

World Bank climate funds: "a huge leap backwards"

The proposed climate investment funds to be administered by the World Bank are under fire for undemocratic governance and undermining the UN climate convention, UNFCCC. Meanwhile World Bank support for coal-fired power generation is increasing.

The Bank's initial portfolio would consist of three funds.

The **Clean Technology Fund** will assist with transformation to low carbon economies, mitigation of green house gas emissions, and international cooperation on climate change. Its target size is \$5-10 billion.

The **Forest Investment Fund** will "provide financial incentives to reduce emissions from deforestation and degradation. It would support countries participating in the Forest Carbon Partnership Facility (see page 2). Its target size is \$1 billion.

The **Adaptation Pilot Fund** will "pilot ways to mainstream climate risk and resilience into core development planning". It will also influence the design of the Adaptation Fund recently agreed at UNFCCC, and initially focus on five to ten low-income or climate-vulnerable countries. It also seeks to raise \$1 billion.

The Clean Technology Fund was publicly proposed by finance ministers of the US, UK and Japan in a joint statement published in the *Financial Times* on 7 February. They made "major commitments" to the various funds and urge other governments to do the same. The US has pledged \$2 billion over three years and the UK will channel its \$1.6 billion Environmental Transformation Fund into the funds. Japan will contribute \$10 billion though it is not clear how this will be channelled through the Bank. So far no other donors have pledged support.

The Bank's January *Consultation draft on climate investment funds* states that each investment fund would have "an independent governance structure comprised of donors to that particular fund, which has ultimate control over that fund". Questions raised in the draft regarding the "voice of recipient countries



ROBIN HENNINGSEN/THINKSTOCK

in the governance structure" remain unanswered. The decision making process would be made by consensus, as on the Bank's board.

The Bank would host a secretariat for the funds, collaborate on the selection of staff and management, and serve as a trustee. A minimum contribution for trust fund secretariat members, the level of which is still "to be decided", will be set, raising serious concerns that smaller countries may be excluded from the governance of the funds.

At a mid-March meeting of G20 energy and environment ministers

in Japan, South African environment minister Marthinus Schalkwyk pointed out that it was only in the past few weeks that developing nations have even been consulted. He said "the World Bank should keep its distance from global climate talks [and] shouldn't become a player in the negotiations because that will load the dice against developing countries".

In a report *One step forward, two steps back?* Benito Müller, of the Oxford Institute for Energy Studies, and Harald Winkler of the University of Cape Town point out that

the World Bank is pushing ahead with "complete disregard" for the principles of partnership and mutual ownership of the Paris Declaration on Aid Effectiveness (see page 6).

The Bank's proposed Adaptation Pilot Fund is seen by many developing countries as a serious threat to the new Adaptation Fund agreed at Bali whose board would have a majority of developing country members and designated representation from least developed countries and small island states. It would meet in Bonn, the seat of the UNFCCC secretariat. The World Bank would only be minimally involved in its management. By comparison Müller and Winkler assert the Bank's fund is a "huge leap backwards".

A letter to the UK secretary of state for international development, Douglas Alexander, from 22 UK and international NGOs reiterated these concerns. It argued that the suggestion to offer concessional loans instead of grants for adaptation financing is "inappropriate", given that the impact of climate change on developing countries was "largely created by rich countries".

Despite high-level UK support, a recent report on DFID and the World Bank by the UK parliament's International Development Committee (see page 6) concludes that "we are sceptical that creating a new trust fund in addition to the dozen or so that already exist within the Bank for such work is the best way forward for this money." It recommends "that DFID conduct an audit of the current bilateral and multilateral funds available for international climate change work ... before final decisions are taken."

David Wheeler of the Washington-based Center for Global Development asks "does anyone really believe that donor-country taxpayers will continue supporting the Bank Group if it takes billions for the Clean Technology Fund with one hand and invests billions in coal-fired monsters with the other?" He undermines Bank claims that it is providing value-added by supporting supercritical coal-combustion power plants (see *Update* 59), puts

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Bank both player and referee in road to Accra

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IMF governance: fresh paint, rotting foundations

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Leaky logic: dams in three countries

By Soren Ambrose, Bank Information Center and Lucy Baker, Bretton Woods Project

Recent reports have raised new questions about the impacts of World Bank-funded dams in Uganda and Lao PDR, while in Mozambique the Bank will likely be asked to fund a controversial project spearheaded by China.

The 250 megawatt Bujagali dam (see *Update* 59, 56) is the subject of two investigations – one by the World Bank Inspection Panel and the other by the African Development Bank's counterpart – following claims by the Ugandan NGO National Association of Professional Environmentalists.

According to the World Bank, "financial closure" for Bujagali was achieved in December 2007 though construction had begun in August. The Bank is lending \$130 million from the IFC, and \$115 million each from IDA and MIGA in risk guarantees.

A key concern about the dam is its impact on Lake Victoria, Africa's

largest lake. A new report published in *Wetlands Ecology and Management* finds that smaller dams near the Bujagali site have used far more water than expected and caused the lake's level to decrease by at least two metres over a six-year period. This has dried papyrus wetlands adjacent to the lake which are key to the area's ecology and devastated its stock of tilapia fish, a main source of food and commercial income for lake communities.

In Lao PDR, implementation of the Bank-supported Nam Theun 2 dam (see *Update* 56) has reached a critical juncture. The recent *Nam Theun 2 trip report and project update* by NGO International Rivers (IR) states that the reservoir will be filled in just a few months, yet social and environmental programmes continue to lag behind.

Having met with local villagers and reviewed project documents during a visit to Lao PDR in

November 2007, IR notes that the resettlement of villagers on the Nakai Plateau and the implementation of livelihood restoration programmes are critically behind schedule. In addition, "downstream the \$16 million budget and proposed compensation and mitigation measures are inadequate to deal with the scale and severity of NT2's impacts on communities". A proposed biomass clearance programme has been cautiously welcomed, though it will likely be insufficient to solve water quality problems. At end February the Bank admitted to some of these problems in an interim report and added new requirements for the government and the NT2 power company to comply with. IR argues that despite this and numerous monitoring missions, the Bank has not taken strong enough stances to correct critical problems.

In light of the increased flooding in the Zambezi River Valley in Mozambique, the location of the long-planned Mphanda Nkuwa dam, the government is now recommending that 100,000 of the evacuees who were forced out of the valley in January and February relocate permanently to the areas where they have been resettled. Mozambican president Armando

Guebuza has declared not only that the 1,350 megawatt dam "will not put the environment in any danger," but also that it will help forestall flooding. His government continues to seek financing for the project which will supply energy mostly to South Africa rather than the 95 per cent of Mozambique's population without electricity. Though China is expected to provide the bulk of the financing, the World Bank is anticipating a request for partial funding – as discussed in Mozambique's letter of intent to the IMF in January – or at least to certify that environmental standards are being upheld.

Advocacy groups like the Mozambican NGO Justiça Ambiental warn that Mphanda Nkuwa would nullify years of work to restore the fragile Zambezi delta region, which has been devastated by the even larger Cahora Bassa dam. ©

Hydro electric dams pose a threat to Lake Victoria

W www.sciencedaily.com/releases/2008/01/080129125342.htm

NT2 trip report and project update

W internationalrivers.org/node/2516

Article on Mphanda Nkuwa

W allafrica.com/stories/200802080924.html

Forest carbon facility: more harm than good?

As details emerge of the World Bank's new facility to pay countries for preventing deforestation and degradation, concerns about its operations and governance mount.

A draft 'information memorandum' was circulated end 2007 on the Forest Carbon Partnership Facility (FCPF) which is to assist selected countries to find the most cost effective way to reduce emissions from deforestation and degradation (REDD) and promote carbon trading-based incentives for those reductions (see *Update* 57). The memo outlines operating arrangements for the funds that make up the FCPF, as well as the applicability of Bank safeguards and operational policies, and includes a draft charter.

There will be two funding mechanisms: a \$100 million 'readiness fund' and a \$200 million 'carbon fund'. Contributions to date include: Germany \$57 million; UK \$30 million; Netherlands \$15 million; Australia \$10 million; Switzerland \$7 million; and \$5 million from conservation NGO The Nature Conservancy. The Danish government has reportedly made its support contingent on the Bank

addressing forest dwellers' rights.

The purpose of the readiness fund is to provide financial support to countries to prepare them to begin trading avoided carbon emissions. Countries would be supported to establish a baseline (past emissions levels caused by deforestation and degradation), create a strategy for REDD at a national level, and then design and create a monitoring system for the strategy.

The carbon fund is what would actually pay for the emissions reductions of the five pilot countries who are considered 'ready'. The fund's secretariat would assess the carbon impact of various policies including general economic policies, forest policies, forest management and rural development, and pay countries accordingly. Despite having no evidence yet of the fund's effectiveness, the programme is to be scaled up to the newly-announced 'Forest Investment Facility' (see page 1) which aims to raise over \$1 billion.

Officials from some developing countries have asked how countries which have more sustainably managed their forests in the past will be credited. Two new NGO reports

have highlighted the risk of flooding the market and driving down the carbon price, and the inadequacy of indigenous peoples' participation in the design and governance of the facility.

According to a report by NGO Rainforest Foundation, "inclusion of forest-based carbon credits in anything like the existing size of carbon markets might, at best, produce too little too late and, at worst, do more harm than good by depressing the price of carbon below a level at which real emissions reductions projects were financially viable". Using carbon trading to prevent deforestation on any scale will require that a number of very challenging preconditions be achieved, including that rich countries agree to deep emissions reduction commitments. Rainforest Foundation believes that political energy should be focused on ensuring that these conditions are achieved, "rather than becoming overly absorbed in the probably only marginally effective issue of avoided deforestation credit trading".

On the FCPF's impact on indigenous peoples' rights to land and resources, NGO Forest Peoples Programme points out that:

• *Proposed governance arrangements only allow input from indigenous peoples on invitation and only*

on a no voting rights basis;

• *Oversight for safeguard application is entrusted to the secretariat and there is no allowance for a grievance or redress mechanism for indigenous peoples;*

• *There is no commitment to uphold human rights and the charter does not hold the Bank to meeting standards in the UN Declaration on the Rights of Indigenous Peoples; and*

• *Plans to allow low-impact logging and plantation development in the emission reduction programmes will mean business as usual.*

Planned retroactive consultations with indigenous peoples on the draft FCPF charter were to take place end February in Nepal, and in early March in Mexico and Burundi. ©

FCPF draft information memorandum

W ifiwatchnet.org/?q=en/node/7309

Carbon Sunk

W www.rainforestfoundationuk.org/files/Carbon%20Sunk%20Report.pdf

FCPF: Facilitating the weakening of indigenous peoples' rights

W www.forestpeoples.org/documents/forest_issues/fcpf_fpp_briefing_feb08_eng.pdf

In February, the World Bank's International Finance Corporation (IFC) approved a \$300 million loan for the Camisea II liquefied natural gas (LNG) export project in Peru (see *Update* 58). Even though environmental, social and now economic concerns have been raised, the IFC did not hesitate to provide a loan for the consortium managing the project area known as Block 56, operated by Hunt Oil (Peru LNG).

In various communications, Peruvian NGOs have raised their concerns with the IFC. The Camisea II project is part of a larger initiative which began with Camisea I: it uses the same infrastructure (Las Malvinas processing plant in Cuzco, pipelines traversing the Peruvian Amazon, and a chemical separation plant in Paracas); will export gas from Camisea I's gasfields; and both consortiums have at least two companies in common (US Hunt Oil and Spanish Repsol YPF). In effect the operations of Camisea II (Block 56 operated by the Hunt Oil-led consortium) will become indistinguishable from those of Camisea I (Block 88 operated by the Pluspetrol-led consortium). Camisea II will contribute to the accumulated impacts of Camisea I created by extraction, transport and distribution. Solutions should have been found to the problems of Camisea I before work began on Camisea II, given that a hurried start could exacerbate problems and prevent solutions being found.

The IFC's due diligence was insufficient. It should have ensured that all 'associated facilities' of Camisea I and II met its standards even if it was not funding them directly (under Bank rules, loans are not permitted to projects whose "associated facilities" breach safeguard policies). The approval of this kind of loan could set a dangerous precedent with regards to the implementation of the IFC's new lending performance standards. It has yet to be revealed how the IFC applied the requirement to obtain "broad community support of affected communities" both for Camisea II and its upstream gas fields.

Despite the importance that the IFC places on the role of foreign investment in Peru and its potential to improve the quality of life of our citizens, the conditions for such improvements to occur have still not

Camisea and the World Bank: A lost opportunity

COMMENT

by César Gamboa; *Derecho, Ambiente y Recursos Naturales; Lima, Peru*

the country than if the gas were used for domestic consumption. Instead it provides a windfall for the companies involved. The problems with Camisea II fall into three categories:

Firstly, the original aim of the Camisea gas project was to ensure long-term energy security by reducing dependency on imported petrol. However in the end the decision whether to export the gas or use it domestically was determined by corporate interests. There is no systematic national energy strategy which considers the opinion of those communities most affected by hydrocarbon development. There is the real possibility that gas exports from the Camisea project could damage the future development of Peru.

Secondly, the state lacks the capacity to ensure that revenues generated by the project create sustainable development. The failure to improve the quality of life at the local level has undermined one of the main arguments to convince the local population of the project's merits.

Thirdly, the state lacks the capacity to adequately supervise and monitor projects of this scale. This lack of capacity is evident from the five leaks and overflows that have occurred in the first two years of the project's operation. These were caused by bad design and implementation and were not detected by the responsible authorities.

It is not clear what benefits the IFC's involvement will bring in terms of improvement in the quality of life for indigenous communities and those directly affected by the project. To insist on the rushed implementation of Camisea II without first improving state capacity to mitigate its impacts, safeguard the rights of indigenous peoples, and oversee responsible actors will exacerbate the problems of Camisea I. ©

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World Bank climate funds: "a huge leap backwards"

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forward solar as an economically feasible alternative, and recommends using the Clean Technology Fund to fill the remaining cost gap.

He analyses two supercritical coal-fired power plants that the Bank is considering funding: Tata Power's 4,000 megawatt plant in Mundra, Gujarat and the planned Mmamabula plant in Botswana, which would supply power to the South African electric grid. In the case of Mundra he points out that several other private and public sector supercritical plants are already under construction or planned in India, thus precluding the need for Bank subsidies.

In *Crossroads at Mmamabula*, Wheeler points out that the country's solar energy potential, which could easily exceed the power expectation of Mmamabula, was recently documented in a Bank

study. The Bank should adopt an explicit carbon accounting charge added to all fossil-fuel projects. Though subsidies may be needed to induce clients to borrow for low-carbon projects, "client interest should increase as Bank programmes demonstrate the viability of large-scale low-carbon energy systems".

At end March the IFC board was to discuss funding up to \$750 million for Mundra. In mid-April it will discuss two loans of \$150 million each to the Calaca coal-fired facility south of Manila. In November 2007 the IFC approved \$275 million for the Masinloc coal-fired plant in the Philippines. ©

One step forward, two steps back?

www.oxfordenergy.org/pdfs/comment_0208-1.pdf

UK NGO letter on climate funds

www.ifwatchnet.org/node/7081

The Bank, Brazil and biofuels

By María José Romero, Choike

The World Bank has become a major financial and political supporter of Brazil's campaign for sugar cane based ethanol and the free market for biofuels. Currently, the IFC is investing around \$200 million in three such projects in São Paulo state.

In a recent speech Bank president Robert Zoellick said that the expansion of an ethanol market could help mitigate climate change, "if we remove trade barriers in developed economies." During his time as US trade representative from 2001 to 2005 Zoellick was a tough adversary of Brazil in international negotiations. He has since changed his tune following the boom in biofuels. Zoellick's speech was transmitted by video link to the G8 plus 5 Legislators Forum on Climate Change, held in Brasilia in February.

Civil society organisations, such as Friends of the Earth Brazil argue that the expansion of large-scale monoculture for export threatens small-scale family run agriculture – which forms the basis of the region's food security – water availability, and the most productive land for food cultivation.

Bancos multilaterales y la exportación de los agrocombustibles

www.biceca.org/es/Article.710.aspx

Calls for Bank to uphold rights

The UN human rights council held its seventh session in Geneva in March, where a variety of reports were released calling for greater accountability of the World Bank to international human rights law.

The January report of the UN High-Level Task Force on the right to development concluded that “though the principles of the Paris Declaration on Aid Effectiveness are consistent with human rights”, it “does not adequately address the asymmetries in power”. According to the report, ownership rests with the donor countries and the World Bank, while developing countries have a limited voice. The report also found a “lack of mutual accountability” and that the process “can work against the right to development and erode national democratic processes” (see page 6).

Margot Salomon from the London School of Economics concurred with these findings in a paper which highlights ways in which World Bank and IMF policy-based lending has violated human rights. Though IFIs have begun to consider the place of human rights in their rhetoric (see *Update* 53, 51), human rights accountability is missing from their practice. Salomon outlines the difference between Bank support to countries to uphold and protect their human rights responsibilities, and its lack of accountability for the negative impact that its economic policy prescriptions have on rights. She states that executive directors of the Bank must comply with their national and international human rights obligations in the policies they pursue.

The March report of the UN Independent Expert on human rights, economic reform policies and foreign debt, Bernard Mudho (see

Update 55) outlines general guidelines for states and financial institutions to ensure that “compliance with the commitments arising from foreign debt does not undermine the capacity of states to fulfil their human rights obligations”. His core recommendations include that:

- states define “country-specific minimum standards in the area of economic, social and cultural rights”, which “must be coherent with the provisions of international human rights law”;
- IFIs should harmonise their procedures with international human rights law;
- human rights obligations should be harmonised across multilateral organisations to avoid conflicting policy advice; and
- new tools such as human rights impact assessments, human rights-based budgeting and accountability measures for IFIs should be developed.

Mudho criticises the Bank-Fund debt sustainability framework which fails to assess a country’s ability to meet its human rights obligations while servicing its debt. Capacity to pay “should not be assessed by primary financial parameters alone” and the regulatory framework of international public finance must be improved to “take into account the international human rights regime and innovative analytical tools on debt sustainability”.

Jean Ziegler, the UN Special Rapporteur on the right to food refers to “schizophrenia in the UN system and in states’ policies” as one of the key obstacles to the promotion and protection of the right to adequate food. He condemns the World Bank and IMF for their refusal

to recognise the existence of the right to food and finds that their insistence on the privatisation of public utilities, the liberalisation of agricultural trade, and market-assisted models of land-reform “create catastrophic consequences”.

They are also in contradiction with the UN General Assembly resolution of December 2007 in which the Bank and Fund are asked to avoid actions that could have a negative impact on the realisation of the right to food.

IFC: atoning for past violations?

An IFC-funded research project on stabilisation clauses and human rights by the office of the UN Special Representative on business and human rights (see *Update* 57) finds that investment contracts often discriminate against the ability of developing countries to uphold their human rights and environmental commitments. Stabilisation clauses are included in private contracts between investors and host states to address changes in law in the host state during the life of an investment project. On-going concerns over this issue arose in 2003 in relation to the

IFC-funded Baku-Tbilisi-Ceyhan pipeline (see *Update* 47, 37). Civil society groups claimed that the clauses limited the host states’ ability to implement human rights obligations.

The research covers a broad range of countries and industries, including power, water, health care services and extractives. One category of stabilisation clause is a “freezing clause”, which ‘freezes’ the law of the host state with respect to the investment project for the life of the project. Findings include:

- no contracts from rich countries include freezing clauses;
- 83 per cent of freezing clauses are in the extractive sector; and
- limited freezing clauses explicitly include labour law changes.

The study’s recommendations include: benchmarking of human rights standards at the outset of a project; analysis of how host-state capacity and the skills of negotiators impact the design of stabilisation clauses; and improving the transparency of contracts. Multi-stakeholder consultations are planned imminently. ©

Report of UN High-Level Task Force on the right to development

www.ohchr.org/english/issues/development/groups/docs/DraftreporthLTF23012008.pdf

International economic governance and human rights accountability, Salomon
papers.ssrn.com/sol3/papers.cfm?abstract_id=1013505

Reports of the 7th session of the human rights council, including by Mudho and Ziegler

www.ohchr.org/english/bodies/hrcouncil/7session/reports.htm

Stabilisation clauses and human rights
www.business-humanrights.org/Links/Repository/111788/link_page_view

catastrophic consequences

Palacio resigns: progress on rights?

The resignation of World Bank general counsel Ana Palacio who will step down mid-April has raised hopes that the Nordic Justice and Human Rights Trust Fund (JHRTF), announced in mid-2006 may now move forward (see *Update* 53). Palacio was appointed in June 2006 by former Bank president Paul Wolfowitz in a move seen as reward for Spain’s support for the US invasion of Iraq. During her time at the Bank, Palacio failed to move forward any human rights initiatives. In October 2007 Nordic countries were prepared to finalise the JHRTF, but new Bank president Robert Zoellick postponed the official signing.

www.bicusa.org/en/Article.3697.aspx

Rural electrification failing the poor

A report by the Bank’s internal evaluation group on rural electrification finds that only seven per cent of Bank rural electrification projects have an explicit poverty reduction objective. Though renewable energy technologies are becoming cheaper and more available, “the full benefits of providing electricity to the poor are not being met” and households that benefit the most from rural electrification are non-poor. The Bank promotes an approach which favours communities nearer to the existing grid as a “least-cost” option. The study stops short of drawing the conclusion that public subsidies are needed to enable the poor to access electricity.

www.worldbank.org/ieg/electrification

Bank powerless to end Chad abuses

Chadian president Idriss Déby has used February’s failed coup attempt to clamp down on critics of the Bank-supported Chad-Cameroon pipeline. Leading opposition legislator, Ngarleji Yorongar, who led a complaint to the Bank’s Inspection Panel in 2001, was arrested by security forces though later managed to escape to Cameroon. Delphine Djiraibe who has challenged the government and the Bank to live up to commitments to use the country’s oil revenues for poverty reduction fled to Europe. The Bank has promised to address development objectives “once it’s possible to have discussions with the government”, but has backed down when Déby has diverted oil profits to the military.

www.bicusa.org/en/Article.3693.aspx

Sri Lankan small farmers slam World Bank

Local farmers and agriculture activists in Sri Lanka have slammed World Bank intervention in the agricultural sector, saying it has caused the eradication of small-scale cultivation and resulted in high food prices, in particular rice and wheat. The Movement for National Agriculture and Land Reform (MONLAR) held a gathering for concerned parties to discuss possible solutions to the problem. Former minister Indika Gunewardena stated that tenant farmers will never be able to rise out of poverty as long the government retains ownership of the land they work on. Small-scale farmers state that the Bank has been encouraging companies to invest only in large-scale farms.

www.geocities.com/monlarslk/

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

In the last five years the global system for channelling development finance to the health sector has changed radically. Assistance for health has shot up from \$6 billion to \$14 billion, most of which is being provided by new players such as the Global Fund for AIDS, Tuberculosis and Malaria (GFATM), new bilateral funds and private actors like the Bill and Melinda Gates Foundation. This has caused the Bank to seriously re-examine its role in health finance.

The World Bank puts its work on health and health systems together with its work on nutrition, population and family planning issues. Work that affects public health is also carried out in other parts of the Bank, for example the water and sanitation department.

The health, nutrition and population (HNP) unit sits within the Human Development network of the Bank. The strategy for the unit was rewritten in 2006 and 2007 and finally agreed by the board end April 2007 after controversy over the support to reproductive rights (see *Update* 56). The new strategy has four overarching objectives: improve the level and distribution of key health outcomes, outputs, and system performance; prevent poverty-related illnesses; improve financial sustainability in the health sector; and improve governance, accountability and transparency in the health sector.

The strategy seeks to address three main challenges facing work in health: the need to ensure that financing creates tangible results on the ground; the need to strengthen health systems; and the need to reduce duplication and increase coherence of health financing given the increase in actors on the international health scene. The Bank believes its greatest comparative advantages in undertaking health work are in health system strengthening and inter-sectoral approaches to country assistance as well as macroeconomic policies and capacity to enable large scale implementation.

A count of World Bank professional staff working in the sector in mid-2006 showed that health was the fourth biggest area with 206 people. This is only behind economic policy (349), rural development (309) and the environment (255). However this is 23 per cent below the HNP's peak staffing level in 1998.

Over the course of the previous strategy (1997-2007) the World Bank funded more than 500 projects with a health component in over 100 countries. That meant \$15 billion in commitments though just over \$12 billion actually disbursed. At the end of the 2006 fiscal year the portfolio of active projects totalled \$7 billion, a decrease from the 2001 high of \$9.5 billion. In fiscal year 2007, IDA

and IBRD lent 11 per cent of its portfolio to projects with health and other social sector components. This \$2.75 billion is a 20 per cent decline from peak lending in 2003. In IDA countries, health sector lending was 16 per cent of the total.

In terms of regional breakdown, in 2007, South Asia accounted for 44 per cent of new commitments with health components while Latin America and the Caribbean was 32 per cent and the African region was 14 per cent. The largest theme in 2007 was health systems lending (27 per cent of new commitments). This is followed by injuries and non-communicable diseases – including a variety of work from tobacco control to road safety and indoor air pollution projects – at 17 per cent and child health at 14 per cent.

The new HNP strategy recognises that the World Bank's health work has been comparatively ineffective. The HNP lending portfolio had the lowest performance of all sectors for five years in a row from 2001 to 2006. Only 66 per cent of completed HNP projects between 1997 and 2006 were rated 'satisfactory' or better. A planned 2008 evaluation of health sector work by the Independent Evaluation Group (IEG) will be a key method for remedying these problems.

The Bank's direct HNP work may be suffering from declining staff and lending, but the HNP team also serves as the secretariat for a burgeoning number of trust funds related to health. Sixteen such trust funds, with governance and allocation rules set by donors, are hosted by the HNP unit, not to mention regional and country specific trust funds that also finance the health sector. Donors have committed \$275 million for the 16 funds such as Human Resources for Health Capacity Building and the Global Program to Eradicate Polio.

The Bank's private sector arm, the International Finance Corporation (IFC) has also increased its work in health. According to the IFC health strategy: "the reliance solely on the public sector to address these major challenges appears to be no longer a viable or sustainable option in the long term because of fiscal constraints." From 2000 to 2007, the IFC provided \$536 million in financing to 47 private health care projects in 25 countries. However in December the IFC announced plans to manage a new \$1 billion fund for private health care providers and private health care systems in Africa (see *Update* 59). ©

Health, nutrition and population unit

www.worldbank.org/hnp

IFC health sector strategy

www.ifc.org/ifcext/che.nsf/content/strategy

Training for nothing? IFIs asked to surrender reins over capacity building

The World Bank's Independent Evaluation Group (IEG) revealed serious shortcomings in the applicability of the Bank's training work. It published its report on the Banks' project-based and central training programmes that are supposed to build capacity for development in February. The Bank has provided around \$720 million annually for training programmes in the last ten years, though training is only a portion of the Bank's overall technical assistance (TA) work.

The IEG conducted surveys in six countries and field studies in another four on trainings and revealed that "only about half resulted in substantial changes to workplace behaviour or enhanced development capacity." It found that there was a lack of attention to the application of newly learnt knowledge and a lack of training targeted at participants' needs.

Incentives for participants to apply their knowledge as well as incentives for employers to rely on new knowledge were low. The IEG found that "the Bank does not adequately monitor or evaluate training

results." It noted that the World Bank Institute lacks the ability to assess capacity gaps and does not engage in direct consultation with clients on their requirements.

The IEG made three recommendations: develop clearer guidelines and quality standards for training programmes; make training experts available to staff and borrowers before the design of programmes; and clarify the World Bank Institute's training mandate. Management committed to draft guidelines for training design and circulate a roster of training experts before July 2008, but did not give any indication of how it would ensure implementation of new guidelines. It put off consideration of reforms to the World Bank Institute until the Bank finishes developing the knowledge component of its long-term strategy (see page 11).

NGO ActionAid International has set out a detailed critique of TA arguing that while constituting

between a quarter and a half of aid, it has largely been ineffective, overpriced, donor-driven and based on an outdated model of development. Elvira Groll of ActionAid UK said: "We have repeatedly called for a strong alignment of capacity building programmes to national and local needs and priorities in order to actually have any impact. As this evaluation shows, the World Bank is really failing to deliver."

Those same critiques are finding a new target in the IMF, which has announced plans to start charging for its TA work (see *Update* 59). Peter Gakunu, the IMF executive director representing anglophone Africa wrote, "The likely outcome could be a trade-off between financing critical social spending and paying for TA. For countries that cannot afford to pay for TA, this would adversely affect their efforts to develop their institutional and

human capacities. While the proposal to rely on donor funding for TA may help alleviate the financing burden, it will also imply that the Fund is competing for donor resources with its members."

While Gakunu argues for the Fund to continue providing TA free of charge to low-income members, some civil society organisations have argued for a more recipient-owned approach that lets countries choose how to use aid resources. In evidence submitted to a UK parliamentary inquiry on aid effectiveness, the Bretton Woods Project recommended that "funding to pay for TA should be routed through country procurement systems. Recipient countries should be free to choose which TA projects they want and who will undertake the project." ©

Using training to build capacity

www.worldbank.org/ieg/training/

Real Aid 2: Making technical assistance work, ActionAid International

www.actionaid.org.uk/doc_lib/real_aid2.pdf

the Fund is competing for donor resources with its members

Bank both player and referee in road to Accra

By Lucy Hayes, Eurodad

The Africa Cup of Nations has ended, but Ghana will host two other international events this year: the UN Conference on Trade and Development quadrennial conference in April and the High Level Forum on Aid Effectiveness in September. On aid effectiveness the World Bank is both player and referee, prompting cries of foul play by civil society groups. The Bank is heavily involved in the process of monitoring commitments and is very present in the run-up to the Ghana meeting.

The Organisation for Economic Cooperation and Development (OECD) High Level Forum on Aid Effectiveness will review progress against the 2005 Paris Declaration and make commitments in areas where more needs to be done. The World Bank has signed up to the 56 commitments and 12 targets to be reached by 2010, agreed to by most donors and many aid recipient governments. The 2006 baseline survey to monitor progress shows that the World Bank scores relatively well in some areas compared to other donors, such as providing budget support or “programme-based” aid. It is only slightly better than average at disbursing money on time, and using developing country financial systems. And it does less well when it comes to providing technical assistance and coordinating missions to the country.

The rules of the Paris Declaration game are favourable to the Bank. Despite being a player, the World Bank also gets to be the referee on three targets. These are the targets related to public financial manage-

ment, ownership and results. Despite the influence of the Bank, particularly in the latter two areas, its own actions avoid scrutiny.

The Bank’s controversial scoring system, known as Country Policy and Institutional Assessments or CPIA (see *Update* 52), is used to measure the quality of developing countries’ public financial management systems. This is assessed using the results from one CPIA score, namely the “quality of budgetary and financial management”.

The second target assessed by the Bank is ownership. This is viewed as developing countries exercising effective leadership over their development policies, strategies, and coordinating development actions. The indicator and process for measuring success is circular at best. Developing countries are scored by how operational their Poverty Reduction Strategy Paper (PRSP) is as judged by the Bank. No country scores the top grade of having a “sustainable” PRSP, and 8 out of 62 countries are deemed to have “developed” PRSPs. There is no indicator to measure what the Bank (or other donors) should do to enable country ownership, such as ending policy conditionality.

The third area measured by the Bank is particularly problematic. This is the extent to which aid is implemented in a way that focuses on the desired results. Although

both donors and developing countries have made commitments to pay more attention to the results of their interventions, the indicator for measuring progress refers only to efforts of the developing country, as judged by the Bank.

Using a review of its 2005 Comprehensive Development Framework progress report, the Bank examines the quality of developing countries’ performance assessment frameworks - based on the quality of statistical data available, stake-

holder access to information and coordination of monitoring and evaluation. The Bank, together with other donors, plays a leading role in deciding the conditions and indicators in these performance assessment frameworks, and often in a non-transparent way. It is ironic that the Bank can then judge their quality. No country was awarded the top score, and only Tanzania, Uganda and Mozambique made the second grade.

A new Eurodad report, *Turning the tables*, showcases civil society and southern government views on aid effectiveness. It argues: “The current monitoring process for the Paris Declaration is asymmetric - donors monitor themselves, while recipients are monitored by the World Bank and others.” CSOs from around the world are mobilising to make aid more effective, with over 380 organisations from over 80 countries hav-

donors
monitor themselves,
recipients
are monitored by
the Bank

ing signed up to a civil society position paper *Better aid: A civil society challenge to the 2008 Accra High Level Forum on Aid Effectiveness*.

Meanwhile, negotiations are underway to agree the text of the communiqué that development ministers will announce in Accra as the outcome of the conference – the Accra Agenda for Action. Developing countries have outlined six priorities – conditionality, capacity development, incentives for good performance (for donor agencies), division of labour/complementarity, predictability and untying aid. The Bank says in principle that it agrees with these six proposals - the devil is of course in the details of how they are addressed. Some donors want to ensure that no detailed pledges are made, just vague discussion on identifying “good practice principles”. Others are pushing for agreement on concrete actions.

The Bank sits in a pivotal position on the executive committee for the High Level Forum, together with representatives from the OECD and the government of Ghana. The Bank managed to rile both its team members and the other side in June last year by unilaterally producing a “zero-draft” of this communiqué, kicking the ball into play before the whistle was blown. The game was restarted, but it remains to be seen how much developing countries will be able to get or keep possession of the ball in the lead up to the Accra event. ©

Turning the tables, Eurodad

www.eurodad.org

Better aid

www.betteraid.org/index.php?option=com_content&task=view&id=88&Itemid=26

The Paris Declaration and the right to development, Roberto Bissio

www.betteraid.org/downloads/A-HRC-8-WG-2.2-TF-CRP7.pdf

Rebuke for UK’s WB love affair

The UK’s International Development Committee has sharply reprimanded the Department for International Development for its decision to hand over a 50 per cent increase in funding for the World Bank without sufficient analysis of whether or not this is good value for money. The report contains sharp analysis of the Bank’s failure to use impact assessments; its continued use of conditionality; and the British government’s lacklustre efforts to bring democracy to the Bank. The committee has called for a “greater weight of subsidies for clean, renewable energy and less for extractive industries and this rebalancing should be happening at a faster rate”.

brettonwoodsproject.org/idcreport

New Bank financial products

In March the Bank approved a new lending facility, the Catastrophe Risk Deferred Drawdown Option, to give middle-income countries immediate access to up to \$500 million in the event of a natural disaster. Countries qualify if they have a hazard risk management programme monitored by the Bank. The fund is to have fewer conditions, longer maturities and be cheaper than previous similar facilities which have languished unused. Bond fund management company PIMCO has been selected by the Bank to manage its \$5 billion Global Emerging Markets Local Currency Bond Fund, to assist countries to build local currency bond markets (see *Update* 58).

treasury.worldbank.org/Services/Financial+Products/

Venezuela v. Exxon back to ICSID?

Venezuela has asked Exxon Mobil to go back to the Bank’s International Centre for the Settlement of Investment Disputes (ICSID), and drop lawsuits filed in courts in London and New York. The lawsuits stem from the nationalisation of a heavy-crude oil project in Venezuela in which Exxon Mobil owned a majority stake. Injunctions obtained in the London and New York courts had resulted in \$12 billion in Venezuelan assets being temporarily frozen. Venezuela’s Congress called for pulling out of ICSID, following the lead of Ecuador and Bolivia (see *Update* 58). However, Venezuelan minister of energy Rafael Ramirez has vowed to stay in ICSID and fight.

www.iisd.org/investment/itn/

Slaughtering the Amazon

In the past three years Brazil’s National Development Bank (BNDES) and the World Bank have poured funds into the cattle industry in the southern Amazon. “While governments insist they are doing their utmost to stop deforestation they have been putting in place incentives for the destruction of the forest,” said Roberto Smeraldi, head of Friends of the Earth Brazil and co-author of a new report *The Cattle Realm*. The IFC gave \$9 million to Brazil’s leading beef processor to upgrade its slaughterhouse operations in the Amazon (see *Update* 55), despite an environmental study showing that the expansion would lead to the loss of up to 300,000 hectares of forest.

www.amazonia.org.br/arquivos/259673.pdf

Europe questions IFI conditionality: whose outcome?

By Nuria Molina, Eurodad

A new report shows that IMF structural conditionality did not decline in the five years after the approval of the Fund's conditionality guidelines. With little progress at the World Bank, many wonder whether the European Commission's new approach is what is needed.

A forthcoming briefing by Eurodad, which uses the Fund's own conditionality data, finds that IMF loans carry an average of 14 structural conditions each. These are conditions spelling out policy reforms to the structure of a borrower's economy, such as privatisation. Sensitive policy reforms – including privatisation and liberalisation related conditions, as well as other conditions prescribing regressive taxation, or constraining the fiscal space available to recipient governments – comprise a third of the IMF structural conditions and their number has not declined.

The Fund continues to push conditions in areas beyond its core mandate of monetary policy, public financial management and financial sector soundness. These non-core areas include state-owned enterprise reform and privatisation, social policies, civil service reform, or regulatory reform. Eurodad estimates that nine per cent of IMF structural conditions are privatisation-related, and 11 per cent are privatisation and liberalisation conditions in the banking and financial sector.

Then IMF president Horst Koehler wrote to IMF senior management in September 2000: "I am personally convinced that there is substantial scope to streamline and focus our conditionality, both to reinforce country ownership of the programmes which the Fund supports and as part of our overall efforts to focus the work of the Fund on its core areas of competence". This call culminated in the approval of new conditionality guidelines in September 2002, which committed the IMF to the principles of ownership and criticality in its application of structural conditionality, as well as to streamlining the number of conditions (see *Update* 32). Over seven years later it seems that these recommendations from the top have been more honoured in the breach than in the observance. A recent report of the IMF's Independent Evaluation Office confirms that progress in implementing the conditionality guidelines has been limited (see *Update* 59).

The World Bank is not doing any better. Even if the Bank claims to

have reformed its conditionality policy, Eurodad analysis published in November found that more than two thirds of loans and grants from the Bank's International Development Association (IDA) still had sensitive policy reforms attached (see *Update* 58). The majority of these were privatisation-related conditions.

In light of these findings, European civil society demanded their government's contributions to IDA were made contingent on further progress on the implementation of the Good Practice Principles on conditionality.

Disappointingly, the final report of the IDA negotiations published in March welcomes "progress under the Good Practice Principles on conditionality" and management's proposal to further review application of conditionality as part of the internal review of Development Policy Operations. There is no mention of calls from civil society and some shareholder governments for an independent review of the Bank's use of conditionality.

Policies or outcomes?

The European Commission (EC) has introduced a new approach to conditionality, one which is garnering increasing attention across Europe and in Washington. The EC says it will emphasise conditions focussing on "outcomes" rather than on policies. This means that governments negotiating a programme with the EC can propose objectives they would like to reach, rather than commit to implementing specific policies. As long as the government makes continued progress towards these objectives the EC will continue to provide its aid money, often as budget support.

A Eurodad study launched in February compared this new EC approach with the results frameworks that have been announced in recent years by the World Bank and IMF. The report shows that the World Bank and the IMF's treatment of the term "results" goes well

beyond that of the EC, which largely looks at on the ground poverty reduction and human development improvements. The World Bank uses the term to refer to the proximate results of policy actions as well as results for people on the ground. An example for Tanzania is the requirement to improve its ranking in the World Bank's controversial

Doing Business index (see page 12). The

Commission, by contrast, focuses on results such as increasing net school enrolment rates and has, to a large extent, phased out economic policy conditions from their aid which is channelled to poor countries as budget support.

Tracing government responsibility for successes and failures in education, health and other sectors is a challenge, recognised in Commission reports and assessed in the Eurodad study. It is hard to find reliable baseline or annual data, and when shocks occur it is debatable whether the government should be blamed for slower progress. Some developing country decision-makers fear that outcome-based conditionality might make them responsible for results which are out of their hands. In this regard, the Malawian minister of finance Goodall Gondwe said "outcome indicators are not in the hands of the government and they are very difficult to achieve."

The EC seems to lack the courage of its convictions with its new instrument. It is using it only to disburse about two to three per cent of its overall budget support. The rest of its finance is still linked to more traditional policy conditions. From a recipient country's point of view

little has changed. "Donors come along with new formulas every now and then, and after a few years these fade away and they come with new ones ... But it is always about their agendas, not necessarily ours" says civil society activist Deus Kibamba of the Tanzania Gender Networking Programme. Governments still face policy conditions and now have to get used to outcome conditions as well. An EC official quoted in the Eurodad report was forced to admit that "there is now more conditionality than in the past." This was also validated by the report's analysis of the EC's pilot operations in Burkina Faso and Mozambique.

Citizen groups will continue to demand a reduction in conditions but also transparency in how money is spent and information on whether it is helping countries reach the Millennium Development Goals. The EC's attempt to break ranks with the Washington-based institutions is still tentative, but provides an opportunity to test out and debate a new approach.

The World Bank certainly seems to be on notice. At a recent launch event for the Eurodad report in Brussels, Manuela Ferro, country economics manager in the Bank's Operations Policy and Country Services department, made a ten minute intervention and engaged in lively debate with the EC official at the table. Ferro insisted on the 'official' World Bank arguments for being reluctant about this new approach: the problem of attributing poverty reduction results to the action of the government, the lack of data to measure results, and the fear of leaving developing countries to their own fate if multilateral institutions withdraw their "valuable policy advice". Surprisingly, the World Bank and some European countries, while expressing doubts about the merits of this new approach, proved to be more open than in the past. ©

Final IDA 15 report

www.worldbank.org/ida

Outcome-based conditionality too good to be true?. Eurodad

www.eurodad.org/uploadedFiles/Whats_New/Reports/Outcome_based_conditionality.pdf

it is always
about **their**
agendas,
not **ours**

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IFIs foot dragging on key debt issues

By Nancy Dubosse, Afrodad

The World Bank and the IMF are struggling to catch up to global debates on 'odious' debts and responsible financing; have failed to take action on vulture funds; and have been dragging their feet on debt relief programmes for Haiti and Liberia.

The World Bank released a draft report on 'odious' debt (defined as loans knowingly given to a despotic power to repress and not benefit its people) in September 2007 (see *Update* 57). While the report conceded that there is "factual analysis of the irregular transactions and the consideration that the lender knew of the use of the funds", there was no agreement that this was a useful way to classify sovereign debt nor were there any recommendations for what to do about odious debts.

Debt campaigners were asked by the Bank to respond to the paper. It was not clear what purposes their response would serve, and so the two sides have been in dialogue over how to take the process forward. A roundtable discussion is planned for the WB-IMF spring meetings in April in Washington.

While debates over odious debts have looked back at lenders' past practices, the question remains how to prevent such behaviour in the future. Brussels-based network Eurodad has contributed towards this end by creating a *Charter on Responsible Financing*, which attempts to move away from institution- or sector-specific responses to concerns over responsible lending and fair resolution of debt crises towards "internationally recognised legal standards for responsible lending and borrowing".

In addition to technical and legal terms and conditions, the charter

addresses the protection of human rights and the environment, public consent and transparency, procurement, and repayment difficulties or disputes. On the thorny issue of human rights, the charter stipulates that activities financed must not violate rights as set out in the treaties to which either borrowers or lenders are signatories. Similarly, financing must not contravene internationally accepted minimum standards on social, labour and environmental protection. These include the Bank's safeguard policies, the IFC's performance standards, and the ILO's core labour standards.

This is a key distinction of the charter from G20 discussions on a responsible lending charter. The G20 charter, largely driven by rich country fears about the growth of lending by China and India, has reportedly been opposed by Brazil, China and South Africa. A revised text is to be discussed at the next G20 meeting in Brazil in November.

Eurodad has called on governments and donor agencies to voluntarily adopt their charter, and for debate on the issues to take place as part of the UN Financing for Development process which next meets in Doha in November.

Afrodad has launched the Fair and Transparent Debt Arbitration Campaign, which aims to gather and disseminate evidence on cases of illegitimate and odious debt throughout the world, with a view

to the establishment of a transparent arbitration mechanism. Afrodad has already compiled ten dossiers, including Nigeria, Cameroon/Chad, Argentina, and the Philippines. Afrodad is organising national meetings in Nigeria and DRC in April 2008 to inform both local civil society groups and parliamentarians.

Vulture watching

To date, eleven countries which are graduates of the Highly Indebted Poor Countries (HIPC) initiative have been targeted by so-called 'vulture funds' (currently Uganda, Nicaragua, Sierra Leone, Niger, and Zambia are being targeted). These companies buy up 'bad' debt at a discount, and then attempt to recover the full amount, often by suing through the courts. The commodification of public debt, particularly from countries that have been party to debt relief discussions, gives an opportunity for vulture funds to be free-riders, as they are profiting from the fiscal space created by debt relief and from loans given for development purposes.

In January, Belgium set a precedent by passing a resolution to "safeguard development cooperation and debt relief from the actions taken by vulture funds". The legislation translates into clauses being inserted into future bilateral agreements preventing these funds from taking advantage and urges the IFIs to ensure that debt relief initiatives

are binding for all parties.

In 2001, the IMF released a briefing on private sector involvement in international finance entitled *Resolving and preventing financial crises*. The brief concedes that vulture funds create a disincentive for creditor nations to participate in debt restructuring by providing an additional avenue through which to recoup part of their lending. As an organisation that has the ears of the world on macroeconomic stability and public financial management, the IMF should be able to adopt a concrete policy proposal on the issue of vulture funds, particularly with respect to their activities in HIPC countries.

For its part, the World Bank has failed so far to respond to debt campaigners' call for the expansion of the International Development Association's (IDA) debt reduction facility. The facility enables countries going through HIPC to buy back their commercial debts at a discount, preventing vulture funds from getting hold of them.

HIPC updates: Haiti and Liberia

The link between external debt and development has never been more pronounced than in the case of Haiti. Debt relief of \$1.2 billion (\$464 million of which is owed to the World Bank) has finally been granted conditional upon completion of the HIPC programme. The cost of not meeting the conditions of debt relief by the 2009 deadline is estimated at \$44 million. From a development perspective, the key issue is the opportunity cost of delayed debt relief and current debt servicing while Haiti is going through the HIPC programme.

Liberia has \$4.7 billion in external debt, of which \$1.6 billion is owed to multilateral institutions. In March, after several delays, the IMF finally granted Liberia decision point status and committed \$952 million in financing. Liberia is currently under an IMF Staff-Monitored Programme to strengthen its public financial management systems. It took Liberia two years to get to this point, and it can not hope to be relieved of its debt until it has implemented a Poverty Reduction and Growth Facility arrangement for one year. ©

Charter on responsible financing
www.eurodad.org/whatsnew/reports.aspx?id=2060

Jubilee Zambia vulture fund campaign
www.jctr.org.zm/vulturefund.html

Belgian Senate resolution on vulture funds
<http://www.senate.be/www/?Mlval=/publications/viewPub&BLOKNR=1&COLL=S&LEG=4&NR=244&PUID=67109457&LANG=fr>

The IMF in Argentina: the search for relevance

By María José Romero, Choike

Since Cristina Fernández de Kirchner assumed the Argentinian presidency in December the Fund has been involved with the renegotiation of Argentinian debt with the Paris Club and a controversy over official statistics.

The Paris Club of rich country creditors has failed to conclude debt renegotiations with Argentina since 2005. The club requires borrowers to have a programme with the IMF, which Argentina has steadfastly rejected. In December IMF managing director Dominique Strauss-Kahn visited Argentina and expressed the Fund's readiness to cooperate but advised that the best option is for the Paris Club to waive its requirement of the IMF's endorsement of the Argentinian economy. The Paris Club has not moved on this recommendation, blocking any possibility of agreement.

Meanwhile, the IMF is investigating the Argentinian inflation index to determine whether the country violated international statistics standards. In a letter to the government, the director of the IMF statistics department, Robert Edwards, suggests that the indicators that go into

calculating inflation may have been temporarily amended. He demands that Argentina inform the Fund of any change envisaged for the measurement of inflation and indicate the reason for the change. Predictably, the Argentine government has rejected this attitude.

In early March, the Fund's Argentinian executive director Héctor Torres informed his government that the IMF intended to strongly censure the country in its flagship publication, the *World Economic Outlook*, to be launched in April. Ultimately the IMF decided to postpone a formal, public critique and used the government's inflation figures in the report. The Argentinian government sees this as an attempt by both local financial circles and the IMF to undermine the president's credibility. According to vice president Julio Cobos, "these [criticisms] are assessments of the institution; we could also criticise the policies that the IMF has recommended throughout its history, since many of them affected us, yet we maintain prudent reserve in our words".

World Bank and procurement: Development tool or TNC sop?

A new study on procurement reform suggests that the World Bank's narrow focus on value for money may undermine the ability of governments to use procurement as a tool for development; meanwhile US and European corporate lobbyists continue to pressure the Bank to go slow on the use of developing countries' own procurement systems.

Procurement refers to the purchasing, leasing, or renting of materials, services, or equipment by government agencies. The Bank plays a lead role in procurement reform, arguably the most controversial of so-called 'good governance' reforms. Countries like Afghanistan, Bangladesh, Ghana, Peru, Rwanda, Sierra Leone, Tanzania and Uganda have all introduced new procurement legislation since 2001 in response to World Bank conditions.

Government procurement accounts for approximately 4.5 per cent of developing countries' gross domestic product and governments tend to be the largest single consumers of goods and services in most countries. Globally, government procurement is big business, with annual spending estimated at more than \$2 trillion. This, along with the fact that government procurement is the most significant sector excluded from multilateral processes, explains why procurement is increasingly on the agenda of trade negotiations.

In the past, substantial trade liberalisation commitments were secured through World Bank conditionality rather than (or prior to) trade agreements. A new report from UK NGO Christian Aid has found that whilst procurement reform is counted as a governance reform, the model favoured by the Bank is "biased to open competition that facilitates market access for foreign firms". In Ghana and Sierra Leone there have been specific demands by the Bank to allow foreign firms access to contracts.

The Bank is not pushing full liberalisation. Recipients retain some policy flexibility to favour local firms. But the Bank is far from promoting procurement as an economic development tool largely because it retains a very narrow focus on efficiency and value for money. Many countries in their economic development have used procurement rules to favour local producers (most notably the US through the 'Buy American Act') but the consistent

message received by recipients is that such policies limit competition and thus efficiency.

Ironically, whilst putting a great deal of legwork into reforming procurement systems to get them aligned with international best practice, the World Bank is itself dragging its heels on using those systems. The targets of the Paris Declaration on Aid Effectiveness (see page 6) commit donors to using country procurement systems, recognising that it is counter-productive for a recipient with poor administrative capacity to follow the different procurement regulations of their various donors.

Of course, donors are not likely to start using recipient procurement systems until they are safe in the knowledge that they are robust and the risk of money going astray is limited. But the best practice model they use is riddled with assumptions about the benefits of open competition. Whilst allowing some preferences to local firms, the indicators developed by the Organisation for Economic Co-operation and Development (OECD) and the World Bank reward non-discriminatory procurement systems with higher scores, as exclusions "may arbitrarily limit competition and may result in inefficient procurement and higher prices". These criteria are used to measure the robustness of country procurement systems, a goal in the Paris Declaration.

Use of country systems

The other relevant Paris goal is for donors to actually use these reformed procurement systems. Recently the World Bank had a consultation on its pilot programme on the use of country procurement systems. It proposed weighting certain OECD-World Bank criteria more highly to evaluate whether they could risk using country systems. The weighting made it highly unlikely that a low-income country with weak administrative capacity would be selected as a pilot country. Indicators focusing on allowing participation of bidders regardless of

nationality were among those weighted more highly. As a recent internal Bank document states, "the Bank must ensure that there is a fair and level playing field for foreign firms to participate under procurement processes that are expected to attract international competition."

The Bank's Use of Country Procurement Systems initiative has drawn extensive fire since it was first proposed in 2005, not least from US and European corporate lobbies fearful of losing contracts if national competitive bidding (NCB) systems replace the Bank's standardised international competitive bidding rules. International firms typically do not compete well under NCB systems: between 2001-2006 firms from G7 countries won only 0.1 per cent of NCB tenders as recorded in the World Bank's procurement database.

The US administration opposes the Bank's country systems proposal. The US Congress, urged on by US corporate lobbyists, has threatened to withhold portions of the US contribution to the International Development Association (or IDA 15, see *Update* 59) if the initiative goes forward. Furthermore, as public procurement processes are often rife with corruption, international business and some civil society groups have cautioned that use of country procurement systems requires extensive monitoring and oversight.

The Bank has scaled back its initiative and is now proposing to pilot the use of country procurement systems in eight to ten countries. However, the pilots would entail a complex process of assessing equivalence of a country's systems with the "principles" of Bank procurement policies, closing any gaps between the two, and judging country capacity and compliance in following their own regulations. The pilots would most likely prove to be costly and intrusive affairs.

The Bank favours a standard procurement law and system rather than developing a reform that can be adapted to be appropriate to each country context. Following complex new procurement rules places a heavy burden on governments, including the major spending ministries. According to the Christian Aid report, local governments in Zambia and Ghana have been particularly affected, because they do not have access to the professionals (such as engineers and procurement consultants) required to make procurement decisions. Local organisations in Ghana argue that procurement reform has run counter to the drive to decentralised governance - surely a more fundamental goal for long-term poverty reduction.

Olivia McDonald of Christian Aid says procurement reform "should be designed to be locally appropriate and focus predominantly on how procurement decisions can be scrutinised by and accountable to poor men and women as well as businesses involved in the contracting process. The focus on who is eligible to bid can distract attention from this fundamental goal as well as undermining the perceived legitimacy for the Bank engagement in this sector". There is an important role for the Bank and other donors to help recipients share best practice on procurement policy - however the decision on how far to open up to foreign firms should reside with recipients themselves.

Christian Aid has urged that the issue be addressed as part of the Accra aid effectiveness ministerial in September (see page 6): "The current emphasis on liberalisation runs the risk of undermining the legitimacy of this important process". ©

Buying power: Aid, governance and public procurement, Christian Aid
www.eurodad.org/uploadedFiles/Buying%20Power.pdf

World Bank website for country procurement systems

go.worldbank.org/KB821V1X10

Programme conditions, project safeguards: Quo vadis World Bank?

brettonwoodsproject.org/responsibleissue57

the model favoured by the Bank is biased to foreign firms

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brettonwoodsproject.org/es/boletin

A taxing agenda for the IMF

By Alex Wilks and Marta Ruiz, Eurodad

The irony of the IMF giving a passing grade to Liechtenstein on money laundering in the same month that Germany launches a massive investigation into tax evasion based in the Alpine country shows that the Fund has a lot of work to do if it wants to help clamp down on illicit flows. Zambia may be showing the way for poor countries.

The concern that the Fund is giving cover to dubious government practices was clear during the Liechtenstein scandal that first emerged in February. After arresting high-profile suspected tax dodgers, Germany pressed Liechtenstein to take action, saying it was undermining its budget by facilitating tax evasion. At the launch of an IMF report on his country in early March, Liechtenstein prime minister Otmar Hasler picked out the positive messages – that “the praise by the IMF shows that we are on a successful path of reform” and that “most of the IMF’s recommendations will be taken up in our implementation of the Third EU Money Laundering Directive, which is imminent”. In fact the IMF report found “discrete and flexible legal structures, strict bank secrecy and favourable tax arrangements”. Some 90 per cent of the country’s financial business is from abroad and “by its nature, Liechtenstein’s financial sector business creates a particular money laundering risk”.

UK parliamentarians pressed IMF managing director Dominique Strauss-Kahn about the potential for the Fund to better police tax havens during his mid-March visit to London. Strauss-Kahn was reportedly wary of the IMF becoming more involved, saying that the Fund must stick to the mandate given by shareholders. That mandate includes the Fund surveillance pro-

gramme Reviews of Standards and Codes (ROSCs), which are assessments of countries’ financial systems including on anti-money laundering and countering the financing of terrorism (see *Update* 54).

Criticism of the ROSC framework has come from campaigners in the Tax Justice Network (TJN) (see *Update* 49). On their blog they cite a legal expert who states: “the way the IMF has been conducting its ROSCs has led to turning its offshore financial centre surveillance process into a grant of a seal of approval”. In a March comment in the *Financial Times*, TJN members John Christensen and David Spencer argued that the current official initiatives, including the IMF’s reviews are “legitimising the illegitimate” because they ignore banking practices that facilitate tax evasion.

TJN has called for companies to provide country by country breakdowns of where they take their profits to help eliminate the transfer pricing that facilitates tax evasion. This call is echoed by three German NGOs in a report on public finance written by Jens Martens: “It is the industrialised countries, particularly the EU, the USA and the institutions that they dominate – the IMF, the World Bank and the WTO who are responsible for the erosion of revenue bases ... The effective taxation of transnational corporations, the fight against corruption and the repatriation of embezzled money

from foreign bank accounts to countries of the global south can only be achieved via strengthened, multilateral cooperation.”

It remains to be seen if the IMF, in its search for relevance, will take up a vigorous role in policing tax evasion. It will have to stand up to major shareholders, like the UK, which allow secretive accounting and financial practices that should be outlawed.

Proposing windfall taxes

It emerged in February that French president Nicolas Sarkozy has asked the IMF to study whether a windfall tax could be levied on corporate profits, according to a statement from French finance minister Christine Lagarde. Sarkozy has asked the Fund to think of a worldwide tax on oil companies’ profits.

The global commodities boom gives new negotiating power to countries that export raw materials. The Zambian government has toughened its treatment of extractive industry contracts that were originally promoted as part of World Bank and IMF conditionality. It is demanding higher royalties from mining multinationals which were given tax concessions as part of Bank-supported efforts to improve the ‘investment climate’.

Zambian president Levy Mwanawasa has announced the cancellation of all tax concessions for copper mining companies operating

in Zambia, saying they were “unfair and unbalanced.” In their place “the government has, therefore, decided to introduce a new fiscal and regulatory regime in order to bring about equitable distribution of the mineral wealth.” Without the reforms mining firms would have earned \$4 billion in the 2009 financial year but would only have paid tax of \$300 million. Tax is expected to reach \$650 million after the change.

The World Bank supported the contract re-negotiations in Zambia, but has been reticent to wade further into reform of the global financial architecture. In September Bank president Robert Zoellick acknowledged that “a study of the development impact of off-shore financial centres would be a valuable contribution to the governance and anti-corruption agenda”. This followed Norway’s request to conduct a study on the more than \$500 billion that illicitly flows out of developing countries each year (see *Update* 57). But it appears that the Bank is backing away from its president’s promise and instead plans to organise a conference at the end of 2008, with unspecified input papers. NGOs continue to push for a full study with external peer review mechanisms. ©

Liechtenstein: Detailed assessment report on anti-money laundering

www.imf.org/external/pubs/ft/scr/2008/cr0887.pdf

Stop this timidity in ending tax haven abuse, Tax Justice Network

www.ft.com/cms/s/8f8a5770-ea55-11dc-b3c9-0000779fd2ac.html

The precariousness of public finance

www.globalpolicy.org/eu/en/publ/martens_precarious_finance_2007.pdf

The World Bank and IMF’s long shadow over Zambia’s copper mines, Eurodad

www.eurodad.org/aid/report.aspx?item=2108

Conditions demanded on IMF gold sales

A coalition of 60 US NGOs, including large labour unions, wrote to Congress in March to demand that planned IMF gold sales pay for debt relief as well Fund as administrative expenses. They also “urge that before authorising gold sales, Congress insist on meaningful reforms in IMF policy in developing countries” including an end to overly restrictive macroeconomic targets, an exemption for health and education spending from budget ceilings, transparency at the IMF, and more participation of civil society in the formulation of IMF programmes. This effort builds on a February briefing published by Jubilee USA about the use of the proceeds of IMF gold sales.

www.ifwatchnet.org/node/7929

IMF pension reform prompts Turkish strikes

In early April Turkish unions launched a mass demonstration to protest against plans for pension and health insurance reform. This follows an early March two hour “warning strike”. The social security reform is a condition of the IMF’s stand-by arrangement (SBA) with Turkey, and failure to fulfil it could delay the next loan disbursement of \$1.3 billion under the programme due to expire in May. The Turkish economy minister Mehmet Simsek announced in late March that a new SBA was unlikely because the government did not need the money, but concluded that some sort of IMF programme, such as a precautionary arrangement, would be signed.

IMF rebukes Tajiks over false information

Tajikistan has gotten itself in hot water with the IMF over poor reporting of information while the country was borrowing money from the Fund. The authorities failed to mention that they had guaranteed a commercial loan of \$500 million to the cotton sector, which if defaulted upon would have increased sovereign debt by 50 per cent. The IMF also found misreporting of the level of international reserves in order to appear to be in line with IMF conditions. The IMF demanded repayment within six months after taking into account Tajikistan’s “very difficult economic circumstances ... as well as the severe humanitarian crisis prevailing in the country”.

www.imf.org/external/np/sec/pr/2008/pr0843.htm

Fund trade advice in the crosshairs

The Independent Evaluation Office (IEO) released the draft issues paper for its planned evaluation of the IMF’s trade policy advice. While past IEO reports have tended to look at whether IMF practice is following policy, the issues paper indicates the evaluation “will aim to move beyond the question of whether the IMF’s role should be more focused and address questions of whether ... critics of the IMF’s positions have a solid basis”. That will include criticisms that the IMF’s trade policy advice has not been even handed and that it has constrained developing country policy space (see *Update* 47). The IEO welcomes comments on the issues paper.

www.ieo-imf.org/eval/ongoing/Trade_IP.pdf

IMF governance renovations: fresh paint while foundations rot

The shareholders of the IMF have squandered the political will for governance reform of the institution by making marginal changes that will fail to shift the balance of power.

The Fund's members have been debating how to revamp the formula that sets voting rights at the institution for more than two years (see *Update* 51). Much rancour has been directed at Europe, which has been the obstacle to quicker progress. A deal was finally approved by the IMF board end March and sent to the IMF board of governors for approval. The total increase for developing countries, if the governors approve the resolution, is only 1.6 percentage points, meaning that rich countries, representing about 15 per cent of the membership of the IMF, will continue to wield 60 per cent of the voting rights.

The final quota formula included some use of GDP measured at purchasing power parity (PPP), a key demand of developing countries, as part of the increase of the weight of GDP in the formula. The new formula continues to use trade openness, which the G24 group of developing countries has repeatedly called flawed because it is highly correlated with GDP and it tends to favour small rich countries with lots of trade. As before, the formula also uses the variability of trade and investment flows and the amount of international reserves. A small compression factor has also been introduced. The total size of quotas will be increased by 9.5 per cent, with only the new shares being distributed along the lines of the new formula.

If the entire quota were adjusted to the new formula automatically, it would actually shift voting weight to rich countries at the expense of middle- and low-income ones, a problem identified as early as 2006 (see *Update* 53). To achieve the committed goal of increasing the voting weight of developing countries, basic votes, which are given in a set amount to every member of the IMF, will increase from 2.1 to 5.5 per cent of the total. This is still below their highest level of almost 16 per cent.

Additionally the US will forego any quota increase. It promised in 2006 to not increase its quota share beyond its pre-reform level. In the final bargaining, official sources tell the Bretton Woods Project that the US accepted remaining at their slightly lower current quota share, but that in return they expected all the other countries on the board not to publicly complain about the final compromise.

Ralph Bryant, a scholar at the US-based Brookings Institution, called

the compromise inadequate: "The image to have in mind is that of a decades-old building in need of major repairs and renovation. The plumbing is ancient. The roof is leaking in places. Termites have been found in the support joists in the basement. What is on offer is, essentially, a fresh coat of paint in the entrance hallway and the fixing of some broken glass panes in the windows facing the street."

One of the few officials willing to comment was the director of the South Centre, a Geneva-based inter-governmental think tank for developing countries, Yash Tandon. He welcomed the recognition of the need for changes but felt that they "do not go far enough to remedy the governance imbalance in the IMF. What is being proposed is too little and preserves developed country control over the IMF. ... The real issue is how developing countries can have a stronger 'voice' in shaping how the institution is run. This means that other aspects of IMF governance must also be dealt with".

The board of governors still must agree to the deal, by end-April. Because it alters the IMF's Articles of Agreement, the deal must also be ratified by legislatures in some member states, like the US. This leaves a chance it could be rejected.

News reports indicate opposition on the board from some emerging markets who stand to lose, notably Russia, Iran, Egypt, Indonesia and Kenya. But they concede that the reforms will likely go ahead. Most developing countries think this is the best deal possible at this time so have resigned themselves to the minor changes. Bryant would prefer more resistance, saying in a G24 technical paper: "For the short run, 'nothing' is a better gamble than an inadequate 'something'."

Board reform still off the table

Part of the problem is that the quota reform is being discussed in isolation from other elements of governance reform. While European dominance of the board is becoming a hot issue, the quota reform was agreed without any compromise on the issue of representation.

In a February speech, US Treasury under secretary for international affairs David McCormick fired a shot across the bow of Europe: "The executive board is simply too large, too inefficient, too costly, and too unrepresentative ... we call on other

nations to work with us to reduce the number of chairs ... in doing so, the number of developing and emerging market country chairs should be preserved. ... We also advocate an amendment to the Articles so that all executive board members are 'elected,' abolishing the current practice of 'appointed seats' for the five largest shareholders."

Without saying so, McCormick targeted Europe. An end to appointed chairs would facilitate the consolidation of representation for the three European countries with such seats: the UK, France and Germany. Ted Truman of the US think tank the Peterson Institute concluded: "everyone knows what needs to be done to break this logjam: dramatic consolidation of European representation." NGOs across Europe have been pressing this point both in their capitals and with European Union institutions in Brussels.

The European Parliament concurred in 2006 (see *Update* 50) and now the European Union commissioner for economic and monetary affairs Joaquín Almunia, the closest the EU has to a finance minister, gave a speech in January recognising the need for faster movement.

"Achieving a single euro area chair in international fora has so far been considered an objective for the longer term. But the world is moving faster and we need to reconsider our timetable ... we cannot avoid pressing member states to move forward on this issue." But Almunia's timetable, measured in years not months, seems timid.

Other governance issues have yet to be sorted out. African executive directors were given an additional alternate director, thereby increasing their capacity to handle large work loads, but the budget freeze means this will likely be offset by fewer advisors. The resignation of Italian Tommaso Padoa-Schioppa from the post of IMFC chair, in the wake of his government's collapse in Italy, may give impetus for the IMFC to finally be chaired by a developing country (see *Update* 58). The delay of a review of the Fund's transparency policy has rankled civil society who have written to IMF managing director Dominique Strauss-Kahn to complain of being shut out of the process of Fund reform. ©

Reform of quota and voting shares in the IMF, Ralph Bryant

www.g24.org/bray0308.pdf

Remarks by David McCormick

www.treas.gov/press/releases/hp861.htm

NGO letter on IMF reform

www.ifwatchnet.org/node/7893

Bank review kicked into long grass

In late 2006, then-president Paul Wolfowitz initiated a process to come up with a long-term strategic vision for the World Bank. Former chief economist François Bourguignon published a background paper before his retirement last October (see *Update* 57). In a speech at the 2007 annual meetings, new president Robert Zoellick announced six "strategic themes": the poorest countries, post-conflict countries, middle-income countries, global public goods, the Arab world and the Bank's knowledge function. Bank watchers have been trying to decipher what this means for the planned strategic review. At a meeting between European executive directors and NGOs in February, the officials claimed that they were also being kept in the dark about the review.

The Bank's vice-president for external affairs, Marwan Muasher has said that the institution will be holding "two rounds of broader communication about these thematic areas, both internally and externally", stressing that "this will be an ongoing process, not a finite one - Bob Zoellick has described it as a 'network of conversations'. The process could continue "over the next year or two". No formal global consultation is planned because, as Muasher explains, "we don't think it would work well and we can use other channels for getting input".

The exception to this is work on the Arab world. Zoellick and other senior staff will be making trips to the region and further consultations are planned including a meeting with "prominent thinkers" in Egypt in May. Consultations so far have included: Arab and Islamic funds; visits to Egypt, Jordan, Morocco, Bahrain, UAE, Kuwait and Oman; the Arab League; and "several Arab civil society groups".

At the end of March, the Bank was due to begin work on its regular bi-annual poll of "global opinion leaders". This iteration will cover, amongst other topics, the six strategic themes. According to Muasher, the results of this poll "will be disclosed eventually, after the board has seen it - but that will not be for many months". Descriptions of the work being done are to be posted on the Bank's website, and online discussions with leaders of the thematic groups are planned. A 'dialogue session' with civil society is planned for the spring meetings.

IFC challenges highlighted in the Middle East: *Doing Business* indicators come under fire

By Amy Ekdawi, Bank Information Center

The International Finance Corporation (IFC), the private sector arm of the World Bank, is rapidly increasing its investment in the Middle East and North Africa region (MENA), raising questions about the development value of its activities.

MENA is the fastest growing region in the IFC's portfolio, with investments doubling from \$670 million in 2006 to \$1.2 billion in 2007. The portfolio in 2007 consisted of 41 projects primarily invested in financial institutions. Investment will surpass \$1.5 billion in 2008.

During a January visit to Saudi Arabia, IFC head Lars Thunell expressed the IFC's commitment to help expand housing finance - a priority area for the IFC. He signed a public-private partnership agreement with the General Authority of Civil Aviation to work closely with the Saudi government in developing three "airport cities" in the country. This is one of the richest countries in the world currently enjoying an unprecedented oil bonanza.

Yemen is the poorest country in the region and one of the 'frontier countries' that the IFC has committed to focus on (see *Update* 58). While oil revenues currently account for three-fourths of Yemen's revenues, experts expect that it could become a net crude oil importer by 2011. The IMF and the World Bank have emphasised the importance of diversification, however a significant part of the IFC portfolio remains in the oil and gas sector.

Despite trumpeting the importance of small and medium enterprises to build the backbone of frontier countries' economic systems, the IFC has yet to invest in them in Yemen. It has decided to cooperate mainly with stronger private groups after it "suffered in the past from dealing with weak sponsors". Out of the six projects that the IFC has approved for Yemen in the last two years, two are owned by the same well-established Yemeni investor, the HSA Group.

In March the IFC organised a workshop for Yemeni government officials and the private sector to discuss the country's tax reform process. The initiative is one of a series of conditions introduced by the Bank with its latest \$50 million IDA grant to support the Yemeni government's economic reform programme. While the IFC takes the lead on advising the government to lower corporate taxes to be "in conformity with international norms" as mandated by the IMF, Yemen will

be required to make up for lost revenue by doubling the general sales tax to 10 per cent in 2009. Other proposed reforms include ending domestic fuel subsidies by 2010 and cutting wages and salaries by 1.6 per cent of GDP. With 42 per cent of Yemenis living in poverty, the Bank estimates that the elimination of petroleum subsidies will increase the poverty rate by 9.2 per cent. The spike in global food prices could lead to a further 6 per cent increase. The introduction of a higher regressive sales tax will also hit the poorest.

Not Doing Business

Influential in the region has been the IFC's annual *Doing Business* indicators, which rank countries on how 'business friendly' they are (see *Update* 57). Egypt topped the list of reformers in the most recent report released last October. The week of the report's release, 27,000 employees of the country's largest textile mills, most of whom receive salaries below the poverty level, went on strike demanding higher wages and benefits. Saudi Arabia was also among the top reformers, receiving the best possible score on the 'employing workers' index, despite its prohibitions of freedom of association, the right to organise and collective bargaining.

The Bank's own evaluation unit is due to release an evaluation of the *Doing Business* indicators. That evaluation has been pre-empted by a study commissioned by the Norwegian ministry of foreign affairs. Conducted by the ESOP research centre at the University of Oslo, the study questions the value of the indicators as a policy tool. The indicators, assuming that they do capture the underlying business environment, are not able to "clearly distinguish the quality of the business environment of an economy ranked at number 75 from one ranked at number 40". While questioning the indicators' assumption that extra labour costs are always bad for business, the study finds the effect of the 'employing workers index' on the overall ranking marginal. The authors call on the IFC to be more transparent about its methodology, and warn against governments designing policies to improve their position in the rankings.

Bank Information Center MENA page,

www.bicusa.org/en/Region.18.aspx

IFC MENA page

www.ifc.org/mena

2008 World Bank-IMF spring meetings schedule

Official meetings

- 11 April Meeting of G24 group of developing countries and G7 finance ministers
- 12 April International Monetary and Financial Committee meeting. Tentative agenda: Global economic outlook; IMF quota reform; progress reports on the activities of the IEO
- 13 April Development Committee meeting
Tentative agenda:
 - poverty in low-income countries (particularly Africa), including achieving the MDGs, growth strategies, and higher commodity prices;
 - strategy for Bank engagement in fragile and post-conflict states; and
 - further discussion on: food and energy prices, voice and representation at the Bank

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

World Bank, civil society events

- 9 April Karachaganak oil and gas field in northwestern Kazakhstan
- 10 April Meeting with the Inspection Panel, use of country systems, implementing the anti-corruption strategy, CSOs and Bank training, the IFC in India
- 11 April World Bank's six strategic themes, IFC and IDA, review of the Bank's CSO engagement, aid effectiveness, update on the CAO, macroeconomic consequences of climate change, water privatisation in Ecuador
- 12 April Extractive industries revenue transparency, capital flows to low-income countries
- 13 April World Bank/Bechtel investment in Ecuador's water system

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

www.ifwatchnet.org

Special issue: Feedback wanted

This expanded issue of the Bretton Woods Update is part of a trial initiative to bring you broader insights into the international financial institutions. It was produced in conjunction with colleagues at NGOs Afrodad, Bank Information Center, Choike, and Eurodad. Please send us your feedback and comments.

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