

The World Bank weeds out corruption: will it touch the roots?

A series of loan suspensions and internal investigations has everyone at the World Bank talking about corruption; despite high-profile moves by president Paul Wolfowitz, the root causes of corruption—underpaid civil servants, an acceptance of bribery by big business, and dirty money—remain largely unaddressed.

The Bank has been under intense pressure to stamp out corruption from a series of US senate hearings over the last two years. One of the first steps that Wolfowitz took in response after assuming the reins at the Bank was to commission a review of systems of accountability. Led by Robert Pozen (see *Update* 47), little has been heard about the review but it is assumed to be informing many of the actions that Wolfowitz is pursuing.

In February, the WB, IMF, and other multilateral development banks agreed to create a 'framework for preventing and combating fraud and corruption'. The accord would "increase information sharing, standardise definitions of corruption, improve the consistency of investigative procedures and ensure mutual support for enforcement". It is to be completed in time for the Bank's annual meetings in September.

Over the past six months, Wolfowitz has held up an unprecedented number of loans over fears about corruption. These include:

Chad: Wolfowitz suspended loans to the country in January, saying the government had breached an agreement requiring oil profits from a controversial pipeline to be used for social programmes (see *Update* 49);

Kenya: The Bank announced end January that it would not clear \$265 million in loans until it is convinced the government was serious in tackling corruption. A Bank team is conducting an audit scheduled to end in June;

Congo: After hearing reports about the Congolese president's extravagant foreign junkets, Wolfowitz decided to withhold debt relief;

India: The Bank has held up over \$1 billion in health loans;



Bangladesh: The Bank has cancelled road contracts, health, nutrition and municipal services projects, due to corrupt bidding practices. Wolfowitz plans to ban the private firms involved from future World Bank contracts;

Uzbekistan: The Bank announced in March that it would stop making new loans to Uzbekistan, but that neither existing projects nor technical assistance to the government would be affected;

Yemen: In October, the Bank said it would reduce by 34 per cent its upcoming three-year loan assistance package to Yemen,

starting July 2006, because of a lack of government transparency and good governance; and

Argentina: The Bank has interrupted a project in Argentina that topped up the wages of poor workers. Some of the money seems to have greased the ruling Peronist party's electoral machine before elections in 2003. The government has brought charges against one senior official and fired ten others.

Wolfowitz has also ordered a sweeping review of what went wrong in the Agency for the Execution of Works

in the Public Interest to Combat Unemployment (AGETIP) programme, which passed bank loans to non-governmental agencies for public-works projects in French-speaking Africa. A four-month investigation by the *US News & World Report* released in March has revealed that federal prosecutors are currently investigating the activities of Leslie Jean-Robert Paen. Shortly after joining the Bank in 1989, Paen became a chief architect of the AGETIP programme.

Getting to the roots

While many observers applaud these attempts to weed out corruption, Wolfowitz has failed to systematically address the roots of the problem.

The normalisation of petty corruption in developing countries has in part been driven by IFI conditions which maintain civil service salaries at an arbitrary percentage of already inadequate budgets. The aid industry has fuelled the importance of patronage in many countries by overpaying consultants, driving upwards accountability, and turning a blind eye to corruption in regimes that 'they can deal with'. This is exacerbated by the World Bank's 'pressure to lend' culture where staff are rewarded for the volume of the portfolio they manage.

The Bank has been painfully slow to investigate and ultimately disbar companies found guilty of malpractice, fraud or bribery. Canadian engineering firm Acres International was allowed to continue bidding on Bank projects for two years after it had been indicted for bribery over its involvement in the Lesotho Highlands Water Project.

Before his departure, past president James Wolfensohn commissioned Robert Vaughn of the American University law school to provide a blueprint for the modernisation of the Bank's whistleblower protection policies. Wolfowitz's failure to take action on the report prompted US NGO Government Accountability Project to leak the report in February, noting "this continues the pattern of the Bank rhetorically promoting transparency while maintaining secrecy on management proposals to combat corruption."

Continued on page 3

Why have WB-CSO dialogues on water faltered?

—comment, page 3

"the IFC exposes communities, clients and itself to avoidable risk"—CAO

—page 4

Manager of global reserves? Latest on IMF strategic review

—page 6

"narrow focus on trade liberalisation": Bank trade evaluation

—page 8

Where did the Inspection Panel go?

After a relatively quiet year in 2005, the Inspection Panel will move back into the limelight over the coming months as it issues a series of reports and decisions on requests for investigation. The Bretton Woods Project talked with Eduardo Abbott, executive secretary of the Panel secretariat about Wolfowitz, the attack on safeguards, and the impact that the Panel is having on the Bank.

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BWP: Now that we are approaching the one year mark of the Wolfowitz presidency, what can you say about his impact on your interaction with the Bank?

EDUARDO ABBOTT: The Inspection Panel has a positive relationship with Mr. Wolfowitz. He has been quite open with the Panel and very supportive of accountability more generally. He wrote a paragraph for a new Bank staff guide to the Panel where he describes the Panel as “indispensable to the work and credibility of the World Bank”. We have not seen any significant change in the responsiveness of the staff under Mr. Wolfowitz. Some staff do not agree with the idea of an independent Inspection Panel, some appreciate our contributions to the Bank’s development efforts. Just as before, I guess that it is as it should be.

BWP: NGOs worry that there is a concerted effort to undermine the social and environmental safeguards which underpin the Panel’s work. On the private sector side, many view the IFC’s new performance standards as a weakening of World Bank Group safeguards, and the Compliance Advisor Ombudsman (the complaints mechanism of the IFC) has cited the IFC’s “institutional discomfort” with its compliance role. Does this translate into a ‘chilling effect’ on the work of the Panel?

EA: No it does not. We can’t ignore the ‘environment’ in the corridors of the Bank. But it hasn’t changed our work or our relationship with the Bank and its staff. The World Bank is a lender of last resort, and as such, shouldn’t be competing with private banks. As a development institution, it

shouldn’t be seen as lowering its standards. But no, these developments are not directly impacting the Panel’s work.

BWP: In fiscal year 2005, there were only 3 requests for investigation, only 2 of which were investigated. Are affected communities finding the application process too difficult, the threshold for investigation too high, or the impact of investigations insufficient?

EA: The number of projects actually investigated is always small. In the twelve years since it was established, only some 40 requests for inspection have been received. However, we hope our impact is bigger than these numbers suggest. We receive many unofficial queries. Sometimes groups get a reaction from the Bank simply by cc’ing the Panel on their correspondence with the Bank. This is informal but effective. There is one big project about which a request for inspection was widely expected within the Bank, but apparently after raising the spectre of a Panel request, actions have been taken by management which may now mean that no request will be needed or forthcoming.

After 1999, it became easier to go to the Panel—a community of persons can be represented by only two people who share concerns over the impact of a project. Some may consider this threshold as too low but the fact of the matter is that most if not all requests for inspection have raised concerns of not just a handful of people but of entire communities. Our problem is still that the Panel is not well known, especially by groups on the ground.

The impact of the recommendations of the Panel varies. It is difficult to generalise about management responses across all the projects we have investigated. It is in our thoughts to do a retrospective look at management responses to Panel recommendations. To what extent did the Bank live up to its commitments and what happened in the communities afterwards. We have been working on these issues under the direction of our current chair, Edith Brown Weiss, but we lack the resources to complete the task at this time.

BWP: Does the Panel have sufficient resources to carry out its objectives?

EA: The resolution establishing the Panel ensures that the Panel will be given sufficient budgetary resources to carry out its activities. Only once has our annual budget allocation run out. However, in that year, we received an increase from Mr. Wolfensohn’s private budget.

BWP: What would you like to say to civil society organisations about the work of the Panel?

EA: We need help in making the existence of the Panel better known, we need more feedback about where we need to go. We are sending information about the Panel to Bank public information offices. NGOs in country should let us know if they are not there. Similarly, let us know if there are events where we can send information, or participate in. ☺

www.inspectionpanel.org

Bank citizen complaint mechanisms
www.brettonwoodsproject.org/insidecomplaint

Project	Date of request	Status
India: Mumbai urban transport project	April 2004	Investigation report discussed at board, 28 March 2006 (see page 6).
Pakistan: National drainage programme project	September 2004	Investigation report being finalised. Publication likely after Cambodia (below).
Cambodia: Forest concession project	January 2005	Investigation report submitted to the board end March 2006. Publication likely in May.
Democratic Republic of Congo: Economic recovery project	November 2005	Full investigation just underway (see page 4). Timeline uncertain.
Honduras: Land administration project	January 2006	Board has just approved the investigation as recommended by the Panel.
Romania: Mine closure project	January 2006	Board decision imminent, then Panel recommendation will be published.

SINCE 2003, there have been two attempts at starting a World Bank-civil society dialogue on water supply issues. Both of these ground to a halt.

The first was led by Washington-based csos and got as far as a few meetings in Washington and proposals on how to involve southern civil society active in the anti-privatisation movements. The second attempt was led by London-based csos, focused on urban water supply and sanitation, involved southern social movement and service delivery NGOs, and got as far as an agreed programme of joint investigations and further work on cost recovery in urban water services. Many of the leaders of the anti-privatisation social movements invited to the second attempt boycotted it.

In Washington, since the explosion of the anti-privatisation demonstrations worldwide, there has been internal pressure on the Bank's water officials to start dialogues with civil society. Not only was the anti-privatisation movement driving investment away from the sector (and thus blocking Bank lending into the sector), it was also paralysing even the most necessary reforms in poorly performing public water services.

So why did the dialogues falter? In the first round, it was unclear to the Bank's water officials where the dialogue would lead to, apart from exchanges of words and perhaps an agreement to disagree. Within the Bank at the time, some task managers wanted to expand the dialogue to those csos with direct experience of delivering water services, to keep the dialogues grounded. But before this could happen, the talks were halted by Bank water officials.

The Bank entered the second round with more staff commitment. The dialogue this time focused on urban water supply and sanitation services—privatisation was only one aspect of it. The commitment carried on, with activities to implement the agreements: the Bank circulated information on projects in the pipeline and task managers hosted csos for the start of a dialogue on cost recovery.

This commitment stemmed from the need to mitigate two risks. The Bank was set to increase their annual investments in water infra-

Why have Bank–CSO dialogues on water faltered?

COMMENT

By Belinda Calaguas, Advocacy Manager, WaterAid

meant to—better performance from public utilities. cso activity could ensure that there was accountability from the public utilities and the government officials responsible for them.

So why is the second dialogue process faltering too? With a programme of activities to pursue, co-ordination grew beyond the capacity of the individual csos at the centre of the dialogue. Primarily, this is because of the nature of the second dialogue—by and large, the cso participants had not worked together before. They did not have a common mechanism for internal dialogue and partitioning of tasks.

A way forward is to link up with existing international networks in water, like the Freshwater Action Network (FAN), in order to share the organisational load. FAN's members include activist and development csos in Africa and Central America and it is set up to communicate and mobilise its members for common activities.

Differences between the social movement/activist and development/service delivery csos also contribute to paralysis. In this case, acting locally is likely to be the best way forward. cso water networks exist now in many countries and are more likely to have a mix of memberships from organisations with a social movement as well as development/service delivery background. The dialogues need to be pursued at the local level if the Bank and the csos are to achieve what both claim to want: better performing accountable public services and improved delivery of sustainable and affordable services to the urban poor. ©

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Bridging the Gap: Citizens' action for accountability in water and sanitation

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Continued from page 1

Finally, the IFIs are a central part of an international financial system which has both actively and tacitly supported the global proliferation of dirty money flows. This for example includes financing despots like Nigeria's former president Sani Abacha who is estimated to have stolen \$4.5 billion, and failing to prioritise action against an estimated \$5 trillion which the Tax Justice Network estimates has flown from developing countries into tax havens in the last three decades (see *At Issue, Update 49*).

What is needed?

Greater transparency: The Global Transparency Initiative is calling for the Bank to move away from a checklist approach and towards the presumption of disclosure for all official documents. Continued progress in national-level budget transparency will be cru-

cial. Elected representatives must be more involved in the contraction, implementation and evaluation of loan and grant agreements. Representatives of civil society budget monitoring efforts should be allowed greater access, including to donor roundtables and consultative groups.

Strengthening internal mechanisms: The institutional integrity department needs reform. Government Accountability Project insists that the Bank institute the recommendations of the Vaughn report, specifically procedures to protect staff from reprisal for coming forward to report misconduct. The Bank says it is taking steps to streamline bottlenecks in the sanctions procedure. It must not shy away from investigating and debarring large, multinational companies in a timely fashion. A consistent, transparent frame-

work for deciding when to suspend loans is urgently needed. Backing up these decisions requires that truly independent audits be conducted of Bank operations.

Minimum international standards for extractive projects: The Publish What You Pay coalition has called on the Bank to revisit the recommendations of the 2004 Extractive Industries Review, and adopt minimum standards in governance, transparency and human rights that must be fulfilled before approving oil, gas and mining projects in institutionally weak countries.

A final note of caution

Many civil society organisations have called for increased use of World Bank conditions to deal with corruption. However, this may open the door for economic policy conditionality

structure three-fold, and would invest this in public utilities and the domestic private sector, where past performance has been dismal. They needed to ensure that cso concerns were aired earlier on in the project cycle, before project appraisal. And secondly, they needed to ensure that their investments into public services would deliver what they were

meant to—better performance from public utilities. cso activity could ensure that there was accountability from the public utilities and the government officials responsible for them.

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wrapped in good governance clothing. Dealing with dirty money must not equate to the surrender of national policy-making space. What some may label as corruption, others see as, for example, much-needed protection for domestic industry. There are many at the Bank and beyond who are all too ready to recommend rapid liberalisation of trade, finance and government procurement as the answer to corruption. ©

Committee on foreign relations hearings on corruption in the MDBs

foreign.senate.gov/hearings/2006/hrg060328a.html

Cleaning up the World Bank

www.usnews.com/usnews/biztech/articles/060324/24worldbank.htm

Corruption exposed at World Bank

www.whistleblower.org

IFC safeguard review finished: client risk over protecting rights

Critics assert that the IFC's revised lending standards will lead to more not fewer cases of social and environmental abuse. In early March the International Finance Corporation (IFC), the private sector arm of the World Bank, made public its new policy and performance standards on social and environmental sustainability, and disclosure policy (see Updates 45, 46).

This sees the replacing of the current ten safeguard policies of the World Bank with the following eight IFC-specific 'performance standards':

- Social and environmental assessment and management system;
- Labour and working conditions;
- Pollution prevention and abatement;
- Community health and safety;
- Land acquisition and involuntary resettlement;
- Conservation of biodiversity and sustainable natural resource management;
- Indigenous peoples; and
- Cultural heritage.

Despite a number of changes made in the last round of revisions in response to comments from a variety of stakeholders, the new system is based on discretion and flexibility, rather than increased transparency, accountability and oversight.

Fatal flaws

A coalition of international NGOs who campaigned throughout the consultation period to push the IFC to adopt strong, binding safeguards assert that "despite the IFC's poverty reduction and development mandate and its self-proclaimed role as a standard setter for private financial investment, the new revisions leave the institution behind other lenders on critical issues of sustainable development." In general, there is an over-reliance on client-generated information, and insufficient requirements for effective

and independent project supervision and verification. The standards also make weak statements on minimum binding standards, in particular on human rights and the environment and employ unenforceable language in relation to what is required from the IFC and its client.

Comprehensive analysis on each performance standard submitted to the IFC by civil society was often ignored or only partially incorporated. Specific concerns include:

Human rights: The limited references to human rights in the documents are vague and circular, and address the issue from the purely voluntary approach of corporate social responsibility. Amnesty International has expressed concern that the current drafts: do not sufficiently reflect IFC member-states' human rights obligations under international human rights law; fail to explicitly refer to the core of relevant international human rights law and standards; and do not accurately reflect the evolving international consensus regarding the accountability of companies to international human rights norms.

Financial intermediaries: The IFC has yet to adequately clarify how the revised performance standards will apply to funding channeled through financial intermediaries, which is estimated to constitute approximately 30 to 50 per cent of the IFC's portfolio.

Indigenous peoples: The IFC's proposed policy on indigenous peoples does not match that of the World Bank's. For example in

the latter, 'broad community support' must be obtained for any project affecting indigenous peoples' traditional lands, territories and resources, whilst the IFC only requires broad community support for "large projects with significant impacts". In addition, there are no provisions to ensure that the IFC will not be complicit in the piracy of indigenous peoples' resources, the destruction of their cultures and the violation of their human rights (see Update 48).

Extractive industries and climate change: The IFC's policy and performance standards have failed to respond to several key points raised in the World Bank's management response to the Extractive Industries Review including requiring independent monitoring for large projects and recognising the principle that there are 'no-go zones' in the world for extractive industries. Moreover, in direct contrast to the Bank's supposed leadership role in tackling climate change, the IFC intends to increase lending for fossil fuel projects. A recent report from Friends of the Earth points out that the IFC is not included in the Bank's commitment to increase its renewable energy financing by 20 per cent each year for the next five years.

Criticisms from without and within

Civil society are not alone in expressing concern. During the consultation process, representatives of a number of Equator Principles banks, export credit agencies and regional development banks questioned certain

aspects of the proposed IFC policies. For instance, with respect to 'no-go zones' some major commercial lenders, including JP Morgan Chase and ABN AMRO, as well as the mining industry association International Council on Mining and Metals (ICMM), consider UNESCO world heritage sites out of bounds for investment. The IFC, however, refuses to recognise any area as a 'no-go zone', "identifying instead circumstances in which it could support projects in critical natural habitats."

The IFC's own internal audit body, the Compliance Advisor Ombudsman (CAO) also raised questions on transparency and accountability, environmental and social impact assessments, and the inadequacy of public consultation and disclosures. During the revision it noted that "there is also a widely perceived shift in emphasis from [IFC's] previous safeguard policies which are seen to protect the rights of affected communities, to identifying and managing the risks of private-sector clients". In comments submitted to the board in February, it stated: "we consider that the IFC exposes affected communities, its clients and itself to avoidable risks" as a result of weaknesses in relation to: development impact reporting, risk assessment, and the incorporation of World Bank commitments on the Extractive Industries Review. Other concerns included: the lack of a definition of 'broad community support' and 'free, prior and informed consultation'; security and human rights; and weakening of biodiversity provisions. ©

IFC's policy and performance standards

🌐 www.ifc.org/policyreview

Civil society letters and analysis

🌐 www.grrr-now.org

CAO on IFC safeguard policy review

🌐 www.cao-ombudsman.org/html-english/advisor-safeguard_091905.htm

IFC backs controversial Ghana gold mine

End January, the IFC approved a \$125 million loan to Newmont Mining Corporation for the Ahafo gold mine in western Ghana. Ghanaian and international NGOs say the project has displaced 9,500 people and will displace a further 20,000. One man has been shot dead and others injured over compensation rows. Environmental concerns include water contamination and threats to biodiversity. "Newmont has not addressed the community concerns. Instead it has spent resources on research to support its public stance that the community problems are nonexistent", said Daniel Owusu-Koranteng, of the Wassa Association of Communities.

🌐 www.fian.org/fian/index.php?option=content&task=view&id=182&Itemid=103

MIGA at fault in DRC mine

The audit of the Compliance Advisor Ombudsman (CAO) into the Multilateral Investment Guarantee Agency's (MIGA) due diligence for the Dikulushi copper-silver mining project in Katanga (see Update 47, 49) has found that MIGA did not adequately consider the risks that the project poses to local communities, nor did it fully understand the implications for its client of implementing the Voluntary Principles on Security and Human Rights. Congolese and international organisations welcomed the overdue release of the report in February, urging that all companies receiving Bank support comply with international human rights standards.

🌐 www.cao-ombudsman.org/html-english/DemocraticRepublicofCongo.htm

DRC mining reform: investigation demanded

NGOs have called on the Bank to investigate two mining contracts between the Democratic Republic of Congo's state mining company, Gecamines, and two British Virgin Island-based companies. Under the Bank's supervision of the mining sector, both agreements were ratified without an international invitation to tender. UK-based NGO Rights and Accountability in Development and two Belgium-based NGOs are also asking for an investigation into the Bank's programme for restructuring Gecamines, which they say has been stripped of its assets through a number of disadvantageous contracts.

🌐 www.raid-uk.org/news/DRC_contracts_27_Feb_06.htm

Bank failed to apply safeguards in DRC

After a preliminary investigation by the Inspection Panel into programmes to develop the rainforests of the Democratic Republic of Congo, the Bank has acknowledged that: it did not properly apply its safeguard policies; it was "not aware of the existence of 'Pygmy' communities in areas that would be affected by its projects"; and that it was inappropriate to set targets for the number of new logging concessions. Simon Counsell, of NGO The Rainforest Foundation, said "this is a major victory for the Pygmy people of the Congo, whose rights and livelihoods could be seriously harmed by inappropriate development of the country's rainforests."

🌐 www.rainforestfoundationuk.org

Inside the institutions **The World Bank and water**

As water is ubiquitous to development, so it is within the World Bank. Three separate network vice-presidencies have responsibilities over water (Infrastructure, Environment and Socially Sustainable Development (ESSD), and Private Sector Development). The infrastructure vice presidency houses the Energy and Water department, a Bank-wide department headed by Jamal Saghir.

In March 2000, the World Bank established the Water Resources Management Group (WRMG) to attempt to integrate water sub-sectors such as hydropower, water supply and sanitation, irrigation and drainage, and environment. The members of the WRMG are the lead individuals from these sub-sectors, water resource specialists from each region, water leaders from the World Bank Institute, the International Finance Corporation (IFC), the Global Environment Facility secretariat, and a representative from the legal department. The WRMG is chaired by David Grey, senior water advisor at the Bank. The sixteen staff in the secretariat report to the infrastructure and ESSD vice-presidencies, and are hosted by the Agriculture and Rural Development department in ESSD.

Water Supply and Sanitation (WSS) is a sub-sector of the Energy and Water department, whose work includes water supply, sanitation, sewerage, solid waste management and flood protection. The advisors and task managers in the sector are grouped under the WSS sector board. Total WBG lending for WSS in the period 1990 to 2002 was \$19.3 billion. After a decline in the late 90s, WSS lending has been rapidly increasing over recent years, reaching \$2 billion in FY05, and set to grow to \$4 billion annually. The Bank is the largest external financier in this sector. Bank regional units, supported by the Energy and Water department, are responsible for developing and supervising individual projects. The Bank is also heavily involved in advisory work and policy dialogue, and supporting private sector involvement through the IFC and MIGA. The WSS sector board is led by Jamal Saghir.

The Bank's work on water is guided by a thematic strategy (operational policy 4.07). This is operationalised through the Water Resources Sector Strategy (WRSS), the most recent version of which was approved by the Bank board in February 2003. The most controversial elements of the WRSS are its stated desire to re-engage with "high-reward/high-risk hydraulic infrastructure" (or big dams), its emphasis on the role of the

FY05
water lending
was up \$600 million
to \$2.2 billion,
10% of WBG
activity

private sector and its failure to embrace the recommendations of the World Commission on Dams. Other strategies, including the Infrastructure Action Plan (July 2003), the Private Sector Development Strategy (2002), and the Urban and Local Government Strategy (2000) also provide the framework for Bank work in water resources and water services. The strategies are premised on the need to facilitate private sector provision of basic infrastructure through a spectrum of public-private partnerships.

However, in 2005 at the World Bank's water week, Bank officials announced that the focus would shift to supporting reforming public services and local/domestic private enterprises. This follows internal criticism in the Bank, from both the Independent Evaluation Group and the Quality Assurance Group over the 'irrational exuberance' with which the private sector was pursued especially in water supply activities. The worldwide protests against privatisation were felt to have paralysed the sector and dried up investments into it, creating difficulties for Bank lending. At the recently concluded World Water Forum in Mexico, the same message was communicated by the infrastructure vice-president, Katherine Sierra.

Beneath the WRSS at the country level are new Country Water Resources Assistance Strategies (CWRASs). CWRASs are meant to link water activities to Bank national lending strategies (Country Assistance Strategies, or CASs) and national development plans. They describe priority lending and non-lending activities in water resource management in a country, and in a break from the technocratic focus of the past, are to focus on the "political economy of change in water resources management". Only a few countries in each region—such as Brazil, Bangladesh, the Philippines, Ethiopia and Iraq—have been selected for CWRAS development.

Other World Bank activities in water include managing sectoral trust funds, participating in a myriad of regional and international partnerships, and providing training. The WRMG and the World Bank Institute (WBI) cooperate to develop training programmes—seminars at national, regional and international level involving government officials, water utility managers, private sector providers, the media and civil society. ©

Water Resources Management www.worldbank.org/water

Freshwater Action Network www.freshwateraction.net

Updates on IFI water projects in the lending pipeline, International Rivers Network www.irn.org/programs/finance/index.php?id=pipeline.html

Early repayment by paper firm relieves culpability for violence, says IFC

The International Finance Corporation (IFC) has washed its hands of a violent eviction carried out by the Brazilian federal police in January on behalf of the pulp and paper company Aracruz Cellulose. The police, who reportedly collaborated with company employees, destroyed the houses of indigenous communities of Córrego D'Ouro e Olho D'Água. Thirteen people were injured. The IFC provided a \$50 million loan to the company in December 2004. It now claims that since the company paid back the money ahead of schedule, the IFC is thus relieved of any culpability for the event.

Aracruz Cellulose is the world leader in the production of bleached cellulose from eucalyptus. Its plantations in Brazil cover more than 375,000 hectares of land. It is the biggest landowner in the state of Espírito Santo, where according to statistics of the Brazilian Landless Workers' Movement (MST), there are almost 70,000 landless families. In the 1960s under the military dictatorship, the company took over indigenous and quilombo lands (communities of African slave descendants)

for eucalyptus plantations. The livelihoods of many communities were destroyed either as a result of displacement, or soil degradation and desertification caused by depletion of the water table. Since the occupation of the lands in the 1960s, there have been serious conflicts between the company and the local communities struggling to reclaim their land.

The IFC's decision to finance the company was heavily criticised by Brazilian national NGO networks and social movements. In letters and meetings with the IFC they expressed serious concerns about the welfare of the local indigenous and quilombo communities and small farmers; environmental impacts; and numerous allegations regarding Aracruz's record of social and environmental behaviour including:

- mass deforestation of 50,000 hectares of Atlantic rainforest in the 60s and 70s;
- contamination of water with agro-chemicals;
- allegations that the company promotes persecution by police of neighbouring peo-

ples who depend on eucalyptus trimmings for their economic survival; and

- the illegal pollution and diversion of rivers that supply local communities.

The IFC had given the company a clean bill of health with regard to environmental and social standards in its project document. Moreover, in a letter sent to Brazilian NGO FASE, the IFC stated that it had factored "key issues with respect to disadvantaged communities, as well as the environmental impacts associated with Aracruz's operations" into its investment decision and loan conditions. It also took a positive view of the relationship between the communities, Aracruz and the government.

In response to public pressure following January's violent events, in March the IFC finally informed groups that Aracruz had paid back their debt earlier than scheduled and therefore the IFC could have no more influence over the company. Brazilian civil society networks assert that the IFC has violated a number of its own safeguard policies, including on indigenous peoples. They are

calling for the Bank to take a position on recent events, including to: acknowledge the serious problems with the loan; to commit not to finance similar projects in the future; and to pressure the government to respect populations affected by eucalyptus monoculture. Winnie Overbeek, from Rede Alerta Contra o Deserto Verde asserted: "the Bank must exercise caution when investing in areas where indigenous, ethnic minority or vulnerable groups are denied title to land, and where access to natural resources for livelihoods is still not guaranteed". ©

IFC letter to NGOs, March 2006

www.ifwatchnet.org/doc/AracruzIFC0306.pdf

IFC letter to NGOs, May 2005

[www.ifc.org/ifcext/lac.nsf/AttachmentsByTitle/Bra_Aracruz/\\$FILE/brazil_Aracruz_letter.pdf](http://www.ifc.org/ifcext/lac.nsf/AttachmentsByTitle/Bra_Aracruz/$FILE/brazil_Aracruz_letter.pdf)

Aracruz: the other side of the story

www.rbrasil.org.br/publicacoes/artigos/artigo.php?artigo_id=EzMVkeddtl&pg=1

Rede Alerta Contra o Deserto Verde

www.desertoverde.org

Manager of global reserves?

Latest on IMF strategic review

The managing director's report on implementing the Fund's medium-term strategy was discussed by the board early April and is anticipated to be released at the spring meetings. The report will capture those recommendations that Fund head Rodrigo de Rato has selected from the findings of several internal working groups (see Update 48).

Civil society groups have been critical of the opacity of the process and the failure to broaden participation.

Discussion has centred on the possible introduction of a “high-access contingent arrangement”—large, quick-disbursing funds geared towards emerging market economies with capital account difficulties. The Contingent Credit Line, designed to serve the same purpose, lapsed in November 2003 because no country had applied for it.

Fund surveillance efforts will give greater prominence to financial sector and exchange rate issues, particularly in emerging markets. This comes in response to the findings of the McDonough report (led by former president of the New York Federal Reserve Bank, William McDonough), commissioned in June 2005 to review the Fund's financial sector activities. The Fund has already merged the International Capital Markets department and the Financial Systems department in February, and a taskforce is to review the Article IV surveillance reports to give a central role to financial sector issues.

More controversially, de Rato weighed in on the debate over what to do with excessive reserves being held by a number of developing countries. He indicated that the Fund “should be open to supporting arrangements for pooling reserves, at least by signalling sound policies” and that there may be “scope for links between such arrangements and the new contingent facility”.

Recent debate may shed some light on what de Rato meant. In a speech in Mumbai in March, former US treasury secretary Larry Summers proposed that developing nations could turn over part of their excess reserves—he cited a figure of \$500 billion—to a facility managed by the IMF. These funds would be invested, with the profits distributed to the contributing countries, and the IMF taking home a one per cent management fee of \$5 billion. The *Financial Times*, in an editorial in March, argued that the Fund's role should be restricted to advising governments on what level of reserves they need to maintain and how best to manage any surplus.

Still missing from discussions on crisis prevention is the need for more systematic guidance on the use of capital controls. In a recent article in the Fund's in-house magazine entitled *Re-thinking Growth*, authors conceded that “the gains expected from capital account liberalisation were unrealistically high and the risks underestimated”. Successful countries, conclude the authors, minimised volatility through “macroeconomic policies that reduced vulnerabilities” (see current *At Issue*).

Fund role in low-income countries

De Rato has made repeated mention of the need for a more systematic division of responsibilities

with the Bank. In his view, the Fund should focus on fiscal, monetary and exchange rate policies; trade policy; financial sector soundness; debt management; and advice on how to handle higher aid inflows. A review committee, including investment bankers, finance ministry officials and senior WB and IMF staff (with civil society conspicuous by its absence), was announced end March to look into areas of cooperation and overlap in their work. The committee is to present its findings before the end of the year.

The Fund is also looking at increasing its provision of technical assistance and capacity building in low-income countries. It will be “considering attempts to mobilise additional donor support or levying charges for these services”. The need to charge for what the IMF used to give away for free is driven by a projected shortfall in income of \$116 million for 2006. This is due to the early repayments of countries such as Brazil and Argentina, most recently Uruguay. The IMF's outgoing director of external relations Thomas Dawson said that the Fund's current financial position was “adequate”, but that in the medium-term they would investigate the “possibility of investing the Fund's reserves”.

Civil society groups will be looking for signs in the review that the Fund is re-examining the impact of its macroeconomic conditions.

Two new reports by AFRODAD on the impact of the IMF Poverty Reduction and Growth Facility (PRGF) in Malawi and Zambia find that the signalling role of the PRGF continues to negatively affect aid flows. As countries go ‘off-track’ on macroeconomic policies and targets, such as inflation and public sector spending, other donors withhold much needed finance. In discussion of a recent IMF paper on the macroeconomics of managing increased aid flows, Andy Berg of the Fund's Policy Development and Review department, sounded a new tone, conceding that there are country circumstances where “inflation may be part of a needed relative price adjustment”.

Improve ‘voice’ or face obscurity

On the question of how to increase developing country representation in the Fund, De Rato hopes for “significant progress on these issues by next annual meetings in Singapore”. At least two new proposals for structural reform of the Fund were put on the table in the past two months. Speaking in India in February, Bank of England governor Mervyn King suggested that “to foster greater independence, serious consideration should be given to a non-resident board, with directors comprising senior finance ministry or central bank officials”. He warned that without fundamental reform, the Fund “could slip into obscurity”.

In mid-March, the European Parliament adopted a resolution on the strategic review of the IMF. On governance, the resolution calls on member states “to work towards a single voting constituency”. ©

Impact of PRGF on social services in Malawi and Zambia, AFRODAD

www.eurodad.org/articles/default.aspx?id=686

European Parliament on IMF review

brettonwoodsproject.org/epimfsr

Mumbai infrastructure violates safeguards

The publication on 29 March of the Inspection Panel investigation into the Mumbai urban transport project has revealed that the Bank “did not comply with a number of requirements under its own policies”. The rail and road project will see some 100,000 people displaced. Serious problems were identified relating to living conditions at resettlement sites, flaws in the environmental assessment and the failure to establish an effective grievance system. Remedial steps to be taken include improved services for resettlement sites, effective functioning of the grievance mechanism and strengthened Bank supervision.

www.inspectionpanel.org

“Watered-down” changes to arbitration

A package of seven amendments to the rules and regulations of the World Bank's International Centre for the Settlement of Investment Disputes, has been approved by an overwhelming majority of the Centre's member governments. An earlier proposal for a centralised appeals facility, which would have had the authority to review investment arbitration awards, was discarded. A proposed amendment to open up arbitration hearings has been watered down significantly, allowing parties an effective veto over the opening of proceedings to non-parties. The new rules include a requirement that the Centre promptly publish excerpts of the legal reasoning of its tribunals.

IISD Investment Treaty News

www.iisd.org/investment/itn/

Breathing space on ‘results’

The 2005 Annual Report on Operations Evaluation (AROE) by the Independent Evaluation Group of the World Bank, has elected to give the Bank more time to see the impact of new measures taken in response to stinging criticisms in previous editions. The focus of this year's report is on measures taken by the Bank to improve results at the country level. The report also takes stock of measures taken since the 2003 and 2004 AROEs to strengthen monitoring and evaluation, concluding that it is still “not being approached in a systematic or strategic manner”.

www.worldbank.org/ieg/aroef

Evaluation of IMF finance assessments

The Independent Evaluation Office report on the Financial Sector Assessment Programme (FSAP) describes the programme as a “distinct improvement” in the Fund's ability to conduct financial sector surveillance. The evaluation recommends broadening the number of countries covered by the assessments; improving the quality of the assessments through better prioritisation of recommendations; and mainstreaming the output in other parts of IMF work. Despite support from several executive directors for a move to presumed disclosure, the publication of the assessments will remain voluntary.

www.imf.org/external/np/ieo/2006/fsap/eng/index.htm

UK reports on World Bank and IMF: Better, but more work to do

The UK's Department for International Development (DFID) and Treasury released in late March annual reports on their relationship with the World Bank and the IMF respectively.

The Bretton Woods Project described DFID's previous report in 2004 as "a box-ticking exercise rather than a serious commitment to improved accountability". This year's effort contains a more detailed discussion of key policies and projects; reference to the World Bank's internal accountability mechanisms; links to DFID objectives for World Bank spring and annual meetings, and International Development Committee hearings; and detailed information on the UK's financial contribution to the World Bank Group, including, for the first time, a breakdown of UK support for trust funds.

However, while reference is made to the Bank's accountability mechanisms, there is no indication that DFID has learned anything from them. Links are given to World Bank spring and annual meetings objectives, but it is not clear if these objectives were met and what implications that might have for the relationship with the Bank. Similarly, there is no insight into how DFID will evaluate whether or not the Bank has made sufficient progress on the conditions DFID set for an additional £100 million top-up for the International Development Association.

Particularly welcome in DFID's discussion of work at the country level are critical views on the Poverty Reduction Strategy review and the use of conditionality, where the report goes beyond description of Bank activities. On the project front, last year's report contained a single paragraph on the highly controversial Baku-Tbilisi-Ceyhan pipeline. DFID said that "the IRC's involvement would maximise the potential benefits to poor people in the region". Since that time a series of NGO reports have revealed cases of pollution and land expropriation, and the UK trade and industry committee has investigated major technical failings (see *Update* 46). In this year's report, DFID says it received assurances from Bank management on both the Nam Theun 2 dam in Lao PDR and forestry projects in the Democratic Republic of Congo. One year on from approval of the Lao

dam project, NGO International Rivers Network has found serious delays in the implementation of safeguard measures, while in DRC, a preliminary investigation by the Inspection Panel has found Bank analysis of indigenous peoples issues severely lacking (see page 4).

DFID is evidently pleased that the Bank's private sector units are to focus more on the poorest countries, offer more support to small and medium enterprise, and encourage trade and investment between developing countries. No comment however on IRC support for a series of projects which

have been found to have "significant deficiencies" in due diligence by the Compliance Advisor Ombudsman (see *Update* 49).

UK support for the World Bank Group in 2004/5 totalled £206 million, £205 million of which was for the International Development Association. This does not include \$248 million in support for World Bank managed trust funds in 2004 (drawn from World Bank accounting systems in US dollars and based on a different fiscal year. See *At Issue* on trust funds, *Update* 47).

The UK and the IMF 2005

Like DFID, Treasury fails to explain whether its objectives for the spring and annual meetings of the IMF have been met. Unlike DFID, Treasury continues to insist that it does not need an institutional strategy to guide its dealings with the Fund. While the report does a good job of outlining key policy developments at the Fund, there is a lack of critical examination. Particularly disappointing considering Treasury's rhetorical commitment to "alternative macroeconomic policy frameworks" is the failure to take a view on whether or not the Fund has made progress on the issue.

The report provides a detailed outline of what changes the UK would like to see coming out of the Fund's strategic review, however there is no criticism over the failure of the process thus far to engage a broader range of stakeholders. On surveillance, UK priorities include pushing for more independent surveillance and evaluating the accuracy

of assessments made by the IMF. On crisis prevention, the UK supports an attempt to revive both the Contingent Credit Line (see page 6) and the sovereign debt restructuring mechanism. On 'voice' of developing countries, nothing new, and no position on whether European coordination or consolidation is needed on the board. On the Independent Evaluation Office (IEO), the UK would like to see greater follow-up on previous board-approved recommendations. The UK could have

usefully contributed to this process by providing its own thoughts on whether or not the lessons have been learnt from, for example, IEO evaluations of crisis management (see *Update* 42).

To calculate the financial cost of the UK's IMF membership, complicated arithmetic is used to estimate the net benefit/cost of membership against holding conventional reserves in dollars, euros and yen. For 2004-5 the UK calculated a net benefit of £57 million. This does not include UK one-time contributions to new IMF initiatives for low-income countries, however no such payments were made for the period of the report. ©

The UK and the World Bank 2005, DFID
www.dfid.gov.uk/aboutdfid/dfidwork/wbandimf.asp

Meeting the challenges of globalisation for all: The UK and the IMF 2005, HM Treasury
www.hm-treasury.gov.uk/media/4A9/49/imf2005_300306_opt.pdf

World Bank approves \$37 billion in debt relief

World Bank member nations approved \$37 billion in debt relief for 17 countries at the end of March. The 40-year debt cancellation deal begins 1 July, covering debts accumulated before January 2004 of those countries that have completed the Heavily Indebted Poor Countries initiative (HIPC). This includes Benin, Bolivia, Burkina Faso, Senegal, Guyana, Tanzania, Mozambique, Nicaragua, Niger, Mali, Rwanda, Ethiopia, Honduras, Ghana, Uganda, Zambia and Madagascar. Mauritania has been told that it will not be granted debt relief until it implements "key public expenditure management reforms", but could still qualify by July. More countries could become eligible for debt relief under the HIPC scheme once the Bank and Fund make final decisions over who qualifies in April.

Debt advocacy NGOs insist that the Bank deal amounts to holding poor countries hostage to the institution's need for self-preservation. Rather than following the IMF's lead in starting debt relief in January, the Bank plan sees all the debtors sending non-refundable payments until July (18 months after the announcement of the plan by G8 finance ministers in February 2005). Moreover, while the IMF forgave debts accumulated by the eligible countries until the end of 2004, the World Bank will only cancel debts accumulated until the end of 2003. Some donors had expressed fears that if there was no form of funding to make up for the losses, the deal would severely undermine the International Development Association's (IDA) ability to continue lending to the world's poor-

est nations. The Bank received commitments from donor countries to cover 60 per cent of the costs for the full 40-year term, while the rest "will have to be dealt with over time," a Bank official said.

A partial victory for debt campaigners came in the board's decision to provide decisions about debt relief on a quarterly basis for those countries which have newly completed the HIPC process. Under the original plan, newly eligible countries would have had to wait another year for cancellation. Under the new plan, a country like Malawi, which is estimated to reach HIPC completion point in June, will see debt cancellation begin in July 2006, rather than having to wait until July 2007.

Jubilee South insists that the G8 agreement is not only limited to a fraction of the poor countries that need relief, but continues to subject recipients to onerous programmes of economic austerity. They call on poor countries to "renounce unjust debts rather than wait for overdue forgiveness".

The deal must be approved by the IDA board of governors at the WB-IMF spring meetings in Washington in April. ©

World Bank debt issues page
www.worldbank.org/debt

CADTM appalled by World Bank's empty promises on debt
www.cadtm.org/rubrique.php3?id_rubrique=2

Pressure pays off at World Bank
www.jubileedebtcampaign.org.uk/?lid=1927

a lack of critical examination

"Over-optimistic about trade liberalisation": Bank trade evaluation

In a comprehensive evaluation of the World Bank's work in trade, the Bank's Independent Evaluation Group (IEG) has found that the Bank neither fully understood the implications of its "narrow focus on trade liberalisation", nor did enough to strengthen trade capacity on the ground. In the period studied, 1987 to 2004, eight per cent of World Bank lending or \$38 billion went to trade-related activities.

While the evaluation shies away from challenging the economics of the Bank's promotion of unilateral trade liberalisation, it points out serious flaws in the institution's understanding of how to maximise the benefits for developing countries. A survey of trade officials in Geneva revealed that the Bank's "push for liberalisation" does not "account for the interim stages developing countries go through, or the transitional adjustment they may face".

Broadly accepted in the trade literature is the need for macroeconomic stability and complementary systems (such as an improved regulatory environment) to accompany trade reforms. However, the IEG found that the Bank had supported trade reforms in the absence of both. Even more damaging for the Bank is the report's veiled assertion that over-zealous liberalisation has led to de-industrialisation: "The speed of import liberalisation increased competitive pressures in countries that were unable to generate dynamic and sustained manufacturing growth."

The report finds that Bank trade-related projects "did not adequately attend to poverty and distributional outcomes". Alberto Villarreal, of Friends of the Earth Uruguay, maintains that small-scale farmers "have been ignored by the World Bank which has allowed rich countries to pursue their own trade interests at the expense of the poor and the environment."

In its response to the evaluation, Bank management was dismissive about the poverty issue, saying only that "the message should be nuanced", and citing the existence of a "range of guidance for staff" with more "being put in place". In contrast, the board's Committee on Development Effectiveness (CODE) backed the IEG's call for more analysis of distributional impacts.

Missing the point on the ground

The evaluation finds that the Bank's narrow focus on trade liberalisation has left other priority areas for developing countries unattended.

On the lending front, the Bank has been "least effective in helping countries manage external shocks and adjustment costs related to trade liberalisation". Existing programmes are under-used due to excessive conditionality which the evaluation says has been ineffective;

On analytical work, a "gap exists between activities and the needs of country economists". A survey of Bank country economists indicated a need for more knowledge about "transitional costs associated with trade reform, greater empirical and comparative analysis, and practical research on global supply chains". In-country, economic and sector work reports "have only rarely presented an in-depth analysis of the welfare implications of trade policies, analysed the institutional framework for trade, or incorporated political economy factors that could influence trade reform and outcomes." The Geneva survey of key trade officials found

did not attend to poverty outcomes

that more time was needed "researching the impact of regional agreements and ad valorem tariffs", and that the Bank only works 'top-down' and does not consult or partner with others while producing research. More attention should have been given to strengthening the interaction between the Trade Department and operational colleagues. CODE has called on the Bank to make better use of external resources and analyses, enhancing and even substituting for in-house research; and

On capacity building, the Integrated Framework—a multi-agency initiative for mainstreaming trade in national development strategies, led by the Bank—was criticised for a lack of follow-up, slow implementation, overlap with donor activities, and no mechanism to ensure that the most critical priorities are funded first.

The evaluation calls on the Bank to:

- draw more on the expertise of poverty, gender, private sector development and agricultural and rural development units;
- do more systematic research on micro-level adjustment;
- design a guidance note on trade issues on a pilot basis for country teams planning country assistance strategies; and
- better integrate trade work done in the centre with country-level work on agriculture, economic policy, labour markets and private sector development. ©

Assessing World Bank support for trade

www.worldbank.org/ieg/trade/

World Bank trade strategy has not adequately helped the poor, FOEI

www.foei.org/media/2006/0323.html

Poor not benefitting from World Bank trade policies

www.coc.org/index.fpl/1267/article/3760.html

WB-IMF spring meetings schedule

Members of staff of the Bank and Fund, board members, development and finance ministers are gathered in Washington 21-23 April.

Official meetings

- | | |
|----------|---|
| 21 April | Meeting of G24 group of developing countries |
| 22 April | International Monetary and Financial Committee meeting
Tentative agenda: IMF strategic review; Global economic outlook; IMF role in low-income countries |
| 23 April | Development Committee meeting
Tentative agenda: Global Monitoring Report; Investment framework for clean energy; progress reports on fiscal policy for growth and development, aid for trade |

World Bank civil society policy dialogues

- | | |
|----------|--|
| 20 April | Trade-finance linkages; PRGF impact; Development finance challenges post G8; Implementing the new IFC safeguards |
| 21 April | Corruption; Debt sustainability; IEO workshop on evaluation of effects of macroeconomic conditions on social spending; IEG session on disaster assistance; Governance conditionality |
| 24 April | Multilateral Debt Relief Initiative; Clean energy investment framework |

For full details of events, contact information for groups in Washington for the meetings, and links to documents released by civil society, visit IFIwatchnet. IFIwatchnet will be setting up a weblog for the first time for the spring meetings.

www.ifiwatchnet.org

Bretton Woods Update in Spanish

The Bretton Woods Update will be published electronically in Spanish on a pilot basis in 2006. A text version of each Update in Spanish will be posted on the main Update page, and individual Spanish articles will be linked to their English equivalents. We look forward to your feedback to help us decide whether or not to continue with these translations. Please assist us by alerting your Spanish-speaking colleagues.

Update 49 in Spanish

www.brettonwoodsproject.org/update/49/bwupdt49_es.txt

Update 50 in Spanish will be available at

www.brettonwoodsproject.org/update/50/bwupdt50_es.txt



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Check back for regular updates from the Bretton Woods Project during and after the meetings