

World Bank policies “enabling” African land grab

New research accuses the World Bank Group’s policies of facilitating land grabs in Africa and favouring the interests of financial markets over food security and environmental protection.

Agriculture and the food crisis are a high-profile agenda topic at the upcoming World Bank annual meetings, and critical voices are growing on the Bank’s approach to food price volatility (see page 3). Recent in-depth research by the US-based Oakland Institute raises further difficult questions on agriculture policy for Bank officials. The report implicates the World Bank Group (WBG) in the increasing acquisition of farmland in the developing world by private investors and wealthy nations, which critics are calling a global ‘land grab’ (see *Update* 76, 71, 68). The investigative research, published between March and June, analyses a series of land deals in countries across Africa and finds that the purchases of land, often by large institutional investors, are mainly unregulated, produce few of the promised benefits to local people, and instead are forcing thousands of small farming communities off ancestral land, creating serious food insecurity and driving environmental destruction.

Writing in a blog for Reuters, Joan Baxter, a research fellow at the Oakland Institute, said that “more than any other institution or agency, the World Bank Group has been promoting direct foreign investment in Africa, and enabling the farmland rush.” Their in-depth reports on Mali and Sierra Leone reveal how the WBG “has shaped the economic, fiscal, and legal environment ... in a way that favours the acquisition of vast tracks of fertile lands by few private interests instead of bringing solutions to the widespread poverty and hunger.”

The Oakland Institute finds that the WBG has, through an array of different policies, overseen a shift towards prioritising large-scale commercial agribusiness, achieved



REUTERS/HEICHAHAWIBER/THORLOK

by attracting and promoting foreign agricultural investment. The Bank has financed legal reform mechanisms that are promoting rapid changes in land tenure laws, “driven by a desire to facilitate large-scale agricultural investment”. The Bank has also been funding investment promotion agencies in African countries that place private sector advisors in key governmental ministries, including presidential offices. This was a key part of the Growth Support Project for Mali, financed by a loan from the International Development Association (IDA), the Bank’s low-

income country arm. The salaries of the directors of the Malian investment promotion agency are covered by the IDA loan. The agency also includes IFC consultants, and guarantees investments through the Multilateral Investment Guarantee Agency (MIGA), the Bank’s risk insurance arm.

Baxter observes that these agencies “are developing and advertising a veritable smorgasbord of incentives not just to attract foreign investment in farmland but also to ensure maximum profits to investors. These include extremely generous tax holidays for 10 or even

30 years, zero per cent duty on imports, and easy access to very large tracts of land, sometimes over 100,000 hectares. Investors may pay just a couple of dollars per hectare per year for the land, and in Mali, sometimes no land rent at all.”

The reports from both Sierra Leone and Mali also argue that the land deals facilitated by the Bank’s investment promotion policies fail to comply with its own large-scale responsible agricultural investment principles (RAI, see *Update* 76, 71). The report on Sierra Leone says the RAI principles are “vague and minimal”, and are “based on the controversial assumption that industrial-style agriculture and land use can increase food production and fuel economic growth in host countries”, and “do not consider the overall questions about the enormous risks and inherent injustices of the global rush by investors and nations for farmland”. It argues that that land deals in Sierra Leone do not conform to the RAI principles, while the Mali report argues that the “Bank ignores its own principles by supporting institutions and policy reforms that disregard them.”

Meanwhile, the IFC has dropped a controversial proposed investment in a company accused of land grabbing. It had planned to lend \$30 million to Calyx Agro Ltd, an Argentinean subsidiary of a French owned commodities trading company. Calyx Agro holds farmland across South America. In June a group of NGOs and social movements, including Via Campesina and Focus on the Global South, sent a letter to IFC head Lars Thunell opposing the investment. The letter states that “at a time when social movements in Latin America and around the world are calling for a stop to the ‘farmland grab’ and where many of the region’s governments are pursuing measures to restrict foreign investment in their farmland, it is unacceptable for a multilateral institution like the World Bank to be offering direct support to some of the world’s leading actors involved in land grabbing.”

Oakland Institute research on land grabs
www.tinyurl.com/oaklandres

Letter to IFC on Calyx Agro
www.farmlandgrab.org/post/view/18886

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Big infrastructure, small participation

The World Bank, in conjunction with the G20, is prioritising massive, cross-border infrastructure with private sector involvement, but has failed to involve any local communities.

At a summit in Seoul in November 2010, G20 leaders agreed an ambitious work plan for the G20 development working group, a body of officials preparing plans for G20 development ministers' meetings. With infrastructure as one of the main themes, the Bank was asked to lead the creation of an *Infrastructure Action Plan*, which would be reviewed by a High-Level Panel on Infrastructure appointed by and reporting to the G20. The Bank defines infrastructure as transport, water and sanitation, energy, and information and communication technologies (ICT). By September the Bank had produced a draft and a final version, but neither were publicly released, nor considered by the Bank's board.

According to Bank documents the action plan covers six areas:

- an infrastructure needs assessment;
- "a diagnostic on obstacles to scaling up PPPs [public private partnerships] in developing countries";
- identification of regional projects, especially in Africa;
- assisting low-income countries to embark on PPP projects;
- "a statement of good practices to integrate environmental safeguards into infrastructure development in an effective and cost efficient manner";
- transparency around procurement

and construction costs.

The G20 development working group met in early July in South Africa and considered the draft action plan. They asked the Bank to "speed up project implementation and give room for more collaboration with other investors, especially for PPPs." The final version of the plan was submitted to the High-Level Panel in early September but is not publicly available.

A late June briefing by the German political foundation Heinrich Boell questions the G20 and the Bank's focus on PPPs: "Promoting public-private partnerships in infrastructure should not be a goal in and of itself. ... Public money should not be used to guarantee the profitability of private investors in low-income countries to the extent envisioned by the G20."

New strategy being prepared

The Bank also plans to update its infrastructure strategy. A June concept note, calls for the Bank to "continue to support the core business of infrastructure to meet basic access needs, with an enhanced focus on transformational infrastructure, mobilisation of private capital and other sources of financing." Infrastructure already accounts for over 30 per cent of the World Bank Group's entire portfolio.

Through the strategy update, the Bank wants to position itself as the major beneficiary of any new push to finance infrastructure. The concept note openly states the Bank will consider how to capture climate finance (see page 6). In relation to G20 resources, it asks: "How can the [World Bank Group] use its convening power and the G20 momentum to garner support from the international community around new and/or targeted earmarked resources for project preparation?"

The concept note calls for internet consultations in June and July this year, but the website for the strategy update has little information and no method of inputting.

Failure in water, ICT

Infrastructure projects across all sectors are proving controversial, with energy lending the most contested (see below). In Ghana, confusion reigned over potential Bank backing for private participation in the public water supply. In late August, the ministry of finance advertised for a Bank-funded consultant to handle negotiations of a PPP for water supply. The PPP contract would replace the failed, Bank-backed contract between the government and a Dutch-Ghanaian joint venture involving water multinational Vitens, which pulled out in June.

However, a spokesperson of the water resources ministry said he was unaware of the consultancy and that the ministry still planned to set up a new state-owned enterprise for water distribution. Rudolf Amenga-Etego of Accra-based Grassroots Africa said: "we just managed to get rid of a failing PPP contract with a water multinational, opening space for public provision, and now the World Bank is trying desperately to foist another water multinational onto the Ghanaian people. We need a democratic and accountable procedure to design the systems, financial and technical, that would enable Ghana to achieve full observance of the right to water. This must be be accountable strictly to the people of Ghana and not to the World Bank."

Meanwhile, an August evaluation by the Independent Evaluation Group (IEG), the Bank's arms-length evaluation body, questions the Bank's role in ICT infrastructure projects. The report highlights that 40 per cent of ICT operations failed to achieve their results, with the failure rate reaching 50 per cent for investment loans. ©

The G20: "Maestro" of the development finance world?, Heinrich Boell
www.boell.org/web/index-793.html

Infrastructure strategy update concept note, World Bank
tinyurl.com/WBintra-note

The World Bank smuggles water privatisation deal through the back door
allafrica.com/stories/201109021042.html

Bank pushing dirty coal and massive hydro

The Bank's energy projects in Kosovo and India are being lambasted by critics for threatening livelihoods and the environment.

In early September three Kosovar NGOs – KIPRED, FIQ and the GAP Institute – published a report on Energy Projects in Kosovo. The Bank is considering three coal-power related projects there, including technical assistance, support to a company to run a lignite (brown coal) mine and power plant, and a partial risk guarantee for electricity distribution privatisation.

The NGOs fault the Bank for ignoring its own criteria for screening coal projects under the *Strategic framework for development and climate change* (see Update 71, 69). Instead "the Bank, in cooperation with the Kosovo government, is pushing for the privatisation of energy generation without carrying out other necessary studies and before addressing the issue of energy accountability."

The NGOs recommend that prior to the lignite plant going forward the Bank should insist on "energy efficiency, reduction of technical and commercial losses of energy, and investment in transmission lines with neighbour[s]", as well as "studies on solar energy capacity, wind energy capacity, and energy capacity from geothermal sources."

Indian controversies

The International Finance Corporation (IFC), the Bank's private sector arm, investment in the Tata Mundra coal power plant (see Update 73, 59) is being investigated by the Compliance Advisor Ombudsman, the adjudicator for disputes on IFC projects. Lodged by fishing and farming villagers, the complaint was accepted as eligible in July. It claims that due to flawed design, the mammoth plant is destroying the livelihoods of thousands of families and will cause irreparable damage to fragile

marine resources and agriculture.

However, increases in the cost of coal mean the plant may never be completed, suggesting that the IFC backed a project that was never commercially viable without implicit fossil fuel subsidies. Tata had planned to import coal from its affiliated mine in Indonesia at below-market prices, but thanks to a G20 commitment to phase out all fossil fuel subsidies, Indonesia will now require all overseas sales of coal to be benchmarked to prevailing international market prices, putting into doubt the ability of the plant to turn a profit.

The Bank also announced in early August a \$648 million loan for the 444 megawatt Vishungad-Pipalkoti hydro-power project in the northern Indian state of Uttarakhand. In July 2010, project-affected villagers complained to the Bank about lack of consultation and improperly prepared Environmental Impact Assessments. In July 2011 the Matu

Peoples' Organisation, which represents affected villagers, wrote to the minister of environment asking "what happened to public consultation? When did it happen?" The organisation is now demanding the cancellation of logging permits given to make way for the dam.

Where to next?

A June report by Indian NGO Vasudha Foundation with Oil Change International and ActionAid International noted that "only 9 per cent of the World Bank Group's energy portfolio in [fiscal year] 2009 and 2010 targeted increasing energy access for the world's poorest." Meanwhile, a final version of the Bank's new energy strategy is still stalled (see Update 76, 75). ©

Energy Projects in Kosovo
institutigap.org/repository/docs/EnergyProjectsInKosovo.pdf

Complaint regarding Tata Ultra Mega
tinyurl.com/complaint-Tata

The water supply crisis in Ghana is being exploited by all manner of pro-market corporate bodies ranging from the World Bank to Coca-Cola. While the World Bank is licking its wounds from failed private water management initiatives, such as the Aqua Vitens Rand Limited management contract in Ghana, the International Finance Corporation (IFC), its private sector arm, is investing in small-scale private water ventures via WaterHeath International (WHI).

WHI's business model involves constructing small micro-utilities that disinfect local water and sell it to the rural and semi-urban poor in developing countries. Communities are loaned start up costs, and revenue from selling the water is used to pay this back and cover operating costs, with communities eventually taking ownership of the facility. The IFC has supported the company since it was founded in 1995. Most recently WHI received a \$25 million IFC loan in 2010 to fund the company's expansion beyond India, into West Africa and Bangladesh.

The extent to which this model is driven by massive water-using corporations should not be underestimated. WHI boasts of corporate partnerships with the Coca-Cola Company and UK drinks giant Diageo. WHI's scheme in Ghana was initiated by NGO the Safe Water Network, of whom Pepsi Co is a major funder. WHI is a new Trojan horse used for the purpose of introducing "market solutions" as the panacea for the current water crisis in developing countries.

This scheme looks excellent at project inception, with its low maintenance requirement, but five years after handing over to the community, the infrastructure's maintenance needs vastly increase. Usually the amount required for repairs and maintenance is larger than the rev-

IFC helping Western multinationals exploit Ghana's water crisis

COMMENT

by Alhassan Adam,
Africa Water Network

governmental departments, who are called upon to rectify the defects when the project sponsors have packed their baggage after the pump and pageant are over. There are a number of such projects dotted across the country. It is evident that "markets" cannot be trusted to deliver even non-essential non-public goods such as banking services, so how will they guarantee access to water? It would be a tragedy to allow the IFC to continue financing these projects.

What is needed is for the World Bank to scale up their grants to the state-owned enterprise, the Ghana Water Company Limited (GWCL) to expand its capacity to deliver potable water to such communities. It is curious to note that one of the partners of WHI is Coca-Cola, which bottles and retails water in Ghana drawn from GWCL. If the IFC thinks that "market solutions" are the way forward in water supply, why not persuade the Coca-Cola Company to establish their own treatment plant to feed their bottling plants? That would free up plenty of water from the public water company to supply poor and vulnerable people.

At best, WHI may help to provide a short term solution for the communities to access water, but in the long run it will run aground. The purpose of this initiative is to cleanse the image of partnering private companies who, through using so much of the public water supply, effectively exploit the public system at the expense of the poor. ©

✉ africawaternetwork.org ✉ alhassan.adam@gmail.com

Bank deaf on food speculation, vocal on financial instruments

As agricultural markets continue to experience increasing volatility and record food prices intensify global hunger and poverty, the World Bank's approach to the crisis, which emphasises the use of commodity markets and corporate agriculture, is found wanting by both those who demand food sovereignty and food security.

In May 2011 the International Financial Corporation (IFC), the Bank's private sector arm, launched its new Agriculture Price Risk Management product (APRM) in conjunction with American investment bank JP Morgan. According to a still unreleased fact sheet, the APRM "targets emerging market agriculture producers and intermediaries that don't have access to hedging instruments. By working with – among others – intermediaries such as cooperatives, the product will also improve access of smaller producers who might not be able to have access to price hedging products by themselves." The Bank claims that the APRM will help boost access to credit for producers,

reduce the impact of price volatility, and create greater access to affordable food through cost stability.

Indian economist Jayati Ghosh questions these claims: "the APRM proposal is truly bizarre, amounting to public money being used to subsidise financial players that already have huge conflicts of interest in a sector characterised by massive information asymmetries. Farmers and consumers in the developing world need support in the form of minimum support prices for producers and stable prices for consumers, which can be delivered through public procurement and distribution systems."

In June G20 agricultural ministers met to discuss ways to tame global food price volatility. A policy report for the ministers, coordinated by the UN's Food and Agriculture Organisation and the OECD, with contributions from the Bank, includes an entire section on the potential of producers using hedging instruments. The similarity in tone and policy prescription to the IFC's rationale for

the APRM indicates that the Bank had a hand in the authorship of this section. A "menu" of policy approaches for G20 ministers to consider includes: "intermediation of financial commodity hedges by multilateral development banks and international financial institutions; and risk-sharing the underlying credit exposure in order to expand the reach of these tools, as is planned through the IFC's proposed Global Agricultural Price Risk Management Product."

A paper by the head of the French development agency, which was submitted for consideration by G20 agriculture ministers, is also ambivalent on the role of commodity speculation, while advocating multilateral development bank-led hedging instruments. Again the APRM is specifically mentioned, before the report advocates that the "G20 could support the initiative led by the World Bank to develop risk management instruments".

Brewster Kneen and Cathleen Kneen, members of global network the International Planning

Committee on Food Sovereignty, warn against the dangers of such an approach. "For all but the very largest corporately allied industrial farmers, entry into the futures market is a step into a world controlled by finance capital and dependency on corporate entities whose interests are not those of the subsistence or even small and medium sized farmers, or even of the public."

These stand-alone initiatives end up increasing the costs to

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Scandals threaten IFI governance: IMF, World Bank leaders accused

With the new IMF head and a World Bank managing director under judicial investigation, IFI governance reforms remain slow and controversial.

Christine Lagarde's term as the new IMF managing director, which began in July after a flawed, rushed process (see *Update 76*), began amid controversy when French magistrates decided in August to formally investigate her for "complicity in forgery" and "complicity in misuse of public funds", charges which carry a possible prison sentence of 10 years and a fine of up to €150,000 (\$211,000). The case relates to Lagarde's use of a closed door arbitration tribunal to approve a €285 million payment to Bernard Tapie, businessman and confidante of French president Nicolas Sarkozy, when she was France's finance minister (see *Update 76*). However, it may take several years for any judgement to be reached.

No transparent process

China's assent to Europe's continued stranglehold over the IMF top job saw it reap an instant dividend, when Zhu Min, former deputy governor of the Chinese central bank, was appointed to an additional post of deputy managing director at the Fund, just days after Lagarde's appointment. The US maintained its grip on the number two position, when White House advisor David Lipton was given the post of first deputy managing director at the same time. Both postings were announced without any visible selection process, further undermining the credibility of past commitments to appoint all top management through open, transparent processes (see *Update 75*).

US post controversial

The appointment of Lipton will be regarded with particular wariness by the Fund's critics, who remember the role he played as US treasury undersecretary in Korea during the Asian financial crisis in the late 1990s. In *The Chastening*, an in-depth account of the crisis, Paul Blustein documents how Lipton played a key role in enforcing tough economic conditions on Korea that led to the deepening of the crisis. He had also worked as an advisor to Russia, Poland and Slovenia in the early 1990s, during the well known 'shock therapy' undertaken during the post-communist transition.

Meanwhile, the US seems set to extract a further return for supporting Lagarde: maintenance of its grasp on the top job at the Bank. US Treasury under-secretary for international affairs Lael Brainard told a Congressional committee in June that "the World Bank has benefited tremendously from American leadership over the past several decades," and "it would be a terrible cost to us to forfeit that leadership at a time where it seems more important than ever".

Sarah Wynn-Williams of NGO Oxfam International denounced the IMF selection process as "farcical", adding: "There were noises made about openness, but the decision was made before the candidates were interviewed."

World Bank MD in trouble

Meanwhile, controversy continues to surround current Bank manag-

ing director Mahmoud Mohieldin – appointed in September last year without an open transparent process (see *Update 72*). Mohieldin, former Egyptian minister of investment under ousted dictator Hosni Mubarak, is currently subject to investigation by the Administrative Prosecutor's Department in Cairo into allegations surrounding the sale of public real estate without a competitive bidding process. This follows a May Administrative Court ruling annulling the privatisation of Omar Effandi, Egypt's largest department store, because of "defects" and irregularities. In an August blog, Michael Termini of US NGO the Government Accountability Project (GAP) says "the ruling specifically identified the minister of investment (Mohieldin) as a responsible party." GAP has asked the Bank three times to disclose Mohieldin's financial records, but each request has been rejected. According to Termini, "the World Bank appears to be curiously insulating Mohieldin from investigation."

IMF moving slowly on seats

Meanwhile, other promised IMF governance reforms appear to be slowing down. Shortly after the IMF announced the completion of the approval process for the IMF voting reform agreed in 2008 (see *Update 60*), Indian executive direc-

tor to the IMF Arvind Virmani fired the first round in the next revision of the IMF quota formula due for completion by 2013. In an IMF working paper, Virmani dismantles the existing formula for determining voting rights at the IMF, saying that there is "a large gap between economic reality and IMF quotas. Dissatisfaction among global public opinion can only be reduced or eliminated if quota shares are changed to reflect the current and fast changing economic reality." He goes on to argue that "if we want

a simple and transparent formula, then it needs

to have only two variables: the relative size of economies as measured by GDP [at purchasing power parity] shares in world aggregate GDP ... and the proportion of the world's poor living

in the country to reflect 'voice'." The lack of any democratic variable in the current IMF quota formula has long been the subject of controversy (see *Update 60*).

The 2010 IMF agreement to consolidate the eight chairs currently held by European countries into six (see *Update 72*) is yet to be implemented. African IMF governors issued a declaration in Kinshasa, Democratic Republic of Congo, in August, reiterating their call for a third African chair on the IMF executive board. Forty-five African countries – soon to be 46 with the addition of South Sudan – are currently being represented by only two executive directors despite covering by far the largest number of active IMF programmes. Even a third African chair would still leave an average of 15 countries per constituency; more than any other board member. ©

tinyurl.com/GAPonMohieldin

IFC hotel investment: "corporate welfare"

The International Finance Corporation (IFC), the World Bank's private sector arm, has approved a \$26 million loan to Saudi Arabian prince Al-Waleed bin Talal to build a luxury hotel in Ghana. The prince is estimated by Forbes magazine to have a net worth of \$19.6 billion, making him the world's 26th richest person. Bruce Rich, a US public attorney and campaigner, said that "Unfortunately, the IFC has financed numerous four and five-star hotels in the world's poorer countries for years. ... Prince Walid and the patrons of a luxury international hotel appear to be what the IFC views as the 'poor and vulnerable' deserving of international corporate welfare."

tinyurl.com/Talalhotel

Red-Dead sea plan in hot water

Three civil society groups, including the Palestinian Grassroots Anti-Apartheid Wall Campaign (PGAAWC) have filed a complaint with the World Bank's Inspection Panel over the Bank's feasibility study for a project to channel water from the Red Sea to replenish the Dead Sea (see *Update 67, 58*). Jamal Juma, of PGAAWC, said "the Bank's refusal to seriously examine alternatives that restore the water flow of the Jordan River, and that can support the existence and persistence of the Jordan Valley communities in the area, invariably plays into the hands of Israeli attempts to forcibly expel them in order to illegally annex the valley and to colonise it with its settlers."

tinyurl.com/reddeadcomplaint

Arab civil society rejects IFI involvement

In late June, the Egyptian Ministry of Finance turned down a \$3 billion loan package from the IMF, citing the rejection as a response to "public debate". This coincided with a joint statement signed by 76 civil society groups that denounced the approach of the World Bank and IMF as having been integral to former regimes in the Middle East and North Africa, and argued that their policies would undermine the region's transitional countries' goals of democratic justice. Any financing, they argued, should "support a democratic people-led process of development and not be part of increasing ... debts or restricting their policy spaces".

tinyurl.com/annstatement

Ecuador shuns IMF, borrows from China

Ecuador is avoiding IMF credit facilities in favour of a long-term loan arrangement with China in exchange for oil. This arrangement, in which China will buy 52 per cent of Ecuadorean oil, is preferable to "the horrendous adjustments imposed by the IMF", according to Ecuador's President Rafael Correa - who is adamant that the country will not approach the IMF for credit. Total loans from China to Ecuador are estimated by Maria de la Paz Vela, economic analyst at Multiplica Consultancy, to amount to \$7.2 billion (11.7 per cent of GDP), with the latest loan of \$2 billion to be repaid over eight years at 6.7 per cent weighted interest.

ipsnews.net/news.asp?idnews=56764

Inside the institutions **China and the World Bank**

China joined the World Bank in April 1980, and since then has been one of its largest borrowers and recipients of technical assistance. In recent years, China has gone beyond the only role of recipient country and has increased its influence on the Bank.

China was first a recipient country of the International Development Association (IDA), the Bank's low-income country arm, which up to 1999 had provided it with \$9.95 billion in concessional loans. It was then classified as a middle-income country, and therefore became a loan recipient of the International Bank for Reconstruction and Development (IBRD), the World Bank's middle-income country lending arm. Until 2011, it had borrowed \$39.8 billion from the IBRD. The ties with the International Finance Corporation (IFC), the Bank's private sector arm, were forged more slowly. From 1985 to 1991, only five Chinese projects were supported by the IFC. Commitments began to grow in the 1990s, especially in financial sector equity. Up to 2011, the IFC had lent Chinese companies \$4 billions for 160 projects.

Although the scale of the Bank's financial assistance to China is significant, the disbursements never exceeded 1 per cent of the country's GDP. Policy advice and knowledge transfer have been conveyed through joint studies, training programmes for officials, project financing and technical assistance (TA). The Bank's TA projects have focused on: pension reform, urban housing reform, energy market reform, environmental protection, labour market development, social safety net development, interest rate liberalisation and external trade liberalisation.

In 1999, serious problems with the Gansu & Inner Mongolia Poverty Reduction Project damaged the Bank's reputation in China. The project included a 40-metre dam that would have displaced 60,000 people in the province of Qinghai. The Bank's Inspection Panel found in 2000 that Bank staff broke seven Bank directives during the project appraisal. After a tough political battle, the Bank board de-funded the project's Qinghai component.

China, now classified as an upper-middle-income country, uses the Bank

mainly for funding small-scale projects. The current World Bank Group's Country Partnership Strategy, drafted in 2006, classifies Bank activities under five strategic pillars: integrating China in the world economy; reducing poverty, inequality, and social exclusion; managing resource scarcity and environmental challenges; financing sustained and efficient growth; and improving public and market institutions. In 2010, the Bank lent China \$1.44 billion.

Within the institution, China's influence is growing. This change has been signalled by Chinese high-level staff appointments and shifts in voting power. In April 2008, Justin Lin Yiju, a member of the Chinese Communist Party, was appointed chief economist of the Bank. In April 2010, as developed countries agreed to give up a small part of their voting shares to emerging countries (see *Update 70*), China slightly increased its voting power. It now holds 2.72 per cent of the votes in the IBRD, 1.02 per cent in the IFC, 2.05 per cent in IDA and 2.64 per cent in Multilateral Investment Guarantee Agency, a private-sector insurance arm of the Bank. China also has a seat on the Bank's 25 member board. To assert its growing role within the Bank, China became a donor on a small scale to the IDA in 2008, with a contribution of \$26 million to the 15th IDA replenishment. Last year, on top of a \$161 million normal contribution, it also pledged to make a voluntary early repayment of its own IDA credits of \$1 billion to make more resources available for the 16th IDA replenishment last year.

China also influences the Bank indirectly by being an alternative lender for other developing countries. In January 2011, research by the UK newspaper the Financial Times found that the China Development Bank and the Export-Import Bank of China (Eximbank) had lent at least \$110 billion to developing countries between mid-2008 and mid-2010, which is higher than the loans granted by the Bank during the same period. In response, the Bank has tried to increase cooperation with the Chinese banks. A memorandum of understanding between China Eximbank and the World Bank was signed in May 2007 to collaborate on road and investments projects in Africa. ©

IFC weakens Bank's transparency commitment

The new access to information policy at the International Finance Corporation's (IFC), the World Bank's private sector arm, has been criticised for being weaker than its public sector counterpart, and for allowing sweeping exceptions.

The new policy, released in August despite being agreed in April, will come into force in January next year and is part of the IFC's sustainability framework (see page 10). Though claiming to "align with" the public sector parts of the Bank's 2010 policy (see *Update 68*), the IFC's policy is far more tightly drawn. While the basic framework is of a "presumption in favour of disclosure" of all documents, except those on a lengthy and "not exhaustive" exclusion list, a "compelling reason" can override this presumption. In this case, "the IFC considers whether the disclosure of information is likely to cause harm to specific parties or interests that outweighs the benefit" – introducing significant leeway.

Perhaps the biggest loophole in the new policy, however, appears to be related to "commercially sensitive and confidential information", where a blanket ban is included on disclosing "financial, business, proprietary or other non-public information about its clients, its member countries or other third parties." This ban also extends to legal docu-

mentation or correspondence, and "board documents or papers relating to specific investments or advisory service projects or platforms."

This sweeping exception to the policy has angered the civil society groups who produced the *Transparency charter for international financial institutions* (see *Update 47*) based on nationally accepted norms. Toby McIntosh, a member of NGO network the Global Transparency Initiative steering committee, said: "it's widely accepted that exceptions should only be based on the harm that might be caused by disclosure, not on who produced or provided the information. By allowing a blanket veto to third parties, the IFC risks riding roughshod over accepted norms, and potentially making its access to information policy meaningless."

Too little, too late?

Also included on the list of exceptions is "deliberative information" – designed to maintain the confidential nature of discussions within the IFC and with clients before

decisions are made. It also means that affected people and other stakeholders are likely to continue to be excluded from access to information until projects have already been designed. The scope of this exception includes denying public access to "studies, reports, audits, assessments or analyses prepared to inform [the] IFC's internal decision-making". Mariana Gonzalez of Mexican NGO Fundar said, "it's no use if affected communities only have access to information after a decision has already been made. This undermines their basic rights, and means that any potential damage may be impossible to avoid."

In addition to more clearly spelling out the limited information to be contained in the IFC's "summary of investment information", the new policy promises to, for the first time, "provide periodic updates on the investment" – though exactly what this will entail is not spelled out.

For those whose requests for information are turned down, a right of appeal is introduced, initially to an internally appointed advi-

sor. Should a complainant wish to appeal the advisor's decision, they will be able to take it to a new independent information appeals panel. However, unlike at the public sector parts of the Bank, where the independent appeals board reviews the whole basis of the appeal, the remit of the IFC's second stage appeals panel is limited to deciding if the internal advisor "had a reasonable basis for his or her" decision to deny access. Furthermore, unlike for the public sector parts of the Bank, appeals cannot be based on public interest grounds.

In May the Bank became the third donor to publish its data to the International Aid Transparency Initiative (IATI) standard. This follows last year's decision to open up more of the Bank's data for public use. However in September a coalition of civil society organisations wrote to the Bank president asking for the hundreds of internal talks and workshops that take place at the Bank each year to be webcast. ©

Global Transparency Initiative

www.ifitransparency.org

IFC access to information policy

tinyurl.com/IFCtransparencypolicy

Donor governments join critical chorus on the CIFs

The Bank-housed Climate Investments Funds (CIFs) are facing increasing criticism from donor governments and civil society groups, while concerns remain that the Bank's role in the new Green Climate Fund (GCF) constitutes a conflict of interest.

The governing committees of the CIFs (see *Update* 76, 75, 73, 68) met in Cape Town in June and approved a range of new projects and programmes. At the meetings the UK government, which was instrumental in establishing the CIFs and is a major donor to them, released a document outlining areas where it feels the CIFs are not providing results. It calls for: more attention to be given to development impacts and gender outcomes; increased evidence that implementing multi-lateral development banks (MDBs) are securing country ownership and consulting with civil society; increased transparency of decision making processes and investment

planning; and a stronger focus on results frameworks and knowledge sharing.

The UK parliament's environmental audit committee released a report in July that questions the decision of the UK government to direct the majority of international climate finance contributions towards the CIFs. It concluded that "the World Bank is not the most appropriate channel for future UK climate finance. It undermines our low carbon objectives."

In June, 49 civil society organisations, networks and communities from recipient countries of the Pilot Programme for Climate Resilience (PPCR), one of the CIFs,

released a statement imploring the UK government not to offer loans for adaptation through the programme. Signatories included NGO Haiti Survive and the Ngati Hine tribe of Polynesia. It argues that: "Climate loans will only lock our countries into further debt, and further impoverish our people. ... The World Bank is dominated by rich countries, and has a long history of failed projects and imposing harmful policy conditions. It is also responsible for pushing projects and policies that have caused climate change through deforestation, supporting harmful extractive industries, and providing financing for fossil fuels."

In June, UK NGO the Bretton Woods Project released a report evaluating the adequacy of the CIFs as a model for the GCF. The report highlights a raft of concerns by civil society groups on: governance arrangements; participation by affected communities; country and community ownership of projects; a focus on private finance; the offering of loans for adaptation; and the developmental impact of projects. The report concludes that "the results indicate that any affirmation of the CIFs as a model for the GCF should be regarded with deep scepticism."

Conflict of interest at the GCF?

Developing country participants at

the Tokyo meeting of the transitional committee tasked with designing the GCF remained concerned about whether the fact that the Bank will be both trustee and have a role in the design of the fund constitutes a conflict of interest (see *Update* 76). The issue was again raised by Nicaragua, supported by Egypt and the Philippines, who argued that this contravenes international fiduciary standards.

Worries about conflict of interest could be bolstered by a recent concept note for the review of the Bank's infrastructure strategy (see page 2). Discussing other sources of finance for future Bank infrastructure projects, including the GCF, the concept note asks: "How can the WBG [World Bank Group] package and act as a 'preferred implementer' of these large-scale climate-related projects?"

In June, 58 civil society groups from across the world emailed the transitional committee arguing that the Bank's lack of democratic accountability and track record mean that it "should not be given a place in the regular structures and operations of the Fund." ©

UK Parliamentary Committee report

🌐 tinyurl.com/eacreport

'No' to climate loans: statement by civil society groups in the global south

🌐 tinyurl.com/climatestate

A faulty model? What the GCF can learn from the CIFs

🌐 www.brettonwoodsproject.org/afaultymodel

IEG slams Bank trust funds

In May, the World Bank's arms-length evaluation body, the Independent Evaluation Group (IEG), released a critical review of the Bank's trust funds (see *Update* 47), including the Climate Investment Funds (see above).

The evaluation concluded that "trust funds have not been a consistently effective way of providing financing. They do not necessarily integrate well with countries' own programmes, nor do they foster coordination on the ground with other sources of aid." It found "no clear evidence that trust fund resources have added to global [overseas development assistance]". However, it also argued that, in certain areas, trust funds were important and could be "indispensable in providing coordinated grant financing in response to country emergencies" and might "add value as a vehicle for financing global and regional public goods". Without mentioning specific cases, the IEG said that "many global funds – including funds that ... finance the provision of regional or global public goods – involve little or no recipient participation in their initiation and design".

IEG Trust Fund evaluation, IEG

🌐 tinyurl.com/legtrust

World Bank won't give up on carbon markets

In June, the Bank released its annual *States and Trends of the Carbon Market* report, which revealed that the market for carbon credits has declined for the first time, with \$1.5 billion of credits traded last year, the lowest amount since 2005. Andrew Steer, the Bank's special envoy on climate change, said that "this bodes very badly for the countries we are trying to help ... the market is failing us."

Despite the gloomy findings of the report the Bank continues to advocate carbon market mechanisms as pivotal to securing low-carbon development (see *Update* 74, 73, 72). Steer, for example, said "this report sends a message of the need to ensure a stronger, more robust carbon market with clear signals". The Bank demonstrated its faith in national carbon finance initiatives by also announcing that eight countries

have received grants to plan national carbon market based instruments under its Partnership for Market Readiness (see *Update* 74).

Meanwhile, the Bank is continuing to promote soil carbon sequestration projects in carbon markets (see *Update* 73). At a June meeting in Norway, Bank president Robert Zoellick said: "People estimate that, with the right soil carbon policies, you could absorb about 13 to 14 per cent of greenhouse gases ... this could fit very nicely with ways to improve the productivity of the soil, improve the resiliency of the agricultural crops ... there's a nice win-win venture with soil carbon and agricultural productivity".

However, Harjeet Singh of NGO ActionAid International warns against this unqualified optimism: "The concern is the way the World

Bank is promoting soil carbon as a commodity to be traded by financial speculators. With the 'compliance markets' unwilling to accept soil carbon credits because of doubts about whether the carbon is permanently stored, farmers and governments may be chasing an imaginary market. Even if they can sell the credits, high transaction costs won't leave any financial benefits for farmers. This is an unnecessary distraction when agriculture in developing countries urgently needs the public financing for adaptation that developed countries are obligated to provide."

The Bank's flagship soil carbon project in Kenya (see *Update* 73) has recently attracted criticism. In a side event at the UN climate summit in Bonn in June, the Institute for Agriculture and Trade Policy (IATP)

presented findings of research on the Kenya Agricultural Carbon Project. Although the project expects to earn \$2.5 million from carbon credits, start up and transaction costs will absorb just over \$1 million of this, leaving \$1.4 million to be divided up between 60,000 farmers over the 20 year project life-cycle. Assuming stable carbon prices of \$4 a tonne, this amounts to \$23.83 for each farmer, or just over a dollar per year. IATP also argues that the methodology used vastly overestimates the projected emissions reductions for the project. ©

IATP on Kenya soil carbon project

🌐 iatp.org/files/MarketBasedMechanisms.pdf

States and trends of the carbon market

🌐 tinyurl.com/wbcarbon

Evaluations suggest Fund, Bank research ideologically driven

A report by the IMF's arms-length evaluation body, the Independent Evaluation Office (IEO), suggests that Fund research does not allow room for alternative perspectives, while academics attack the World Bank for pursuing ideological research agendas.

In June the IEO released a stinging critique of the Fund's research. Their evaluation examined the Fund's research between 1999 and 2008, which amounted to "about 650 publications annually, at a cost of about 10 per cent of the IMF budget." Whilst finding that this "included a large number of high-quality and very useful publications" the IEO went on to detail significant failings, particularly the tendency of the IMF to tailor research plans and even conclusions to its existing policy positions.

According to the IEO, "many [country] authorities believed IMF research was highly predictable and did not allow for alternative perspectives." In fact, in response to an IEO survey as part of the evaluation process, "almost half of the [country] authorities ... disagreed 'strongly' or 'somewhat strongly' that the IMF allowed for alternative perspectives." External academics and think tanks disagreed "even more sharply", saying that "a large part of the conclusions and recommendations in WPs [Working Papers] and SIPs [Selected Issues Papers] were not substantiated by the analysis."

The findings from staff interviews were even more damning, with "about 43 per cent of the respondents [disagreeing] that IMF research allowed for alternative perspectives." Further, "62 per cent of all staff respondents reported that their research and its conclusions had to be aligned with IMF views

'very frequently' or 'somewhat frequently'."

The IEO also noted that "the technical quality of IMF research publications was quite diverse", while the "quality of SIPs and WPs, which are not subject to a rigorous quality review, was lower and more variable" than that of flagship publications such as the World Economic Outlook. Perhaps unsurprisingly, the IEO also found that a 1999 external evaluation's recommendations that IMF research products be subject to external review had not been implemented.

Finally, the evaluation found that "the relevance of research was often hampered by lack of early consultation with country authorities on research themes and by lack of country and institutional context."

IEO demands reform

The IEO made a series of recommendations, including that: country authorities should be consulted when defining research priorities; review processes be significantly strengthened, including through external reviews; and that a senior staff member be appointed to oversee reform, who would report annually to the board. They also said that the Fund needed to change its institutional culture so that "researchers should be allowed to explore issues without preconceived conclusions or messages".

The IMF board found the criticism of message-driven research to be "worrying" and "broadly

endorsed" the IEO's recommendations, but IMF acting managing director, John Lipsky said he was "heartened" by the report's overall findings, despite the many failings it found.

Commenting on the report, AV Rajwade, visiting professor at the Indian Institute of Management said: "our [country] authorities need to be far more cautious in accepting what Washington advocates on the virtue of market-determined exchange rates as the gospel truth."

A June special edition of the *International Journal of Labour Research* added further voices to the chorus claiming the IMF has not changed its policy prescriptions enough after the first wave of the financial crisis. Iyanatul Islam of the International Labour Organisation (ILO) takes issue with IMF economists' failure to prioritise the goal of full employment in their macroeconomic frameworks.

The editor of the journal, Pierre Laliberté, argues that though the tone of the IMF has changed, its policy prescriptions in the eurozone (see page 8) and elsewhere propose a cure that will "be painful for most [and] might bleed the patient to death." Finally, Robert Wade of the London School of Economics argues that "the dysfunctions of global organisations", such as the G20 and the IMF, might "induce the growth of compensating regional governance mechanisms, such as the Chiang Mai Initiative" (see page 9).

Deep critique of Bank research

A new book, *The political economy of development*, written by academics at the University of London's School of African and Oriental Studies bemoans the Bank's failure to rethink its knowledge role in the light of the independent 2006 Deaton report that questioned the quality of Bank research (see *Update* 54). Detailed chapters from a host of academics "in essence take issue with the [Bank's] neoliberal framework and systematically demonstrate its failings across a set of areas." They include criticism of the Bank's research on agriculture (see page 7), financial sector (see *Update* 63), water, conflict, HIV/AIDS, social capital and health.

Elisa Van Waeyenberge and Ben Fine argue that the failure of the Bank to take on board the Deaton report's critique "is all the more surprising and disappointing given the severity and nature of the criticism levelled at Bank research practice". In a concluding chapter, Van Waeyenberge, Fine and Kate Bayliss say that the Bank "is apparently unaware of the contexts and power relationships within which its policies and research are undertaken" and that "Bank research [implicitly] assumes no agendas, history, power or politics." They draw several conclusions for the Bank, including that "the nature and role of research (at the Bank but also more widely) should not be assessed in isolation from its rhetorical and policy context", and that "the Bank's own research has had the effect of precluding more radical approaches from consideration." ©

IEO research evaluation

🌐 tinyurl.com/IEOonIMFresearch

ILO Journal June 2011

🌐 tinyurl.com/ILOjournal

Ukraine protests against IMF policies

In early July, thousands of protesters took to the streets in the Ukrainian capital Kiev to try to block pension reforms promised as part of the country's IMF loan. The protest involved both Ukraine's trade unions and the political opposition. Reuters reported opposition legislator Andriy Pavlovsky as saying: "We will do our best to stop this pension genocide." The law was approved anyway, raising the retirement age for women from 55 to 60, though the country has relatively low life expectancy. Despite the reforms, in August the IMF delayed the next review mission until October, demanding "strong policies and reforms to overcome delays", meaning a longer wait for the next tranche of funds to be released.

IEO draft papers on IMF advice, learning

Over the summer the Independent Evaluation Office of the IMF released draft issues papers for two forthcoming evaluations. The first, on the role of the IMF as an advisor to government, notes that the usefulness of Fund advice "depends heavily on [member country] confidence in the quality and relevance of the advice and on the depth of the ensuing dialogue." The second, on the IMF's internal learning systems, will focus more on processes than on the quality of analysis in self-evaluations, such as conditionality reviews. That means it will not challenge notions of objectivity or bias found in staff-driven reviews.

🌐 tinyurl.com/IEO-imfadvisor
🌐 tinyurl.com/IEO-imfleaming

IMF staff warm to 'Robin Hood' tax

An August IMF working paper by staffer John Brondolo takes the IMF into new territory, giving detailed information on how financial transaction taxes (FTTs) could be implemented. The paper compares "administrative feasibility" of FTTs with the IMF preferred financial activities tax (see *Update* 71), finding that, "in principle, an FTT is no more difficult and, in some respects easier, to administer than other taxes." Campaigners for FTTs, dubbed Robin Hood tax, welcomed the paper, and in September over 90 organisations asked IMF head Christine Lagarde to "promote the widest possible adoption of FTTs to provide much needed funds for global public goods and discourage high frequency trading."

🌐 tinyurl.com/imfonftt

IMF resource shortfall, warns Lagarde

In late July, IMF head Christine Lagarde raised the prospect that the IMF simply does not have enough money to confront the possibility of major sovereign debt crises in Europe (see page 8). "The question is, do we still have the level of resources that is now needed and appropriate to address ... the crises," Lagarde said at a Council of Foreign Relations event in New York. "Maybe it could do with more," she said, adding: "In the not too distant future, we will probably have to revisit this issue." This would be on top of spring contributions to the New Arrangements to Borrow (see *Update* 65), a mechanism for supplemental bilateral loans to the IMF, of \$50 billion from China and \$14 billion each from India and Brazil.

Bondholders vs the public: Outcry over IMF-EU eurozone loans

The sovereign debt crisis in the eurozone, where Greece now needs a second round of loans, threatens major economies like Spain and Italy, but IMF-backed lending packages that demand deep austerity with insufficient attention to lenders' responsibilities anger the public.

The loss of market confidence in eurozone governments started to hit major players at end July, with Spain and Italy facing significantly increased borrowing costs. In absolute terms, Italy is the third most indebted country in the world and presents a problem for both Europe and the IMF, as current lending facilities are simply not big enough to handle potential Italian borrowing needs. According to the *Financial Times*, the IMF is more likely to be involved in lending to Spain, because "IMF staff are well disposed to Spain". Spanish Prime minister José Luis Rodríguez Zapatero's popularity plummeted as a result of an austerity package, forcing him to announce in April that he will not seek re-election.

Massive street protests against austerity policies restarted in Greece in early September after a summer break. Greece was unable to begin issuing bonds again this year, which had been the plan under the original IMF-EU package (see *Update 76, 75, 73, 71*). In late July, Eurozone leaders agreed in principle on a second loan package of €109 billion (\$154 billion) to plug Greece's financing gap, again with new conditionality and austerity demands. The IMF was silent on whether the Fund would also lend more; it had provided one-third of

the funding for past programmes.

European agreement pivoted on how much of a hit bondholders would take, as the IMF had insisted on some debt reduction. This is being achieved through a 'voluntary' bond swap, in which Greek bondholders are exchanging existing bonds for new ones of equal face value but which will be paid back over a longer period.

This would reduce the value of the bonds by about 20 per cent, much less than the 50 per cent discount already seen in bond market trading.

This demand for up-front debt reduction is unusual for the IMF, but activists were dissatisfied, saying the deal would not reduce Greek debt to sustainable levels. In September, Greece announced GDP figures for the spring showing a 7.3 per cent annual contraction. This deep recession is not reflected in the government's July medium term programme which already projected the debt to GDP ratio to reach 172 per cent in 2012.

Costas Lapavitsas, a founding member of the Greek Debt Audit Campaign, explained: "The new agreement does not solve the country's problems. Private banks have been forced to accept that there will be partial default, but were given very favourable terms to swap old for new Greek debt. Meanwhile,

the austerity and privatisation programme will continue unabated, deepening the recession and worsening the burden of debt."

Cephas Lumina, a UN independent expert on foreign debt and human rights, said: "The implementation of the second package of austerity measures and structural reforms ... is likely to have a serious impact on basic social services and therefore the enjoyment of human rights by the Greek people, particularly the most vulnerable sectors of the population." He urged the government to "tak[e] into account the primacy of states' human rights obligations."

Portugal, Ireland resist

The media is reporting that 430,000 households could face homelessness in Portugal because of an EU condition (see *Update 76, 75*) to remove restrictions on the housing rental market. The cost of living is also rising dramatically with an average 15 per cent increase in public transportation prices and a VAT bump from 5 per cent to 23 per cent on basic utilities such as electricity and gas.

The main bone of contention for Portuguese unions is the cut in employers' tax contributions to social security, which is likely to be financed by further increases in consumption taxes. According to Nuno Teles, an economist and editor of the *Bicycle Thieves* website which tracks the Portuguese response to the

financial crisis, "even though official analysis showed that this measure was likely to deepen the recession, the government was forced to go ahead with it by its EU-IMF creditors." A strike "against impoverishment and injustice" is scheduled for the beginning of October.

In early July the Irish finance minister complained that the EU and IMF would make €9 billion (\$13 billion) profit from Irish loans if the country were to borrow the full €68 billion available. In mid July protests against the austerity packages erupted in Dublin during a programme review by IMF and European officials. Ireland has been rigorously implementing the EU-IMF required austerity policy but has declining growth rates, and at end August unemployment hit a new high of 14.4 per cent. Campaigners in Ireland launched a citizen's debt audit in May. "Focusing particularly on the private bank debt subsumed into public responsibility", it is expected to publish its findings in September.

Should I stay or should I go?

There is still a question whether these countries would be better off leaving the eurozone rather than experience years of grinding recession and wage reductions for workers. The IMF, taking its message from European countries, has steadfastly refused to publicly consider this. However, if the eurozone crisis deepens it may not be able to remain on the side-lines of that debate for long.

Spain and Italy pose conundrum for IMF
tinyurl.com/FT-euroIMF

Cephas Lumina statement
tinyurl.com/Lumina-Greece

Bicycle Thieves (in Portuguese)
adrosdebicicletas.blogspot.com/

IMF accused of risking new recession

Since the financial crisis, the IMF has used nuanced rhetoric about austerity policies and the need to stimulate growth, but critics say its actions risk pushing the world back into recession and hurting workers.

In mid-August, facing the heightened risks of a widespread debt crisis in Europe (see above), the IMF's managing director Christine Lagarde revived the IMF's line (see *Update 71, 70*) that "slamming on the brakes too quickly will hurt the recovery and worsen job prospects." But she failed to spell out specific measures for major world economies to achieve "medium-term consolidation and short-term support for growth and jobs".

The early September *Trade*

and development report from the UN Conference on Trade and Development (UNCTAD) finds IMF fiscal policy advice uses many mistaken assumptions. It says "the recommendations of major international institutions such as the IMF ... suggest that recognition of the need for fiscal stimulus during the crisis has not been followed up by a more profound rethinking of the principles of macroeconomic policy."

It also points out that the measures recommended "have tended to cut spending and increase taxes on items that would most likely have a negative impact on income distribution, and as a result they might have a further negative effect on the

already feeble recovery."

Ignoring employment?

In late June, Dan Cunniah from the International Labour Organisation agreed that "a premature fiscal consolidation runs a high risk of jeopardising the recovery", but went on to argue that "'competitive austerity', where governments will restrain their spending and workers their earnings to restore 'competitiveness'... will clearly not work if everyone applies these mechanisms."

A paper by Iyanatul Islam of the ILO (see page 7) argues that the IMF "do[es] not explicitly make the case for a renewed commitment to full employment as a core policy goal" and criticises IMF-backed low infla-

tion targets in low-income countries.

A late May discussion paper by the European Trade Union Confederation calls the IMF's detailed recommendations for the short term "shocking", with a particular focus on how "the main thrust of the IMF policy programme is to intervene in wage formation and collective bargaining so as to push wages down." The paper complains that the medium term focus on reducing and harmonising employment protection legislation shows "a certain 'disconnect' between the messages from the top of the IMF and the policy advice that is offered in practice."

How the IMF plans to deregulate wages and labour markets in the euro area
ifwatchnet.org/node/33963

Forty years is enough? In search of a new international monetary system

On the 40th anniversary of US default on its gold convertibility obligation, decreasing confidence in the dollar has strengthened calls to reform the international monetary system. The IMF is accused of ignoring inequities at the core of the system, while developing countries are increasingly seeking alternative regional arrangements.

The downgrading of the US government's credit rating by Standards & Poor's in early August raised concerns about the stability of the global economy and the credibility of a global reserve system based on the dollar. In response, Chinese official news agency Xinhua called for "international supervision over the issue of US dollars" and the introduction of a "new, stable and secured global reserve currency [as] an option to avert a catastrophe caused by any single country" (see *Update* 75, 66).

Trevor Evans of the Berlin School of Economics and Law in June said the euro crisis makes the need for reform even more urgent (see page 8). The major imbalances in the eurozone mean European countries should "lend their full support to proposals for moving towards a new international monetary system, based on a truly international reserve currency and in which private financial capital flows are strictly controlled".

Clear evidence of the current volatility of the financial markets and weakening of the dollar and the

euro is the strong appreciation of national currencies in Switzerland, Canada and Australia. This led in early September to an unusual move by the Swiss government to peg the Swiss franc against the euro. This induced a devaluation of almost 10 per cent and heralded warnings of a second round of 'currency wars' (see *Update* 73).

In mid August Barry Eichengreen from the University of California, who until last year was advocating a system based on the dollar and the euro, argued that it is time to find alternatives to these two currencies. He argued for the creation of a "global-GDP-linked bond, the returns on which would vary with global growth rates". This system "would enable central banks to hold instruments that behave like a widely diversified global equity portfolio".

Heiner Flassbeck of UN Conference on Trade and

Development (UNCTAD) argued in September, that "in the current monetary chaos you cannot have trade that improves the welfare of nations." To deal with currency speculation and imbalances, he

argues it is necessary to strengthen international cooperation and create a "rules-based managed floating" exchange rate system. As explained in UNCTAD's *Trade and Development Report 2011*, through this system

countries would aim to maintain stable real exchange rates by adjusting nominal exchange rates either to inflation or interest rate differentials. Although the system can be practiced unilaterally, bilaterally or as part of regional monetary cooperation, the "greatest benefit for international financial stability would result if the rules for managed floating were applied

Fund is facilitating the inertial solution

at the multilateral level, as part of global financial governance" (see *Update* 72, 70).

Fund in denial of inequities

Even IMF managing director Christine Lagarde underlined in late July how US government delays in reaching an agreement to lift the nation's debt limit raised "doubts in the mind of those people who reserve currencies as to whether the dollar is effectively the ultimate and prime currency of reserve". Despite Lagarde's acknowledgment, recent IMF work makes very modest proposals. An IMF policy paper released in early April, titled *Strengthening the international monetary system: Taking stock and looking ahead*, addresses the problems of the current system and presents a set of reform proposals. The paper takes previous IMF evaluations of the role of IMF-held reserve assets – special drawing rights (SDRs) (see *Update* 74) – a step further arguing that "expanding the stock of SDRs through regular allocations could meet some of the needs for precautionary reserves" and that encouraging its use as a "unit of account to price global trade ... could mitigate the impact of exchange rate volatility".

Stephany Griffith-Jones from Columbia University points out that "by not taking a clear stance or pushing for a structural reform, the Fund is facilitating the inertial solution, i.e. a multicurrency system with flexible exchange rates, which does not solve the main problems of the system, and will harm especially the development prospects of developing countries".

In a December 2010 lecture, former UN under-secretary general for economic affairs Jose Antonio Ocampo gave central relevance to the inequities inherent in the current system. These inequities are "generated by the need that developing countries face to accumulate foreign exchange reserves to manage the strong pro-cyclical swings of capital flows, which are nothing other than transfers of resources to reserve-issuing countries". Griffith-Jones argues that "the IMF continues to ignore these inequities showing a limitation to take into account developing countries perspectives".

Crisis: Causes, Prospects and Alternatives, International Labour Organization

[tinyurl.com/ILOFinCrisis](http://www.tinyurl.com/ILOFinCrisis)

What can replace the dollar?

www.project-syndicate.org/commentary/eichengreen33

Reforming the International Monetary System, United Nations University

[tinyurl.com/Ocampolecture](http://www.tinyurl.com/Ocampolecture)

Trade and Development Report 2011

[tinyurl.com/UNCTADreport2011](http://www.tinyurl.com/UNCTADreport2011)

Alternatives to the IMF: Developing countries strengthen regional arrangements

The lack of progress on monetary system reform at international forums like the IMF means that change is mainly happening at the regional and bilateral level (see *Update* 66). Brazil, Russia, India, China and South Africa took concrete actions by signing an agreement in April to have their development banks provide credit to one another, denominated in their own currencies instead of dollars.

South America is taking a more rapid path with the development of its own currency unit, the sucre (see *Update* 68, 66, 63, 61). An UNCTAD report on regional monetary cooperation in Latin America published in May claims that the sucre can provide "some degree of protection against external shocks ... foster trade expansion [and] decouple their currencies from the dollar". At the same time, in an August article published by *Latindadd*, a network of NGOs from Latin America, Rodolfo Bejarano said that an initial assessment of the sucre shows increased savings because of not using the dollar and an increase in commerce flows between the countries that are already part of the agreement.

In May, Eric Helleiner from the University of Waterloo, argued that by accumulating reserves Asian governments are seeking to protect their countries' autonomy "from the IMF whose role in the crisis was widely viewed in the region as overly intrusive, counterproductive and too much influenced by US objectives" (see *Update* 70). A May study by Graham Bird and Alex Mandilaras finds that "to the extent that IMF programmes have the effect of inducing countries to accumulate 'excessive' reserves, there is an inconsistency with one of the basic purposes of the Fund to pool international reserves".

At the Union of South American Nations (UNASUR) meeting in mid August, South American finance ministers agreed to expand participation in the existing Latin American Reserve Fund (FLAR) to create a \$20 billion regional reserve pool. This will assist nations in case the global economic crisis deepens. This regional alternative to the IMF was proposed together with further expansion of trade pricing in local currencies instead of dollars and the creation of a regional development bank, the Banco del Sur. In September, Argentina became the fourth country to formally approve the Banco del Sur articles of agreement.

Georgetown University academics Raj Desai and James Vreeland stressed in March: "regionally based economic governance can be more effective in terms of representation, coordination, and crisis-management than the current Bretton Woods institution-dominated system". The authors make a call to "leaders of the institutions of global governance" to "buttress the viability of regional governance institutions rather than prevent them". Ocampo likewise concludes that the "links between the IMF and regional arrangements must be subject, therefore, to flexible designs" and the IMF should "make more active use of regional institutions" and "support their creation in other parts of the developing world".

Regional monetary cooperation and growth enhancing policies, UNCTAD

[tinyurl.com/UNCTADM MonetaryCooperation](http://www.tinyurl.com/UNCTADM MonetaryCooperation)

Article by Rodolfo Bejarano

[tinyurl.com/LatindaddSucre](http://www.tinyurl.com/LatindaddSucre)

IFC updated performance standards: weak on human rights, other shortcomings

The International Finance Corporation (IFC), the Bank's private sector arm, has concluded a two-year review of its performance standards on environmental and social sustainability, but its weak human rights approach has angered rights organisations.

The performance standards were introduced in 2006 to provide guidance for IFC clients to “avoid and mitigate adverse impacts and manage risk as a way of doing business in a sustainable way” (see *Update* 51, 50). Together with the policy on environmental and social sustainability and a new access to information policy (see page 5), the eight revised performance standards make up the IFC's updated sustainability framework. Approved by the board in May, the updated framework was only disclosed in early August and will come into force in January next year.

Key changes include: the categorisation of financial intermediaries (FI) projects according to risk; a requirement for free prior and informed consent (FPIC) from indigenous peoples in certain situations; the addition of protection for migrant workers; strengthened transparency on greenhouse gas emissions; the disclosure of extractives project contracts; and the promise of more project-level information.

Undermining rights standards?

Despite a series of stakeholder consultations during the review, the revised policy confirmed civil society groups' concerns about a lack of human rights language to ensure communities affected by IFC's activities are protected (see *Update* 74). The updated framework “acknowledges the responsibility of the private sector to respect human

rights”, but falls short of due diligence requirements for business actors, as outlined by the principles proposed by United Nations Special Representative on business and human rights John Ruggie and endorsed by the UN Human Rights Council last June. “In doing so, the IFC has not only potentially undermined the UN guiding principles, but missed an important opportunity, as many businesses are seeking guidance on how to meet their responsibility to respect human rights”, said Kirk Herbertson of US NGO the World Resources Institute.

Giorgiana Rosa of Amnesty International highlighted that “the IFC should have done much more to adopt the necessary safeguards to ensure that its activities do not expose communities to possible human rights abuses.” Kris Genovese from the US NGO Center for International Environmental Law added that the IFC “rejected the idea that it must refrain from funding projects that violate human rights. Does the IFC really want to keep that option open?”

The risk-based categorisation of FI projects responded to one of the recommendations of a July evaluation by the Bank's arms-length watchdog, the Independent Evaluation Group (IEG), on the Bank's safeguards and sustainability policies. However, the revised performance standards will only apply to high risk FIs and higher risk activities supported by FI projects in the moderate risk categories.

Moreover, the updated framework does not address a crucial weakness identified by the IEG in the IFC's performance standards: the lack of independent verification or adequate disclosure of its monitoring and supervision reports.

FPIC at last

Civil society groups that have long advocated for FPIC welcomed its inclusion in the revised performance standards. However, FPIC will only be required under “certain circumstances” which are tightly restricted. Helen Tugendhat of UK NGO Forest Peoples Programme noted that “the requirement for FPIC suffers in places from weakened language, hazy requirements for individually titled indigenous territories and from a lack of independent verification of consent.”

Concerns that weak language in the performance standards could undermine their impact were highlighted by a July study published by think tank the International Institute for Environment and Development. It analysed several investment principles, including the IFC performance standards and the Equator Principles (EP), a set of international standards for reducing environmental and social harm adopted by 72 export credit agencies and private commercial banks that is based on the IFC framework. The study noted “a clear tension between commercial and developmental – particularly environmental – objectives ... made

very clear in IFC documents, where rather ambitious objectives are generally qualified by such phrases, as ‘where feasible’ or ‘where commercially viable’.” Similarly, the EP were described in the study as “weak” and “exacerbated by vague language”, meaning that “their integration of environmental, social and governance criteria is limited to the level of aspiration rather than requirement.”

The IFC is expected to publish updated implementation guidance notes by November, but questions about whether the new standards will translate to reality on the ground still remain. The umbrella body for trade union confederations, Global Unions, warned in a September statement that, although the IFC's performance standard on labour could ensure the protection of workers' fundamental rights if fully complied with, “some serious lapses in implementation remain”.

Lessons for Bank safeguards?

Global Unions also asked that a labour safeguard be included in the Bank's safeguards review due to end in 2012. While the IFC uses the performance standards framework for the private sector, the public sector arms of the Bank use the safeguards framework. Tugendhat urged “the extension of the positive changes seen on FPIC in the IFC updated Sustainability Framework to the rest of the World Bank Group as part of the wider safeguard review.” While little news about the review process has been heard since its announcement last year, a letter signed by 238 civil society groups was sent to Bank president Robert Zoellick at end August asking for the Bank to engage in public consultations and assure that the safeguards will be clarified, strengthened and expanded to cover existing gaps and all forms of lending. ©

UK announces priorities for Bank

In August, the UK released its priorities for reform of the World Bank, continuing its recent tradition of reporting annually against its objectives for the Bank. This priority list does not include an assessment of past performance, as it is the first released by the new government that took office in 2010. It follows a rapid assessment of the Bank as part of the government's multilateral aid review (see *Update* 75). Five priorities are identified: results and efficiency; fragile states; climate change; IFC poverty focus; and “enhanced impact on the off-track MDGs including girls and women”.

A longer version of this article is at:

🌐 brettonwoodsproject.org/UKpriorities77

US legislators try to cut funding to IFIs

In late July, a US House of Representatives appropriations subcommittee, now controlled by the Republican party, moved to slash funding to multilateral institutions. The draft legislation, which must first be approved by the full appropriations committee and then agreed by the US Senate, allocates only \$1.6 billion for multilateral assistance, a reduction of \$729 million from last year and \$2.1 billion below the request of US president Barack Obama. In addition, the bill eliminates funding for the Bank-housed Clean Technology Fund and Strategic Climate Fund (see *Update* 76), and any funding for the requested general capital increases for multilateral development banks (see *Update* 70).

🌐 tinyurl.com/housecutsWB

World Bank lending falls by 20 per cent

The Bank announced in June that its commitments for the fiscal year ending 30 June had fallen to \$574 billion, from an all time peak of \$72 billion last year (see *Update* 72). This dramatic reduction is explained by a large drop from \$44.2 billion to \$26.7 billion by the International Bank for Reconstruction and Development (IBRD), the Bank's middle-income country lending arm. This is an anticipated fall due to the modest increase to the IBRD's capital base agreed by member governments in 2010, which should gradually return the IBRD to its pre-crisis lending levels (see *Update* 70).

A longer version of this article is at:

🌐 brettonwoodsproject.org/wblend-ing77

South Sudan born free from IFI debt

While South Sudan achieved formal independence in early July, it was not until late July that a full agreement was reached that saw the new country assume no debt. All existing debts, including significant arrears to the IMF and World Bank, were left to Sudan alone (see *Update* 74). An IMF statement confirmed that Sudan “retains all of its ... liabilities to the IMF.” This was welcomed by UK NGO Jubilee Debt Campaign: “It is great news that South Sudan is set to start life debt free. Too often in the past newly independent countries such as Bangladesh, Zimbabwe and South Africa have inherited unjust debts of past regimes.”

🌐 tinyurl.com/jdc-southsudan

Programmed for Results? Concerns raised over new Bank lending instrument

In August, the Bank released a policy paper and draft operational policy for its controversial new Program For Results (P4R) lending instrument, aiming to rush through its approval by the end of the year, despite significant concerns raised by civil society groups.

The thrust of the instrument has changed little since the concept note released earlier this year (see *Update* 75), with a focus on supporting government programmes, with procedures and standards developed for each individual programme rather than following existing Bank practices. In fact, the proposed five and a half page operational policy, which is the mandatory reference document for Bank staff, is surprisingly light on detail.

P4R could finance Bank lending at any level from local to national, and is designed to allow the Bank to contribute to government-backed programmes as part of pooled funding arrangements with other institutions and donors. In some ways it will operate like the Bank's Development Policy Lending (see *Update* 66), with disbursement against agreed indicators and governments able to "request that the Bank loan proceeds be disbursed ... into the government's account at the central bank".

It is also designed to be an alternative to project-based investment lending (see *Update* 71) and will allow Bank staff in the field a great deal more flexibility in terms of working with other donors, and designing programme-specific standards, procedures and monitoring and evaluation systems. This attractiveness to Bank staff, who many have noted have an embedded 'approval culture' with strong incentives to lend quickly (see *Update* 45), helps explain why

the Bank is expecting P4R to rapidly become a major instrument. Despite previous promises to pilot it carefully, the Bank is now expecting to lend up to \$5 billion through P4R within 18 months of its introduction.

P4R is intended to "place more direct emphasis on development results by linking disbursements to results", but the definition of results is broad. The Bank will work "with the client to frame and refine the programme and establish expected results", but the actual results that will trigger bank disbursements could vary from outcomes like "number of children vaccinated" to processes like the "implementation of an information system".

NGO Oxfam International raised concerns with this definition in a July submission: "The problem is that many poor countries need up-front funding to enable them to deliver results in the first place. ... We are also concerned that this aspect of the instrument will limit the predictability of World Bank financing."

Safeguards out of the window?

The suite of safeguards that the Bank uses for investment lending, the major part of the Bank's portfolio, are swept away and replaced by some "key principles" to aid the design of P4R programmes.

For example, operational policies on indigenous peoples do not have to be followed; instead staff are advised that "special attention [should be] provided to the rights and interests of the indigenous peoples and to the needs or concerns of vulnerable groups."

This appears to be a significant step backwards for the Bank, whose private sector arm, the International Finance Corporation

(IFC), had finally given limited recognition to the UN-agreed principle that indigenous peoples should instead exercise free, prior and informed consent over projects that affect them (see page 4). A similar approach is taken with environmental impacts, natural habitats, involuntary resettlement, forests, dams, and other critical areas.

Civil society groups, who had campaigned for the safeguards to be introduced because Bank staff had not followed previous, similarly vague guidelines, reacted angrily. Nancy Alexander, of the German political foundation Heinrich Boell, author of an in depth critique of the new instrument (see *Update* 75), said "it risks enormous harm to communities across the world and its own reputation if it allows a sizeable proportion of its portfolio to be based on vague advice on how to prevent negative impacts rather than concrete policies."

"risks enormous harm to communities"

Risky projects on the table?

The Bank had previously said that 'category A' projects – those that could cause "significant and irreversible damage to the environment and/or affected people" – would be excluded from P4R, but the new paper introduces significant leeway, and a short note of the board discussion indicates that this is still a bone of contention. The Bank's new document suggests that category A projects – mostly large infrastructure – could be financed as an add-on to a P4R programme, or even as part of the programme "where such activities are deemed to be important to [its] integrity" and "their monetary value and/or potential environmental and social impacts in relation to the overall programme are modest."

How will it be used?

Perhaps the most surprising part of the paper is the section dedicated to "challenges and risks", which has no discussion of how Bank staff will use P4R in the context of the incentives and pressures they face. For example, risks of the dilution of standards will be met by ensuring "systems assessments will be carried out rigorously, consistently, and transparently", without reflection on why, for example, the Bank's arms-length evaluation body, the Independent Evaluation Group has found that implementation is a major problem in other areas of the Bank's work (see *Update* 71).

The Bank also plans to introduce a new internal team to double check projects for the roll out – expected to take 18 to 30 months – and have a full board discussion of the first two projects for each region. A web-based consultation on P4R will run until end September, and board approval is expected before the end of the year. ©

🌐 tinyurl.com/P4Rpolicydraft

IFC investment linked to forest loss

A group of researchers from the American Sociological Association have completed the first cross-national study that examines the impact of the International Finance Corporation (IFC), the World Bank's private sector lending arm, on forest loss. Published in the first half of 2011, the study looked 61 countries between 1990 and 2005. It concludes that low- and middle-income countries that receive IFC investment tend to have higher rates of deforestation than those that do not, and forest loss rates are even higher in countries that receive IFC financing in agriculture, extractive industries and forestry.

🌐 tinyurl.com/ifcforestloss

Bank busted over bus project in Lima

The Bank board approved in June a management response to a complaint from residents of the Barranco district in Lima, Peru, about the impacts of a bus service project that it supported. The complainants filed the case with the Inspection Panel (IP) – the Bank's complaints mechanism – in 2009, claiming that consultations were not carried out, and that the environmental assessment was neither properly conducted nor approved. The IP found that "the traffic increase in Barranco to which the project contributed was significant and deteriorated the quality of life of the residents". Bank management responded by commissioning a new traffic management study for the district.

🌐 tinyurl.com/Lima-IP

Community complaint against IFC in PNG

The Compliance Advisor Ombudsman (CAO) of the International Finance Corporation (IFC), the World Bank's private sector arm, has accepted a complaint by local communities in Papua New Guinea (PNG) referring to the IFC's role in advising the government on drawing up laws for special economic zones. This includes the Pacific Marine Industrial Zone, where foreign investors will be given financial and legal incentives to set up manufacturing industries (see *Update* 73). The complaint says that "there has been no proper consultation with the landowners in the area", and the project is not "in the interests of the majority of people, the environment or improved social conditions."

🌐 tinyurl.com/CAOPNGSEZ

Outcry over Bank role in Indian policy review

A June public statement by more than 70 Indian organisations opposed the Indian government's decision to commission the World Bank to review anti-poverty schemes in the country, including the Public Distribution System (PDS), a subsidised national food security scheme. It says: "the [Bank] report strongly argues against [PDS], the only support of the poor and vulnerable [and] finds problems with Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREG) ... While there are problems with PDS and MGNREG ... the Bank fails to understand that any meddling with those would drive the poor to abject poverty and cause irreversible damage to them."

🌐 napm-india.org/node/419

IEG annual report slates Bank's education work, highlights problems in health sector, MENA

The World Bank's arms-length evaluation body, the Independent Evaluation Group (IEG), released its annual report at end August, again finding shortfalls and uneven results across the World Bank Group. While the Bank's leadership has steered the institution towards more private sector work, outcomes in the education sector and the Middle East and North Africa (MENA) region have dropped substantially.

The report is the first time the IEG has combined its annual reports on the public sector arms of the Bank with its evaluation of the private sector arms, the International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA). It found similar outcome ratings overall in the 2008-10 period as in the 2005-7 period (except in MENA), while IFC satisfactory outcome ratings overall increased to 73 per cent, compared with 63 per cent in the previous period. Though overall project ratings are high, country level performance was lower, with only 58 per cent having "substantial achievement of objectives".

The IEG found "quite uneven results" in health and education where "project design and implementation weaknesses include overly complex designs relative to local capacities, lack of necessary buy-in from a broad range of stakeholders, inadequate political economy analysis and consideration of vested interests, lack of sequenced approaches, weak results frameworks, and insufficient monitoring and evaluation."

The evaluation also found that only "56 per cent of education projects were rated satisfactory, a substantial decline since the mid-2000s". Quality and efficiency suffered most, as "education quality objectives were substantially achieved in fewer than half of projects that had them and achieved efficiency objectives in only 38 per cent." The IFC's work in education, which has been very controversial because of potential unintended consequences on the public education system (see *Update* 70, 56), was also panned by the IEG. While there was a fourfold increase in IFC financing in the sector, "of nine projects that were evaluated in [fiscal years] 05-10, four were successful." This finding should also be viewed in the light of the fact that success ratings are determined by the Bank's own internal assessments rather than truly independent evaluations at the project level.

Education sector advocates were startled by the results. David Archer of NGO ActionAid International argued that in light of the findings, "the World Bank ought to stop trying to run its own special projects in education and instead pool its funding with other donors in the Global Partnership for Education Fund supporting ministries of education to deliver on their own nationally agreed education sector plans."

On the health front, while there were improvements since the IEG published its health sector evaluation in 2009 (see *Update* 66), "evidence that health results from Bank-supported projects were reaching the poor was lacking." Critically, "lending and staffing for nutrition and population ... had declined dramatically." The IEG's review of health sector-wide approaches (SWAs, see *Update* 71), "could not point to links between the approach and improved outcomes from national health strategies."

Is it about governance?

The IEG report also provides a cautionary note to those who want the Bank to respond strongly to the Arab spring with massive new lending in MENA (see page 4, *Update* 76). Project outcomes for the region dropped from 82 per cent in the previous period to 54 per cent in 2008-10. The IEG blames this fall on political problems in operations in Iran and the Algerian government losing interest in many planned projects after an oil price increase in 2005 swelled public revenue.

The IEG does not rate the Bank's anti-corruption work highly either, finding that "among recent country programme evaluations, the achievement of anti-corruption objectives was unsatisfactory in 7 out of 10." At end August the IEG released a separate evaluation of the Bank's country-level work on governance and anti-corruption (GAC), which showed that despite a new Bank strategy for the issue in 2007, "over the FY08-10 period, the Bank's response to GAC issues in its country programmes and projects has demonstrated continuity without systematic improvement." Moreover, "the evaluation's desk reviews and case studies showed that the Bank's record in helping to achieve countrywide governance improvements was limited."

IEG annual report

tinyurl.com/IEGresults2011

IEG on anti-corruption

tinyurl.com/IEG-GAC2011

2011 World Bank-IMF Annual meetings schedule

Board members of the Bank and Fund, and development and finance ministers will gather in Washington DC, from 21 to 26 September.

Official meetings

21 - 26 September	World Bank programme of seminars
22 September	G24 ministers' meeting
23 September	Board of governors plenary; G20 finance and development ministers' meeting
24 September	International Monetary and Financial Committee meeting
24 September	Development Committee meeting

World Bank, civil society events

21 September	G20 and development; energy finance; gender open forum; CAO discussion; P4R consultation; Bank and coal finance
22 September	Gender, small businesses and Doing Business; FTI implementation; IEG on governance and anti-corruption; townhall with heads of IMF and Bank
23 September	MIGA open house; IMF conditionality and health spending
24 September	Alternative macroeconomic policies for the eurozone; CSO debrief and strategy session

Check our website for regular updates during and after the meetings

For full details of events and contact information for groups in Washington DC for the meetings, visit:

Bank Information Center (BIC)

tinyurl.com/bic-annualmeetings

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Bretton Woods Project
33-39 Bowling Green Lane, London, EC1R 0BJ, UK

+44 (0)20 3122 0610

+44 (0)20 7287 5667

info@brettonwoodsproject.org

www.brettonwoodsproject.org

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