

Knowledge Bank-rupted: Key research 'not remotely reliable'

An evaluation by a panel of 'academic superstars' has cast doubt over the independence and reliability of World Bank research. However, in failing to address fundamental problems in the Bank's role in development research, the report misses an opportunity to provide a clear signal for donors to shift support to developing country research institutions.

The evaluation covers Bank research - conducted in the development economics vice-presidency (DEC), regional and thematic departments, the World Bank Institute, and that by consultants - in the period 1998 to 2005. Chaired by Angus Deaton, professor of economics at Princeton University, the evaluation says that, overall, the Bank's researchers "have done a creditable job of delivering on the many, potentially inconsistent, demands made of them". "Much of what we read was of very high quality", say the report's authors.

But this praise is scant recompense for what follows. The report finds that "there is a great deal of research that is undistinguished and not well-directed either to academic or policy concerns". Amongst this 'undistinguished' work, the evaluators found research which is "technically flawed and in some cases strong policy positions have been supported by such (non) evidence". In some cases, "the Bank proselytised selected new work in major policy speeches and publications, without appropriate caveats on its reliability". The ensuing litany of critiques is withering:

- *New research methods have been promoted "without adequate evaluation";*
- *Many Bank researchers attempt to prove causality by tinkering with economic models;*
- *In some cases, "the degree of self-reference rises almost to the level of parody"; and*
- *There is "remarkably little work co-authored by non-Bank researchers from developing countries".*



The evaluators posit a number of reasons to explain the breakdowns. Most damning for Bank senior management is their finding that researchers are "under pressure from the Bank presidency and elsewhere not to say things that go directly against the broad policy line that the Bank is espousing." Researchers are chosen by country teams who are looking for "a particular answer or a particular researcher who they know and like working with, or perhaps someone known for not

rocking the boat." The researchers themselves say it is not unusual to be told that "we should do an evaluation to prove that X programme works".

This evidence is backed up by interviews with former Bank research heads who complain that "there was an enormous amount of interference by the public relations people ... research was not supposed to offend NGOs, nor to provide them with material they could use to criticise the Bank." Former chief economist Joseph

Stiglitz added that during the Asian financial crisis "the belief that certain policies always worked meant that the more relevant questions of when the policies worked were not addressed."

D-day for Dollar

The examples given of the best of Bank research include several controversial choices (teacher absenteeism, project evaluation using randomised trials, and the *Investment Climate* and *Doing Business* surveys) as well as elemental statistical work such as the *World Development Indicators*.

When asked to point to the most flawed examples, the evaluators chose some of the highest-profile research conducted by the Bank over the past decade. Of Dollar and Burnside's paper *Aid, policies and growth*, which the Bank has cited repeatedly to argue for increased support for countries which it considers to have 'good policies': "We think that the Bank was unwise to place so much weight on one paper whose evidence is so unconvincing." The implications for the Bank, say the evaluators, are alarming: "once the evidence is chosen selectively without supporting argument, and empirical scepticism selectively suspended, the credibility and utility of the Bank's research is threatened."

Heavily slated is Dollar and Kraay's research providing succour to Bank arguments that trade liberalising countries have seen greater poverty reduction: "Much of this line of research appears to have such deep flaws that, at present, the results cannot be regarded as remotely reliable." International trade director Uri Dadush will undoubtedly be looking over his shoulder in the new year, as the evaluators find that, in addition to the misplaced advocacy, Bank trade work more generally has "insufficiently addressed the effects of trade on poverty", and has been dominated by arcane computable general equilibrium models. Dissenting research conducted within the Bank, such as that by Branko Milanovic, has been routinely "ignored" (see *Update* 30).

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Growth alone is not the answer: evaluation chides World Bank

In December the World Bank's evaluation body released a report which found that the Bank's growth strategies have not done enough to help the poor, and that the Bank has failed to sufficiently assess the distributional impacts of its policy recommendations.

The Annual Review of Development Effectiveness conducted by the Independent Evaluation Group (IEG) examines the effectiveness of Bank support in helping countries to reduce poverty. The report's authors noted continued improvement in the ratings of Bank-funded operations, with over three-quarters of Bank operations evaluated by the IEG between 2001 and 2005 rated moderately satisfactory or better.

However, for an institution whose mandate is poverty reduction, the main message of the report should be sobering: "Bank assistance has helped many countries get onto a growth path through improved economic management, but the growth strategies have not always helped enough to improve job opportunities and living conditions of the poor." The IEG urges the Bank to strengthen its understanding of what keeps the poor from participating in growth, and what prevents growth from reaching regions and sectors where the poor are concentrated.

Particularly problematic is the Bank's approach in resource-rich countries. In Georgia, for example, the Bank's assistance "contributed to growth in the oil transport sector, but it was less successful in helping to remove obstacles to more broad-based growth."

Another problem area is the Bank's assistance in rural areas. In half of the countries evaluated by the IEG over the past four years, the Bank's assistance in rural areas had not led to satisfactory outcomes. Instead the IEG says that the Bank strategy has been "based on the premise that the engine of growth needs to be jump-started in urban areas".

The report's authors take the Bank to task for failing to analyse the impact of proposed reforms on the most vulnerable:

- *in trade, the Bank "often failed to conduct sufficient analysis about the employment and poverty effects of reforms";*
- *in pension reform, the Bank "often failed to sufficiently address the pension system's primary goal of reducing poverty"; and*
- *promotion of private sector participation in the power sector required "more focus on how the poor can be assured of access to energy".*

These findings echo those of a report by Brussels-based NGO Eurodad which found that "poverty and social impact assessment to date has been wrongly focused, inadequately disseminated and without clear effects on decision-making". In response to these criticisms, Bank management vowed that it was taking distributional impacts "seriously", increasing work on poverty and social impact assessment, and implementing the recommendations of the *World Development Report 2006* on equity (see *Update 48*).

ARDE 2006: Getting results
[www.tinyurl.com/2y3prm](http://tinyurl.com/2y3prm)

Bank trade research "misleading"

The World Bank has drawn criticism from developing countries, trade economists and NGOs over a paper on the poverty impacts of 'special products' measures.

The special products proposal, led by the Group of 33 (comprising 46 developing countries), would allow governments to exclude up to ten per cent of import tariffs on individual products from agreed across-the-board cuts, and impose limits on cuts to an additional ten per cent. These exceptions would be based on agreed criteria for product selection such as livelihood and food security and rural development.

The World Bank paper in September which looked at the proposal reached the dramatic conclusion that the higher prices resulting from the use of special products provisions would result in "very large increases in poverty, sufficient in some cases to undo decades of development progress". The G-33 wrote in early October to Bank president Paul Wolfowitz complaining that the paper exhibited "fundamentally flawed assumptions and analysis". Developing country sources in Geneva are concerned about the political use of the paper before its formal approval. There were reports of it being used by US officials in informal negotiating meetings.

Bank chief economist François Bourguignon replied to the G-33 in November saying that the version of the paper referred to was only a draft, had "attracted a large number of valuable comments", and had led to a revised version. Bourguignon

said that this revised paper would go through an anonymous refereeing process before consideration for release as an official working paper.

The dramatic claims of the original paper have been softened, with the authors now arguing "that poverty increases would be more frequent, and larger than poverty reductions". The G-33 have said they are "dismayed that even the revised draft paper remains essentially the same" and called for the World Bank "to undertake a more useful study" that "does not seek to generalise misleading findings".

Sandra Polaski, trade economist with the Carnegie Endowment for International Peace, in her comment on the revised paper questioned why the authors found higher agricultural prices to be poverty increasing while they found them to be poverty reducing in their previous research. She suggests that it may be a result of "an unrepresentative sample of countries, of the inappropriateness of the basket of products selected, or of errors in the specification of the experiment".

political use of the paper before approval

Revised Bank paper

www.tradeobservatory.org/library.cfm?refID=89834

G-33 blasts draft World Bank paper on special products

www.pib.nic.in/release/release.asp?relid=24003

Polaski comments on the revised Bank paper

www.ifwatchnet.org/documents/item.shtml?x=54180

Senior Bank staff exodus continues

Hart Schafer, former director of operations for Africa, is now acting VP for the region. He steps in for Gobind Nankani who resigned in November after 30 years at the Bank, following reported disagreements with Wolfowitz. His resignation follows that of Christiaan Poortman, former VP for the Middle East and North Africa, who also cited differences with Wolfowitz and his advisors. Jordanian Marwan Muasher was appointed VP external affairs in December. He will replace Kevin Kellems, the acting VP, in March. Kellems will stay on as advisor to Wolfowitz.

www.bicusa.org/en/Issue.11.aspx

Bank embraces labour standards

In December, Paul Wolfowitz announced that Bank-funded public infrastructure projects will respect core International Labour Organisation (ILO) standards. This will cover some \$8 billion worth of project investment annually. The private sector lending arm, the IFC, had already committed to follow the ILO core standards in May 2006. Although a welcome step, it does not address all the criticisms of the Bank with respect to labour standards (see *Update 53*) including the way in which labour standards are neglected in the Bank's annual *Doing Business* reports.

www.itucsi.org/spip.php?article491

Rights of IMF guards violated

The private firm that supplied the guards to the IMF headquarters has been found in violation of workers' rights by the US National Labor Relations Board. Wakenhut was found guilty of intimidating and interrogating two guards who led the drive to form a union. Unionisation was supported by the majority of the workers even though Wakenhut was found to have lied to employees and threatened them with job losses. The IMF has since changed its security services provider and the new company has accepted unionisation.

www.eyeonwakenhut.com

IMF outsources to abate cash crunch

The IMF is in the midst of negotiations on a multi-million dollar outsourcing contract with Tata Consultancy Services, India's biggest computer-services provider. The move comes as the IMF is facing a budget crunch, with a projected shortfall of \$105 million in fiscal year 2007. The Fund has already established an investment account (see *Update 51*) and in January decided to suspend contributions to its special contingency account. An eminent persons committee investigating sustainable long-term financing options for the IMF's administrative budget has yet to report its findings.

www.domain-b.com/organization/imf/20061123_expected.html

THE WORLD BANK came to Timor-Leste in 1999, when the UN was still planning the intervention mission. The lack of attention given by the UN Transitional Administration in East Timor to economic development allowed the Bank to assume a central role. After the end of mass violence, the Bank and Fund visited Timor-Leste and conducted a joint assessment mission. This was done with little consultation with the Timorese people. The mission report was submitted to the donors' conference in Tokyo in December 1999, and was to determine reconstruction and development plans.

There were several roles played by the Bank in the reconstruction and development effort in Timor-Leste:

- *Through its supervision of the Trust Fund for Timor-Leste (TFET), the Bank funded agriculture, health, and education. Most donors preferred to channel their assistance through TFET because it was easier for them to control how the money was used. By the time it finished in 2006, TFET had channeled \$178 million, approximately ten per cent of total donor support to the country.*
- *The Bank administered the health fund, provided by the European Commission, through which it could influence health policy;*
- *The Transitional Support Program (TSP), created by the donors to assist Timor-Leste's post-independence government, required it to submit its plans and timeframes to Bank approval; and*
- *Advisers from the Bank were placed within key ministries, such as petroleum and natural resources, and planning and finance.*

The presence of the Bank and other IFIs should be critically examined. When the Bank assumed its central role in the reconstruction and development of Timor-Leste, most local people had no idea about the Bank, its roles, background, and its experience in other countries. Initially, Timor-Leste was not a member of the World Bank or IMF, only joining in 2002. But of course Timor-Leste's voting power in the Bank is far too low to influence its decisions.

Although the terminology of transparency, accountability and

World Bank reconstruction role in Timor-Leste creating problems

COMMENT

By Guteriano Nicolau S. Neves,
La'o Hamutuk Institute

participation have become the religion of the World Bank, the concepts are not reflected on the ground. The Bank has no proper mechanisms to be accountable to local people, only those to be accountable to the donors. The Bank doesn't even have an office in the rural area, where more than 80 per cent of Timorese live. While the Bank produces a lot of documents, they are not accessible for local people, due to both language problems and the use of jargon.

In the agricultural sector, the Bank programme has been criticised for destroying traditional forms of production and exchange. Under the Agriculture Rehabilitation Project, the Bank created the Pilot Agricultural Services Centre (PASC). However, the objective of the PASCs was to enforce the introduction of a market economy. Traditionally, Timorese farmers have lived outside the monetised economy, using non-currency forms of exchange such as bartering. The Bank has encouraged Timorese farmers to adopt export crops such as coffee, allowing labour-intensive staple crops such as rice to be replaced by cheaper imports. This raises serious concerns both about unemployment in the agricultural sector and long-term food security.

The Bank's Community Empowerment Project aimed to establish transparent, democratic, and accountable local structures in rural areas to make decisions about development projects in a decentralised fashion. However the programme conflicted with traditional structures.

Even though the Bank argues that its presence has reinforced the position of the government, the reality is that it has subordinated and marginalised it. Most of the Bank's programme does not involve the government in the decision-making process, undermining the accountability of democratically elected representatives. In the end, the Bank's presence has created problems rather than solving them. ©

La'o Hamutuk Institute www.laohamutuk.org/

The World Bank and conflict

brettonwoodsproject.org/insideconflict

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This repeats criticisms that were made of the Bank's trade work last year in an evaluation conducted by the Independent Evaluation Group (see *Update* 50).

A missed opportunity?

Astonishing considering the analysis which precedes it, is the evaluators' recommendation to increase support to Bank research through the creation of a research department. They recommend the establishment of a "research endowment fund" taken from Bank's retained earnings - that is, taken from developing countries' interest payments - to pay for it. Other more useful recommendations include:

- *Increasing the presence of developing country researchers and support for institution-based research in developing countries;*
- *The establishment of a peer review mechanism for research output; and*
- *Improved cost accounting for*

research - cutting back on too many thick volume flagship reports and improving those that remain.

Not surprisingly, suggestions that there should be more funding for research have been warmly received at the Bank. Bank chief economist François Bourguignon refuted the evaluation's description of Bank research as "undistinguished". The Bank has said it agrees with the recommendation to build research capacity in developing countries and will 'increase their efforts'. There was no comment on the recommendation to begin peer review of Bank research, and on the suggestion to cut its major outputs, the Bank will "explore approaches to reduce the volume of reports where possible".

But while the evaluation has shed light on a number of concerns, other more serious problems are left unaddressed. Two DEC staff, economist Vijayendra Rao and sociologist Michael Woolcock, stress that

"economics should not have (as it currently does at the Bank) a near-monopoly on determining the content and validity of development research". Rao and Woolcock criticise the evaluators themselves over their methodology and for the complete absence of non-economists in the team. They urge the Bank to "engage with alternatives to the dominant views in development research" and expand the number of staff with non-economic training.

Even more fundamental is the belief of David Ellerman, advisor to former chief economist Joseph Stiglitz, that the root of the problem lies in the fact that the Bank taking a stand itself on the issues contradicts the institution posing as an unbiased research organisation: "If any university took an official stand on certain issues in physics, biology, or the social sciences, then it would quickly distort the future research by faculty members since any contrary findings would 'embarass' the university."

Which harkens back to the question of whether or not the Bank should play the role of global development 'knowledge bank'. On the basis of similar findings to those of the official evaluation, but derived from independent research, American University professor Robin Broad (see *Update* 53) concludes: Bank backers "would do far better to support independent research institutions that are stimulating a more diverse development debate". ©

An evaluation of World Bank research, 1998 - 2005

tinyurl.com/yck7wc

Disciplinary monopolies in development research, Rao and Woolcock

tinyurl.com/2forxc

Helping people help themselves, David Ellerman

www.ellerman.org

Reading from the script: the IMF's PSI invades Africa

Ghana and Tanzania's decisions to use the Policy Support Instrument (PSI) reflect the IMF's success in convincing countries to accept conditionality without any financing, despite the evidence from Uganda and elsewhere that PSI conditions are numerous and will be enforced.

The PSI, inaugurated in October 2005 (see *Update* 48), is designed for low-income countries that do not need Fund money but accept Fund involvement and advice in policymaking. Despite not providing funds, the PSI does include conditions which are updated during programme reviews every six months. The PSI also serves as a signal to donors that the IMF endorses the country's economic programme.

Ghana announced its decision to not negotiate another Poverty Reduction and Growth Facility (PRGF) in May (see *Update* 51), citing excessive conditionality related to government debt levels. However, as a follow-up to the PRGF, finance minister Kwadwo Baah-Wiredu has opted to remain within the confines of IMF conditionality. In justifying the decision, the budget report copied about half of its text word-for-word from the IMF's factsheet on the PSI. It is not yet clear whether conditions on external indebtedness will be included in the PSI.

According to Taaka Awori, a member of the Growth and Poverty Forum, a coalition of Ghanaian development NGOs, there is normally no consultation with civil society in advance of such decisions. She said: "it is unclear what the implications of this move are for poverty reduction

or participation by civil society in Ghana".

PSI negotiations were concluded in Tanzania during the final PRGF review in September. The IMF board was meant to approve the PSI in January, but the board session was inexplicably delayed until February. Tanzania will become the fourth country to use the PSI after Nigeria, Uganda and Cape Verde (see *Updates* 48, 52).

Regardless of the delay, the Tanzanian PSI is a *fait-accompli*, but the implications are unclear. The Tanzanian parliament and CSOs have not considered the conditions attached to the programme, and will not see them until after the IMF board approves the programme.

The *East African* newspaper commented: "rather than provide financial support, the IMF's role will be more or less that of an international credit rating agency that tells other donor agencies whether or not to lend to Tanzania.... Thus, even without receiving IMF funds, the country will still be subject to IMF conditionalities."

Rose Mushi, country director for ActionAid International Tanzania, guardedly welcomed Tanzania's move as it signalled an end to the government's reliance on the Fund for financial support. But she cautioned that "it depends on the capacity of the government of Tanzania to negotiate policy advice with the IMF."

Enforcement stepping up?

While some see the PSI as a weaker

version of IMF involvement in the economic policy of a developing country, it is not clear that this is the case. A survey of the six publicly available PSI programme documents – two from Uganda, three from Nigeria, and one from Cape Verde – reveals that on average the agreements contained 12 structural conditions (assessment criteria or benchmarks). This compares unfavourably to the review of PRGF conditions conducted by Brussels-based NGO Eurodad in 2006, which found on average 11 structural conditions per PRGF review. Three privatisation conditions, one of the most controversial forms of economic policy conditionality, were included in each Nigerian PSI review.

The IMF seems willing to use the PSI process to convince countries to follow its policy prescriptions, though they can no longer withhold funding. In Uganda the IMF review mission expressed its disapproval of a rural lending scheme proposed by the government. The *East African* reports that Bonna Bagagawale, a new programme designed to give subsidised loans to Uganda's rural poor, was characterised by the Fund as "directed lending".

In December the IMF board completed its first six-month review of the Ugandan PSI, changing the programme length from 16 months to three years. But in its public notice of the decision, the deputy managing director Takatoshi Kato indicated "it will be important for the government

to avoid directed lending". As part of the PSI the government committed to not increasing the funding allocated to rural credit cooperatives.

The IMF's division head for Uganda, John Green, indicated that the PSI programme supports rural credit provision and expanded services in rural areas, but that at the time of the IMF mission, the government's early proposals were not well defined and not within the confines of the budget. Despite the Fund's concerns, the programme seems likely to go ahead. An official in the Ugandan ministry for microfinance, Ruhinda Maguru, disputed that the scheme was directed lending: "The government is looking at the ... programme as a way of bridging the gap caused by market failures". There is some indication that the ministry is trying to attract the support of donor countries to be able to expand the programme.

Soren Ambrose of Kenyan NGO Solidarity Africa Network questions the rationale for adopting the PSI, calling it most useful for politicians who "use the PSI as a political point of pride – they can boast that they are making progress in weaning their countries from the IMF. But in fact the conditions remain the same, and just as strong." ©

Ghana budget report 2007

www.ghana.gov.gh/dex-add/2007_budget.pdf

Tending their flock, Solidarity Africa Network

www.50years.org/pdf/ejn/v9n1.pdf

Ecuador, Philippines repay IMF debt

Newly elected Ecuadorean president Rafael Correa, announced in January that he would make early repayments of his country's \$33 million debt to the IMF. This decision came after months of speculation that Correa would declare a debt moratorium. Correa has turned to Argentina, rather than the IMF, for advice on renegotiating the terms of its external debt with private creditors, inviting an Argentine team to Quito for technical assistance. Despite a November IMF statement that the Philippines would not be repaying early, at the end of the year the governor of the central bank announced the prepayment of \$220 million that was due in April 2007.

www.mercopress.com/vernociencia.do?id=9659&formato=HTML

Ortega opts for new PRGF for Nicaragua

Nicaraguan president Daniel Ortega is presenting two different faces to the IMF. Ortega, a former left-wing revolutionary, asked IFI officials for more aid on easier terms in December before he took office. At the same time, Orlando Nuñez, a Sandinista who leads the government's coalition against poverty, proclaimed: "we have criticised the IMF and will continue to do so". Some Nicaraguan NGOs are infuriated with Ortega's willingness to go back to the Fund. Adolfo Acevedo of Coordinadora Civil said that a new PRGF agreement "would represent the final culmination of Nicaragua's subordination to IMF conditionality."

ifis.choike.org/informes/499.html

IMF wants tax on mosquito nets in Zambia

An IMF document provoked ire in Zambia by asking the government to remove value added tax exemptions on a range of goods, including mosquito nets used to fight malaria. It also called for taxes on food items, agricultural goods and water and sewage services. The former and current presidents quickly dismissed the proposals and opposition parties organised protests against the moves. The IMF's resident representative, Birgir Anarson, distanced himself from the plan, maintaining that the government needed to increase taxes but that "it is up to the government to decide how they raise the revenue."

Debt sustainability framework unchanged

A WB-IMF review of their debt sustainability framework concluded that the system, which determines the suitable level of external debt based on the value of exports, was "broadly appropriate". NGO Eurodad countered that the minor changes recommended still "fall short of ... the 'needs-based' approach civil society has been advocating." Using a rights-based approach UK-based new economics foundation (nef) found that about 50 countries need full debt cancellation and another 50 need partial cancellation.

www.eurodad.org/articles/default.aspx?id=757

www.neweconomics.org/gen/z_sys_publicationdetail.aspx?pid=223

The IMF has regular, systematic engagement with government representatives at many levels. Implementation of the IMF's programme cycle varies from one country to the next, depending on the situation and need of the country in question. The nature of the programme cycle is highlighted by looking at the case of Mozambique.

The most well-known interaction between the IMF and its members is the Article IV consultation, an annual surveillance mission on the member state's economy and finances that is required for all Fund members. In practice, the report is not prepared annually for all countries. For small economies and countries with frequent interaction with the Fund, the Article IV report may be prepared on 18-month or 24-month rotations. Mozambique is on a two-year cycle for Article IV reports, the most recent happening in March 2005, with the next consultation scheduled for March 2007.

The two most common lending arrangements are the Stand-By Arrangement (SBA) for middle income countries, and the Poverty Reduction and Growth Facility (PRGF) for low-income countries. Once negotiations are completed and conditions agreed the first amount of funding is released. Then reviews take place to approve further release of funds. This is done quarterly for SBAs and semi-annually for PRGFs. However reviews in the later stages of a programme may be combined if the country is performing well. The reviews generally involve a large mission (six or seven staff) from IMF headquarters visiting the country for up to several weeks. The missions assess the borrower's adherence to conditions and benchmarks, negotiate conditions for the next phase of the programme, and entertain requests for waivers of conditions or extensions of the repayment period. The PRGF review schedule for Mozambique requires two missions a year from the IMF's Africa department. The 2006 missions visited Maputo in March and October.

While surveillance and lending programmes give rise to relatively routine interactions between the IMF and country authorities, technical assistance (TA) programmes operate more variably. TA strategy papers are drafted by the IMF functional department associated with that TA project, for example the fiscal affairs department, and then agreed to by the country authorities. TA can be on any subject related to the Fund's expertise, including macroeconomic policy, central bank operation,

financial management, data preparation, budgets or tax policy.

Mozambique hosted six TA missions from IMF headquarters in 2006. Usually the terms of reference for consultants and technical assistance are set during the March PRGF review. In 2006 the ten-day-long visits related to reviewing the budget, assessing tax policies, implementing a new financial management system, preparing the consumer price index, and creating a centralised revenue authority within the government.

Under the joint umbrella of technical assistance and surveillance falls the Financial Sector Assessment Program (FSAP) including the Report on Standards and Codes (ROSC). The FSAP, a joint programme between the World Bank and the IMF, is only prepared on invitation by the country authorities. It generally includes the preparation of a detailed ROSC on the implementation of several of 12 international codes, which are developed by multilateral bodies, often in conjunction with the IMF. Agreeing to an FSAP will generate another visit or two from IMF headquarters in the year the FSAP is prepared. Some of the ROSCs will also require a separate mission from IMF staff along with external experts. The ROSCs are then updated by another field visit on an ad hoc schedule, which ranges from one to five years. The FSAP may also spawn technical cooperation programmes in addition to the normal Fund TA.

In the case of Mozambique, the joint IMF-World Bank missions for preparation of the FSAP visited the country in February and March 2003 for a total of three weeks. Separately, the first ROSC on fiscal transparency was produced in early 2001, then updated by a mission in June 2002 and again updated by the 2003 Article IV report. A two-week mission in June 2002 prepared a ROSC on data dissemination, which was updated by a one-week mission in May 2005. A two-week mission was needed in November 2005 for an anti-money laundering ROSC. Most recently, in October 2006 a mission from the monetary and capital markets department of the Fund was tasked with following up the recommendations from the FSAP in the areas of monetary and foreign exchange operations, banking regulation and supervision, monetary policy formulation and central bank accounting.

In between these formal missions, the IMF's resident representative in Maputo states "numerous expert visits have taken the [technical cooperation] agenda forward". ©

IMF crisis prevention: running on the spot

Nearly ten years on from the Asian financial crisis and the IMF has yet to find a workable solution to the need for a precautionary financing arrangement that helps middle-income countries prevent financial crisis. The IMF's inability to articulate a plan to mitigate global economic risks will force countries to continue searching for ways to self-insure.

The Reserve Augmentation Line (RAL), targeted at helping middle-income countries avoid a sudden financial crisis, was proposed to replace the failed Contingent Credit Line (see *Update* 13), which operated for four years without ever being used. The staff paper on the RAL proposed a facility that required pre-qualification and semi-annual reviews, and which granted automatic access to funds equivalent to 300 per cent of a country's quota at interest rates 3 to 5 per cent above the basic rate of charge. It also proposed a global cap on use of the facility at about \$75 billion "to ensure that suffi-

cient resources remain available to be provided under" other Fund lending programmes.

Contention has arisen over the need for requirements for qualification and reviews. Only countries with favourable macroeconomic balances will be accepted into the RAL, but they are the least likely to need it.

The proposal might also put the Fund in a difficult position of sparking a crisis by rejecting an applicant or refusing completion of a review.

The executive board discussed the proposal, a key plank of the managing director's strategic review, in August 2006, but insiders indicated that the major shareholders in Europe and North America disagreed on the fundamental design questions. On the crucial issues of conditionality and automatic access, the board failed to support the proposal, saying only that it was "a

good starting point for further consideration of a liquidity instrument."

Heribert Dieter, a researcher at the think tank German Institute for International and Security Affairs also questioned whether the RAL could actually handle a major financial crisis, saying it

"does not provide sufficient liquidity for that. For fighting contagion and/or speculative attacks, the envisaged sums are too small." The board will consider a new proposal in advance of the spring meeting of the IMF's board of governors.

Managing global risk

Economists are concerned about a potential crisis from a disorderly unwinding of global imbalances. The IMF mooted a role for itself in tackling such risks, and in May 2006 trumpeted its new multilateral consultations of 'systemically

important' member states (see *Update* 51). Many observers saw this as the US using the IMF to force the Chinese to revalue their exchange rates.

However, the June launch of the first consultations produced no concrete outcome after months of talks. In January, IMF management stated that the consultations had now moved to discussing policy options but refused to state whether they would endorse specific policy recommendations. The change in Fund priorities may reflect a cooling of US interest, as US Treasury's public affairs officer Brookly McLaughlin now states: "The multilateral consultations are not intended to produce new policy commitments or joint coordinated policy responses." ©

The envisaged sums are too small

Consideration of a new liquidity instrument for market access countries
 www.imf.org/external/np/pp/eng/2006/080306.pdf

Mortgaging Iraq's oil wealth

As a "key ingredient" of IMF lending and debt relief, Iraq's government has just presented a new draft petroleum law to its cabinet that could permit up to two-thirds of Iraq's known reserves to be exploited by multinational oil companies under contracts lasting for 20 years.

The law could also dictate the future of the country's oil sector and determine the future shape of the Iraqi federation, as regional governments battle with Baghdad over resource revenues. Approval by parliament is expected in the coming weeks.

Quietly negotiated outside of the country by the IMF, government ministers, US officials and multinational oil companies, this policy would be a radical change for Iraq's oil industry, which has been in the public sector for more than three decades. It would also break from normal practice in the Middle East.

The 'Standby Arrangement' (SBA) signed between Iraq and the IMF in December 2005 (see *Update* 49) committed Iraq to draft a new petroleum law by end 2006 to allow foreign investment in the country's oil industry. The arrangement was signed before the new Iraqi government had been appointed and one week after the December 2005 elections thus denying Iraqi voters a chance to react through the ballot box. It provided a future financing facility, allowed the cancellation of 30 per cent of Iraq's debt owed to the Paris Club of creditor nations and included requirements for the controversial and sudden slashing of public fuel subsidies. The latter led to a hike in fuel prices, subsequent street protests and the resignation of the oil minister. After his appointment in May 2006, the new oil minister, Husayn al-Sharistani, began drafting

legislation to govern Iraq's oil sector.

Provisions of the draft law are based around a system of long-term contracts with international companies - they would invest in infrastructure and operation of the wells in exchange for a significant share of revenues, as well as control over production and development decisions.

The precise details of the draft law are yet to be made public, but most policymakers have referred to a type of contract known as production sharing agreements (PSAs) - the form

favoured by multinational oil companies. PSAs are legal agreements, designed to replace a weak or missing legal framework as in the case of Iraq. PSAs have recently generated headlines in Russia for the unfavourable economic deal the government received in relation to the Sakhalin 2 oil and gas project, signed in the mid-90s when the country was undergoing rapid economic liberalisation and political turmoil.

According to Greg Muttitt, a researcher for UK-based oil industry watchdog PLATFORM, "Along with the US and UK governments, the IMF and World Bank are forcing a policy on Iraq which favours the interests of oil multinationals at the expense of the Iraqi people."

The UK newspaper *The Independent*, which also obtained

an earlier copy of the draft, stated in a January editorial that the draft law was presented to parliament in December 2006 following three consultations - with the US government and major oil companies in July and with the IMF in September. The Iraqi people and parliamentarians were not given the same opportunity to scrutinise it. As late as December, Muttitt asked at a meeting of Iraqi MPs how many of them had seen the draft oil law: "Out of twenty, only one had seen it."

At a meeting in Jordan, also in December, leaders of Iraq's five trade union federations - between them representing hundreds of thousands of workers - called for a fundamental rethink of the forthcoming law. They criticised the major role for foreign companies in the draft law and rejected "the handing of control over oil to foreign companies, whose aim is to make big profits at the expense of the Iraqi people, and to rob the national wealth, according to long-term, unfair contracts, that undermine the sovereignty of the state and the dignity of the Iraqi people". Angry at their exclusion from the drafting process, they called for a delay to the law, to allow proper consultation and public debate. "The Iraqi people refuse to allow the future of oil to be decided behind closed doors".

**Out of 20 MPs,
only one had
seen it**

Bank-Fund collaboration

The World Bank is also heavily involved in Iraq's petroleum sector strategy. Appendix III of Iraq's request for an SBA from the IMF clearly states that the World Bank is the lead institution for sectoral strategies including the petroleum sector. In violation of the World Bank's good governance and anti-corruption rhetoric, PSAs could prolong and exacerbate poor governance by allowing investors in the oil and gas sector to effectively bypass the weak or absent legal and regulatory frameworks. Heike Mainhardt-Gibbs, consultant to US-based NGO Bank Information Center said, "PSA-driven development of the oil sector stands to make it even more difficult to ensure that the necessary changes will be made to improve overall governance, such as the creation of checks and balances across government agencies and economic and social sectors. Given this potential, the PSA contract model promoted by the World Bank may lead Iraq down the path of the resource curse". ©

PLATFORM on Iraq

🌐 www.carbonweb.org/iraq

IMF standby arrangement

🌐 www.imf.org/external/country/IRQ/index.htm

Blood and oil, *The Independent*

🌐 news.independent.co.uk/world/middle_east/article2132574.ec

Bujagali funding imminent

After a delay of three years due to corruption scandals and the withdrawal of the main sponsor, the Bujagali hydroelectric dam in Uganda is now being fast-tracked for construction (see *Update* 53). In December the IFC disclosed its summary of proposed investment and environmental and social review. The IFC will seek approval from the Bank board in April for its potential \$100 million investment. An NGO letter in December questioned the economic viability and environmental impacts of the dam and the transparency of key project documents.

🌐 www.bicusa.org/en/Project.24.aspx

Indian forestry project violates safeguards

Indian NGO Samata and the UK's Forest Peoples Programme have found that the resettlement action plan (RAP) of the Bank-funded Andhra Pradesh Community Forest Management Project is in breach of Bank policies on indigenous peoples and involuntary resettlement. Affected Adivasi communities have not participated meaningfully in project design, social assessment has been incomplete and compensation for the displaced has been inadequate and inappropriate. Many indigenous villagers have been asked to sign consent agreements that they do not understand. A growing number of villages and local NGOs are refusing to implement the RAP.

🌐 www.samataindia.org

Bank mining advice boosts private profits

A report by UK NGO Christian Aid examines how, as part of its structural adjustment programmes, the World Bank encouraged developing countries to liberalise their mining laws to lower taxes and reduce environmental and social regulations in Zambia, Bolivia and the Philippines. Bank advice led governments to sign contracts with companies which offered minimal financial returns and extracted millions of dollars into northern coffers. Between 1990 and 2003 alone, the World Bank supported revision of mineral, hydrocarbon and other related laws in over 100 countries.

🌐 www.christianaid.org.uk/indepth/0701mining

Bank directors bound by rights obligations

A report by a coalition of German NGOs raises critical questions in relation to Germany's extra-territorial human rights obligations when making decisions on the boards of multilateral development banks (MDBs). As a state party to the International Covenant on economic, social and cultural rights, Germany is bound to implement its human rights obligations "through international assistance and cooperation". The report asserts that all actors involved are responsible if a development project leads to human rights violations, and so should participate in adequate reparations to the victims. Project affected peoples are currently not recognised by MDBs as rights holders.

🌐 www.fian.de

Congo: mining, conflict and complicity

A confidential World Bank memo dated September 2005 and leaked to the Financial Times in November 2006 finds that three of the Democratic Republic of Congo's (DRC) biggest mining contracts were approved with "a complete lack of transparency".

Concerns now centre on whether the Bank has exercised sufficient oversight since it resumed lending to Congo in 2001, and its reticence to sacrifice the interests of western companies in favour of genuine anti-corruption measures, particularly since the recent inauguration of Joseph Kabila's government.

The three contracts, signed between the state-owned mining company Gécamines and three international mining groups, are worth billions of dollars and were approved in 2005 under a corrupt power-sharing government. They are estimated to have signed away 80 per cent of Gécamine's mineral asset base to private mining companies. They were signed at a time when the World Bank was involved in reforms of the mining sector, the principal source of Congo's state revenue.

In the memo, Craig Andrews, the World Bank's principal mining specialist, wrote to Pedro Alba, the Bank's country director for Congo, to say that the deals had not undergone a "thorough analysis, appraisal and evaluation" before being approved, and that the World Bank, which has taken a prominent role in helping the DRC

reform its mining sector, could be seen as risking "perceived complicity and/or tacit approval" of the deals.

Tricia Feeney from UK NGO Rights and Accountability in Development (RAID) said that most of the concessions under Gécamines were awarded behind closed doors in violation of the mining code, which was created with the support of the World Bank in 2002. The deals were apparently signed before the Bank-financed restructuring of Gécamines took place, leaving little more than the shell of a company. In January 2006 Jean Pierre Muteba, the leader of the Nouvelle Dynamique Syndicale, a trade union based in Katanga, called for these contracts to be renegotiated.

Jean-Michel Happi, the Bank's country manager in Congo, said legal and financial audits had been commissioned on Gécamines, which would help the government take a decision regarding possible reviews of the contracts. However Paul Fortin, brought in by the World Bank to manage Gécamines,

told the *Financial Times* in November that although he would recommend changes to the contracts in a way that would benefit the company, he did not expect significant changes: "If the review is done in such a way that you have to review everything then you are taking a step backwards". President Joseph Kabila's allies on the Gécamines board can still exercise veto powers on any recommendations made by Fortin.

A parliamentary investigation in 2005 into mining contracts signed during the war and under the transitional government, known as the Lutundula Commission, concluded that many of the contracts should be renegotiated or cancelled. However, the World Bank and other donors have apparently been reluctant to push this. In February 2006 RAID called on Bank president Wolfowitz to investigate why the Bank's programme for restructuring the DRC's mining sector has been so disastrous. So far the Bank has failed to heed RAID's

recommendation of nominating an independent group of experts to examine the legality of all the mining contracts signed by the transitional government since 2003 against the terms of the agreements governing the transition, Congolese law and international law. "Now that there's an elected government, there can be no excuses in combating corruption and supporting good governance," said Feeney. "Whether the World Bank makes public its legal, financial and environmental audits of Gécamines will be a litmus test to its commitment to transparency in the extractive industries."

In a separate process, in early 2006 the Bank's department of institutional integrity launched an inquiry into allegations that the transitional Congolese government mismanaged millions of dollars of Bank funds designed to speed the disarmament of militias and fund reconstruction projects. The results of the audits have not yet been disclosed. ©

Rights and Accountability in Development

www.raid-uk.org/

**Litmus test
to its commitment
to transparency**

Huge gaps in the World Bank's Gender Action Plan

Elaine Zuckerman, Gender Action

The World Bank's new Gender Action Plan (GAP), aptly named *Gender equality as smart economics*, is tightly framed in the Bank's economic policy framework. GAP explicitly targets economic sectors where the Bank has a comparative advantage. These include: agriculture, private sector development, finance, infrastructure and water and sanitation. The plan promotes increasing roles for women in the economic sectors that the Bank calls motors of development. GAP concludes, "The business case for expanding women's economic opportunities is becoming increasingly evident; this is nothing more than smart economics."

GAP lacks a human rights approach essential for a development institution with a mission to reduce poverty. The objective to make "markets work for women" is critically important but entirely neglects the most important argument for empowering women: achieving women's human rights. The main beneficiaries of Bank

investment in infrastructure have been transnational corporations, not the poor. Adhering faithfully to the Bank's decades-old business model, GAP aims to increase women's participation in land, labour, product and financial markets — while privatising them as much as possible — which benefits corporations the most.

GAP is the first Bank gender guideline to 'mainstream gender' into policy operations. However, GAP fails to acknowledge that the Bank's enforceable operational policy (OP 4.20) on gender and development upon which GAP claims to build, contains a critical footnote excluding programme loans from the requirement to address gender disparities. That the operational policy takes precedence over GAP undermines GAP's intention to engender policy-based loans. Operational policies are the only Bank policies to which civil society can hold the Bank to account.

While GAP claims that its

economic approach will contribute to achieving the MDGs, it nowhere acknowledges the contradiction that the standard economic reforms that the Bank imposes on poor countries - low-inflation and tight spending policies - actually sabotage their achievement.

This is the first gender plan, strategy or policy that claims to apply to the entire World Bank Group. Previous Bank gender guidelines excluded the International Finance Corporation (IFC), the private-sector lending arm of the Bank, and the Multilateral Investment Guarantee Agency (MIGA), the political risk insurance arm. In the case of the IFC, GAP views its role as promoting gender responsiveness in the private sector, without focusing on the poverty impacts and never mentions MIGA.

Promoting "gender mainstreaming" remains the Bank's key method to achieve gender equality, a noble goal, but one that has not worked in the Bank or elsewhere. Many

highly-regarded women's rights experts have argued that mainstreaming gender has actually seriously retarded the attainment of women's rights. Initially GAP will concentrate on activities in "a relatively small number of focus countries" to attain measurable impacts. The final selection of focus countries will be made by an internal GAP executive committee.

The plan's implementers include the Bank, civil society organisations (CSOs), governments and the private sector. CSOs encompass many types of groups but in creating GAP the Bank only consulted with a hand-picked seven-member external gender consultative group. Looking forward, GAP identifies only one CSO partner, US-based International Center for Research on Women, to design and conduct GAP evaluations. ©

www.genderaction.org/

Recommended resources 2006

Books

The World Bank and governance: A decade of reform and reaction

Collection of papers from a network of post-graduate researchers on the World Bank covering topics such as safeguards, forestry, pension reform and PRSPs.

Diane Stone and Christopher Wright (eds.), Routledge
ISBN: 0-415-41650-7

Human rights and development: towards mutual reinforcement

Exploration of human rights in relation to private finance, PRSPs, fiduciary responsibility and macroeconomics. Includes contributions from Bank and IMF staff past and present.

Philip Alston and Mary Robinson (eds.), Oxford University Press
ISBN: 0199284628

Human rights obligations of non-state actors

Balanced and in-depth examination of the expanding scope of international law, it extends human rights obligations equally to non-state actors. Sections on the UN, IFIs, corporate actors and the WTO.

Andrew Clapham, Oxford University Press
ISBN: 0198298153

Helping people to help themselves: From the World Bank to an alternative philosophy of development assistance

Advisor to former chief economist Joseph Stiglitz, Ellerman argues for a radical re-orientation of World Bank research and operations.

David Ellerman, University of Michigan Press
ISBN: 0472031422

The new development economics: After the Washington Consensus

A high-powered academic rejection of the Bretton Woods institutions' approaches to growth, trade and governance, marking the continued rise of pluralist economics.

Jomo K.S. & Ben Fine (eds.), Zed Books
ISBN: 1 84277 643 6

Turkey and the IMF: Macroeconomic policy, patterns of growth and persistent fragilities

Turkey's position as the largest IMF debtor and a potential EU member make this review of economic programming and the influence of the Bank and Fund, written by authentic dissenting voices within Turkey, an insightful read.

Independent Social Scientists' Alliance of Turkey, Third World Network
ISBN: 983-2729-54-8

Papers

Assessing the impact of the PRGF on social services in selected African countries, Afrodad

Looks at the impact of IMF lending on poverty reduction in Ethiopia, Malawi, Tanzania, and Zambia. Despite some evidence of economic improvement, the PRGF had very mixed effects on service provision and human welfare.

www.afrodad.org/downloads/publications/PRGF%20Synthesis.pdf

Boom time blues: Big oil's gender impacts in Azerbaijan, Georgia and Sakhalin, CEE Bankwatch Network, Gender Action

An investigation of the gender impacts of the Baku-Tbilisi-Ceyhan oil pipeline and the Sakhalin II oil and gas project, and the inadequacy of lending safeguards to ensure the rights of women.

www.bankwatch.org/documents/boomtimeblues.pdf

An evaluation of World Bank research, 1998 - 2005, Deaton et al. Research, knowledge and the art of "paradigm maintenance", Robin Broad Review of International Political Economy 13:3 (August 2006): 387-419.

Two of the most comprehensive assessments of the World Bank's self-defined role as 'knowledge bank' in a decade. Not happy reading for the Bank.

tinyurl.com/yck7wc

www.tandf.co.uk/journals

Shrink it or sink it, Focus on the Global South

A statement, written by Focus director Walden Bello, but endorsed by dozens of organisations globally, that sets out the civil society agenda for a radical change in the operations of the IMF.

www.focusweb.org/content/view/985/27/

Behind closed doors: Secrecy in International Financial Institutions, Global Transparency Initiative

Using rigorous cross-country methodology, this study finds gaping holes and inconsistencies in IFI disclosure policies.

www.ifttransparency.org/doc/behindcloseddoors_secretcyinifis.pdf

Beyond the IMF, Richard Webb and Devesh Kapur CGD Working Paper 99

From renowned IFI scholars, this paper explores the regional and market-based alternatives on offer to countries given the failure of the IMF to fulfil its mission of insuring countries against financial crises.

www.cgdev.org/files/10246_file_WP99.pdf

Electronic resources

End oil aid

New website by a diverse coalition of NGOs working together to end 'oil aid' by addressing the intersection of oil dependence, climate change, and international debt.

www.endoilaid.org

Third World Network finance listserv

New information service provided by TWN on finance and development issues. Features news and analysis on debt, conditionality, financial crises, capital flows, exchange rates, the IFIs, and UN processes (such as Financing for Development). To subscribe, email: twonet@jaring.my

www.twinside.org.sg/fndarchives.htm

Bankspeak of the year 2006

In a departure from tradition, this year's Bankspeak marks an exemplary case of the Bank clarifying a previously fuzzy concept. At this year's annual meetings in Singapore, just as several dozen accredited civil society participants were being refused entry, held for questioning or deported, the Bank's PR machine trumpeted the findings from the Doing Business report that the host nation was the "most business-friendly economy in the world 2005/6". So now we know what business-friendly means.

Update readers ask for more links, newswire

The *Bretton Woods Update* survey, launched in September, showed that our readers are very satisfied with the detail-level, tone, frequency, and length of *Update* articles, with approval ratings ranging from 80 to 90 per cent. The results also indicated that we are successfully filling the niche of covering the Bank and Fund policy and roles, but that we should seek to emphasise the environmental and social impacts of those policies. Readers stressed the importance of the links provided at the end of each article. You also asked for the *Update* in PDF format, and our web-based newswire service to be offered by email. In response, we are working to improve our links, content delivery and news services.

brettonwoodsproject.org/2006surveyresults

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Bretton Woods Project

Hamlyn House, Macdonald Road, London N19 5PG, UK

+44 (0)20 7561 7610

+44 (0)20 7272 0899

info@brettonwoodsproject.org

www.brettonwoodsproject.org

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