

Wolfowitz to face trials over Bank fundraising drive

Reeling from a bruising fight with his board over his plans to tackle corruption, Bank president Paul Wolfowitz now must go hat in hand to donor countries asking them to cough up more for poor country financing just as it has been revealed that the Bank has not been able to get the money it already has earmarked for Africa out the door.

The first meeting of the latest round of the replenishment process for the World Bank's unit which deals with the poorest countries, the International Development Association (IDA), kicked off in March in Paris (see *Inside*, page 5). Discussions will focus on financial contributions for the three-year period starting July 2008.

To maintain its present funding level, the Bank will need to raise about \$25 billion from donors. This is up from \$18 billion in the last IDA round due to a 'structural gap' caused by debt cancellation commitments made last year (see *Update* 50). If donor commitments fall short of this level it will mean that poor countries will be paying for their own debt relief.

The US will be under pressure to increase its contribution. Those who looked for a silver lining in Wolfowitz's appointment in 2005 hoped that his position as a US administration insider would swing the US towards more support for the Bank. He has said that he hopes that "some of the donors whose shares have been slipping, including the United States, would do more." US generosity will be tested by both the declining value of the US dollar and pressure on treasury finances caused by the war in Iraq.

Making the fundraising drive all the more difficult will be revelations that Bank lending to Africa is down \$1 billion on the previous year. Speculation is that Bank country directors have been keeping their heads down and their hands on their wallets in the wake of their president's crusade against corruption (see page 8). US NGO Government Accountability Project revealed in March that the Bank will



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have to commit an additional \$3 billion for African projects before July to meet targets for the year. Both Bank staff and outside observers have serious concerns that this can not be accomplished without compromising on project quality.

Put your money where your mouth is

Alongside more strictly financial concerns, donors have prioritised three areas for discussion of IDA reform. These so-called 'special themes' are:

- *aid architecture*—will address how IDA should respond to increased competition from regional development banks, EU programmes, new sovereign lenders such as China, and single-issue funds such as the Global Fund to fight AIDS, Tuberculosis and Malaria;
- *aid effectiveness*—will cover how scarce IDA resources are allocated (see below), recipient country ownership, donor harmonisation and Bank use of conditionality; and
- *Bank role in 'fragile' states*—will look at both how aid volumes to post-

conflict countries are decided, as well as the role of the Bank vis-à-vis the UN agencies.

European NGOs have launched a campaign—under the heading 'put your money where your mouth is'—to get their governments to take greater responsibility for the direction of the Bank. Their call, signed by over 70 organisations from across Europe, was launched at the Paris IDA meeting. It demands that the Bank stop using economic policy conditions and end its subsidies and policy support to fossil fuels. If the Bank does not change its practices, "European governments should consider permanently redirecting funding away from the Bank through other mechanisms which respect country ownership and take the necessary leadership in addressing climate change."

On the question of the allocation of resources, Bank staff have authored two background papers for the IDA replenishment process. The formula by which IDA funds are currently divided amongst recipient countries factors in population and economic wealth, but is heavily weighted towards a 'country performance' rating based on the controversial scores that the Bank gives to the quality of the country's policies.

One paper tinkers with the allocation formulation but ignores more important questions of what is being measured and why. The other paper addresses some of the bigger questions, but comes up with a disappointing endorsement of the status quo. The question of replacing indicators which pass judgement on 'good' policies with those that measure outcomes is brushed aside. The outcomes issue was to be the central discussion point at a conference held at Columbia University's Initiative for Policy Dialogue in early April, with a paper to be presented by Cornell University professor Ravi Kanbur.

"Frustration with Paul"

Concerns have been raised that the IDA replenishment may become a proxy battleground

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More fossil fuels and faith in the private sector

As part of its commitment to solve the global problems of energy poverty and climate change (see *Update 52*), in March the World Bank co-sponsored a conference in London to consider global energy options. It also launched the Carbon Fund for Europe (CFE) together with the European Investment Bank. Meanwhile a recent World Bank report reveals an alarming rise in its financing for oil and gas fuel operations and does not disclose performance on environment or poverty indicators.

The CFE trust fund aims to help European countries meet their commitments to the Kyoto Protocol and the European Union's Emissions Trading Scheme through the purchase of greenhouse gas emission reductions through the Kyoto Protocol's project-based mechanisms Joint Implementation and the Clean Development Mechanism. The Bank has also been upbeat about keeping its commitment to increase renewable energy and energy efficiency funding by 20 per cent since 2005. This claim has been seriously challenged given that only

four per cent of this funding actually went to renewable energy projects like wind, solar, and geothermal production (see *Update 53*).

The increase in renewables and energy efficiency funding is also seriously undermined by the Bank's increasing support for fossil fuels. This is revealed in analysis by US-based Bank Information Center (BIC) of the Bank's recent EIR implementation report for 2006, which comments on the Bank's compliance with certain reform measures agreed to in its 2004 management response to the EIR. BIC's analysis finds that World Bank Group extractive industry operations have increased substantially—between 37 to 44 per cent over the last financial year—and that the IFC's private sector extractive portfolio for FY06 has increased by approximately 60 per cent (\$508.9 m) since FY05 (\$334.3m). Of this, nearly half is for oil projects, 37 per cent is for gas and 16 per cent for mining.

Daniel Mittler from Greenpeace International responded: "These figures deepen the gap between the billions thrown at fossil fuels and the

crumbs that end up at the doors of the renewable and energy efficiency sectors. The same level of regulatory, political, financial and technical support that multilateral development banks have been giving to fossil fuels for decades should be apportioned to renewable energy to catalyse the necessary huge investments"

BIC's analysis of the report also reveals that:

- *some of the IFC's most profitable projects are the same projects which have been accused of contributing to significant social, environmental and economic damage on the ground;*
- *the report fails to provide critical information on trends based on indicators such as poverty reduction, economic diversification, or improved social and environmental conditions;*
- *there are no specific examples provided on the criteria used to assess the level of community support for any extractive industry operation; and*
- *although it is generally believed that the Bank is making some positive progress in the area of revenue transparency the report fails to discuss any specific activities.*

A two-day conference in London, *Financing clean energy: a framework for public-private partnership to tackle climate change* hosted by the European Bank for Reconstruction and Development and organised in part by the World Bank brought together "public and private institutions to work together more closely to meet future energy needs and combat climate change". It aimed to make progress on the energy investment frameworks of the multilateral development banks as part of the Gleneagles process agreed at the G8 meetings in 2005 (see *Updates 51, 53*). Tellingly the conference failed to fully involve renewable and energy efficiency companies and relevant civil society organisations involved in energy and development issues.. ©

BIC analysis

www.bicusa.org/proxy/Document.10072.aspx

Financing clean energy conference

www.ebrd.com/new/calendar/fce/index.htm

Tackling climate, funding fossil fuels

brettonwoodsproject.org/eifconference

Private role in water under scrutiny

At this year's World Bank water week in February, the Bank and water CSOs took a step closer to dialogue; while the contentious role of the private sector in water provision has been highlighted by: the withdrawal of Norway from an infrastructure trust fund; a new UNDP report; and pending investment arbitrations.

During the week, entitled *Water futures: Sustainability and growth*, the impact of climate change on water access was a recurring theme. Other topics covered included lessons learned from the NT2 dam in Lao PDR (see *Update 45*), and experience with public-private partnerships.

NGO Freshwater Action Network held a joint workshop with the Bank as part of a scoping study to "assess the potential for dialogue" (see *Update 50*). They discussed how to enable the participation of poor people in decision-making on water services; how those services can be financed; and the roles of the public and private sectors and community-based groups in providing them. The scoping study is to be completed by June.

In February, Norway pulled out of the Bank's Public Private Infrastructure Advisory Facility (PPIAF). Norwegian NGO, the Association of International Water Studies and UK NGO World Development Movement published

a report entitled *Down the Drain* that showed how the PPIAF promotes water privatisation. The Ministry of Foreign Affairs will cease contributions to the fund in June.

A new UNDP-supported book by Bayliss and Fine, concludes that private companies have shied away from investing in utilities in Africa, and their focus on cost recovery has undermined social objectives. Donor financing for African countries—particularly from the World Bank—has dried up in anticipation of private investment that never materialised. The authors advocate for scaled-up donor investment in public-sector capacities.

Water privatisation cases are high on the agenda of the World Bank's International Centre for the Settlement of Investment Disputes. In February, the tribunal granted CSOs the right to make written submissions in the cases where UK firm Biwater and France-based Suez/Vivendi are suing Tanzania and Argentina respectively over claimed breach of contract. ©

Down the drain

www.wdm.org.uk

Privatising basic utilities in SSA

www.undp-povertycentre.org/pub/IPCPolicyResearchBrief003.pdf

NGOs to submit in Biwater v Tanzania

www.iisd.org/pdf/2007/investment_procedural_order5.pdf

Bujagali dam unlikely to benefit Ugandans

The World Bank is so keen to promote the Bujagali II hydropower project as the solution to Uganda's energy problems (see *Update 54*) that it has set up a special website for it. The project stalled in 2002 over corruption concerns but now that Kenyan firm IPS has been secured as a new investor, completion is expected in 2010. A recent IFC-commissioned report claims that the project would be part of the least-cost expansion plan to meet rising electricity demand in Uganda, reducing domestic electricity costs by 10 per cent but NGOs say the \$750 million project is more costly than other options. Formal IFC approval for \$100 million is set for April.

Local and international groups who have been lobbying for a full and fair review of Uganda's energy options point out that Bujagali is unlikely to meet the needs of the 95 per cent of Ugandans who live far from the national grid. A new report by US NGO International Rivers Network (IRN) documents the dam's failure to comply with the majority of the seven strategic priorities of the World Commission on Dams (WCD) (see *Update 47*). The project's consideration for carbon credits by the Dutch government would require compliance with the WCD's framework. The report finds that:

- *studies failed to address the anticipated impacts of the dam on water releases from Lake Victoria, which is already at a critically low level;*
- *the dam will be vulnerable to climate change-induced drought;*
- *public disclosure of many key documents has been inadequate; and*
- *a comprehensive assessment of Uganda's energy needs and alternative options for addressing its energy crisis has not been carried out.*

A letter was sent to the director of Bujagali Energy limited from communities who were displaced five years ago when dam construction began and now live in the Naminya resettlement area. The letter, copied to the World Bank, lists numerous unfulfilled commitments that were promised to the community as part of a resettlement package. These relate to land ownership, education and health services, water provision, housing, latrines, electricity, food and income, employment and infrastructure.

A claim has been filed with the World Bank's Inspection Panel from Uganda's National Association of Professional Environmentalists. ©

Bujagali campaign, IRN

www.irn.org/programs/bujagali/

ON 8 MAY 2003 the World Bank approved a \$40 million loan for the Nura river clean-up project aimed to mitigate the consequences of mercury pollution. The river was heavily polluted by an acetaldehyde factory in Temirtau in Central Kazakhstan which had been discharging large quantities

of mercury into the river for 25 years. The discharges ceased when the factory closed in 1997 but surveys of the factory site, river channel and floodplains demonstrated that large quantities of mercury remained in the environment. The estimated total volume of polluted soil is approximately 1.5 million m³, containing 9.4 tonnes of mercury. At the factory site, mercury concentration in the soil runs as high as 1500 mg/kg—the maximum allowed in Kazakhstan is 2.1 mg/kg.

The committee for water resources of the ministry of agriculture—the project executor appointed by the Kazakh government—is supposed to ensure that the contaminated soil is excavated and buried at a landfill site which is yet to be constructed 4 kms away from Temirtau. The river sediment will be removed from the river bed by hydraulic suction dredging, stretching from the former factory site to the Intumak reservoir 25 kms downstream.

The main purpose of the project is to supply clean water for Astana which was declared the new capital of Kazakhstan by President Nazarbaev in 1997. Astana is planning to draw its drinking water from the Nura river. Considering that there are other toxic and radioactive hot spots in Kazakhstan, we can only speculate whether this particular project would have materialised if not for the growing importance of Astana.

The project is broadly supported by the downstream communities which hope that decontamination of the river and its surroundings will have a positive impact on their health, quality of water and land. So far, no medical investigations into the impacts of mercury on the health of the local population have been conducted by the lead company. Regrettably, this is only one of the gaps in an otherwise rosy-looking project.

Classified as environmental category A by the World Bank, the project is expected to be implemented in 2009 but construction works have not yet started. After four years of preparing the project design, there is still no mitigation plan nor social and environmental development

Mercury rising: The World Bank and the Nura River clean-up

COMMENT

By Dana Sadykova, Karaganda Ecological Museum

and public consultation process. This 'salami' approach impedes the assessment of the project as a whole and spreads responsibility for project implementation.

The Bank has also failed to ensure that the local communities have proper access to project information and are invited to participate in consultations over project design and development. After having conducted public hearings on one of the environmental impact assessments (EIA) in 2005, the lead company changed the technologies described in the EIA without informing affected communities.

Originally, the company planned to drain part of the river to enable the excavation works. Only later it decided to employ the hydraulic suction dredging method without publicly releasing this information. As a result, the sub-project was approved by state environmental experts with an attached protocol from public hearings where the changes had not even been discussed.

Local NGOs complained to the World Bank and local authorities requested that a new EIA and public hearings be conducted with the full participation of the affected communities. After this the lead company financed an information campaign and made project EIAs available on the internet. However, the EIA was not re-elaborated and new public hearings were not held.

The clean-up of the Nura River has the potential to significantly contribute to the creation of a sustainable and safe water supply system in Kazakhstan but environmental and social risks should be taken into account. Without the World Bank's respect for basic public participation and EIA standards, the project is at risk of causing unexpected and badly mitigated effects. As a minimum, a project which involves the excavation and handling of more than 2 million tonnes of toxic materials at a distance of only two kilometres from a city with a population of over 150,000 people should have a mitigation programme. ©

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Will Wolfowitz survive the IDA replenishment trial?

Continued from page 1

between president Wolfowitz and his board. A senior Bank official quoted in the *Financial Times* 5 March said: "I am worried that frustration with Paul becomes an excuse for donors not to make contributions they might not have been prepared to make anyway." Wolfowitz responded that he hoped that "everyone will keep their eyes on the fact that this is not about me or any other individual."

Over the past months Wolfowitz has been lurching from one debacle to the next. After the embarrassing public spat over his anti-corruption plan at the annual meetings in Singapore (see page 8,

Update 53), Wolfowitz started the new year with leaked coverage of boardroom sparring over budget priorities. A Fox news article quoted board members describing Wolfowitz's work plan as a "lost opportunity". The day after the leak, Wolfowitz launched an investigation into its source. An anonymous post on a Bank staff bulletin board captured the sentiment of many outside observers: "Why does the World Bank persist in thinking that its governance should be shielded from scrutiny, and that the world will come to an end if someone knows what is said in the board room?"

Board members may want to

consider a proper evaluation of Wolfowitz's performance in office. While the Bank's articles of agreement are silent on the matter of evaluation, they are clear that "the president shall cease to hold office when the executive directors so decide." In the absence of a proper job profile against which Wolfowitz's performance could be judged, his commitments to European executive directors before his appointment in March 2005 could serve as a surrogate. While many of the commitments were woolly, two years into his term it's not clear that he would get a passing grade on others such as "scaling up resources to Africa",

programmes. The executing agency, which has started organising tenders for individual parts of the project, states that it is the subcontractors' responsibility to provide mitigation programmes.

The World Bank divided this large, high-risk project into three parts and each part has a separate environmental assessment

and public consultation process. This 'salami' approach impedes the assessment of the project as a whole and spreads responsibility for project implementation.

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"maintaining the financial viability of the Bank", and providing "sound corporate governance" and "effective leadership". ©

IDA 15 replenishment

🌐 go.worldbank.org/U94WRYNMQ0

World Bank lending to Africa plummets

🌐 www.whistleblower.org/content/press_detail.cfm?press_id=829

World Bank launches internal probe

🌐 www.foxnews.com/story/0,2933,250800,00.html

Statement by European EDs on the selection of the World Bank president

🌐 go.worldbank.org/BB3FRMEFD0

Human rights trump internal procedures

As the UN Human Rights Council holds its fourth session, the last few months have witnessed dynamic processes on human rights and development finance that bolster arguments to hold international financial institutions accountable under international law.

In his latest report, Jean Ziegler, the Special Representative on the right to food (see *Update* 48) states that human rights must be extended to limit the potential abuses of power of the World Bank and IMF and that these organisations have legal personality under international law. He asserts that states should refrain from taking decisions within the IMF or the World Bank “that can lead to violations of the right to food in other countries”. He highlights UN General Assembly resolution 60/165 on the right to food, which invites the World Bank and IMF “to promote policies and projects that have a positive impact on the right to food ... and to avoid any actions that could have a negative impact on [its] realisation”.

Ziegler finds that WB/IMF programmes have undermined food security for vulnerable populations. He refers to the example of Zambia, where the IMF’s own evaluation body found that rapid agricultural liberalisation caused maize consumption amongst poor Zambians to fall by 20 per cent between 1990 and 1997. As part of his research Ziegler wrote to World Bank representatives regarding project-related human rights violations on: the IFC-funded Ahafo South gold mining project in Ghana, the Left Bank out-fall drainage project in Pakistan, and the Nam Theun 2 dam

in Lao PDR. These communications are summarised in a report for the Human Rights Council. No reply has been received from the World Bank to date.

As part of Bernard Mudho’s mandate to draft general guidelines for states and IFIs to ensure that compliance with commitments derived from foreign debt do not undermine obligations for the realisation of economic, social and cultural rights, the UN Independent Expert undertook consultations with WB/IMF staff. His resulting January report criticises the debt sustainability framework for its reliance on World Bank analysis, and for focusing on a country’s financial ability to service debt, rather than to achieve poverty reduction and human rights objectives. He also criticises WB/IMF conditionality policies—including user fees for health and education, trade liberalisation, privatisation of state enterprises, and skewed governance and public sector reforms—for undermining a country’s ability to uphold its human rights obligations.

In February, the UN Special Representative on human rights, TNCs and other business enterprises John Ruggie, held a consultation on human rights and the financial sector with representatives from civil society, the IFC, private banks and export-credit agencies. Key civil society arguments included:

- *public financial institutions have an obligation to ensure that their clients meet international human rights standards;*
- *human rights impact assessments*

must be embodied in national and international normative and regulatory frameworks; and

- *host-government agreements that exempt the private sector from national law and restrict access to justice for project-affected people should be prevented.*

The consultation has been welcomed by NGOs as a positive step which widens the focus of the Special Representative beyond TNCs. However, many human rights activists are concerned by Ruggie’s faith in voluntary standards and the role of market mechanisms to establish accountability practices. They are disappointed by his failure to acknowledge that states can be in a weak position to stand up to companies and gain access to justice, even if ‘legal and policy’ tools should technically permit them to do so.

Karyn Keenan from NGO Halifax Initiative in Canada summarised, “IFIs have played a major role in facilitating the reform and liberalisation of domestic laws, regulatory frameworks and markets which allow business enterprises to operate as they do. IFIs have also played a part in the creation of ‘weak governance’ zones to which Ruggie refers. We urge the Special Representative to confront the human rights responsibilities of IFIs as part of his mandate”.

In written legal analysis for a hearing on human rights violations and the responsibility of IFIs at the Inter-American Commission of Human Rights, the Indian Law Resource Center, Centre for International Environmental Law and Oxfam America demonstrated

that internal IFI operational policies and investigation mechanisms are not equivalent to human rights mechanisms established in universal and regional systems, and that IFIs are responsible if the projects they support infringe on human rights.

IFC making an impact?

Contrary to earlier claims, the IFC recently declared that its human rights impact assessment (HRIA) (see *Update* 52) will now be “road-tested” before public consultation even begins. In a letter to the IFC’s Houria Sammari, human rights advocates recognised the IFC’s move to adopt the HRIA as a potentially progressive step. However for this to be the case, the guidelines must be “subject to widespread public scrutiny prior to their adoption”. Tom Griffiths from UK NGO Forest Peoples Programme said: “The IFC have made it clear that they are taking a ‘flexible’ approach to their HRIA. However, if this tool is truly to reflect best practice, it can not allow companies to opt-in or opt-out as they see fit, and must draw on actual jurisprudence, rather than interpretation”. ©

UN Special Rapporteur on right to food
www.righttofood.org

Mudho report, HRC
daccess-ods.un.org/access.nsf/Get?Open&DS=A/HRC/4/10&Lang=E

CIEL submission to the IACHR
www.ciel.org/lfi/OAS_HR_announce_28Feb07.html

Ruggie reports
www.business-humanrights.org/Documents/RuggieHRC2007

Bank to release draft report on agriculture

The World Bank’s 2008 World Development Report (WDR), to be released in October, will focus on agriculture for development. The report will examine investing in agriculture for growth, making agricultural growth pro-poor, and integrating agriculture-for-development into national and global policy agendas. A civil society consultation with the WDR team, led by Derek Byerlee and Alain de Janvry, was held in Toronto in January. The critiques highlighted gender inequality, food insecurity and limited access to markets. A first draft of the WDR will be released 9 April, to be followed by electronic consultations throughout April.

Civil society analysis of WDR
www.brettonwoodsproject.org/wdrag

www.worldbank.org/wdr

Zambian copper boom fails to end poverty

Despite the boom in the global copper price, communities on the copper belt in Zambia have not seen the development gains they were promised and are now expressing frustration through strikes, protests and the ballot box. A new report from the Civil Society Trade Network of Zambia and the Catholic Commission for Justice, Development and Peace explores how as a result of Bank and Fund conditionality, national controls over mining companies were withdrawn, leaving state institutions too weak to regulate company behaviour. Other devastating impacts include job losses and insecurity, deepening of pensioner poverty, and failure to protect the social infrastructure.

www.minewatchzambia.com

Iraq: staffer shot, oil deal continues

In February Iraq’s cabinet approved the IMF supported draft oil law (see *Update* 54) which could give foreign companies exclusive and long term rights over Iraqi oil. Iraqi parliament is now considering the bill. An industrial lobby, the International Tax and Investment Centre has since scheduled a meeting to take place in May between the IMF, the Iraqi government and oil companies. Meanwhile a World Bank staffer was shot in the shoulder at a security check point in Baghdad in February. The news was apparently suppressed for several days in an effort by the Bank to quell concerns about president Wolfowitz’s recent push to re-open an office there.

www.handsoffiraqoil.org

www.bicusa.org/en/Article.3210.aspx

Chad-Cam oil spill highlights risks

In January, an off-shore oil spill from the Chad-Cameroon oil pipeline occurred near the Cameroonian town of Kribi. The slow response time and allegations that the public was not properly informed raise critical questions about the safeguards that exist to cope with a larger accident. Samuel Nguiffo, the director of Cameroon’s Centre for the Environment and Development said that if there had been an incident affecting the coastline, “the impact would have been catastrophic”. The security situation along the pipeline in southern Chad is worsening. Four years after the start of oil production there is little evidence of the poverty reduction that this project promised.

www.africa-environment.org/actualites.php?id=19

Inside the institutions **The IDA replenishment**

Every three years, a series of meetings is held to cajole rich countries into putting money into the coffers of the World Bank's International Development Association (IDA). This money allows IDA to lend interest-free and provide grants to the world's poorest countries. The first replenishment in 1960 totalled \$1 billion. IDA 14, the most recent replenishment concluded in early 2005, collected \$33 billion of which \$18 billion in donor contributions. Most of the growth in real terms took place in the first two decades. For over two decades there has been no real growth in donor contributions.

Donors have provided 71 per cent of IDA resources to date. The US is the largest contributor historically (22 per cent), with Japan, Germany, the UK and France rounding out the top five. Due to its large contribution to the most recent replenishment, the UK is now the second largest contributor. The list of contributors also includes oil-rich countries such as Saudi Arabia and Kuwait, as well as newly-industrialised countries and some middle-income countries. The American contributions have been in steady decline; in fact, \$525 million in commitments by the US remains unpaid.

Complementing donor resources are so-called 'internal flows'. These have accounted for 23 per cent of total resources available to IDA. This includes principal repayments from borrowers and investment income. These resources play a crucial role in the transition from one replenishment round to the next, allowing flows to continue while donors bicker over who will pay how much. The remainder of IDA resources come from transfers from other arms of the World Bank, the International Bank for Reconstruction and Development (IBRD) and the International Finance Corporation (historically 6 per cent, but currently at about 9 per cent). This means that middle-income countries are making a contribution to IDA when they repay the interest on loans taken from the IBRD.

Over the course of 2007, four meetings will take place. The first happened in Paris in March. The next will take place in Mozambique in June. The third will take place in the autumn in Washington, and the final meeting will be back in Europe at the end of the year. Most important at these meetings are the financial commitments that are made by donor countries. This involves delicate negotiations where Bank staff first present proposals in Mozambique as to how much

financing they think that each IDA region can 'absorb', then donors will respond with how much they think they can afford to give.

However, these meetings have also become key opportunities for donors to try to influence how their money is spent. The 'conditions' they attach to IDA support have grown to lengthy wish lists over the years. Donors conceded during IDA 14 negotiations that the transaction costs of all these conditions were too high and their solution was to try to prioritise a limited number of 'special themes'. Indicators were drawn up to track progress on the themes. Eleven suggestions for IDA 15 themes were put forward by sixteen different donor countries in December last year. At the first IDA 15 meeting three themes were selected—aid architecture, country-level aid effectiveness, and 'fragile' states (see page 1).

At the table at these meetings are Bank staff and donor countries' IDA 'deputies'. These are senior civil servants from development, finance or foreign affairs ministries. Southern country 'observers' were allowed in for the first time in IDA 14. For IDA 15, a dozen borrowing country representatives and four observers from middle-income countries will sit at the meetings. Since agreement at the meetings is reached by consensus, the influence of these countries' representatives will depend on personal initiative. Civil society observers are not allowed.

By the end of the year, the story turns to capitals where the budgeting processes needed to meet these commitments take place. This can be a non-event, as in the UK, where spending on IDA is subsumed under approval by parliament of an entire departmental spending review. In contrast, in the US, the treasury is responsible for securing resources from congress to meet IDA replenishment commitments. Congress 'appropriates' the funds during its annual congressional budget cycle. It has, in the past, used these opportunities to try to influence US treasury policy towards IDA, introducing legislation which requires, for example, voting restrictions on environmentally sensitive projects. ©

IDA website www.worldbank.org/ida

Demystifying IDA replenishment www.bicusa.org/en/Article3167.aspx

**civil society
observers
are not
allowed**

IFC: Cowboys in the Amazon

In March the IFC approved \$90 million towards a \$424 million expansion and modernisation programme for Brazil's leading beef and leather processor Bertin Ltda. Reports from Brazilian and international NGOs find that the project, approved despite a groundswell of opposition, fails to meet numerous IFC and World Bank Group safeguard policies. It is likely to exacerbate Amazon deforestation, result in increased green house gas emissions and endorses a company currently under investigation for fraud. The IFC sees the project as an opportunity to "engage a leading private sector company in tackling the most serious environmental and social issues facing the Brazilian Amazon".

A letter in March from over 30 NGOs and social movements of the Brazilian Forum of NGOs and Social Movements (FBOMs), pointed out that according to studies used by the IFC, the projected annual increase in cattle from Bertin's Marabá slaughterhouse—the only one subject to an environmental assessment—would lead to deforestation of between 270,000 and 320,000 hectares of forest. This would violate both national law and the federal government's

Sustainable Forestry Directive, launched in February 2007. Roberto Smeraldi of FBOMs added "If this increased demand is accomplished via a business-as-usual expansion of pasture, without effective controls it would lead to deforestation of an area roughly equivalent to Jamaica."

A report by US NGO the Sierra Club which was submitted to the IFC's board end February and endorsed by 12 international environmental and development NGOs referred to the scheme as "a high-risk project with outputs—beef, leather, pet food and dog toys—that do not warrant its high levels of environmental and social risks and impacts". NGOs reminded the IFC of its responsibility to ensure that its investment decisions are consistent with the World Bank's interests in combating green house gas emissions and climate change and urged the IFC to finance less risky agricultural projects, particularly those that support small-scale farmers. They recommended that the IFC commission a study to be carried out either by the World Bank's Compliance Advisor Ombudsman or its Independent Evaluation Group to look at the impacts of the livestock

sector on climate change and their implications for the IFC's investments in agribusiness. Further findings included:

- *the IFC has ignored its own requirements for projects that generate 100,000 tons or more CO₂ equivalent per year, given Bertin's projected emissions of 9,360,000 tons CO₂ equivalent per year;*
- *the information disclosed in the environmental and social impact assessment by Bertin is highly inadequate as it underestimates the project's deforestation risk and fails to lay out the necessary mitigation measures. Bertin has only assessed the environmental and social impacts for a small part of the overall project;*
- *Bertin, under prosecution for price fixing by the Brazilian government, may have violated new rules on fraud and corruption adopted by the IFC in January;*
- *Bertin is not required to comply with the IFC's performance standards until some time after the loan disbursement; and*
- *the project directly contradicts the World Bank's investment of approximately US\$1.4 billion in 19 Amazon conservation and*

biodiversity projects.

Following project approval, a letter to the IFC from FBOMs pointed out serious inconsistencies between the IFC's technical briefing for the board on 8 March, and the official project document, made public on 1 March. These inconsistencies were in relation to time frames for minimum legal compliance from the company, and the number of slaughterhouses and by-product processing plants that the company operates in the Amazon which have been significantly reduced in the technical briefing. The briefing, upon which IFC approval of the project was based, states that the company runs "one slaughterhouse and two bi-product processing plants in the Amazon". However an annex of the official project document refers three tanneries, two slaughterhouses and one unspecified facility in critical areas in the Amazon. ©

FBOM's letter

www.amazonia.org.br/english

Sierra Club - IFC correspondence

www.ifwatchnet.org/documents/item.shtml?x=61166

Experts call for end to PRGF

An external committee found collaboration between the World Bank and IMF seriously wanting, and recommended that the IMF withdraw from development finance. Taken with an earlier external report on Fund finances, it presents challenges to the Fund's medium-term strategy.

The Malan committee, named after its chairman Brazilian banker and former finance minister Pedro Malan, was appointed in March 2006 by Bank president Paul Wolfowitz and Fund managing director Rodrigo de Rato (see *Update* 51). Despite worries that it was packed with insiders who had historical ties to the Bretton Woods institutions, the committee's end-February report severely criticised the way the Bank and Fund work together and is feeding into questions about the role of the IMF in low-income countries.

The most controversial statement in the report challenged the IMF's Poverty Reduction and Growth Facility (PRGF), a concessional lending instrument for low-income countries, saying the Fund "has moved beyond its core responsibilities". While not endorsing the concept of a strict division of responsibilities, nor a division based on country income levels, the committee felt that "the criteria for Fund financing in low-income countries based on the concept of 'protracted balance of payments need' is so vague as to be difficult to distinguish from development finance in practice."

Given that PRGF disbursements have already started decreasing, "the committee recommends that the Fund should start withdrawing from long-term financing operations in low-income countries." The Fund's medium term strategy

being championed by de Rato calls for increased Fund involvement in low-income countries.

The report also highlighted that "there is currently no robust dialogue between the Bank and Fund as they consider their future strategies." Emblematic of the inability of the two institutions to work together, "the Fund acknowledges that putting its medium-term strategy into operation will have implications for the division of responsibilities between the Bank and Fund, but it appears that it did not discuss this with the Bank."

In another key area, the committee dismissed the debate over fiscal space (see *At issue*), calling the trade-off between stability and growth "a false dilemma". But the committee's work points to distrust at the Bank, whose staff were concerned that "Fund advice to governments on fiscal stance does not pay adequate attention to the growth effects of expenditure composition and efficiency, contributing to a contractionary bias in fiscal policy design." This corresponds to the findings of the Independent Evaluation Office report on the IMF in Sub-Saharan Africa (see page 7), which confirmed that Bank staff find collaboration with the IMF "unproductive".

The main recommendation of the report was for "a stronger culture of collaboration ... along with stronger incentives to collaborate." To implement this, the committee

called for better collaboration at the level of the board of governors and the executive board, staff exchanges and the development of a new "understanding on collaboration" to supplement the 1989 Concordat on Bank-Fund collaboration. However, inside sources at the Fund said that these recommendations had not enthused the boards at either institution.

Cash strapped Fund

As the Malan report concedes, the financial squeeze at the IMF means that it must be as efficient as possible in meeting its core mandate. Another external committee recently reported on the Fund's finances and suggested a complete revamping of the Fund's financing model. The Crockett committee, chaired by US investment banker and former chairman of the Bank for International Settlements Andrew Crockett, was appointed by de Rato in May 2006 to propose long-term financing mechanisms for the Fund (see *Update* 51). The IMF is projected to have a shortfall of more than \$100 million in the current fiscal year, rising to more than \$365 million by 2010.

The Crockett committee's end-January report said the Fund's current financing model "lacks economic logic", "is arguably inequitable", and is based on perverse incentives in regards to preventing financial crises. It stressed that the Fund should avoid cross-

subsidies between its major areas of activity. Separating the financing of public goods (such as global economic surveillance) and services (such as technical assistance and concessional lending) from credit activities, the proposal would end the practice of the interest payments of debtors paying for the Fund's entire administrative budget.

The Crockett committee's terms of reference specifically excluded consideration of measures to reduce the Fund's administrative expenses, preventing it from examining the roles that the Fund should play. Inside sources at the IMF indicate that the G7 unanimously agrees that the Fund needs to reassess these roles before it implements a reform to its financial model. De Rato also seems to recognise that he cannot modernise the income position of the Fund quickly, saying "these committee recommendations will need a period of internal discussion".

There is not yet any clarity on how this consideration of the role of the institution will be addressed. The medium-term strategy (see *Updates* 48, 51) is now well into the implementation phase, and forcing a rethink would be a serious blow to de Rato, who is said to be personally responsible for setting the strategy's main objectives. The major shareholders, who are also major donors, seem keen to keep the Fund actively involved in low-income countries, despite abundant criticism of the Fund's work there. ©

Report of the external review committee on Bank-Fund collaboration, IMF
www.imf.org/external/np/pp/eng/2007/022307.pdf

Rightsizing the IMF's budget
brettonwoodsproject.org/crockettreport

Serbia pays out, is Turkey next?

Serbia became the latest country to retire its debt to the IMF earlier than anticipated. The National Bank of Serbia paid out 15 March the final \$230 million of debt that was not due for full repayment until 2010. The IMF's credit outstanding is now just over \$12 billion, 70 per cent of which is owed by Turkey. Rumours are circulating in Ankara that the government will end its IMF programme in advance of the November election. The government apparently canvassed the opinion of Turkish bankers on such a move. The Turkish prime minister has already committed to reduce Turkey's IMF debt by about 30 per cent by year end.

Internal financial crisis at the IMF
brettonwoodsproject.org/imffinances51

Bank of the South to challenge IMF or IDB?

Argentine president Nestor Kirchner and Venezuelan president Hugo Chávez announced 21 February that the two governments would establish a Bank of the South within 120 days. Venezuela will move "at least ten per cent" of its reserves into the new bank. Bolivia and Ecuador have already shown interest. Ecuadorian economist Pablo Dávalos has argued that the bank should not focus solely on infrastructure lending in the region, which challenges the role of the Inter-American Development Bank, but should actively undermine the current international financial architecture and the power of the World Bank, IMF and other multilaterals.

Bank of the South: A road towards a new financial architecture, ALAI
www.alainet.org/active/16475

Growth commission gears up

The World Bank-funded Commission on Growth and Development (see *Update* 51) will hold workshops in New York on 'Growth and Some of its Micro and Macro Foundations' (April 9) and 'The Role of Leadership and Governance in Shaping and Implementing Growth Strategies' (April 10). These will be followed by a Washington workshop focusing on some of the commission's 25 country case studies: "The studies will help illustrate, validate, and/or challenge, the conclusions reached in the Commission's thematic papers." Which countries are to be discussed, however, is yet to be announced.

Growth commission website
www.growthcommission.org

Parliamentarians on World Bank

The seventh annual conference of the Parliamentary Network on the World Bank was held in Cape Town in March. Discussion topics included extractive industries revenue transparency, health, agriculture, illegitimate debt, climate change, anti-corruption and strengthening parliamentary oversight of the IFIs. UK NGO World Development Movement presented their toolkit for parliamentarians wishing to better scrutinise the role of the IFIs in budgeting processes. The South African National NGO Coalition held parallel workshops, teach-ins and demonstrations to highlight the "socioeconomic and political crisis engineered by the World Bank".

www.pnowb.org
<http://www.wdm.org.uk/>

Evaluation finds that IMF misled about its role in Africa

A report released by the Independent Evaluation Office (IEO) of the IMF criticises the role of the IMF in managing aid inflows to Sub-Saharan Africa, but fails to address more fundamental questions about the Fund's role in low-income countries.

The evaluation of the IMF and aid to Sub-Saharan Africa pointed to a mismatch between the IMF's rhetoric on poverty reduction and its work on the ground, which has focused more on fiscal discipline. It faulted both management and the board for failing to reach consensus on the IMF approach to aid, leaving the IMF without a clear policy on encouraging aid or developing alternative fiscal scenarios based on increasing aid volumes. It also criticised the lack of collaboration between the Bank and Fund, which has prevented appropriate analysis of how aid should be invested.

The report was based on research into Poverty Reduction and Growth Facility (PRGF) programmes, the IMF's concessional lending instrument for low-income countries, in 29 Sub-Saharan African countries between 1999 and 2005. The IMF board welcomed the report but delayed endorsement of its recommendations pending implementation proposals with estimates of the associated costs.

The report's sharpest criticism was directed at the mismatch between the goals of the PRGF and

its actual performance. "Underlying the theme of disconnect is a larger issue of attempted — but ultimately unsuccessful — institutional change." Despite supposedly focusing on poverty, the PRGF reverted to a "business-as-usual" approach. The Fund was ineffective in using poverty and social impact assessment (PSIA) in designing PRGF programmes and was unimaginative in its application of aid absorptive capacity and alternative aid scenario analyses. The IEO found that the major change was not in the direction of a focus on poverty reduction but instead "Fund staff have pursued improvements in the accountability and transparency for the management of public resources the most aggressively."

The IEO mitigates its criticism by citing the lack of board consensus and thus of IMF policy on aid mobilisation. Instead the Fund's public relations work was cited as being out of line. "IMF communications on aid and poverty reduction have contributed to the external impression that the Fund committed to do more on aid mobilization and poverty-reduction analysis."

The main recommendations from the evaluation are for improved policy clarity and better communication. "The executive board should reaffirm and/or clarify Fund policies on the underlying performance thresholds for the spending and absorption of additional aid, the mobilisation of aid, alternative scenarios, PSIA, and pro-poor and pro-growth budget frameworks." Additionally, the IEO recommends that IMF management improve its monitoring of staff implementation of those policies.

Beyond these recommendations there is no discussion of what role the IMF should be playing in low-income countries.

A separate independent committee recommended that the IMF stop using the PRGF to provide development finance to low-income countries (see page 6).

The IEO also does not touch upon the issue of the Fund's transparency more generally, which impinges on the IMF's accountability to external stakeholders.

**attempted
—but ultimately
unsuccessful
—institutional
change**

One of the consistent complaints by civil society is lack of consultation in setting the macroeconomic framework. The IEO's survey confirmed that IMF staff feel their macroeconomic work should be separate from the participatory processes involved in creating a Poverty Reduction Strategy Paper (PRSP). "Less than 40 per cent of surveyed [IMF] staff agreed that the PRSP provided the basis for the PRGF, with twice as many agreeing that the PRGF provided the macro basis for the implementation of the PRSP."

Finally, the IEO finds that African civil society organisations (CSOs) have a dismal view of their interaction with the Fund. Only about 20 per cent of those surveyed thought that the Fund had increased its transparency and dialogue with CSOs. To remedy this problem the

report suggests clarifying the role of IMF mission staff and resident representatives, as it finds that expectations for dialogue with donors and CSOs exceed available resources. Given the Fund's current budget crisis, there is a risk that

management may use this to scale back engagement with civil society. Rather it should serve as a wake-up call to increase the level of interaction between IMF staff who design PRGF programmes and country-level stakeholders. ©

Evaluation of the IMF and aid to Africa
www.imf.org/external/np/ieo/2007/ssa/eng/pdf/report.pdf

Rocking the Fund governance reform boat

While IMF members continue to debate a decision on increasing basic votes and reforming the quota formula, questions are being raised about the approach of IMF management and major shareholders.

IMF members committed in Singapore in September 2006 to try to reach a deal on the increase in 'basic votes', the votes every country gets just for being a member of the IMF, by the 2007 annual meetings (see *Update* 53). However, inside sources indicated that countries are unwilling to commit to a specified increase in the basic votes without knowing the outcome of the deliberations on changing the quota formula, which guides the determination of voting rights in the IMF.

A powerful critique on the quota formula debate comes from Iranian Abbas Mirakhor, the longest-serving IMF executive director. With co-author Iqbal Zaidi, they argue that any reform to quotas should be judged on whether it is 'just', stating that current proposals do not meet

this test. They faulted IMF management and staff for making "an even bigger mistake by pushing the discussion toward an inexorable and mistaken conclusion of sticking close to the flawed formulas." They propose new variables for consideration in the quota formula as well as arguing for the traditional demands of the G24 countries—GDP to be weighted by purchasing power parity, intra-currency zone trade to be excluded from the calculations, and the variability of current account payments to be measured relative to GDP. They also state that the quota formula should be delinked from decisions on access to IMF resources.

A G24 paper by David Woodward of the UK think tank the new economics foundation explored using population to calculate quotas. He argues "that the standards applied should be those commonly accepted in democratic processes at the country level" and concludes that voting rights should be determined "exclusively on democratic principles".

UK NGOs the Bretton Woods Project and the One World Trust have sought to circumvent the divisive debate over quota allocations by proposing the implementation of a double-majority system of decision making. This would require "the achievement of two separate majorities—one based on one-country one-vote and the other on economically weighted quotas—for any decision to be made." This attempt to improve consensual decision-making has been endorsed by a number of academic voices, including former World Bank research head Joseph Stiglitz.

Academics Richard Cooper and Edwin Truman reshaped the conclusions of the 2003 report of the Quota Formula Review Group, itself chaired by Cooper, despite criticisms that this would disempower low-income countries. The focus on using GDP in the quota formula would shift votes toward industrial countries, so Cooper and Truman now suggest that rich nations voluntarily limit their quotas. This would shift votes to emerging markets at the expense of low-income countries.

The US and EU favour something like the Cooper approach. While they haggle over the exact variables, their preferences pushed the Fund's management to formulate proposals in just the way that Mirakhor and Zaidi criticise.

All the fuss over quotas has obscured other issues plaguing IMF governance. A high-level panel on reform of the IMF executive board has recommended improved accountability. Notably it called for publication of board meeting transcripts, IMF operational guidance notes and draft versions of policy papers. It insisted on better accountability of the executive board and management to shareholders and stakeholders. ©

Bridging the democratic deficit
brettonwoodsproject.org/doublemajoritybriefing

Mirakhor and Zaidi working paper
www.imf.org/external/pubs/ft/wp/2006/wp06273.pdf

High-level panel on board accountability
www.new-rules.org/docs/imf_board_accountability.pdf

Bank approves anti-corruption strategy: Back to where we started?

In late March, the World Bank board approved a heavily revised version of the governance and anti-corruption strategy. After pressure from civil society and several countries on the board, the Bank was forced to consult widely on the version of the strategy released at the annual meetings last September. Over December and January, 51 consultations were held in 47 different countries. Drawing on selected feedback, the Bank is now emphasising:

- **Don't make the poor pay twice:** *Gone is any language about cutting support to countries with governance problems. In difficult countries the Bank will now outline "the limited areas of engagement which have potential for positive development impact".*
- **Broad engagement:** *While governments will remain the "principal counterpart", the Bank will "engage systematically" with the private sector, parliament, civil society, media, judiciary and local communities.*
- **Strengthen country systems:** *The Bank will work to strengthen country procurement and fiduciary systems.*
- **Don't act alone:** *There is to be greater cooperation with other banks, the IMF and UN agencies on anti-corruption frameworks, sanctions*

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decisions, and cooperation against tax havens and asset recovery.

In February the European Bank for Reconstruction and Development, blacklisted German multinational Lahmeyer over its conviction for bribing officials responsible for awarding contracts in the Lesotho Highland Waters Project. The World Bank's long overdue blacklisting of Lahmeyer occurred in November 2006 (see *Updates* 53, 52). This ground-breaking 'cross-debarment' bodes well for the harmonisation of sanctions at different banks.

Other positive aspects of the Bank's strategy include: a revision of its disclosure policy; a commitment to improve transparency in its department of institutional integrity; tentative (if dismissive) discussion of 'odious' debt; and strengthened language on the role of rich country corporations.

Concerns remain about the strategy's emphasis on private sector solutions. Buried on page twenty is encouragement for governments fighting corruption to "transparently and competitively privatise state-owned businesses". This will ring alarm bells for those who fear that the anti-corruption agenda will be used as a Trojan horse for familiar prescriptions. A further concern is mission creep, with plans to increase involvement in civil society and media capacity building.

The framework's implementation plan will be prepared before end June, which will also address the thorny issue of budget reallocations since the plan is promised to be cost-neutral.

INT review lacks objectivity

Paul Volcker, the former chairman of the US Federal Reserve, will review the Bank's department of institutional integrity (INT), the unit which investigates allegations of corruption. Bank executive directors demanded an independent review last year following claims that INT staff were ignoring due process to uncover evidence of wrongdoing. US NGO Government Accountability Project (GAP) has questioned Volcker's independence. While chairman of the UN oil for food inquiry in Iraq in 2004, he selected an investigation team that included four members hired from INT. ©

www.worldbank.org/wbi/governance

Reviewer of World Bank integrity office wrong choice, GAP

www.whistleblower.org/content/press_detail.cfm?press_id=804

2007 World Bank-IMF spring meetings schedule

Official meetings

- 13 April Meeting of G24 group of developing countries
- 14 April International Monetary and Financial Committee meeting, tentative agenda: Global economic outlook; surveillance mandate; quota reform; the role of the Fund in middle- and low-income countries.
- 15 April Development Committee meeting, tentative agenda: Africa Action Plan; Global Monitoring Report (gender and fragile states); voice; clean energy

World Bank civil society policy dialogues

- 12 April WB health strategy; IFC performance standards; IMF board accountability
- 13 April CAO overview; IMF in Africa; MIGA safeguard policies; Country-based development model; fiscal space and infrastructure finance; training and capacity building; debt sustainability; DRC forestry and mining; IEO on IMF and aid to Sub-Saharan Africa; IDA 15
- 14 April IMF governance; Chad-Cam pipeline; WB and climate change; UBUNTU campaign; IMF wage bill ceilings and education, IFC performance standards
- 16 April WDR 08 Agriculture; education in fragile states; country systems; anti-corruption standards

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

For full details of events, contact information for groups in Washington for the meetings, and links to documents released by civil society, visit

www.ifwatchnet.org

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Paulo Nogueira Batista Jr	Brazilian IMF ED	Might signal an end to Brazilian orthodox economic policy
Eli Whitney Debevoise II	US World Bank ED	Lawyer and ICSID arbitrator passed his Congressional approval hearings
Simon Johnson	Director of IMF Research Department	New institutional economist from MIT has little background in traditional macroeconomics
Dr. Obiageli Ezekwesili	World Bank Vice President for Africa	Bank hopes that Nigerian minister of education with experience in EIT can boost lending volumes to Africa



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