impacts, including Yanacocha in Peru; Lihir island off the coast of Papua New Guinea; Kumtor in Kyrgyzstan; Bulyanhulu in Tanzania; and the Freeport Grasberg mine in West Papua.

The risks we run: Mining, communities and political risk insurance available from Roger Moody partizans@gn.apc.org

would-be protestors from reaching the inauguration venue. A rally had been planned to demand amendments to Azerbaijan's election laws to prevent the authorities falsifying this year's

election outcome. The controversial project has been strongly opposed on social and environmental grounds, amidst fears that it will exacerbate conflict and human rights abuses

World Bank breaks promises on forests

An inter-agency NGO report finds that programmes funded by the World Bank Group are causing destruction of the world's remaining forests and harming forest-dependent peoples. It says that the Bank has failed to implement its own forest safeguard policy. The report's authors chart some of the environmental and social devastation that has occurred as a result of Bank involvement in forestry around the globe and attack the contention that the expansion of industrial logging brings economic benefits to a country's poor.

Key findings include:

- "community forest management" projects in India, meant to alleviate poverty, have ignored World Bank safeguard policies and trampled the rights of indigenous peoples. Communities and NGOs described one project as a "sugar-coated pill which is bitter inside";
- IFC projects have threatened forests and forest people, notably for soya expansion in the Brazilian Amazon (see page 8) and palm oil production in Indonesia;
- policy changes to promote industrial logging in the Congo basin have been pushed through with the assistance of the

World Bank without required public consultation or measures to secure local community rights. Consequently, "the rights and livelihoods of millions of people will be put at risk"; and

- conservation projects funded by the Bank's Global Environment Facility and implemented by the World Bank have imperilled traditional livelihoods and marginalised communities, and have resulted in "increased enforcement laws and exclusionary conservation policies".

Forestry fiasco in Cambodia

NGOs have welcomed the recent board decision to authorise an Inspection Panel investigation of the Forest Concession Management and Control Pilot Project in Cambodia (see Update 45). A complaint launched on behalf of villagers maintains that the project will spell environmental degradation caused by industrial-scale logging, damage to watersheds, and will subject villagers to the "kinds of abuses" they have suffered in the past.

Mangroves: principles ignored

Fourteen NGOs from all continents have expressed strong disappoint-

in Kurdish areas of eastern Turkey, which have seen the arrest and torture of human rights defenders.

Two recent reports, based on fact-finding missions to Azerbaijan and Georgia in October 2004 by a consortium of NGOs, released days before the pipeline's inauguration, illustrate a lack of due diligence demonstrated by the IFC. They reveal a catalogue of unresolved problems with the project: non-compliance with Georgian state environmental permit conditions; failure to adequately address environmental risks and compensation; drinking water pollution; uncompensated expropriated land, and damage to property. A resident from Tsemi village in the Borjomi region in Georgia said "BTC brought benefits for the government but local people have nothing. They have destroyed our road, the tourist season has been totally lost...The only opportunity we had to earn a living was taken".

The Georgian report also contains leaked documents detailing disputes between the Georgian government, BP and international financial institutions regarding safety concerns. ©

Reports of fact-finding missions to Azerbaijan and Georgia, CEE Bankwatch www.bankwatch.org/

Letter to World Bank from CSOs on extractive industries review follow-up www.grrr-now.org/?action=showdoc&typedoc=1&menu=24

ment at the World Bank's draft *Principles for a code of conduct for mangrove management*, which has failed to ensure "wider-scale involvement and comment by local and indigenous peoples". They also criticise the process for being too top down, and failing to provide timely translations into local languages.

In a letter sent in May to Ronald Zweig, senior aquaculturist at the World Bank, NGOs criticised the drafting process for ignoring civil society recommendations accepted by the Bank during consultations in Washington in 2003. These would have facilitated wider-scale participation by local and indigenous peoples who live and work in the mangrove zones, and would have included workshops in all regions. ©

Broken Promises: World Bank and forests forestpeoples.gn.apc.org/

Bank response to Cambodia inspection panel request siteresources.worldbank.org/EXTINSPECTIONPANEL/Resources/CambodiaIPFinal.pdf

NGO letter on mangrove principles forestpeoples.gn.apc.org/

From bad to worse: IFC safeguards

Devastating impacts of IFC-supported projects on people and the environment continue to highlight the serious shortcomings of the institution's environmental and social safeguards (see *Update* 44, 45). The safeguard policy revision process threatens to make matters worse.

Slave labour in Brazil

A compliance advisor ombudsman (CAO) audit released at the beginning of June has questioned the IFC's \$30 million loan to the Amaggi group soy project in the Brazilian Amazon (see *Update* 44). The audit focused on the indirect impacts of Amaggi's third-party soybean suppliers on deforestation in Matto Grosso. It criticised the categorisation procedure as "loosely defined and relying heavily on professional discretion".

An ILO-commissioned report in May revealed that Amaggi buys soybean from Amazon farms where slave labour was detected by the federal government. Amaggi later admitted receiving supplies from two farms where a total of 84 slaves were freed by federal agents in 2004, though denied being aware of this at the time.

The audit found that the 'category B' rating assigned to this project could not be fully justified unless the IFC could ensure that Amaggi's environmental and social policies comply with the IFC's requirements.

A 'B' categorisation allows money to be lent without checking the practices of the borrowing company. Roberto Smeraldi, of the Forum of Brazilian NGOs, said that the audit affirms the need to make IFC categorisation more "objective and rigorous".

Gold mine fuels conflict

A coalition of Guatemalan and international NGOs and movements has questioned the IFC's due diligence in financing the Glamis Gold Marlin mine in Guatemala (see *Update* 44, 45). It states that the IFC should call on Glamis to suspend project activities until a resolution can be reached between the communities, the company and the government.

National movements and religious representatives assert that mining investments in Guatemala are "fueling the rising social tension and conflict between the government and indigenous Mayan communities", in a country where systematic human rights abuses have reached levels not seen since the end of the 30-year civil conflict. A recent letter from NGOs to Bank executive directors reiterated that Glamis does not enjoy broad community support, has violated the rights of indigenous peoples and is doing little to contribute to poverty alleviation.

Safeguard review under attack

In a two-day consultation with the IFC in April, NGOs presented comments and questions on the revision of its safeguard policies. Little clarity was gained on many crucial issues and few commitments obtained. IFC representatives failed to respond directly to much of the analysis. NGOs reiterated the need for a second draft illustrating public comments received to be publicly released before the policy and guidance papers are submitted to the board's committee on development effectiveness (CODE) in July. NGO concerns include:

- numerous weakenings to World Bank group safeguard policies;
- the IFC's failure to clarify key concepts such as "broad community support", "adverse impacts", "critical natural habitats" and "good international practice";
- inconsistencies and/or the failure to reflect several board-approved commitments in the management response to the extractive industries review; and
- the IFC's unwillingness to make explicit statements on minimum, binding standards that comply with international law in relation to environment, human rights, indigenous peoples and labour that will apply to all projects and clients equally.

A number of these criticisms have been supported by the private banks who have signed the Equator Principles on environmentally and socially responsible investment.

The revised drafts will be sent to CODE in early July. Final board approval is expected in October.

No policy on intermediaries

The IFC have yet to make clear how the revised performance standards will apply to funding channelled through financial intermediaries (FI). This is estimated at approximately 35 per cent of the IFC's portfolio.

An independent review by the CAO noted that "the rapid growth of the proportion of the IFC's portfolio in FIs has outstripped IFC's capacity to conceptualise an effective safeguard policy system for FIs".

A World Resources Institute report examines the limitations of FI lending, to monitor the environmental and social impacts of subproject investments. It emphasises that the IFC's poverty alleviation and sustainability mandate means that it must hold FI projects to the same standards as those for traditional lending. ©

CAO Amaggi audit

www.cao-ombudsman.org/pdfs/Amaggi_Final_Editedversion_05-26-05.pdf

World Resources Institute FI report

www.wri.org/iff

IFIwatchnet moves to Montevideo

In June, IFIwatchnet—formerly based at the Bretton Woods Project in London—moved to the Instituto del Tercer Mundo (ITeM) in Uruguay, as part of a strategic plan to strengthen southern networks of IFIwatchers.

IFIwatchnet is a groundbreaking initiative that connects organisations and activists worldwide who monitor and campaign on international financial institutions. Users of IFIwatchnet will not notice any change in the powerful tools it makes available to the public: a calendar of IFI-related events, searchable databases of independent resources—documents and video—on the IFIs, and a search engine restricted to civil society websites that focus on the IFIs.

ITeM carries out information and education activities on international environment and development issues, and encourages citizen involvement in global decision-making processes.

IFIwatchnet

www.ifiwatchnet.org

Bank blackball blunder

Two days after slapping a six-month ban on the Financial Times for giving away embargoed report details, the Bank was forced to admit that it was they—and not the FT—who had broken the embargo. The offending article was an innocuous paragraph on global economic growth with figures from the Bank's annual global development finance report. After the announcement of the ban, staff realised that they had placed the details on an open access part of the Bank's website.

Wasn't that a party...

The music at the farewell party for outgoing World Bank Kenya country representative Mukthar Diop on 29 April was keeping up the neighbours. Not normally the cause for a diplomatic row, except when one of your neighbours in the exclusive Nairobi enclave of Muthaiga is Lucy Kibaki, the first lady (and Diop's landlord). Ms Kibaki went several times to her local police station to report a disturbance of the peace and then directly to the party in an attempt to shut off the offending racket, apparently undeterred by the presence of two of her children at the party.

Update schedule change

The next *Bretton Woods Update* (Update 47) will be published in September. As always, we welcome your feedback on *Update* contents and suggestions for future articles.

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Critical voices on the World Bank and IMF

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An independent non-governmental organisation, supported by a network of UK NGOs, the C.S. Mott Foundation and the Swedish Society for Nature Conservation.