

Deforestation and double standards

The World Bank is preparing to launch its Forest Carbon Partnership Facility (FCPF) which aims to catalyse the market for carbon emissions credits from avoided deforestation. However many forestry experts are unconvinced, given the possibility that this framework will benefit industrial scale logging and in light of previous IFI-induced forestry disasters.

The FCPF is slated to pilot a carbon trading system that allows additional fossil fuel emissions in industrialised countries in exchange for emissions reductions from avoided deforestation and avoided forest degradation (see *Update* 56) post-2012, when the current Kyoto Protocol ends. The targeted volume of the facility would be approximately \$250 million. Its launch is expected at the UN climate change conference in November in Bali.

The FCPF will consist of:

- The 'readiness mechanism' to assist 20 interested developing countries to measure their carbon forest stocks, identify forest-related carbon emissions and prepare a strategy to reduce this; and
- The 'carbon finance mechanism' to facilitate payments to a smaller number of countries "that achieve measurable and verifiable emission reductions" by catalysing public and private purchases of credits. Indonesia, Papua New Guinea, Costa Rica, Brazil and Democratic Republic of Congo (DRC) are suggested country pilot projects.

Land use changes and deforestation account annually for one fifth of greenhouse gas emissions. But concerns abound on the proposed design and impacts of the FCPF, which are still unclear. Without adequate consultation or prior strengthening of community land tenure rights and forest law enforcement capacity, the FCPF could merely create a new source of revenue for logging companies, governments, and investors. Similarly it could fail to secure genuine long-term reductions in carbon emissions and protection of forest resources from degradation,



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or equitable benefits for the poor (especially forest-dependent communities). It is also questionable whether the five country pilot projects for the carbon finance mechanism currently have sufficient capacity to enforce avoided deforestation commitments, given their poor record in forest governance.

A September letter to Benoît Bosquet of the Bank's carbon finance unit, from NGOs Rainforest Foundation, Global Witness, Greenpeace and Forests Monitor urges the Bank to redraft

its FCPF concept note to make it explicit that industrial-scale logging companies will not benefit under the framework. They state that the Bank needs to learn lessons from its previous mistakes, such as in Cambodia (see *Update* 51), before it launches new forestry activities. The groups also ask how the findings of the Bank's forest strategy implementation review, which are not yet public, have been taken into account in the design of the FCPF.

An August letter from six US

senators raised concerns with the Bank's president over destructive logging practices in the DRC. Senators are "troubled by the Bank's lack of commitment to implement the sustainable development plan it helped establish". The Bank played a key role in the design of the DRC's new forestry code, but has failed to ensure that any of the necessary legal implementation decrees have been developed. The Bank also supported a 2002 moratorium on the issuing of new logging titles (see *Update* 50) but since this was signed, over 100 new contracts covering 57,000 square miles of rainforest have been awarded to international logging companies.

According to Rainforest Foundation, which obtained a leaked advance copy of a scathing Inspection Panel investigation of World Bank support for DRC forestry, the Bank has broken numerous safeguard policies, downgraded projects to lower risk levels, and failed to recognise forest-dependent communities.

The IFC is financing the Singapore-based trading group OLAM International, which was recently accused of trading in illegal timber sourced from companies in the province of Bandundu in the DRC. In 2005 OLAM was awarded logging titles covering 300,000 hectares in violation of the moratorium. In July the IFC rejected a request from Greenpeace that it divest from Olam.

A report by Jubilee Australia explores the influence of IFI interventions on deforestation in Indonesia and Papua New Guinea. The IMF rescue package for Indonesia after the 1997 Asian financial crisis led to the increased exploitation of natural resources in an attempt to raise more revenue. Under IMF pressure in 1998 the Indonesian government lifted a 10 year ban on the export of raw, unfinished logs. ©

Forest Carbon Partnership Facility

[www.tinyurl.com/yqjyjj](http://tinyurl.com/yqjyjj)

NGO letter on FCPF

www.bicusa.org/en/Article.3510.aspx

Under the Influence, Jubilee Australia

www.jubileeaustralia.org

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Questioning IFC impact

In August, the World Bank's Independent Evaluation Group (IEG) released its evaluation of the development results of the Bank's private sector arm, the International Finance Corporation (IFC), finding that of the 627 projects surveyed, 59 per cent have achieved a 'high development rating'.

The report says that the IFC has increased its annual investments six-fold between 1991 and 2006, financing almost \$50 billion in total. Projects are first self-evaluated by the relevant IFC department, and the ratings are then verified by the IEG. The four assessment indicators are:

- *project business performance*: measures the project's long-term impact on the client's profitability;
- *economic sustainability*: evaluates the project's benefits and costs for the local community;
- *environmental and social effects*: measured through the client's commitment to environmental management, not by analysing actual impact – 33 per cent of projects had a negative rating; and
- *private sector development*: assesses the extent to which the project has developed into a 'corporate role model', creating an 'enabling business environment'.

The evaluation says that measured by lending volume only 49 per cent of all projects in Africa, and 50 per cent in Asia were able to generate successful development ratings, compared with 68 per cent in Europe and Central Asia. Overall 65 per cent of projects were found to have high development ratings. These findings are skewed by the fact that large projects were found to be more profitable than small ones.

The trend is towards funding large projects, and dealing with small and medium enterprises increasingly through financial intermediaries (FIs). Over a third of the IFC's portfolio is already invested in FIs. The IFC is behind in helping intermediaries develop the capacity to carry out adequate internal environmental and social monitoring. In Africa, for instance, only 40 per cent of FI projects had a high development rating.

The report recommends an increased focus on middle-income countries. However, over 50 per cent of the IFC's portfolio is already concentrated in just ten countries, of which all but two, India and Nigeria, are classified as middle-income. This contradicts IFC commitments to work increasingly in 'frontier' countries.

Surprisingly extractive and infrastructure industries had the highest development rating (close to 80 per cent). Sectors which had weak results include health and education. Investment in these sectors has increased since 2000 with the IFC's recent commitment to increase its presence in so-called 'frontier sectors'.

Recommendations for the future include closer alignment with the Bank's public sector arms and the development of country-specific private sector growth indicators. The authors also call for a greater focus on rural poverty, and suggest that the IFC acknowledge the importance of income distribution.

Evaluation of IFC's development results

🌐 www.ifc.org/ieg/iedr2007

BIC analysis

🌐 www.bicusa.org/en/Article.3466.aspx

IFC: 'Badges of excellence', dubious practice

The IFC is scaling up its investment in high risk and low-income countries "as part of its development mission", and is now on track to double financing for mining in Africa this year (see *Update* 56). However its attempts to position itself as an environmental and human rights 'expert' in these sectors lacks credibility.

An NGO coalition including World Wildlife Fund, Earthworks and Oxfam points out that the IFC's recently released draft *Environmental, health and safety guidelines* for mining fail to specify the necessary measures to protect affected local communities and environments, and in some cases do not meet the mining industry's existing "best practice" standards. The organisations call on the IFC to rewrite the guidelines with the participation of independent experts and civil society organisations, and "to document the actual contributions its mining projects make to poverty reduction."

Paradoxically the IFC, together with the UN is now helping the International Council on Mining and Metals, which represents the world's 16 largest mining companies, to develop a 'badge of excellence' for standards in environmental protection and mining safety. This is apparently in response to increased competition from China for Africa's natural resources and to help the industry fend off criticism from environmental and human rights campaigners.

In June the IFC released its guide to human rights impact assessment and management for 'road testing' by companies, which will lead to a revised version by mid-2009. The

IFC's claim that its "sustainability policy and performance standards reference internationally agreed human rights norms" has previously been challenged by groups such as Amnesty International on the grounds that it uses language and concepts which are vague and open to interpretation, and for its failure to ensure that its standards comply with international law (see *Updates* 53, 52). The IFC does not actually require a human rights impact assessment as part of its lending to companies. Consultation with affected communities and/or civil society experts in the design of the IFC's guide has also been limited.

In a potentially positive step, John Ruggie, the UN special representative on business and human rights (see *Update* 55) and the IFC recently launched a joint study on foreign direct investments and human rights. This aims to examine the relationship between investor 'rights' and the human rights obligations of the host states (see *Update* 47). The study, which is due for completion in spring 2008, will look at the potential impact of these clauses on the host states' ability to adopt and implement new human rights laws in areas such as labour, protection of the environment, and the provision of essential public services such as water. ©

Undermining communities and the environment

🌐 www.earthworksaction.org/pubs/IFC%20Mining%20Guidelines_20070904.pdf

Ruggie teams with IFC

🌐 www.socialfunds.com/news/article.cgi/2381.html

Bank re-engages in Indian dams

Following a ten year lull in the Bank's involvement in India's hydropower sector, in September it approved a \$400 million loan for the 412 megawatt Rampur Hydropower Project on the Suttlej river in the Indian state of Himachal Pradesh. The South Asian Network on Dams, Rivers and People, and local communities claim that they have not been properly consulted, or informed. They point to the inadequacy of the environmental impact assessment which fails to consider potential landslides or the impacts of transmission lines. They are critical of the failure to look at less costly options, in light of doubts as to whether the new dam will actually meet peak demand.

🌐 irn.org/programs/india/rampur.php

New staff at Inspection Panel

In September Roberto Lenton of Argentina started at the Inspection Panel. Previously chair of the technical committee of the Global Water Partnership and the Water Supply and Sanitation Collaborative Council, Lenton is a member of the board of directors for WaterAid America and senior advisor at the International Research Institute for Climate and Society at Columbia University. He will serve along with Tongroj Onchan of Thailand and Werner Kiene of Austria on the three-member body. Kiene is the new chairperson of the Panel following Edith Brown Weiss' departure. During Weiss' tenure from 2002, the Panel registered 14 inspection requests from people affected by Bank projects.

🌐 www.worldbank.org/inspectionpanel

Ghana Inspection Panel request

In August the NGO Centre on Housing Rights and Evictions filed a complaint to the Inspection Panel on behalf of the Agyemankata community, regarding the Bank's Kwabenya landfill project in Accra. COHRE claims that residents were not meaningfully consulted on the project and were not involved in the drafting of the resettlement action plan. The requesters are concerned that the planned landfill is too close to residential areas, which have grown since the design of the earlier UNDP sanitation initiative on which the Bank project builds. Those residents who are not to be resettled will potentially be exposed to "grave risks to their health".

🌐 www.worldbank.org/inspectionpanel

Gold under-'mining' rights in Ghana

A report by French NGO FIDH on gold mining and human rights in Mali asserts that regulation drawn up under the influence of international donors neutralises the government's capacity to protect economic and social rights. Mali is the third largest gold producer in Africa. Following the Bank-supported revision of the mining code, the government is now a minority shareholder of its goldmines alongside the large international corporations. FIDH urges IFIs and donors not to encourage the Malian state to set up investment-friendly provisions that infringe its international human rights obligations, and to adopt regulations to protect the environment and human rights.

🌐 www.fidh.org/IMG/pdf/Mali_mines_final-en.pdf

THE \$600 MILLION West African Gas Pipeline Project (WAGP) aims to deliver gas from Nigeria via a 680 kilometre pipeline to a terminal point in Takoradi, Ghana. This pipeline cuts across and impacts communities in the states of Ogun and Lagos in southwestern Nigeria.

WAGP is connected to the existing Escravos-Lagos pipeline owned by the Nigeria National Petroleum Corporation (NNPC), at Alagbado Tee north of Lagos. The project is designed to substitute natural gas from Nigeria for alternate fuels used by power, industrial, mining and commercial sectors in Ghana, Togo and Benin. It supports the World Bank's regional integration assistance strategy and complements the proposed West African power pool project. The World Bank's International Development Association and Multilateral Investment Guarantee Agency are providing \$50 million and \$75 million in loan guarantees to the government of Ghana and to the West African Pipeline Company respectively. These financial and political risk guarantees safeguard the investments of oil transnationals ChevronTexaco and Shell.

Local communities and civil society groups in Nigeria, Ghana, Togo and Benin have always argued that this project would further impoverish them, intensify the degradation of the local environment and divert attention and resources from the very vital issue of gas flare reduction. Shell and ChevronTexaco have operated in the Escravos area of the Niger Delta for almost five decades where they have subjected communities to continuous gassing, on an unparalleled scale. Nigeria loses about \$2.5 billion annually from the failure of companies like ChevronTexaco and Shell to either utilise or re-inject associated gas. This sum does not take into account the cost to the health sector, the environment and the livelihoods of local communities who suffer through the roaring toxic flames of gas flares.

The World Bank promotes the global gas flaring reduction initiative so it is strange that the same Bank would support a project that would intensify gas flaring in these communities. Natural gas for the pipeline would come from existing operations of Shell, ChevronTexaco and NNPC joint venture operations in the Escravos area. These seven existing facilities were designed and constructed to utilise non-associated gas.

The World Bank and the West Africa Gas Pipeline

COMMENT

By Michael Karipko, Environmental Rights Action,
Port Harcourt, Nigeria

There is no evidence of the construction of an associated gas gathering facility within the Escravos area or the connection to such a facility that would make it feasible for the WAGP to utilise presently flared associated gas. Local communities and civil society groups requested an Inspection Panel investigation of the Bank's failure to follow its established policies and procedures. The Panel has paid three visits to Nigeria, the last of which was in July 2007. Our reading from what has transpired so far is that the World Bank is not really interested in ensuring compliance with its policy safeguards. This is evident in its spectacular failure to properly supervise the project. Property owners received on average between \$40 and \$80, as "full and final payment" for the large tracts of lands that were acquired for the pipeline's right of way. Communities were not aware that there was a grievance redress procedure, but even more shocking was the fact that WAPCO staff at the Badagry compressor station in Lagos informed Professor Ted Downing, a resettlement expert on the Inspection Panel team, that they did not have a grievance log book in Nigeria. The communities in Nigeria were not expected to complain.

It appears the Bank's interest in this project does not include poverty reduction or social and environmental safeguards. Its key interest was aptly captured in the project appraisal document as that of "harmonising the legal and policy framework of participating West African countries". In furtherance of this objective it ensured that WAPCO was granted major fiscal, environmental and social exemptions by the WAGP treaty and its enabling legislation. The WAGP treaty and the enabling legislation were railroaded through our parliaments without giving the public an opportunity to contribute to the debate on the desirability of the project. In collusion with transnational oil companies and other IFIs the World Bank is laying the foundation for a future of centralised energy projects where energy supply is firmly in the hands of a select few, providing them unfettered control over our energy sovereignty. ©

Nigeria West African Gas Pipeline project, Inspection Panel
tinyurl.com/2xnb3q

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Competing to 'light up Africa'

The Bank's latest carbon reduction credentials include a report on reduction in gas flaring as part of the global gas flaring reduction partnership, and a new initiative to 'light up' Africa. Such positive developments are offset by the institution's continued funding for fossil fuels.

In September, the World Bank Group launched *Lighting Africa*, a programme to supply energy to 250 million Africans by 2030 as part of the investment framework for clean energy and development (see *Update* 55, 53). The initiative aims to "develop market conditions for the supply and distribution of new, non fossil-fuel lighting products, such as

fluorescent light bulbs and light emitting diodes, in areas of the region that are not connected to the electricity grid", using renewable energy or mechanical sources.

Its three priorities are: a competition for the design and delivery of low-cost, high-quality, non-fossil fuel lighting products; market research in Kenya, Ghana, Tanzania, and Zambia; and a web portal to encourage private sector partnerships. Supporters include various Bank facilities, governments and companies.

Efforts to scale up off-grid and non-fossil-fuel-based electricity supply in Africa are welcome, given the high levels of energy poverty on the

continent, the costs that African consumers are forced to pay for fuel-based lighting such as kerosene lamps, and/or an unreliable supply of poor quality electricity. But questions remain over whether the private sector alone can effectively meet the aims of this initiative. Also the Bank concedes that, "the initiative is not a substitute for clean, reliable electricity on a large scale" and the Bank still intends to rely on large-scale hydroelectric projects.

A new Greenpeace report takes a close look at the investment pathways of the power sector. *Futu[r]e Investment* points out that renewable energy forms a tiny part of the World Bank's energy portfolio. In

2002-2003 the Bank's energy financing for big fossil fuel projects beat renewable and energy efficiency projects by a 17 to 1 ratio. The report urges all IFIs to increase lending for renewable energy and energy efficiency projects as a percentage of their overall energy sector lending, and rapidly phase out subsidies for conventional polluting energy projects. ©

Lighting Africa
lightingafrica.org/

Futu[r]e Investment
www.greenpeace.org

Fossil fuels and faith in the private sector
brettonwoodsproject.org/climate55

New IMF head, same legitimacy problem

Self-proclaimed "free market socialist" Frenchman Dominique Strauss-Kahn has been selected to take over as the managing director of the IMF, despite displeasure with both the undemocratic system that selected him and the strategic direction of the Fund.

Rodrigo de Rato's end-June announcement of early retirement prompted immediate demands from civil society and developing countries for the leadership selection process to be open, transparent and based on the merits (not the nationality) of the candidates. However, in the first days after the announcement, European officials laid claim to the post for the continent.

By mid-July the IMF board had set out detailed candidate criteria and a timeline for the selection process, and EU finance ministers had already selected their apparent Strauss-Kahn at the urging of the new French president Nicolas Sarkozy. However, the UK was public in its displeasure with the EU's hijacking of the selection process, steadfastly refusing to support Strauss-Kahn's candidacy and demanding an open process.

Strauss-Kahn's background, a Ph.D. in economics and a stint as French finance minister, and his global charm tour funded by the French finance ministry allowed him to start roping in the support of developing countries, starting with francophone Africa. US Treasury secretary Hank Paulson declared early on that he was in no position to change the unwritten agreement that the IMF post goes to a European while an American is selected to be president of the World Bank. Amar Bhattacharya, who represents the G24 group of developing countries, said that by announcing Strauss-Kahn's candidacy, Europe had used its "first-mover advantage" to stitch

up the nominations.

Despite mid-summer rumblings in developing countries, the only alternative candidate to emerge was the Russian nomination of Czech national Joseph Tošovský the head of the Financial Stability Institute at the Bank for International Settlements in Switzerland. While Brazil, South Africa and Australia – in their capacities as the chairs of the G20, a grouping of the world's largest economies – issued public statements lamenting the undemocratic nature of the selection, none of them put forward an alternative. Analysts believe that because it was a foregone conclusion that Strauss-Kahn would be selected, few qualified candidates from developing countries wanted their names put forward.

In the lead up to the official announcement of Strauss-Kahn's appointment by the IMF board at the end of September, he managed to garner the support of the US and Argentina, as well as the UK's begrudging vote. Strauss-Kahn and several European ministers declared that this is the last time that a European would be the presumptive nominee. David Woodward of the UK think tank new economics foundation was doubtful, "This isn't the first time that the IMF and the Europeans have claimed that the position of MD is no longer in the gift of the European governments – they said

the same thing at the last two selections, in 2000 and 2004. But each time, the European nominee was selected. We need a clear demonstration that this isn't just a European position."

Candidate of reform?

In an op-ed published in the *Wall Street Journal*, Strauss-Kahn called himself the "candidate of reform".

In his statement to the IMF board, his admission that "most emerging, developing and less developed countries do question the legitimacy of the Fund", though obvious to the outside observer, is a more candid assessment than many European officials have given in a long time.

Displeasure is mounting in developing countries, not just over the way Europeans handled the selection process, but also over their continued stalling of reform of voting rights (see *Update* 55). The new managing director set out his views: "Who can believe that a change in some percentage points will be enough to rebuild the legitimacy of the Fund? ... Reform cannot stop with a change in quotas. Voice and representation of most countries in a changing world have to be better taken into account by the board, but also by the staff – the diversity of which has to improve, as well as by management." His rhetoric is guaranteed to please the developing world, but it is unclear that he will be able to force reforms.

Will Strauss-Kahn be able to push through reform?

One aspect of his reform plan is to first informally implement a double majority decision-making system for selected decisions at the board, taking up a recommendation that was made by UK-based NGOs One World Trust and the Bretton Woods Project. This would require that board decisions carry not just the requisite majority of the voting weight but also the support of the majority of Fund members. Strauss-Kahn has yet to publicly reveal the details of implementation, but such a change should significantly improve the ability of developing countries to represent their interests at the board.

Aside from questions of legitimacy, Strauss-Kahn faces what he calls questions of "relevance", addressing displeasure with the way the Fund has gone about its business. It is unclear how he will respond to the difficulty the Fund is facing in regards to its role in low-income countries, where it has been blamed for blocking increases in social spending (see page 6). He has reaffirmed that he wants the Fund actively involved.

The question is whether Strauss-Kahn will be able to push through both governance and role reform after coming in through European dominance of the selection process. He faces a hostile northern business press, continued moves by Latin American and Asian countries to move away from the institution, and the potential for a global economic meltdown. He may have wished he stayed in France. ©

Statement by Dominique Strauss-Kahn
www.imf.org/external/np/sec/pr/2007/pr07197.htm

DSK: "My Vision for the IMF",
www.dsk-imf.net/2007/09/06/dsk-my-vision-for-the-imf/

IMF leadership selection blog, IFlwatchnet
www.IMFleadership.org

IMF plans to convince not listen

The IMF approved a new communications strategy in June which will guide the Fund's public face for the next several years. The main goals of the strategy are to "strengthen the Fund's effectiveness by (i) raising understanding and support among key constituencies of the Fund's mission and reform agenda; and (ii) using communication as a tool in the delivery of the Fund's operational activities." A welcome addition was a greater focus on parliaments. A notable omission was on taking input from external stakeholders. Nowhere in the communications strategy policy paper are the words 'consultation' or 'input' used in reference to anyone but country authorities.

www.imf.org/external/np/pp/2007/eng/052907.pdf

Ecuador turfs out IMF representative

Following its expulsion of the World Bank's country representative (see *Update* 56), Ecuador has now thrown the IMF's resident representative out of the offices of the central bank. Most IMF offices are established within central banks or finance ministries when countries are borrowing from the IMF. Ecuador's economy minister Ricardo Patiño set a 15 July deadline for the IMF to leave and said that the IMF was welcome to have an office in the country, but that it would have to find its own location in a private building. The three staff members seconded to the IMF office were re-assigned to normal functions within the central bank and the IMF withdrew its representative from Ecuador entirely.

Activists torpedo IMF deal in Bangladesh

Bangladesh's caretaker government, which has been in power since a political crisis over elections in late 2006, faced controversy over its negotiations with the IMF for a new programme following the end of Bangladesh's PRGF in June. Opposition by activists and business, demands for greater transparency in the negotiations and a public interest lawsuit claiming that the caretaker government does not have the authority to sign such an agreement forced reconsideration. At the end of the September IMF mission, the Fund's mission chief concluded that "we are not sure that it's the best time to sign a deal."

southasia.oneworld.net/article/view/153507/1/1893

Turks question need for IMF

The governor of the Turkish central bank, Durmuş Yılmaz, cast doubt on whether Turkey would renew its arrangement with the IMF. In early August he said: "there is no need to sign a credit agreement with the IMF at the current point" But he did stress the need for continued fiscal discipline. In September the Confederation of Turkish Labor Unions (Türk-İş) called on the government to sever relations with the IMF saying that Fund conditionality is preventing the government from making necessary increases in social expenditure. They called for the government to target a primary budget surplus of 3.5 per cent rather than the 6.5 per cent required by the IMF.

Inside the institutions **The World Bank and financial sector reform**

Financial sector reform constitutes a major area of work for the World Bank. The financial and private sector development vice presidency – which is jointly run by the International Finance Corporation (IFC), the private-sector funding arm of the Bank, and the main part of the Bank – undertakes reform work in the sector through its financial sector operations and policy department, which has 49 staff.

Financial sector reform work is also coordinated by the Bank's financial sector board, a cross-departmental body, and the financial sector network, an informal group of staff from across all departments and regional units. In total the Bank has 125 staff mapped to this sector, in comparison to just over 200 staff mapped to the health sector.

Bank support for financial sector reform was first underpinned by the 1989 *World Development Report* on financial systems and development. In 1992 the Bank developed its first financial sector operational directive. Financial sector reform is now covered by a revised financial sector strategy paper approved by the board in April 2007.

The central goals of the new strategy are to build financial systems that "do a good job of allocating funds and allocating risks" by improving investment opportunities, accessibility, transparency and risk management. The Bank plans to do this by "building and strengthening financial market and institutional infrastructure – the enabling environment for financial market transactions – and actively facilitating the development of well-regulated, diversified financial institutions and markets."

While the World Bank's work in financial sector reform covers many areas – i.e. credit markets, payments systems, insurance regulation – the banking sector has been the dominant area. A 2005 Independent Evaluation Group analysis of financial sector reform found three main pillars for the Bank's work: privatisation of state-owned banks, improvement of regulatory frameworks and strengthened supervision of banks. Between 1993 and 2003, 40 countries took Bank loans aimed at the privatisation of banks. Another key thrust of World Bank work is to allow market forces to determine interest rates and to eliminate the practice of governments directing the allocation of credit. The new strategy paper proposes a shift in emphasis from banking to more systemic issues.

Lending for adjustment in the financial sector comes through both financial sector-specific loans and multi-sector loans that include some financial sector component. Between 1993 and 2003 the Bank funded 53 financial sector-specific adjustment programmes, now called 'development policy loans', to the tune of \$19.7 billion. 'Investment lending', which finances technical assistance or

involves support for bank privatisations, comprised 83 loans for a total \$5.1 billion in the period. Most lending was in response to financial crises, meaning that volumes in the sector varied wildly from year to year. A further 115 multi-sector adjustment loans between 1993 and 2003 contained financial sector components, but it is impossible to attribute a specific amount of resources to the financial sector reform elements. Including adjustment and investment lending, 14 per cent of all Bank loans, representing 24 per cent of the Bank's entire portfolio had some financial sector component. In 2006 the Bank's spending on non-lending activities such as analytical and advisory work totalled \$48.5 million, about 30 per cent of which was directed at the Africa region.

Because of the Asian financial crisis and previous lack of collaboration in financial sector reform, the Bank and IMF jointly launched the Financial Sector Assessment Programme (FSAP) in May 1999. With the assistance of experts from other agencies, the Bank and Fund are invited by member countries "to identify the strengths and vulnerabilities of a country's financial system; to determine how key sources of risk are being managed; to ascertain the sector's developmental and technical assistance needs; and to help prioritise policy responses." An FSAP assesses the financial sector on its adherence on up to six standards or codes in the areas of: transparency in monetary and financial policies, banking supervision, securities, insurance, payment systems, and anti-money laundering and combating the financing of terrorism.

According to the IMF: "Managers in the Fund and the Bank use the FSAP recommendations as a key input in planning technical assistance activities in consultation with country authorities." FSAP recommendations also inform the development and review of the Bank's Country Assistance Strategies which then give rise to Bank lending for the financial sector reforms identified. Bilateral donors also fund TA based on FSAP recommendations through the Financial Sector Reform and Strengthening (FIRST) initiative. ©

Financial sector strategy for the World Bank Group

🌐 siteresources.worldbank.org/INTPRESIDENTSTAFCONN/Resources/SecM2007-0142.pdf

Review of World Bank assistance for financial sector reform, IEG

🌐 go.worldbank.org/NXE7NJC3G0

Financial Sector Assessment Programme (FSAP)

🌐 www.imf.org/external/np/fsap/fsap.asp

40 countries took Bank loans aimed at the privatisation of banks

IMF surveillance role: fundamentally misaligned?

Shortly after IMF members agreed to a new bilateral surveillance framework on exchange rates in June it was undermined by the US and criticised by civil society. Now the US wants the Fund to start regulating sovereign wealth funds.

After the reform of the surveillance framework (see *Update* 56) the Chinese central bank issued angry statements decrying Fund interference in Chinese economic policy. But the first blows actually fell on the US, as the Fund's annual economic report on the US economy released in August declared the dollar overvalued. The report mimicked language in the surveillance decision which said that "fundamental exchange rate misalignment" would prompt thorough review by the IMF.

The next day, a US Treasury official in testimony before US Congress rejected the idea of determining the proper exchange rate for a currency. The official, Mark Sobel, was arguing against proposed US legislation that would punish China for its 'undervalued' currency: "While exchange rate models yield valuable

insights, there is no reliable or precise method for estimating the proper value of an economy's foreign exchange rate or measuring accurately a currency's undervaluation."

Michael Mussa, chief economist at the Fund from 1991 to 2001 and now a fellow at Washington-based think tank The Peterson Institute thought it unwise of the US to cast doubt on currency valuations: "The US Treasury has cut the legs from under the IMF before it even started the race. This was foolish and unnecessary when they could have just said nothing."

Aldo Caliri of Washington-based NGO Center of Concern felt that the new framework would impinge on developing country policy space because it "reduces the policy space needed for developing countries to successfully grow using a trade and export-led model".

Meanwhile, Jan Kregel, professor of finance at the Levy Economics Institute of Bard College, faulted it for being too in line with the interests of private sector financiers: "The new surveillance measures are just

another step on the path to which the IMF will no longer be a lending institution but one that ensures countries apply policies that satisfy the requirements of international private lenders rather than national interests."

Still, the US is proposing yet another expansion of mission for the IMF: regulating sovereign wealth funds. These funds are investment vehicles established by countries with large foreign currency reserves, such as oil exporters and most recently China. The US and European countries are worried that such funds could acquire strategically important assets in industrialised countries, such as ports or utility companies, and might act on geopolitical motives rather than economic ones.

US Treasury official Clay Lowry proposed in a speech in June, "I believe that the IMF and World Bank could take a very useful step by developing best practices for sovereign wealth funds, perhaps through a joint task force." Lowry highlighted the risks sovereign wealth funds

posed to financial market stability and emphasised that the solution is greater transparency and clearer management guidelines.

In contrast, the IMF's chief economist Simon Johnson rejected the need for quick action. "What should the IMF do about this situation? There's certainly no need for dramatic action. For one thing, the situation involves sensitive issues of national sovereignty. For another, at their current level ... sovereign funds aren't a pressing issue." ©

Testimony of Mark Sobel before Congress

🌐 www.treas.gov/press/releases/hp523.htm

IMF surveillance decision hits developing countries' policy space, Aldo Caliri

🌐 ifis.choike.org/informes/678.html

Remarks by Clay Lowry on sovereign wealth funds

🌐 www.ustreas.gov/press/releases/hp471.htm

The rise of sovereign wealth funds, Simon Johnson

🌐 www.imf.org/external/pubs/ft/fandd/2007/09/straight.htm

Fund loosens the aid noose ... but just a little

After reviews of its engagement with low-income countries, the IMF is in the process of redesigning the Poverty Reduction and Growth Facility (PRGF), a lending instrument for low-income countries. The changes on dealing with aid inflows adopted by the board in July have not satisfied critics of the Fund's inflexibility in allowing the scaling up of social spending.

The Fund committed itself to "generally support the full spending and absorption of aid, provided that macroeconomic stability is maintained." The board refused to clarify the definition of macroeconomic stability, saying that the Fund should judge "on a case-by-case basis, without specific quantitative performance thresholds". Critics of the Fund have said that *de facto* the Fund applies overly stringent targets on reserves and inflation levels before allowing the spending of aid.

Gorik Ooms of health NGO Médecins Sans Frontières condemned the IMF's treatment of aid. "The word 'tax' seems appropriate, because we're talking about aid flows that were intended to be absorbed and spent ... and the IMF arbitrarily levied a substantial part of it, to be used as international reserves (unabsorbed aid), or as public savings (unspent aid)."

The IMF has faced accusations of 'aid pessimism' because staff used to allow only firm commitments of aid to be factored into country budgets. Now "the Fund's baseline aid projections should represent the staff's best estimate, based on all available information, of the amount of aid that is expected to materialise," including "formal and informal donor indications,

historical patterns, and information from the authorities."

The board confirmed that a single aid scenario should be the baseline for the budgets in Fund programmes but that "the staff should be available to assist the authorities in preparing alternative scenarios of scaling up" if requested. However, the IMF policy paper argues against the creation of needs-based scenarios: "The most useful scenarios would focus on an ambitious but controlled acceleration in aid inflows, rather than on MDG- or needs-based scaling up, which may entail financing gaps that could not realistically be filled."

Max Lawson of NGO Oxfam GB disagreed with this approach: "If there is no calculation of what is needed to reach the MDGs, then there is no signal to donors as to what is required, and minimal incentive to increase aid levels. It is now clear that the IMF have neither the will nor the technical understanding to engage constructively in the poverty reduction agenda. The best thing they could do would be to leave low-income countries."

The new policies also cover wage bill ceilings, aid dependency, public financial management and other aid-related topics. The IMF is considering further design changes for the PRGF in October when the board plans to discuss a staff proposal on the role of the IMF in the poverty reduction strategy and donor coordination processes. ©

Full article with links

🔗 brettonwoodsproject.org/aidinflows

Bank breaks silence on odious debt

The World Bank released a paper on 'odious debt' in September following months of silence, adding to a growing number of initiatives examining the concept. 'Odious debt' refers to money knowingly lent to a despotic power to repress its people. The broader term of 'illegitimate debt' describes all debts that have arisen from irresponsible, self-interested, reckless or unfair lending.

The Bank paper was prepared by the economic policy and debt department with inputs from the legal department. The main message seems to be an attempt by the Bank to knock back the progress that has been made in bringing the issue to light. The authors claim that international law does not provide for the repudiation of debts on the grounds of their being odious, but then concedes that this should not deter efforts to ensure that loans are used for the benefit of citizens. UK NGO Jubilee Debt Campaign has said the paper fails to address the key issues of what is responsible lending and who should suffer the consequences of irresponsible lending.

A paper published by UNCTAD in July analyses examples where the concept has been successfully invoked, and suggests solutions to some of the difficulties in application. The paper concludes that although there is "no single obvious legal forum for the adjudication or settlement of claims of odiousness" such claims "might appropriately be raised in bilateral or multilateral negotiations on debt relief". This risks inconsistent decisions arising from different fora, so an "attractive solution" might be consideration of odious-

ness by a single tribunal agreed upon by the debtor and creditor.

Both papers were funded by the Norwegian government, which raised the stakes in the debate in October 2006 by cancelling five developing countries' debts originating from loans used to prop up the Norwegian shipping industry (see *Update* 53).

The first government-backed audit commission on illegitimate debt was launched in Ecuador in July, and will spend a year investigating the financial, social and environmental impacts of the loan agreements that lie at the root of Ecuador's \$10.6 billion debt burden.

The G8 summit in Germany in June referred to the development of a charter of responsible lending, understood to be an attempt to reign in lenders such as China and Venezuela. Attempts to take the development of the charter forward through the G20 have stalled.

In an effort to better understand 'responsible lending', over 100 parliamentarians have signed a declaration on shared responsibility in sovereign lending. They are committing themselves to support further research into illegitimate debt, initiate parliamentary audits of existing debts, and agree that principles of shared responsibility must be included in sovereign loan agreements. ©

The concept of odious debt, World Bank
🔗 go.worldbank.org/56NWSC9430

The concept of odious debt, UNCTAD
🔗 www.unctad.org/en/docs/osgdp185_en.pdf

Parliamentarians' declaration
🔗 www.debtdeclaration.org

Bank takes on illicit flows

Together with the UN, the Bank has backed the stolen asset recovery initiative to recoup the assets stolen from developing countries, estimated at up to \$1.6 billion per year. The programme will sponsor research into the development impacts of cross-border flows derived from crime, corruption and tax evasion; and work with financial centres and professional associations to strengthen due diligence. In another welcome development, Bank president Zoellick wrote a letter in September to Norway's development minister, agreeing to collaborate on a study of the development impact of off-shore financial centres. The Tax Justice Network has been invited to advise on the process.

🔗 www.taxjustice-usa.org

Parliament in dark over bank privatisation

The Egyptian government is facing criticism from MPs over plans to sell off the country's publicly owned banks, as part of an \$8.7 billion financial sector reform programme that has the backing of the World Bank, the IMF, the AfDB and USAID. In July, the government announced a plan to sell 80 per cent of Banque de Caire, one of the four largest public banks, to a "strategic investor". Legislators had been told of a plan to merge it with the second largest public bank, Bank Misr, but nothing of transferring either into private hands. There are concerns over potential layoffs and the lack of transparency in the privatisation.

🔗 www.bicusa.org/en/Article.3455.aspx

Gender practice falls short of commitments

US NGO Gender Action has published three papers illustrating the gulf between the IFIs' stated commitment to gender equality and the actual gender dimension of their investments. The focus is on post-conflict reconstruction, gender accountability, and HIV/AIDS and reproductive health. All three reach the conclusion that, far from alleviating gender-based discrimination, Bank loans exacerbate it. Overall, gender policies at the IFIs were found to be "weak, poorly resourced, understaffed and lacking incentives for staff to engender their work".

🔗 www.genderaction.org

Good for business, bad for workers

In September the World Bank released its *Doing Business Indicators* for 2007. Egypt won the prize for best reformer, whilst Singapore came top for ease of doing business. The International Trade Union Confederation (ITUC) points out that the indicators give better marks to countries that have deregulated labour markets, such as Georgia, Mongolia and Haiti than it does to prosperous low-unemployment economies such as Finland and Korea. General secretary Guy Ryder said "This makes a mockery of *Doing Business's* claim that its 'employing workers' scores are the recipe for high-quality job creation".

🔗 www.ituc-csi.org/IMG/pdf/doing_business.ituc.critique.0907.doc.pdf

Zoellick's World Bank: What will it look like?

With an increasing number of commentators asking whether and how the World Bank can remain relevant, chief economist François Bourguignon unveiled a draft overview of a 'long-term strategic exercise', and the IEG released an evaluation of the Bank's work in middle-income countries.

In early 2007, Bourguignon began laying the analytical groundwork for a long-term (10 to 20 year) review of the Bank by then-president Paul Wolfowitz. Wolfowitz's resignation (see *Update 56*) meant the project was put on the back burner. However, the timeline is now being driven by Bourguignon's forced retirement end October. The paper identifies three priorities for the Bank: leveraging funds for the poorest countries with special attention on fragile states, renewing and expanding services in middle-income countries, and playing a greater role in global public goods.

The Bourguignon paper repeats what has been the Bank's mantra in the current funding round for the International Development Association, or IDA 15 (see *Update 55*), namely that the Bank should be the 'glue' in an international aid architecture marked by a proliferation of donors and issue-specific funds. To play this role the Bank is asking for a 20 per cent increase in IDA funding beyond what is needed to ensure that debt relief commitments are fully funded. With rumours that Nordic countries are considering reducing their contributions, and France, Japan and the US all struggling with budgetary constraints and/or currency devaluations, it is by no means certain that the Bank will get what it asks for. An additional meeting of IDA deputies has been scheduled for end October in Washington DC before the originally scheduled meetings in Ireland in November, and in Germany in December.

At their most recent meeting in Maputo end June, IDA deputies discussed the issue of responding to fragile states, agreeing to lengthen the phase-out periods of exceptional allocations for countries coming out of conflict. A 2006 Independent Evaluation Group (IEG) assessment of the Bank's work in fragile states (see *Update 53*) raised serious questions about both the way the Bank is organised internally to deal with fragile states, and the system it uses to allocate resources. Despite this, IDA deputies agreed that the Bank's allocation system was "generally working well". The Bourguignon paper suggests that in countries without functioning governments, the Bank should work to improve

oversight mechanisms by including not only government representatives, but civil society and donors.

Following Wall Street

In its fight to compete with other lenders, the Bourguignon paper proposes that the Bank become more flexible and simplify procedures in middle income countries. Approaches considered include charging for analytical and advisory services separately from lending; easing rules to allow the Bank to lend more to less creditworthy middle-income countries; and the development of instruments to respond to sub-national (provincial) and supra-national (regional) demands.

Some of these suggestions respond to criticisms made by the IEG in September in its evaluation of development results in middle-income countries. The IEG finds that clients view Bank processes as "cumbersome". The use of country safeguards in place of Bank-specific safeguards has been too slow (see *At issue*). While clients assessed the Bank's analytical and advisory work as of "high technical quality", the Bank "failed to draw on [countries'] own national capacity". Internal cooperation among the Bank, the IFC and MIGA has been "underwhelming". Finally, the IEG admonished the Bank to pay more attention to combating corruption, reducing inequality and protecting the environment.

In one of the first signs of the direction in which new president Robert Zoellick intends to take the Bank, the former Goldman Sachs vice chairman indicated in August that the institution would be extending the financial products of Wall Street to developing countries. Examples cited included insurance against natural disaster, protection against sudden swings in the value of currencies, or hedge funds to insure against a fall in commodity prices. Reaction to the proposals was mixed, with many questioning whether the Bank should be encouraging developing countries to invest in financial instruments which are being blamed for the current volatility in global markets.

A rush to new products overlooks some simple facts – Bank loans are not as cheap as they once were, and the Bank still attaches far too

many conditions to them. Zoellick announced end September a cut of 25 basis points in the interest rate charged to emerging countries (the first such cut in nine years) in return for a greater contribution from IBRD profits to IDA's pot (from \$1.5 billion in the previous round of financing up to \$3.5 billion).

"Far larger role" in global public goods

The Bourguignon paper argues that the Bank could take a "far larger role" in so-called 'global public goods', specifically environmental sustainability, ensuring that global frameworks for trade and finance benefit developing countries, and creating and disseminating development knowledge.

While many shareholders find it tempting to pass off more and more of the world's problems onto the shoulders of the Bank, there is good reason for caution. An IEG evaluation of the Bank's support for regional programmes released in April (see *Update 56*) found that while the majority of programmes achieve their objectives, they often do not address underlying policy reforms, are weakly linked to national assistance strategies, and that incentives and procedures encouraging regional cooperation are lacking. In a 2005 evaluation of the Bank's approach to global programmes (see *Update 44*), the IEG was scathing of the Bank's selection

of programmes to support, ability to measure value-added, management and performance.

More fundamental critiques question whether the Bank is even the right institution to play a central role in the provision of global public goods. Robin Broad of American University, in her evaluation of the Bank's knowledge bank function (see *Update 53*), finds the Bank biased towards a "neo-liberal free market ideology", while the Bank-commissioned review of its own research led by Angus Deaton of Princeton University (see *Update 54*) questions the structural incentives which cause Bank policy to lead research rather than the other way around.

There appears to be a consensus amongst Bank shareholders that the discussion about what kind of Bank the world wants should precede a debate about how it is governed. A briefing by the South Centre and the Bretton Woods Project argues that the timing is right for developing countries to demand far-reaching governance reforms of the IFIs.

Bourguignon held a series of informal meetings to discuss the draft in cities around the world in late August and early September. The board discussed it in September, after which final revisions will be made before its presentation to the board of governors at the annual meetings in October. The relationship of the long-term strategic 'exercise' to a long-term strategy, and the scope of any consultation, will be up to president Zoellick to decide. ©

World Bank long-term strategic exercise

www.worldbank.org/ltse

Development results in middle-income countries, IEG

go.worldbank.org/FBXR7YHQRO

Reform of World Bank governance

www.southcentre.org

Public hearings put Bank in the dock

Twelve jury members listened to four days of testimony in September on the impact of World Bank activities from affected people, experts and academics from all over India. The jury included former justices and government officials, writers, scientists, economists, religious leaders, and government officials. The presentations ranged from the impact of macro-economic policies to testimony of communities harmed by World Bank-financed projects. The jury concluded that "the Bank seems to have developed the art of making policies whose safeguards are only on paper", adding that the Indian government "shares at the very least equal responsibility for all the abuses". The Bank declined the invitation to participate, saying they did "not agree with the format of a 'tribunal' established with juries and judges to 'try' the Bank." ©

www.worldbanktribunal.org

The World Bank Campaign Europe will hold a public hearing on the issues of the Bank's use of economic conditions and funding of extractive industries in The Hague 15 October. Witnesses will be coming from Nicaragua, Peru, Mali, Malawi, Nigeria and Kazakhstan.

www.worldbankcampaigneurope.org

What steps to combat corruption?

With the release of an action plan for tackling corruption and an independent review of the anti-corruption unit, the issue remains high on the World Bank's agenda. Throughout September, the Bank was consulting on the implementation plan for the governance and anti-corruption strategy (GAC). A heavily revised version of the strategy was passed by the Bank's board in March following a year of bruising battles between the board and former president Wolfowitz (see *Update* 55, 53). Bank staff have been at pains to argue that there is not a conflict between lending and governance, that instead there will be lending with "an acute awareness of" governance.

At the project level, the emphasis of the Bank's anti-corruption plan is on accountability mechanisms. Civil society oversight mechanisms are to be supported. Explicit governance and anti-corruption action plans may be used in some cases. Improving the functioning of the Bank's anti-corruption unit is key. After receiving comments that the role of the private sector had been overlooked in early drafts of the strategy, the implementation plan makes vague commitments to "external verification mechanisms" for codes of corporate behaviour.

At the country level, the thorny issue is how to deal with countries which have no interest in improving governance. The plan commits the Bank to "remaining engaged", encouraging it to seek "creative ways of providing support" such as involving communities in delivery, or carrying out analytical activities which "raise the awareness" of the importance of anti-corruption efforts. Look for more judicial reform and media capacity building in country assistance strategies.

At the global level, the Bank has committed "not to act alone", increasing support for transparency initiatives, donor coordination in investigative practices and sanctions mechanisms, and legal conventions against corruption.

The plan is estimated to add \$15 million to the \$167 million budgeted for governance activities in the next fiscal year. A steering committee with participation from all sectors of the Bank will oversee implementation, and a progress report is to be prepared after one year.

Shrinking from confrontation

The panel created to review the work of the World Bank's Department of Institutional Integrity

(INT), led by former chairman of the US Federal Reserve Paul Volcker, released its report in mid-September. INT, headed by Wolfowitz-appointee Suzanne Rich Folsom, has been criticised over its objectivity and effectiveness in tackling alleged cases of corruption. Due to concerns about Volcker's impartiality (see *Update* 56), US NGO Government Accountability Project (GAP) conducted a parallel review.

The Volcker report contains some broad swipes at Bank staff attitudes towards tackling corruption. According to its authors, the Bank has "a tendency to shrink from confrontation with borrowing countries", which is reinforced by a "culture of the Bank that favours seeking out lending opportunities" rather than responding to borrowing countries' needs.

While the report shies away from addressing INT mismanagement, the following recommendations echo those of GAP:

- The director of INT should not hold a parallel position as counsellor to the president;
- INT should ensure more diversity in its staff and be subject to regular performance audits;
- A climate of distrust, miscommunication and secrecy has badly strained relations between INT and operations personnel. Investigation of staff misconduct should therefore be reassigned outside INT; and
- A lack of guidelines for reporting the findings of investigations has created unnecessary difficulties with some borrowing governments.

The Bank is seeking comments on the Volcker report until end October. President Zoellick will then decide on an action plan for implementing its recommendations.

The GAP report details INT mishandling of corruption allegations in India, Cambodia, the DRC and Armenia. In Armenia, a parliamentary commission concluded in 2004 that \$35 million had been embezzled from a Bank-funded project to privatise water systems in the capital Yerevan. Three years after being informed of their findings, the only response from INT has been that the case has been rank ordered 'medium' priority. ©

GAC implementation plan

🌐 www.worldbank.org/6HHK3NDGLO

Independent panel review of INT

🌐 www.independentpanelreview.com

GAP review of INT

🌐 www.whistleblower.org/doc/2007/INT%20Review%209.05.07.pdf

climate
of
distrust

World Bank-IMF annual meetings 2007

Members of staff of the Bank and Fund, board members, development and finance ministers will be in Washington for the annual meetings, 19 - 22 October.

Civil society dialogues with the IFIs

Organised by NGOs from 17 - 22 October, discussion topics will include low-income country representation in the IMF and WB, gender and the IFIs, clean energy and climate change, forestry and many others. For a full, up-to-date calendar, contact information for individuals in Washington, and links to documents released by civil society, see IFIwatchnet

🌐 www.ifwatchnet.org

Global week of action on debt

From 14 to 21 October debt campaigners in over 30 countries will be taking part in a range of activities to highlight the ongoing debt crisis. With World Poverty Day on 17 October campaigners will be calling on political leaders to tackle the debt burden that still paralyses poor countries.

🌐 www.debtweek.org

Official meetings agenda

19 Oct	G24 ministers' and G7 finance ministers' meetings; Programme of Seminars; Town Hall meeting with CSOs
20 Oct	International Monetary and Financial Committee: Global economy and financial markets; IMF strategic review with a focus on governance reforms
21 Oct	Development Committee: Long-term strategy; clean energy investment framework
22 Oct	Plenary sessions

World Bank YouTubed

First it was games to privatise cement factories (see *Update* 32), then it was Japanese-style animation (see *Update* 56). Now in its latest attempt to be down with the kids, the Bank has made its debut on YouTube. However, uber-cool Salon.com points out that entering the words "World Bank" into YouTube's search engine gives you 13 entries either sending up or tearing down the Bank before you get to the Bank's "propaganda". All the cool kids are on ifiwatch.tv anyways.

World Bank and YouTube, Salon

🌐 www.salon.com/tech/htww/2007/09/19/world_bank_and_youtube

🌐 www.ifiwatch.tv

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