

Bank drawing in climate funds?

A November report from the UN high level advisory group on climate change finance (AGF) drew criticism for recommending an increasing role for multilateral development banks (MDBs), amid ongoing concerns about the development of a new climate fund, additional Bank trust funds and the continued roll-out of the Bank-housed climate investment funds.

The AGF report was released in time for climate negotiations starting in Cancun, Mexico at end November. Many civil society organisations welcomed it for demonstrating political backing for innovative streams of public revenue, providing possible solutions at a time when many governments face ever tightening purse strings. However, it came under fire for calls for the MDBs, in collaboration with the UN, to play a significant role in leveraging and multiplying finance. It asserts that for every \$10 billion in additional resources, MDBs could deliver \$30 billion to \$40 billion in gross capital flows and significantly more by fostering private flows (see *Update 72*).

The report calls for additional resources for MDBs like the World Bank to fulfill this role over the next decade and was criticised as inappropriate by both development and environment NGOs. "MDBs are not a source of climate finance, but are used as a channel. And they are not acceptable even as a channel ... The World Bank and other MDBs are far more adept at causing climate pollution than in helping countries to mitigate or adapt to it," said Lidy Nacpil of Jubilee South.

NGO Oxfam further cautioned that "the report's inclusion of the World Bank as a potential finance source should not be used to undermine international negotiations on the establishment of a new, independent global climate fund that is fair and accessible and allows for inputs from those most affected."

Negotiations this year within the United Nations Framework Convention on Climate Change (UNFCCC) are expected to continue to focus on critical elements of a post-2012 finance regime. Concerns over the design of a new fund which would channel international climate finance have emerged over recent



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months, with governments like the US proposing the Bank at least play a trustee role, if not a significant role in its design and management (see *Update 72*). In an October report, NGO Oxfam argues that any new fund must allow for: adequate representation of developing countries; prioritisation of adaptation financing; direct access to funds; and inclusion of women and vulnerable groups in decision-making.

The second report in a series from the Bank's Independent Evaluation Group, *The World Bank Group and Climate Change*, released in early November, examines the Bank's contribution to climate

change through its financing as well as its role in providing solutions. Among key findings are that the Bank should advocate policies for removal of energy subsidies and other biases against renewable energy and energy efficiency. It recommends adjusting its strategic framework on development and climate change so that it is not focussed on money committed but rather outcomes or impacts such as power produced, energy access and forest cover. The report further concludes that "to meet power demands, the [World Bank Group's] scarce human and financial resources will be best spent helping clients find domesti-

cally preferable alternatives to coal power, such as through increased energy efficiency."

Climate funds lack consistency

At beginning November the committees of the climate investment funds (CIFs) housed at the Bank met in Washington. Many countries are reporting their CIFs contributions as fast start finance: money to be provided in the short-term. By some estimates these funds may account for a fifth of all fast start finance. This highlights a need for lessons to be carefully drawn out from the use of these funds. Representatives from China, India and Bolivia noted the need for contributions to the CIFs to be additional to development assistance.

The results of a strategic environmental assessment focussed on the Clean Technology Fund (CTF), one of the CIFs, were discussed at the November CTF meeting. They revealed that social issues and gender were not being routinely considered in the design of CTF programmes. The report argued these needed special attention as projects, unless specifically designed to do so, were not automatically pro-poor.

A November paper from CTF observer Smita Nakhoda of NGO World Resources Institute called for more transparency at the trust fund. "There is a lack of consistent information on the objectives, methods and terms on which the CTF financing is being mobilised. This has the effect of undermining the CIF's stated objective of helping the international community learn about how to finance clean technology." The report also notes that the fund must be diligent in ensuring that investments have transformative impacts that support low-carbon development, particularly since the CTF still allows funding of fossil fuels under limited circumstances. In response to calls for greater transparency, at recent Washington meetings the CTF committee agreed to disclose details of fund disbursements every six months as well as details of projects implemented by local financial intermediaries. It remains to be seen how the implementation of this commitment will improve transparency in practice.

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Bank pushes carbon markets in agriculture

In the lead up to Cancun climate negotiations, the Bank has used a conference on agriculture and climate as a platform to expand its agricultural activities and link them to its interests in carbon markets, despite new evidence of problems with investment in the sector.

The global conference on agriculture, food security and climate change, starting late October in the Hague was co-sponsored by the Bank. The conference culminated in a non-binding summary by the Dutch chair with significant inputs from the Bank and came under fire from civil society groups over its claims to set out a “roadmap for action”. Prior to the conference, over 100 civil society organisations signed a statement expressing concern about a lack of transparency, participation and consultation with governments, farmers and civil society groups. The groups called on the organisers to promote a shift from a focus on industrial to ecological agriculture and drew attention on the agriculture sector’s adaptation to climate change. They also called for promoting public financing rather than relying on carbon markets as well as implementing recommendations from the international assessment of agricultural knowledge, science and technology for development (IAASTD), which the Bank co-sponsored (see *Update* 67).

“The IAASTD process generated important recommendations about ecological agriculture, and so the Bank has tried to sideline that process and legitimise support for its agenda to get agriculture into carbon markets through the Hague conference,” said Lim Li Lin of international NGO Third World Network. “It is clear the Bank was in the driving seat in generating the ‘roadmap’ and didn’t have

much interest in ensuring a process with robust discussion or having the right people in the room,” she added.

In a statement, civil society participants at the Hague conference highlighted that it lacked the legitimacy of a UN process where all governments had a stake in the discussion and that it could undermine or pre-empt ongoing negotiations in the United Nations Framework Convention on Climate Change (UNFCCC). Signatories included ActionAid, Third World Network, Institute for Agriculture and Trade Policy and the International Federation of Organic Agriculture Movements.

At the conference, the Bank demonstrated an interest in further carving out a niche for itself in both agriculture and climate issues with Andrew Steer, Bank special envoy for climate change, delivering a key-note speech about triple wins, “policies and programmes that will, first, increase farm productivity and incomes; second, make agriculture more resilient to variations in climate; and, third, help make the agriculture sector part of the solution.” As part of these efforts the Bank launched its first soil and carbon sequestration fund in Kenya – an area that Bank president Robert Zoellick has highlighted as a new frontier for the

Bank. The project will generate carbon credits that will then be sold to the Bank administered BioCarbon Fund, which has been in operation since 2004 and buys carbon credits from a variety of land use and forestry projects.

Almost 90 per cent of the potential to mitigate climate impacts from agriculture lies in capturing carbon in the soil. According to *Cool Farming*, a 2008 report by international NGO Greenpeace, most of the impact of agriculture on climate change comes from heavy use of fertilisers and raising of cattle. According to Doreen Stabinsky, Professor at the College of the Atlantic, the Kenya soil project is the first example of a model where by Northern countries look to offset the impacts of their practices by buying credits generated by more sustainable practices in developing countries.

“Carbon commodification is driving the World Bank’s interest in these issues and is placing skewed priorities on developing countries,” said Stabinsky. “The Bank is so focussed on carbon sequestration and carbon markets they are overlooking the significant resources that need to be mobilised for adaptation needs in agriculture in the South to ensure food security.”

The World Bank Group’s financing in agriculture has increased by

60 per cent over the past six years and doubled in Africa according to an October Bank press release. In recent months, there has been controversy over the International Finance Corporation, the Bank’s private sector lending arm, supporting large scale agricultural investments at the expense of local communities (see *Update* 72). The Bank’s approach to agriculture has come under further examination in an October report from the Independent Evaluation Group, the Bank’s arms-length evaluation body. As the Bank shifts its focus to the potential for agriculture to use carbon markets, the report’s overarching finding is that “to get the most from recent increases in financing for agriculture and agribusiness, the World Bank Group needs to increase effectiveness of its support for agricultural growth and productivity in agriculture-based economies.”

The report highlights a number of institutional issues at the Bank (see *Update* 58). These include a conclusion that the Bank has been hindered by the lack of a clear strategy on agriculture, particularly in Sub-Saharan Africa; a decline in agriculture-related skills among Bank staff in the past decade; and weak monitoring and evaluation on agriculture projects. The report also notes that agriculture could make an important contribution to gender empowerment and environmental sustainability. However, greater attention has been paid to gender in project design than in actual implementation. ©

CSO pre-conf statement

www.tinyurl.com/CSO Hague

IEG report – Agriculture and Agribusiness

www.worldbank.org/ieg/agriculture/index.html

promote
shift to
ecological
agriculture

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The Pilot Program for Climate Resilience (PPCR) also approved three investment programmes with grants for Bangladesh, Tajikistan and Niger of \$50 million each. These are the first projects in a second phase of PPCR funding, aimed at beginning to implement adaptation activities at the national level. NGOs have repeatedly voiced concern that there is insufficient stakeholder involvement in developing these national plans in the first phase of PPCR funding (see *Update* 71).

UK NGO World Development Movement has sounded the alarm that these grants are bundled with large loans. They cited the heavy debt burdens in these countries and the fact that developing countries are largely not responsible for

climate change. For example, the Bangladesh programme package includes \$49 million in grant money from the PPCR, \$60 million in loans from the PPCR, a \$300 million loan from the Bank’s International Development Association (IDA) and \$215 million in loans from the Asian Development Bank.

Questions also remain about the publication of PPCR financing agreements between the country and the implementing agency. It is currently unclear whether grants or loans are being given, the terms of any loans and if there are conditions attached.

REDD controversy

Forestry continues to be an area of controversy (see *Update* 72, 65). An early November meeting held in Washington on Reducing

Emissions from Deforestation and Forest Degradation (REDD) brought together UN officials with those working on the Bank-housed Forest Carbon Partnership Facility and Forest Investment Program. An issue central to discussions was the Bank’s proposal to allow other multilateral institutions to become delivery partners for its REDD-related financing. Susanne Breitkopf of NGO Greenpeace International warned that this could lead to a “race to the bottom” where a country could look for the agency with the lowest environmental and social safeguards. The Bank’s REDD programmes are controversial in part because of their lack of incorporation of internationally recognised norms to protect indigenous peoples’ rights and the potential impact that REDD could have on land own-

ership and resource equity.

Norway and the World Bank also reached an agreement in mid November to administer the Guyana REDD+ Investment Fund. While details are still emerging, UK NGO Forest Peoples Programme (FPP) has raised concern that other institutions such as the Inter-American Development Bank will be invited to join and that it is unclear which safeguards will be applied and how. ©

Righting two wrongs: Making a new global climate fund work for poor people, Oxfam

www.oxfam.org/en/policy/righting-two-wrongs

The World Bank's current energy strategy and the review of its energy sector lending strategy within the context of climate change concerns demonstrate a skewed conception of energy access that must be addressed.

The term "energy access" has a wide range of interpretations, which in turn have a bearing on the "implementation of energy access". More often than not, "energy access" and "electricity supply" are treated as synonyms, and therefore a mere electric connection to a light bulb in a household is often interpreted as "energising households".

India is a perfect example of where electricity and Bank support for energy fall short of creating access for those most in need. The top 20 per cent of income earners consume 53 per cent of the electricity generated, while the bottom 40 per cent consume a mere 13 per cent. This reality is often quoted by policy makers in justifying a massive and rapid increase in electricity generation capacity through building more and more coal-fired power plants and large dams.

However, all the recent additional coal power plants and dams have done very little, if anything, to address inequitable energy access, as is evident from the electricity consumption figures. In the last two decades, India has more than doubled its electricity capacity. Of the 90,000 MW of capacity added, close to 50,000 MW have been funded either directly by the Bank or partially by the IFIs channeled through Indian financial institutions. In the same period, only around 12,000 villages were electrified, energising roughly a couple of million rural households. Approximately 100,000 villages are yet to be electrified, with over 44 million households being denied access to energy. In comparison, 95 per cent of urban households now have access.

Even in areas which are deemed "electrified", the quantity and quality of electricity supply is pathetic, with so-called electrified villages having power for not more than 4 to 5 hours a day. Energy access needs to go beyond electricity and light bulbs to address both social development (access to drinking water, sanitation, modern education)

Low carbon options ensuring energy security and energy access for all

COMMENT

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and economic development (livelihood options, market access). Broadly, energy supplies should ensure access that is universal, reliable and equitable – which in the case of India, involves bridging the gap between urban and rural energy consumption, and last but not least, affordable and appropriate access.

A recent review of 26 World Bank funded fossil fuel projects by Oil Change International demonstrates that none of them clearly identify access for the poor as a direct target. The report also says that no coal or oil projects resulted in improved energy access for the poor. For example, the International Finance Corporation (IFC), a member of the World Bank Group, provided nearly \$450 million dollars in 2008 to build the 4,000 MW Tata Mundra coal based power project in Gujarat, one of the world's largest sources of greenhouse gas emissions. However, the Bank did not classify the project as an "energy access" project and there is no plan to track how much electricity will reach under-served regions and households.

One of the main barriers to energy access, particularly in remote villages in India, is the high cost of decentralised renewable energy options. The Bank should lead the way in funding low-carbon energy generation, even if the technologies involved are costlier than traditional options. The key objective should be equitable energy access. The Bank should also help to harmonise the lending policies of all international development finance institutions in ways which will support investments in low-carbon energy.

The Bank's review of its energy lending strategy comes at a time when very little progress has been made on a future climate change regime under the aegis of the UNFCCC. Developing countries worry about receiving the required sustainable investments for low-carbon technologies while ensuring that the burden of high incremental costs is not passed on to their consumers. The Bank has a crucial role to play in mitigating the early jitters of international and domestic investors in renewable energy and energy efficiency in developing countries. ©

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IDA – Bank angling for increased funding

The Bank used its October annual meetings to lobby donors to increase funding to the International Development Association (IDA), the Bank's low-income country arm, but official papers suggest that most additional cash will come from its own coffers, while NGOs remain sceptical.

The background paper for the Bank's October development committee meeting does not contain a balanced or independent review of progress, but instead seeks to prove that IDA programmes "deliver results" and mean "value for money." In October, the third meeting was held of IDA deputies, the donor officials who negotiate the funding package and associated reforms for the 16th replenishment of IDA (see *Update* 70, 69). The options have been narrowed down to three, ranging from a 4.3 per cent to a 15.5 per cent increase

in real terms compared to the last replenishment (see *Update* 59). In the Bank's preferred option, almost three-quarters of the increase is expected to come from transfers from the Bank's own resources, indicating that cash-strapped donors are unlikely to provide any significant increase from their own budgets. The final IDA deputies meeting is slated for mid December in Brussels.

Meanwhile, NGOs continue to be sceptical over whether the Bank should be the recipient of scarce donor resources. In a November meeting with a minister of development from the UK, currently the largest IDA donor, NGOs argued that "allocation of additional money to IDA should depend on substantial institutional reforms; beside climate, energy, and education spending, reform is also needed in regard to loan conditionalities."

Bank's energy review: national responses

An October report by UK NGO Christian Aid, brings together responses by civil society groups in India, Bolivia, Peru and South Africa to the World Bank's energy strategy review (see *Update* 72, 71, 68). There are clear commonalities between the papers, with contributors agreeing that the Bank must focus funding on renewable energy sources, prioritise energy access for the poor, and that developed countries have a historical responsibility for climate change.

Each paper also reveals unique perspectives based on national experiences. The South African paper opposes the Bank's loan to power utility company Eskom and coal-fired power stations generally (see *Update* 71, 70). It also recommends that energy user subsidies should not be ruled out as they often increase energy access for the poor, and that intellectual property

rights should never be allowed to prevent access to technology at low prices.

The paper from Peru calls for Bank support for the diversification of energy resources, with a move towards renewable, localised provision administered by decentralised authorities.

The Bolivian paper highlights the World People's Conference on Climate Change and the Rights of Mother Earth held in Cochabamba in the spring, and recommends that the Bank accepts its call for alternative approaches. Central is the demand for a paradigm shift towards the concept of "living well", a type of developmental growth that seeks quality of life for all through more equal sharing of the world's resources.

www.christianaid.org.uk/common-future

Bank private sector approach under fire

The International Finance Corporation (IFC), the Bank's private sector lending arm, has come under fire for its business model, increasing use of financial intermediaries such as banks, funding of companies associated with tax havens, and its controversial Doing Business report.

A November report by Brussels-based NGO Eurodad, *Development diverted*, reviews IFC activities in low-income countries since 2008. It finds that almost two-thirds of IFC support over this period went to companies from rich countries, with less than one-fifth going to companies from the poorest countries.

The report also finds that "the industry department at the IFC headquarters in Washington – and not country authorities – have the strongest say in which projects deserve financial support and which do not. IFC investment officers actively seek business opportunities driven all too often by financial returns rather than responding to developing countries' demands and needs." The report repeats criticisms of the IFC's weak focus on development outcomes, lack of additionality, and poor monitoring and evaluation made in an April report, *Bottom Lines, Better Lives*, by six NGOs including ActionAid International and the Third World Network, (see *Update* 70) as well as by the Independent Evaluation Group, the Bank's arms-length evaluation body (see *Update* 62).

Meanwhile, a November briefing paper from NGOs the Bretton Woods Project and Ulu Foundation, *Out of sight, out of mind?*, critiques the IFC's lending through financial intermediaries such as banks and private equity funds, which grew to over half of all IFC commitments in the last financial year. The paper criticises the lack of transparency of financial intermediary lending and finds that "the way the IFC assesses potential social and environmental

impacts is woefully inadequate, and significantly worse than comparable institutions."

At an end November conference organised in London by NGOs CounterBalance and the Bretton Woods Project, the particular problems of lending by the IFC and others through private equity firms were highlighted. Doton Oloku, an independent Nigerian researcher argued that private equity "has no place as a channel for development finance institutions."

Meanwhile, past criticisms of the IFC's failure to incorporate human rights into its lending practices and policies (see *Update* 72) were highlighted by an October panel discussion in Washington hosted by Amnesty International, the World Resources Institute and others.

IFC supporting tax havens?

The IFC faced fierce criticism after signing a \$40 million loan agreement with Petra Diamonds Limited in September, despite concerns about the company's tax status and past history.

The IFC's investment would be used to finance a three-year expansion of the 70-year-old Williamson mine in Tanzania. A November article by Khadija Sharife, Southern Africa correspondent for The African Report, published in Pambazuka News, claims that according to the corporate group structure "all revenue from production is to be channelled through Willcroft Company Limited, a 100 per cent owned intermediate company based in

Bermuda, a tax haven, before being remitted back to Williamson Diamonds Limited (Tanzania)." The article also alleges that "Tanzania is not the only country to have resources funnelled through a tax haven: Petra's mines in South Africa, its primary stronghold, also transfers revenues through Cullinan Investment Holdings Limited based in the British Virgin Islands, while the company's exploration in Sierra Leone are similarly

passed through an entity based in the Seychelles."

In October, NGOs including Eurodad and the Tax Justice Network sent a letter to Lars Thunell, head of the IFC, in response to a World Bank Group April statement on the use of offshore financial centres, more commonly known as tax havens. The letter argues that "the new policy position is not sufficiently in line with recent positions and statements by major [World Bank Group] shareholders in the fight against illicit flows and tax avoidance." It calls for an enhanced due diligence procedure to screen all projects and transactions using offshore financial centres, and for the IFC to introduce a requirement for clients to report their turnover and profits country by country.

Doing Business controversy

In November, the IFC released the 2011 edition of its controversial *Doing Business* report (see *Update* 67, 66) to criticism from within and

outside the organisation.

The International Trades Union Confederation (ITUC), a longstanding critic of the methodology used in the report, called for a "complete overhaul". According to the ITUC, the overall report "penalises countries that require any sort of contribution by employers for unemployment insurance, workmen's compensation, old-age pensions, maternity leave or other social protection programmes." The ITUC also claims that the 'paying taxes indicator' advocates that businesses should be exempt from all forms of taxation.

According to David Bosco at *Foreign Policy*, a US-based magazine, the report led to heated debate at an October meeting of the Bank's executive directors. Fast growing emerging economies with seats at the Bank's board have pointed out that their economic success is not reflected in the rankings; Brazil comes 127th and India 134th for example. Brazilian executive director, Rogerio Studart said the report is "doing a disservice" arguing that it has an ideological approach. "I've always been struck by the exuberance of the propaganda they made out of it and the pressure they would put on some governments by using the rankings to adopt reforms, as if those reforms would solve some fundamental problems that in my view they could not solve," he said. ©

Bottom lines, better lives?

🌐 brettonwoodsproject.org/private-sector

Out of sight, out of mind?

🌐 brettonwoodsproject.org/FI2010

Development diverted, Eurodad

🌐 www.eurodad.org/whatsnew/reports.aspx?id=4304

Pambazuka article on Petra

🌐 www.pambazuka.org/en/category/features/68877

Prioritise financial returns

Bank initiative on ecosystems

In October, the World Bank launched an initiative to help countries include the benefits of protecting nature into their national accounts. The Global Partnership for Ecosystems and Ecosystem Services Valuation and Wealth aims to build on the United Nations Environment Programme's initiative *The Economics of Ecosystems and Biodiversity* (TEEB), which published its final report in October. The Bank released very little information about the partnership, but it is intended to be a five year pilot with six to ten nations taking part, beginning with India and Colombia. The aim is to demonstrate how countries can quantify the value of ecosystems, and incorporate this into policy design.

South Africa takes extra Bank board seat

Renosi Mokate, former deputy governor of the South African Reserve Bank, has been elected to the World Bank's board of executive directors. Her appointment takes the total of Sub-Saharan African seats on the board up to three, finally meeting a 2008 commitment. The Bank claims that this creates a developing country majority on the board and is an important milestone in efforts to boost their representation. However, this assertion is based on the incorrect classification of the high-income countries of Kuwait and Saudi Arabia as developing. High-income countries in fact retain 14 seats, and 60 per cent of the vote (see *Update* 70).

Bank failing on racial diversity?

Africa Report, a magazine focussing on African politics and economics, scrutinised racial diversity in Bank staffing, and claims that black Africans and African-Americans remain underrepresented (see *Update* 66). Their investigation found that the Bank's use of nationality as an indicator of diversity masks the fact that many African employees are of Asian, Arab or white background, and that there are few African-Americans in professional grades. Furthermore, the higher the rank at the Bank the lower the percentage of black staff.

World Bank's racial diversity under scrutiny, Africa Report

🌐 tinyurl.com/africareport-bankdiversity

Mounting criticism of Bank's Gender strategy

In October, US NGO Gender Action released a new critique of the World Bank's gender plan for 2011 to 2013 (see *Update* 72, 69). It states that "while the Bank claims that gender coverage has increased since the GAP was first implemented in 2007, the [report] still fails to respond to multiple civil society criticisms, including its lack of a human rights framework, its incompressive approach to reproductive health and its lack of robust, transparent gender related data." The report also criticises the Bank's overreliance on economic empowerment as the "sole means to achieve gender equality."

Inside the institutions **The role of the World Bank in carbon markets: The Carbon Finance Unit**

The World Bank's engagement in carbon finance has expanded from its "pioneering" Prototype Carbon Fund in 1999, which provided the groundwork for a market-based approach to emission reductions. Today, the Bank's carbon finance portfolio has grown to 12 funds and facilities, managing \$2.4 billion, with over 200 active projects. The Carbon Finance Unit (CFU), headquartered in Washington DC, is presented as a natural extension of the Bank's mission to reduce poverty. It has three main functions: a trustee role; an administrative role; and an advisory role.

The Bank acts as a trustee of carbon funds and facilities. In this role, it collects financial contributions from OECD countries that have committed to lowering their emissions under the Kyoto Protocol, a global climate agreement adopted in 1997, but have not fulfilled this promise domestically. Contributors include governments, private companies and industrial associations. The Bank's CFU then pools these financial contributions into one or more trust funds.

Subsequently, the Bank uses these funds to purchase emission reductions on behalf of contributors. So far, the Bank has bought credits in 57 countries for 16 governments and 66 companies. It does so within the Joint Implementation (JI) or Clean Development Mechanism (CDM) of the Kyoto Protocol. The CDM is designed to assist developing countries in achieving sustainable development by allowing rich countries to buy Certified Emission Reductions (CERs) related to emissions reduced by projects in developing countries. Joint Implementation allows developed countries to buy Emission Reduction Units (ERUs) from an emission reduction project in rich countries, rather than reducing emissions domestically.

The most recent finance instrument to be established by the Bank's CFU is the Carbon Partnership Facility (CPF). It consists of a Carbon Asset Development Fund, which supports the preparation of emission reduction programmes, for example through client executed grants, and the Carbon Fund, which purchases the emission reductions generated by CPF programmes. The facility is intended to move past individual projects and

finance large-scale, long-term programmes. The facility targets energy efficiency, the power sector, waste management systems, gas flaring and urban development. The Bank estimates the capital of this facility could reach \$5 billion over time.

In its trustee role, the Bank acts as an advocate for projects under registration review by the CDM executive board.

As an administrator, the Bank contracts "verifiers" registered with the CDM executive board to confirm that the project under review is going to result in more emission reductions than it would have without the Bank's funding. After the CDM board approves a project, the Bank negotiates a contract stipulating the price and volume of emission reductions and identifies parties' rights and responsibilities. The Bank also contracts "verifiers" licensed through the UN, to evaluate whether the project activities actually reduced emissions, and by how much.

Upon delivery of emission reduction credits to the Bank, the contracted amount of carbon credits are distributed back to fund participants on a pro rata basis, according to each participant's share in the trust fund. Payment is made to project sponsors, or to private banks that loaned initial investment funds to those sponsors.

In its advisory role, the Bank creates baseline and future emission scenarios, crafts the project designs to generate the maximum possible number of credits, and calculates the volume of reduced emissions that the proposed project could be expected to deliver over its lifetime. Based on these assessments, the Banks' technical advisors then calculate a per-tonne price of expected emissions credits. The Bank generally negotiates a price for carbon credits at a level below expected market price.

The Bank's CFU does not publish information regarding the fees it charges, but claims to operate on a not-for-profit basis. ©

World Bank Carbon Finance Unit

go.worldbank.org/9IGUMTME0

Bank programmes linked to political repression

A mid October report by international NGO Human Rights Watch (HRW) documents how World Bank projects in Ethiopia are being used by the government to repress dissent and weaken political opposition, reinforcing criticisms of Bank funding to countries with widespread reports of human rights abuses.

In 2005, the Bank suspended direct budget support to the Ethiopian government following a post-election crackdown on political opponents which left 200 people dead and over 30,000 detained. The Bank cited the need to develop aid distribution mechanisms that could be protected from political capture. Since then Bank programmes in Ethiopia have focussed on governance, through the capacity building of regional administrations and federal institutions, and on funding basic service delivery at regional and district level, as well as work-for-food projects. In the last five years Bank funding to Ethiopia has grown, and the country is now one of the largest recipients of development aid in the world.

The HRW report argues that since 2005 "billions of dollars of development assistance were premised on an unfounded assumption that Ethiopia was moving in a democratic direction." It finds that the Bank-funded programmes have

been subject to political control by the governing party, the Ethiopian People's Revolutionary Democratic Front (EPRDF). The report found that Bank-funded "services, resources, and training opportunities were being used as threats or rewards for citizens to join the ruling party and cease supporting the opposition, and that donor mechanisms for monitoring or controlling the misuse of aid programmes were inadequate."

For example, the Bank-administered Protection of Basic Services Program, which every year transfers an estimated \$1 billion to regional and district governments to support services in health, education, water, agricultural extension and roads, is being used to oblige farmers and teachers to join the EPRDF. The Bank's Public Sector Capacity Building Program, used to train civil servants, is often employed as a means to indoctrinate recruits in the party's ideology and expel opposition supporters under the guise of removing underperforming staff, according to HRW.

In an official response to the report, the Development Assistance Group (DAG), a donor consortium that includes the Bank, argued that although donor projects are susceptible to political capture, it maintained that "development partners have built into the programmes [that] they

support monitoring and safeguard mechanisms that give a reasonable assurance that resources are being used for their intended purposes."

HRW has noted that the DAG response was based on a desk study, and highlighted the fact that donors have not carried out any credible, independent investigations. The report emphasises that accountability mechanisms for aid distribution operate alongside government staff, making them incapable of uncovering the partisan political influence on programmes.

Turkmenistan trouble

The issues raised in Ethiopia resonate with ongoing concerns over the Bank's integration of human rights into its operations (see *Update 71*), and over how existing Bank safeguards fail to adequately incorporate internationally recognised human rights standards and norms (see *Update 71, 70*). In late October, the World Bank signed a memorandum of understanding with Turkmenistan to develop the Turkmenbashi Port on

the Caspian Sea. This caused alarm amongst human rights NGOs in the country, which scores low on many international indicators of human rights protection. The Bank announcement came two weeks after a public statement from NGOs Amnesty International and HRW voicing concern over "allegations that Farid Tukhbatullin, director of the [NGO] Turkmen Initiative for Human Rights, is at risk of harm by agents of the Ministry of National Security (MNS) of Turkmenistan." NGO Crude Accountability has since stated that they "urge the [Bank] and other financial institutions to reconsider any plans to provide financial support to the Turkmen government until it undertakes significant and measurable human rights improvements." ©

Development without freedom: how aid underwrites repression in Ethiopia

www.hrw.org/node/93605

Turkmenistan: Activist at serious risk of harm Joint statement

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Global battle for control of money: IMF flounders amid economic warfare

Debate about 'currency wars' and capital controls has dominated global economic policy making this autumn, but serious talks to reform a crisis-prone and outdated international financial system remain elusive.

The term currency wars, essentially competitive holding down of exchange rates, was used by Brazilian finance minister Guido Mantega before the IMF annual meetings in early October. The IMF's mandate review process (see *Update* 72, 71, 70, 68), was supposed to conclude by the meetings, but an international agreement to resolve global imbalances and deal with financial flows proved impossible.

The IMF executive board annual meeting report to finance ministers states: "While there are no easy solutions, an initial debate has at least yielded consensus on the questions that any guardian of the international monetary system must find answers before problems come to a head. [sic]" The board failed to spell out both questions or a timetable to find answers in their progress note.

Floods of money

Brazil was one of the first countries to feel the effects of a rush of capital exiting rich countries. Investors are searching for high interest rates in developing countries compared to the low interest rates in the advanced markets. The prospect of further quantitative easing in the US, which was announced in early November, has created even more liquidity in advanced markets pushing larger capital flows towards the developing world. Quantitative easing has been likened to printing money and is aimed at supporting the US economic recovery.

For countries with floating exchange rates, capital inflows push up exchange rates, making it more difficult to export. China's virtually fixed exchange rate means that while other emerging markets' exports to rich countries become more expensive, Chinese exports become relatively cheaper. A number of Asian countries, particularly South Korea and Japan, intervened in the foreign exchange markets in late October to prevent appreciation of their currencies. Mantega criticised these interventions and called for the IMF to create an index of currency manipulation: "The IMF would have to come up with a method to measure which currencies reflect the structural situation of their countries, which are floating currencies, and which ones are forcing their hand."

The US government and legislature both upped their media attacks

on the fixed Chinese exchange rate regime in September and October. Senior Chinese officials fired back in late October and early November by criticising US monetary policy. Amid the simmering tensions, analysts looked to the late October G20 finance ministers' meeting and mid November meeting of the G20 leaders to resolve the situation.

Before the G20 meeting, the US pushed for a 4 per cent symmetrical limit on current account deficits and surpluses to be enforced through IMF monitoring and the G20 mutual assessment process (see *Update* 72). This approach was rejected by large surplus countries Japan and Germany, with the communiqués of both G20 meetings calling instead for a move "toward more market-determined exchange rate systems, enhancing exchange rate flexibility to reflect underlying economic fundamentals, and refraining from competitive devaluation."

Calls for capital controls

Brazil was one of many that took decisive action to stem capital inflows (see *Update* 72, 70), raising its inflows tax from 2 to 6 per cent in late October. In contrast to January, when Brazil first instituted the tax, this time the IMF made no comment.

The South Korean finance minister Yoon Jeung-hyun has taken a lead in arguing for more IMF work on managing capital flows. In his speech at the IMF annual meetings, he said the Fund "should deeply explore various ideas and policy options to mitigate the side effects of the increased capital flow." In mid November Korea announced its intention to reinstitute a Brazilian-style tax on foreign bond holders.

South Africa's finance minister Pravin Gordhan was one of the first

policy makers to advocate what many in civil society have called for: source country regulation of volatile capital flows. In an early November speech before leaving for the G20, Gordhan called for "finding a multi-lateral formula which would enable us to have action taken both at the source of these funds (and) the destination."

Ilene Grabel of Denver and Ha-Joon Chang of Cambridge University cheer the embrace of controls and conclude: "Countries need the latitude to impose capital controls that meet their particular needs, and it is a relief to see that they are finally getting it after a long period of debilitating neoliberal ideology."

Exchange rate system reform

However, Grabel and Chang warn about the need for international coordination and a revamped financial framework. Many capital flow problems stem from a monetary system that even the IMF recognises is poorly designed in many ways (see *Update* 72, 70).

World Bank president Robert Zoellick, in early November, called for "the development of a monetary system to succeed 'Bretton Woods II'," the name given to the current hybrid system of countries using a variety of exchange rate systems from free floating to fixed. He felt that "the system should also consider employing gold as an international reference point."

Zoellick's remark about gold drew a barrage of criticism about the inappropriateness of using it as an anchor for exchange rates, especially when much of the world faces deflationary risks. However, Robert Skidelsky, biographer of John Maynard Keynes, welcomed Zoellick's recognition of the need

to rebalance the global economy. Echoing the conclusions of the 2009 UN Commission of experts chaired by Joseph Stiglitz (see *Update* 65), Skidelsky wrote: "A 'super-sovereign reserve currency' should be the central aim of structural reform of the world's monetary system. But it should be part of a wider package. This would include capital controls at least in the transitional period and agreement on a more stable system of exchange rates. Both are wanted by east Asian countries."

A November research paper from the South Centre by Yilmaz Akyüz argues that the IMF should focus on crisis prevention rather than lending by working on a new reserve system, capital controls and a sovereign debt workout mechanism. He adds that the IMF needs "to establish credible and effective surveillance over national monetary and financial policies with global repercussions. This very much depends on introducing enforceable commitments and obligations regarding exchange rates of major currencies and adjustment to imbalances by both deficit and surplus countries."

France has promised to put issues of international financial reform, including the monetary system, at the centre of the G20 agenda while chairing the club in 2011. The IMF has now committed to "deepen" its work in this area, but it has no specific timetable or end goal. Its final discussion on a policy for managing capital flows was scheduled for late summer, but has now been delayed until end November. The inability of IMF members to agree about even the acceptability of capital account management techniques does not bode well for efforts to rewrite the global financial framework. ©

Why capital controls are not all bad, Ilene Grabel and Ha-Joon Chang

tinyurl.com/Grabel-Chang

A golden opportunity for monetary reform, Robert Skidelsky

tinyurl.com/FT-Skidelsky

Why the IMF and the international monetary system need more than cosmetic reform, South Centre

tinyurl.com/Akyuz-rp32

How to insure against crisis: self, regional or international?

A November report published by think-tank German Development Institute and US NGO Center of Concern explores regional financing arrangements (RFAs). In the volume, some authors argue that RFAs cannot effectively supplant IMF insurance and instead argue for RFAs and the IMF to cooperate together.

Other contributions sought to distance RFAs from the IMF. Masahiro Kawai, head of the Asian Development Bank Institute, argues that Asia's regional fund, known as the Chiang Mai Initiative, "should be de-linked from IMF programmes". Aldo Caliani of Center of Concern stresses that "regional mechanisms for reducing the demand for liquidity,

particularly for intra-regional trade operations, may be just as important" as RFAs.

This summer, the IMF discussed lending directly to RFAs, which would then lend on to their members, as part of plans for a so-called global financial safety net (see *Update* 72). The financial safety net proposals, including multi-country swap lines and financing for regional arrangements, were supposed to be finalised at the G20 summit in Seoul in November, but there was insufficient support for such ideas among IMF shareholders.

tinyurl.com/GDI-RFA

IMF economics put recovery at risk (not to mention people)

Amid slowing global economic growth the IMF welcomed fiscal consolidation, despite warnings that in Europe and in developing countries austerity policies and consumption taxes are threatening recovery and harming the most vulnerable.

Ireland is the latest country in Europe facing IMF intervention in its economy. In late November, the country was the first to call on the European Financial Stability Facility, agreeing a three-year bailout package with the European Union and the Fund. The deal is expected to total between €80 billion (\$110 billion) and €90 billion and is intended to tackle the country's banking crisis and fiscal problems. Nessa Ní Chasaide of NGO Debt and Development Coalition Ireland said: "It is clear that the EU-IMF loans are not to bailout the Irish people but European banks, which lent so recklessly to Irish banks, and to prevent contagion of Ireland's crisis across Europe."

While the conditions attached to Ireland's lending programme are being negotiated, a late November IMF staff position note, *Lifting euro area growth*, identifies cuts to the national minimum wage and unemployment benefits as a priority for Ireland's economic recovery.

Despite massive cuts of public sector jobs and wages, Greece failed to meet the deficit target set by the EU and IMF (see *Update* 72, 71). The EU's statistical agency projected a 9.4 per cent deficit this year, breaching the 8.1 per cent target. The Greek economy shrank by 4.5 per cent in the last 12 months and in early November speculation was rife that Greece would ask for a rescheduling of debt repayment beyond 2015. Costas Lapavistas of the University of London said that "the austerity programme in Greece is fail-

ing. With further cuts announced for 2011, the recession is likely to become even deeper. Greece needs to get out of the IMF-EU austerity programme as soon as possible."

Opposition is growing against the Romanian government's IMF-mandated consolidation policies (see *Update* 72, 69, 68, 67). The IMF's mid October mission to Bucharest was met by 4,000 finance ministry workers striking against wage cuts. The IMF delegation urged the government to resist union demands for increases to the minimum wage, which currently stands at less than €150 a month. The mission welcomed the rise in value-added tax (VAT) for staple food to 24 per cent, which Romania adopted during the summer, and cautioned against any changes in the fiscal system in the near future.

Dangers in low-income countries

The challenges emerging from the global crisis for low-income countries were discussed by the Fund's board in early November. Despite noting that low-income countries "saw the sharpest decline" of their economies in four decades, "pushing an additional 64 million people into extreme poverty by end 2010", the board praised their "resilience", finding GDP growth to have "stayed positive" in two-thirds of the countries during the crisis.

The report identifies the impor-

ance of rebuilding "policy buffers", mainly the reduction of fiscal deficits, to be the priority for low-income countries "emerging from the global crisis" (see *Update* 72). While the IMF projects that poor countries will maintain or even increase public expenditure, civil society groups have critiqued these estimations being measured in real terms, rather than in relation to GDP. Bhumika Muchhala of Malaysia-based NGO Third World Network says: "This makes a difference because, considering all the impacts of the crisis, for example including external trade shocks, the financing needs of LICs also mounted."

An early October UNICEF report, reviewing expenditure in 126 developing countries, raises concerns over fiscal adjustment timing and measures such as wage bill reforms, removal of food subsidies and targeting meagre social protection systems. In the light of "a significant number of low- and middle-income countries ... tightening or planning to tighten public expenditures in 2010-11", UNICEF worries that "the adjustment measures that countries choose to achieve expenditure consolidation can have direct implications for social spending and the poor", risk achievement of the Millennium Development Goals, and "impede sufficiently broad-based domestic demand to ensure employment-oriented growth".

In a late October letter, interna-

tional NGO Oxfam expressed concern to the IMF about its lending programme in Sierra Leone (see *Update* 69). The Fund pressured the government to prevent increases in health workers salaries after Sierra Leone launched a major initiative to provide free basic health care to pregnant and nursing mothers and children under five years old. Moreover, the IMF recommended the adoption of a consumption tax. Oxfam worries that the Fund's recommendation fails to "identify risks associated with the tax's implementation, including risks to Sierra Leone's highly food insecure, vulnerable population."

Cheerleading cuts universally

While the IMF's October *World Economic Outlook* projects economic growth to slow in 2011 and expresses concern about the "fragility" of global economic recovery, its early November *Fiscal Monitor* reveals that public budgetary consolidation is well underway. In 2010, 60 per cent of the countries surveyed had reduced their fiscal deficits and 90 per cent are planning to do so in 2011. The report comments that "this pace of adjustment is broadly appropriate" and welcomes the fact that "the vast majority of adjustment plans are intended to be expenditure-based".

In contrast, the International Labour Organisation's *World of Work Report 2010* cautions that if policies of fiscal tightening persist, a recovery in unemployment to pre-crisis levels will be delayed until 2015 in advanced economies, instead of 2013 as projected last year. ©

Prioritizing expenditures for a recovery for all, UNICEF

🌐 www.unicef.org/socialpolicy/index_56435.html

Oxfam letter on Sierra Leone

🌐 www.ifwatchnet.org/?q=en/node/33560

Pakistan: IMF pushes regressive taxes

In November, Pakistan and the IMF again failed to agree conditions for release of the sixth instalment of the country's Stand-by Agreement. The Fund is insisting on the country implementing a reformed general sales tax and ending electricity subsidies before further disbursement. Matti Kohonen of NGO Tax Justice Network said that "the sales taxes postulated by the IMF are regressive and borne disproportionately by Pakistan's poor. Instead it should focus on stopping illicit capital flight, particularly corporate tax evasion to find more revenue to fund basic services and disaster relief efforts." The Pakistani senate called for debt relief in November (see *Update* 72).

Argentina wins Paris Club talks without IMF

In mid November, Argentina got the green light from the Paris Club group of rich country lenders to negotiate repayment of about \$75 billion in defaulted debt without IMF oversight. Argentina has been unable to borrow on financial markets since its default on nearly \$100 billion in 2001, for which it blamed IMF-prescribed policies (see *Update* 60, 32, 31, 29). Economy minister Amado Boudou welcomed the decision, saying "we know what happens when the IMF sticks its nose in." President Christina Fernández said the decision meant, "God willing, next year we can definitively emerge from default."

🌐 tinyurl.com/Argentinianpresidencywebsite

Experts concern over investment treaties

A group of more than 35 leading academic experts in investment law have expressed concerns over the social impact of investor protection. The public statement critiques that "there is a strong moral as well as policy case for governments to withdraw from investment treaties." It also calls on international organisations to "refrain from promoting investment treaties" and "to conduct research ... on the serious risks posed to governments by investment treaty arbitration." Arbitrations between governments and foreign investors are often settled by the World Bank Group's International Center for the Settlement of Investment Disputes (ICSID).

🌐 tinyurl.com/ogoodstatementStatement.pdf

Papua New Guinea: Fears about SEZ

The International Finance Corporation's (IFC) proposal to establish a special economic zone (SEZ) in Papua New Guinea (PNG) has caused concern. SEZs are geographical regions within a state that have more business friendly rules than the rest of the country. The IFC claims the SEZ would boost PNG's attractiveness to foreign investors, however PNG-based bloggers fear that, "the zones are notorious for low wages, inhuman living and working conditions and other human rights violations. They also contribute little to local economies as most raw materials are imported and finished goods exported duty free".

🌐 pngexposed.wordpress.com/2010/11/14/watch-out-you-cant-trust-the-world-bank-or-ific/

Implementing IMF governance reform: baby steps in slow motion

IMF managing director Dominique Strauss-Kahn called agreements reached on IMF governance reform "historic". A closer analysis reveals that the shifts in votes are smaller than claimed and though after two years the basic power structure of the IMF will better incorporate large emerging markets, it will continue to be dominated by the US and Europe.

The late October G20 finance ministers' meeting in Gyeongju, South Korea agreed to "shifts in quota shares to dynamic [emerging market and developing countries (EMDCs)] and to underrepresented countries of over 6 per cent, while protecting the voting share of the poorest, which we commit to work to complete by the Annual Meetings in 2012." They also agreed to "a comprehensive review of the [quota] formula by January 2013" and "greater representation for EMDCs at the executive board through two fewer advanced European chairs" and "moving to an all-elected board."

In early November, the IMF board formally approved a doubling of IMF quotas and the shift in quota shares, which will now have to be ratified by finance ministers and, in many countries, by parliaments. The all-elected board will require an amendment to the IMF's Articles of Agreement, again needing approval by member states. The sequencing contained in the single agreement explains the long delay for implementation of the reforms.

False presentation on quota

The changes will make China the third largest shareholder and will vault India, Russia and Brazil into the top ten. More than half of the 6 per cent shift to "dynamic" countries will come from other developing countries losing voting share. The paper outlining the board agreement shows that the voting share of "advanced economies" will drop from 57.9 per cent to 55.3 per cent, a loss of only 2.6 per cent.

The IMF categorised South Korea and Singapore as developing countries benefitting from the shift, despite the IMF's own flagship analytical report, the *World Economic Outlook* (WEO), classifying them as "advanced economies". By the WEO definitions, advanced economies experience a net loss of only 2 per cent. Africa, as a continent, will see its voting share drop from 5.9 per cent to 5.6 per cent.

The November agreement also marks a formal reneging on the IMF board's 2008 promise to reform the IMF quota formula before it was

used again (see *Update* 72). The formula, which was only agreed for temporary use in 2008, has been hotly contested by the G24 group of developing countries as improperly specified. This time the formula was used in combination with a number of other complex negotiated allocation rules to achieve the final list of 54 countries that would gain from the process. Developing countries losing voting share include Venezuela, Nigeria, South Africa, Argentina, Cameroon, Algeria, Pakistan and Morocco.

Richard Calland of South Africa-based NGO Institute for Democracy in Africa said: "The recent IMF deal is just not good enough for Africa. Not only do rich countries retain their dominance, but important developing country players like South Africa are losing out. And we will have to wait years for even these pitifully small changes to be implemented."

Decision rules unchanged

The agreement also leaves in place the US unilateral veto over some IMF decisions. In early November, German executive director Klaus Stein emphasised that the US veto is "anachronistic at this point. For one country, no matter how big it is, to have the right to dominate decisions in that unique way is not legitimate anymore." Inside sources indicated that some large developing countries opposed European proposals to eliminate the US veto, because they feared they would lose their ability to block things as a group.

When Strauss-Kahn was campaigning to be selected as managing director of the Fund he had explicitly promised the use of double majority decision making at the board (see *Update* 57), but no progress has been made on this. With the current round of reform essentially finished, any adoption of this proposal would likely have to wait until 2013 at the earliest.

The paper on the board agreement reveals that European countries will give up two full seats on the board, not the two partial seats they had offered to rotate with developing countries, in a proposal they made before the agreement. However, the Europeans, who have not yet come to an internal consensus about how to restructure their constituencies, will keep at least eight seats until 2012. ©

IMF governance reform
www.imf.org/external/np/pp/eng/2010/070710.pdf

Changing tone or changing policy? The Bank's development research

While the World Bank has lately changed its rhetoric on how to approach its knowledge role, critics fear that without internal governance reforms the new approach remains nothing but an empty slogan.

"A new multi-polar world requires a new multi-polar approach to knowledge" is the message of a late September Bank policy research working paper, *Research for development: a World Bank perspective on future directions for research*, authored by the development economics senior vice presidency. While stressing that "research and data" will remain "the essential elements of the Bank's country programmes", the paper calls for "a more open and strategic approach to research" grounded in "the experiences of developing countries".

Shortly after the release of the paper, Bank president Robert Zoellick claimed that knowledge on development is "no longer about the Washington consensus. One cannot have a consensus about political economy from one city applying to all." He called for the Bank to "democratise and demystify development economics, recognising that we do not have a monopoly to the answers."

This participatory and heterogeneous approach to knowledge appears to be in stark contrast to the Bank's traditional research model (see *Update* 70, 66, 54, 53). Dani Rodrik of Harvard University wondered if it is mere rhetoric: "I like [democratising development economics] as a slogan, but fear that it may end up another gimmick. Zoellick offers no new ideas on the governance and internal organisation of the Bank. And without changes in these, the bulk of the Bank's research will continue to be done in Washington DC by economists from advanced nations."

[W tinyurl.com/rodrik](http://tinyurl.com/rodrik)

IMF names hedge fund advocate as Europe director

In late October, hedge fund advocate Antonio Borges was appointed the director of the IMF's European department. Borges, a Portuguese national, holds a PhD in Economics from Stanford University. Between 1990 and 1993 he was vice governor of Banco de Portugal, where he took a leading role in the liberalisation of Portugal's financial system. He became vice chairman and managing director of investment bank Goldman Sachs between 2000 and 2008, and currently chairs the Hedge Fund Standards Board in London, a hedge fund industry association that promotes self-regulation. Borges will succeed Marek Belka, who left the Fund earlier this year to become governor of the Central Bank of Poland. Borges is expected to take up his new position in late November.

Ana Paula Canestrelli joins the project

We are delighted to welcome Ana Paula Canestrelli as our new research and communications officer. Her work will include supporting the development and implementation of the Bretton Woods Project communications strategy. Ana Paula is a journalist who has experience working with communications and the media in Brazil and most recently with international media development NGO Panos London. Ana Paula holds a masters in media, communication and development from the London School of Economics.



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