

G20 'trillion' dollar magic trick: Reforms remain house of cards

To great fanfare, the G20 announced a \$1.1 trillion global package, which may deliver less than half that amount in new resources. Issues of fundamental economic reform were left off the agenda, despite clear proposals from NGOs and the UN.

The G20 'London Summit' on 2 April captured positive media attention despite failing to set out a vision for transformative economic change, and pumping more money into the IMF and World Bank without a clear plan for reforming them.

The IMF received most of the boost (see page 7), with a possible \$500 billion in new resources and \$250 billion in issuances of special drawing rights (SDRs). Of the \$500 billion, only half has been signed and sealed, the vast majority of which had been previously announced. An allocation of SDRs, the IMF's own internally created reserve asset, effectively means printing new money. Of the total, only \$85 billion will go to middle- and low-income countries. Unlike other forms of finance, SDRs come without conditions attached, but a country must still pay interest when it uses them.

On new money for the World Bank, the G20 is particularly hazy, agreeing only to "support" additional annual lending by the multilateral development banks (MDBs) of \$100 billion per year. Some of this, such as a boost to IFC trade financing, is money already promised. Some is supposed to come from existing MDB resources. Some will come from a 200 per cent boost to the Asian Development Bank's capital, and consideration of similar moves for the Inter-American Development Bank and the African Development Bank.

World Bank attempts to garner additional contributions for their 'vulnerability' funds (see page 6) were snubbed, with the G20 making clear that these would only be delivered bilaterally from willing donors. So far, the UK is the only country to make concrete new commitments - diverting £200 million of its existing



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aid budget for this purpose.

Money for the poorest?

Of the putative \$1.1 trillion, \$50 billion, or less than 5 per cent, is likely to be for the 49 poorest countries in the world. The communiqué does not give clear details of how this figure is arrived at, but it includes SDRs. Most of the total is IMF loans, which are only available if poor countries' economies go into meltdown.

The detail on the promised "global effort to ensure the availability of at least \$250 billion of trade finance over the next two years" is

entirely absent from the communiqué. Controversially, it is likely that most of this total will go through heavily criticised export credit agencies. The communiqué's commitment to meet existing aid pledges obviously meant more to some G20 countries than others. Italy, the current host of the G8, plans to cut its aid by 55 per cent this year.

The G20 communiqué says nothing new on IFI governance reform (see page 9). Big increases in IMF resources were not matched with clear commitments to end the controversial austerity policies that

have so far accompanied IMF bailout packages (see page 4). Duncan Green of Oxfam said: "We have deep concerns about how central the IMF has become in this crisis. The Fund has been given a blank cheque but its reform remains no more than a promise."

Financial reform: any teeth?

The G20 decided to endorse the OECD approach of exchanging information about companies and individuals suspected of evading taxes on request, rather than the more stringent automatic exchange of information called for by the Tax Justice Network and others. The fanfare surrounding a supposed OECD 'blacklist' of non-cooperative countries went silent when it emerged that only four countries were on the list - Uruguay, the Philippines, Labuan in Malaysia, and Costa Rica - none of them well known tax havens. All four were subsequently removed.

The Financial Stability Forum will be expanded to include all G20 countries, and renamed the Financial Stability Board. It will have a purely advisory role to "promote co-ordination", "assess vulnerabilities affecting the financial system" and "set guidelines". With no specific powers or sanctions available to it, and a lack of a clear governance structure, it remains to be seen whether this new board will be an improvement.

On banking regulation, surprisingly little concrete was agreed. Post-summit, British prime minister Gordon Brown repeated his assertion that the 'shadow banking system' would be brought into "the global regulatory net", but the language of the communiqué is far more cautious. "Systematically important financial institutions, markets, and instruments" should be subject to an "appropriate degree of regulation and oversight." Hedge fund and credit rating agency "registration" is promised, and credit derivatives markets will be "standardised," but it is left to the industry itself to decide how.

Missing the green picture

Green groups slammed the G20 for failing to signal a clear commitment

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World Bank still supporting carbon-intensive future

By Heike Mainhardt-Gibbs, Bank Information Center

The World Bank Group will kick off the revision of its energy sector strategy this autumn but new research shows its fossil fuel lending is on the rise.

The energy sector worldwide is responsible for the lion's share of greenhouse gas emissions and the Bank's energy investments are no exception. US based NGO Bank Information Center (BIC) recently published *World Bank energy sector lending: encouraging the world's addiction to fossil fuels*. The assessment finds that gains in renewable energy and energy efficiency in recent years still do not compensate for highly imbalanced financing in favour of fossil fuels.

The BIC study shows that Bank fossil fuel lending is on the rise, especially for coal. During its 2008 fiscal year, the World Bank Group increased funding for fossil fuels by 102 per cent compared with only 11 per cent for new renewable energy (solar, wind, biomass, geothermal and small hydropower). The Bank's three-year average increase for renewable energy and energy efficiency of 73 per cent is from a very low baseline compared with fossil fuel projects.

On average, fossil fuel financing by the Bank is still twice as much as new renewable energy and energy efficiency projects combined and five times as much as new renewables taken alone. The private sector arm of the Bank Group, the International Finance Corporation (IFC), is lagging behind its counterparts on renewable energy efforts. Excluding hydroelectric projects, the IFC is currently only involved in ten renewable energy projects worldwide: two wind, two geothermal, and six other.

During the last three years, the Bank spent 19 per cent more on coal than on new renewable energy sources. During the 2008 fiscal year, the Bank provided approximately \$1 billion to coal-based projects including the Tata Ultra Mega super critical coal plant in India, two projects for privatisation of coal-fired plants in the Philippines (see *Update 62*), and the PT Makmur Sejahtera Wisesa coal power plant in Indonesia.

New carbon projects

There is no end in sight for the Bank's involvement in fossil fuels, including coal. For example, the IFC will be involved in developing Ghana's recently discovered Jubilee offshore oil field (see page 3).

In addition, the IFC has recently

reached an "in-principle agreement" to supply \$5 billion over five years to expand Eskom, the South African state-owned power giant (see *Update 64*). In addition to the IFC's billions, the African Development Bank has approved \$500 million, its largest private sector project to date. Although details of IFC funds are still under discussion, it is likely that a significant amount will go to coal projects. Eskom supplies 95 per cent of South Africa's electricity, 90 per cent of which is generated by coal. According to Reuters, Eskom has launched a \$33 billion new power investment programme, with two 4,800 megawatt coal-fired power plants to come on stream in 2015 and 2016.

The Bank defends support for coal on the basis that the need for electricity is so great in the developing world that coal plants are going to be built with or without Bank support. It contends that without Bank support cheaper, dirtier coal plants will proliferate.

In fact, the Bank counts some coal-based activities as low-carbon projects, such as making a coal-fired thermal plant more efficient relative to the "business-as-usual scenario". To term any upgraded coal-fired plant as 'low-carbon' seems at best misleading given that even high efficiency coal plants emit more than twice as much CO₂ per megawatt-hour as combined cycle natural gas plants. There is no evidence that the Bank's recent coal investment was either necessary or resulted in more efficient technology than would have been used otherwise.

Contributing to climate change

The BIC study also found that Bank fossil fuel projects have a clear impact on global CO₂ emissions. When the fossil fuels involved in World Bank and IFC lending projects for the 2008 fiscal year are combusted, the project lifetime CO₂ emissions from one-year of financing will equate to approximately seven per cent of the world's total annual CO₂ emissions from the energy sector, or more than twice all of Africa's annual energy sector emissions.

Continued Bank fossil fuel lending, especially coal and oil, will make a low-carbon transition very

difficult. Each fiscal year the Bank supports a coal, oil, or gas project represents a commitment to carbon-intensive energy sources for 20 to 50 years. Moreover, many of the Bank's largest oil and gas extraction and pipeline projects have been and continue to be aimed at exports to rich countries, feeding their appetite for fossil fuels. Thus, the Bank is not adequately encouraging countries to reduce greenhouse gas emissions from fossil fuels.

Alternatives?

In contrast to the Bank's reasoning, it is not a forgone conclusion that developing countries will need to continue building more coal power plants and other fossil fuel energy sources. A recent Worldwatch Institute report advocates a no-carbon energy roadmap and demonstrates that developing countries are well positioned to leapfrog the carbon-intensive development path of the 20th century and go straight to the advanced energy systems that are now possible. The report points out that renewable and efficiency technologies will allow developing countries to increase their reliance on indigenous resources and reduce their dependence on expensive and unstable imported fuels. But, to

reach the economic tipping point in favor of low-carbon development, the report states it will "require innovative public policy and strong political leadership."

Roadmap for the future

So far the Bank has not shown strong leadership, as evidenced by its increased financing for fossil fuels. The Bank needs to reassess and responsibly revise its approach to energy sector financing, including by: calculating and disclosing project greenhouse gas emissions; including carbon valuation in project cost-benefit analyses; hiring more staff (especially within the IFC) with renewable energy expertise; promoting innovative low-carbon policies on tax incentives, transmission, investment, feed-in tariffs, and land-use policies; and providing leadership by convincing member countries that it can be in their best interest to invest in no-carbon energy resources.

Climate change is anticipated to negatively affect developing countries and the poor of the world disproportionately - the very countries and people Bank programmes aim to benefit. As such, the Bank must significantly change its development model and become a leader in helping create low-carbon economies. In the revision of the energy sector strategy, it would serve the Bank well to remember that its role is not to lead countries down the carbon-intensive, economically unstable path of the developed countries. ©

World Bank energy sector lending
 @ bicusa.org/admin/Document.100733.aspx

World Bank's 'environment' loan to Brazil: for what?

By Patricia Bonilha, Rede Brasil

Once again the World Bank is lending money to Brazil, but without adequate transparency or participation of civil society.

According to the Bank, the latest 'programmatic environmental sustainability development policy loan project' is aimed at "key sectors such as forest management, water and renewable energy... and will integrate Brazil's climate change agenda across sectors." This is the largest loan ever granted to Brazil by the Bank: \$1.3 billion in its initial phase, to be increased in a following phase to a total of \$2 billion. Although the loan is for the Brazilian treasury, loan documents reveal that it will go to the National Economic and Social Development Bank (BNDES). The

loan has been pushed forward without sufficient information being made available and without prior consultation with Brazilian civil society.

On 5 March, one day before the loan was scheduled to be discussed by the Bank's board, Brazilian environmentalists, social movements and networks monitoring international financial institutions sent a letter to the Bank saying that this loan is a mistake and demanding a broad consultation with Brazilian civil society. However, the board remained deaf to the Brazilians' request and approved the loan.

Over the past decade, the Bank approved a series of technical

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In June 2007 the 'Jubilee' oil-field off the coast of Ghana was discovered. Kosmos Energy plans to invest \$850 million and Tullow Oil \$1.2 billion in the overall project costs of \$3.2 billion. In late February the IFC board decided to provide \$100 million for Kosmos and \$115 million for Tullow.

The International Finance Corporation (IFC) ignored due process requirements mandated by the laws of Ghana in the case of the Jubilee oil field project and should not have considered the loan applications at the board. In so doing, the IFC is encouraging the infringement of the basic rules of governance and transparency. Ghanaian NGOs have expressed several concerns regarding this project to the IFC, concerns which have not been addressed properly.

The fact that the revenues will be seven to nine per cent of Ghana's government income requires it be defined by the IFC as a 'significant project', invoking specific social obligations. The project should therefore be fully transparent.

Projects for the extraction of petroleum and natural gas are usually considered to pose the highest environmental risks, and are classified as 'category A' projects. However, the IFC has rated this project as a 'category B', requiring fewer safeguard procedures. The Jubilee field could significantly and adversely affect the marine environment including endangered species, coastal communities and economic enterprises. The project clearly meets the requirements for category A. Yet, there has been no real substantive answer to this issue by the IFC.

The Gulf of Guinea's striking features are its unique coastal wetlands and the upwelling of deep nutrient-rich ocean water to the surface, which supports one of the most diverse and economically important fishing-zones in the world. Nonetheless, the IFC has argued for the use of a single-hulled oil storage platform despite danger of spills from it being frequently approached by other tankers for loading and unloading. Furthermore, a US Forest Service assessment mission to Cameroon and Equatorial Guinea in 2006 found that even though these two countries have seen increasing activities in the petroleum sector, neither had the capacity or institutional coordination to handle disasters like oil spills that could be a threat to the rich marine life and ecosystems in the

Ghana's off-shore nightmare

COMMENT

by Bishop Aklogo, ISODEC, Ghana

gulf. Ghana should learn from this example and require closer scrutiny of the safety and environmental impact of tankers and drilling techniques proposed for the project.

Ghana's Environmental Protection Agency (EPA) had not and

could not have issued any permit for oil and gas development or the construction of oil and gas separation, processing, handling, and storage facilities without the submission by the companies of an environmental and social impact assessment (ESIA) in accordance with regulations. Everyone admits that the companies have not submitted a full ESIA to the government.

The IFC, the previous government of Ghana and the companies have violated both substantive and procedural processes of the law by trying to rush the project. The IFC and the companies appear to have taken undue advantage of the transition in government by treating a few conversations with newly appointed ministers, who could not have been fully appraised of the project or oil sector, as formal consent from the government and people of Ghana.

The IFC acknowledges that the potential emergence of a large oil and gas sector does pose new political, regulatory, and governance challenges for the country. The fundamental problem is that large-scale oil production will start before proper governance structures are in place. Although the companies have to disclose their payments to the government of Ghana under IFC regulations, it is also crucial that the public knows the terms of the contracts. A vague reference to parts of them already being in the public domain is not sufficient.

Finally, in 2004, the Gulf of Guinea was second only to the Straits of Malacca in number of piracy attacks. The oil emanating from the Niger Delta has also led directly to the proliferation of weapons throughout the region along with alleged corruption in Nigerian politics. Yet no assessment of security risks has been undertaken in Ghana.

We feel that the IFC has not properly addressed the concerns of civil society or sufficiently taken into account the grave risks this project poses to the environment, economy and governance systems of Ghana, not to mention the possible contributions it and other fossil fuel projects will make to climate change.

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assistance loans to the Brazilian government, including on improving environmental sustainability, and for power and energy sector reform. In addition, there have been substantial policy reform loans, including \$454 million for the energy sector. In the words of the Bank, its role in Brazil, which is no longer financially dependent on its loans, is no longer to "tell the Brazilian government what to do, but how to do it."

However, these loans have failed to meet their supposed objectives. For example, there is still a lack of effective integration of social and environmental considerations in Brazil's energy planning. The strategic environmental assessments that the government was to have carried out as a condition of the \$503 million 'first programmatic reform loan

for environmental sustainability' were never done. This has compounded problems with the Brazilian government's energy policy. Its ten year energy expansion plan (PDE 2008-2017) was put together behind closed doors in government agencies, in consultation only with energy companies.

The PDE gives priority to the construction of 71 large dams, with the involuntary expulsion of more than 100,000 Brazilians and the flooding of indigenous reserves and conservation areas. It promotes the construction of polluting thermo-electric power stations burning oil, coal, and gas, expected to increase greenhouse gas emissions by 172 per cent by 2017 compared to 2008, equivalent to 39.3 million tons of CO₂, in addition to the expansion of

biofuels production, which would require an additional 7.5 million hectares of sugar cane.

Beyond the lack of transparency, particularly with respect to civil society, there is strong evidence that the loan will be destined to guarantee capital for financing large infrastructure projects through BNDES, which is strongly criticised by civil society.

Recent BNDES loans include the Santo Antonio and Jirau dams on the Madeira River in the Brazilian Amazon, for which the Bank has made commitments to lend more than \$6 billion. These projects promote the destruction of biological diversity and have significant socio-cultural impacts, placing at risk the commitments made by the Brazilian government internationally and

internally, in terms of policies and actions relating to the causes and effects of global warming. Another problem raised by the organisations in the letter to the Bank, and acknowledged by Bank staff, is that it is not possible to monitor how the money will be spent.

After a four year grace period, Brazil will repay this loan for the next 20 years. However, it is not publicly known at which interest rate and under what conditions the loan will be repaid. What we do know is that this marks another step in the Bank's resurgence, after years of a diminishing role in Latin America. ©

Brazilian civil society letter

www.rbrasil.org.br/conteudo/carta-ao-banco-mundial-05-03-2009/

IMF emergency loans: Greater flexibility to overcome the crisis?

By Nuria Molina, Eurodad

Despite promising IMF rhetoric about more flexibility in fiscal and monetary policies because of the crisis, new loans in Romania, Latvia, and Armenia show that practice is not in line. The Fund is still pushing tight fiscal policy and single-digit inflation.

In late March the IMF executive board agreed to phase out the use of one type of IMF structural conditionality (see page 7). Sources from within the IMF recently stated that the instructions from senior management are clear: advice to member states should clearly point at swiftly increasing fiscal stimulus, higher public spending, and flexible monetary policy.

At an International Labour Organisation meeting in Geneva at the end of March, IMF head, Dominique Strauss-Kahn said, "I'm especially concerned by the fact that our forecast, already very dark ... will be even darker if not enough fiscal stimulus is implemented."

Olivier Blanchard, IMF chief economist, has been even bolder: "I would put it more starkly. What is needed is not only a fiscal stimulus now, but a commitment by governments that they will follow whatever policies it takes to avoid a repeat of a Great Depression scenario." He added: "monetary and fiscal policies need to become even more supportive of aggregate demand."

Rhetoric versus reality

Preliminary research by the Third World Network (TWN) on the Fund's advice to countries that seek assistance to cope with the effects of the crisis is not promising. According to TWN "the documentation on the IMF's current loan conditionalities and policy advice demonstrate that the traditionally contractionary nature of the IMF's fiscal and monetary policy framework has not changed." The old recipes of tight fiscal policies, cuts in government spending, and single-digit inflation seem to be at the top of the Fund's conditions and advice to countries that it has bailed out.

In March it was announced that Mexico will become the first country seeking IMF support from the newly created Flexible Credit Line (FCL), which provides precautionary support to what the IMF considers strong performing countries (see page 7). This follows a series of arrangements with low-income countries and Romania, the third EU country to seek IMF support in the past few months. Although most of

the loan documents have not yet been published, the information so far disclosed by the IMF suggests that all these programmes push pro-cyclical policies.

According to the declarations made by the IMF mission chief for Romania to the *Financial Times*, the country will receive about \$17.5 billion from the IMF in exchange for bringing "its budget deficit below 3 per cent of gross domestic product by 2011". Moreover, he said, "there will be specific reforms in the fiscal area to make sure the deficit stays low over time - restructuring wage policies, recalibrating the pension system to make it sustainable, improving the control and monitoring of public enterprises." The Fund will also seek to ensure that bringing down inflation is a core goal of the country's monetary policy.

Guatemala will also have to follow stringent monetary policies in exchange for their \$950 million IMF loan, with requirements that "monetary policy [be] focused on anchoring inflation at low levels combined with a flexible exchange rate system." In Mongolia, the programme envisages tightening fiscal policy to "restore the deficit to a sustainable range".

Although Armenia will also need to cut expenditures to meet the target of 1 per cent deficit in 2009, the newly approved Poverty Reduction Growth Facility (PRGF) grants small concessions as "the zero limit on contracting/guaranteeing new non-concessional external debt was replaced by a small positive amount [\$50 million], making room for the authorities' debt issuance plans and projects financed by the World Bank and Asian Development Bank." However, monetary policy is as stringent as in the other loans, including a transition to inflation targeting and a tightening of the target to below five per cent.

The Exogenous Shocks Facility (ESF) loan for Malawi shows a slightly higher degree of flexibility, and does not include structural con-

ditions. However, the programme still aims at a rather low inflation rate, "converging gradually toward the medium-term goal of 5 per cent."

The ESF for Ethiopia, although slightly more flexible in its conditionality framework, still pushes for the "elimination of domestic fuel subsidies and for "significantly tightening fiscal policy". It also includes removal of some taxes, including on basic food items, as well as increased cash transfers in the safety net programmes.

In March, the IMF approved yet another ESF agreement with the Democratic Republic of Congo, where the Fund will require "keeping monetary policy tight". This will somehow need to be reconciled with one of the key objectives of the programme: "redirecting spending to activities that would prop up domestic demand."

A substantial change from previous loan agreements is that the IMF consistently suggests sustaining expenditure in the social sector, including on safety nets to protect the most vulnerable. Unfortunately, possible changes towards greater flexibility in some of the programmes are so minimal that it is hard to tell whether this is change in policy by the IMF.

In the meantime, the IMF reported that the first review of the Latvian loan, originally approved in December, has not been completed. According to the *Financial Times*, the Fund "has suspended lending to Latvia until it sees more progress in cutting public spending" and "Latvia is racing to prepare more cuts to keep its \$9.9 billion stabilisation plan on track ... [as] the budget deficit threatens to overshoot the target of 5 per cent of gross domestic product agreed with the IMF."

Ongoing negotiations over an

IMF loan are heating up in Sri Lanka. In early March, the president Mahinda Rajapaksa said that "We will not pawn or sell our motherland to obtain any monetary aid." However, according to the Sri Lankan newspaper the *Sunday Times*, opposition politicians and some economists fear that the IMF loan that the government now hopes to get will include stiff conditions.

Practice what you preach

In words of the Thai prime minister, "When the G20 talks about reform of international financial institutions, it is not just a question of increasing capital, but also of how that capital is used ... that means making sure there are new facilities for fiscal stimulus, continued development and social safety nets for developing economies ... one of the lessons of the 1997 financial crisis in Asia was that the conditions enforced by the IMF had caused unnecessary pain."

G20 leaders decided to increase IMF resources up to \$750 billion (see page 1). The main downside of the agreement is that there is little mention of the need to reform IMF terms of lending and advice. Southern civil society groups, such as TWN, fear that "additional resources to the IMF would give it the means by which to discipline crisis-hit countries the wrong way, worsening the crisis for them."

At the spring meetings, the executive board is expected to discuss and agree higher access for low-income countries. Over the summer, the board will discuss the terms of lending of IMF facilities, including the issue of conditionality. Southern governments, civil society and other actors are likely to put pressure on the board to ensure that recipient countries get the necessary fiscal and policy space to decide the best measures to overcome the crisis, and are not be constrained by stringent IMF policy advice and conditions.

Now that the IMF has recognized the merits of Keynesian policies in times of crisis, the need for counter-cyclical measures, and the need for greater monetary and fiscal flexibility, it is just a matter of practicing what it preaches. ©

IMF financial crisis loans: no change in conditionalities, Third World Network

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Inside the institutions **Special drawing rights**

The special drawing right (SDR) is an international reserve asset, created by the IMF in 1969 to supplement existing official reserves of member countries. Countries can exchange SDRs for hard currency at the IMF. The SDR is also the unit of account of the IMF and some other international organisations. Its value is based on a basket of key international currencies.

The SDR is in some ways like a currency, but is currently used only at the IMF. The value of the SDR is set daily based on a basket of the exchange rates of the US dollar, the euro, the yen and the pound sterling. The composition is reviewed every five years to ensure that it reflects the relative importance of currencies in the world's trading and financial systems.

The SDR is not a claim on the IMF but a potential claim on the freely usable currencies of IMF members. Holders of SDRs can obtain hard currencies in exchange for their SDRs in two ways: first, through voluntary exchanges between members; and second, by the IMF designating members with large holdings of reserves to purchase SDRs from members who need hard currencies. Such transactions do not involve the IMF staff negotiating with country authorities - meaning there is no conditionality or policy changes.

SDRs were originally proposed in the late 1950s but were not created until the late 1960s. The purpose was to supplement countries' reserves in the context of the fixed exchange rate system which had been operating since 1944. The system had been based on the convertibility of the dollar to gold, but this was proving unsustainable as trade increased because of limits in the availability of gold, and the increasing unwillingness of the US to maintain the system.

However, since the collapse of the fixed exchange rate system in 1971, SDRs have become less important. SDRs can be issued by the IMF only when 85 per cent of the IMF membership agrees. This gives the US a veto over issuance of SDRs. SDRs have been allocated just two times in the history of the IMF, at their creation and in 1981, which brought the total allocations to 21.4 billion SDRs (almost \$32 billion at today's exchange rates). Only 144 countries have been allocated SDRs, because many of the IMF's current 185 members joined the institution after 1981. Notably, countries in Central and Eastern Europe and Central

Asia do not hold SDRs.

Generally SDRs must be issued to countries in proportion to a country's quota share at the IMF. As the quota is based largely on GDP, rich countries hold the majority of SDRs. A special one-time allocation of SDRs to countries that joined the IMF after 1981 was proposed and approved by the IMF board of governors in 1997 but has not yet gone into effect. It requires the approval of capitals of IMF members and the US Congress has yet to approve the measure.

Within the IMF, there is an SDR Department which handles all transactions in SDRs. This department is strictly separate from the IMF's General Department, which handles the IMF's normal operations of lending. Countries that have larger holdings of SDRs than their allocations receive interest based on the SDR interest rate. Those countries that exchanged their SDRs for hard currencies must pay interest at the same rate. Thus within the SDR department the interest paid and the interest received is equal, and the accounts net to zero.

The IMF Articles of Agreement also allow for SDR cancellations, but this has never been done. The IMF cannot allocate SDRs to itself. Many commentators, including business figures such as George Soros and former US Treasury official Ted Truman, proposed new SDR allocations as a method of combating the financial crisis. When the IMF issues SDRs, it is a straight forward increase in the global money supply, as the IMF essentially creates the SDR allocations out of nothing but the commitment of IMF member states. Some critics of this approach have said this is inflationary, but others have countered that in a deflationary situation, SDR allocations could help maintain price stability.

The SDR also has the potential to supplant the dollar as a global reserve currency if the IMF membership agrees to move in that direction. This would involve much larger allocations of SDRs, as global reserve holdings were worth over \$6.7 trillion at the end of 2008. The governor of China's central bank and the UN General Assembly president's commission of experts on financial reforms both backed the idea of a global reserve currency. ©

IMF factsheet: special drawing rights

© www.imf.org/external/np/exr/facts/sdr.htm

G20 reforms remain house of cards

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to building a low-carbon economy. The communiqué promises only to "make best possible use" of stimulus packages "towards the goal of building a resilient, sustainable, and green recovery" and to "identify and work together on further measures to build sustainable economies." Friends of the Earth said the G20 had "short changed people and the planet". Greenpeace said climate change had been tagged on to the communiqué as an "afterthought".

On trade the commitment to "reach an ambitious and balanced conclusion" to the Doha round has not changed from the previous G20 meeting, since when little has happened. Civil society organisations worldwide have questioned whether it is a good idea to revive a trade round that developing countries have rejected many times.

Protest grows

Protests took place around the world in the run up to the G20 summit, including in India, Philippines, Indonesia, Spain, Germany, France, Austria and Italy. In London, thousands marched under the banner of 'Jobs, Justice, Climate,' as part of the

160-plus Put People First alliance of development, environment, faith groups and trade unions.

January's World Social Forum, produced a statement signed by more than 600 organisations. It includes demands about how best to manage global finance, including controlling capital flows, and calling for "citizen control of banks and financial institutions." On the eve of the G20, at the 'World in Crisis' NGO summit in Prague, a declaration was issued calling for "transformation towards social justice and ecological sustainability as well as space for alternative systems."

The London Summit was slammed for systematically excluding civil society voices. In contrast to most international gatherings there was no process for civil society accreditation and attendance. Of the few civil society organisations attending as media, some had accreditation withdrawn at the last minute. One of these denied entrance, Benedict Southwark of UK NGO World Development Movement said that this "starts to reek of the deliberate exclusion of critical voices."

Spotlight turns to UN

A week before the G20, the UN General Assembly president's commission on financial reforms (see *Update* 64, 63) released its draft report. The Joseph Stiglitz-led commission called for global fiscal stimulus, a new credit facility with better governance arrangements than the IMF, an end to pro-cyclical conditionality and a rolling back of the limits on developing country policy space created by trade agreements.

Financial sector recommendations included the use of rules and incentives to limit excess leverage, prevent tax evasion, and address the regulatory race to the bottom. On long-term changes to financial regulation, the commission listed seven areas for reform and warned against "merely cosmetic changes".

The systemic demands were particularly eye catching. The call for "a new global reserve system" echoed China's demand to end the US dollar's position as international reserve currency. The commission also supported a UN-based Global Economic Council - essentially bringing a G20-style structure into the UN system.

The UN commission was much

more open to civil society input than the G20. More than 100 organisations made submissions, and the final report on civil society opinion was detailed, comprehensive, and well received by the commission.

The global focus will now move to a UN conference from 1-3 June in New York, billed as the follow-up to the UN Financing for Development conference in Doha. It is unclear how much participation there will be by heads of state, especially as the G20 announced that it will hold another leader's level summit sometime before the end of this year, probably in the US. ©

G20 London summit communiqué
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Let's put finance in its place! Call to action from the 2009 World Social Forum
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Not much on offer for poor countries to counter the crisis

By Nuria Molina, Eurodad

The world's poor are being hard hit by a crisis for which they are not responsible. Low-income countries will face a financing gap of hundreds of billions of dollars this year.

More than \$2 trillion have been found to boost Northern economies and emerging markets. Yet richer countries have committed just over five per cent of the additional development finance required to compensate low-income countries for the shock they face resulting from this crisis.

Effects of the crisis

Economic prospects for 2009 have been repeatedly revised downwards and it is clear that the world's poor are being hardest hit by a crisis for which they are not responsible. According to the World Bank, 53 million people will fall into extreme poverty in 2009. Bank president Robert Zoellick reported in a speech before the G20 summit that "200,000 to 400,000 babies will die this year because of the drop in growth."

An early March paper from the IMF said that low-income countries would require \$216 billion to cover the impact on their balance of payments during 2009. The Bank presented a much higher figure on 8 March, estimating that developing countries may face a financing gap of \$270-\$700 billion. According to UN estimates, the funding needed to counter the effects of the crisis may be as much as \$1 trillion.

A recent ActionAid report suggests that African countries alone will face a real drop in income of \$49 billion between the start of the crisis in 2007 and the end of 2009. Christian Aid said "Already hard-hit by soaring food and energy prices that pushed up inflation, caused food shortages and widespread hunger, poor countries can only look on helplessly as demand for their exports drops and vital remittances sent back by family members working in the industrialised world rapidly dwindle."

What is on offer?

Most low-income countries have very limited fiscal space to react to the crisis, and need external support. So far, rich countries have not made commitments to provide new finance to cope with developing countries' needs. Leaders at the London Summit restated past aid commitments, and suggested enabling "multilateral development banks (MDBs) to help counter the effects of the crisis in developing

countries."

According to Eurodad calculations released before the G20 summit, the Bank and the IMF were only planning to provide \$12 billion to the world's poorest countries in 2009. Preliminary calculations on the \$1.1 trillion for the IMF and MDBs announced in London (see page 1) show that the IFIs could eventually channel up to \$50 billion for low-income countries. However, almost none of these funds are additional to those already promised by multilateral institutions and rich governments before the crisis. This still falls short of poor countries' needs and if disbursement is spread over several years it could substantially lower the amount available for 2009.

The G20 leaders also committed to make "available resources for social protection for the poorest countries [through] the World Bank's Vulnerability Framework". The framework consists of three main initiatives, including the Vulnerability Financing Framework (VFF), an Infrastructure Recovery Assets Platform (INFRA plus energy) and a Private Sector Platform.

The VFF comprises resources from the existing Global Food Crisis Response (focused on agriculture); the International Development Association (IDA) Fast-Track Facility (resourced with existing IDA money for low-income countries); and the newly created Rapid Social Response Program (providing employment through public works programmes, plus short term social safety nets).

The World Bank estimates that IDA, its concessional arm for low-income countries, will this year spend \$1 billion more than in 2008. This increase is the result of a historically high replenishment of IDA which concluded in 2008, rather than an intended increase in response to the crisis. Also, a share of these packages is "frontloaded" money - expenditures brought forward that will therefore not be available in future years. The Bank is planning to fast-track \$2 billion of their IDA resources in this way.

This is not additional money and will certainly create a financing gap in the coming years unless governments come up with a solution, such as bringing forward the next IDA replenishment by a year. Whether

some of the \$100 billion G20 leaders urged MDBs to fund may be used to fill this gap is still up in the air. According to Bank sources, some low-income countries are reluctant to apply for frontloaded money because of the threat of future gaps.

Another share of the funds was already budgeted as development aid before the crisis broke and has recently been re-labelled as crisis response. This is the case for Bank funds that were earmarked in 2008 to respond to the food crisis, and have now been re-labelled as crisis response under the newly created Vulnerability Fund.

Over half of the \$12 billion for the poorest countries this year, is funding channelled by the IMF. A good share of it will be used to cover the impact on low-income countries' reserve positions and therefore won't be pumped into the real economy to boost growth and employment creation, or to support safety nets for the most vulnerable.

In a joint statement on emergency financing issued at the end of March, UK NGOs stated that "repackaging aid budgets into new funds and programmes is not going to be enough to help countries bridge these giant financing gaps, let alone undertake the policies needed to stimulate their economies. Developing countries must be given the emergency funds necessary to pursue the kinds of counter-cyclical policies currently being used by rich countries."

What is needed?

Whatever quantity of money is available, international financial institutions need to take immediate measures to ensure that the money is channelled to poverty reduction.

The *Eurodad Responsible Finance Charter* outlines the kind of principles that civil society organisations think are important to ensure that development finance will effectively contribute to poverty reduction, including "respect for human rights; respect for internationally recognised social, labour and environmental standards; parliamentary and citizen participation in the loan contraction process; and public disclosure of information."

In the very short-term, the exceptional circumstances require a speedy and flexible response from

the World Bank, the IMF and other MDBs. As the crisis is a consequence of structural flaws in Northern rather than Southern economies, emergency finance should not be delayed by negotiating cumbersome policy conditions or structural reforms. The situation requires a 'crisis waiver' which ensures that: funds are quickly disbursed; are provided as grants or on highly concessional terms; no extra policy conditions are added; that they respect the highest social and environmental standards; and the highest transparency standards.

Two directions

A consensus is also emerging that the vast capital outflows from developing countries need to be tackled through measures on tax havens and transnational company reporting practices. The latest report by Global Financial Integrity estimates that "illicit financial flows out of developing countries are \$850 billion to \$1 trillion a year." The volumes are staggering and they dwarf the \$100 billion of aid flowing every year from Northern to Southern countries. Several measures could be taken to avoid these illicit flows.

Eurodad and members proposals go further than the limited reforms agreed at the G20 (see page 1) They include: the introduction of a requirement that businesses operating transnationally must reveal publicly how much profit they make and the establishment of strong global rules to enable developing countries to determine whether they have been paid the right amount of tax. These rules would require all states to exchange automatically the information they hold on companies and individuals. Banning off-shore centres and tax havens should also be considered.

It is clear that extra funding is urgently needed, but so too is an overhaul of the global financial system and international financial institutions. ©

Where does it hurt? The impact of the financial crisis on developing countries,
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The impact of the financial crisis on the developing world, Christian Aid
 www.christianaid.org.uk/Images/The-morning-after-the-night-before.pdf

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 www.ifwatchnet.org/node/31514

G20 rescue package for LICs
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IMF: Bigger but not much nicer

By Peter Chowla, Bretton Woods Project

World leaders agreed at the G20 to treble the size of the IMF's resources, but critics worry about strengthening the Fund without fundamental reform to its governance and conditionality. Further tweaks to IMF programmes are due this year.

In April the G20 agreed to treble the size of available resources at the IMF, from \$250 billion to potentially \$750 billion (see page 1). This was done in a way that pleased the Europeans and the US: through temporary agreements from G20 countries to extend loans to the IMF under what is called the New Arrangements to Borrow (NAB). Altering the NABs would both be temporary in nature and not alter quotas, leaving rich country voting dominance unchanged.

Developing countries and the UN commission on financial reform had instead called for the IMF to increase its resources through either a general quota increase or selective quota increase. These methods would have permanently increased the size of the IMF, potentially diluting the dominant voting share of rich countries.

Civil society organisations had demanded both governance reform and an end to the IMF's damaging conditionality in exchange for any increase in resources. The International Trade Union Congress, an umbrella organisation for labour unions around the world, had demanded that "both the Bank and the IMF must stop imposing the conditionality on developing and emerging countries that pushes them into pro-cyclical policies." A group of UK NGOs demanded that "any funds provided to existing international or regional institutions should go hand in hand with promises for fast-tracked reforms in the governance of the institutions."

SDR's to the rescue?

The other massive increase in IMF resources was through an allocation of special drawing rights (SDRs), the IMF's own internally created reserve asset (see page 5). The \$250 billion dollars of new SDR allocations was the maximum that the US treasury could support without asking for approval from US Congress.

An SDR allocation effectively means printing new money, about \$68 billion of which will go to middle-income countries and \$17 billion to low-income countries. As SDRs are allocated according to voting shares at the IMF, two-thirds will go to rich countries.

One key benefit of issuing SDRs is that they come without the traditional IMF conditionality that has

been so problematic in recent IMF loans during the crisis (see page 4), but using them does occur interest charges.

More cash, new acronym

It is envisioned that most of the IMF's new resources will be channelled through yet another IMF facility for middle-income countries, the Flexible Credit Line (FCL), approved in early March.

The FCL replaces the failed Short Term Liquidity Facility (STLF) which was only launched in November 2008 (see *Update* 63). No country used the STLF, but the FCL already has two takers: Mexico, who announced interest the day before the G20 summit, and Poland, who applied in mid-April.

The new FCL includes pre-qualification instead of conditionality, meaning a country must be assessed to be a "strong performer" by the IMF before it can sign up. The FCL has no hard limit on the amount of money a country can access, lasts for a duration of either six or twelve months, and allows up to five years for repayment.

The FCL's predecessors failed to deal with the problem of stigma: the fear that signing up for such a facility would spook financial markets and foster currency speculation or a sudden stop in capital flows. Only time will tell if the new FCL will solve this problem, but financial markets had mixed reactions to Mexico's application, according to news reports.

Low-income resource bump

The G20 commitment to "a doubling of the IMF's concessional lending capacity for low-income countries and a doubling of access limits" is un-resourced. The Fund's concessional loans come out of a special pot of donor resources called the PRGF-ESF Trust, which currently is worth about \$23 billion. The G20 countries have made no specific commitments to providing the additional \$23 billion that would be needed, as this money can not come out of the NAB which will fund the increase in the IMF's general resources.

The IMF is supposed to come up with solid proposals by the spring meetings, but NGOs are unlikely to be satisfied. Many have called for a cessation of the IMF's current low-

income lending framework because of damaging economic policy conditionality.

Gold to fund debt (relief)?

At the same time as these drastic changes in the IMF's financing, the legislation to authorise gold sales to fund the IMF's core activities and solve its income crisis (see *Update* 61) is being drafted in US Congressional committees, but may come with an added twist. The Jubilee Act, passed by the US Congress in 2008 urges that IMF gold sales be used to pay for additional debt relief in addition to administrative expenses.

The G20 seems headed in a different direction, calling for \$6 billion from gold sales to be part of the doubling of the concessional lending pot of the IMF. That means the money will not fund debt relief but actually create more debt in developing countries as it is lent to the poorest nations.

"IMF gold sales should be expanded and the proceeds used for debt relief or grants without harmful conditions - not to further indebted some of the world's poorest nations," said Neil Watkins, of Jubilee USA Network.

Structural conditionality tweaked

In early March the IMF board considered a staff review of conditionality which had been called for by IMF managing director Dominique Strauss-Kahn after the financial crisis broke (see *Update* 64). Breaking from tradition, the paper admitted that the Fund had made mistakes: "In the past, IMF loans often had too many conditions that were insufficiently focused on core objectives."

In a surprise move the board decided to eliminate a whole category of conditionality, called structural performance criteria, despite having refused to limit the number of such conditions just one year previously (see *Update* 61, 59). Structural performance criteria are conditions the IMF places on borrowing countries to force them to change economic policies or the structure of the economy during the course of a loan.

However, the elimination of this kind of conditionality does not mean an end to the practice of forcing structural reform. Instead "the IMF will rely more on pre-set qualification criteria (ex-ante condition-

ality) where appropriate rather than on traditional (ex-post) conditionality." That will likely mean an increase in the use of 'prior actions', conditions that must be fulfilled prior to getting a loan. Structural benchmarks, which are not legally binding, but still force policy change, will continue to be used.

NGOs are still sceptical. Vitalice Meja from Afrodad noted: "The ex-ante approach is a clear indication that the conditionalities have been well entrenched in countries' systems after the Fund's decade of intervention. The current approach merely places the burden of compliance with the Fund's economic reform programmes on the poor countries thereby making IMF look good."

Despite the changes, the IMF is still under fire for its policy advice in crisis-hit countries (see page 4). For example, a report prepared by the Global Campaign for Education for the spring meetings in April criticised the impact of IMF conditions on teachers wages in developing countries.

Pending reviews for LICs

The IMF conditionality review focussed on overall conditionality policies and middle-income country programmes and facilities. However, the reviews of the IMF's low-income country facilities – such as the Poverty Reduction and Growth Facility (PRGF), Policy Support Instrument (PSI), and Exogenous Shocks Facility (ESF) – are still in progress. The staff finished papers that were discussed by the board in early March, but no concrete decisions were made. The IMF expects to make changes to these facilities after a second round of reviews over the summer.

The staff had little input from civil society (see *Update* 64) and it is unclear how extensive future consultation will be. After the early-March board discussion the Fund continued their usual practice of briefing civil society after a decision had been taken, rather than providing staff papers in advance, so that stakeholders could express their views to the board. The only way to push the staff to be more consultative might be the IMF transparency policy review (see page 12), as the board could then require that staff papers be published before the board takes a decision. ©

Global unions London declaration, ITUC
www.ituc-csi.org/IMG/pdf/No_16_-_G20_London_Declaration_FINAL.pdf

IMF overhauls lending framework
www.imf.org/external/np/sec/pr/2009/pr0985.htm

Latin America: Return to the IMF or reinforce alternatives?

By Maria Jose Romero, Choike

Today Latin American countries are faced with the option of returning to international and regional financial institutions - IMF, World Bank and Inter-American Development Bank (IDB) - or rejecting the failed recipes of the 1990s in order to build and reinforce alternatives that allow them to face the current crisis.

The crisis is a global phenomenon that fails to forgive either regions or countries. The Institute of International Finance has forecast a dramatic reduction in private capital flows to emerging markets. While capital flows in 2007 amounted to \$929 billion, they predict in 2009 flows will only reach \$165 billion. Therefore, we are facing the possibility of a significant contraction of capital flows and investment in emerging economies. The question is how and by whom this contraction can be compensated.

The political argument that Latin American countries used when moving away from the IMF is the same that led them to accumulate international reserves and think of funding alternatives for the region. Now they must decide between participating in the recapitalisation of the IFIs and demanding reform that gives them more power

in their decision-making, and advancing towards the construction of South-South cooperation mechanisms, giving shape to a regional currency and setting the Bank of the South into operation.

On the eve of the G20 meeting, South American presidents travelled to Doha to participate in the second summit of South American-Arab countries (ASPA), to strengthen the South-South axis and join forces to give more weight to their voices at the international level. Since the first meeting of ASPA in Brasilia in 2005, Brazilian exports to the Arab world have increased from \$8 billion to \$20 billion; while Argentinian exports also rose from \$1.8 billion to \$4.5 billion. According to Argentinian government officials, this relationship has been based on cooperation rather than on imposition.

The BRIC group of countries made up of Brazil, Russia, India and China, announced in March that they will only provide more money to the IMF if the institution is

reformed and the voting power of emerging countries increased (see page 7). This reform should also include the reduction of loan conditionalities for poor countries, and an increased capacity to discipline the most powerful nations.

However, many people still doubt the real magnitude of the reforms to be implemented at the IFIs. According to Argentinian economist, Benjamín Hopenhayn, a reform of the IMF's thinking is not credible, since it needs to "change its ideology and that of the 3,000 economists that are part of the IMF." On the other hand, economist Anwar Shaik, professor at the New School for Social Research, of New York, has said that "global coordination would be a good idea but the question is what interests it will respond to. I do not trust the IMF or the World Bank to tell us what is right. Their track-record is awful. If coordination goes along these lines, I'd rather not have it".

Brazilian president, Luiz Inácio Lula da Silva, has also intensified his discourse against neo-liberalism, its

policies and institutions, asserting that institutions such as the IMF or World Bank had been "incapable of anticipating and controlling the financial disorder."

In recent months, China extended currency swap arrangements worth billions of dollars to South Korea, Hong Kong, Indonesia, Malaysia and Belarus, after rejecting the requests of rich countries that it give substantial funding to the IMF in the absence of institutional reform. This list is now joined by Argentina to which China has offered a \$10.2 billion currency swap. According to Mark Weisbrot of US-based think tank Center for Economic and Policy Research this implies a specific alternative for the South American country to escape from IMF influence.

At the IDB's 50th annual meeting in Medellin, Colombia, in March, the president of the Central Bank of Argentina, Martín Redrado talked about the convergence of macro-economic policy and made reference to the proposal for creating a single regional currency. This builds on the initiative of Venezuela to implement the Sucre as a trading currency between Venezuela, Cuba, Nicaragua and Ecuador.

Finally, the Bank of the South should be launched next May with starting capital of \$10 billion from Argentina, Brazil, Venezuela, Bolivia, Ecuador, Paraguay and Uruguay (see *Update* 62).

Civil society and organisations in the region are demanding that their governments reject the IFIs and turn towards people-centred regional alternatives. ©

reject
the
IFIs

US Congress votes against funding World Bank climate fund

By Ama Marston, Bretton Woods Project

In the midst of intensifying global discussions on climate change due to culminate in Copenhagen in December, the US congress voted not to fund the World Bank's Clean Technology Fund (CTF) for 2009.

The Bank launched the CTF in July 2008 under its climate investment funds (see *Update* 63), strongly backed by the US and the UK. The fund was ostensibly formed to fund transformational, low carbon development in developing countries, particularly those with large greenhouse gas emissions. The Bush administration asked Congress to authorise and appropriate US funding of \$2 billion over three years to go to the CTF with \$400 million in 2009, the first year.

In January, the CTF Trust Fund Committee released their criteria for funding, focussing on "reducing emissions by adopting best available coal technologies with substantial

improvements in energy efficiency and readiness for implementation of carbon capture and storage (CCS)," a process of capturing emissions from coal and burying them under ground (see *Update* 64).

"It is a point of great concern that this fund would support more efficient coal technologies while the need of the hour is a shift away from fossil fuel technologies as soon as possible and not to continue countries' addiction to dirty technology," said Vinuta Gopal of Greenpeace India. "For example, the World Bank is funding an ultra mega thermal coal power plant in India, which would only continue to add to our emissions, while this should have gone to fund state of the art renewable technologies."

A coalition of US NGOs, including development and environment groups, wrote to Congress alerting them to the substantial concerns

over the CTF prior to the March vote on the first year appropriation. They urged Congress members not to include coal in climate funding. They highlighted that the CTF criteria would require new coal plants receiving CTF funds to be CCS-ready but would not finance CCS technology, making it difficult for the technology to actually be implemented in the developing world.

They further argued that even if CCS becomes commercially viable it is only expected to improve efficiency by up to 30 per cent. "CTF coal financing is in no way transformational. Scarce public clean energy funding should be used to drive down the price of renewable energy to make it cost competitive with artificially cheap coal and provide clean energy," the letter states.

In response to concerns over the CTF, Congress voted against dedicating \$400 million to it this year and

instead gave \$100 million to USAID for renewable and energy efficiency technologies and \$10 million to the U.N. Least Developed Countries Fund, to poor countries, which are especially vulnerable to the impacts of climate change.

"The U.S. Congress wisely nixed funding for the undemocratic CTF in the 2009 spending bill. Coal financing allowed under the fund logically troubled members of Congress concerned about financing the dirtiest of fossil fuels in the name of fighting climate change," said Karen Orenstein of Friends of the Earth in Washington.

UN Funding the way forward

At UN climate negotiations the G77 and China characterised the CTF as a donor driven initiative that undermines climate negotiations and competes for funding with UNFCCC

continued on page 9

IFIs: Powerful bodies, little accountability

Efforts to reform the IMF and World Bank's governance structures may finally be coming to a head, but they may not go far enough.

The eminent person committee on IMF governance reform (see *Update* 62) issued its report at the end of March. The committee, headed by South African minister Trevor Manuel, was set up to examine recommendations made by the IMF's Independent Evaluation Office (IEO) in its report on IMF corporate governance in December 2007 (see *Update* 59).

While agreeing with most of the IEO recommendations, the Manuel committee notably omitted saying anything about transparency and accountability of the Fund's governance. Instead it focused on the legitimacy and efficiency of the Fund's structure. It supported the activation of the IMF Council and the elevation of the IMF board from day-to-day operational decision-making to a more strategic role. The committee argued that all its recommendations "should be agreed as a single package" of reforms.

The committee recommended that the IMF Council, a body of ministers that will have legal authority to make decisions at the IMF, have only 20 seats compared to the current board's 24 seats, and that they be more fairly distributed between developed and developing countries. The recommendation for activating the council was obliquely referred to in the G20 communiqué (see page 1). However, without a single package of reform to also change board seat distribution, 12 of the 20 seats at the Council would

likely go to developed countries, worsening the representation of developing countries at the IMF.

The committee also supported an accelerated review of quotas at the IMF, asking for it to be finished by the spring meetings of the IMF in April 2010. This one year time frame was also demanded by UK NGOs and trade unions in their statement to the UK government before the G20 meeting. Ambition, however seems lacking. The G20 finance ministers called for the completion of the next review by January 2011. An inside source at the IMF has indicated that achieving agreement even by then may be difficult as European countries, the most likely losers from a quota review, were loath to speed up the existing timetable of completing the review by 2013.

The committee endorsed the often repeated but not yet tested commitments to a merit-based process for leadership selection. It also argued for expansion of double majority decision making (see *Update* 55) and a reduction of voting thresholds from 85 to 70-75 per cent, which would remove the US veto; a serious test for the stated commitment of the new US administration to renewed multilateralism."

Capital account mandate back

While the committee ignored the issue of transparency, it delved into

an area that was explicitly not in its mandate: the roles of the IMF.

The most surprising recommendation was buried in a box and only briefly mentioned in the executive summary: "The capital account would fall within the mandate." This revives a debate that roared in the late 1990s over whether one of the IMF's goals should be universal capital account liberalisation. The committee was careful to say that "the objective was never to champion the liberalisation of capital movements per se, but rather that countries adequately assess domestic macroeconomic and financial risks ahead of liberalisation."

This is dangerous territory, as critics are concerned about the IMF's bias towards liberalisation. Yilmaz Akyüz former UNCTAD chief economist of the Third World Network commented that "developing countries should be extremely careful in accepting multilateral obligations with respect to the capital account, implicitly or explicitly, or a broader mandate for the IMF unless it unambiguously recognises their rights to impose unilateral restrictions over inflows and outflows, and protect them against litigation by international investors and creditors."

Bank governance reform

The G20's call for a completion of World Bank governance reform by

the 2010 spring meetings injects urgency into a reform process that had been slated for a 2011 completion date (see *Update* 63). The G20 communiqué calls for an expansion of the scope of reform to include mandates as well as governance.

The uncontroversial reforms agreed to in the autumn, including an extra board chair for Africa, were approved by the Bank's board in February and should be ratified by member countries at the upcoming spring meetings later this month.

Controversial issues remain unresolved, in particular the G24 developing countries' demand for parity of vote between borrowing and lending countries, a demand supported by over 80 NGOs and numerous influential figures (see *Update* 62). Europe which controls over 30 per cent of the vote, is likely to continue to be the main blocker of change, so far opposing parity.

These issues will be the focus of a high level commission on Bank governance, chaired by former Mexican president Ernesto Zedillo, which announced its members in March. The 12 members include Pascal Lamy, of the World Trade Organisation, and ministers from the UK and Germany. The former president John Kufuor of Ghana is the sole African representative. The commission should report in October.

Kofi Annan, former UN secretary general highlighted the central problem at a conference in Tanzania in March: "At issue is the political legitimacy of international financial institutions." It remains unclear whether the reforms to both institutions will do enough to restore their tarnished legitimacy. ©

Manuel committee report

www.imf.org/external/np/omd/2009/govref/032409.pdf

at issue is the legitimacy of IFIs

Climate fund

continued from page 8

adaptation and technology funds that have already been established and are to be operationalised this year.

Concerns as to whether the Bank is the most appropriate place for climate funds has also been expressed by members of the US Congress. This has caused some to speculate that this may be the beginning of other donor countries backing down on investment in the CTF.

Will UK also back down?

The UK remains strong in its support of the CTF and the climate investment funds (CIFs) more broadly. This is not surprising given that the UK played a critical role in their ori-

gin and design and has, along with the US, been one of the main proponents of others committing funding. The first £100m of the UK's £600 million will be deposited this financial year, of which £60 million will be directed towards the CTF.

Officials from the UK Department for International Development (DFID) maintain that there is support for the CTF and that US funding will be re-committed in 2010. DFID officials expect that only a small proportion of the funds will go to coal projects, and that developing countries will largely pursue other low-carbon projects such as renewable technology, energy efficiency and sustainable transport.

Environmental groups are hopeful that US President Barack Obama will bring new commitment to the

issue of climate change and funding for addressing the issue. However, there are rumours in Washington that Obama will ask for \$600 million for the Bank's controversial funds, including the CTF, when he presents his 2010 budget request in April.

Orenstein concludes that "Both Obama and Congress have noted the importance of clean technology cooperation to address climate change and are interested in allocating funding to it. To do so in a politically and technologically constructive manner, financing for clean energy technology can and should be provided under the UN."

Regardless, there have been reports that the Obama administration will not be able to garner sufficient support from Congress in time to sign on to a global climate change

deal in Copenhagen in December and will have to ask for an additional six months as it gains support for ambitious climate change policies domestically. ©

Report on the World Bank's CTF, Congressional Research Service

digital.library.unt.edu/govdocs/crs/permalink/meta-crs-10826:1

US NGO letter to Congress

internationalrivers.org/en/global-warming/letter-no-us-money-world-bank-coal-technology-fund

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IFC's role in Yemen Mining

by Nadia Daar, Bank Information Center

Trends in the relationship between World Bank and IFC technical assistance policies and the IFC's investment portfolio raise questions over possible conflicts of interest. Disclosure at the IFC remains opaque, making details of projects and policies hard to come by.

Over the last couple of years, the International Finance Corporation's (IFC) regional advisory service agency, the Private Enterprise Partnership Middle East/North Africa (PEP-MENA) has provided assistance to the Yemeni government in the drafting of the country's mining law, which is expected to pass through parliament within a few months. This policy is supposed to reflect best practices, yield increased transparency, efficiency, and regulatory accountability, as well as streamline administrative procedures faced by investors.

Meanwhile, in March 2008, the IFC took the lead in Yemen's tax reform, and pushed a reduction of corporate taxes to attract greater foreign investment. The Bank also pushed for this change through Yemen's development policy loan, a direct budget support instrument that disburses funds based on policy and institutional reforms. The Bank maintained that to make up for lost tax revenues, the government would have to double the sales tax to 10 per cent in 2009.

An increase in sales tax to make up for the corporate tax reduction, would compound the harsh conditions faced by the population, 42 per cent of whom live in poverty and 20 per cent of whom are malnourished, according to the Bank.

While the IFC is encouraging the reduction of corporate taxes, PEP-MENA is helping to draft the mining code. It is very likely that the IFC will expand its investments in

Yemen's mining, oil and gas sectors. The legal and tax reforms make it cheaper and easier for the IFC to invest. This trend is clear in Egypt, where the IFC helped draft the country's new mining laws, and also has substantial investments in the mining industry.

This conflict of interest is clearly no accident; in a MENA report for 2008, IFC advisory services stated that "by the end of [fiscal year] 2008, about 50 per cent of PEP-MENA's advisory work, based on project value, was linked to the IFC's current and potential investments"

Similar trends are seen beyond the MENA region: while the Bank has been supervising the DRC's mining policy since 2001, the IFC maintains investments in DRC copper mines. These trends are seen in other sectors, with the Bank providing substantial technical assistance in India's power sector reforms, while the IFC has invested in the country's power industry, reflecting the overall strategic plan for each region established under the umbrella of the World Bank Group.

Coherence lacking

The mining industry is particularly sensitive because of the vast damage to the environment and surrounding communities from poorly regulated mining projects. A World Resources Institute report encourages greater community engagement in extractive projects, to "mitigate risks, to improve the lives of communities and strengthen

a project's viability." Nonetheless, nobody representing potentially affected communities was invited to participate in the drafting of Yemen's mining policy.

The mining industry is also vulnerable due to a high level of corruption, not only in infamous cases such as the DRC or Guinea, but also in Yemen.

In September 2007, Yemen became the first MENA country to be accepted as an Extractives Industry Transparency Initiative (EITI) candidate (see *Update* 62). This initiative aims to strengthen transparency and accountability in the extractives sector, by setting standards for companies to publish what they pay and for governments

to disclose what they receive. Yemeni work has been slow even though they only have until March 2010 to implement the initiative. The Yemeni ministry of oil and minerals, designated to coordinate the implementation of EITI, has also worked with the IFC on the new mining code, yet there was no mention of EITI in the draft code.

Not surprisingly, the IFC's record of transparency is mixed, at best, with weak disclosure policies and irregular adherence. Information on IFC advisory service projects approved during fiscal year 2007 can be found, with some difficulty, on the IFC's website. However, details of the Yemen policy reform are limited to location, a brief description and total estimated funding. The limited information combined with the complexity of IFC's investments in the mining sector, which could take place through several layers of subsidiary companies, make understanding the extent of these schemes almost impossible. ©

World Bank sabotaging benefit from mining in Africa?

A paper published by the Open Society Institute of South Africa and compiled by a group of African and international civil society organisations highlights the Bank's role in reducing state involvement in mining and promoting the role of the private sector. The report focuses on mining taxation and transparency in seven African countries, finding that generous tax rates as well as illicit tax avoidance strategies mean governments are failing to optimize mining tax revenues. The role the Bank played in promoting lower 'competitive' taxes in order to open African mining to foreign investors is found to be a key factor.

Mining reform was driven by the Bank's overall strategy to reduce the state's role in development, "in no African country, however, did these tax regimes form part of a broader industrial strategy," according to the paper. As well as exposing tax subsidies and avoidance strategies, the report presents recommendations to African governments and international donors as to how they can increase the revenue collected from mining activities. "African governments should be free to use this finance to purchase legal and other technical assistance from any service provider of their choice," the report concludes.

Breaking the Curse www.sarwatch.org/sarwadoocs/BreakingTheCurse.pdf

FCPF still lacks safeguards, participation

In mid March the committee of participants for the Forest Carbon Partnership Fund (FCPF) met. The Bank Information Center expressed concerns that the FCPF process is occurring "without any significant participation by indigenous peoples or civil society". NGOs agreed that there was a "need for greater transparency in the work of the FCPF"; as well as a safeguard review to strengthen standards and ensure plans are consistent with Bank policies and international standards. Donors appear keener on the UNREDD fund which has already begun disbursing grants whilst the FCPF is yet to pay out. The next committee meeting will be in June in Switzerland.

www.bicusa.org/en/Article.11092.aspx

Bank's anti-corruption stance questioned

Doubts have been raised over the efficacy of World Bank anti-corruption efforts. A recent Wall Street Journal article claims that some firms remained on the Bank's books even whilst under investigation for collusive bidding in a Philippines road project which was halted in November 2007. In the wake of the Satyam case (see *Update* 64) US-based NGO Government Accountability Project (GAP) has criticised "the persistent difference between the disclosure regulations for project and loan vendors and the Bank's own internal contractors." It concludes in a new paper that the breach "is inexplicably wide."

www.online.wsj.com/article/SB123819888024662027.html

DFID snuggling up to the Bank?

In March the UK Department for International Development (DFID) published its annual report detailing the UK's work with the World Bank Group between July 2007 and November 2008, and priorities for 2009. The report is late, lacks specific monitorable objectives and shies away from critique of Bank practice. DFID's three year institutional strategy is replaced by a set of five annual priorities setting out DFID's agenda to press the Bank to: help countries recover from the economic crisis; support low-carbon growth; promote gender equality; strengthen work in fragile and conflict-affected countries; and improve representation for developing countries.

Full analysis online at:
www.brettonwoodsproject.org/dfidwb09

Clarification: Armenia corruption allegations

We would like to apologise for any confusion due to an article in *Update* 62 on water privatisation. In discussing a Bank project in Yerevan, Armenia, it may have not been clear that all statements about tendering the parliamentary commission, water services, and project material were allegations from the Government Accountability Project (GAP) report. We have no specific knowledge of the case. The Armenia parliamentary commission as a whole did not approach the Bank or GAP, and its final report did not include corruption allegations. The final Bank internal investigation was made public in April and "found no evidence of fraud or corruption."

www.tinyurl.com/WBfinalreport

Bank under fire over support for private sector health care

The debate over the World Bank's support for private sector investment in health care provision in developing countries is in the limelight again.

A new report by Oxfam entitled *Blind Optimism*, asserts that while the private sector can play a role in health care, evidence shows that only scaling up of public sector provision of services is likely to deliver health benefits for poor people.

At the heart of the report is a critique of the World Bank, which over the past two decades has decried the failure of public health systems. The Bank has used this failure to argue for increased investment and growth in the private sector to address ever growing health care needs. Oxfam points out that in recent years the Bank has acknowledged the role of government in health care, however more "as a steward or regulator than a provider of services". Oxfam says, the Bank has contributed to weakening health systems through enforced public sector spending cuts and wide scale restructuring of the sector.

In the face of recent donor-led calls for encouraging and funding the expansion of private sector health care provision, *Blind Optimism* draws on international research showing serious failings in private sector health care. It argues that publicly financed and delivered services lead to higher performing, more equitable health systems.

Higher private participation in health care is associated with higher costs, according to Oxfam's research, rebutting the argument that the private sector can provide better results at lower cost. Part of this is attributed to private providers pursuing

profitable treatments rather than those dictated by medical need.

Oxfam points out that data from 44 middle-income countries suggests that higher levels of private sector participation in primary health care are associated with higher overall levels of exclusion of poor people from treatment and care. Women and girls suffer most. To make a return on services to the poor, according to Oxfam, the International Finance Corporation (IFC), the World Bank's private lending arm, recommends that doctors see over 100 patients a day, or one patient every four minutes. Those that can afford it, can attain much higher standards of care.

On the other hand, in 30 case studies of developing countries reviewed by the International Monetary Fund (IMF), the government health spending was found to have reduced inequality.

Research generated by the Bank itself supports the importance of public health care. In 2004, the World Bank's *World Development Report* (WDR) (see *Update* 37) pointed out that individual health providers cannot be relied upon to provide the services they collectively desire. In practice no country has achieved significant improvement in child mortality without government involvement. According to the WDR, "Private sector or NGO participation in health, education, and infrastructure is not without problems - especially in reaching poor people." The report showed that

government services generally perform far better than the private sector for rich and poor women alike with respect to childbirth.

Drawing on various sources, including the Bank, Oxfam concludes that the private sector generally performs worse on technical quality than the public sector. For example, in Lesotho only 37 per cent of sexually transmitted infections were treated correctly by contracted private providers compared with 57 and 96 per cent of cases treated in large and small public health facilities, respectively.

Bank disputes Oxfam claims

The launch of the Oxfam report has provoked response from the World Bank. In a point by point rebuttal, the Bank asserts that the research and policies of the Bank and other donors has been misrepresented by Oxfam. It emphasises that its lending focuses on governments. However, it feels that more should be done to leverage non-state actors in health given their already large presence in the health sector. According to the Bank, this does not necessarily mean growth of the private health care system.

The Bank has further stated that in many countries it is possible that the private health care sector is too large and that parts of it provide poor quality care and in some cases may impose too high a burden on the poor via payment for services. The Bank also argues that good governance may be more of a key factor

than having tax-funded public delivery of health care.

Oxfam responded rapidly, pointing out areas of agreement with the Bank but concluding again that Bank policy and loans, while directed at governments, are often channelled into private services via the government and that issues of good governance alone do not account for the high performance of some developing countries in health. "The specific policies they have chosen to pursue in health also make a major difference," Oxfam said.

The Oxfam report also provoked a response from medical practitioners in the *British Medical Journal*. A group of doctors, some of whom work in private health care globally, accused Oxfam of using "data that are thin, selective, and distorted." They also wrote "the data do not indicate causality, but Oxfam fail to acknowledge this." Oxfam's director Barbara Stocking replied to the doctors point-by-point, including noting: "We do say there is a correlation but we do not claim causality. In fact we state clearly in the paper that: '... although this correlation does not clarify whether high levels of private participation cause exclusion, it at least suggests that the private sector does not in general reduce it.'" The debate will continue as more evidence comes in about the effect of the private sector on health outcomes, but the Oxfam paper prompts renewed questioning of the Bank's push for private provision. ©

Blind optimism, Oxfam

🌐 www.oxfam.org.uk/resources/policy/health/downloads/bp125_blind_optimism_private_health_care.pdf

World Bank response to Oxfam

🌐 go.worldbank.org/FJVS7II3A0

British Medical Journal discussion

🌐 www.bmj.com/cgi/eletters/338/feb16_2/b667

UN criticises IFI-led housing policies

In February the UN Special Rapporteur's report on housing was released, highlighting the impact of government policies on the right to adequate housing, and how they have contributed to the current crisis. The report laments the precedence market forces are given over housing provision. A section on World Bank and IMF structural adjustment programmes (SAPs) states that in Ghana they "pushed prices beyond affordable levels for a significant proportion of the population." SAPs also contributed to slum growth, displacement and impoverishment by causing "governments to lessen their efforts concerning economic, social and cultural rights."

🌐 tinyurl.com/UNHCR-housing-report

Gender, finance and the IFC

On International Women's Day the International Finance Corporation (IFC) announced its sponsorship of the first Gender Investment Index series, an initiative of its Gender Entrepreneurship Markets programme devised to mainstream gender into IFC work. No gender organisations appear to be involved. Meanwhile US-based NGO Gender Action released a resource on climate change, the first in a series on issues that have gender impacts.

🌐 <http://tinyurl.com/IFC-gender>

🌐 <http://tinyurl.com/Gender-and-climate>

Bank project design falls short

US NGO, Bank Information Centre, published a report examining World Bank and the Inter-American Development Bank's (IDB) incorporation of participation and accountability into project design. Of projects reviewed, only a few had clear reference to a consultation process or a programme to ensure stakeholder participation. A third incorporated participation and accountability into objectives. Fewer included transparent decision-making procedures or a robust evaluation system. A majority of the reviewed projects were deemed 'standard-mediocre'. Decentralisation, water and health projects were particularly poor. IDB projects did much worse than Bank projects.

🌐 bicusa.org/admin/Document.100918.aspx

African leaders call for greater say in IFIs

At the close of March's IMF-Africa conference, South Africa's finance minister Trevor Manuel sent a clear message to G20 leaders, demanding that "developing countries and emerging markets to be given a greater voice in the governance of the IMF". In a joint statement, delegates at the conference stressed "Africans must be a part of the solution to the global economic crisis and Africa must be fully represented in the evolving global architecture". Delegates also agreed that part of increasing support for Africa would come through further strengthening of Africa's voice at the Fund.

🌐 allafrica.com/stories/200903170884.html

World Bank and IMF launch disclosure reviews

by Bruce Jenkins, Bank Information Center

Civil society groups, painfully aware of information access problems at the World Bank and IMF, hope this year's reviews of transparency and disclosure will bring radical improvement.

Communities and individuals are often unable to participate in Bank decisions and lack information to hold decision makers accountable.

For example, the Bank's country programming plans are often not released in draft form. Project appraisals are disclosed only after approval, as are development policy documents - keeping conditionalities secret. Virtually no information is disclosed during project implementation, and translations of key documents are rarely available. Technical assistance and advisory services are often opaque or untraceable. If you want to monitor your government's positions at the Bank, well, good luck. The Bank's board operates in virtual secrecy: closed meetings, skeletal minutes, no access to executive director statements.

Bank proposals

In mid-March the Bank kicked off a review of its disclosure policy with the release of an 'approach paper', accepting electronic comments through 22 May and planning numerous in-country consultations, though it has failed to provide adequate notice of locations and dates. A draft policy will be released for comments in May/June, with approval as early as July.

The paper articulates four welcome principles as the basis for the new policy: maximum access to information; a limited set of disclosure exceptions; clear information request procedures; and the right to appeal against denial of information. Currently, the Bank considers all documents secret unless they are on a specific list. Under the new approach, the Bank would disclose all information held by the Bank unless it falls within a limited set of disclosure "exceptions".

The paper also proposes to release supervision reports, aide memoires, country portfolio reviews, more evaluation documents, and papers already considered by the board.

Unfortunately some proposed exceptions are broadly drawn, allowing significant categories of documents to remain secret, undermining the "maximum access" principle. Key categories of information, such as board proceedings, draft documents, and third-party information, would be unduly circumscribed. The paper proposes an

appeals process for denied requests, but the body would be under management control, not independent.

Some of these proposals reflect norms found in national freedom of information systems and the Global Transparency Initiative's *Transparency Charter for International Financial Institutions*. However, the paper leaves a lot of room for discretion and does not provide enough information for a full assessment of the new approach.

IMF next in line

In late March, the IMF initiated a much-delayed review of its transparency policy but it provided little further information on the process. The Fund posted three questionnaires - for civil society, market participants and researchers - with public comment due by end of April.

The IMF's current policy covers only a portion of information held by the Fund. Few documents are released in draft form, blocking external stakeholder access to decision-making. Disclosing country-related documents, such as Article IV reports, requires explicit member country consent for publication. Secret "side letters" allow for withholding of information in which there may be an abiding public interest. The IMF does not provide process guarantees on handling information requests nor an appeals process for those denied access.

While the IMF's board releases far more information than the Bank in the form of Public Information Notices, IMF board meetings are closed, and minutes and executive directors' statements are withheld for 10 years, if not indefinitely.

The IMF did not provide the public with recommendations for changing its transparency policy and does not yet have a plan to release a draft policy for public comment after the comment period. Aside from a briefing during the Bank/Fund spring meetings, the IMF does not plan to conduct consultations. Despite substantial infusions of public money, the IMF continues to stand accused of displaying a cavalier attitude towards stakeholder engagement. ©

www.ifitransparency.org

Bank disclosure review

bicusa.org/en/Article.11071.aspx

IMF seeks views on transparency

imf.org/external/np/pdr/trans/2009

2009 World Bank-IMF spring meetings schedule

Members of staff of the Bank and Fund, board members, development and finance ministers are gathered in Washington 25-26 April.

Official meetings

- 24 April Meeting of G24 group of developing countries and G7 finance ministers
- 25 April International Monetary and Financial Committee meeting
Tentative agenda: Global economic outlook; implementing G20 decisions
- 26 April Development Committee meeting
Tentative agenda: Developing countries and the economic crisis; governance reform

World Bank, civil society events

- 21 April Gender tools for IFI watchers CSO meeting with IFC and MIGA
- 23 April African food and financial crisis, World Development Report 2010 on vulnerability to climate change, WB participation and accountability in Latin America, IMF transparency policy, hidden impact of hunger on women and children, G20 summit outcomes on IFIs
- 24 April WB civil society engagement, development and social protection in a new financial architecture, IEG, IFI policies on teachers' wages, IFC agribusiness financing, Inspection Panel
- 25 April IMF crisis response, WB disclosure review
- 26 April CSO strategy session on IFIs & global economy

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

For full details of events, contact information for groups in Washington for the meetings, and links to documents released by civil society, visit [IFIwatchnet](http://IFIwatchnet.org).

www.ifiwatchnet.org

Rethinking finance: Alternative voices for a new financial architecture

Rethinkingfinance.org presents alternative ideas and analyses of the current financial and economic crisis and the reform of global financial architecture. It consolidates all the latest commentary, news, analysis, research and information on civil society action. The work of several international NGOs, the site presents alternative proposals to make finance work for people and the environment. It offers up-to-date information on the global crises in our economies and financial sectors.

www.rethinkingfinance.org



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