

Breaking the chains? IFC backs out of palm oil

Violations of the IFC's performance standards in a palm oil project in Indonesia could have far reaching effects, drawing attention to the IFC's responsibility for the impact of whole supply chains, as a review of their social and environmental standards gets under way.

In August, the Compliance Advisor Ombudsman (CAO), an internal watchdog, published a report exposing that the International Finance Corporation (IFC), the private sector arm of the World Bank, favoured commercial interests over environmental and human rights concerns in palm oil extraction in Indonesia.

The charges levied against the IFC stem from complaints filed by Indonesian NGOs related to loans made between 2003 and 2008 for palm oil processing facilities and trading facilities operated by the Wilmar Group. The case focused on the IFC's failure to apply its performance standards and procedures, as well as allegations that Wilmar subsidiaries were illegally using fire to clear primary forests and high conservation value areas and seizing indigenous peoples' lands without their consent.

The CAO found that despite being "aware for more than 20 years that there were significant environmental and social issues and risks inherent in the oil palm sector in Indonesia [the] IFC did not develop a strategy for engaging in the oil palm sector. In absence of a tailored strategy, deal making prevailed."

The relevant IFC social and environmental performance standard states that "the impacts associated with supply chains will be considered ... where the resource utilised by the project is ecologically sensitive." Oil palm is listed as ecologically sensitive.

In the Wilmar case, the IFC is accused of taking a "de minimis approach so as to exclude assessment of the supply chains", arguing that the project was only a trade facility and not a plantation. Two of the four loans were



made to a Wilmar subsidiary for the development of a crude oil palm refinery in the Ukraine. The other two loans were for Wilmar's Indonesian trading subsidiary to provide capital for the purchase and export of palm oil. The project's social and environmental risk was downgraded from A to B, meaning that management decided that an assessment of the plant's supply chain was not needed.

The CAO report makes it clear that the assessment should not have been based on the incorrect assumption that

only Wilmar-owned parts of the supply chain should be examined, as this is "inconsistent with the IFC's performance standards, which require a broader assessment of suppliers and supply chains."

Marcus Colchester of NGO Forest Peoples Programme commented, "it has taken us more than five years to get the IFC to take these issues seriously. Given the urgency of halting forest loss and human rights abuses, we call on the World Bank president to take personal proactive steps to ensure this never happens again."

IFC taps out

Initially, it seemed that the IFC was determined to resist cutting back on investment in palm oil, arguing in August that "the sector has considerable potential for job creation and economic growth". In response to the CAO, the IFC did acknowledge that it lacked a strategy for engagement in the palm oil sector which it promised to develop by October. It also agreed that in the future palm oil should be categorised as being higher risk.

Then, in a surprise statement released in September, World Bank president Robert Zoellick backed down, saying "until we have a new strategy in place, the IFC will not approve any new investments in palm oil."

Further to the initial weak management response, the IFC has agreed to formulate a comprehensive strategy to guide its involvement in the palm oil sector by February 2010. They will develop an advisory services programme for the palm oil sector in Indonesia and revise the IFC's environmental and social review procedure to clarify categorisation of trade finance investments. They also plan to strengthen implementation of the existing prohibition against clearing critical habitat or high conservation value forest and assess the status of Wilmar's environmental and social performance.

Norman Jiwan of the Indonesian NGO Sawitt Watch welcomed the IFC's intentions but is reserving optimism. He hopes that the process will be "open and participatory and lead to the IFC applying performance standards more stringently to the whole supply chain."

The Wilmar saga has come to a head just as the IFC officially launches its three year review of performance standards on social and environmental sustainability (see pages 4, 6). The question that remains is whether the review will tackle the major weaknesses this case has shown exist within the performance standards framework. ©

CAO report
tinyurl.com/caowilmar

G20 vs UN: the battle continues

The future of international economic governance and financial reform continues to be debated separately at the United Nations and the G20, but little progress is being made.

The ad-hoc open-ended working group of the UN General Assembly that was established as an outcome of June's UN summit on the financial crisis (see *Update 66*) held its first meeting in early September. The outgoing UN General Assembly president Manuel D'Escoto, in consultation with the incoming president Ali Treki, appointed Lazarus Kapambwe of Zambia and Morten Wetland of Norway as the co-chairs of the group.

The meeting, which included major groupings such as the G77 and EU presidency, was only viewed by the co-chairs as an input into developing a work plan. Gemma Adaba from the International Trade Union Confederation noted the tensions in the room: "the industrialised countries would limit the scope of the ad hoc working group by not providing any resources and by emphasising other areas of substantive work which it should not duplicate. The G77 wishes to adhere to the agenda agreed in the [UN conference] outcome document, without restrictions."

More than 80 NGOs and civil society organisations (CSOs) sent a letter to D'Escoto, Treki, Kapambwe and Wetland urging them to "[accord] a space for active participation of our coalition of CSOs and NGOs in the follow-up activities of the working group."

The United Nations Conference on Trade and Development (UNCTAD) issued its 2009 *Trade and Development Report* in early September, providing clear

analysis on key issues for future reform. The report was scathing on IMF loans: "In reality, the conditions attached to recent lending operations have remained quite similar to those of the past. Indeed, in almost all of its recent lending arrangements, the Fund has continued to impose procyclical macroeconomic tightening."

The report was also critical of the IFI's previous pushing of financial sector and capital account liberalisation. Saying that "the contribution of [sophisticated] financial markets to social welfare is highly questionable," it suggested that "developing countries should proceed with caution and avoid 'big-bang' processes of financial reform." Highlighting concerns long expressed by developing countries and NGOs about liberalisation, it said "the IMF should more actively encourage countries to use, whenever necessary, the introduction of capital controls."

G20 taking a different course

The media headlines around the G20 finance ministers' meeting in London in early September and the G20 leaders' meeting in Pittsburgh in late September focussed on the question of bankers' bonuses. The finance ministers provided a long progress report on the more than 90 actions promised by previous G20 summits, but agreed little new.

The participants congratulated themselves for delivering the \$1.1

trillion pledged in April (see *Update 65*), but an analysis of the numbers tells a different story. A briefing from Brussels-based NGO, Eurodad, concluded that the G20 "has not managed to mobilise sufficient political will or finance to prevent major social impacts."

The finance ministers hailed the "significant progress in strengthening the IFIs" but also said "more needs to be done". While the \$250 billion worth of special drawing rights were fully allocated, actual delivery on the \$500 billion in additional resources for the IMF has only totalled about \$195 billion. On top of this, the US commitment of \$100 billion has been agreed through the New Arrangements to Borrow, which requires additional measures to activate. The IMF has lent out about \$173 billion overall (including loans made before the crisis), but it had about \$250 billion in available capital before the G20 agreement to boost its resources. Thus, the boost in resources has not yet been used to support any developing countries.

On the promise of increasing trade finance by \$250 billion, the G20 produces an unreferenced figure of \$65 billion having been taken up, though the only actual programme cited is the one by the World Bank's International Finance Corporation (see *Update 66*), which received commitments of just \$7.75 billion. The final \$100 billion was to be "additional lending by the multilateral development banks", but the World Bank's June *Global Development Finance report* estimated that the total would be \$88 billion.

Consultation or mobilisation?

Former IMF chief economist Simon Johnson was cynical about the G20 strategy for reform, calling it "sophisticated delaying action ... you are seeing masters of economic policy spin at work." A clear example of this might be the promised G20-chair review of the IFI's role and responsibilities, which was supposed to be personally handled by British prime minister Gordon Brown. The review went through "consultation with the G20, external academics and low income countries." There was little to no discussion on the matter with civil society, despite repeated questioning of the prime ministers' office by NGOs about how a consultation would be run. In the end the poisoned chalice was handed at the last minute to London-based think-tank the Overseas Development Institute, with a "consultation brief" provided by DFID, the UK's aid agency. The big questions on IFI mandate and governance are likely to be ignored or kicked back into discussions at the IFIs themselves.

In Pittsburgh, civil society organisations were actively organising against the 24 September G20 summit despite resistance from the police and refusal by the city council and the mayor to grant permits for the mobilisations. Local organisations have also launched a G20 media support website, with the motto "Pittsburgh welcomes dissent".

Letter from CSOs to UN

rethinkingfinance.org/documents/civil-society-letter-un-general-assembly

Trade and Development Report

tinyurl.com/unctadtr09

London to Pittsburgh: assessing G20

eurodad.org/whatsnew/articles.aspx?id=3820

G20 media web portal

www.g20media.org/

What bidding process? Bank hired in Israel

The World Bank was awarded a \$500,000 contract to examine the Israeli Electricity Corporation's (IEC) financial condition with no bidding process. If this were a Bank-funded project, such a procedure would not be allowed. "The appointment of the bank without a tender process, with the reasoning that no other entity in the world is able to do the job, is at best incorrect," said Professor Daniel Czamanski, chair of a committee on the structure of the electricity markets in Israel. The IEC has been criticised by environmental protection minister Gilad Erdan for promoting decisions that pose environmental and health impacts on Israel.

www.haaretz.com/hasen/spages/1108257.html

Bank's \$100 billion annual lending plan

The progress report for G20 finance ministers (see above) said that World Bank lending was projected to reach \$100 billion annually by 2011. This compares to current annual aid from rich donors of \$120 billion. Most of this increase would be through IBRD lending to middle-income countries. In fiscal year 2009 lending reached almost \$60 billion, up from under \$40 billion in the previous year (see *Update 66*). Plans to increase the capital contributed to the IBRD, originally scheduled to be discussed at the annual meetings appear to have been pushed back to next spring as countries argue over the changes in voting shares that this will entail.

Bank urged to improve municipal management

In June, the Independent Evaluation Group (IEG) released a study on World Bank experience in improving municipal management, covering the entire portfolio of 190 municipal development programmes (MDPs) during 1998-2008. Overall, the report finds that the MDPs led to better financial management, information systems and procurement procedures, but were weak on monitoring and evaluation, operations and maintenance, private finance for municipal services, and, most crucially, failed in most cases to integrate poverty alleviation into their objectives. The report concludes that "little evidence exists that stronger municipal management has benefited the poor."

tinyurl.com/IEGmunicipal

IDA replenishment starts soon

Although there has not been a large take up of the fast-tracking facility available to IDA countries (see *Update 65*), it could affect the timetable for IDA replenishment, if it causes IDA funds to run low before the end of the legal period of IDA 15 in 2011. The mid-term review of IDA 15 in mid November will kick-start the triennial IDA replenishment process, with the first IDA deputies meeting next March. IDA replenishment is the time when donors are asked to fill up the coffers for IDA, the Bank's grants and highly concessional loans arm for low-income countries. In the past, NGOs have used the replenishment to highlight major concerns about the World Bank to donor governments.

On August 28, in Bariloche, Argentina, the presidents of twelve South American countries met to discuss a life-or-death issue for their newly created Union of South American Nations (Unasur): the Colombian-US

agreement allowing for extra-regional military to set up a chain of bases very close to the heart of the Amazon. It was a highly contentious issue and a difficult one for a newly created institution like Unasur, touching sensitive aspects of national sovereignty, security, drugs and terrorism. So what did the presidents do? Hide behind closed doors to broker a secret agreement? No. They decided to broadcast the whole 6-hour meeting, including putting it live on the internet. Under this intense public scrutiny, the presidents reached a deal that managed to save all faces and keep Unasur alive and perhaps even strengthened.

How does that compare with the procedures of the Bretton Woods institutions that keep trying to teach developing countries how important good governance is for their future wellbeing? The World Bank and the IMF not only keep press and NGOs out of their meetings, but they also keep the transcripts secret. While decisions are announced, it is impossible to know who was for or against, making accountability to parliaments, civil society, and the people that they are supposed to represent practically impossible.

Thus, when the ‘fourth pillar’ consultation was carried out, trying to elicit civil society views on the governance reform of the IMF (see *Update* 66), the Latin Americans that were consulted seemed less interested in the details of the increase of votes within the same opaque voting system and more in the notions of integrity and impunity from national level prosecution of IFI officials.

In most Latin American countries, if a high ranking public servant leaves her position, it is against the law for her to be hired by any com-

The Byzantine governance of the IFIs

COMMENT

by Roberto Bissio, ITEM, Uruguay

pany with which she or anybody under her authority might have done business. That prohibition extends from six months to several years, depending on the different anti-corruption approaches. Yet, it is a common practice for finance ministers to be hired by the IMF as soon as they leave office, frequently under political pressure after having signed some deal with the Fund. And there are cases of Fund (and Bank) officers becoming ministers or central bankers, in what many have called a ‘revolving door’ practice.

“What if the votes required to pass decisions were lowered from 85 to 83 per cent?” asked a participant in the consultations. The question was not naïve, but points to the heart of the matter. With 16.7 per cent of the votes, the United States has veto power in the IMF and the World Bank. In fact, veto power is an expression that originates from the UN Security Council, where the five permanent members have the ability to cast a no vote to block any decision. In the Bretton Woods institutions it is the other way around: no important decision can pass unless the US casts a yes.

Is there some relation between the enormous power of one country over the two pillars of international finance and the fact that the global financial crisis originated precisely in that country? And that it happened without the Bretton Woods institutions seeing it coming and warning the world about it? Well, think of the story of the emperor without clothes. Could anyone else have run around naked without anybody pointing a finger?

How to get rid of the veto without the vetoer vetoing is the key question to be addressed in the new Byzantium, a city that gave its name to the practice of discussing endlessly futile matters while denying the really urgent. ©

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Good cop, bad cop? IMF in Honduras, Sri Lanka

There have been significant concerns about IMF programmes in Honduras, where the IMF has not made clear whether it will deal with coup leaders who seized power from the elected president, and in Sri Lanka over allegations that the government is abusing the human rights of hundreds of thousands of Tamils.

At end June Roberto Micheletti seized power in Honduras in a military-supported coup, and the president Manuel Zelaya was flown out of the country. In response to the coup, the World Bank, Inter-American Development Bank and the Central American Bank for Economic Integration all suspended lending to Honduras. The EU has suspended \$90 million in aid and the US has suspended all but humanitarian aid.

There has been widespread controversy over the IMF disbursing Honduras’ share of special drawing rights (SDRs), an IMF-created reserve asset. The IMF allocated \$164 million worth of SDRs to the Honduran Central Bank at the end of August and in early September.

On 6 September the IMF issued a statement clarifying that “the present de facto regime may not use the funds until a decision on whether the Fund deals with this regime or the government of Honduras.” That decision is yet to be made, a seeming improvement over handling of the 2002 coup in Venezuela (see *Update* 28), but there was no clarity over how the decision will be taken and on what criteria it will be based.

Civil society organisations appear to be divided over whether the IMF should allow the funds to be used. Jubilee South has stated that “the disbursement of these resources would constitute *prima facie* illegitimate debt that neither the Honduran people nor any legitimate future government would have cause to pay.” Whereas according to the Social Forum of External Debt and Development in Honduras (FOSDEH), “the disbursement of 164 million dollars made by the IMF, is a good sign for the national economy.”

Sri Lanka controversy

At the end of July, after four months

of discussions with the Sri Lankan government, the IMF approved a loan of \$2.6 billion despite opposition from countries including the United States, Britain, Germany, France and Argentina. The US and the UK were said to have abstained in the final board vote due to concerns over the government’s alleged slaughter of Tamil civilians and abuse of the human rights of Tamils held in internment camps. Over the summer Tamil diaspora groups launched a wave of petitions against the IMF loan.

Nearly 300,000 Tamils are still being held in internment camps set up by the Sri Lankan government months after the end of the civil war. US-based NGO Human Rights Watch alleges that the government holds these people in violation of their rights to freedom of move-

ment. They also allege that the government is preventing aid agencies from speaking out about the poor conditions in the camps, while testimonies smuggled out have reported shortages of medical supplies and water. The director of its Asian division called the IMF loan “a reward for bad behaviour, not an incentive to improve.”

Human rights groups’ worries that the IMF loan will be seen as an endorsement of the Sri Lankan government seem well founded. Nick Nicolaou, chief executive officer of HSBC Sri Lanka, said that “Sri Lanka has an excellent story to tell ... the IMF endorsement provides confidence to overseas investors.” The government has now also announced a plan to raise \$500 million in sovereign debt. ©

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Concerns over IFC's upcoming performance standards review

By Ben Natkin, Bank Information Center

The IFC has launched a three-year review and update of their policy and performance standards on social and environmental sustainability, but civil society has already raised concerns about the process and criticisms remain over the content of the standards.

This is the first update of the International Finance Corporations (IFC) environmental and social standards since their implementation in 2006 (see *Update 50*), and will result in a revised policy to be finalised by December 2010. September marked the opening of the first of three consultation phase with the launch of a website, where stakeholders can comment on their experiences with the current policy and suggest improvements.

Many civil society organisations were very critical of the policy and performance standards from their 2006 inception, and hope that the review process will provide an opportunity to achieve substantive change. The IFC, however, has referred to the process as merely a "fine tuning" and repeatedly mentioned that three years after the launch of the standards is a very short period in which to conduct a review, implying they are considering changes on a much smaller scale.

In July, the IFC released a report reflecting on implementation of the standards thus far. The report covers approximately 560 projects and concludes that the standards contribute to the IFC's business and help with risk management. It also finds that the disclosure of information in the life-cycle of IFC projects has been inconsistent. However, the report excludes studies of the impact of IFC standards on communities and the environment and instead focusses on the IFC and its clients. The paper then lays out the emerging agenda and approach that is likely to form the core of the review process.

In a response to the report, 150 NGOs submitted a letter to IFC head Lars Thunell, highlighting that the review process did not provide an opportunity for consultation with communities affected by IFC projects or allow robust input from those communities. The letter argues that "it is essential that IFC solicit input

from individuals and communities who have first hand knowledge of project impacts and effectiveness, including intended beneficiaries, indigenous peoples and their representative federations and civil society partners, those subjected to displacement and those who have experienced changes in their local environments." While the IFC acceded to the request to consult with affected communities, it intends to meet with only up to ten, and will largely rely on external assessments to solicit community input.

The NGOs also called on the IFC to be transparent in the review process, undertake consultations in regions with affected communities, and make revisions to the standards available to civil society at the same time as changes are submitted to the board of directors. The IFC has incorporated many of these points into its consultation plan.

The three key areas for which the

IFC is seeking feedback in the first stage of consultations on the review are clarity of language, implementation effectiveness, and gaps in current coverage. One of the biggest objections to the current standards from civil society is that the weakness of language and vague commitments can allow funding to continue even in violation of the standards.

Civil society organisations have a number of concerns about substantive areas where the standards are still lacking (see *Update 50*, 46). A key gap is that the standards contain no overarching policies on human rights or climate change. Furthermore, as the policy currently stands, clients are not required to gain the free, prior, and informed consent of affected communities in projects with significant potential impacts. Instead the IFC must simply demonstrate that it has achieved "broad community support", a far looser requirement.

Some of the failings of current IFC policy came to light in late August when World Bank president Robert Zoellick announced the suspension of all financing from the IFC for the oil palm sector after finding that the Wilmar Group violated several of the performance standards and that the IFC had ignored its own policies in letter and spirit (see page 1). ©

IFC performance standards review

www.ifc.org/policyreview

Bank's conditions still problematic in Latin America

By María José Romero, Choike

World Bank lending has increased dramatically in Latin America, but Bank conditionality is still pushing a harsh macro-economic framework, despite the changes in policy that the crisis has brought to the rest of the world.

During the 2009 fiscal year, which ended in June, World Bank commitments to Latin America almost trebled, from \$4.7 billion to \$14 billion, the majority through the International Bank for Reconstruction and Development (IBRD), the Bank's middle-income country lending arm (see *Update 66*). The proportion of IBRD commitments that were development policy loans (DPLs) rose from 29 to 47 per cent. As has been long pointed out by civil society organisations, DPLs represent an updated format of the structural adjustment policies of past decades, and come with controversial conditionality.

In Latin America and the

Caribbean, the Bank has signed DPLs worth \$5 billion with Brazil, Peru, Costa Rica, Colombia, El Salvador and Guatemala. Some of them are focused on environmental policy reforms, including the \$1.3 billion loan granted to the Brazilian development bank for sustainable environmental management (see *Update 65*), while others are aimed at finance, public administration and social service sectors.

A \$370 million DPL was approved for Peru in August 2008 as a result of an analysis carried out before the economic and financial crisis had broken out. El Salvador was lent \$450 million and Costa Rica \$500 million at the beginning of 2009. By then the developing world

was suffering the full effects of the crisis of developed countries, and Central America in particular, since it is a region tightly linked to the United States economy through both free trade agreements and remittances. However, no matter when the loans were approved, the frameworks were the same.

The loan approved for Peru includes the Bank's traditional conditionality framework of macroeconomic and trade policies such as public expenditure control, low fiscal deficits, promotion of public-private partnerships and trade opening by fostering free trade agreements. The loan states clear outcomes to be achieved by the end of the programme in 2011, including that the

"fiscal deficit of the consolidated public sector remains less than one per cent of GDP."

The loan approved in January for El Salvador and the loan approved in April for Costa Rica linked public finance objectives to education and social sector ones. The El Salvador loan focuses on a reform of the tax system (the implementation of two new taxes and the elimination of electricity subsidies) and improvements in social protection and education. The Costa Rica loan aims at "improving competitiveness to exploit foreign direct investment and trade opportunities offered by DR-CAFTA," the Dominican Republic – Central America Free Trade Agreement, and supports an educational programme. The first objective includes controversial reforms in the telecommunications and insurance sectors and on intellectual property rights legislation.

Despite the record amount of World Bank commitments during the fiscal year of the crisis, civil society organisations are monitoring the Bank's activity, taking into account the track record on conditionality and its consequences for development. ©

Inside the institutions **Safeguard policies and performance standards**

Originally drafted as internal operational policies (OPs) to guide staff, World Bank safeguard policies evolved after pressure from environmental and social groups, into public commitments to avoid doing harm. They aim to protect people and the environment from the adverse effects of Bank-financed operations and are based on international agreements, even if these protections are not explicitly provided for in the borrower country's national law.

The safeguards consist of ten key environmental and social policies that set standards and procedures that the borrower and Bank must follow in the lead up to and during World Bank-financed projects. Safeguards apply to IBRD and IDA. The International Finance Corporation (IFC) uses its own set of performance standards (see page 4). The ten safeguards are:

- Environmental assessment – *the 'umbrella policy' through which potential social and environmental impacts are identified and mitigation measures proposed.*
- Natural habitats – *places limits on Bank financed projects that may impact on areas of important biodiversity.*
- Pest management – *promotes the use of biological or environmental control methods and sets conditions on the acquisition and use of pesticides.*
- Indigenous Peoples – *establishes standards and procedures when projects affect indigenous communities. It is the only safeguard to in some way reference human rights.*
- Involuntary resettlement – *sets standards and procedures for projects that displace people from their homes or cause economic displacement*
- Forestry – *establishes minimum standards on the types of forest projects that the Bank will finance, including commercial logging and plantations under restricted conditions.*
- Safety of dams – *establishes procedures and safety requirements for construction of new dams and for projects that depend on safe functioning of existing large dams.*
- Projects on international waterways – *seeks to reduce conflict between states that border an international waterway over projects that may pollute it.*
- Projects in disputed areas – *lays out minimum rules for Bank-financing of projects in areas disputed by two or more states.*
- Cultural property – *requires the Bank to avoid damage and assist in the preservation of cultural property.*

Most safeguard policies comprise OPs that list core requirements and bank procedures (BPs) that Bank staff must follow. They apply to investment projects and

programme lending but not development policy lending (DPL) or reform programmes (see *Update 66*), which have separate relevant policies. However, OP 8.60 requires that the Bank take action if development policy lending will cause "significant poverty and social consequences" or "significant effects on the country's environment, forests, and other natural resources." A separate policy covers social and environmental reviews of policy loans which may have significant social and environmental impacts.

When the World Bank or a borrower is alleged to be violating any safeguard, complaints can be lodged through the Inspection Panel, a semi-independent body formed in 1993 that enables affected parties to request an investigation into the Bank's role in projects (see *Update 34*).

In 1999 the IFC, the private sector lending arm of the Bank, adopted the Bank's safeguards. However, since 2006 it has followed eight separate performance standards which govern the client's role and responsibilities. These performance standards are: social and environmental assessment and management systems; labour and working conditions; pollution prevention and abatement; community, health, safety and security; land acquisition and involuntary resettlement; biodiversity conservation and sustainable natural resource management; indigenous peoples; and cultural heritage.

Prior to IFC financing, a proposed project is subject to a social and environmental review during which potential impacts are identified and remediation measures proposed. In reviewing the potential impact of projects, the World Bank and the IFC use a categorisation system that identifies which safeguards are triggered and what level of action or precaution must be taken. Projects are rated from category A, the highest risk, down to category C, the lowest.

IFC clients must address project-related grievances or complaints from affected parties. Complainants can allege violations of safeguards and approach the Compliance Advisor Ombudsman, an internal watchdog that reports directly to the president of the World Bank Group (see *Update 34*).

IFC safeguards have also played a standard-setting role in developing countries and amongst private banks involved in project finance. The Equator Principles, a set of social and environmental standards based on the IFC's performance standards, has been adopted by 68 private financial institutions, including BNP Paribas, Citigroup and Lloyds TSB.

The performance standards have been criticised by civil society organisations for being weaker than the Bank's safeguard policies (see *Update 51*). ©

World Bank safeguard policies

🌐 go.worldbank.org/WTA10DE7TO

IFC performance standards

🌐 www.ifc.org/ifcext/sustainability.nsf/Content/PerformanceStandards

Contract transparency missing as IFC expands oil investments in Africa

By Josh Klemm, Bank Information Center

As the World Bank's private lending arm, the International Finance Corporation (IFC), expands its role in the African oil and gas sector, civil society groups are insisting that it adopts a requirement for full contract transparency in all of the extractive industries projects that it finances.

In August, the IFC announced plans to increase its funding for oil projects in Sub-Saharan Africa, fast becoming an important global source of oil. Africa currently comprises 20 per cent of IFC's \$2 billion global oil and gas portfolio and growth is expected with the IFC exploring oil investments in Uganda, Tanzania and elsewhere.

Earlier this year, the IFC approved \$215 million in loans to Kosmos Energy and Tullow Oil to exploit newfound oil and gas

reserves in Ghana's Jubilee field over objections from civil society (see *Updates 65, 64*). In a letter to the IFC's executive directors prior to the project's approval, civil society groups stressed transparency as central to avoiding the corruptive effects of oil booms seen elsewhere on the continent, such as the disastrous IFC-backed Chad-Cameroon pipeline project (see *Update 60*). The IFC declined to disclose the contract when it approved the Jubilee project, stating that it did not meet the criteria for a 'significant' project.

IFC policy requires that "relevant terms of key agreements that are of public concern" be publicly disclosed in significant extractives projects. To date, no IFC-financed extractives project has qualified as significant. The IFC considers an extractives project significant only when it

is "expected to account for 10 per cent or more of government revenues." Although many estimates place revenues from the Jubilee field in excess of 10 per cent during peak production, the IFC maintains it would instead be between seven and nine per cent, serving to highlight the arbitrary nature of the threshold.

Civil society groups have long pressed the IFC to adopt a contract disclosure requirement for all of its extractive projects to ensure good governance. According to Lindlyn Tamufor from Third World Network-Africa, "not only do contracts determine government revenues, they can also have important implications for communities, the environment, and human rights." Stabilisation clauses in contracts, which exempt investors from com-

pliance with changes to domestic law are prevalent in extractives contracts. The UN and civil society groups have criticised these clauses for undermining the ability of countries to apply international human rights standards (see *Update 60*).

Meanwhile the IFC has announced plans for closer cooperation with China to finance oil and gas projects in Africa, raising worries about its future activities in a continent widely regarded as being a showcase for the "resource curse".

Questions are again being raised over scarce public resources being used for fossil fuel projects backed by wealthy multinationals, as a study by the Guardian newspaper found that three of the top fifteen most highly paid executives in the UK are employed by Tullow Oil. ©

Business as usual? The World Bank's new energy strategy

By Jakob Kane Loukas, Bank Information Center

The Bank's planned energy strategy review focusses on energy access for the poor and environmental sustainability, but NGOs fear it will justify continued fossil fuel finance.

The Bank produced a concept note on the energy strategy review in June, which was distributed to selected NGOs, but was still not on the Bank's website by September. After discussing the fundamental dangers of climate change in the developing world, the note states that economic concerns may trump environmental ones. The Bank estimates that climate change mitigation may require a \$600 billion annual investment in the developing world. On energy, however, the concept note is dismissive of available renewable technologies and their applicability to developing countries. It does not offer any alternatives to current Bank policy, nor does it rule out environmentally hazardous energy sources, like coal and nuclear.

Bruce Rich of US-based NGO Environmental Defense Fund says that although new coal plants financed by the Bank will likely employ supercritical technology, they will be carbon-intensive, and will generate significantly more CO₂ emissions than renewables. He concludes "public international finance should support the necessary transition from coal power in the developing world and economies in transition." Moreover, new coal plants have an operating life of up to 50 years and rehabilitated plants about 20 years, committing the world to enormous emissions for many years to come.

The concept note also calls for financing of large hydroelectric proj-

ects, despite the adverse impacts on habitats and livelihoods, and evidence that large dam reservoirs are a significant source of greenhouse gas emissions (see *Update* 66). An approach paper that elaborates on the goals of the energy strategy is expected to be released by end September.

Accepting that the Bank is still a major source of finance for carbon-intensive projects (see *Update* 65), the UK recently called on the Bank to increase its clean energy and energy efficiency portfolio to 60 per cent of all energy investments in the next three years. Bank statistics show 35 per cent of its portfolio as being "clean in 2008" but approximately 40 per cent of this is large hydroelectric and other controversial forms of energy. "The UK's efforts to clean-up the Bank should focus on renewable energy," says Dominic White of international NGO WWF, "and ensure that the highest standards of environmental and social impacts are considered before investments in any energy deemed as 'clean'."

Energy access

There remain questions over whether the proposed strategy can meet its objectives of alleviating poverty and expanding energy access to the poor. Although coal fired power plants and large hydroelectric projects have enormous power generation capacity, past investments in large infrastructure projects have often proved difficult,

costly to implement and open to abuse where governance is weak. Power often failed to reach local communities while, at the same time, creating substantial adverse environmental and social impacts.

While the Bank struggles to reconcile energy access and sustainability, the US Treasury published a response to the concept note in mid-July. It noted that "the World Bank's energy access agenda is largely not at odds with the climate agenda," and suggested focusing on improving supply-side efficiency and eliminating incentives for electricity overuse by industry. It did however, point out that the energy strategy concept note has not adequately addressed the issue of fossil fuels. As both NGOs and the US government push for higher environmental standards at the Bank in advance of the Copenhagen climate talks, there is a rare opportunity to highlight contradictions within the Bank and advocate for a reformed approach to energy investments.

Fabby Tumiwa, executive director of the Institute for Essential Services Reform in Jakarta, reflected the general feelings of many NGOs when he said, "the concept note fails to acknowledge the need for investments in innovative, clean and off-grid energy options that directly expand access to the poor."

Going for the Grand Inga

During his recent visit to the Democratic Republic of Congo

(DRC), World Bank president Robert Zoellick expressed the Bank's intention to finance the 39,000 megawatt, \$80 billion Grand Inga hydropower project in conjunction with the Southern Africa Development Community, the New Partnership for African Development and the World Energy Council. This dam is being touted by proponents for its potential to bring electricity to millions of Africans and jumpstart industrial development on the continent. It would be the most expensive dam in the world and double the size of the current largest dam, China's Three Gorges.

Observers are sceptical, with a forthcoming report by European NGOs noting that the power generated would be diverted to the mining sector and for export to elsewhere in Africa and southern Europe. A 2007 Bank project appraisal document found that the DRC lacks the electrical grid to transport power to rural areas.

Next steps

The Bank planned to hold the first consultation with civil society on the energy strategy at the October annual meetings, but has since postponed consultations until after the December Copenhagen climate talks. A revised approach paper is due in early 2010, with consultations beginning in spring 2010. A draft policy will go before the relevant Bank board committee next autumn.

Many civil society actors feel that the energy strategy's continued support for investments that significantly contribute to greenhouse gas emissions reinforces arguments that the Bank is not the appropriate channel for international climate finance. ©

Energy strategy concept note

🌐 ifiwatchnet.org/node/32782

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Banking in the Shadows: a Tip to Jersey – island of cows, potatoes, beaches, secret trusts and tax evasion, shadowy banks and stolen billions, dodgy companies behind corrupt practices and the special purpose vehicles which helped to cause the financial crisis.

From the NGO Forum on the ADB – a group of unidentified aliens made contact with Earth during a high-level dialogue on climate and clean energy at the Asian Development Bank in Manila.

🌐 ifiwatch.tv

Bank caught between the Red and Dead Sea

The World Bank has been involved in administering a \$16.7 million fund for a feasibility study and environmental and social assessment (ESA) of the highly controversial Red Sea-Dead Sea canal (see *Update* 58). A planned 'study of alternatives' has not yet begun, suggesting that the Bank is not serious about looking for more sustainable options. Both the Bank's and the IFC's environmental standards are now being used for the ESA, hinting at future involvement. Although the Palestinian authority and the Israeli and Jordanian governments have signed on to the project study, doubts remain over the project's legalities, environmental consequences, and political implications.

REDD moves forward despite concerns

As part of the programme for reducing emissions from deforestation and forest degradation (REDD, see *Update* 57), Guyana, Panama and Indonesia submitted readiness preparation proposals (R-PPs), necessary for funding through the Forest Carbon Partnership Facility. The Bank's technical advisory panel and NGOs have raised concerns about the R-PPs, especially regarding indigenous rights and the identification of the key drivers of deforestation. Despite the criticism, the Participants Committee – comprised of REDD countries, donors and carbon fund participants – argued that the R-PPs provided a "sufficient basis" to advance the countries to the next step "subject to the Bank's due diligence, safeguards and environmental assessments".

Clouds over Bank weather insurance

The World Bank has published several papers on its pilot programmes for index-related insurance in developing countries to hedge against weather-related risks. They vary from support for local insurance companies to weather derivatives sold in international financial markets. According to the Bank, private insurance should be seen as supplemental to public intervention and other forms of support such as cooperatives. A September briefing from the Bretton Woods Project, however, faults the Bank for failing to assess the broader implications of partly relying on private insurance and unregulated international financial markets to manage weather risks.

🌐 www.brettonwoodsproject.org/indexinsurance

Jockeying for position over Bank role as climate talks near

By Ama Marston, Bretton Woods Project

With two months until the Copenhagen climate negotiations commence, questions loom about quantities of climate finance and which institutions will channel it, leaving speculation about the role the World Bank will end up playing.

Climate issues are expected to factor heavily in the G20 leaders summit to take place in Pittsburgh in September following a July statement from President Obama that finance ministers should report on climate finance.

Among tentative proposals in a paper co-authored by the US Treasury and the Mexican finance ministry for the G20 is the conclusion that the World Bank will remain a key player, regardless of criticism by developing countries. Despite a 2012 sunset clause written into the design documents of the Bank's climate investment funds (CIFs), "the reality is that they are unlikely to disappear," nor will mechanisms like the UN Adaptation Fund.

"Continued insistence for channeling finances through the World Bank reflects rich countries' desire to maintain the status quo of the global financial architecture for delivering climate finance," said Raman Mehta of ActionAid India. "Developing countries will continue to resist having resources routed through the Bank count toward internationally agreed financial obligations by rich countries."

Contradictions in the Bank

As the heat is turned up in climate finance discussions, the World Bank launched its *World Development Report* (WDR) focussed on climate change in mid-September. The report highlights

that the world's poor will suffer the most, while rich countries with only one-sixth of the world's population are responsible for nearly two-thirds of greenhouse gas emissions. "In the next few decades the world's energy systems must be transformed so that global emissions drop 50 to 80 per cent," states the report. "The greatest challenge lies with changing behaviors and institutions, particularly in high-income countries."

At the launch of the report in London, Marianne Fay, the Bank's chief economist for sustainable development, told participants "The [Bank's] policy is to continue funding coal to the extent that there is no alternative ... and as long as it is less expensive." She added, "carbon capture and storage (CCS) is absolutely critical because no one sees getting rid of fossil fuels."

This comes parallel to the launch

of the Bank's energy strategy review, scheduled for the coming year, which has raised NGO concerns over continued support for fossil-fuels (see page 6).

"Despite its claims to the contrary, the institution remains heavily committed to investments in carbon-intensive energy projects and reforms in energy sectors that focus on large-scale, privatised energy provision without safeguards to ensure universal access," said Md Shamsuddoha of Equity and Justice Working Group Bangladesh.

Counting carbon

The Bank has also announced it is creating a methodology for estimating a project's associated greenhouse gas emissions. Warren Evans, director of the Bank's environment department said the Bank has not decided how these analyses would

influence investment decisions and that whether to include carbon footprints in project costs will be decided after Copenhagen. According to Heike Mainhardt-Gibbs of US NGO Bank Information Center, there is little transparency in how such a methodology is being developed and how it will be applied.

The UN weighs in

Parallel to the *World Development Report*, this year's United Nations *World Economic and Social Survey* also focussed on climate. While it shares some of the analysis of the WDR in terms of need for action, the report highlights that "on their own assessment, multilateral development banks still do not seem to be systematically factoring climate change into their investment choices." The report further emphasises concerns about asymmetries in governance structures on the Bank's board. The Bank's bias against public-sector electricity projects "raises questions about the suitability of these institutions for administering a publicly led global investment programme."

One of its crucial arguments is that "issues of trust and justice will need to be taken much more seriously so as to ensure fair and inclusive responses to climate change." NGOs echo these sentiments, highlighting concern about the possibility of extending the Bank's climate funds rather than phasing them out. "In order to build trust in the UN climate negotiations, it is critical for contributors, including the UK, which invested £800 million in the CIFs, to publicly reaffirm and honour the sunset clauses," said Liz Gallagher of UK NGO Cafod. ©

World Development Report

www.worldbank.org/wdr

World Economic and Social Survey

www.un.org/esa/policy/wess

Observers for Bank climate funds chosen

In January 2009, guidelines were approved for the participation of civil society observers in the World Bank's climate investment funds. Observers may request the floor for verbal interventions, the addition of agenda items and recommend that external experts speak to an agenda item. Observers do not participate in decision-making. A self-selection process for the climate investment fund committees took place from April to July. Along with observers from the private sector and the UN, there are four civil society observer seats on the Clean Technology Fund, the Strategic Climate Fund, and the Pilot Program for Climate Resilience. The next CIF meetings will be held in Washington, on the final week of October.

For a list of observers see:

www.resolv.org/cif/results/Final_List_of_Observers_and_Alternates.pdf

IFC deceptions on *Doing Business*

By Alex Wilks, Eurodad

Excitement caused by the International Finance Corporation's (IFC) April announcement that it was changing how it scored countries in its controversial *Doing Business* publication (see *Update* 66) turned to dismay as the 2010 edition, released in September, shows that very little has actually changed.

Singapore is again top of the rankings, while other countries such as Georgia are praised and given a better ranking for abolishing their social taxes. Belarus gets a good score for making it easier to fire peo-

ple. Conversely, as the International Trade Union Confederation pointed out, Cambodia is said to be "making it more difficult to do business" because it introduced a social security contribution.

World Bank managing director and former Nigerian finance minister Ngozi Ikonjo-Iweala spoke out against jurisdictions with lax regulation and poor financial transparency, telling a conference in Washington that "we must hit financial centres very hard ... we need to hit Dubai and Jersey and Switzerland hard – this is the future

of development." However, these jurisdictions are numbers 33, 5 (the UK) and 21 respectively in the *Doing Business* ranking.

Research by NGO ActionAid International shows that the 'paying taxes' indicator still rewards countries for cutting business taxes, irrespective of what the best level might be.

The World Bank has prided itself over the last decade in becoming seen as a 'knowledge bank'. Many newspapers and officials uncritically cite the Bank's work without digging deeper. This is not the view

of many researchers, such as Christian von Drachenfels of the German Development Institute. He and colleagues last year published *Seven Theses on Doing Business*, none of them complementary. They argue: "the reports basically advocate for minimum regulation. This perspective largely neglects the economic and social benefits of regulation".

At a time when every world leader is preaching the virtues of regulation, the IFC risks being seen as dangerously out of step. ©

Rebranding hides little change for IMF lending

The IMF has launched a make-over for all of its lending to low-income countries, and while the new facilities will deliver more resources, the money seems destined to come with the usual damaging conditionality attached.

The IMF board completed its promised review of concessional facilities for low-income countries (see *Update* 65, 64) at the end of July. The Fund will now have three facilities for low-income countries: an Extended Credit Facility (ECF), a Stand-by Credit Facility (SCF) and a Rapid Credit Facility (RCF).

The ECF is merely a replacement for the existing medium-term finance provided by the IMF under the Poverty Reduction and Growth Facility (PRGF). The PRGF itself came about as a result of the 1999 rebranding of the Structural Adjustment Facility (SAF) which faced persistent criticism over its heavy conditionality. However, the ECF changes none of the substantive policies of the PRGF, continuing with the so-called upper credit tranche conditionality and the same terms, maturities, and recently raised access limits. Perhaps to make up for removing the words poverty reduction from the name of the programme, IMF press releases and background notes were careful to stress “the centrality of countries’ own poverty reduction and growth strategies”.

The SCF is a new lending window that was created to help mirror the structure of facilities available to middle-income countries. It will allow “precautionary programmes”, meaning agreements with country authorities that do not necessitate any actual lending, but which can provide financing if it becomes necessary. The SCF will complement the Policy Support Instrument (PSI), a non-financing facility the IMF had created for countries that wanted the Fund to publicly back its policies but did not want to borrow. The SCF will be more like traditional balance of payments support as it has a relatively short duration and will carry typical IMF conditionality.

The RCF will replace a number of existing facilities that provided quick-disbursing financing after economic shocks, emergencies and natural disasters. This includes replacing the recently-reformed Exogenous Shocks Facility (ESF, see *Update* 62), which was the first IMF concessional financing without heavy conditionality provided to low-income countries for economic problems. The rapid access component of the ESF made available

finance up to 25 per cent of the ESF programme limits without any conditionality. This design feature has been retained in the RCF, meaning some money will be available without conditionality. However higher borrowing will now require countries to go to the SCF and subject themselves to tight conditions.

However, the changes will not go into effect until there is universal agreement from the donor countries that contribute money to support concessional lending. Their agreement is expected to be finalised around the time of the annual meetings in Istanbul in early October.

Lidy Nacpil, the coordinator of the Asia Pacific Movement on Debt and Development, was sceptical of the changes, claiming that it seemed like little more than name changing: “All the press releases and announcements were a mere smoke screen for continuing in the same failed policies that force countries to eliminate public services and load up on debt.”

Donors asked for cash

At the same time that the facility configuration was announced, the IMF released its estimates of new lending to low-income countries for the next five years, saying that it could lend up to \$4 billion a year to low-income countries in 2009 and 2010, with a further \$2 billion annually through to 2014. Comparing the estimates to the \$1.2 billion lent in 2008, the IMF says it is “exceeding the G20 call for additional lending of \$6 billion over the next two to three years.”

The changes will also unify the underlying financing pool by combining previously separate trust funds into one single Poverty Reduction and Growth Trust (PRGT). To meet the expected lending commitments, the IMF said it will need to increase the amount it can borrow from rich countries by \$10 billion and find additional grant resources of \$2.4 billion to subsidise the concessional loans. The subsidy money will come from four sources:

the IMF’s general resources account, a reserve fund, bilateral contributions, and gold sales. Respectively this means the money will come from middle income country loan repayments, past low-income country loan repayments and investment returns on them, rich country aid budgets, and the IMF’s gold holdings.

The last of these sources has received lukewarm support from civil society organisations. In a letter to IMF executive directors in July, eight NGOs urged that finance be “provided on non-debt creating terms in order to help ease growing debt distress levels of low income countries. The IMF should

devote some of the fresh resources it mobilises for LICs to support a moratorium on all debt service payments (principal and interest) for low-income countries affected by the crisis.” The IMF expects to raise around \$600 million worth of contributions from donors, diverting this money from their aid budgets.

The cost of subsidy went up slightly because of an additional reform – a temporary reduction of the interest rate on IMF loans to low-income countries from 0.5 per cent to 0 per cent through 2011. However, an NGO briefing from ActionAid, Bretton Woods Project, Eurodad and Third World Network complained that this was a paltry amount. The authors estimate that the interest reduction is only worth approximately \$110 million over the next two-and-a-half years for about 60 countries, meaning on average less than \$1 million annually per country.

Nothing on SDRs

The reform announcement said nothing new about the allocation or use of special drawing rights (SDRs), the IMF-created reserve asset (see *Update* 65). As SDRs are allocated according to IMF voting rights, low-income countries received less than \$20 billion of the \$250 billion worth of SDRs that were doled out at end August.

A constellation of NGOs, developing country governments, and academics such as those serving on the Stiglitz commission (see *Update* 65) have argued that SDR allocations should take into account need, and that at the very least a mechanism be put into place so that nearly \$170 billion worth of SDRs being allocated to rich countries could be reallocated or transferred to developing countries. There was no agreement on this at the board, despite reports that France and the United Kingdom had pushed for this to happen.

The latest plans are that rich countries might now lend their SDRs back to the IMF so that they can be loaned on to low-income countries through standard IMF packages. Soren Ambrose from the Nairobi office of international NGO ActionAid was unconvinced: “This move twists a good idea for transferring resources from rich to poor into a method for increasing the IMF’s power over low-income countries. It would essentially take unconditioned resources and convert them into new conditions and new debt.”

Conditionality still the problem

What many civil society organisations view as the real need for reform was not addressed: austerity conditions attached to IMF loans. In late September, the Global Campaign for Education (GCE) released an updated policy brief on the impact of Fund programmes on education spending (see *Update* 66). “There are signs of greater flexibility on deficits, but it seems to be very temporary – only for the year 2009. The flexibility on inflation is also temporary, as it is expected to go back down quite drastically in most countries to 5-7 per cent by 2010-11. There is no sign of greater flexibility on wage bills.”

While the IMF has claimed that it is protecting social spending, the GCE briefing finds that “protecting education budgets all too often means freezing them – and that is effectively a cut for countries that have young populations and rapidly rising enrolments.” ©

IMF reforms financial facilities for LICs

www.imf.org/external/np/sec/pn/2009/pn0994.htm

NGO letter to IMF EDs on gold sales

www.ifwatchnet.org/node/32772

IMF financial package for low-income countries: Much ado about nothing?

brettonwoodsproject.org/imf_muchado09

GCE briefing on IMF programmes

www.campaignforeducation.org/en/resources/

“a mere smoke screen for continuing the same failed policies”

IMF advice paradox: increase social spending, but contain deficits

By Nuria Molina, Eurodad

During the last year, the IMF has embarked on a public relations offensive to prove that it has changed its traditionally austere policies. However, recent research in Latvia, El Salvador and Ethiopia shows that the Fund may not be practising what it preaches.

The IMF has called for fiscal stimulus and recognised that developing countries dependent on a single export, less diversified economies, and those strongly reliant on foreign capital have been particularly vulnerable in the current crisis.

Forthcoming research by NGOs Eurodad, Solidar and the Global Network assesses three IMF programmes in El Salvador, Ethiopia and Latvia, revealing that the Fund is now allowing countries to incur slightly higher deficits compared to historic IMF positions. As always the devil is in the detail, and the very limited resources available in these countries has effectively constrained the opportunities these governments have to adopt more decisive counter-cyclical monetary and fiscal policies.

For highly indebted countries like El Salvador, counter-cyclical fiscal policies need to be accompanied by greater domestic resource mobilisation. However, the IMF continues to focus on their traditional tax advice including improving administration, auditing, and collection procedures – which, though important, fail to address crucial tax reform proposals suggested by civil society groups. Nelson Fuentes from El Salvadorian NGO FUNDE said that “curtailing tax evasion by 50 per cent could generate \$200 million per year. A reform of income tax, rather than VAT hikes, would generate new available resources. The government, private sector and international institutions should agree on a more progressive tax structure.”

The report also finds that while the IMF is consistently supporting increased social spending, the budget cuts it requires make increased social spending and anti-crisis programmes difficult to achieve. At best, social spending is only maintained (Ethiopia) and in some cases (Latvia) is actually cut. A government official from El Salvador explained that “the Fund is not opposed in itself to the fact that we are prioritising this type of [social] spending. But the Fund sees things in terms of deficits and this is where they are coming from when negotiating with you. This is a problem as it does not give you a chance to explain that specific projects not

only help revitalise the economy but also include a social and productive dimension.”

Ignoring equitable growth

In all three cases, the IMF programmes prioritised financial stability priorities over growth in productive sectors of the economy and job creation. Policy priorities and goals related to the real economy, or productive sector – such as targets for achieving higher GDP growth, increasing productive investment, increasing employment and diversifying the economy – were non-existent. Although El Salvador and Latvia attempted small stimulus efforts, these were constrained by the priority goals of stabilising the financial sector and getting external creditors repaid.

More worrying is the IMF programme limitation on sustaining expansionary policies over time. Although the programmes allow the governments in Ethiopia and Latvia to have higher deficits, these measures are narrow and temporary, as the IMF expects the countries to bring down their deficits to pre-crisis levels as soon as 2011. The IMF

seems to be strictly focused on balancing government income and expenditure and rebuilding the foreign reserve buffers.

A strict focus on balancing the budgets may help the country stabilise their economies, but undermine their prospects for equitable growth. Policy measures such as investing in social programmes and education; targeted credit to small and medium enterprises; and capital controls to reduce the volatility of the financial sector could all help

secure stability and growth at the same time. However, these types of policies do not seem to be on the table for discussion.

A crucial problem in all countries assessed is the lack of involvement of line ministries, parliamentarians, trade unions and civil society during the negotiations of the IMF loans and the respective budget laws or structural reforms associated with the Fund’s finance. The lack of genuine policy alternatives and more decisive countercyclical measures seems to be the result of a combination of IMF narrow-mindedness on broad macroeconomic objectives, a certain degree of blindness towards the broader development strategy of the government, and the finance ministries’ own desires to keep the budgets balanced.

In a recent briefing, IMF representatives expressed their hopes that in 2011 the world would experience a resumption of the “healthy growth of the last decade”. However, the crisis has shown that previous economic growth had rotten foundations. The question is whether international institutions such as the IMF, and national governments, will learn the lessons from this crisis and start building the recovery on a more solid basis. ©

Doing a decent job? IMF policies and decent work in times of crisis

www.eurodad.org/whatsnew/reports.aspx

Bail out or blow out? IMF policy advice and conditions for LICs at a time of crisis

www.eurodad.org/whatsnew/reports.aspx?id=3679

a
lack of
genuine
policy
alternatives

IMF conditions continue to stoke controversy, prompt strikes

Controversy continues in Iceland over the IMF rescue package (see *Update 66*), with the first programme review and a disbursement of additional money still on hold. At end August Iceland’s parliament passed the crucial ‘Icesave deal’, by which the Icelandic government guarantees repayment for assets lost by British and Dutch depositors when Icelandic banks failed (see *Update 63*).

Eva Joly, a European parliamentarian and advisor for the criminal investigation into the failed Icelandic banks, has been unimpressed. “The irresponsible attitude of certain countries, the EU and the IMF to the collapse of the Icelandic economy demonstrates their inability to learn from the dramatic undermining of the model that it embodied: one of excessive deregulation of markets, particularly financial markets, that the majority of those same key players contributed to shaping.”

Joly’s criticisms of IMF conditionality were echoed by Nobel-prize winning economist Joseph Stiglitz. During an interview on Icelandic TV in early September. He said: “what I worry about is that [the IMF] will put too much pressure on you to do a couple of things. First, reduce your fiscal deficit, and ... secondly, they may encourage you to remove the capital controls too rapidly.”

Romanian trade unions have upped the pressure on their government over IMF conditions (see *Update 66*). More than 800,000 public sector workers will go on general strike on 5

October. Union Bloc leader Dumitru Costin said the proposal for a so-called unitary wage law, an element of the Fund programme, had two unacceptable provisions: a wage freeze for about 85 per cent of public-sector employees in 2010 and future wage cuts.

In early September, Ukrainian president Viktor Yushchenko accused the government, headed by a prime minister of a different party, Yulia Tymoshenko, of not fulfilling five of the six IMF conditions. Chief of these was a condition to raise the price of natural gas, a move which trade unions blocked in court. The IMF has also demanded that banks be recapitalized further, the state budget deficit lowered, and the National Bank become more transparent and independent. Ukraine’s next programme review is likely to be delayed.

In Lithuania, the government is resisting an IMF programme, despite pressure from various sources. “I’m really surprised that the government has not gone to the IMF yet and instead is borrowing money at a much higher interest rate from other sources,” wrote Rimvydas Valatka, an analyst at Lietuvos Rytas, Lithuania’s largest circulation newspaper. Latvia had its next disbursement of IMF funds approved at end August, six months late (see *Update 66, 65*).

Iceland: Lessons to be learned, Eva Joly

www.globalresearch.ca/index.php?context=va&aid=14683

Flexibility or seeds of new crisis? IFIs debt framework revised

By Gail Hurley, Eurodad

A flurry of papers by the IFIs, UNCTAD and NGOs raise concerns over renewed debt difficulties in poor countries just as the IFIs complete a review of the debt sustainability framework to allow more borrowing.

Debt is once again a 'hot' topic in international policy circles after falling off the political agenda in the wake of the G8 debt relief agreement in 2005. In March, the IMF reported that the debt-to-GDP ratios of 28 low-income countries exceeded 60 per cent, twice the threshold the IMF considers sustainable for countries with so-called weak policies. The United Nations Conference on Trade and Development (UNCTAD) went further, citing concerns in 49 least-developed countries in a February report by Yuefen Li, head of debt and development finance branch.

For the poorest countries, the largest sources of pressure on government revenues have included: volatile global commodity prices; declines in aid and migrant remittances; increasing costs of borrowing on international markets; and steep declines in taxes as export volumes drop because of recessions in rich countries. The shortfall in revenue is already being partially filled by a dramatic increase in the take-up of new official debt from the IFIs. Whereas official lenders had provided funding to developing countries equivalent to only 4 per cent of that provided by private sources in 2007, this ratio will have risen almost tenfold to 37 per cent in 2009.

The IMF has extended finance to 50 countries since the outbreak of the global financial crisis, following five years in which repayments

exceeded new disbursements. In July, the IMF announced an unprecedented increase in financial support to low-income countries (see page 8). The World Bank has nearly doubled lending in 2009 (see Update 66) and the ADB plans to increase lending by more than \$10 billion in 2009-10. The G20 also announced an additional \$250 billion in support for trade finance over the next two years (see Update 65), most of which will flow through export credit guarantee agencies (ECAs) which have played an important role in sovereign debt creation in the past.

DSF review completed

The World Bank and IMF, under orders from the April G20 summit, undertook a review of the debt sustainability framework (DSF) for low-income countries. The G20 wanted a more flexible instrument to facilitate the increase in borrowing from the official sector, throwing the 'cautious' approach that had been used previously in to the bin. The World Bank and IMF completed their review at end July, and agreed to make the framework more flexible, raising limits on the amounts of debt the poorest countries can take on before they are deemed 'in debt dis-

stress'.

They agreed to factor in migrant remittances, arguing that high levels of such flows increase foreign exchange within a country which in turn can be used to service foreign debt. The revised DSF will also exclude the debt owed by state-owned enterprises from calculations of countries' overall levels of

indebtedness if companies are deemed financially viable by the Bank and Fund. Lastly, governments will be able to appeal to the IFIs for 'leniency' with respect to public investment projects which are to be considered on a case-by-case basis to assess whether they will threaten so-called debt sustainability.

Of concern is that this very dull technical exercise gives international donors a vital get-out clause. Now that countries can take-on increased levels of non-concessional debt, donors may not put concessional finance on the table. Even before the onset of the global financial crisis, developed countries as a whole fell far short of their pledges to give 0.7 per cent of national income as aid. These developments have the potential to build up future repayment difficulties for some of the poorest countries.

Given that developing countries

were not responsible for the current global recession – the origins lie instead in developed countries and the greed of rich country banks and corporations – it is profoundly unjust that poor countries will in essence pay for the mistakes of the rich via new rounds of debt.

Instead of aggressive levels of new official debt, a September briefing from Eurodad calls for a temporary moratorium on external debt service payments to help release much-needed extra funds for investment in poverty reduction and infrastructure development. UNCTAD has also supported this call, and has calculated that a temporary debt moratorium would release about \$26 billion for 49 low-income countries for 2009 and 2010 combined. The cost would be small to individual creditors in comparison to the fiscal stimulus plans already announced. It should also be additional to, and not substitute for, pledges to increase official development aid.

Dealing with illegitimacy

In March UNCTAD announced a three year project on the issue of responsible lending and borrowing, and odious debt. The initiative, financed by the Norwegian government, will bring together representatives from the private sector, civil society, official bodies and governments to try to come up with some form of agreement on what constitutes an odious debt and responsible lending and borrowing practices. The first meeting will take place in Geneva in mid-November. ©

IMF board reviews the low-income country debt sustainability framework

www.imf.org/external/np/sec/pn/2009/pn09113.htm

Eurodad debt briefing

eurodad.org/whatsnew/reports.apx

poor countries will pay for the mistakes of the rich

SDRs allocated, bonds sold, IMG gold next

In early September the IMF completed the allocations of special drawing rights (SDRs) that were agreed by the G20 in April, with a \$250 billion general allocation and a \$34 billion special allocation designed to help members of the IMF who joined the institution after 1981. The IMF also completed its first ever sale of bonds, with \$50 billion worth of SDR-denominated bonds being sold to China in early September. The IMF executive board also agreed in mid September to the modalities for the sale of 403 tonnes of IMF gold. Proceeds will mostly go to an endowment to cover the IMF's administrative expenses (see Update 61).

Evaluating Fund research, crisis role

Over the summer the Independent Evaluation Office (IEO) of the IMF issued two draft issues papers for feedback on its planned evaluations of the IMF's research and its performance in the run-up to the financial crisis. The performance evaluation promises to be controversial as it "will look at the IMF's technical work, as well as governance issues such as evenhandedness and the institution's willingness and ability to convey difficult messages to large countries." This is a coded reference to the fact that the IMF could not do anything about the failure of financial governance in the United States.

www.ieso-imf.org

UK still missing the point on IFIs

Over the summer, the UK government released a policy paper on international development and a very late 'annual' report on its activities at the IMF. The policy paper strengthens target setting for the World Bank, but fails to adequately tackle governance, conditionality, human rights, and climate finance. The report on the IMF lacked ambition for further reform, mostly hailing agreements that were achieved by the G20 in 2009. A UK Conservative Party policy paper on development left it unclear whether they would do any better if they form the next government.

See full analyses online at:

brettonwoodsproject.org/whitepapermisses09

brettonwoodsproject.org/ukandimf09

IMF's absurd demands on Nicaragua

Nicaragua complained in July that the IMF made "absurd demands" when it demanded the end of all tax exemptions on non-profit entities. The Nicaraguan president's economic advisor, Bayardo Arce, said: "Catholic and Protestant churches, non-governmental organisations, civil associations that bring donations into the country, which contribute to alleviating the situation of poverty confronting our people, could not continue bringing those donations." He called the IMF advice on abandoning pension increases "absolutely unacceptable". Nicaragua signed a PRGF in 2007, and reached staff-level agreement with the Fund over its next programme review in September.

tinyurl.com/Arceabsurd

Asia debates moving away from IMF and West

By *Bhumika Muchhala, Third World Network*

At a conference in Penang, Malaysia in August, officials, academics and members of civil society from the Asian region sought to chart a way towards greater regional cooperation that would insulate them from the IMF and financial crises.

The conference on effects of the global financial crisis on Asian developing countries, organised by Third World Network and the Consumers Association of Penang, brought together present and former central bankers, finance ministry officials, researchers and civil society organisations. A strong theme was the need to develop regional consumption, trade and investment rather than relying on debt-laden consumers in the developed world.

Looking at the recent developments to the Chiang Mai Initiative (see *Update* 66) and the prospect of reviving the idea of an Asian Monetary Fund, Andrew Sheng, former chairman of the Hong Kong Securities Commission and now a chief advisor to China's Banking Regulatory

Commission, said there are three choices for Asia: to stick to the status quo; take defensive measures and cooperate to avoid damage; or take an offensive approach including forcing international reforms. He said Asia is now somewhere between the status quo and the defensive approach. While the Asian financial crisis made it painfully clear to Asian countries that the IMF solution is bankrupt, the present crisis has also shown the lack of creative and collective thinking at the regional level.

Former governor of India's central bank, YV Reddy, agreed with Sheng

that Asia should not be defensive, as the region has 67 per cent of the world's currency reserves, 55 per cent of the world's population and a significant share of global production. He suggested that an influential Asian think-tank be established to provide advice on finance to policymakers, and that Asia should act to rebalance the global financial system. For example, there are only two credit rating agencies and two financial news agencies with global influence, all of which are Western-owned. Similar agencies should be set up by Asians, using the perspective of developing countries,

painfully clear that the IMF solution is bankrupt

he said.

Pitchaya Sirivunnabood, from the Fiscal Policy Research Institute in the Thai Ministry of Finance, felt that Asia's financial clout from trade surpluses and high reserve holdings inspired more aggressive ideas for financial cooperation, for example an Asian currency unit. She noted that one of the priorities of the Chiang Mai Initiative is the development of a surveillance system, independent of the IMF. This would support the decision-making of the initiative's secretariat and could facilitate the eventual delinking from IMF programmes. Currently, Chiang Mai Initiative funds are still linked to IMF programmes beyond an initial amount of financing.

Yilmaz Akyüz, special economic advisor to the South Centre, an inter-governmental body based in Geneva, said that Asia meets the criteria for developing a common currency just as much as the European Union at the time of the initial work on the euro. Akyüz said that in the past, financial integration in Asia had been stifled by the unconstructive intervention of the IMF and other international actors. "But this time Asia is really serious," he said, "The European Monetary Union took years to create, and Asia has to move in a similar direction." ©

IFIs and Zimbabwe: a love - hurt relationship

By *Taurai Chiraerae, Afrodad*

The allocation of special drawing rights (SDRs) to Zimbabwe has stirred controversy about their use to bolster flagging public finances, while the fragile coalition government struggles with an external debt burden projected to hit almost \$7 billion by year end.

In early September the IMF allocated \$510 million worth of SDRs to Zimbabwe, its share under the recent \$250 billion SDR increase (see *Update* 65). Despite being in arrears to the IMF, the country is still eligible for SDRs. Under the IMF's Articles of Agreement, the Fund cannot withhold these new SDRs, as it can other types of IMF lending. It would, however, be allowed to withhold the additional SDRs due to Zimbabwe as a result of the recent ratification of the 4th amendment (see *Update* 65). However, controversy flared as reports indicated that the finance minister, who comes from the former-opposition party Movement for Democratic Change, was seeking to prevent the transfer of these interest-charging funds, preferring to maintain them as part of Zimbabwe's reserves. Zimbabwean newspapers reported that this brought him into conflict with the central bank governor, who was appointed by president Robert Mugabe's Zanu-PF party.

Of the country's total unsustainable external debt, \$140 million is owed to the IMF, \$673 million to the World Bank and \$430 million to the African Development Bank (AfDB). Arrears and interest constitute over 50 per cent of the total external debt.

The causes of the debt crisis culminate from both internal mismanagement and externally prescribed policies by IFIs. The beleaguered country has over time evolved through a love and hurt relationship with the IFIs who have imposed harmful economic policy conditionalities on the country.

Zimbabwe inherited a \$700 million external debt from the colonial government. \$3.5 billion in new loans were added in the 1990s under the IFI-backed economic structural adjustment programme (ESAP). When the IMF suspended a loan of \$120 million in 1995 because the government had sustained a large deficit, the EU and other donors followed suit. During ESAP, external debt increased significantly, from

around 175 per cent to nearly 250 per cent debt stock to exports.

IFIs noted their engagement with Zimbabwe would resume if Zimbabwe honored her obligations by repaying its debt and arrears. The country is not part of the Highly Indebted Poor Countries (HIPC) initiative and not eligible for debt relief under the multilateral debt relief initiative (MDRI), though the government has engaged the World Bank for assistance in clearing multilateral arrears and envisages benefiting from debt relief under the HIPC and MDRI frameworks.

As the coalition government grapples with rebuilding a country ravaged by more than a decade of eco-

conomic and political turmoil it has indicated that it needs about \$8.5 billion in emergency aid over the next two to three years to revive the economy. With the assistance of the AfDB the government has contracted a debt expert to help formulate an external debt and arrears clearance strategy, expected to be the basis for debt relief. The government has initiated the assistance of IFIs for debt relief and write-offs as a part of its re-engagement process and is in the process of carrying out a debt reconciliation exercise with external creditors. The government is now in the process of developing a Poverty Reduction Strategy Paper (PRSP) as a condition for debt relief from the IFIs. The experience of many HIPC countries shows that the process is long, painful and may not ameliorate the suffering of 13.5 million Zimbabweans from the debt burden. ©

IMF provides \$510m loan amid worries that Mugabe party will grab funds

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Bank's approach to agriculture under fire

By Rachel Whitworth, Bretton Woods Project

The World Bank and the IFC have committed to increase funding to agriculture to help tackle the food crisis, but their enthusiasm for agribusiness has been questioned by academics who suggest the benefits will not reach the hungry.

As the number of chronically hungry people in the world surged to over 1 billion this year, in July the G8 endorsed the global partnership for agriculture, food security and nutrition and pledged \$20 billion for agriculture over the next three years. But there is a clash taking place between the World Bank and UN food agencies who are vying for the role of primary institution for delivery. The two institutions take fundamentally different approaches to investment in agriculture. Despite its poor track record on support for agriculture (see *Update* 61, 58), donors appear to favour the Bank. More may become clear when US secretary of state, Hillary Clinton, makes a speech on this issue, at the UN at the end of September.

The World Bank Group articulated its approach to agriculture in the 2008 *World Development Report* (WDR), which promotes trade liberalisation and linking small farmers into global supply chains. It argues that agribusiness can be an instrument to increase incomes in developing countries. Responding to the food crisis, the International Finance Corporation (IFC), the World Bank's private sector arm, has announced a plan to boost lending to agribusiness by 30 per cent in the next three years starting with a record \$2 billion in the 2009 fiscal year. In June, an IFC official indicated that they wanted to double their investment in African agribusiness by 2011, bringing it to 10 - 15 per cent of their entire portfolio.

The Bank Group's focus on investment in agribusiness contrasts with the approach of the UN secretary general's high level taskforce on the global food security crisis. The UN food agencies, including the Food and Agriculture Organisation, back the approach taken by the international assessment of agricultural knowledge, science and technology for development (IAASTD) agreed in April 2008 (see *Update* 61). The IAASTD emphasised food security, environmental sustainability and traditional knowledge as the right approach to solving the food crisis and stressed the need to pre-

serve policy flexibility in the agricultural sector instead of trade liberalisation.

Academics slam the Bank

Hannah Bargawi, from the Centre for Development Policy and Research at the University of London summarises a range of academic critiques of the Bank's 'agribusiness for development' agenda in a briefing released in September. Researchers Kojo Sebastian Amanor, Philip McMichael, Carlos Oya, Matteo Rizzo and Philip Woodhouse all agree that the Bank's description of agribusiness as an entity that would share risks and profits with smallholders is far from the reality.

McMichael criticises the Bank's concept of 'new agriculture' articulated in the WDR, which argues that corporate management of market integration is a condition for the elimination of smallholder poverty. Instead he argues that "the Bank's claim to place agriculture 'afresh' at the centre of development reunites Bank development discourse with recent transformations in the corporate food regime, licensing more of the same."

McMichael suggests that the dispossession of rural populations in the name of new agriculture, non traditional exports and corporate value chains are "geared to provisioning the monetised segment of the world's population." He illustrates this with the profits recorded by corporate agribusinesses in 2007, which benefited from higher prices during the food crisis.

In an attempt to rebuff such criticism, the WDR placed renewed importance on the state as a vehicle for establishing a more conducive environment for agribusiness in low-income countries. Woodhouse and Oya, however, have pointed out that strengthening the state to invest in public goods without addressing the underlying inequity of agribusiness would be likely to disproportionately benefit the retail end of agricultural value chains. For this reason the alleged 'win-win' scenario of linking corporate agribusiness to smallholder producers, is cast into serious doubt. ©

Agribusiness for Development: Who Really Gains?

www.soas.ac.uk/cdpr/publications/dv/file53490.pdf

the benefit of linking agribusiness to smallholders is in doubt

2009 World Bank-IMF annual meetings schedule

Staff of the Bank and Fund, board members, development and finance ministers will gather in Istanbul, Turkey September 30 - October 7.

Official meetings

- 3-5 October World Bank programme of seminars
- 3 October G24 ministers meeting; G7 ministers meeting
- 4 October International Monetary and Financial Committee (IMFC)
- 5 October Development Committee meeting
- 6-7 October Board of governors meetings

World Bank, civil society events

- 2 October Orientation session; Strauss-Khan and Zoellick townhall
- 3 October Human rights in the Bank; World Bank's disclosure policy; WDR on climate change; extractive industry contract disclosure; impacts of the global financial crisis
- 4 October Climate change, finance and the MDBs; Bank energy strategy; debt and gender; reforming development assistance; extractive industry contract disclosure; review of the IFC's sustainability policy; IMF governance; impacts of the financial crisis on developing countries; IMF-FSB early warning exercise
- 5 October Consultation on IFC performance standards; women's empowerment; compliance mechanisms; global economic crisis and emerging markets; 15 years of Inspection Panel
- 6 October Consultation on Bank environment strategy; fragile states; IFI-watcher toolkit; financial crisis response

Check our website for regular updates during and after the meetings

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

www.ifwatchnet.org

Job opening with the Project

The Bretton Woods Project is looking for two research assistants, one focussed on promoting the fundamental financial changes needed in response to the financial and economic crisis, and the other focussed on reform of the World Bank related to climate finance, human rights, governance, and private sector development.

- Location: London, UK
- Remuneration: £13,520 per annum, pro-rata + pension
- Application deadline: 5 October 2009

For more details, person specification, and application instructions, see:

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