

Staff in black: IMF faces structural adjustment

Due to pressure from major shareholders the IMF must cut its budget. Internal documents reveal details of the restructuring, including staff layoffs and charges for technical assistance, but fail to shed light on whether the Fund will shift away from dictating to poor countries and towards overseeing global markets.

The December announcement by managing director Dominique Strauss-Kahn that he would lay off 300 to 400 staff, 15 per cent of the work force, is being viewed as a *quid pro quo* to secure US Treasury support for giving the IMF an endowment. The G7 has demanded that the IMF cut its expenses before considering how to boost its income (see *Update* 58). Inside sources have said that the managing director has been holed up in his office working on the Fund's budget and how to come up with cuts to the work force, meaning that he has had little time to work on what is supposed to be the "cornerstone" of Fund reform: changes to its governance structure.

Leaked copies of Strauss-Kahn's January statements to the board and staff indicate that the Fund will be targeting middle management. He would "like the process of downsizing to rely on voluntary approaches to separation to the extent possible." The biggest immediate change is to retirement rules to allow any staff member over the age of 50 to retire with an unreduced pension. A move to combine divisions within departments should further encourage division chiefs and other older staff to voluntarily leave. Another incentive may be an effort to "reduc[e] the costs of Fund technical assistance for example by ... making greater use of former Fund staff." The IMF planned to open the retirement window from the end of January.

Dissension in the ranks

According to internal documents, the IMF's usually orderly hierarchy has already been convulsed by



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compensation disputes in 2007. In January a legal case initiated by the Staff Association Committee (SAC) members to stop a salary restructuring exercise, which had begun in 2004 and was supported by the board, was rejected by the IMF administrative tribunal. One of the officers of the SAC then launched an ultimately unsuccessful campaign to amend the constitution of the association to make it more transparent and accountable.

IMF management has yet to resolve the most controversial

issue related to salaries: pay for the IMF's lowest level staff, 87 per cent of whom are women. Management had proposed a 15 per cent pay cut which prompted an end-August debate of the staff association, with over 500 members taking part. An IMF intranet article said that "staff out of solidarity wore black to protest proposed changes to [support staff] compensation." According to inside sources, some support staff ended up successfully appealing directly to the board before an early September meeting

to consider the change. They will hold off any decision on salary cuts until the end of January.

Paying the piper?

Further work on efficiency and reduced expenditures was to be completed for a meeting of the board's budget committee at start February. Proposals on the table include a new department for multilateral surveillance and forcing staff to work on multiple countries in the proposed larger divisions. Rather than reducing the frequency of Article IV reports, annual check-ups on members' economies, Strauss-Kahn prefers "less-paper intensive" board discussions based on mission statements and oral presentations rather than formal papers.

For low-income countries there are plans to reduce staff because of less debt-relief work. Strauss-Kahn favours reducing the frequency of programme reviews, currently every six months for borrowers or those with oversight arrangements. But there was no talk of civil society's preferred option: drastically scaling down, if not eliminating altogether, the Fund's work in low-income countries (see *Update* 52).

The most radical change will be in the provision of technical assistance (TA), where charges, varying according to the income of the country and the importance the Fund attaches to the work, will be introduced. The IMF wants donors to pay for IMF TA and is considering adopting the trust fund model used by the Bank (see *Update* 47).

This is very different from civil society proposals that TA be driven solely by country demand. The IMF's proposals, aside from soaking up aid resources, would worsen the ability of developing countries to control the TA agenda. The varying charges would ensure that low-income countries will be channelled into TA based on Fund and donor priorities. In contrast NGO ActionAid's *Real Aid* reports have called for TA that is "fully untied, predictable, co-ordinated and channelled through a host government managed fund." Some other proposals in the managing director's

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New figures cast shadow over poverty reduction claims

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Bank violates indigenous rights

The World Bank-funded Nam Theun 2 (NT2) dam in Lao PDR is under scrutiny for its violation of human and indigenous peoples' rights, and its failure to achieve the development and environmental goals it has promised (see *Update* 56, 45).

A September report by the NT2 power company's panel of 'international experts' finds that restoring peoples' livelihoods could take nine years or "possibly more", warns of "significant impoverishment" in hundreds of affected villages, and says more donor aid is needed. The report has since become the subject of a public spat between Canadian NGO Probe International, and the World Bank and other project representatives.

In a December letter to the editor of Thai newspaper, *The Nation*, Probe's Grainne Ryder refers to numerous social and environmental inadequacies of the project and argues that project revenues should go directly to villagers suffering losses caused by the dam's operations. In an indignant response, Peter Stephens, Bank communications officer, claimed that Probe has misrepresented the experts' report, and states that the project will generate \$2 billion over 25 years for poverty reduction and that the project is "progressively overcoming challenges". The Bank has also announced that it will publish a book about the challenges of NT2, optimistically entitled *Doing dams right*, due out later this year.

In a November report to the human rights council, UN special rapporteur on human rights and indigenous peoples, Rodolfo Stavenhagen states that forced relocation or resettlement due

to the construction of mega projects in the name of "national development" is one of the most "serious threats to indigenous peoples' survival in Asia". He gives the NT2 dam as an example in light of its displacement of as many as 6,200 indigenous people. He also refers to reports from Lao PDR of the lack of recognition given to indigenous peoples' rights and threats and intimidation made against members of indigenous or tribal peoples.

A second report by the special rapporteur cites examples of how national poverty reduction strategies have failed to meet the priorities of indigenous peoples by failing to recognise their collective

rights to land and resources. He asserts that "multilateral donors are also duty bearers in respect of policies and programmes on behalf of indigenous peoples". The report provides a comprehensive definition of the term 'free prior and informed consent', and states that the application of this principle "is a basic prerequisite for ensuring respect for the right of indigenous peoples to self-determination".

The World Bank is sorely lacking on the application of this principle: having replaced the term with "free prior and informed consultation leading to broad community support", amidst much criticism (see *Update* 56). The UN report recommends that

donors and international agencies "should refrain from supporting programmes and projects which either directly or indirectly, are or could be conducive to the violation of the rights of indigenous peoples in the countries receiving development aid." ©

Lao dam impact policies "a shambles"

www.probeinternational.org/catalog/content_fullstory.php?contentId=6691&at_id=21

NT2 dam in Lao PDR

internationalrivers.org/en/southeast-asia/laos

Reports by the special rapporteur

ap.ohchr.org/documents/sdpage_e.aspx?m=73&t=9

IFC and health: "unsubstantiated claims"

In a December report financed by the Gates Foundation, the International Finance Corporation (IFC) estimates that over the next decade \$25 to \$30 billion will be needed to meet the needs of Africa's health care. In *The business of health in Africa*: the IFC announced that it will coordinate \$1 billion in equity investments and loans to finance private sector health provision in Sub-Saharan Africa.

The study found that the private sector accounts for about half of the region's \$16.7 billion spending on health care, and that impoverished people are just as likely as the better-off to use private providers. It argues that this spending will grow to \$21.2 billion by 2016. As a result of the proliferation of 'user fees' geared toward cost recovery at public clinics - often introduced at the instigation of the World Bank - the difference in cost between public and private services is often limited. The IFC has argued that private providers are better equipped and staffed than their public counterparts, and have shorter waiting times.

Health care professionals and activists are concerned at the quality of the research on which the report is based and fear that the IFC's push for an increased role for the private sector may not be matched with appropriate regulation. They point out

that figures presenting the private sector as an equal or majority provider also hide the fact that at least 60 per cent of the population in Africa can not access health care of any kind.

An article by US NGO Bank Information Center points out that in many cases of public service privatisation, companies have focussed their efforts on serving those most able to pay and neglected the impoverished majority. Though the IFC emphasises the need for strong regulatory systems to safeguard the interests of less wealthy populations, few specifics about how these would work are provided.

In a December letter to the *Financial Times*, Barbara Stocking, director of NGO Oxfam asserted that "profits cannot be made in serving people this poor without some form of public subsidy." Anna Marriot, Oxfam's health policy officer added that the IFC report "is brimming with unsubstantiated and unconvincing claims. In the absence of rigorous research the report's call to divert public money for private health care is nothing short of irresponsible".

IFC to push private health care in Africa, BIC

www.bicusa.org/en/Article.3653.aspx

Bank violates own policies in Congo

The findings of an Inspection Panel investigation into the Bank's failure to comply with its own safeguard policies in its support for forest sector reforms in the Democratic Republic of Congo (DRC) was discussed by the board in January (see *Update* 57). Twelve Congolese pygmy groups filed the complaint in 2005, regarding the exclusion of indigenous peoples from consultation on Bank-supported forest sector reforms, adverse impacts of increased commercial logging, and the absence of participatory land use planning processes. The board endorsed the management action plan though it fails to make clear how the Bank has learned from its failures.

www.bicusa.org/en/Article.3645.aspx

IFC offloads illegal timber trader

The IFC has withdrawn from its 3.35 per cent equity stake, worth up to \$75 million in the Singapore-based global commodities trader, Olam International, following allegations that the company was sourcing timber illegally in the Democratic Republic of Congo (see *Update* 57). IFC stated that its decision was due to "policy considerations". A series of recent reports by Greenpeace outlined the company's dire environmental and social record and pointed to the IFC's lack of due diligence in funding it: "the case of Olam International illustrates the Bank's failure to reduce poverty and promote sustainable development."

www.greenpeace.org/international/news/world-bank-cuts-olam-funding121207

Panel investigates Ghana landfill

In October the World Bank board accepted the Inspection Panel's recommendation for a full investigation into a complaint filed by the NGO Centre for Housing Rights and Evictions (COHRE) on behalf of the Agyemankata Community regarding the Kwabenya landfill project in Accra, Ghana (see *Update* 57). Bank management acknowledged that resettlement, compensation, and environmental aspects need to be addressed. According to COHRE the Bank has required the government of Ghana to take a series of steps including the formulation of a proper resettlement action plan. The results of the inspection process are expected in early 2008.

www.cohre.org/store/attachments/quarterly%20vol4-no2_final.pdf

Bujagali dam under second investigation

As a result of claims submitted by the Ugandan NGO, National Association of Professional Environmentalists, members of the Inspection Panel and the African Development Bank's internal investigation arm visited Uganda to carry out an investigation into the Bujagali dam (see *Update* 56, 55) in November. This is the second time the Panel has investigated the dam, for which the European Investment Bank has also approved funding. The matters under investigation include: hydrological risks, cultural heritage, inadequate economic analysis and questions over the dam's ability to meet growing electricity demands in the country.

internationalrivers.org/en/africa/bujagali-dam-uganda

IN THE PAST YEAR, particularly after the Stern report successfully made tropical countries like Indonesia and Brazil into climate villains, the World Bank has been rushing to expand its carbon business. Encouraged by conservation NGOs and northern governments (mostly countries with commitments to reduce greenhouse gas emissions under the Kyoto Protocol), the Bank developed its campaign to 'combat' climate change through curbing carbon emissions from deforestation in tropical countries.

However, every official in the Bank, including Robert Zoellick the president, has never answered properly about the World Bank's failure in the forestry sector since the 1980s. A lot of evidence showed that the Bank's overall policies to 'help' developing countries in fact trapped these countries in debt crises, almost bankrupting some of them. It is because of the same old recipe of development: raw materials export – minerals, oil, gas, and of course timber.

It was a little bit absurd when the Bank launched its new initiative for forest carbon brokerage (the Forest Carbon Partnership Facility or FCPF) in Bali last December. People would think that the Bank had a very good proposal both for people and, of course, business. In fact, nobody noticed that the Bank, through its lending and development policies, has been promoting deforestation in tropical countries like Indonesia.

In the same year that the Bank was preparing the forest carbon initiative, through the Indonesia Forest Strategy it promoted so called Partnership Plantations and prioritised support to the forestry depart-

Whoever loses, the Bank always wins: Profits from Indonesian forests next

COMMENT

by Torry Kuswardono

WALHI, Indonesian Forum for Environment

ment's plantation programme. This initiative is actually aligned with the government of Indonesia's IMF programme of 1998 that opened exportation of palm oil, and pulp and paper industries (including tree plantations) so that Indonesia could pay its debts. With these two contradictory initiatives, the Bank actually does not have any intention of curbing environmental and climate crises nor poverty. The Bank's only intention is to gain as much profit as possible from both northern and southern governments. In the meantime there has never been any apology nor debt cancellation for the Bank's past operations that created crises and poverty in southern countries. The Bank is still collecting money from previous lending though it failed and harmed people and the environment, while continuously preparing to collect more profits from the forest carbon initiative. Even through technology transfer, the Bank is preparing to expand lending, creating more debt and gaining more profit.

Another hypocritical thing is that the Bank always avoids talking about the International Finance Corporation's (IFC) harmful operations in many parts of the world. The IFC keeps on pouring money into carbon emissions generating projects such as oil and gas, mining, plantations, and cattle ranches encroaching on tropical forests.

At this point, is the World Bank the hero of the planet? Will the world really give this opportunity to the Bank even though it is part of the problem in destroying the local environment and the climate? ☹

Torry Kuswardono, climate change campaign coordinator, WALHI

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World Bank and power: "fatally-dangerous schizophrenia"

Despite calls for the World Bank to end its lending for fossil fuels in the aftermath of the climate change conference in Bali in November (see *Update* 58) the Bank has continued to push oil, gas and coal operations.

NGO Oil Change International released a report entitled *Aiding oil, harming the climate*. The accompanying database compiles information on assistance for oil and gas projects from multilateral development banks, bilateral agencies, and export credit agencies. At a conservative estimate it finds that \$61.3 billion has been given in 'oil aid' since 2000.

The report describes the role that the World Bank and other international financial institutions have played in reshaping oil sectors in developing countries and providing development assistance to finance their operations. It calls for an end to oil aid on the basis of its contribution to climate change, the debt of oil-importing countries, civil conflict, human rights abuses, and ecosystem destruction.

David Wheeler of the Washington-based Center for Global Development describes as "crazy" the World Bank's imminent

support for Tata Power's planned Mundra coal plant in Gujarat, India. This will be one of the largest coal-fired carbon emitters in the world. "Just as the UN secretary general declares an international emergency created by carbon emissions, the IFC announces that it will use scarce development lending resources to help finance an enormous coal-fired plant in India", Wheeler said in exasperation. He adds "there is no chance – let me repeat this: zero chance – of holding global carbon emissions within safe limits if the UN continues subsidising coal-fired power expansion on a massive scale". He surmises that "this fatally-dangerous schizophrenia has to end" and urges the World Bank, the Clean Development Mechanism and other lending institutions to "build your future on expanding clean power as rapidly as possible, or you won't have a future".

If only the IFIs would take his advice. In December the World Bank-supported West Africa Gas Pipeline (see *Update* 57) began operations whilst the Camisea liquid natural gas project in Peru (see

Iraq: IMF oil law stalled

Despite intense pressure from Washington, the IMF-supported petroleum law (see *Update* 54, 49) in Iraq shows no sign of being passed, having missed a total of five deadlines between July 2006 to September 2007. The law would create a legal framework for foreign investment in Iraq's oil sector, facilitating a significant role for multinational oil companies under controversial contracts known as production sharing agreements which could last for up to 30 years.

During the eighteen month delay, public and parliamentary opposition to the law in Iraq has grown. A report by Canadian journalist Linda McQuaig charts the IMF's involvement in recent political developments in the scramble for Iraq's oil, and the creation of its hydrocarbons law. "PSAs are reminiscent of the arrangements that existed between Big Oil and the oil-producing nations for many decades from the early 1900s through the 1960s, when a small consortium of multinational companies, operated a worldwide oil cartel through which they controlled all aspects of the international oil market".

In December the IMF approved a new fifteen month stand-by agreement under which Iraq could borrow up to \$744 million, though the authorities have said that this is only "precautionary". The oil law remains a significant feature in the agreement which states "we will continue our efforts to secure the passage of a comprehensive hydrocarbon law". In January Iraq cleared its debts with the IMF with the early repayment of about \$470 million. According to the IMF, the country's ability to repay early was thanks to international reserves accumulated due to high oil prices.

How Iraq figures in big oil's dreams

🌐 www.zcommunications.org/znet/viewArticle/16115

Update 58) was due for approval at the beginning of February. ☹

Aiding oil, harming the climate

🌐 www.endoilaid.org

Red light for the Bank

🌐 blogs.cgdev.org/globaldevelopment/2008/01/carma_watch_red_light_for_the.php

IMF conditionality high, effectiveness low

A report by the IMF's evaluation arm faulted the Fund's overuse of structural conditionality and partially blamed donors for the problem, but civil society critics of conditionality are not satisfied with the scope of the report or the changes accepted by the Fund.

Structural conditions are IMF-required economic and political reforms such as privatisation of public enterprises, and are different than quantitative conditions such as inflation targets. The Independent Evaluation Office's (IEO) January report reviewed all of the Fund's lending operations between 1995 and 2004 and found that IMF programmes, for both middle- and low-income countries, had an average of 17 structural conditions.

Echoing criticism of past IEO work (see *Update* 55), Soren Ambrose from NGO Bank Information Center's Africa office lamented the limited approach. "Unfortunately, in its evaluation the IEO does not consider the content of the conditions. The question of misguided ideology is, therefore, left aside... no attempt is made to gauge the intrusiveness of conditions on governments' latitude in determining their own economic policy."

The report focussed on whether the IMF's conditions were 'effective' at furthering structural reform and whether efforts, launched in 2000, to simplify conditionality (see *Update* 22) were successful. The IEO defined effectiveness as "whether structural conditionality was effective in bringing about follow-up structural reforms". It found that there was "only a weak link" with 40 per cent of reforms stalling and 5 per cent being reversed. This led Benedicte Bull, a

researcher from the University of Oslo, to be sceptical about government ownership of IMF programmes: "If conditionality only achieves minor and short-lived reforms there is all the more reason to believe that it is imposed."

The IEO found that compliance rates for structural conditionality were low at 54 per cent. Ambrose felt that low compliance "suggests that the IMF is trying to force countries to take more drastic measures than are required for the realisation of their programme goals ... often at the cost of economic growth and spending on health and education."

The report found no statistically significant difference in the number of conditions after the IMF approved its new conditionality guidelines in 2002. It observed that conditionality "shifted out of privatisation of state-owned enterprises and trade reform toward tax policy and administration, public expenditure management, and financial sector reform."

The IEO laid part of the blame for the lack of progress on reducing conditionality at the door-step of donors. "Fund arrangements were used by donors and others as monitoring and signalling mechanisms for other initiatives." Though claiming that the IMF is good at this signalling function, the IEO questioned whether this was an appropriate role for the Fund's lending instruments. Many civil

society groups reject this conditionality architecture, arguing against cross-conditionality between multilateral institutions and donors.

The IEO's main recommendations were for a cap on the number of conditions, the elimination of structural benchmarks and conditions that do not fall in the Fund's core areas of expertise, and better explanations of the rationale for conditions. The board rejected

caps and demanded that Fund staff work harder to implement the current conditionality policy and better explain the use of conditions. NGO Eurodad concluded its in-depth review of the IEO report complaining: "the Board only reiterates commitments already taken in 2002 when the conditionality guidelines were approved." ©

Evaluation of structural conditionality
www.imo-imf.org/eval/complete/eval_01032008.html

IMF's internal watchdog criticizes continued reliance on structural conditions, Bank Information Center
www.bicusa.org/en/Article.3636.aspx

The IMF neglects its own conditionality policies, Eurodad
www.eurodad.org/whatsnew/articles.aspx?id=1978

Staff in black: IMF faces structural adjustment

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statement include: fewer Bank-Fund joint documents, more focussed financial sector assessments, simplified document review processes, outsourcing of human resources, and leasing out IMF property including its second headquarters building and apartment building.

Strauss-Kahn is expecting reports from five working groups chaired by department heads and "10 smaller task forces led by senior staff" to feed into the final proposals. He has not announced plans to publish the final reports let alone seek public consultation. Strauss-Kahn seems to be repeating the mistakes of his predecessor in keeping the process secret (see *Update* 50). Outside the US Treasury, his new triumvirate of advisors – Bank of Israel governor Stanley Fischer, former US Treasury official Tim Adams, and

former West African central bank governor Alassane Ouattara – will likely be the most influential.

The statement is clear that the efficiency measures combined with voluntary retirement will not be enough and some staff will have to be fired. Strauss-Kahn plans to send detailed proposals on the income side, based on the Crockett report (see *Update* 55), and the expenditure side together to the executive board on 24 March. That would leave just enough time to prepare resolutions for votes by the board of governors during the spring meetings in April. Get out your black suits. ©

Leaked documents from the IMF
iffiwatchnet.org/?q=en/node/3955
iffiwatchnet.org/?q=en/node/3956

Interim work programme of the board
www.imf.org/external/np/pp/2007/eng/121407.pdf

IMF humiliates Bangladeshi officials

The Dhaka-based *New Nation* newspaper reports in January that the IMF has overstepped its bounds in trying to convince the government to reform its tax policy. Despite the IMF having no programme with Bangladesh after being rebuffed in September (see *Update* 58, 57), it apparently wrote its own draft of the country's tax ordinance for 2008. The newspaper reports: "The 'fully prepared' draft ordinance made the National Board of Revenue high officials annoyed as it was sent without asking for it." A senior civil servant said "this is humiliating". This comes as the IMF board reaffirmed the need for ownership of economic programmes (see above).

nation.ittefaq.com/issues/2008/01/09/news0709.htm

Peru to bow out, Turkey to renew?

Peru has indicated that it does not plan to renew its stand-by arrangement with the IMF when it expires next year. Peru's executive director on the IMF board, Javier Silva-Ruete, said "We don't need loans with conditions or strings tied, or with any kind of restrictions." Peru has yet to actually borrow money from the Fund. Turkey, the Fund's largest borrower, is still debating its next move when its programme expires in May. Though opposition parties and unions are opposed (see *Update* 57, 55), president Recep Tayyip Erdoğan says he values the IMF as a provider of the signal that Turkey has good economic policies.

www.todayszaman.com/tz-web/detaylar.do?load=detay&link=131400

IMF's sovereign fund code in the spotlight

With the IMF developing a voluntary code of conduct for sovereign wealth funds (see *Update* 58), senior Chinese official Wei Benhua warned that "there should be no discrimination in the treatment of sovereign wealth funds" and stated that China would be "actively involved" in discussions. The IMF has already consulted Singapore, Norway and the United Arab Emirates to set benchmarks. In a campaign debate, US presidential candidate Hilary Clinton said of sovereign funds: "We need to have a lot more control over what they do and how they do it. I'd like to see the World Bank and the IMF begin to impose these rules."

View full article at:
brettonwoodsproject.org/swfcode59

De Rato in the money

Former IMF managing director Rodrigo de Rato, whose June 2007 announcement that he would resign surprised many (see *Update* 57), has taken up posts at large private sector banking institutions. Lazard, a global investment banking firm, has appointed de Rato as senior managing director of investment banking working out of both the Madrid and London offices. Lazard's CEO cited de Rato's "relationships in both the private and public sectors" as one of the reasons he was hired. Banco Santander, a Spanish multinational bank, apparently only valued his "knowledge of the world economy, his experience and global vision" as the reasons to have him on their international advisory board.

Inside the institutions **The IFIs and Islamic finance**

There are more than 300 Islamic financial institutions operating in 51 countries. Their combined assets exceed \$250 billion, with an annual growth rate between 10 and 15 per cent. The activities of these institutions affect more than 20 per cent of the world's population, and in certain countries, they handle more than 20 per cent of financial flows. This provides financial services access to certain groups that would otherwise be excluded.

Besides the prohibition of *riba* (interest), *gharar* (contractual uncertainty), *maisir* (gambling), and *haram* industries (such as those related to alcohol), financial institutions must observe other often complex principles to comply with Islamic jurisprudence, known as *shariah*.

The World Bank Group's support for Islamic finance cuts across its institutions. The Bank does not have a specialised unit but individuals across the Bank work in partnership with Islamic financial institutions on specific deals and issues as they arise. To build staff capacity on the issue, there have been a series of lectures on the topic held in the Bank's Washington headquarters over the last three years. In December, the Bank published the first book on risk management for Islamic financial institutions.

The International Finance Corporation (IFC), the Bank's private sector arm, offers equity and debt financing to institutions interested in Islamic finance. In 2007, the IFC provided its first partial credit guarantee that complies with Islamic finance rules. In April 2007, Yemen's Saba Islamic Bank was the first Islamic bank to join the IFC's global trade finance programme as an issuing bank.

The Multilateral Investment Guarantee Agency (MIGA), the arm of the Bank that issues investment guarantees against political risk, co-organised in 2007 a conference with the Islamic Corporation for the Insurance of Investments and Export Credit, a member of the Islamic Development Bank Group. The groundwork was laid to enable the agency to begin guaranteeing projects backed by an Islamic financing structure. In January, MIGA announced its first-ever guarantee for *shariah*-compliant project financing. The \$427 million guarantee will support investments into a new container terminal in Djibouti.

While IMF staff have conducted research in the area of Islamic finance as far back as the mid-1980s, the institution did not commence much work in this area until about ten years ago. The start of this work, both technical assistance and

surveillance, coincided with the Fund's recognition that it needed to be more aware of what was happening in the financial sector in light of crises that were hitting many emerging markets. Fund staff have not yet consulted the board for endorsement of a particular strategy or policy. Instead work on Islamic finance is guided by the same policy that guides all financial sector oversight.

Like the Bank, the Fund does not have a separate division that handles Islamic finance, but instead incorporates work in this field into existing functional activities. Within the monetary and capital markets (MCM) department, about 25 people are familiar with the topic and experienced in applying standard analysis to Islamic banks. Naturally much of this is concentrated in MCM's Middle East and Central Asia division.

In terms of country level engagement, the IMF is involved in assisting governments to set up appropriate regulatory frameworks for handling Islamic banks. Standard oversight mechanisms, such as regulating the capital that banks are required to hold, are hard to apply directly to *shariah*-compliant banks. The IMF indicates that its work in this area is fast expanding as more countries are interested in improving their surveillance of these banks as they grow in prevalence and size. There are at least eight IMF technical assistance projects in this field at the current time. In mid-2007, it issued a working paper called *Introducing Islamic banks into conventional banking systems*.

The Fund has also worked at the global level to facilitate the development of standards. In 2002 it helped establish the Malaysia-based Islamic Financial Standards Board (IFSB), which issues global prudential standards and guiding principles for the Islamic financial industry. The IFSB standards are designed to complement the standards issued by the Basel Committee of the Bank for International Settlements which is also an IFSB member. The World Bank, also an IFSB member, has developed tools to assess country compliance with the standards. The IMF also works with the Accounting and Auditing Organisation for Islamic Financial Institutions. ©

Risk analysis for Islamic banks

🔗 publications.worldbank.org/ecommerce/catalog/product?item_id=6694779

IMF Survey: Islamic banking makes headway

🔗 www.imf.org/external/pubs/ft/survey/so/2007/RES0919A.htm

Dollar, markets crash: Where is the IMF?

Amid a global financial market seizure, which the IMF proclaimed was not likely to happen in October, the Fund's role in tackling the decline of the dollar and financial market turmoil is being debated.

The sharp deterioration of the dollar in late 2007 prompted renewed concern about global imbalances. Developing countries holding dollars as reserves are fuelling the US current account deficit. Managing global current account imbalances and the misaligned exchange rates that may contribute to them is supposed to be the IMF's core expertise, but it has failed to make a dent in the problem.

Much time was spent in IMF-hosted multilateral consultations (see *Update 54*) to unwind these imbalances. Despite clear IMF advice – reduced deficits in the US, greater domestic demand in China, flexibility in euro economies, liberalisation on inward foreign investment in Japan, and more domestic investment in Saudi Arabia – achieving coherent policy changes has proven elusive.

Developing countries, especially oil importers, hold their reserves in

dollars and must now pay higher dollar prices for their energy. The worry is that the dollar may crash as countries diversify their reserves, a trend the IMF identified in December. Jomo K.S., the UN's assistant secretary-general for economic and social affairs, blamed the IMF for poor international macroeconomic coordination: "The IMF, which should play a leading role in this regard, has not stepped up to the mark." The UN wants multi-year targets and schedules from the major economies now and fundamental reforms of the international reserve system later, including "an officially backed multi-currency reserve system".

Fred Bergsten, director of the Washington-based Peterson Institute for International Economics, resurrected the idea of an IMF 'substitution account', first broached in 1969. This would strengthen the role of Special Drawing Rights (SDRs), the IMF-issued unit of currency, by enabling countries to cash in their

unwanted dollars for SDRs. Harold James, a history professor from Princeton University, thought that the IMF should just manage the reserve assets of developing countries that hold unwanted dollars, solving both the dollar problem and worries over sovereign wealth funds (see page 4). His only caveat: the IMF needs massive governance reform to regain the trust of its members.

As 2007 dollar paranoia morphed into financial market fears in early 2008, concern has shifted. UK prime minister Gordon

Brown called for an IMF that "should act with the same kind of independence as a central bank in a national country" and reiterated his desire for the IMF to be "an early warning system involving regulators and supervisors in all countries for financial turbulence affecting the global economy." Angela Merkel, the German chancellor, called a meeting of the heads of five multilateral institutions in mid-December. She stressed the need for more trans-

parent financial markets and instruments, including private equity funds, hedge funds and sovereign wealth funds.

Part of the problem is that large industrialised countries are unwilling to give an international agency jurisdiction to regulate financial markets in their countries. The IMF's former chief economist Raghuram Rajan noted: "some of the largest industrial countries see themselves as more sovereign than others, and their politicians brook no interference in their own domestic policies, while being fully prepared to use multilateral agencies to intervene in the domestic policies of others." ©

UN World Economic Situation and Prospects 2008 press briefing

🔗 www.un.org/News/briefings/docs/2008/080109_DESA.doc.htm

Gordon Brown's speech to the Indian Chamber of Commerce

🔗 www.number10.gov.uk/output/Page14323.asp

The future of the IMF and World Bank, Raghuram Rajan

🔗 www.aeaweb.org/annual_mtg_papers/2008/2008_527.pdf

the IMF has not stepped up to the mark

Zoellick and corruption: A new approach?

World Bank president Robert Zoellick's handling of corruption in India and changes to the anti-corruption unit, signal a different approach to the problem from predecessor Paul Wolfowitz.

Allegations of bias in favour of Kenya's ruling party make it clear that the Bank's battle against perceived involvement in corruption is far from over.

In January, the Bank's anti-graft unit, the department of institutional integrity (INT), released a review of five Indian projects dating back to 1997, finding evidence of procurement fraud, corruption and shoddy auditing. Agribusiness firm Syngenta, the world's largest chemicals maker BASF, and Germany's largest drugmaker Bayer, are all implicated in a price-fixing cartel spotted in Bank-supported anti-malarial programmes.

The review was prompted by a 2005 investigation into a reproductive and child health programme, which found evidence of corrupt practices by two Indian pharmaceutical firms. The firms have since been debarred by the Bank.

Unlike his predecessor, Zoellick has decided not to suspend financing as a result of the current investigation. The Bank's health portfolio is to receive greater oversight in the form of audits and performance

reviews by independent agents. Zoellick instructed INT "to make it a priority to investigate the findings of the implementation review to pursue the evidence for legal action."

Shortly after the release of the report, the head of INT resigned. Suzanne Rich Folsom had been appointed by Wolfowitz, and was one of the key figures in the storm of controversy that surrounded his departure (see *Update* 56). Many Bank staff felt that Wolfowitz had used Folsom and INT to selectively target staff or programmes in countries where it suited US foreign policy interests. Bea Edwards of US NGO Government Accountability Project said: "The Bank and INT staff deserve a new director who is truly committed to an anti-corruption agenda and experienced in conducting investigations and protecting witnesses."

After Folsom's resignation, the

Bank announced end January that it would implement all of the recommendations of the panel which reviewed the performance of INT. The Volcker panel (see *Update* 57), named after former US Federal Reserve chairman Paul Volcker, had suggested the creation of an independent advisory board to ensure the accountability of INT. The Bank has said that INT will work more closely with main operations and will need to be more transparent about its policies and practices.

"Duplicitous" in Kenya

Accusations have been levelled at the Bank that it is too close to the corrupt ruling party of Mwai Kibaki in Kenya. Amidst widespread allegations of vote-rigging in the recent Kenyan elections which led to violence, Bank country director Colin Bruce appeared to side with Kibaki. A leaked memo from Bruce, citing "confi-

dential oral briefings and documents" from UN officials, insisted that the announcement of a Kibaki win was correct. UN officials in Kenya and New York have denied that they had provided an assessment endorsing a Kibaki win. Bruce lives in a house owned by the Kibaki family.

Kenyan opposition candidate Raila Odinga's party sent a formal letter of complaint to the World Bank, saying that Bruce "seems to believe that a quick fix in favour of Kibaki is a solution". Sir Edward Clay, former British ambassador to Kenya, said that in his experience the World Bank was "duplicitous" in its dealings with Kenya. "It seemed clear they were concerned to protect their budgets and projects, irrespective of the bad management by the government of its own people's resources," he added. The Bank has stood by Bruce, insisting the memo was no more than one in a series of "snapshots" of the situation in Kenya. ©

INT webpage

🔗 go.worldbank.org/036LY1E1J0

World Bank's INT director quits, GAP

🔗 www.whistleblower.org/content/press_detail.cfm?press_id=1281

Kenya: World Bank boss under fire

🔗 allafrica.com/stories/200801101131.html

Donor contributions to IDA up Norway, civil society not satisfied

Despite evidence that it has failed to end the practice of forcing policy reforms on recipient countries, the World Bank will collect a record \$41.6 billion for its low-income arm, the International Development Association or IDA, for the period July 2008 to 2011. The amount is 30 per cent higher than the last replenishment of \$32.1 billion in 2005. The total includes a 42 per cent increase in support from donor governments to \$25.1 billion.

The Bank's contribution of \$16.5 billion is made up of \$6 billion in donor country money replacing cancelled debt, repayments of past loans to IDA for debt that was not cancelled, and a doubling of the Bank's 'own' contribution to \$3.5 billion. The latter amount comes equally from the Bank's middle-income and private sector arms.

The last in a series of donor meetings was held in Berlin in December. Britain donated \$4.3 billion, an increase of nearly 50 per cent over its last contribution, making it the largest single donor. As a result, the UK share of the fund grew from 13.2

to 16.7 per cent. The US, previously the largest donor, increased its pledge by 30 per cent to \$3.7 billion, and will see its share rise from 13.8 to 14.7 per cent. Germany increased its donation by 18 per cent to \$2.2 billion. The list of donors also includes first-timers China, Cyprus, Egypt and the three Baltic states.

Also for the first time, two private sector companies – Japanese banks whose identity can not be revealed until the process is complete – made pledges to IDA. The banks' money may be processed before June 2008, so will count under the previous funding round. The Bank's board was insistent that before any private money could go to IDA 15, a framework needed to be devised. The paper on this is being written by the concessional finance unit and is due to go to the board end March.

Over 100 CSOs from across Europe had called on their governments to consider "redirecting funding away from the Bank through other mechanisms which respect country ownership and take the necessary leadership in addressing cli-

mate change". UK NGOs were disappointed that their government had given so much and asked for so little by way of reform in return. Phil Bloomer of UK NGO Oxfam said that "billions of pounds of UK taxpayers' money are being handed over to an institution that still pushes some policies on poor countries that destroy development opportunities for poor people."

The only European government which took its responsibility for reform of the Bank seriously was Norway, which announced that it would be withholding 25 per cent, or \$4.2 million, of a planned increase in financial support to the Bank. Norway's deputy minister of development Håkon Arald Gundersen said "We are not completely satisfied with the progress the World Bank has made in living up to its principles on conditionality. Because of this we have chosen to reduce the increase in support."

Norway commissioned an independent researcher to examine the claims and counterclaims made by the World Bank in its report on the

use of conditionality and a parallel report by Brussels NGO Eurodad (see *Update* 58). Benedicte Bull, of the University of Oslo, found:

- "a certain 'slack' in the application of the definition to categorise policy conditionalities on the part of the World Bank";
- that the Bank "has not always been good at allowing 'policy space'"; and
- that Norway should advise the Bank to stop 'bundling' together critical and non-critical conditions.

The final IDA report, which will include the all-important matrix of 'monitorable indicators' is scheduled to be discussed by the board end February. NGOs will be hoping that a silver lining may yet be found in the adoption of recommendations for an independent review of the use of conditionality and stronger commitment to the use of poverty and social impact assessment. ©

Norway withholds World Bank funding

🔗 english.nca.no/article/view/7402/1/449

Analysis of World Bank and Eurodad reports, Benedicte Bull

🔗 ifiwatchnet.org/?q=en/node/3937

New figures cast shadow over Bank poverty reduction claims

Preliminary recalculations of global economic output excluding differences in domestic prices and currencies, released by the World Bank in mid-December, may undermine the much-trumpeted claims that globalisation has reduced the number of people living in extreme poverty.

The aim of the World Bank-led International Comparison Program (ICP) is to provide more accurate comparative data on economic growth based on the analysis of purchasing power. Measuring the economies of India or Mexico in US dollars at market exchange rates will seriously underestimate their 'value'. To capture this difference, price surveys of a broadly equivalent bundle of goods and services are carried out in each country to calculate the real purchasing power of a unit of currency. This is used to calculate a purchasing power parity (PPP) exchange rate in order to convert the economic output into a common measure (US dollars).

The first such survey was conducted in 1970, and the last major one in 1993. The Chinese government declined to participate in any of them until 2005. The government of India participated in 1985, but declined to participate subsequently until 2005. As a result, past figures for the all-important Chinese and Indian economies had a large element of guesswork, muddying the global picture.

For China, the 2005 survey used figures from the Chinese National Bureau of Statistics, which gathered price data in eleven large, mostly prosperous Chinese cities. The data collectors selected goods and services in line with the ICP prescription that they be "internationally comparable". Prices in rural areas at the fringes of the 11 cities were surveyed, but not from rural areas

proper, in which three-quarters of China's population live.

Unsurprisingly, the survey found that prices 'in China' were much higher than had been previously guess-timated, and therefore the purchasing power of the yuan was much lower. Consequently, the Bank shrank its estimate of China's 2005 output (in PPP terms) by a remarkable 40 per cent - to \$5.3 trillion from \$8.8 trillion. Similar calculations in India resulted in a revised estimate of India's 2005 output of \$2.3 trillion from \$3.4 trillion.

Eswar Prasad, former China division chief at the IMF and now at Cornell University, warned: "The notion that China is suddenly a much smaller part of the world economy should be taken with a huge degree of caution." Some analysts have pointed out that it is in China's political interest both to have its currency be viewed as less undervalued, and to understate the size of its economy.

Fred Vogel, who oversaw the ICP for the Bank, said that the China calculation "depends on a basic assumption that prices from the rural areas of the 11 administrative areas are representative of rural China." He defended this by noting that most countries measure prices

mainly in urban areas.

While newspaper headlines have fixated on the meaning of the new calculations for the size of the Chinese and Indian economies relative to the US and Japan, the development story lies in what these numbers will mean for assessing the Bank's poverty reduction efforts.

A number of economists have consistently slated the Bank's approach to measuring poverty (see *Update* 29). Columbia University economist Sanjay Reddy argues that the Bank's use of a \$1 per day international poverty line is not meaningful because it "does not correspond to the real cost of achieving basic human requirements". Reddy concludes therefore that the new poverty estimates for India and China "cannot be considered 'updated' or 'more accurate', but differently distorted".

Reddy and fellow researcher at Columbia Thomas Pogge have proposed an alternative methodology: the use of a set of common criteria related to the possession of local resources sufficient to achieve basic human requirements. This approach remains untested "despite being wholly feasible", they say.

The Bank itself says in the report that PPPs "may not reflect the expenditure patterns of the poor". A second report due out end February

will show more detailed data for food, clothing, health and other items, though Vogel is "not expecting any significant revisions resulting from the additional analysis". A separate exercise to estimate poverty levels is to be published "at a later time to be determined".

Why is this so important? Simply put, it determines the number of people who fall below the poverty threshold and therefore the 'effectiveness' of poverty alleviation policies. Based on this figure the Bank pronounces success or failure on the first Millennium Development Goal to "reduce by half the proportion of people living on less than a dollar a day".

According to the Bank's previous estimates, the global number of poor people fell by approximately 150 million between 1990 and 1999 (the proportion falling from 28 to 22 per cent). This was due to some 150 million people supposedly leaving the ranks of the poor in China. Outside of China, reductions in the number of poor in other Asian nations were offset by increases in Eastern Europe, Central Asia, Latin America and especially Sub-Saharan Africa. So any major change in the Chinese picture could turn a net positive picture into a negative one.

The attention generated by the ICP controversy should make it clear that it is time to develop a measure of extreme poverty which is based on the real cost of meeting basic human needs. Until then, there will continue to be uncertainty about whether poverty reduction efforts are going forwards or backwards. ©

International Comparison Program
go.worldbank.org/UI22NH9ME0

Analysis of World Bank poverty estimates by Sanjay Reddy and Thomas Pogge
www.socialanalysis.org

UK to get new Bank board post

The British government announced in January that it will be ending the practice of having a single executive director for both the World Bank and the IMF. Having gifted the World Bank a record increase in financial support (see page 6), the British want more capacity to monitor how their money is spent. They will need it judging by the quality of the latest report on UK activities at the World Bank published by the Department for International Development (DfID). The Bretton Woods Project has described the report as "weak, unaccountable and late". Once again, the report made no mention of failed projects or lessons learned from the Bank's evaluation and complaint bodies.

brettonwoodsproject.org/dfidwb07

Chinese tipped as Bank chief economist

Chinese relations with the Bank have been cool since the resignation of deputy managing director Shengman Zhang end 2005. Now with its first contribution to IDA (see page 6) relations appear to be on the mend. At the time of publication, Lin Yifu, or Justin Lin, was expected to be appointed as the Bank's chief economist, after the post had lain vacant for nearly four months. Lin is head of the China Centre for Economic Research at Beijing University and an adviser to the central government. Lin was born in Taiwan, but defected to China in 1979. Lin holds a master's degree in marxist political economy from the Beijing University and a PhD in economics from the neoliberal University of Chicago.

Video of resistance to World Bank

The World Bank Campaign Europe in conjunction with the Permanent Peoples' Tribunal held a public hearing on the World Bank in October (see *Update* 57). A new video presents the testimonies revealing what happens to people and the environment as a result of economic policy conditions attached to World Bank loans and Bank-financed oil and gas projects. The DVD is in English, French and Spanish, with subtitles in English, German, Spanish, French, Dutch and Italian. Free copies are available from co-organisers Friends of the Earth International.

World vs Bank video, IFIwatch.tv
ifiwatch.tv/world-vs-bank-14
janneke@foei.org

Call to respect Bolivian ICSID withdrawal

More than 800 citizens groups from 59 countries on every continent presented a petition to World Bank president Robert Zoellick in January, demanding that the Bank respect Bolivia's decision to withdraw from the International Centre for the Settlement of Investment Disputes (ICSID). Last May, the government of Bolivia became the first country in the world to withdraw from ICSID, citing the court's record of favouring corporate interests over the public good (see *Update* 56). That court is now refusing to respect the Bolivian government's actions and is allowing a case brought by a European telecommunications company to proceed (see *Update* 58).

www.ips-dc.org/reports/080115-boliviapetition-en.pdf

Recommended resources 2007

PAPERS

Untying the knots: How the World Bank is failing to deliver real change on conditionality; Eurodad

NGO goes head-to-head with the Bank using the Bank's own database of conditions. Norway thought Eurodad landed several punches.

www.eurodad.org/aid/report.aspx?id=130&item=01804

Seeing "RED"? "Avoided deforestation" and the rights of Indigenous Peoples and local communities; Forest Peoples Programme

The report finds that 'avoided deforestation' may result in the perpetuation of discredited Bank models of forest 'development', such as large-scale plantation forestry.

www.forestpeoples.org/documents/ifi_igo/avoided_deforestation_red_jun07_eng.pdf

Transparency at the IMF: A guide for civil society; Global Transparency Initiative

A practical guide for civil society about the valuable information they can get from the Fund and what further information they should demand be made available.

www.ifitransparency.org/doc/Transparency_IMF_GTI.pdf

Building scrutiny of the World Bank and IMF: A toolkit for legislators and those who work with them; World Development Movement

A useful resource for both parliamentarians and civil society groups that work on scrutiny of financing agreements with the IFIs.

www.wdm.org.uk/resources/reports/debt/toolkitforlegislators19012007.pdf

The second generation Poverty Reduction Strategy Papers: Burkina Faso, Mozambique, Tanzania and Uganda; AFRODAD

Country case studies examine the extent to which the second generation PRSPs are different from the first in terms of process and content.

www.afrodad.org/index.php?option=com_content&task=view&id=58&Itemid=101

Does the IMF constrain health spending in poor countries?; Center for Global Development

An independent panel of experts in the health field conclude that the IMF does unduly constrain spending on health and other social services by requiring overly strict macroeconomic policies.

www.cgdev.org/doc/IMF/IMF_Report.pdf

Investigation report on World Bank support for forestry reforms in the Democratic Republic of Congo; Inspection Panel

A scathing report finds that the Bank has violated its own safeguard policies, including those protecting indigenous peoples. It should provoke a wholesale re-think of the Bank's approach to forestry.

www.worldbank.org/inspectionpanel

Conference papers from A decade after: Recovery and adjustment since the East Asian crisis; July 2007, Bangkok, Network IDEAS

A gathering of heterodox economists presented papers looking at the causes of financial crises in East, Southeast and

South Asia, Russia and Latin America in the late 90s. The IFIs do not get off lightly.

www.networkideas.org/feathm/jul2007/fr17_Bangkok_Conference.htm

BOOKS

Transnational law and local struggles: Mining, communities and the World Bank; David Szablowski

A comprehensive overview of the World Bank's safeguard policy regime. It finds that local actors are often treated as passive subjects, excluded from decision-making.

Hart Publishing
ISBN-13: 978-1-84113-639-4

Ten years after: Revisiting the Asian financial crisis; edited by Bhumika Muchhala

A collection of essays that examines what we have, and should have, learned from the financial crises of the late 1990s and offers both warnings and policy recommendations to deal with financial globalisation.

Woodrow Wilson Center
ISBN: 1-933549-24-6

Poverty alleviation and human development in the twenty-first century: The role of the World Bank; edited by Catherine Weaver and Susan Park

A collection of academic essays on the World Bank looking at the Bank's knowledge role, the Multi-Country AIDS Program, social and sustainable development.

Global Governance, Vol 13 No 4
Lynne Rienner Publishers

The World Bank: Development, poverty, hegemony; edited by David Moore

A wide range of scholars and activists examine the efforts of the Bank to construct a path through poverty and power, and "ask if reform of the Bank is possible or rejection probable."

University of KwaZulu-Natal Press
ISBN: 1869141008

ELECTRONIC RESOURCES

World Bank President

This mouse that roared is credited by some (even within the Bank) with helping to bring down Paul Wolfowitz. The site carried all the latest news, gossip and insider analysis of Wolfowitz, his girlfriend and his cronies. Honourable mention goes to *Wolfowitz Resign*, a site run by disgruntled Bank staff.

www.worldbankpresident.org
wolfowitzmustresign.blogspot.com

IFWatch.tv

Pioneering the latest technology for distributing social justice video online, IFWatch.tv is a superb resource for anyone interested in what multilateral bodies are doing with our money, our neighbours, and our planet.

www.ifwatch.tv

People's tribunals on the World Bank

Indian civil society organised a forum for people who have faced the impact of projects and policies funded or promoted by the World Bank Group. European groups followed suit with a similar forum directed at European governments considering their financial support of the Bank.

www.worldbanktribunal.org
www.worldbankcampaigneurope.org

Bankspeak of the year 2007

Award for cynicism

As an Inspection Panel report was about to slate the Bank for failing to notice that indigenous peoples lived in the forests of the Democratic Republic of Congo, Bank staff were all smiles when a pygmy delegation from those same forests magically appeared in Washington in October:

"...the World Bank is interested in strengthening its partnership with indigenous peoples, moving forward in a constructive, problem-solving mode. keen to promote both participation of indigenous people in key decision-making activities and programmes that support local communities, using its full range of social development instruments and policies. It supports government and other stakeholders in improving the lives of extremely poor, disadvantaged people including pygmies and recognises the need for a strong consultation processes with such groups..."

Award for the longest way to say nothing

Former IMF managing-director Rodrigo de Rato explains to African finance ministers why, after nearly three years on the official agenda, their countries were (and still are) getting nothing in IMF governance reform:

The MD was "committed to bringing forward a package of reforms that could command the broad support of the membership. ... To this end, both sides welcomed the opportunity to exchange views on these issues. The MD and the ministers agreed that a collaborative effort involving the entire membership will be needed to garner the necessary support for fundamental reform and to address the concerns raised by African members."

BWP thanks readers for support

Following our appeal for assistance in *Update 58*, we would like to thank those readers who made donations. Your generosity is crucial for the survival of the Project. If you have not already done so, but would still like to make a contribution, please donate via our website where you can use a credit card or set up a direct debit.

www.brettonwoodsproject.org/donate

Special issue coming up next!

For the next issue of the *Bretton Woods Update* we launch a new trial initiative to bring you broader insights into the international financial institutions. *Update 60*, which will be available in advance of the spring meetings in April, will be 50 per cent longer and will be produced in conjunction with colleagues at NGOs Afrodad, Instituto del Tercer Mundo, Eurodad and Bank Information Center. We hope that readers will appreciate the additional depth and regional variety that their contributions will make, and look forward to your comments.



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