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35

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Activists oppose 'clean development' credits for Brazilian forest plantation

One of the first pilot projects for the World Bank's climate change carbon trading programmes has come under fire by local groups for endorsing destructive tree plantations. The project in Brazil is intended to contribute to carbon dioxide emissions reduction and to more sustainable pig iron production. Campaigners counter that the project will harm the local environment and livelihoods and set a precedent for projects with dubious climate change benefits. In June the World Bank agreed to examine their allegations.

The Plantar project in Minas Gerais is the first carbon sink project seeking credit through the Kyoto Protocol's Clean Development Mechanism (CDM). It involves planting 23,100 hectares of eucalyptus trees to produce wood for charcoal. This will be used in pig iron production, replacing coal/coke, non-renewable fossil fuels. The project also aims to eliminate methane in the coke production process, and re-establish native forests around and within the plantation area, claiming carbon credits for the trees planted.

The NGO CDM Watch, which monitors carbon trading initiatives, has slated the project saying: "acceptance of Plantar as a CDM project would massively erode the credibility of the CDM validation and registration procedures, see a large number of worthless carbon credits released onto the market, and undermine the effectiveness of the Kyoto Protocol". The company which assessed the project's eligibility for carbon trading said it could not confirm that carbon will be stored permanently and that long-term climate benefit would result.

The project, approved in April this year by the World Bank-managed Prototype Carbon Fund, is providing capital for the company Plantar S.A.

How the Prototype Carbon Fund works

The Prototype Carbon Fund (PCF) is one of three climate funds, for which the World Bank acts as trustee. The others are the BioCarbon Fund and Carbon Community Development Fund. Assessment of potential PCF projects is done by the Bank and all Bank policies should apply. The PCF will invest contributions made by companies and governments in projects designed to produce emission reductions fully consistent with the Clean Development Mechanism and other agreements under the Kyoto Protocol. These allow companies and governments to trade carbon credits, in effect buying themselves a licence to continue polluting at home. Emission Reductions are to be, verified and certified in accordance with agreements reached with the countries 'hosting' the projects.

Six governments and 17 corporations have invested US$180 million in the Fund, including:

- British Petroleum—Amoco
- Deutsche Bank
- Gaz de France
- Governments of Canada, Finland, Norway, Sweden and the Netherlands
- Japan Bank for International Cooperation
- Mitsubishi Corp.
- Norsk Hydro
- Statoil

Other controversial carbon finance projects

- El Canada dam, Guatemala
- Durban landfill, South Africa

www.CDMwatch.org

The company claims its eucalyptus plantations will be on pasture land, but has refused to provide local communities with maps outlining its holdings. The concern is that some replanting would simply replace low-yielding parts of Plantar's current holdings. This is not permitted under the current CDM rules, which only allow projects that involve tree planting on areas that have not been covered by forests since 1990.

The Bank claims the plantation to be established with the CDM money will be on land used for grazing since at least 1989. Whilst the company argues that its plantations take away pressure from native forests, local people give examples of forest clearing happening inside a Plantar area in December 2002. Native tree trunks can still be seen on this location. It is also possible that some of the tree felling before 1989 was caused by the Bank-backed Carajas Iron Ore project in the 1980s.

Two letters have been sent to the World Bank project manager and investors in the Prototype Carbon Fund challenging its assessment of the project. A letter sent to the Bank on 22 May by 66 Brazilian groups set out the results of two site visits by local and regional researchers. The overall impact of the company's operations was summarized by a local woman who said: "Plantar finished with all we had." Within the plantations, the only green things were the eucalyptus saplings and trees. The rest was brown, resulting from the widespread application of

Continued on page 3

"The Bank is not a world government"—page 5

Report condemns IMF ability to predict and prevent crises

A US General Accounting Office (GAO) report finds serious shortcomings in recent IMF efforts to improve its capacity to predict and prevent financial crises. After the Asian crisis a new 'vulnerability framework' was designed which includes instruments to anticipate crises. The GAO, an audit and investigative arm of the US Congress, says it is too early to tell if this will work, but is concerned the framework relies heavily on elements such as the World Economic Outlook (WEO), and Early Warning Systems (EWS). The report says these "two major forecasting tools have not performed well in anticipating prior crises".

The *World Economic Outlook* is a six-monthly Fund publication describing trends in the world economy, including growth forecasts for member countries. The GAO emphasises the WEO's "poor track record in forecasting recessions, including those directly associated with a financial crisis". From 1991-2001, out of 134 recessions that occurred in developing countries, the WEO correctly forecast only 15, while predicting an increase in GDP in the other 119 recessions, including major ones leading to the Mexican and Asian crises.

The Fund's Early Warning Systems models examine a series of vulnerability indicators to compute the probability of a country having a crisis over the following 12 to 14 months. The GAO criticizes EWS because they have had a "high false alarm rate"—a problem also pointed out by an IMF internal review—while failing to predict severe crises. The IMF argues that EWS are not designed to make final predictions of crises but to identify vulnerable countries. It says it is up to users to decide when to 'call' a crisis.

IMF initiatives on financial crises

Anticipation	• Vulnerability assessment framework • World Economic Outlook • Early Warning System models • Country external financing requirements • Financial sector vulnerability • Country expert perspectives
Prevention	• Long-term reforms • Financial Sector Assessment Program • Reports on the Observance of Standards and Codes
Resolution	• Debt restructuring proposals • Sovereign Debt Restructuring Mechanism (on hold) • Collective Action Clauses • Strengthening of lending policies

Whereas the IMF claims the US watchdog attaches too much importance to the WEO and EWS, the GAO argues they are "the only mature and quantifiable elements of the [vulnerability] framework". The IMF argued in its formal response to the report that its responsibility to maintain financial stability could make its predictions less accurate so as not to contribute to a crisis. This led the GAO to retort that it "not only validates our finding on the WEO's weakness but also raises questions regarding the purpose and the credibility of the WEO forecasts". Romilly Greenhill from Jubilee Research in the UK commented: "IMF economics remains rooted in neo-liberal economic analysis, analysis which fails to take note of the dangerously destabilising consequences of financial globalisation. It is time the IMF moved to a new form of economic analysis which views reality as it *really* is." In September Jubilee Research will release a *Real World Economic Outlook* with contributions from prominent economists.

Code warnings

Newer Fund initiatives for crisis prevention include joint assessments with the Bank of key elements of member countries' financial sectors. Another is the promotion of adherence to voluntary standards to reassure investors that a country's policies and practices conform to good practices. Adherence to these standards (see box) is measured in Reports on the Observance of Standards and Codes (ROSC). Contrary to IMF claims, the GAO says that private investors make little use of the information in these reports, because they often consider them outdated, untimely and too 'dense'. The ROSC for Argentina have not been updated since 1999 for example. The fact that participation is voluntary means that there is a lack of information for some important countries, such as China, Thailand and the US.

The GAO recommended that the Fund "improve the readability, timeliness, coverage, and frequency of updates of assessment reports, including the possibility of making participation mandatory for all members of the IMF". The Fund and the Bank broadly agreed with these recommendations but are officially reluctant to make assessments mandatory. However participants in a recent conference at the Overseas Development Institute in London noted that "the Bretton Woods Institutions' need to achieve full coverage of countries that have a potential for causing instability has led them to exert a certain amount of pressure, even when the countries are not convinced of the benefits relative to the costs incurred".

Indeed there is no decisive economic proof of these benefits. Many countries are concerned that standards and codes might become a new form of conditionality. They also fear that with the 'outreach' by the IMF to promote the use of standards and codes, its conditionality will in effect be supplemented by additional market-based sanctions. At the heart of the problem is the fact that the 12 core standards have been set mostly by rich countries which gather in a 'Financial Stability Forum'. While standards have been set by rich countries the Fund and the Bank have no leverage to ensure these countries actually comply with them. Adding to these limitations are the capacity constraints for the Bank and the IMF to serve as global monitors. A viable alternative would be greater use of self-assessment accompanied by peer review, with the role of the Fund and the Bank limited to providing technical assistance and coordination.

The political significance of these debates, particularly of the Fund's capacity to anticipate and prevent crises, is huge because this aspect of the IMF's work is considered its core area of competence. The weaknesses and failures identified by the GAO give devastating ammunition to critics of the Fund, who argue that the IMF is destabilising countries more than ensuring financial stability.

Whose standards?

The Financial Stability Forum brings together senior representatives of national central banks, supervisory authorities and treasury departments, international financial institutions and international regulatory and supervisory groupings. They have prioritised twelve key standards in three main areas:

- **macroeconomic policy and data transparency**
- **institutional and market infrastructure**
- **financial regulation and supervision**

The IMF designed the standards on macroeconomic policy and data transparency (part of the second area above) as well as issues relating to money laundering. The Bank designed the ones on insolvency systems. Jointly or separately the Fund and the Bank assess compliance of member countries with nearly all of these standards.

As of December 31, 2002, 343 ROSCs had been produced for 89 countries (48 percent of Fund members). About 71 percent were published.

More details on key standards
www.fsforum.org/compendium/key_standards_for_sound_financial_system.html
and the Financial Stability Forum
www.fsforum.org/about/who_we_are.html

Standards and Codes: the developing country perspective, Overseas Development Institute
www.odi.org.uk/speeches/codes_and_standards/report.pdf

IMF reports on standards and codes
www.imf.org/external/np/rosc/rosc.asp

Challenges remain in IMF's ability to anticipate, prevent, resolve financial crises, General Accounting Office
www.gao.gov/new.items/d03734.pdf

For richer, for poorer? G8 proposals for IMF reform
brettonwoodsproject.org/briefings

The Real World Economic Outlook, Jubilee Research (September)
www.palgrave.com/economics/rweo.htm

IMF's critical view on financial integration: Is it real?

COMMENT

Filomeno S. Sta. Ana III, Action for Economic Reforms*

A recent paper from the IMF on financial integration may turn out to be a pleasant surprise for its critics. Financial integration, including the debate on capital controls, is a topic that obviously cannot compete with developments such as the US invasion of Iraq and the spread of the SARS virus in capturing public attention. Yet, the implications of financial integration—for developing countries and for globalisation itself—are far-reaching. The cumulative effect of the series of financial crises that have beset East Asia, Latin America, Russia, Turkey and other emerging markets is an important factor behind the slowdown of the global economy and the deterioration of the quality of life for millions of people.

The IMF paper expresses caution over the unswerving belief that financial integration helps promote growth and reduce macroeconomic volatility in developing countries. In the heyday of the Washington Consensus (defined simplistically as the agenda of liberalisation, privatization and deregulation), the IMF was the most avid advocate of financial globalisation, including the liberalisation of capital accounts in developing countries. The Philippines liberalised the capital account in the early 1990s as part of an IMF programme. In the latter half of the 1990s, a move to have capital account liberalisation incorporated as a main IMF objective gained ground.

The authors of the recent IMF paper state that "a systematic examination of the evidence suggests that it is difficult to establish a strong causal relationship between the degree of financial integration and output growth performance." They also state that "the process of capital account liberalisation appears to have been accompanied in some cases by increased vulnerability to crises. Globalisation has heightened these risks since cross-country financial linkages amplify the effects of various shocks and transmit them more quickly across national borders". The authors find "no proof in the data that financial globalisation has benefited growth, [and] evidence that some countries may have experienced greater consumption volatility as a result".

It appears that the IMF is no longer doctrinaire about financial integration and capital account liberalisation and may be ready to give up "one-size-fits all" prescriptions for developing countries. The IMF paper carries a lot of weight—one of its co-authors is Kenneth Rogoff, the IMF's outgoing Chief Economist and Director of Research. This is the same Rogoff who, in June 2002, had a fierce debate with Joseph Stiglitz about globalisation and the IMF role. Stiglitz, awarded the Nobel Prize for Economics in 2001, is a staunch and consistent critic of the IMF's push for accelerated financial integration. In this new paper, without saying so directly, Rogoff admits Stiglitz was at least partly right. The paper says "the principal conclusions from this analysis are sobering".

Nevertheless, scepticism remains over what may be seen as an IMF turnabout. C.P. Chandrasekhar of the International Development Economics Associates contends that "the IMF has decided to accommodate the growing evidence of the adverse consequences of financial liberalisation in developing countries not so much to learn from it and revise its positions but to provide what some are seeing as a more 'nuanced' defense of financial liberalisation." To illustrate his point, Chandrasekhar examines the IMF view that there is a "threshold effect", that macroeconomic volatility will fall at a mature level of financial integration. He says "the implication is not that developing countries should give up on financial liberalisation but that they should go far enough to ensure that it is accompanied with reform that delivers the institutional quality needed to realize the virtuous relationship between financial liberalisation and economic performance."

Despite this, developing countries may well view the report as allowing them more leeway to slow down on financial integration and capital account liberalisation. Argentina has recently introduced controls on short-term speculative flows. The statement from Tom Dawson, IMF Director of External Relations, is encouraging: "it's not an issue on which we have strong theological views. Indeed there have been a number of countries where controls on short-term incoming flows, where the rules of the game are fairly well established, have worked out quite well."

Yet, we are not certain how long this new stance of the IMF on capital controls will last. Rogoff will be leaving the IMF soon, and the critical position on financial integration may be reversed. The incoming IMF Chief Economist, Raghuram Rajan, a professor at the Chicago Graduate School of Business, is a firm believer in free markets. In one interview he declared: "[I] believe in open borders. The evidence is out there for everyone to see, there has been an immense rise in wealth and opportunity over the last thirty years in both developed and developing countries as borders have opened up."

Of course, many people, including mainstream economists, will dispute Rajan's statement. It seems then that the debate on financial integration will once again intensify as Rajan formally takes over his new position. One big fight!

* An activist policy group in the Philippines, **www.aer.ph**

Effects of Financial Globalization on Developing Countries: Some Empirical Evidence, 17 March 2003, IMF
www.imf.org/external/np/res/docs/2003/031703.htm

Financial Liberalization: Revisiting the Defense, IDEAs
www.networkideas.org/news/apr2003/news10_Financial_Liberalisation.htm

Activists oppose Bank 'clean development' credits for Brazilian forest plantation

Continued from page 1

the herbicide glyphosate (Roundup). The water had either dried up or been contaminated, depriving local people of fish. Local fauna had also disappeared, making a mockery of the "hunting and fishing prohibited" signs. The company has closed a road, forcing people to travel a much longer distance to reach their homes. This is supposedly to prevent dust affecting plants in the company's tree nursery. The project did not trigger the Bank's Resettlement Policy although communities in the Paiol region say they sold their lands after the contamination or drying up of their water supply.

The World Bank's project documentation claims that "civic engagement, participation and community driven development" are among the aims of the project and that "no objections have been given by stakeholders". However, campaigners wrote recently to the Bank complaining that only following their protests did Plantar seek input from the local communities and this only to collect signatures in support of the project, not explaining its scope and context. They also accuse the company of threatening people to gain their support. Plantar organized a party on 4 April at a rural educational centre where community members were encouraged to sign a motion in support of the company.

The local organisations point out that "corporations like Plantar S.A. installed themselves in our states in the 1960s and 1970s during the military dictatorship, taking advantage of attractive tax incentives. They did not get proper legal land title." They urge a comprehensive, detailed and independent study, done with local community involvement, to determine which lands should be given back to the rural people and be allocated for land reform, food production and reforestation, all Brazilian federal government priorities. The Movement of Small Peasants, one of the signatories of the letter to the Bank is developing an alternative reforestation project, using tree species with multiple uses.

The Bank claimed that Plantar's plantation management practices are compliant with its standards. Plantar is one of the first Brazilian plantation owners to obtain Forest Stewardship Council certification, which was reconfirmed in June. But also in June the World Bank put out a statement saying it was concerned about the allegations made by the Brazilian NGOs and was considering commissioning an independent investigation.

Las plantaciones forestales como sumideros de carbono: más amenazas que beneficios, Transnational Institute
www.tni.org/energy/cc/plantaciones.htm

The Bank in the Forest, World Rainforest Movement
www.wrm.org.uy/actors/WB/#briefing

World Bank Carbon Finance site, World Bank
www.carbonfinance.org

Prototype Carbon Fund Project Documents, World Bank Group
www.prototypecarbonfund.org

INSIDE THE INSTITUTIONS

How the World Bank deals with fraud and corruption in its projects

"Let's not mince words: we need to deal with the cancer of corruption ... the Bank Group will not tolerate corruption in the programs that we support; and we are taking steps to ensure that our own activities continue to meet the highest standards of probity." Since this pronouncement in 1996 World Bank President James Wolfensohn never misses an opportunity to remind audiences around the world how corruption has gone from an unspeakable c-word to top priority since he joined the Bank. Yet questions remain about whether the Bank is really able to keep corruption at bay from its own projects.

Various departments and committees are in charge of anti-corruption policies and practices at the Bank. The Corporate Committee on Fraud and Corruption Policy is responsible for ensuring that the Bank develops anti-corruption policies and implementation strategies. It is chaired by a Bank Managing Director and includes representatives of the various departments that have a role in anti-corruption initiatives.

Among these is the Department of Institutional Integrity (INT) which investigates allegations of fraud and corruption in Bank operations and allegations of staff misconduct. It also assists in preventive efforts to protect Bank funds such as staff training. The Director of INT is Maarten de Jong, a Dutch national who co-founded European anti-crime agency Europol in the early 1990s. He now has 43 staff, including investigators and former prosecutors, forensic accountants and procurement specialists. They are divided in teams that mirror the Bank's regions. One team is dedicated to staff misconduct.

Bank staff and the general public can report fraud and corruption in a variety of ways that allow them to remain anonymous. The Bank has established a toll free hotline with translation services. The Department of Institutional Integrity can also be contacted directly (see box). The Department conducts a preliminary inquiry of each allegation submitted. This may include an interview of the person submitting the allegation and a document review. It then decides whether to conduct a full investigation which can result in the withholding or cancellation of loans, with countries sometimes having to repay loans affected. Possible reasons include contract irregularities and violations of the Bank's procurement guidelines, bid rigging, collusion by bidders, fraudulent bids, fraudulent contracts, bribery and misuse of Bank funds or positions.

Involvement of Bank staff in irregularities can lead to termination of their contract and legal actions. As for firms and external individuals involved in irregularities the Bank can debar them from future contracts it finances, for a stated or unlimited period of time. Currently about a hundred firms and individuals are on a public 'blacklist'. Debarment decisions are made by the Bank's Sanctions Committee, appointed by the President and composed of Bank senior staff, two managing directors and the Bank's legal counsel, which reviews the findings of investigations.

The Bank does not only investigate solely on the basis of allegations made to it. The Department of Institutional Integrity says it is also developing a more pro-active investigative strategy that includes participating in 'fiduciary reviews' carried out by regional vice-presidencies of the Bank and designed to reduce corruption and strengthen fiduciary controls in a country. In 2002 INT participated in a "successful" review of the Sulawesi Urban Development Project in Indonesia. The report of the investigation states "despite a severe problem of missing documentation, the review found evidence of collusion among bidders and common ownership of shell companies" and "inadequate project oversight by implementing agencies and consultants." Subsequent investigations led to the debarment of 15 Indonesian firms for short periods.

But according to Down To Earth, an NGO, news of the review was met with scepticism, even among Bank staff. John Miller, Team Leader from 1998 to 2002 of the Coordination Office for the Sulawesi project, categorised the Bank as a willing partner in the corrupt system in Indonesia. The Bank's focus, said Miller, has always been on "pushing money" rather than on the quality of loan design and preparation. The Bank's review followed a dispute that erupted in 1997 following accusations that roughly 30 per cent of Bank funds in Indonesia were diverted for unintended purposes. The figures were confirmed by a Bank report which was leaked, but President Wolfensohn's response on the subject cast doubts on the seriousness of the Bank's 'crackdown' on corruption. These doubts are reinforced by a lack of transparency in ongoing or past investigations. Down To Earth, for example, criticises the fact that the Bank "does not disclose critical information, such as the time frame for reviewing a corruption allegation, number of cases received within a certain period of time, types of cases, actions taken on each case and how proven corruption cases are settled".

Similar doubts were also raised following a recent corruption scandal around the controversial Highland Waters project in Lesotho. Two firms, including Acres International, have been convicted of bribing an official. While Acres have appealed the verdict, NGOs question why the firms have not been debarred yet. International Rivers Network commented that "the World Bank's kid-glove treatment of companies convicted of bribery in Lesotho thus far is an insult to the Lesotho government's courageous efforts to hold both bribe-takers and bribe-payers to account. Acres International continues to work on World Bank-funded projects in spite of its bribery conviction". The Bank says it "is examining the court records of the criminal case in Lesotho to determine if there is new evidence that should be brought to the attention of the Sanctions Committee."

While the Bank has made major efforts to publicise its new emphasis on corruption a recent survey of 'opinion leaders' commissioned by the Bank found that "reducing corruption stands alone as the one area where substantial minorities or majorities say the Bank is doing a poor job".

All useful links
brettonwoodsproject.org/insidecorruption

How to report fraud, corruption and misconduct in Bank projects

To contact investigation unit:
+202-458-7677
+202-522-7140
investigations_hotline@worldbank.org
www.worldbank.org/integrity click 'Online complaint form'
Hotline: 1-800-831-0463
Can be accessed outside the US through an international AT&T operator

GAO faults Bank on internal controls and performance measurement

In a recent report the General Accounting Office (GAO) said it is currently difficult to know whether internal controls at the World Bank are sufficient to ensure that funds disbursed are used for their intended purposes. The report acknowledges progress at the Bank on its internal controls on financial reporting but argues that despite earlier commitments the Bank cannot guarantee adequate controls over its operations (including performance goals) and compliance with its own charter and policies. In other words, there is no way to know whether World Bank money is spent as it is supposed to be. The GAO recommends a comprehensive review of the Bank's internal controls on operations and compliance.

The shortcomings of the Bank highlighted by the GAO include its inability to measure whether its assistance makes a positive difference. In recent years the Bank has come under increasing pressure—especially from the US—to provide tangible results for its operations (see At Issue on results, *Update* 33). In a recent interview World Bank President James Wolfensohn boasted: "measured by the results we had hoped for, we are close to 80 percent". But the findings of the GAO tend to reinforce arguments of critics such as Professor Robert Wade that the Bank's performance measurement is not reliable and cannot be trusted as figures have been too often 'massaged' in the past.

In a response to the GAO report the Banks points to its "various units which form an extensive network of management controls and oversight" and says it is planning or implementing a number of changes to procurement and project documentation and a new policy on external project audits.

World Bank: Important Steps Taken on Internal Control, General Accounting Office
www.gao.gov/new.items/d03366.pdf

Excerpt from the GAO report

In 1995, the World Bank established a 5-year timeline to ensure that, by the end of fiscal year 2000, management would be able to express assurance that adequate controls were in place, not only for financial reporting purposes, but also for efficiency and effectiveness of operations. The World Bank has not yet met that goal.

The World Bank, the IMF and "results"
brettonwoodsproject.org/results

The US Role in the Malaise at the World Bank: Get up, Gulliver!, Robert Wade
ksghome.harvard.edu/~.drodrik.academic.ksg/WadeG24.pdf

World Bank Operations Evaluation Dept Review of Development Effectiveness, 2003
www.worldbank.org/oed

Questions raised over World Bank post-conflict work

After the row over forestry issues (see Update 33) the World Bank has been caught in a new political storm in Cambodia for cancelling $6.3 million out of an $18 million loan for the demobilisation and reintegration of soldiers. The Bank said a project contract had been "awarded to a company that was subsequently found to have not met the specified requirements of the bid documents". Meanwhile the Bank is criticized for refusing to back disarmament.

A *Financial Times* report said the misprocurement was related to the purchase of motorcycles which were to be allocated to former soldiers as part of the demobilisation package. It said this programme "has been dogged by controversy and corruption allegations almost from the start". Critics of the scheme say that "many men listed for 'demobilisation' had returned to their villages years ago, and had not collected any army salary, even if their names remained on the payroll ... more names were added to the rolls after donors indicated the largesse that awaited former soldiers".

Politicians in Cambodia, who face imminent elections, wrote to the Bank to ask for clarifications and called for a transparent investigation, adding that "If the World Bank does not try to prevent this public review of the process from being undermined by corruption and bad faith, the Cambodian demobilisation program will be a farce."

The World Bank has funded or is funding similar demobilisation and reintegration programmes in many countries, for example Angola, Eritrea, Ethiopia, Chad, Sierra Leone and Bosnia. In Cambodia the government agreed to demobilise 15,000 troops in 2001, then another 15,000 in a second phase due to be completed before the end of last year. But a failure to promptly deliver the packages—which include a cash equivalent of 240 dollars, motorbikes, sewing machines and other household goods—resulted in the second phase of demobilisation stalling.

Walking a fine line

Meanwhile the coherence of the role of the World Bank in peace building in conflict-affected areas is being questioned. Robert Muggah, a researcher for Small Arms Survey asks in an article published by id21 before a recent UN meeting on small arms proliferation why the World Bank is not involved in disarmament programmes in post-conflict countries.

One of the policies guiding the Bank's operations (OP 2.30) prohibits the Bank from "providing direct support for disarming combatants". The policy says this is not the role of the Bank because "it is not a world government". The World Bank considers disarmament the mandate of other UN agencies. But Muggah argues that the Bank should not shy away from disarmament and small arms control in general, as armed violence is directly hampering development. "That the World Bank is unable to directly support disarmament" says Muggah "is paradoxical and threatens to undermine the success of the [Great Lakes] regional initiative". Muggah underlines the fact that "many governments" are reluctant to recognise small arms control as a development issue, and more broadly to regulate civilian possession or restrain local markets of small arms. The US is not named but is an obvious example, and has a greater influence than others on the World Bank.

The debate on World Bank financing of disarmament is another example of how the interrelation between the Bank's work and other issues crucial to development can lead to pressure for the institution to expand its mandate while it is already overstretched. Many critics argue that the Bank should do less rather than more, and that it has already encroached too much on the mandate of UN agencies. However conflict prevention and reconstruction can be considered a core mission of the Bank. In the late 1990s the Bank notably agreed to finance landmine clearance which it compares to "other types of land preparation for development activities".

Holding up development: The effects of small arms and light weapons in developing countries, Robert Muggah
www.id21.org/id21-media/arms.html

World Bank Conflict Prevention and Reconstruction Unit
lnweb18.worldbank.org/essd/essd.nsf/CPR/home

Bank role in Iraq taking shape

The interim Iraqi Governing Council has announced that "the Council, with the coalition and with the involvement of the IMF, World Bank and UNDP, will play a full part in drawing up the 2004 national budget".

The World Bank team, headed by Joseph Saba, Country Director for Iran, Iraq, Jordan, Syria and Lebanon, is to assess the costs of rebuilding Iraq before a meeting of donors scheduled to take place in New York in October. The Bank team includes units specialising in investment climate, banking and the financial sectors, agriculture, water resources and food security. It is not known when the cost estimate will be completed. American officials will be trying to raise billions from other countries at the conference to finance reconstruction. In response to concerns over the independent use of such funds, US officials have proposed establishing a trust fund to be managed by either the World Bank or the United Nations.

On the issue of outstanding Iraqi debts, a split is emerging between the US coalition and the Bank. Under proposals being pushed by the US Export Import Bank and a lobbying group that includes key American contractors Bechtel and Halliburton, Iraqi oil revenues may be securitised over at least a decade. This would allow Iraqi authorities to borrow large sums up front to be repaid over several years—which would be used now to pay foreign contractors for reconstruction work and for settling outstanding debts. The World Bank has said such commitments should only be made by a sovereign Iraqi government.

Iraq—Bank and Fund in no man's land
brettonwoodsproject.org/iraqnoman

Bank nutrition projects wasting resources

Save the Children UK released a report claiming that World Bank efforts to cut childhood malnutrition in Bangladesh, Uganda and Ethiopia had shown no impact. The charity "found no difference in the rates of malnutrition" in Bangladesh after six years of project implementation. "Growth monitoring charts were poorly understood by mothers and supplementary feeding had limited effectiveness especially for very young children". The report says the projects are based on a "widely discredited" approach, which assumes "that the child is malnourished because the mother isn't doing something right".

Thin on the Ground, Save the Children UK
www.savethechildren.org.uk/pressrels/PDFS/thin on the ground.pdf

WB-IMF forcing privatisation

Privatisation imposed by the Bank and the IMF can be harmful to the most vulnerable, says a report from Canadian NGOs. They argue that "the winners in privatisation of water are private companies" and say the World Bank and the IMF are "forcing [governments] to attempt large-scale privatisation regardless of their capacity to ensure that this is in the best interests of the people they serve." As a result it often leads to the loss of jobs, lower quality service to the poor and higher costs. The authors call for the abandonment of privatisation as a lending condition.

Water, Land and Labour, Halifax Initiative and Social Justice Committee
www.halifaxinitiative.org/updir/Water_Land_Labour.pdf

New UK strategy on the World Bank

The UK's Department for International Development is producing an Institutional Strategy on the World Bank. This document, which will set out the UK's objectives for the institution for the coming years, will replace the existing strategy drafted in 1998-99. This process has just started internally and Bretton Woods Project is facilitating civil society input. The paper will address questions such as where the Bank fits into the international system, what is the momentum for change on issues such as unfunded mandates, staff incentives and how divided is its membership.

Working in Partnership with the World Bank Group, UK DFID, March 2000
62.189.42.51/DFIDstage/Pubs/files/worldbank_isp.pdf

WB, Fund on extractives transparency

The World Bank and the IMF pledged their support to the Extractive Industries Transparency Initiative in statements made at a high-level conference in London on 17 June. Both institutions have pledged to provide technical advice on the design of templates for reporting extractive industry revenue payments. They have not said they will make such disclosure a condition of their project or programme finance, but Peter Heller from the IMF said: "transparent reporting of natural resource revenues will help establish credibility, ensure accountability, and inform the political debate".

Statement to EITI by World Bank
www.dfid.gov.uk/News/News/files/eiti_draft_report_wbg.htm

IMF transparency still lagging on crucial issues

The Executive Board of the IMF met in late June to discuss a revision of its procedures on transparency. While the IMF says there has been a "revolution" in transparency efforts in the past few years, critics point to major shortcomings (see At Issue 'G-7, civil society press for IMF, World Bank transparency reforms'). No firm decisions were made in the meeting, officially for "technical" reasons but also because there is little agreement on how to proceed.

The discussion mainly focussed on the publication policy for country documents. Specifically the Board discussed moving from voluntary to 'presumed' publication of staff reports for Article IV consultations (the yearly assessment of a country's economy by Fund staff) and Use of Fund Resources (UFR, outlining a country's status with the IMF and policies that will be implemented). 'Presumed' publication would mean these documents would be made public unless the country explicitly opposes it. Some countries are still reluctant to see IMF reports about their economic policies disclosed. A related stumbling block is moving to mandatory disclosure of UFR reports for cases where countries borrow more than their usual authorised limit. Some countries have contested the legality of this and called for clarifications.

Disagreements on the above points pushed other important issues into the background that had been raised in a joint NGO letter. The NGOs demanded publication of IMF Board minutes after a few months and of the Board's schedule in advance, and of letters of intent before Board approval. NGOs have also demanded an end to the practice of side letters (confidential communications describing secret measures to be taken in exchange for IMF support). While rarely used, side letters are unacceptable, because they can include not just 'market-sensitive' measures but also those which might arouse political opposition.

Argentine civil society organisations have filed a legal complaint in their country to gain access to a side-letter to the latest IMF agreement, which is believed to contain a commitment to increase prices of basic services.

They have complained that IMF pressure to increase prices of key utilities is illegal (see *Update* 33) and asked the Independent Evaluation Office of the Fund to investigate. But the IEO, which recently circulated the draft terms of reference for its study on the hotly-debated role of the Fund in Argentina between 1991 and 2001, has made clear this was beyond its remit as it is not allowed to look at ongoing IMF operations. This reinforces the need for an impartial complaint mechanism that would allow citizens negatively affected by IMF operations to obtain redress.

No official summary of the IMF transparency discussions is yet available.

Unofficial summary of IMF Board meeting
brettonwoodsproject.org/imftransum

G-7, civil society press for IMF, World Bank transparency reforms
brettonwoodsproject.org/g7trans

IEO Argentina study
www.imf.org/ieo

NGO letter to IMF on transparency, 26 June
brettonwoodsproject.org/topic/governance/imftranslet.doc

Review criticizes Bank disclosure policy implementation

A new review assesses to what extent the World Bank has implemented its disclosure policy, introduced in 2001. The Bank Information Center (BIC), an NGO which has done leading work on disclosure, concludes "the Bank has made progress, but substantial problems remain". It makes specific recommendations on how the Bank can begin to address outstanding issues including by implementing systems for citizens to appeal when they are not provided the information they are seeking.

In early July the World Bank's Board met and approved both a Translation Framework and Management's Progress Report on Implementation of the Disclosure Policy. The Bank's Progress Report has not been released but is understood to recommend additional disclosure in a number of areas, such as IMF-Bank relations documents and certain project related documents. However the Board directed Bank management to continue working on outstanding issues such as the disclosure of Board minutes, the release of final draft Board papers prior to Board approval, and the different standards that currently govern the disclosure of Country Assistance Strategies (CAS) for middle-income and low-income countries. Currently International Bank for Reconstruction and Development CASs are only disclosed at the request of the borrowing government, while CASs for low-income countries that borrow from the International Development Association are routinely disclosed unless the borrower objects.

The Bank Information Center report finds that:

- *the Bank is not meeting its commitment to disclose Project Information Documents early in the project cycle or to update them as the project evolves;*
- *the Bank is not complying with the Policy's commitment to attach a list of Factual and Technical Documents (FTDS) to PIDS;*
- *Loan, Guarantee and Development Credit Agreements are not available through the Bank's website;*
- *Project Completion Notes (PCNS) are not disclosed.*

BIC argues that the Bank actually operates on a presumption against disclosure rather than one for disclosure as its policy states. They urge the Bank to release papers not specifically mentioned by their disclosure policy, or provide reasons why it is not doing so. An example is Board policy papers.

Implementation of the World Bank's Disclosure Policy: An External Review (July 2003), Bank Information Center
www.bicusa.org/publications/WB_Discl_Pol_External_Review.pdf

Call for a comprehensive translation strategy at the World Bank, Bank Information Center
www.bicusa.org/policy/InfoDisclosure/Call_for_WB_translation_strategy_updated.pdf

US, Europeans trade blows over lack of progress on Bank, Fund governance reform

In late June it emerged that the US government was planning to block progress in the official discussions on reform of World Bank/IMF governance. The US Executive Director prepared a statement for a Bank Board meeting arguing that measures to rebalance the Bank/Fund boards "are not necessary". Just three weeks before, the World Bank had tabled a document stressing that "political will does exist—as reflected in the Development Committee's communiqué and the statements of many Ministers at the Spring Meetings". The paper outlined options including raising the voting shares of developing countries and adding an extra Executive Director to represent African countries. On the latter a US Treasury spokesperson commented "If any of the nations which are over-represented at the Bank want to cede their seats to developing countries, we would happily support it". This presumably referred to the Europeans, though the US government does not appear to want to pick a fight with them on the issue.

Activists in over ten countries tried to shore up this political will by contacting the press and their decision-makers to press them to challenge the US and push for changes to the deeply inequitable governance of the Bank and Fund. Many governments responded, but the outlook for the further Board meeting due to be held at the end of July was bleak. It looks likely therefore that the ministers who will gather for the Bank/Fund Annual Meetings in mid-September will have nothing to announce. This means that they will have reneged on their promises at international summits including the Financing for Development Conference and World Summit on Sustainable Development.

> *"If any of the nations which are over-represented at the Bank want to cede their seats to developing countries, we would happily support it"*

One issue which was not discussed in either the World Bank paper or the government positions at the Board was the selection of the next Bank president, a matter which is becoming urgent as James Wolfensohn, the current president, is due to retire in 2005. Wolfensohn, however, told the Washington Post in June that he would think seriously about staying on.

Frustration at limited governance discussions
brettonwoodsproject.org/govfrust

Window of opportunity on IFI governance
brettonwoodsproject.org/govwindow

US blocking WB, IMF governance reforms
brettonwoodsproject.org/topic/governance/IFIgovrelease.doc

"US-driven" World Bank "forces its view on developing countries"—poll

A survey released by the World Bank in June gave the institution low marks on poverty reduction and the environment and found that it is more "US-driven" than some years ago. The Bank press release of the survey, however, emphasised motherhood and apple pie findings such as that fighting poverty is key to achieving world peace. It also emphasised that: "overall, opinion leaders in developing countries are clear that the World Bank's influence on their country is generally positive, and many say the Bank has become more useful, relevant, transparent, responsive, visible and better at communicating." Whilst the survey itself also tries to put a positive spin on its findings, it cannot conceal some major criticisms.

The report was prepared for the Bank by Princeton Survey Research Associates and its sub-contractors based on interviews with 2,600 'opinion-formers' in 48 countries. These are individuals with high-level positions in government, media, civil society organizations, academia, the private sector and labour unions with some knowledge of the Bank's activities.

Among its key findings are that:

- *just 22 per cent of respondents say the Bank is doing a good job on reducing poverty;*
- *more respondents say the Bank is doing a poor than a good job on environmental sustainability;*
- *less than half the 'opinion leaders' in Sub-Saharan Africa, Europe and Central Asia and the Middle East and North Africa say the Bank places a high priority on poverty reduction in their country;*
- *the belief that the Bank forces its agenda on developing countries, is "consistent and overwhelming in all regions and in virtually all countries";*
- *a majority say the World Bank is more "US-driven" today than several years ago.*

Overall, a slim majority of those interviewed are either "enthusiasts" or "moderates" about the Bank. About a quarter are said to be "conflicted", whilst one in ten are outright critics. A majority of opinion leaders believe the World Bank has a good influence on the way things are going in their country. But roughly two in 10 say the Bank has a bad influence. A third of opinion leaders in South Asia and sizable minorities in other regions say the Bank has become more arrogant over the last few years. When asked an open question about the Bank's greatest weakness, people most often cited its organizational culture—inefficient bureaucracy, arrogance and lack of transparency and collaboration. Opinion leaders also criticize the Bank for its economic policies, its traditional approach to development and simplified solutions, for not taking into account local conditions, for not doing enough to help developing countries and for being too heavily influenced by the US and the West.

Inequality and economic reforms

Opinion leaders around the world generally agree that the gap between rich and poor people and between countries has widened over the last few years. Solid majorities say the likelihood of cutting poverty by half by 2015 is slim. Large majorities believe that most foreign assistance is wasted due to corruption and a solid majority says debt relief is more effective than traditional forms of aid.

Respondents in Sub-Saharan Africa and South Asia were most critical of the Bank's influence on their country. People in Nigeria, Senegal, Pakistan and Mexico had the strongest anti-Bank views. Half the respondents in Indonesia and Thailand and six in 10 opinion leaders in the Philippines say the Bank's reforms hurt more people than they help. In South Asia and Sub-Saharan Africa a six in 10 majority says the Bank's economic reforms are negative. Majorities in Jordan, Saudi Arabia, and Yemen say the Bank's reforms hurt more than help.

In South Asia and Sub-Saharan Africa sizable minorities think the Bank's policies and programmes are contributing to the growing wealth gap. In China and Vietnam, by contrast, half the respondents credit the work of the Bank for lessening the gap between the rich and poor. Solid majorities in most industrial countries and all countries surveyed in Europe and Central Asia and majorities in three East Asian countries argue that the Bank does not act irresponsibly in its development efforts.

What should the Bank do?

There are wide variations in what people urge the Bank to focus on. For example more than a third in Cambodia say improving education should be the Bank's main objective, but virtually no one in China mentions education. Similarly, a third in Vietnam say the Bank should focus on infrastructure, but only a handful in Thailand agree. In Brazil a quarter of opinion leaders say the Bank's objective should be to share knowledge and give advice, whereas just a few mention the 'knowledge Bank' in Mexico.

People clearly expect the Bank to match its skill set to the specific needs of each country. Majorities in all regions say the Bank is currently doing an average or good job helping their country reduce poverty, although many more say the Bank is doing an average job than a good one. In three regions-Europe and Central Asia, the Middle East and South Asia-four in 10 or more say the Bank is currently doing a poor job helping their country reduce poverty.

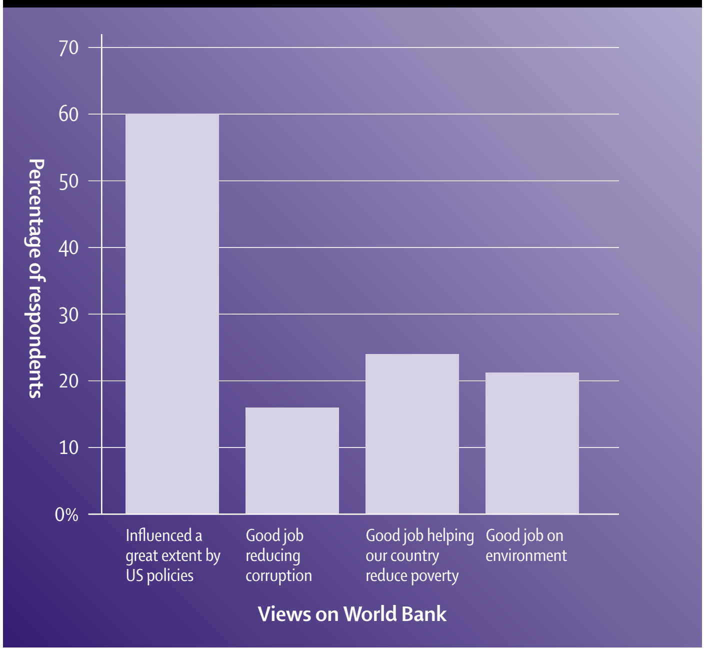
Less than half of the opinion leaders in Sub-Saharan Africa, Europe and Central Asia and the Middle East and North Africa say the Bank places a high priority on poverty reduction in their country. Slightly less than half in every region, except Sub-Saharan Africa which is slightly higher, say the Bank has been doing a better job over the last few years helping their country build a climate for investment, growth and job creation.

Majorities say the Bank is doing a better job than a few years ago on fostering environmental sustainability. Half or more in Latin America, East Asia and Europe and Central Asia say the Bank gives high priority to ensuring that development occurs in an environmentally sound manner. In South Asia, Sub-Saharan Africa and the Middle East, roughly a quarter say the Bank gives low priority to fostering sustainable development in their country. Overall fewer people think the Bank is doing a good job on environmental sustainability than in 1998 when the Bank ran a similar poll.

Respondents say there has been no change in the effectiveness of the Bank in fighting corruption. However, a large majority say the Bank is currently doing a poor job helping their country reduce corruption. Nearly all said the Bank is an excellent source of research, analysis, and knowledge.

The full survey makes interesting reading for the Bank and its critics. But there are some questions about the accuracy and impartiality of this poll. Firstly are "individuals with high-level positions in government, media, civil society organizations, academia, the private sector and unions" sufficiently representative of poorer people? In some cases potentially contradictory findings were resolved in favour of the Bank. And the poll authors editorialise unecessarily, for example saying "criticisms of the Bank-that it acts irresponsibly or that its reforms hurt more people than they help-do not necessarily contradict the assessment that the Bank's overall influence is positive".

Selected World Bank survey results



Overstretched and Underloved: World Bank faces strategy decisions
brettonwoodsproject.org/overst

The Global Poll: Multinational Survey of Opinion Leaders 2002, Princeton Survey Research Associates
siteresources.worldbank.org/NEWS/Resources/globalpoll.pdf

Campaigners challenge legal basis of Baku-Ceyhan pipeline

Just after key project documents were released in June, campaigners in Georgia and the UK filed legal challenges to the Baku-Ceyhan oil pipeline, raising awkward questions for the World Bank Group and other potential financiers. A Georgian NGO argues that the environmental clearance for Georgia was granted after the consortium placed undue pressure on its government. Seventy-two human rights and environment groups issued a call for a moratorium on the pipeline, arguing that it would worsen the human rights situation along the pipeline route, and that the lack of freedom of speech in the region made proper consultation impossible. In the UK Friends of the Earth delivered 4,000 letters of opposition to the project to the Department for International Development.

The formal 120-day public disclosure period for assessments relating to the Baku Ceyhan oil pipeline started on 11 June when the Environmental and Social Impact Assessments were made available. The pipeline, to be built by oil companies in a consortium led by BP, is to run for 1,000 miles through Azerbaijan, Georgia and Turkey. Campaigners are questioning the requests for finance from the International Finance Corporation (IFC) and the European Bank for Reconstruction and Development (EBRD).

On 27 June the Georgian District Court granted Georgian NGO Green Alternative the right to commence a legal action against government agencies and the BTC Company. This alleges that the environmental clearance for the pipeline granted last November violated the statutory rights of Georgian citizens under their constitution and national environmental protection law. They also say it breaches Georgia's commitments under the Aarhuus convention on the right to informed participation in environmental decisions. Manana Kochladze of Green Alternative commented, "the environmental permission was issued following huge pressure from the project sponsor, BTC Company. Georgian legislation and the state constitution have been brushed aside". Green Alternative is requesting a re-opening of the environmental permission process with proper public consultation procedures.

Leading human rights and environmental campaigners and local people affected by the pipeline recently made a detailed legal submission to the European Commission. They argue that it compromises human rights and environmental protection agreements, and violates Turkey's accession agreements for entry into the European Union. They warn that, if the Commission does not take appropriate action, they will consider legal action, including a court case at the European Court of Justice. Under the agreements, Turkey exempts the pipeline consortium from all Turkish laws that might affect the project. Turkey would also be obliged to compensate the consortium if new laws were introduced that affected the profitability of the project. A legal opinion by Philip Moser, an expert in EU law, concludes: "the pipeline project agreements represent a step in entirely the wrong direction. The implementation of this project involves actual and/or potential breaches of EU, Human Rights and International Law." Turkey has also undertaken to implement EU laws on environmental impact assessments, which this project is alleged to violate on nine counts.

The legal challenges to the pipeline were given further backing by a detailed report from Amnesty International. This finds that "mechanisms for protecting human rights are being systematically undermined". It argues that "the project in its day-to-day operation is excluded from certain important regulations by the state, even when these would translate international standards into Turkish law". "The effect of being faced with punitive costs for protecting the human rights of those affected by the pipeline is likely to have a chilling effect on Turkey's ability to improve its general human rights record." For up to 60 years Turkey will be effectively unable to improve environmental standards in the pipeline zone. The Host Government Agreement freezes the regulatory framework and allows no stricter standard to apply unless it can be shown that the threat to the environment is "imminent and material".

The disputes are likely to intensify in the weeks running up to the decisions by the IFC and EBRD boards, expected in early October, on whether to back the project.

Human rights on the line Baku-Ceyhan pipeline, Amnesty International
www.amnesty.org.uk/images/ul/H/Human_Rights_on_the_Line.pdf

UK Baku-Ceyhan campaign site
www.baku.org.uk

CEE Bankwatch Baku-Ceyhan campaign
www.bankwatch.org/issues/oilclima/baku-ceyhan/mbaku.html

Environmental Impact Assessment
www.caspiandevelopmentandexport.com/ASP/DD_BTC.asp

WB/IMF Annual Meetings 2003

Members of staff of the Bank and Fund, Board members, development and finance ministers will be gathering in Dubai, in the United Arab Emirates 18–24 September. Planned for the first days are a series of public seminars organised by the Bank and Fund (details at link below). Seminars are planned on human rights and the Bank, HIV/AIDS and macroeconomics, women in public life, water security and fiscal management in oil exporting countries. Informal discussions on Iraq are anticipated.
The formal agenda includes:

Sept 20 *G24 Ministers meeting*
Sept 21 *IMFC meeting*
World Economic Outlook, crisis prevention, crisis resolution, IMF and low income countries
Sept 22 *Development Committee Meeting*
Trade (post-Cancun), HIPC, governance, financing MDGs, report on harmonization implementation (from Rome high level dialogue)
Sept 23 *Annual Meetings—opening session*

World Bank and IMF Annual Meetings 2003, IMF
www.imf.org/external/am/2003/index.htm

IFC photo competition spawns rival

Friends of the Earth has initiated a competition to find the best picture of a project backed by the International Finance Corporation (IFC). The NGO points out that the Corporation's own competition is "coy in showcasing images of its more controversial or questionable investments". FoE also points out that the IFC's photo contest is closed to the public whereas theirs is open for people to submit and vote on photos. Currently entered are pictures of a mural depicting corruption in the Bujagali dam, Uganda, women displaced by the same project, contaminated water in Ghana and a mine in Mali. Votes can be cast up to 15 August and a winner will be announced in September.

IFC photo contest website, Friends of the Earth
www.ifcphotocontest.org

Chicago boys take charge at IMF

Agustin Carstens, a 44-year-old former central banker with a doctorate in economics from the University of Chicago, and former Deputy Finance Minister of Mexico, will join Anne Krueger and Shigemitsu Sugisaki as IMF Deputy Managing Director. Carstens was quoted by the Financial Times as happily describing himself as "a genuine Chicago boy in every sense of the word". He succeeds Chilean Eduardo Aninat after his resignation.

Horst Koehler has also announced the appointment as Economic Counsellor and Director of the Research Department, of the University of Chicago Professor Raghuram Rajan, 40. Rajan is an Indian national. He will succeed Kenneth Rogoff, who had earlier announced his decision to return to Harvard in the Fall of 2003 after only two years at the Fund.

Another IMF employee is likely to be departing soon, possibly without a leaving present. Peru's former economy minister and tax chief, Jorge Baca, arrested on Peruvian charges of corruption while serving in Argentina on an IMF team (see *Update* 33), faces an extradition trial in August, Argentine newspaper *El Cronista* said. Baca, who served under former President Alberto Fujimori, faces up to 10 years in prison.

Who is the IMF?
www.imf.org/external/np/exr/center/action/eng/profiles/index.htm
brettonwoodsproject.org/imfarrest

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