

# Who should control the Bank?

## Rich keep thumbs on the scales

**Proposed reforms to the way the World Bank is governed tinker at the edges, promising only marginal improvements for developing countries; critics step up pressure for a fundamental rethink.**

The World Bank board will discuss a package of reforms to the way the Bank is governed at its annual meetings in October, hoping to agree a set of actions by next spring. Despite calls from developing countries, civil society and others for root and branch change to address the Bank's gaping deficits in democracy, legitimacy and accountability, the proposals are uninspiring.

Bank staff drew up a set of 'options for reform' which has been discussed by executive directors, and will be revised again before the annual meetings. Though there may be slight differences for each of the main parts of the Bank (IDA, IFC and IBRD) the impacts of likely changes are similar.

Some minor changes are probable in voting shares, which will mean developing and transition countries gain a few percentage points, while developed countries maintain the majority. These are likely to cover only IDA and IBRD, ignoring the fastest growing arm of the Bank, the International Finance Corporation (IFC), which also happens to have the most skewed governance. The Bank's decision-making process, with its veto for the US on major decisions, is unlikely to change.

An extra board member for Sub-Saharan Africa should be agreed, bringing their total to three – each representing an average of 16 countries – while Europe retains eight chairs, and the five biggest shareholders (United States, Japan, Germany, France and the UK) maintain permanent seats.

Despite fierce opposition from the US, some commitment is likely to a more transparent, open selection procedure for the Bank president. It is unclear whether this will mean the end of American hegemony: the experience at the Fund, which main-



tained the European stranglehold on the top spot last year, suggests not (see *Update* 57). In fact, the overall package looks eerily similar to that agreed by the IMF in April (see *Update* 60) despite the huge differences in the institutions' mandates and objectives.

### What about parity?

Developing countries have proposed that future reform should be based on the principle of "parity" – equal voting share for borrower and non-borrower countries. This principle has been supported in a letter

sent to the World Bank president in August, signed by over 80 NGOs and numerous influential figures from around the world.

European governments appear to have withstood pressure to consolidate their eight seats at the board this time round, while calls by civil society for far greater Bank transparency have been kicked to the ongoing review of Bank disclosure policy, likely to conclude next year.

The danger is that this piecemeal reform could prevent further change. During negotiations differences have arisen between African

states, keen not to jeopardise their chance for an extra board seat by pushing too hard, and other developing countries who have argued that reform without parity is "unacceptable".

The basic problem remains, as Liz Stuart of NGO Oxfam has said: "The system is so out of kilter with the Bank's goals, it completely fails to recognise global realities."

### Time for a rethink?

The question that critics are asking is: how much longer can piecemeal change continue when the governance of the Bank and Fund remains rooted in post World War II realities? Prospects for a fundamental rethink may be better now than at any time in recent memory. The global financial crisis has shaken faith in existing international financial institutions. The World Bank is becoming just one amongst many sources of development finance, and faces direct competition in South America from the newly created Bank of the South (see page 7).

Heads of government from the 53 Commonwealth states met in June and said: "We intend to pursue the redefining of the purposes and governance of the Bretton Woods institutions, including working towards wider international support for an international conference to achieve these goals."

The upcoming UN Financing for Development (FfD) conference in Doha promises to catalyse further demands for change. The first draft of the FfD outcome document states: "changes in the governance regime of the global economic and financial institutions are needed." It goes on to argue for "a major international conference to review the international financial and monetary architecture and global economic governance structures." Time for a second Bretton Woods conference? The case could hardly be stronger. ©

World Bank governance options paper

🌐 [ifiwatchnet.org/node/21744](http://ifiwatchnet.org/node/21744)

CSO letter on governance reform

🌐 [ifiwatchnet.org/node/20725](http://ifiwatchnet.org/node/20725)

Commonwealth declaration

🌐 [thecommonwealth.org/document/180216](http://thecommonwealth.org/document/180216)

# IFI response to the food crisis: Will lessons be learned?

By Nuria Molina, Eurodad and Bhumika Muchhala, Bank Information Center

Although conditions attached to food and fuel crisis lending are somewhat lighter than usual, the Bank and the Fund should turn the crisis into an opportunity to learn that finance can be granted without the usual strings attached.

At the Food Summit in Rome last June, world leaders pledged to “eliminate hunger and secure food for all, today and tomorrow”. Today is quite a tight deadline. According to the UN World Food Programme, \$755 million is required to immediately address hunger. But \$15-\$20 billion would be needed to implement measures to resurrect the hollowed-out agricultural sectors of low-income countries.

The World Bank launched a global food crisis response programme (GFRP) in May (see *Update* 61), which will fast-track up to \$1.2 billion of the Bank’s resources within the next three years.

## Loosening conditionality?

The GFRP is partly financed by the newly established World Bank food price crisis response trust fund – using a transfer of Bank income (from the IBRD) – which is intended to “provide rapid assistance to the most fragile, poor and heavily-impacted countries.” It has already approved loans for fifteen countries including Djibouti, Liberia, Haiti, Afghanistan, Sierra Leone and Niger. The rest of the programme is resourced with funding from a multi-donor trust fund. The vast majority of these operations are provided as grants. There is yet more good news: in general, the operations approved tend to have a very light conditionality framework.

A new development policy operation, a standard form of bank lending, for Djibouti approved in May contained only two policy conditions requiring the elimination of taxes on basic food items and an action plan to channel direct support to poor households – neither of which are particularly controversial. Policy matrices for new operations in Sierra Leone or Burundi are very similar. In cases when the Bank is topping up existing loans – such as Honduras, Liberia or Madagascar – no conditions are added. However, conditions attached to the existing loans do need to be fulfilled and no waivers are extended given the new circumstances. New operations run in parallel with recent loans which may contain conditions which could

be deemed sensitive. In Burundi, for example, an April loan required the privatisation and liberalisation of the coffee sector, a condition which will still have to be fulfilled despite the crisis.

The majority of operations approved are investment loans, provided on grant terms. They are intended for specific purposes, such as purchase of key agricultural inputs (seeds, fertilizers); funding safety nets (school feeding or cash transfer programmes); or compensating revenue lost by reducing taxes or import tariffs. These operations do not have conditionality attached, but include exhaustive guidelines on procurement (related to the purchase of the goods they are intended for) and often suggest changes to government policy.

The looser conditionality frameworks are due to the emergency situation not a trend towards loosening the institutional grip over poor countries. And investment loans do not necessarily increase the policy space available for recipient countries. The question remains whether countries will have the freedom to determine their own agricultural models (see *Update* 58) in order to secure food sovereignty.

## IMF traditional recipes

Since April, the IMF has been warning that the gains made by developing countries in the last decade could be “totally destroyed” by the food crisis. However, at the G8 summit in Japan, IMF head Dominique Strauss-Kahn persuaded leaders that “inflation should be the top concern of policymakers confronted by higher food and fuel prices”, not food security or meeting immediate needs through public spending.

The IMF’s advice, spelled out in its end-June policy paper on the food and fuel crises, offers a distinctly free-market recipe for fiscal, monetary and trade policies. According to the IMF, the pass-through of food and fuel price increases to higher domestic prices is “ultimately unavoidable”. The Fund’s economists repeatedly underscore the importance of phasing out subsidies, reducing taxes and aligning public sector wage increases with those of

the private sector. Recognising that such steps would intensify economic burdens on the poor in crisis-hit countries, the Fund argues for targeted social safety nets to protect the most vulnerable.

The Fund’s monetary policy advice for low-income countries says that when “policy credibility” still remains to be established and inflation targeting is still nascent, the risk of losing growth and stability by hiking up interest rates is well worth taking. It claims that the cost of “lower credibility if inflation objectives are missed” might be even greater than that of economic loss.

While some anticipated “a deluge of new business,” so far the IMF has only increased lending to existing customers. Loans to low-income countries through the Poverty Reduction and Growth Facility (PRGF) have been augmented for 12 countries. Conditionality on the fiscal deficit, long criticised for constraining public spending needed to meet the Millennium Development Goals by limiting long-term investments in health and education, has been loosened to allow public spending for food. However, these are temporary flexibilities and are unlikely to signify a long-term change in the Fund’s macroeconomic conditionality.

The promised review of the Exogenous Shocks Facility (ESF) which was scheduled for June (see *Update* 61) took months to materialise. The ESF, which is supposed to provide rapid and accessible concessional support during sudden external shocks, has not been used since its inception in 2005 despite this year’s crises. The executive board discussion on the ESF was delayed to late August, and then mid-September amid rancour in the board.

Under the agreed revision, the

first quarter of ESF funds would carry little or no conditionality, but anything above that limit would carry conditionality and programme negotiations much like the PRGF. Conditionality is supposed to be limited to directly addressing the price or economic shock the country is facing and should not extend to other areas of economic policy. According to an executive director from a developing country, ESF process modalities “do not respect the urgency of the commodity crises ... when it follows that of the PRGF.”

NGOs from developed and developing countries wrote a letter to the board demanding that policy conditionality be eliminated from the ESF; access amounts be decided by country authorities; and that concessionality be increased. The lack of transparency and opportunity for input into the review by external stakeholders was also highlighted in the letter.

## Learning from mistakes?

If the IFIs want to advertise their emergency financing as a quick fix to this crisis, they need to give clear indications that they acknowledge their past role in pushing food and fuel import liberalisation and reduced investment in non-export agricultural sectors in developing countries. These critiques have been the focus of NGO analysis of the food crisis, with publications being issued by Third World Network, Focus on the Global South, ActionAid and FoodFirst Information and Action Network (FIAN) among others.

The Fund and Bank both need to assure critics that their new development finance will not contribute – as it did in the past – to undermining food security and agricultural sustainability in low-income countries. It is still too early to assess the effectiveness and impact of the Bank and Fund operations, and whether these lessons have been learned. ©

World Bank page on the food crisis  
[www.worldbank.org/foodprices](http://www.worldbank.org/foodprices)

Food and fuel prices policy paper  
[www.imf.org/external/pp/longres.aspx?id=4266](http://www.imf.org/external/pp/longres.aspx?id=4266)

Leaked proposed revisions to the ESF  
[ifiwatchnet.org/node/21769](http://ifiwatchnet.org/node/21769)

Civil society letter on the ESF  
[ifiwatchnet.org/node/21770](http://ifiwatchnet.org/node/21770)

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Since the beginning of the Oslo process in 1994, the World Bank has been heavily involved in the development projects of the Palestinian National Authority (PNA) in the West Bank and Gaza Strip. Following Hamas' electoral and military victory and the ousting of forces loyal to PNA president Abu Mazen from Gaza, Bank development projects and funding have focused more on the West Bank. The appointment of former Bank employee Salam Fayyad as prime minister in 2007 has strengthened the Bank's influence on PNA economic and development policies.

The Fayyad government has created four different "strategy groups" and 13 sub-working groups. Each is co-chaired by a donor or IFI official and a PNA minister. These groups are responsible for planning, implementing and monitoring government policy and allocating the budget. This structure creates an illegitimate shadow government paired with an unelected government, erasing any possibility of independent decision-making and democracy.

A second level of restrictions is added because most PNA funding runs through internationally controlled trust funds. The Bank trust fund disburses money only after three sets of audits to ensure that the PNA does not deviate from the framework of the Palestinian Development and Reform Plan 2008 – 2010 (PRDP). The PRDP was drafted by the British development agency DFID, presented at the donor conference in Paris in December 2007 and adopted by the Fayyad government. Not surprisingly the PRDP does not differ from the overall World Bank development framework.

The Bank's approach to development in Palestine hinges on the acceptance of the status quo – continued occupation, the settlements, and the wall – as well as joint projects that require PNA-Israeli cooperation, often with a third international partner. Politically, these projects threaten to legitimise Israeli claims regarding the wall, Jerusalem, land annexation and settlements that have caused the fragmentation and ghettoisation of the West Bank and Gaza. The only new aspect is that in addition to industrial sweatshop projects, Bank plans now include border industrial zones, agro-business in the Jordan Valley (see *Update* 58)

## World Bank legitimising illegal Israeli occupation

COMMENT

by *Darwood Hammoudeh, Stop the Wall, Palestine*

and tourism.

The tourism project proposed for Bethlehem illustrates the risks and problems of development under occupation. The Fayyad government, the World Bank, and the French government are backing a project which aims to

reinvigorate the wrecked Palestinian tourism sector through encouraging foreign tourism, but this would de facto legitimise the Israeli occupation and control over Palestinian borders.

The focus, to facilitate travel to the West Bank through Israel, is far from innocuous as it recognises critical Israeli claims in and around Bethlehem. The project will create "tourist friendly checkpoints" with additional lanes for foreign passport holders. This will further institutionalise Israeli military checkpoints which, along with the wall and settlements, have turned the Bethlehem district into a fragmented, isolated ghetto. The separation of tourists from Palestinians ensures that visitors will not witness or experience the degrading treatment reserved for Palestinians. The recognition of East Jerusalem as Israel, and the checkpoints and the wall as a legitimate border, explicitly compromise Palestinian rights to their capital.

The Bethlehem project leaves the tourism sector vulnerable to the same problems that destroyed the industry in the first place: occupation, land theft and movement restrictions. The focus on foreign tourism sustains the ghetto system imposed on the West Bank, and excludes domestic tourism, the backbone of any solid tourism sector, which has been crushed. The Palestinian statistics agency indicates that 64.5 per cent of West Bank families were unable to travel domestically in 2007. In the end, attempts to work with and around the occupation end up legitimising it while failing to address key tourism concerns.

The problems are not limited to Bethlehem, but are indicative of a larger challenge facing Palestine. At the root of Palestinian development woes is the Israeli occupation. The balance of power ensures that the terms of development will be dictated by Israeli politicians and planners and thus be anathema to Palestinian economic freedom and political liberation. ©

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## Evaluation asks what value the IFC adds

In early August, the World Bank's Independent Evaluation Group (IEG) released its annual evaluation of the development results of the World Bank's private sector arm, the International Finance Corporation (IFC), looking for the first time at the sensitive question of 'additionality' – how much value does the IFC add?

IFC spending topped \$11 billion last year, double the level of five years ago, and nearly one-third of the entire World Bank Group. This rapid growth has led to an embarrassment of riches. The build-up of retained earnings has led shareholder governments to question whether the IFC is taking enough risks. Some have asked whether the IFC should set a higher threshold on the value-added or 'additionality' it must bring to an investment.

The main findings of this year's evaluation echoed those of previous

years' (see *Update* 57). These include: large operations tend to be more successful than smaller ones; performance in Eastern Europe, Central Asia, and Latin America and the Caribbean is much stronger than that in Asia, Africa and the Middle East; weak environmental and social effects in Africa; and performance strongest in infrastructure and finance, and weakest in manufacturing, services and information technology.

### Better than nothing?

New this year was the IEG's first attempt to examine 'additionality'. The last two years have seen considerable debate at the IFC board over how to define the concept. There is worry that the IFC might be 'crowding out' the private sector. The IEG finds that the IFC's understanding of additionality has been

based more on assumptions about the value that the IFC brings to its projects than evaluated results.

For its part, the IEG has attempted to measure additionality in three ways. Financial additionality means providing funds on terms otherwise not available from private sources. Operational additionality means improving a project's design or functioning with specialised advice and knowledge. Institutional additionality means improving standards of corporate governance and environmental and social sustainability. The IEG finds that 85 per cent of cases exhibit financial additionality, while only one third exhibit either operational or institutional additionality.

The problem with all of these measures is that there is a spectrum of additionality. It is unclear where the IEG (or the IFC) draw the line

for each measure. The failure of the IFC to divulge individual project assessments rules out the possibility of independent verification.

The IEG's recommendations include: addressing continued shortcomings in environmental and social performance in Africa; improving the data on the performance of technical assistance; developing guidelines and incentives to help staff better identify and deliver additionality; and carrying out further fieldwork on additionality in lagging regions, sectors and client groups.

IFC management responded positively to most of the recommendations, promising more money and people – especially in the regions – to address the issues raised. ©

Independent Evaluation of Development Results 2008

🌐 [ifc.org/ieg/iedr2008](http://ifc.org/ieg/iedr2008)

# World Bank and water privatisation: public money down the drain

By Nuria Molina, Eurodad and Peter Chowla, Bretton Woods Project

**The Bank may be changing its dogmatic approach to water privatisation, but cases in Tanzania, Armenia, Zambia and India suggest it is not learning quickly enough, leaving the poor paying for botched privatisations.**

At water week in Washington in May, Bank vice president Kathy Sierra said privatisation was not “the only answer” – there was a full spectrum of public-private mix of investments too. Only a few days earlier, senior World Bank official Shekhar Shah reported in New Delhi how the Bank had “learned the hard way” that it was wrong to leave water to the private sector.

But a statement by Lars Thunell, head of the Bank’s private-sector arm the International Finance Corporation (IFC), at World Water Week in Stockholm in August shows that the Bank is still not interested in pursuing public solutions to water provision: “We believe that providing clean water and sanitation services is a real business opportunity.”

Currently the IFC’s focus is on creating the right conditions for private investors, including a \$100 million fund, called IFC Infraventures, to “provide risk capital for early stage development of infrastructure projects in the poorest countries, but also to encourage more public-private partnerships.” Thunell also claimed: “The debate is shifting. Instead of ‘should the private sector be involved in water?’ the question is ‘how can we work together for sensible and fair solutions?’”

## Tanzania’s nightmare

A fair solution has still not been reached in Tanzania, where the Bank-supported privatisation of water services resulted in sharp hikes in water prices, little improvement in supply and the eventual termination of the contract with UK-based multinational Biwater in 2005 (see *Update* 55, 46). In August the Bank’s International Center for the Settlement of Investment Disputes (ICSID) issued its ruling in Biwater’s lawsuit against Tanzania, and found that while technical breaches of Biwater’s investors’ rights did occur, Biwater was not entitled to compensation because the breaches were worth nothing and the contract termination was inevitable.

“It is absolutely right that this Court has found that Tanzania owes Biwater nothing, but shocking that Biwater saw fit to drag the government of such a poor country through the courts in the first place,”

said Vicky Cann of the World Development Movement.

Even though ICSID’s refusal of Biwater’s compensation claim is a victory for the Tanzanian people, they have lost years waiting for improvements to their water sector. In a separate arbitration the government was awarded damages for breach of contract by the Biwater-owned local subsidiary City Water, which had already been declared bankrupt. The Tanzanian government’s lawyer suggested that the “the whole affair was the prescription of the World Bank. It will be fair that they should pay the government.”

At the very least, as Mussa Billegeya from the Tanzanian Association of NGOs said, “The failure of this policy should be a lesson to the World Bank, aid donors, and governments that privatisation is not a solution for problems in developing countries. In fact, this failure has added a burden to a country that is already struggling to reach its international poverty target on access to water.”

## Armenia water corruption

In August US-based NGO Government Accountability Project (GAP) released a report on the corruption allegations facing the water privatisation project in Armenia’s capital Yerevan (see *Update* 57).

Armenia borrowed from the World Bank in 1998 to restore the Yerevan water utility, with water-sector multinational ACEA eventually taking control of the facility. During the first two years, complaints about unreliable service and contaminated water increased, and the exclusion of local vendors from ACEA tenders led to allegations of corruption.

The GAP report validates the finding of an Armenian parliamentary commission set up to investigate the project in 2004. The parliamentary study revealed that the ACEA representative, in collaboration with corrupt state officials, had diverted project materials and

equipment to commercial enterprises for personal gain. The study also showed that costly improvements to the systems had been abandoned and replaced by improper for-profit schemes, and that the representative of the international operator had used his position to establish a network for the purpose of embezzling public funds.

In 2007, the commission sought advice from GAP after the Bank failed to investigate what seems to

be a flagrant case of project-related corruption.

GAP has not yet been successful in getting the Bank’s Department for Institutional

Integrity to investigate. The Bank appears to be unwilling to take its share of responsibility to redress the harm done or compensate citizens for the lost millions in public funds.

## Upfront investment needed

Privatisation and commercialisation of water in the developing world suffers from flaws. Companies that took over contracts for water management soon realised the lack of short-term profitability of a sector that required large investment. Unable to fully offset their costs, the companies failed to invest, with negative effects on citizens who faced increases in tariffs and declines in access. Often governments could not supervise company performance or hold them accountable, as proper regulatory frameworks were not in place.

In a policy brief released by the UNDP-sponsored International Poverty Centre in June, academics Hulya Dagdeviren and Degol Hailu conclude that: “So far, Zambia’s liberalisation strategy has emphasised tariff rationalisation. This has failed to ensure full cost recovery and has further constrained affordability and accessibility. The correct policy prescription is up-front public investment to renew and extend infrastructure.”

So why has the Bank not warmed to this prescription? A new book analysing the Bank’s water privati-

sation agenda in India from NGO Manthan Adhyayan Kendra blames the Bank’s knowledge production structures (see *Update* 54, 53). Author Shripad Dharmadhikary writes: “the Bank’s process of generating knowledge is flawed and exclusionary... [and] is mostly directed towards arriving at a pre-determined set of policies – privatisation and globalisation. This knowledge creation is often selective, in that information, evidence or experiences that do not support these pre-determined outcomes are ignored.”

The book is based on case studies of the Indian water sector review of 1998, the Bank-supported Public-Private Infrastructure Advisory Facility (see *Update* 56), water privatisation in Delhi, and a project for water restructuring in the Indian state of Madhya Pradesh. Dharmadhikary finds that “[the Bank’s] policies have cut people’s access to water, led to environmental destruction, resulted in displacement and destitution of people, stifled better options for water resource management, have had huge opportunity costs, and privileged corporate profits over social responsibility and equity.”

## Remunicipalisation wave

Though the World Bank seems to be unwilling to counsel countries on how to reform public services, developing countries looking for advice can now use a new web site on the de-privatisation of water services. The so-called water remunicipalisation tracker provides information on different cities globally that have successfully taken back public control over water. It is a participatory initiative to which global activists can contribute.

The site, promoted by European NGOs Corporate Europe Observatory and Transnational Institute, says “It’s apparent that a global remunicipalisation wave is emerging.” It indicates that “approaches differ depending on local circumstances but undoubtedly lessons can be learned from the different but inspiring experiences of remunicipalisation.” That seems to be more than the Bank is willing to offer. ☺

Final decision in Biwater v Tanzania  
 🔗 [tinyurl.com/biwater](http://tinyurl.com/biwater)

Plundering the Yerevan water utility  
 🔗 [www.whistleblower.org/template/page.cfm?page\\_id=215](http://www.whistleblower.org/template/page.cfm?page_id=215)

Tariff hikes with low investment: The story of the urban water sector in Zambia  
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**Failure should be a lesson for the Bank**

## Inside the institutions IFC advisory services

**The advisory services (AS) department of the International Finance Corporation (IFC), the private sector arm of the World Bank Group, has grown rapidly since its establishment in 1986 and is seen by the IFC as one factor that distinguishes them from other financiers. Its intention is to improve development impact, enhance capacity and creditworthiness and assist in project implementation in areas where the IFC feels it has a comparative advantage.**

Services offered include: financial improvement plans; the training of key public and private sector officials; and financial advisory services for project structuring. Since 2005, AS operations have been organised into five business lines: value addition to firms; business enabling environment; access to finance; environmental and social sustainability; and infrastructure. The IFC is looking to integrate advisory work with investment as well as coordinate more closely with the public sector arms of the World Bank so as to provide broader policy advice to governments on their financial market development and reform of infrastructure sectors.

Currently, AS employs 1,100 full time staff, a third of total IFC staff. Eighty per cent of employees are field based, active in over 900 projects across 97 countries. Of the projects, 62 per cent are in frontier countries (characterised by low income or high risk) and 24 per cent are in conflict-affected countries. The current regional distribution of IFC advisory services (based on expenditure) has Africa in receipt of 23 per cent followed by East Asia (20 per cent) and Central and Eastern Europe (16 per cent). Eight per cent is spent on global programmes. By business line, the top three sectors are value addition to firms (32 per cent), access to finance (25 per cent) and infrastructure (20 per cent). Environment and social sustainability is bottom, receiving just 5 per cent.

IFC disbursements topped \$11 billion last year, almost one third of the entire World Bank Group. Of this, \$197 million went on advisory services, quadruple the expenditure of five years ago. Operations are funded through a combination of donor contributions, funds from other multilateral institutions and the IFC's own resources.

Donors also contribute to the technical assistance trust funds programme which financially assists borrowers in the hiring of financial, legal, technical or environmental consultants to work on specific projects. Some trust funds are tied to the hiring of experts from the donor country although increasingly, trust funds have no hiring restrictions.

Assisting in AS activities is the private sector liaison officer (PSLO) network. These are business intermediary organisations (chambers of commerce and industry, business and trade associations, or investment promotion agencies) trained by the World Bank Group to, amongst other things, provide information on opportunities available to local firms. For example, a PSLO in a certain country may be called on to identify domestic consultants to work on projects and provide specialised training or conduct feasibility studies. Each PSLO is based in and financed by their respective organisations.

Additionally, AS activities are conducted through facilities co-funded by donors and the IFC, which are regional (of which there are eleven) or thematic in nature. One such facility, the foreign investment advisory services (FIAS), advises borrower countries on how to improve their investment climates for domestic and foreign investors.

Presently, the IFC is initiating a new scheme for evaluating AS operations, the central component of which is the project completion review system. It seeks to assess results across five dimensions: strategic relevance, efficiency, outputs, outcomes and, impacts. An evaluation of 198 projects counted 70 per cent of IFC AS projects as having satisfactory or better development effectiveness ratings. Of the 30 per cent that rated less than satisfactory, lessons learned included the importance of tailoring operations to local conditions, ensuring client commitment upfront and effective project management.

The Independent Evaluation Group's 2008 evaluation of IFC development results made first attempts at identifying "additionality" (see page 3) – the inputs and services provided in addition to those offered by the market or the current institutional framework. Little success was had measuring the additionality of the AS, and doing so is marked as an area for improvement and further analysis. ©

[www.ifc.org/advisory](http://www.ifc.org/advisory)

## Voluntary transparency not enough in IFI extractive operations

By Heike Mainhardt-Gibbs, Bank Information Center

A forthcoming assessment of World Bank and IMF operations in over 55 resource-rich countries finds that the IFIs have lacked consistency in ensuring transparency of the revenues generated from extractive industries.

The World Bank and IMF advocate revenue transparency mainly through promoting the Extractive Industries Transparency Initiative (EITI) a voluntary programme involving the public reporting of government revenue payments (see *Update* 35). The assessment conducted by Bank Information Center and Global Witness concluded that the institutions have not implemented a comprehensive and consistent programme across their operations to ensure revenue and contract transparency in all extractives activities.

For the World Bank, the study found that although revenue transparency is frequently raised in project documents, it is only occasionally a programme benchmark tied to future funding. At the IMF, revenue transparency was a benchmark in 60 per cent of resource-rich countries with active lending programmes, but rarely a benchmark in IMF non-

lending country programmes. Moreover, the disclosure of contracts between governments and industry, critical to verifying revenue and recommended by the IFIs, was not addressed by 90 per cent of operations.

The study recommends that the two institutions must: be consistent across countries and establish clear indicators of progress on extractive industry revenue transparency; require contract disclosure; and require meaningful civil society participation.

On a positive note, there are indications that the Bank is listening to calls for expanded transparency. In 2007 the Bank's private sector arm, the International Finance Corporation (IFC), began requiring all of its extractive projects to publicly disclose revenues paid to governments. In response to requests from the Publish What You Pay coalition, the IFC now provides a website with links to borrowers' payments to governments. In April of this year, the Bank announced its plans for EITI++, intended to promote transparency along the entire value chain including contracts and

budgets. The current focus of EITI++ is Africa, with Guinea and Mauritania as the two pilot cases.

These two positive steps are not without concerns. As of mid-August, the IFC's website only had revenue information for six out of nine applicable projects and did not include the 16 projects that voluntarily agreed to disclose revenues prior to the 2007 requirement. The data varies greatly among companies, is not clear, and is difficult to find. These discrepancies reflect a lack of clarity in IFC policy.

EITI++ is aimed at "willing governments" and thus may not be applied widely. Although the Bank states that they will assemble an advisory committee of stakeholders to guide the initiative, it is unlikely that governments will be willing to discuss all the value chain issues in a setting that includes full civil society participation.

### Chad as test case

The World Bank finally pulled out of the Chad-Cameroon oil pipeline in September after long-standing tensions with the government over failed promises to spend the oil prof-

its on programmes for the poor instead of funnelling resources to military expenditures (see *Update* 60, 56, 43). The pipeline was one of the Bank's biggest investments in Africa and billed as a test case for how loan requirements could ensure that Africa's oil wealth benefits the poor and is spent properly and transparently.

The Bank gave up on ensuring the poor in Chad benefit from oil profits, but did ensure it was paid the outstanding balance on its \$140 million loan before pulling out. NGOs criticised the Bank's plan from the outset, saying the mechanisms set up to ensure transparent use of revenues had little chance of survival given Chad's authoritarian government and history of civil war. ©

IFC extractive industry clients, government payment disclosure

[www.worldbank.org/ROB8UMNDCO](http://www.worldbank.org/ROB8UMNDCO)

Fact sheet: EITI++

[www.worldbank.org/LFMARP2TNO](http://www.worldbank.org/LFMARP2TNO)

Chadian civil society disappointed by pull-out

[www.irinnews.org/Report.aspx?ReportId=80338](http://www.irinnews.org/Report.aspx?ReportId=80338)

# Bank plays blocking game in Accra aid negotiations

By Lucy Hayes, Eurodad

The World Bank's influence was felt in Accra when developing countries and donors met at a resplendent conference centre for the recent High Level Forum on Aid Effectiveness. The Bank, together with the OECD and the Ghanaian government, were the joint organisers of this event that hosted 1,200 participants including 80 civil society representatives.

The World Bank negotiators – reportedly succumbing to pressure from their largest shareholder – joined the United States and Japan to block agreement on anything ambitious on key issues. As Yao Graham, from Third World Network Africa warned, "Once again we see global power relations being reinforced and the demands of civil society and developing country governments sidelined."

But the Accra meeting was saved from being a total wash-out by last minute negotiations following the arrival of ministers, who finally agreed the Accra Agenda for Action. Although it includes nothing revolutionary, it could mean some improvements in aid trans-

parency, accountability, predictability and an increase in the use of country systems, if donors put their commitments into action.

However policy conditionality, civil society's bête noir of World Bank development assistance (see *Update* 60, 58, 53), survived intact, despite determined efforts by developing country governments and civil society organisations to get an agreement for reform. One minor concession was an agreement that "donors and developing countries will regularly make public all conditions linked to disbursements."

Negative publicity about the Bank's positioning on conditionality was partly diverted by its support for the untying of food aid in a press statement released just before the negotiations began. The Bank itself would be unaffected but this was a key priority for developing countries, and had support from Europeans. In reality the issue was sidelined even before the game began. Despite developing country and European arguments, the words "food aid" did not even

appear in the final text.

Support by the Bank during the negotiations for the US position not to strengthen donor commitments to use developing country financial management and procurement systems is indicative of the influence the Bank's largest shareholder has over it. This is an issue the Bank logically should have been championing. The Bank comes near the top of the donor league in channelling more than half its aid through such systems (see *Update* 60).

Controversially, the Bank is the judge of the quality of public financial management systems, and is a major player in promoting open competitive procurement, many argue at the expense of developing countries' ability to protect nascent national industries. The US comes nearly bottom of the table, channelling five per cent of its aid through developing country systems and is particularly resistant to ceding control of procurement.

The OECD's 2008 monitoring survey on aid effectiveness was published in August, measuring donor and developing country per-

formance against twelve indicators. The World Bank scores relatively well against most indicators and in particular has made progress in reducing the number of parallel implementation units. But the monitoring process is plagued with problems. The text of the report notes that the indicators on increasing programme-based aid and improving technical assistance are extremely untrustworthy. And the Bank is still the judge and jury of three of the indicators – public financial management, ownership and results – contradicting their commitments to "mutual accountability".

The Accra Agenda for Action recognises some of the problems with the indicators and monitoring process and that these will need to be reviewed. But the overarching problem, which the Accra summit threw into sharp relief, is a larger one. An aid system based on ownership and mutual accountability needs a new home. An OECD/World Bank managed process is simply an ineffective way to negotiate reform. ©

Analysis of the outcomes of Accra

🌐 [www.eurodad.org/whatsnew/articles.aspx?id=2822](http://www.eurodad.org/whatsnew/articles.aspx?id=2822)

2008 Survey on Monitoring the Paris Declaration, OECD

🌐 [tinyurl.com/6ymfen](http://tinyurl.com/6ymfen)

# World Bank new poverty estimates: more confusing than ever

By Nicolo Tomaselli, Eurodad

The World Bank finally published a new count of the world's extreme poor in August. As expected the new figures are fuelling the ongoing debate on poverty estimates (see *Update* 61, 59).

Researchers have long argued about how many poor people there are, how poor they actually are and how we should measure the characteristics of poverty. The report's conclusion is clear-cut: the number of poor is larger than previously thought. But, as argued by Duncan Green of Oxfam: "no-one on the ground will feel any more poor as a result of this statistical revision."

The statistical exercise by World Bank economists Ravallion and Chen, *The developing world is poorer than we thought, but no less successful in the fight against poverty*, was prompted by the release of new global data on domestic prices and thus new purchasing power parity (PPP) indexes (see *Update* 59). The new poverty snapshot also incorpo-

rated the adjustments made by the Bank to the international poverty line in May (see *Update* 61), replacing the old line of \$1.08 per day at 1993 prices for the new line of \$1.25 at 2005 prices.

According to the new paper, there are 1.4 billion people living in extreme poverty, not less than one billion as previously estimated. The researchers also used the new data to re-estimate poverty back to 1981, arguing that the historical decline in poverty has been as great as previously thought. However the study suggests that the new \$1.25 poverty line means the number of poor people decreased in absolute terms by 27 per cent between 1981 and 2005. The same estimate using the old set of data showed a bigger decrease of 37 per cent.

Many aspects of globalisation and the Bank's economic development paradigm are defended by referring to their beneficial effect on the poor, making assessments of poverty pivotal. The study finds

that number of people living on less than a higher poverty line of \$2.50 per day using the new PPPs has increased over time by 15 per cent.

More disappointing is that poverty in Africa has increased over time in absolute and relative terms, whichever figures you use. The poverty decline is largely caused by progress in East Asia, especially China. The reality, as a recent UN report said, is that in most regions the number of poor is rising and in Sub Saharan Africa "the depth of poverty [is worse] than anywhere else."

World Bank data continues to be problematic. Sanjay Reddy of Columbia University argues that the two issues that previously undermined the Bank's estimates are still unresolved: the poverty line is too low and the PPPs are inappropriate for measuring poverty.

Reddy highlights an additional problem with re-estimating global poverty in the past. This is because

national consumer price indices are used to identify the local equivalent of the international poverty line in years other than the base year, but the national inflation figures are based on wholly different baskets of goods than the PPPs. Reddy commented, "The Bank's declarations mask the fact that it has been building castles with sand."

Further, Raúl Mauro of NGO Latindadd posits that the new poverty estimates also mean that inequality has increased, but that the Bank has not yet dared to assess the evidence. The central problem is that the relationship between determinants of poverty and outcomes is likely to vary at both national and international levels.

We should set aside triumphant declaration on poverty successes, since the reality on the ground is all but comforting. ©

The developing world is poorer than we thought

🌐 [go.worldbank.org/DPZY24X240](http://go.worldbank.org/DPZY24X240)

The World Bank's new poverty estimates digging deeper into a hole, Sanjay Reddy

🌐 [www.socialanalysis.org/](http://www.socialanalysis.org/)

What about inequality?, Raúl Mauro

🌐 [ifis.choike.org/informes/893.html](http://ifis.choike.org/informes/893.html)

# The Bank of the South: the search for an alternative to IFIs

By María José Romero, Choike and Carlos Alonso Bedoya, *Latindadd*

**Differences of opinion over the direction of the Bank of the South, a new regional development bank, may slow progress towards developing an autonomous alternative to the World Bank and IMF-dominated international financial architecture.**

Current financial architecture based on the World Bank and IMF, among other institutions, is criticised for using financing as a mechanism for the imposition of economic policies on Southern countries. After much social resistance and the arrival of left-wing governments across Latin America, the necessary political momentum was created to launch financial regionalisation.

In this way, a new financial architecture based in the region has started to take shape in South America. Its design comprises – following the Quito Declaration – a development bank (Bank of the South), a monetary stabilisation fund and the unity of accounts for trade purposes.

The strategy was to start with the Bank of the South (see *Update* 55), launched in 2006 by president Hugo Chávez of Venezuela and initially supported by the governments of Argentina, Bolivia and Ecuador, and later joined by Brazil, Paraguay and Uruguay. The initiative is undergoing a process of design that is facing strong tensions, particularly since not all technicians and political leaders share the original spirit of the agreement.

Despite the fact that “one country-one vote” has been the slogan of the Bank of the South, some

mechanisms have already been tabled that give more power to those contributing more capital. It has been proposed that democratic rule is used only in the board of ministers and not in all stages of decision making. This is closely related to the questions of which issues will require a vote, which will be part of everyday operations (without vote) and the criteria for selecting staff.

Opening capital has been agreed at \$10 billion, based on three bands of capital contributions. However, there are still different positions among officials on the use of international reserves and other alternative sources, the use of special funds (donations by other countries, private donors, trust funds and others), co-financing mechanisms with other multilateral agencies and the limit of exposure. The definition of these hot issues will determine whether or not the Bank of the South helps countries achieve real financial independence, and thus contributes to financial sovereignty in the region.

Governance bodies have been established: a board of ministers, an

administration board, an audit board and a board of directors which will have an executive committee.

The audit board is the result of contributions made by Latindadd, Jubilee South, Rede Brasil and CADTM, as part of the global debt movement. They participated in the elaboration of the technical document in

Quito, which was delivered to

governments by the authorities of Ecuador and has been a key input during negotiation of the proposals.

The audit board proposal was a response to the debate on the transparency and social control of the Bank of the South’s operations. NGOs and social movements are in favour of a financial institution which substantially stands out from the existing ones, such as the World Bank, the IMF and Inter-American Development Bank. It is about not replicating models. This has specific implications for the governance structure, the sources

of funding and the projects to be financed.

Although each government expresses different ideas regarding the purpose of the Bank of the South, the very fact that the bank has been set-up challenges dominant international financial institutions. This is a counter-hegemonic initiative but still it may not be enough to change the pattern of neo-liberal development based on the irresponsible extraction of tax, financial and natural resources from developing countries.

Besides being a proposal aimed at financial sovereignty, many believe the bank should be a mechanism to promote another type of development, based on an integration from and for nations, with emphasis on intra-regional trade, food and energy sovereignty, free circulation of workers, and the intangibility of the Amazon region, among other issues. For others, the Bank of the South is just another development bank. The substantial differences on the purpose of the Bank among different players is based on differing alliances with the developed world and views of roles within the region. The delay to set out the guidelines of the new institution is just a sample of those conflicting interests.

What is clear is that the pace and expectations of the different governments are not the same, so everything indicates that the finalisation of the bank will not be immediate. It is still unclear whether this will encourage financial regionalisation in other places such as the Caribbean and Africa, and whether this will facilitate a new global architecture with an emphasis on South-South cooperation. The question now is: what will be the counter-offensive of the Bretton Woods institutions? ©

a counter-hegemonic initiative, but it may not be enough

## Doing Business’ persistent blind spots

The latest edition of the Bank’s *Doing Business* report was published in September. Critics, including the ITUC, argue that the country ranking system rewards less regulation whether it derives from efficient or simply inadequate labour laws (see *Update* 60, 53). The report fails to address some of the key points of June’s Independent Evaluation Group (IEG) critique. For example, the unsubstantiated link between low levels of worker protection and positive economic outcomes is maintained despite the IEG’s disapproval of the “overstated claims of the indicators’ explanatory power.”

[worldbank.org/ieg/doingbusiness](http://worldbank.org/ieg/doingbusiness)

[ituc-csi.org/spip.php?article2385](http://ituc-csi.org/spip.php?article2385)

## Bank paying workers poverty wages

Union Network International (UNI) is fighting the World Bank to ensure that their security workers are paid just wages. The Bank faces criticism over the low wages paid to its workers in Lusaka, Zambia. The security guards receive a monthly rate equivalent to \$82.50 whilst the minimum amount required to meet the basic needs for a family of six is estimated at seven times that. This does not sit well with the Bank’s aim to reduce poverty. UNI is also calling on the Bank to promote changes in labour laws to benefit workers. This follows a finding that the labour rights of security guards at IMF headquarters were violated by contractor Group 4 Securicor (see *Update* 59).

[tinyurl.com/WBinZambia](http://tinyurl.com/WBinZambia)

## Another committee on IMF governance

The IMF managing director Dominique Strauss-Kahn has appointed yet another “committee of eminent persons” to try to fix the Fund’s problems with internal governance. It turns out a report by the Independent Evaluation Office (IEO) (see *Update* 61), an independent high-level panel (see *Update* 55), a book from the G24 group of developing countries (see *Update* 48) and other reports are not enough. The committee – including South African finance minister Trevor Manuel, former IMF head Michel Camdessus and academic Amartya Sen among others – will report by April 2009. Strauss-Kahn is planning for concrete proposals by the annual meetings in the autumn of 2009.

## Bank, NGOs clash at odious debt meeting

A roundtable meeting between the Bank and civil society organisations earlier this year focused on last September’s Bank report on odious debts (see *Update* 60). The report found no problem with past debts, focusing instead on future lending. The roundtable revealed little consensus on the issue with the Bank refusing to accept civil society arguments that the concept of odious debt had both a political and legal basis. Among the proposals was that “the World Bank and a Southern CSO jointly appoint an independent auditor to examine a selected Bank credit according to mutually agreed indicators.”

Full article at

[brettonwoodsproject.org/debt62](http://brettonwoodsproject.org/debt62)

# IFI inspection mechanisms slam Bank faults in Uganda and Nigeria

By Soren Ambrose, Bank Information Center

**The Bujagali dam project in Uganda and the West Africa Gas Pipeline (WAGP) project in Nigeria have been roundly criticised by the World Bank's Inspection Panel.**

As construction of Bujagali gets underway after more than seven years of wrangling and scandal (see *Update* 60), the project has become not only a top priority for president Yoweri Museveni but also the first project to be simultaneously investigated by two IFI inspection mechanisms.

The first investigation of the new Independent Review Mechanism (IRM) of the African Development Bank (AfDB) was published in July. It is critical of the AfDB's failure to follow its resettlement policies, and recommends development of new policies in other areas. Action plans to address the problems identified by the IRM are expected soon.

The World Bank's Inspection Panel accompanied the IRM on a joint tour of the Bujagali site in November 2007. Its report was submitted to the World Bank board in the first week of September. Unlike the AfDB, the World Bank does not provide the report to the groups that filed the original complaint. But reliable sources indicate that this report is also highly critical, and on a broader range of issues.

We understand that the Panel found that the Bank and project sponsors failed to try to reduce the amount of land required for transmission lines, and that the Bank is in non-compliance with its resettlement policy. There is no plan to address the needs of those already resettled, no accurate count of how many will have to be resettled, and inadequate budgeting for what will be needed.

Additionally the report expressed dismay that the potential impact on Lake Victoria was not analysed, on the dubious logic that the dam's "area of influence" does not include the lake. It also criticised the Bank's superficial examination of alternatives to a large dam and questioned the position that climate change would not be a factor in water releases from the dam.

On the financial side the panel calculated that the Bank had an overly optimistic view of revenues the dam would generate and found that the power-purchase agreement, a major source of concern in

Bujagali's first incarnation, may relegate even more risk to the Ugandan government.

The World Bank's board is scheduled to discuss the report in mid-October, though that could be delayed given the approaching annual meetings. Meanwhile, construction continues, but groups like Ugandan NGO National Association of Professional Environmentalists are demanding that all the problems identified in the two reports be satisfactorily addressed before the project is allowed to proceed.

## WAGP: Bank admits errors

In early August, the Bank board discussed an Inspection Panel claim on WAGP, which extends from the Niger Delta in Nigeria westward through Benin and Togo into Ghana (see *Update* 57, 56). The report was a strong indictment of the way the West African Gas Pipeline Company (WAPCo) carried out its resettlement and compensation obligations in southwestern Nigeria.

The World Bank management response was unusually conciliatory, agreeing that the process had been seriously botched, and proposing an elaborate action plan to rectify the errors. Bank management admitted that residents were paid just 10 per cent of the established value of their land.

Mike Karikpo of Environmental Rights Action/Friends of the Earth Nigeria commented, "The World Bank should explain why it failed to effectively present the case for 'land-for-land compensation' that Bank policy calls for, and should prove its claim that now, after the mistakes are acknowledged, there is no more land available for the displaced people. Even after reading the Bank's version of events, it is hard to believe the Bank did not collude with WAPCo to slash the already very conservative valuation of the villagers' property."

Karikpo added: "Let's remember that WAPCo is not a struggling local enterprise, but a consortium of some of the world's richest companies, including Chevron and

Shell. It is stunning to see them, and the World Bank, deny impoverished people their due."

Nasiru Jimoh, a member of the Igbesa community that comprises the bulk of the people displaced by WAGP, commented, "The World Bank quoted us the prices we should be paid, and then renege without consulting us. They have sown confusion and despair in my community. Now that they are admitting mistakes, they must publicly disclose how they decided on their valuations of our trees, crops

and lands."

The Panel also criticised the Bank's refusal to consider the source of the gas to be shipped via the pipeline – a refusal Bank management continued to defend on the grounds that the multi-country pipeline was a distinct project from the wells and the older pipeline to Lagos that connects to the WAGP.

The Panel found that the project was initially promoted as an instrument to reduce the gas flaring that afflicts Niger Delta communities with unending noise, heat, light, and pollution. Actual reductions in gas flaring will be, as the Bank's management acknowledges, substantially less than was implied before the project was begun. The Bank board and management have not committed to any remedial actions to address this. ©

Inspection Panel report on WAGP

[tinyurl.com/wagpreport](http://tinyurl.com/wagpreport)

## Pipe dreams shattered in Georgia

By Manana Kochladze, CEE Bankwatch Network

Western governments and international financial institutions like the World Bank and European Bank for Reconstruction and Development (EBRD) have tried to convince the region's poor that oil pipelines in the Caucasus would bring economic prosperity and strengthen democracy in the region. However, this oil game is partly to blame for the increased poverty, conflict and misery that now plagues the thousands of citizens displaced in the August conflict in Georgia.

The construction of the Baku-Tbilisi-Ceyhan (BTC) pipeline (see *Update* 52, 46) in an unstable region like the Caucasus – with its existing ethnic, religious, political and military tensions – is a risky business. Despite numerous requests, the security risks and impacts on local populations were never adequately assessed by project sponsor, oil multinational BP.

In order to quell threats of terrorist attacks, security zones and military forces were established along the pipeline route that ultimately exacerbated conflicts with local inhabitants. Just prior to the conflict August, while underlining that more efforts to return, reinstate and compensate for lost land in Azerbaijan and Georgia were needed, the EBRD requested even more land for security zones in Azerbaijan.

Additionally, a few days after an attack and explosion along the

Turkish section of the BTC pipeline, Russian jets bombed the pipeline near the town of Ristavi, creating more than 50 craters as missiles landed as close as one hundred metres from the pipeline itself. The following day the Baku-Supsa pipeline, the predecessor to BTC, was also bombed. Fires raged in numerous areas of the Borjomi-Kharagauli National Park immediately following Russian military helicopter flights over forested areas in the vicinity of the BTC pipeline.

It appears that troubles for the BTC pipeline continue, as the Russian News Agency reports that a feeder pipeline for BTC burst near the Baku terminal on 12 September.

BP and Russian Premier Vladimir Putin fiercely deny that Russia's actions have damaged the pipeline. Mr. Putin even states that "We are treating our energy facilities carefully and we do not intend to cause damage to anything. We do not have and will never have such an aim." While it is difficult to know what is happening behind closed doors, it is clear that poorly constructed pipelines in an unstable region of the world are a new front line for attacks and pose a threat to local people and the environment. ©

Regional conflict and BTC pipeline

[bankwatch.org/documents/EAC\\_BTC\\_Conflict\\_26.8.08.pdf](http://bankwatch.org/documents/EAC_BTC_Conflict_26.8.08.pdf)

the Bank has sown confusion and despair in my community



# 'No regrets': The Bank and Climate Change

**The World Bank has just finished consultations on a new strategic framework for its climate change work, which has one common thread: a massively increased role for the Bank. Yet there is little reflection on the reasons why the Bank's record in this area is so poor, as detailed by a number of recent reports.**

The consultation period for the Bank's new strategic framework: *Development and climate change: A strategic framework for the World Bank Group* ended on 15 September. The 90-page document contains a raft of new proposals for an expanded World Bank role, under six broad headings:

- support climate actions in country-led development processes;
- mobilise concessional and innovative finance;
- facilitate the development of innovative market mechanisms;
- leverage private sector finance;
- increase support to technology acceleration; and
- step up policy research, knowledge, and capacity building.

The document doesn't indicate any clear priorities from this laundry list. Within the broad rubric that "its primary role and comparative strength [is] in helping its developing country partners achieve the Millennium Development Goals and grow their economies under climate constraints," the Bank rules little out. Bank support for developing countries could be "related to both adaptation and mitigation – in energy, transport, industry, urban development, water, agriculture, forestry, biodiversity, economic management, and social and human development." A comprehensive list of research areas is also proposed.

The framework is intended to cover all parts of the Bank, including the International Finance Corporation (IFC), but to "support – not override – operational strategies of the [World Bank Group] entities." It was submitted to the executive board at the end of September, and will be discussed at the Development Committee during the Bank's annual meeting in October.

## Who's the leader?

Aware of criticism that the Bank is trying to usurp UN leadership on climate action (see *Update* 60), the document distances the Bank from international climate negotiations under the UN Framework Convention on Climate Change (UNFCCC). It states that the Bank will "support the negotiation process and implementation of the agreed actions while not interfering

in [the UNFCCC] Secretariat's work and remaining neutral to any particular negotiating position."

However, it also proposes far greater "cooperation" with UN agencies across a range of issues, including on climate finance, climate risk management, and capacity building. Other sections of the document are devoted to expanding Bank work with: developing country governments, who are the main target of proposed Bank advocacy work; multilateral and bilateral donors; civil society; the private sector; and research institutions.

## The critics line up

A statement by a group of developing and middle income country executive directors on the draft framework was presented at an early August committee of the Bank's board. It called the draft "asymmetrical in its treatment of countries." Developing and middle income countries were angry that while the framework contains a range of prescriptions for developing countries, it fails to recognise that developed countries should uphold their responsibilities to take the lead in combating climate change by reducing their emissions.

Civil society organisations have been similarly sceptical. ActionAid's submission argues: "Either the World Bank is serious about being part of the solution – in which case it has to radically change its energy policies – or it is not and will contin-

ue to be part of the problem."

Ironically, the draft framework says the Bank "will make a conscious effort to support 'no regret' investments," at the same time as a number of studies suggest the Bank has quite a lot to regret. Recent research by WWF-UK shows that "because of its continued funding of fossil fuel projects, the World Bank has in the last decade financed over 26 gigatonnes of CO<sub>2</sub> emissions. This is approximately 45 times the current

annual CO<sub>2</sub> emissions of the UK."

According to the report, World Bank financing of oil and gas alone in the last three years amounted to over \$3 billion.

Meanwhile, a June report by the World Resources

Institute found that "almost 50 percent of lending [by the Bank] in [the energy] sector was made without any attention to climate change at all" (See *Update* 61). An earlier report by the Institute for Policy Studies said that the Bank "irresponsibly and recklessly continues to perpetuate the world's dependence on climate-altering fossil fuels while profiting from carbon trading" (See *Update* 59).

The draft framework has little to

say about existing operations, but the Bank claims to be "leading by example" by making all its offices "carbon neutral", though this will largely be achieved by the controversial practice of purchasing offsets rather than reducing emissions.

## Will the Bank change?

The draft framework is muted when it comes to changing the incentives, procedures, and policies of the Bank: essential if the Bank's own vision of itself as an 'environment bank' is ever to be achieved and the critics silenced. It proposes some screening – but only for "energy and select infrastructure (transport, urban and water) projects for [energy efficiency] opportunities starting in 2009." Other than that, the Bank's strategy for internal reform seems to consist of improved training for staff.

The Bank's draft framework supports civil society's push for "financial resources in addition to the present levels of overseas development assistance" to help poor countries adapt. However, later, the Banks priorities are made plain: "First and foremost the [World Bank Group] will work towards good progress of IDA 15 and further increased levels of IDA replenishment." Some may therefore ask whether this is really a strategy designed primarily to fill the Bank's coffers. ©

Development and climate change: A strategic framework

🌐 [go.worldbank.org/HZ77KYCI90](http://go.worldbank.org/HZ77KYCI90)

The World Bank and its carbon footprint: Why the World Bank is still far from being an environment bank

🌐 [www.wwf.org.uk/filelibrary/pdf/world\\_bank\\_report.pdf](http://www.wwf.org.uk/filelibrary/pdf/world_bank_report.pdf)

a strategy designed primarily to fill the Bank's coffers?

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## Bank pushes ahead on forest carbon market

In July, the Bank named the first 14 countries for the controversial Forest Carbon Partnership Facility (FCPF, see *Update* 60): six in Africa (DRC, Gabon, Ghana, Kenya, Liberia, Madagascar); five in Latin America (Bolivia, Costa Rica, Guyana, Mexico, Panama); and three in Asia (Nepal, Lao PDR, and Vietnam). The 14 countries will pilot programmes aimed at "reducing emissions from deforestation and degradation" (REDD). Indonesia has refused participation in the scheme, and Brazil did not apply. Meanwhile indigenous peoples' groups and NGOs have continued to raise serious concerns about the current design and concept of REDD and are calling for greater recognition and protection for basic human rights in the profusion of REDD initiatives.

The UN has also jumped on the band-wagon, and is

planning a cross-agency initiative on readiness for REDD (UN-REDD). Civil society groups are concerned that the proposals do not adequately cover compliance to existing UN human rights obligations.

July saw the release of the International Institute for Environment and Development's report on the Bank's idea for a Global Forest Partnership. The partnership is supposed to reduce deforestation and increase sustainability by linking different forest initiatives under one umbrella. A majority of the 600 surveyed forest experts suggested the Bank take a more hands off approach, allowing an alliance of smaller groups to emerge from the bottom up.

🌐 [bicusa.org/en/Article.3878.aspx](http://bicusa.org/en/Article.3878.aspx)

# Bank failing on environment

## IEG finds lack of coherence

**In July the World Bank's internal watchdog released an assessment of the Bank's record on environment. Delicate wording aside, it finds that the Bank has performed poorly when it comes to a coherent integration of environmental goals into its country strategies and investment portfolios.**

The report from the Independent Evaluation group (IEG) assessed the World Bank's environmental sustainability from 1990 to 2007, covering all arms of the Bank Group. Its findings fly in the face of the UK's calls for the Bank to be an environment bank, and the Bank's new role as administrator of approximately \$10 billion worth of climate investment funds (see *Update* 61, 60).

The evaluation finds that despite Bank investments in the environment of \$400 billion since 1997 and improved policy commitments, the reality has been disappointing. Notably the Bank has paid "insufficient attention to longer-term sustainable development", and needs more adequate systems "to monitor environmental outcomes and to assess impacts" as well as better coordination among the different parts of the Bank Group.

According to the report, the Bank lacks an adequate monitoring and reporting system to assess the environmental aspects and outcomes of the projects it supports, echoing findings of an evaluation carried out in 2002. In addition, the IEG finds that due to a lack of internal coherence and coordination, there is the risk that the Bank's private and public sector branches work at cross-purposes. The International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA), both Bank private sector arms, seem to have "few operations specifically intended to avoid damage to the environment." Bank performance has also been weaker in Sub-Saharan Africa than elsewhere, and environmental compliance and performance gaps have been most notable in IFC projects.

The IEG states that the inadequate availability of information made it difficult to measure Bank impact, because of "the inability to separate its influence on policy and environment improvements from that of other forces." Consequently it had to rely on country case studies undertaken in 2006. Ironically the Bank management response then criticises the evaluation for being out of date.

Though the Bank Group is "now the largest multilateral source of environment-related financing," it

is unclear exactly how much lending has gone directly for environmental improvement "because of the way Bank [IBRD and IDA] commitments are identified." Moreover "the priority given to lending for environment and natural resource management (ENRM) appears to be modest" and the estimated \$59 billion committed for ENRM projects between 1990 and 2007 "appears to overstate the actual volume of resources going directly for environmental improvement."

In its defence, Bank management expressed concern over the IEG's

methodology in carrying out the evaluation. It accuses the report of "over-synthesising issues" which only apply to certain parts of the World Bank Group. Management also refers to a "lack of adequate coverage of IFC's sustainability strategic pillar," and states "the evaluation of IFC's non-due diligence activities is cursory and incomplete." Management is also careful to explain that IFC does not design or implement environmental and social mitigation plans for project-related impacts and that ownership and responsibility for

these plans "remain with the project sponsor".

Other areas of disagreement include cross-sectoral integration, such as the IEG's failure to review the increased efforts in Africa in promoting regional, river basin approaches and the fact that IEG's case studies fail to mention the shift in support to urban environmental problems and natural resource management.

Critics have been quick to pick up on the report. "It is troubling that earlier recommendations by the Bank's own evaluators have been largely ignored," said Korinna Horta, a senior economist at Environmental Defense Fund. "Even now, the Bank does not have an appropriate accountability structure in place to ensure that its well-meaning environmental and social policies are actually implemented on the ground." ©

Environmental sustainability, IEG

[go.worldbank.org/BD8MP7T5B0](http://go.worldbank.org/BD8MP7T5B0)

## 'Climate bank' or 'fossil fuel bank'?

### Bank ups high-carbon lending

By Srabani Roy, Bank Information Center

Analysis of the Bank's most recent investment figures once again cast doubt on whether the World Bank Group is willing to give up its addiction to fossil-fuel projects that spur climate change.

In its new strategic framework on climate change (see page 9), the World Bank clearly acknowledges that global warming is "caused by activities such as fossil fuel use and land use changes." Yet, the reality of Bank lending fails to match its rhetoric. New statistics developed by US-based NGO Bank Information Center show that the Bank's private sector arm, the International Financial Corporation's (IFC), funding for fossil-fuel projects increased 165 per cent in fiscal year 2008, compared with a nine per cent rise for renewable projects.

Taken as a whole, the World Bank Group increased its fossil-fuel lending by 60 per cent in the same period. Given that the new framework strongly emphasises the need for increased private sector involvement and investments in climate change mitigation and adaptation, this is a bad omen.

"Not only did the IFC increase its lending for oil and gas, but in 2007 and 2008 huge investments have

been made in coal," says Heike Mainhardt-Gibbs, who did the research. "The institution is simply not slowing down its significant funding to fossil-fuel projects that will emit greenhouse gases for 20 to 40 years."

In April, the IFC approved a \$450 million loan for the new Tata Ultra Mega power plant in western India (see *Update* 59), which is expected to be fully operational by 2012. Once running, the plant will be one of the world's 50 largest greenhouse-gas emitters. This comes a year after Bank president Robert Zoellick pledged to "significantly step up our assistance" in fighting climate change.

In 2008, total Bank Group financing for fossil fuel projects is estimated to have been nearly \$2.3 billion.

Of this, IFC projects accounted for approximately \$2.2 billion. The IFC also approved \$300 million for the Calaca Power coal-fired power plant in the Philippines.

In addition, the IFC funded a \$550 million oil and gas project in Argentina, the highly controversial \$300 million Peru liquefied natural

gas project (see *Update* 60) and the Cairn India II oil project.

One of the 'guiding principles' of the Bank's new strategic framework is increased access to energy. While the Bank states that it intends to "further increase new renewable and energy efficiency lending," it also clearly says that it "realises that fossil fuels, including coal, will remain an important part of the energy mix for expanding energy access and energy security, in both developed and developing countries for decades to come."

Despite its stated concern for addressing global warming, the Bank must also admit that in addition to potentially helping fulfill its poverty alleviation mandate, these plants are extremely profitable and enable the institution to increase its assets and lend more.

"The World Bank has become very dependent on fossil fuel loans in order to maintain its own financial strength," Vijaya Ramachandran, a senior fellow at the Center for Global Development, in Washington recently told Bloomberg News.

The Bank's increased funding for fossil-fuel intensive projects, in the same year it is trying to establish itself as a leader in climate change financing, is highly questionable. ©

Bank lending for fossil fuel skyrockets

[www.bicusa.org/en/Article.3840.aspx](http://www.bicusa.org/en/Article.3840.aspx)

**fossil fuel  
funding  
increased  
165 per cent**

# IFIs get a dose of health criticism

**While falling short of claiming that the World Bank and the IMF kill people, a massive study on global health by the World Health Organisation (WHO) and another on tuberculosis treatment in Eastern Europe each fault the IFIs for exacerbating inequality in access to health care.**

The WHO's Commission on the Social Determinants of Health (CSDH) released its findings at the end of August after a three-year programme of research and analysis. It found that the "toxic combination of bad policies, economics, and politics is, in large measure responsible for the fact that a majority of people in the world do not enjoy the good health that is biologically possible."

The commission overtly criticises the lack of democracy in the World Bank and the IMF. It also faults the low investment in universal health care systems. As a result of reforms pushed by "a combination of international agencies, commercial actors, and medical groups whose power they enhance" the report finds "an increasing commercialisation of health care and a medical and technical focus in analysis and action that have undermined the development of comprehensive primary health-care systems that could address the inequity in social determinants of health."

Its recommendations imply: "a need for changes in... the activities of international institutions, for example, WTO agreements and IMF- and World Bank-supported programmes."

Specifically the commission echoes civil society concerns about the budgetary limitations set by the IMF (see *Update* 57, 56, 51) through the use of the medium-term expenditure framework (MTEF). "Although not explicitly placing a cap on recurrent costs such as recruitment and salaries for much-needed health-care staff, the MTEF has been found to discourage such expenditure, leading to underinvestment in the human capacity critical for health-care systems."

David McCoy, a senior research fellow at University College London, noted that the report "stresses the inherent failures of health care markets and thus calls for greater emphasis to be placed on strengthening effective and democratically accountable public institutions in the health sector. Without saying so directly, the CSDH rejects the neoliberal basis of much World Bank policy in the health sector."

David Woodward, a member of one of the knowledge networks that fed into the report, noted that "neither the IMF nor even the World Bank has so much as acknowledged the existence of the report. But their

silence speaks volumes. It makes it quite clear that they have no interest in pursuing findings which differ from their own agendas – even when these are backed up by an impressive array of evidence."

The Bank's new strategy for the health nutrition and population (HNP) unit (see *Update* 60, 56), focused on strengthening health systems rather than supporting disease-specific approaches. However, implementation of the strategy has gone nowhere, according to a senior European official at the Bank, because the HNP team does not have the expertise or staff to implement it. The official blamed senior management and entrenched ideas for preventing resources being allocated; especially after record IDA subscriptions (see *Update* 59). A planned September update to the executive board on strategy implementation was delayed and has not yet been rescheduled.

Former and current ministers of health from developing countries were also critical in May in a preliminary report of a high level working group, which includes ministers from Indonesia, Tanzania, Uganda, and Kenya. The report says, "The World Bank was cited by several ministers as a very poor donor, dictating how money is used, how programmes should be implemented, and how evaluation and monitoring should be undertaken."

## The IMF and TB

The IMF has been reeling from a paper in a peer-reviewed medical journal that links IMF loans to increased mortality from tuberculosis. The paper, published in July in the *Public Library of Science* by David Stuckler and Lawrence King of Cambridge University and Sanjay Basu of Yale University, studied health outcomes in 21 post-communist countries between 1992 and 2002. It found that "IMF economic reform programmes are associated with significantly worsened tuberculosis incidence, prevalence, and mortality rates." The authors theorised that countries with IMF programmes spent less on public health and thus saw worse outcomes. The IMF quickly issued a rebuttal, with one Fund official calling the study "phoney science". The Fund seemed more interested in damage control than trying to learn lessons from the research.

In a detailed five-page response to the IMF's criticisms, the study authors describe the robust analytical approach they used including controlling for dozens of other variables, the use of control groups and the use of time-series data. Basu commented, "the reason we use such heavy statistics is precisely to

factor in other issues. We found a statistically independent effect of the IMF." ©

www.who.int/social\_determinants

Setting a developing country agenda for global health

www.globaleconomicgovernance.org/

IMF programmes and TB outcomes in post-communist countries

tinyurl.com/IMFprogsandTB

IMF reply on TB study

www.imf.org/external/np/vc/2008/072308.htm

Response to IMF by TB study authors

people.pwf.cam.ac.uk/ds450/

## The IMF, fiscal space and development

By Nancy Dubosse, Afrodad

IMF programmes for low-income countries restrict governments' choices on funding development and managing trade-offs.

Fiscal space refers to the amount of freedom governments have to control both their revenues and their expenditures. Meeting the Millennium Development Goals will require governments to make best use of both domestic revenue and foreign aid.

The IMF's definition of fiscal space is the room in a government's budget for spending increases without damaging the sustainability of its financial position or the economy. This definition focuses on the current basket of resources available.

Others, particularly those within civil society, focus instead on the government's capacity to fund economic and social infrastructure necessary to aid growth and development, not necessarily restricted to existing resources. Additional resources, including increased grants or borrowing, would expand the fiscal space so that more could be spent on priority activities.

### Experience on the ground

Forthcoming Afrodad research, *African experiences with the PRGF and fiscal space*, explores the intersection between fiscal space and the ownership principle. It finds that countries under the Poverty Reduction and Growth Facility (PRGF) and Policy Support Instrument (PSI) may not have choices about their spending and, most importantly, are not being allowed to manage trade-offs. This calls into question the sovereignty of countries over their development strategy.

There is no doubt that conditions of the PRGF and PSI have an impact on fiscal space by limiting the options that a government has in developing the appropriate fiscal framework for its development strategy.

Of the five countries studied (Cameroon, Malawi, Mozambique, Rwanda, and Uganda) the common conditions are ceilings on new domestic and foreign borrowing, and limits on arrears in debt repayment. Although contracting new debt is a potentially unsustainable means of financing development, it should remain a policy option of the government. The decision to borrow should be influenced by internal forces, (including parliamentary debate, and public consultations) and not external actors.

The study shows strongly that fiscal space has become synonymous with increases in public spending; and widening of budget deficits. This ignores the basket of policy options available and that deciding how to raise and allocate resources is a fundamentally political decision. The sustainability of the fiscal space created by debt relief is also called into question as countries such as Cameroon and Malawi take on more debt, including to the IMF.

Overall, ownership of PRGFs and PSIs is narrow. Citizens are not adequately consulted on the issues and lack the capacity to question it. Local governments and parliaments are often in the dark. Considering that fiscal space is really the political space to decide on government expenditures, this absence of broader democratic ownership is particularly worrying. ©

## IMF up and down on financial crisis

As global finance dries up and economic markets crash, criticisms mount of the IMF and its inability to convince its largest members to curb speculation or better regulate the financial sector.

Former Indian finance minister Yashwant Sinha said in June, "I believe that the international institutions we have at the moment, are woefully inadequate in dealing with the global challenges. There is a major regulatory failing in the US. What is the IMF doing about the US? Nothing."

The IMF's April predictions of \$1 trillion in losses from the sub-prime crisis, ridiculed by some, may turn out to be too low. Over time, though, the IMF has been very unsure of whether the crisis is starting or ending. For example in August 2007 the Fund sought to calm fears by asserting that the credit risk was "manageable". By the end of September 2007 the IMF head acknowledged that they "[did] not see a prompt resolution of the credit crisis."

By December new IMF managing director Dominique Strauss-Kahn declared: "there is no deep crisis on the markets." In the summer of 2008 he said "there are good reasons to believe the worst news is behind us." The end-July release of the *Global Financial Stability Report* prompted the press to report the IMF's stance as saying the credit crunch was still worsening, but that it would be over in 2009.

So where do we find ourselves one year on? The bailouts and collapses in the US raise fears that we are, if anything just entering round two. Strauss-Kahn now humbly admits: "I cannot say the worst of the financial crisis is behind us."

NGOs Third World Network and the Consumers Association of Penang convened an international conference on the management of capital flows and the global financial crisis in August. The meeting of academics and policy-makers sought to chart a way forward for economic management against the backdrop of instability. Many in attendance faulted the IMF's lack of robust advice on using capital controls to prevent the spread of financial crises.

Another hot topic was the cost to Asian countries of holding large levels of reserves. Despite an August IMF working paper calling the reserves "an optimal insurance model," participants worried about the social cost of foregone investment in public services. However, August and September saw pressure for devaluations on some currencies in Asia, perhaps foreshadowing a

renewed focus on the presumptive Asian Monetary Fund (see *Update* 61). Regional exchange rate cooperation was viewed as a second-best but necessary policy intervention by conference participants.

The IMF's role in exchange rate management has been controversial. Developing countries want help in stabilising exchange rates and preventing speculation. Developed countries want the IMF to discipline developing countries that manage or fix their exchange rates, particularly China. The IMF issued a guidance note in early August to clarify the new IMF exchange rate surveillance policy (see *Update* 57). The note spelled out the procedures for special consultations if a currency might be "fundamentally misaligned". The first such consultation may debut in the autumn when the IMF board should consider the Fund's annual report on China's economy.

The IMF will be finally getting round to performing an assessment of the United States under the financial sector assessment programme (FSAP). The FSAP was launched in the wake of the Asian financial crisis to help identify risks and problems in the regulation of banks and other financial institutions. While most developed countries agreed to FSAPs years ago, the US held out and only agreed on the exercise in 2007. By the time the Fund gets round to doing the analytical work in 2009, all the problems may have already manifested themselves in failures and bankruptcies.

The IMF also agreed to look at the role of speculation in the fluctuation of oil prices. This was officially a request from the G8 summit in July, but developing countries will be keen to hear the IMF's take, as currency and commodity speculators have been blamed for causing crises. The Fund was to deliver its paper before the annual meetings. Even if there is a finding that price rises were due to speculation, there is no agreement on what the countries, let alone the Fund, should do about it. Though speculative activity in financial markets in the rich world may have real effects on the economies of developed and developing countries, the IMF has no mandate to tackle it. ©

*Current global financial turmoil and Asian developing countries*

www.twinside.org.sg/title2/par/GE11.website.pdf

*Guidance on operational aspects of the 2007 surveillance decision*

www.imf.org/external/np/pp/eng/2008/080408.pdf

## 2008 World Bank-IMF annual meetings schedule

Members of staff of the Bank and Fund, board members, development and finance ministers will gather in Washington 10-12 October.

### Official meetings

- 10 October Group of 24 (G24) ministers meeting
- 11 October International Monetary and Financial Committee (IMF) meeting; making finance work for Africa
- 12 October Development Committee (World Bank & IMF) meeting

### World Bank, civil society events

- 6-7 October Engendering international finance-watchers
  - 8 October World Bank and involuntary resettlement; carbon finance and the World Bank; IFI accountability
  - 9 October World Bank and climate change; petroleum engineering basics; IMF/World Bank town hall meeting with CSOs; CSO reception with Zoellick and Strauss-Kahn; food crisis; World Bank governance and anticorruption strategy; right to water and sanitation; aid scalling up scenarios
  - 10 October Chad-Cameroon oil and gas pipeline project; financial compact to address climate change and development; food and fuel crisis; World Bank inspection panel and CSO meeting; World Bank and IMF at 65
  - 11 October Food and fuel crisis; sustainability in the extractive industries; IEO-CSO dialogue on evaluation of IMF's work on trade
- Check our website for regular updates during and after the meetings  
For full details of events, contact information for groups in Washington for the meetings, and links to documents released by civil society, visit:

www.ifwatchnet.org

## Jesse Griffiths joins as project coordinator

We are delighted to welcome Jesse as the new Bretton Woods Project coordinator, taking over from Jeff Powell, who has joined academia. Most recently, Jesse headed ActionAid UK's aid and development finance policy group. His career includes a stint in the UK Department For International Development (DFID) in Nigeria, and in their environment policy department, as well as work for other NGOs in the UK and elsewhere on both development finance and international environmental policy.

Jesse said: "I'm thrilled to be joining a wonderful team, and an organisation with such an excellent reputation and track record. I'll be catching up with as many colleagues as possible soon; I look forward to seeing you!"

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