

# Haitian jobs hang in the balance in IFC-funded plant

**The International Finance Corporation, the Bank's private-sector arm, has brought in labour mediators in an attempt to resolve a dispute that threatens to leave hundreds of employees at an IFC-funded plant in Haiti without work. The dispute will have far-reaching implications for an upcoming IFC review of its environmental and social safeguard policies.**

In early June, workers at the export processing zone plant in Quamaminthe run by Grupo M went on strike to protest continued harassment of their attempts to organise. In response to the strikes, management first said that it was prepared to negotiate with the Sokowa union. Then, citing plummeting productivity linked to the labour dispute, a series of layoffs began that eventually numbered over 350 workers—half of the labour force. Production has been relocated to company plants in the Dominican Republic.

In October 2003 the IFC approved a \$20 million loan to Grupo M. In response to fears expressed by trade unions and NGOs that labour rights could be violated in the plant, the loan included a precedent-setting condition requiring the company to recognise its employees' collective bargaining rights.

Problems first flared up in March when 31 workers were illegally fired. Grupo M was forced to reinstate the dismissed workers, and promised to protect freedom of association, establish a dialogue with the union leadership, and bring in a team of independent observers to monitor labour relations. In the intervening months, these observers noted increases in daily production quotas, intimidation of workers by the factory management and, towards the end of May, the establishment of a "climate of terror" on the factory floor.

The trade union movement has demanded that the work force laid off in June be reinstated. However, due to claimed higher productivity in the remaining workers, Grupo M has said that fewer workers will now be required. The company has indicated to the IFC that it would be willing to re-hire from the pool of laid-



off workers depending on the willingness of buyers Levi Strauss and Sara Lee to source from Haiti. The Sara Lee facility was planned to close in August with company representatives claiming that they would return if the labour disputes were resolved. Representatives of Levis have said they are "working with factory management, non-governmental organizations, and other key stakeholders to help address the situation." Protests planned worldwide for the end of July were intended to pressure Levis "not to cut and run" from its responsibilities in Haiti.

The AFL-CIO's (American Federation of Labor and Congress of Industrial Organizations) Barbara Shailor called on the IFC to "insist that Grupo M immediately reinstate all of the discharged workers or face the cancellation of its loan." The loan agreement stipulates that failure to ensure the workers' right to form unions "will be treated explicitly as an event of default." Twelve million of the total \$20 million has already been disbursed. Some members of the Sokowa union have called for the cancellation of the last payment. IFC representative Mark Con-

stantine told the Bretton Woods Project that he had not heard of such calls, but felt that the implications of the IFC pulling the loan would be "very, very bad." Grupo M is hanging by a thread, and if it goes under, Constantine claimed it would lead to the "loss of thousands of jobs in Haiti alone—the IFC will stay with this until there is nothing more to be done." Constantine was reluctant to initiate a formal investigation required to make a definitive, legally-binding decision on whether or not loan conditions had been broken: "undertaking this would reflect a complete breakdown."

Crucially this comes as the IFC prepares to review its environmental and social safeguards. Constantine said that the Haitian case would be informing the process. "This will make us more diligent in establishing baseline information on labour relationships and looking at the history of a company in terms of labour rights." Civil society campaigners will be pushing the IFC to include the core labour standards of the International Labour Organization in its policies.

In a July letter sent to IFC head Peter Woicke, a coalition of NGOs called for the adoption of, amongst other things, a "human rights based approach" that protects labour rights and the development of a "set of criteria for good corporate behaviour for all potential project sponsors." A series of consultations on the safeguard review process will take place throughout the autumn.

Haiti negotiated with international donors the financing of its Interim Co-operation Framework for 2005–6. Pledges of \$1.08 billion were made 20 July. Aid agencies have expressed disappointment, saying a significant portion of the funds were made in loans not grants, and will therefore push Haiti into unsustainable debt. Oxfam is calling for the World Bank and IMF to admit Haiti to the Heavily Indebted Poor Country (HIPC) initiative. 

What are Levis and the IFC doing for the Codevi workers?, No Sweat Campaign  
[www.nosweat.org.uk/article.php?sid=997&mode=thread?der=0](http://www.nosweat.org.uk/article.php?sid=997&mode=thread?der=0)

Civil society letter on IFC safeguard review  
[www.ifwatchnet.org/doc/IFCguardsletter.pdf](http://www.ifwatchnet.org/doc/IFCguardsletter.pdf)

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# Infrastructure privatisation: “Oversold and misunderstood” ... and heavily subsidised

*While Bank critics welcome increased flexibility in infrastructure investment, there are fears that a planned expansion of the commercialised model may undermine poverty reduction efforts.*

The Bank estimates that, in order to reach the Millennium Development Goals, developing countries will have to double their spending on infrastructure. In 2005, the Bank is increasing its lending for infrastructure to \$7 billion, an increase of \$1 billion over the previous year. However, expanding lending in the form of subsidies for private providers may result in a re-run of the problems of corruption, inefficiency and low access witnessed over the past decades.

A June report from the World Bank says that the privatisation of infrastructure has been “oversold and misunderstood”. The report’s author, Ioannis Kessides, an economist in the development research group, concedes that “privatisation was heralded as an elixir that would rejuvenate lethargic, wasteful infrastructure industries and revitalize stagnating economies.” The failure to do so has led to widespread “skepticism and outright hostility toward privatisation.”

However, despite the “significant risks” posed by infrastructure privatisation if not accompanied by appropriate structural and regulatory safeguards, the report concludes that it “offers benefits too big to ignore for governments, operators, and consumers.” The success of privatisation efforts, says Kessides, varies greatly by sector: telecommunications offers the most compelling case for privatisation, while transport networks, electricity and water supply are “more problematic”.

In a paper for the Citizens’ Network on Essential Services, Tim Kessler argues that in such “problematic” sectors, “guarantees and subsidies that help to ensure corporate profitability can pose serious risks and costs for taxpayers.” In the face of rapidly declining private sector interest in infrastructure since 1997, the Bank has focused on promoting a range of instruments to attract private sector participation.

Some fiscal supports for private infrastructure, such as construction subsidies and tax holidays, have been around for a long time. More recently, the World Bank has pioneered ‘output-based aid’ where the Bank agrees with governments to pay private providers for services

## IMF accounting: the genie in the ledger

The Fund is under pressure both from borrowing countries and lenders to relax its fixation with fiscal responsibility to allow for greater infrastructure investment. Fiscal pressures under Fund-supported programmes have contributed to insufficient spending on infrastructure. However, to address this gap, the Fund is open to charges from within and from outside that it risks governments de-prioritising social spending, crowding out private investment and racking up unsustainable debts.

A further complication arises over how the fiscal balance is to be defined. The Fund has decided that it should cover the whole of the public sector excluding commercially-run public enterprises. This has raised concerns amongst civil society observers that only investment in publicly-run infrastructure will be restricted by fiscal austerity measures, creating a bias towards private provision. In response to these critiques and to pressure from the Brazilian government, the Fund is to allow the Brazilian government to similarly exclude investments by public enterprises from the calculation of government budget targets on a pilot basis.

The Fund is also considering how to reflect the fiscal risks of public-private partnerships (PPPs) in government accounts. There is support for disclosing the potential future costs to government from such arrangements. This would respond to a long-standing civil society critique that PPPs are simply a way to bypass spending controls, while the government still bears most of the risk. In the absence of internationally agreed guidance on how to do this, the Fund has decided that “the known and potential future cost of PPPs should be disclosed, and taken into account when undertaking debt sustainability analysis.”

actually delivered. Kessler argues that “figuring out whether a sub-contractor is doing its job well and for the right price is costly and requires technically qualified staff.” The same regulatory capac-

ity, which “far exceeds” that available in most developing country governments, is needed if subsidies are used to ensure access for low-income citizens. Governments must make long-term estimates of

the subsidies required; this demands a degree of fiscal continuity which many developing countries subject to IMF fiscal austerity measures may be unable to meet (see box, left).

Kessler argues that even more worrying than output-based aid are those corporate subsidies which create liabilities “whose financial impact and timing governments cannot predict”. This includes purchase agreements, where governments agree to buy the output of a private provider, usually in hard currency, regardless of changes in demand or fluctuations in the exchange rate. Recessions, devaluations and unfavourable contractual terms have brought several utilities to the brink of financial collapse. Similar risks are posed by guarantees which lock-in price levels.

Kessler concludes that the Bank’s eagerness to promote private provision arrangements stems from the belief that the public sector cannot be reformed. Ironically, public service providers often become more efficient as a precondition of privatisation.

Government officials in the Philippines, responding to World Bank and ADB pressure to privatise the National Power Corporation, plan an 80 per cent increase in electricity rates. The increase is aimed at making the power industry attractive to investors who have been hesitant to enter. Activists are planning mass mobilisations if the government goes ahead. Freedom from Debt Coalition says that Philippine electricity rates are already the fourth highest in the world. ©

*Reforming Infrastructure: Privatization, Regulation, and Competition*, World Bank

[econ.worldbank.org/prr/reforming\\_infrastructure/text-36236/](http://econ.worldbank.org/prr/reforming_infrastructure/text-36236/)

*Who’s taking risks? How the World Bank pushes private infrastructure*, CNES

[www.servicesforall.org/html/infrastructure/taking%20risks-final.pdf](http://www.servicesforall.org/html/infrastructure/taking%20risks-final.pdf)

## Another water war?

The Inter-American Development Bank (IADB) is to approve a \$50 million loan to Peru later this year that will require municipalities to form public/private partnerships before they can receive funding. This is being done at the same time as responsibilities for infrastructure are being transferred to regional and local governments, following government agreements with the IMF and World Bank.

Critics argue that the dual privatisation-decentralisation runs ahead of the establishment of the capacity of local governments to regulate and could undermine fiscal stability. Because of Peru’s long history of corruption associated with privatisation, the plan is also anger-

ing labour unions and consumers’ groups. During the Fujimori administration, stolen public funds including World Bank loans, were charged to the accounts of the municipal water enterprises, rendering many of them bankrupt. This formed the basis for the argument that they need infusions of capital and must be privatised. Seventy-six people were arrested in Peru during a 24-hour strike 14 July against the plans of President Alejandro Toledo, a former World Bank adviser, to privatise the water industry and other sectors. ©

Are multilateral creditors putting Peruvians at risk? CNES  
[www.servicesforall.org/html/worldbank/Peruvians\\_at\\_risk.shtml](http://www.servicesforall.org/html/worldbank/Peruvians_at_risk.shtml)

online edition at  
[brettonwoodsproject.org](http://brettonwoodsproject.org)

**I**N APRIL the World Bank announced the Country Assistance Strategy (CAS) elaborated in partnership with the Mexican government. The strategy will be implemented between July 2004 and June 2008. Funds available are from \$1.2 to \$1.8 billion annually. Isabel Guerrero, the Bank country director for Colombia and Mexico, said: “we developed an assistance strategy for Mexico in partnership with the government and the civil society to make sure that the CAS addresses the key development issues of the country”.

There are many problems with both the CAS and Ms. Guerrero’s assertion. Firstly, the document categorises Mexico as a middle-income country because of its GNP per capita, at the same time recognising that 50 per cent of Mexicans live in poverty. The Bank’s strategy is to focus on fighting “poverty and inequality, and increasing competitiveness, strengthening institutions, and promoting environmental sustainability in the country”. But what does the Bank mean by ‘competitiveness’? And why was this strategy chosen for “the major Middle Income Country”?

The strategy consists of a programme of operations based on funds from the International Bank for Reconstruction and Development, the Bank’s non-concessional lending window, and the International Finance Corporation (IFC), the Bank’s private sector arm. The participation of the IFC not just in operating, but in planning the strategy, signals the deeper participation of the private sector. This is the entry point for the privatisation of services in those areas where it has not yet been accomplished in Mexico.

The analysis of the causes of poverty is the same as that in the previous World Development Reports, namely inequality in access to health, education and public utilities, and the absence of ‘human capital’. Governments, unable to satisfy the needs of citizens, must therefore turn to the private sector. The increase in competitiveness will be achieved through the strengthening of financial markets among other elements. Strengthened institutions will be achieved through deepening decentralisation.

## “Middle-income country”? Over half live in poverty

COMMENT

Susana Cruickshank

Action Researcher on Multilateral Development Banks,  
Citizen Diplomacy Program at Equipo Pueblo, Mexico

From the point of view of the Bank, the causes of poverty are unrelated to the development model promoted by the IFIs themselves. Poverty is reduced to the absence of ‘human capital’ and the disparities between the north and south of Mexico. Some analysts in Mexico say that we do not have a strong economy, and that the government must take pro-active measures to bring down unemployment. But by affirming Mexico’s status as a “major Middle Income Country”, the Bank endorses the status quo. Neither the Bank nor the government ever focuses on structural changes—not structural adjustment—but structural changes planned in a genuinely participatory way, with the main sectors represented.

It is important to point out that the Bank and the Mexican government did not develop the CAS in “partnership with the civil society”. They invited some groups of civil society to a consultation about the CAS. Civil society was not prepared to commit to sign the draft, nor was the Bank committed to accepting the proposals of the civil society groups. In that meeting, some of the invited organisations asked about under-represented sectors like trade unions (there were just three leaders in attendance). Most of the people there had no idea what the CAS was, how the Bank functions in Mexico, or what kind of programmes it has.

Ms. Guerrero’s description of a “partnership” with civil society is simply untrue. As in the past, Bank staff distort the participation of the civil society groups that want a real say in Bank policies. Equipo Pueblo filed a public complaint about the ‘manipulation of participation’ which has not been answered.

What we want is less, not more loans from the Bank. Mexico is limping towards developed country status with 50 per cent of its inhabitants living in poverty. ©

DECA Equipo Pueblo  
www.equipopueblo.org.mx

## Landmark decision: Canadian company debarred

Anti-corruption campaigners are applauding the World Bank’s decision to debar Acres International, a Canadian company found guilty by Lesotho courts of engaging in corrupt activities in a Bank-funded water project. Acres was declared ineligible to receive any new Bank financed contracts for a period of three years. The short period of debarment was due to “mitigating factors”: the fact that Acres had already been ordered to pay a criminal fine by the Lesotho courts and that the persons involved “are no longer in positions of responsibility in the company”.

The Government of Lesotho first announced criminal indictments against Acres in 1999. At that time, the Bank launched an investigation concluding that there was “insufficient evidence” to sanction the firm. Following Acres unsuccessful appeal

in 2003 against its conviction the previous year, the Bank’s sanctions committee reopened its investigation. In the meantime, Acres continued its work for the Bank, winning over \$2.3 million in new contracts, none of which will be affected by the debarment decision. Since its indictment in 2001, German firm Lahmeyer International has received nearly \$8 million in contracts, including a contract in 2003 after its conviction. Initial reticence and the slow pace of the Bank’s response to the Acres case (the original offences took place in the early 90s) has led observers to question the commitment of the institution to stamping out corporate corruption.

Acres was bought out in June by rival firm Hatch Limited. It is not clear what impact the decision will have on the ability of Hatch to bid for World Bank projects. Under Bank

rules, when the sanction committee recommends that a firm be penalized it can also recommend a penalty for “any individual or organisation that, directly or indirectly, controls or is controlled by the firm.”

Hatch may have taken on more than it bargained for. Officials of the company said that they were unaware that part of the fine Acres was ordered to pay by the Lesotho courts remained unpaid. “Lesotho considers Acres delinquent on its fine and will seek to recover the outstanding \$2 million through the Canadian courts. We have no alternative,” said prosecuting lawyer Guido Penzhorn.

Fiona Darroch, a UK-based barrister, who has been observing some of the Lesotho trials said: “This debarment raises three interesting questions: First—the Bank only reopened its debarment proceedings against Acres after it had been pre-

sented with ‘new evidence’. Can the investigative department of the World Bank do its job properly without being sustained by such evidence? Second—under what duties are other IFIs, similarly involved in the Lesotho project, to reflect a similar approach to corruption? Third—why did the sanctions committee allow Acres to use its fine as a “mitigating factor”, when the fine has not yet been paid?”

The Bank’s sanctions committee may soon face similar decisions on the debarment of companies from across Europe, including Schneider Ltd. (taken over by British firm AMEC) and UK firms Stirling International and Balfour Beatty. ©

Focus on Lesotho corruption trials,  
Odious Debts

www.odiousdebts.org/odiousdebts/index.cfm?dsp=subcontent&AreaID=157

# Bank response to oil, gas and mining review “completely inadequate”

*The Bank management response to the recommendations of the Extractive Industries Review (EIR) was released 18 June to widespread criticism. The Greens alliance in the European Parliament called it “completely inadequate”, while a coalition of US socially responsible investors said it needed to be “considerably strengthened”.*

NGOs have argued that the management response represents “only a small step” to ensuring that the right conditions are in place to make extractive industries contribute to poverty alleviation.

In the past months, support for the full implementation of the EIR recommendations had come from a wide range of individuals and institutions including the European Parliament and European Commission, the German parliament, the Dutch development minister and the Indonesian finance minister.

Highlights of the management response (MR) and the civil society analysis (CS) of that response include:

## Pro-poor measures

**MR:** Says that the Bank will focus on the need to “minimise risks” to local communities, compensate them and ensure that communities “benefit in some way from projects that affect them.”

**CS:** Each extractive project should be screened against a set of criteria to determine whether or not it will directly alleviate poverty.

## Governance

**MR:** Agrees to assess governance risks based on existing World Bank indicators, consider risk mitigation measures in certain projects and use Bank judgement to decide how to proceed on a case-by-case basis.

**CS:** Existing Bank indicators do not address unique issues that arise with extractive projects, such as revenue problems and the presence of armed conflict. The Bank should develop governance criteria specific to extractives that would demonstrate a country’s ability to manage the relevant risks.

## Human rights & free, prior and informed consent

**MR:** Management will discuss with the board the issue of a rights-based approach to development. “Free, prior and informed consultation” with affected indigenous peoples

should result in informed participation that leads to “broad community acceptance of the project”.

**CS:** Bank policies and practice must reflect the international legal obligations of its shareholders with respect to human rights and indigenous peoples. Indigenous peoples’ organisations labelled as “unacceptable” the sleight of hand whereby free, prior and informed consent was turned into consultation.

## No-go zones

**MR:** Defers the determination of clear no-go zones to the IRC’s safeguard review process, but also points to

the Bank’s natural habitats policy as a suitable safeguard.

**CS:** The natural habitats policy is vague. The Bank should take this opportunity to define a set of critical natural habitats of high conservation value following best practice standards.

## Climate change & renewables

**MR:** Commits the Bank to “at least 20 per cent average growth annually in both our energy efficiency and renewable commitments over the next five years.”

**CS:** Given the ambiguous wording of this commitment and the arbitrary selection of a low baseline, it is likely that the Bank will be increasing their support for fossil fuels over the next five years by more than their increase in renewables funding. ©

The plan was to be put before the Bank’s board in early August.

EIR management response, World Bank  
[www.worldbank.org/ogmc/](http://www.worldbank.org/ogmc/)

Civil society views on the EIR  
[www.eireview.info](http://www.eireview.info)

## Wolfensohn meets Congolese groups

A videoconference was held in July to bring together Congolese organisations, international forest activists and Bank president James Wolfensohn to discuss a Bank-supported forest zoning plan for the Democratic Republic of Congo (DRC). The plan will see an area of rainforest the size of France opened up to industrial logging in the coming years.

All sides agreed that the status quo of spiralling illegal logging must not be allowed to continue. The capacity of the Congolese government to regulate is extremely low, emphasising the need for civil society involvement.

Some organisations questioned the approach taken by the Bank.

David Kaimowitz of CIFOR expressed fears that “the informal sector which supports the livelihoods of much of the population won’t receive the attention it deserves relative to the question of protected areas and industrial logging.”

Wolfensohn conceded that the capacity of the government to monitor its commitments in the new code is weak: “if anyone has a magic formula for eradicating corruption different from our own, I would be more than happy to hear it.”

NGOs have argued that far from a “magic formula”, the least the Bank could do in DRC is implement its own safeguard policies. In a 17 June

letter sent by a coalition of Congolese and international NGOs, alarm was expressed that environmental assessments are not being carried out on the majority of loans to the DRC. The coalition has asked the President what justification was provided to the board of directors to waive safeguard policy requirements. ©

## Videoconference transcript

[www.rainforestfoundationuk.org](http://www.rainforestfoundationuk.org)

Letter to Wolfensohn on DRC loans, Environmental Defense

[www.environmentaldefense.org/pdf.cfm?contentid=3838&FileName=Wolfensohn%5F061704%2Epdf](http://www.environmentaldefense.org/pdf.cfm?contentid=3838&FileName=Wolfensohn%5F061704%2Epdf)

## Indigenous issues still unresolved

The World Bank legal department held a meeting in May in New York in response to long-standing calls from indigenous groups for a roundtable discussion between indigenous legal experts and the WB legal department. Indigenous leaders have said it amounted to an “informal meeting” and not the legal roundtable called for. Participants received the new draft indigenous peoples policy only hours before the meeting. The long overdue policy was scheduled to go to the Board for approval on 7 June, but has now been postponed indefinitely.

World Bank faces scrutiny of indigenous leaders, Bank Information Center  
[www.bicusa.org/bicusa/issues/indigenous\\_peoples/1474.php](http://www.bicusa.org/bicusa/issues/indigenous_peoples/1474.php)

## Guatemalan gold project gets financing

The World Bank’s private sector arm, the International Finance Corporation (IFC), in June approved a \$45 million loan to help Glamis Gold Ltd. develop a gold mine in western Guatemala. The mine is currently under construction and is expected to start production in 2006. The IFC said it will also help plan and implement the environmental and social programmes for the mine by working with the company, non-governmental groups and community leaders. Campaigners say that Glamis Gold has a “dismal record” on community rights.

Bank OKs loan for Glamis Guatemala gold mine, Planet Ark  
[www.planetark.org/dailynewsstory.cfm/newsid/25790/story.htm](http://www.planetark.org/dailynewsstory.cfm/newsid/25790/story.htm)

## Environment safeguards bypassed in Poland

A group of NGOs has sent a letter in May to the World Bank’s country director for Poland asking for a halt to Bank support for a highway modernisation project. After long negotiations with government agencies, the NGOs had won assurances that the EU financing decision on the project would await completion of a strategic environment assessment. The highway widening is part of a larger project which NGOs say will seriously impact wildlife and create pollution problems for several national parks. The Bank has not responded to the call for a meeting.

NGO letter to World Bank on Polish road 8  
[www.bankwatch.org/issues/transport/viabaltica/downloads/letter\\_wb\\_05-04.pdf](http://www.bankwatch.org/issues/transport/viabaltica/downloads/letter_wb_05-04.pdf)

## Georgia puts BP pipeline project on hold

The Georgian government has put a two week halt on BP’s controversial £2.4 billion Caspian oil pipeline project citing a breach of the environmental permit and other security concerns. BP had been on site for one week.

Georgian environment minister Tamar Lebanidze said the company failed to provide contractually required environmental and risk assessment information. She fears oil leaks could devastate the region.

Lebanidze added that she would have rejected the pipeline scheme which was agreed by the country’s former president Edward Shevardnadze before being forced out of office last year.

## Inside the institutions **The World Bank's project cycle explained**

The World Bank's public-lending institutions (IDA and IBRD) lend about US\$ 15-20 billion annually to 100 countries to projects ranging from infrastructure, education, health and financial management. Bank financed projects are conceived and supervised according to a project cycle. Documents produced as part of the project cycle can be valuable sources of information for those interested in monitoring the Bank's work.

Projects are managed through sector or regional departments and combine financing and advice. Below is an outline of the eight steps of the project cycle, the documents that are produced as part of the process, and how to access them.

**1 Overall development strategy** The Bank's Country Assistance Strategy (CAS) forms the blueprint for its assistance to a country. For low-income countries, the CAS is based on the priorities identified in the Poverty Reduction Strategy Paper. The CAS is supposed to be produced in co-operation with the government and interested stakeholders. It draws heavily on Bank analytical work.

**2 Project identification** The borrower and Bank analyse development strategies (e.g. PRSP and CAS) and generate project ideas. The Bank's economic and sector research is influential at this stage.

After project identification, the Bank country team creates a *Project Concept Note (PCN)*, an internal document of four to five pages. It outlines the project's basic elements, its proposed objective, likely risks, alternative scenarios to conducting the project, and a likely timetable for the project approval process. The PCN is not available to the public.

The *Project Information Document (PID)* is prepared after an internal Bank review of the PCN and is released to the public. It contains information on the project's objectives, a brief description, and the name of the World Bank task manager supervising the project.

The Bank prepares the *Integrated Safeguards Data Sheet (ISDS)* after the project's first formal review and makes this available publicly. This identifies key issues under the World Bank's safeguard policies for environmental and social issues, and provides information about how they will be addressed during project preparation.

**3 Preparation** This phase is supposed to be country driven. "Technical, institutional, economic, environmental and financial issues facing the project" are studied. If relevant, environmental assessments, indigenous peoples development plans, and environmental action plans should be made available to the public. Bank understanding suggests that Poverty and Social Impact Assessments (PSIA) would be conducted at this stage, while civil society observers argue that PSIA should occur in steps 1 and 2.

**4 Appraisal** The Bank is solely responsible for project appraisal. Bank staff review the work done during identification and preparation, often spending three to four weeks in the client country. They prepare either Project Appraisal Documents (investment projects) or Program Documents (for adjustment operations) for Bank management and the financial management team assesses the financial aspects of the project. The PID is updated during this phase. These documents are released to the public only after the project is approved.

The Infoshop provides information via the web and public information centres, maintained at various World Bank country offices. At these centres information on Bank operations can be accessed. They offer project documents and a library of recent Bank publications. They may also offer internet access to browse through the World Bank's online resources. There is a charge for project documents; however, NGOs receive a discount. Project documents are free for nationals of the country to which the project pertains.

www.worldbank.org/infoshop

Getting access to information from the World Bank, BIC

www.bicusa.org/bicusa/issues/misc\_resources/292.php

**5 Negotiation and approval** After project appraisal, negotiations between the Bank and the borrower country enter the final phase. Both sides come to an agreement on the terms and conditions of the loan. The documents setting out the Bank's assessment of the feasibility and justification for the programme, along with the memorandum of the president and legal documents are then submitted to the Bank's board for approval.

Submission of relevant documents for final clearance by the borrowing government is done at this stage and may involve ratification by a council of ministers or a country's legislature. Following approval by both parties, the loan agreement is formally signed though it can only be disbursed after any required conditions have been met. The agreement is then made available to the public.

**6 Implementation and supervision** Project implementation is the responsibility of the borrowing country, while the Bank is responsible for supervision. After loan approval, the borrowing government, with technical assistance from the Bank, prepares the specifications and evaluates bids for the procurement of project goods and services. The Bank reviews this to ensure compliance with procurement guidelines, following which funds are disbursed. The Bank's financial management team maintains project financial oversight.

**7 Completion** At the end of the loan disbursement period, a completion report (staff self-evaluations) identifying accomplishments, problems, and lessons learned is submitted to the Bank board for information purposes. This document is now available to the public.

**8 Evaluation** The Operations Evaluation Department (OED) conducts an audit to measure project outcomes against the original objectives. The audit reviews the project completion report and a separate report is produced. Both reports are submitted to the executive directors and the borrower. These are not released to the public.

- *Project performance assessment reports*—produced by OED staff and involve country visits
- *Impact evaluation reports*—conducted 5–8 years after loan disbursement
- *Inspection panel reports*—review claims by parties affected/likely to be affected by projects which violate procedures and policies

## Bank trade hymn out of tune once again

Pouring cold water on a progressive trade proposal from the EU, the Bank's trade director has once again crossed the boundary from advocacy into ideology.

In mid-June, Uri Dadush, head of international trade at the Bank, responded to an EU proposal that the poorest countries only be required to cap their tariffs at existing levels rather than make substantial cuts. "The EU proposal, although well intentioned, is not appropriate for development". Dadush argued that poor countries must offer new market openings or they would have no leverage in persuading rich countries to end their unfair subsidies to agriculture: "You're not going to get, let's face it, the same pressure on doing something about cotton or sugar

if the countries that are interested in those reforms" are not offering something in return.

Roberto Bissio, coordinator of Social Watch, wrote to president Wolfensohn asking for some consistency in the Bank's message on trade. At the Annual Meetings in 2002, Bissio was on a panel where Wolfensohn joked that he would "get rid of" anyone who worked on the assumption that unilateral trade liberalisation was good for developing countries. Bissio suggested "that it is about time your staff sings the same hymn you are singing. And that your monies dance at the same rhythm. Otherwise, your personal credibility and that of the World Bank will suffer."

Gobind Nankani, vice president of the poverty reduction and eco-

nomics management group, replied to Bissio's letter saying that, "unfortunately, there is no free lunch—and developing countries would pay a price ... it would be paid in the form of the missed opportunities that governments could otherwise seize to undertake domestic reforms that will promote growth."

Dadush and Nankani's comments run counter to the analysis of a number of international agencies and trade analysts. The June UNCTAD conference in Sao Paulo unanimously concluded that countries should use the ability to explore options and maintain the necessary space for policy in order to arrive at the best possible balance between different approaches in their national development strategies.

This view of the role of trade in development is echoed in the latest study from the Commonwealth Secretariat, written by Joseph Stiglitz, former World Bank chief economist. The Stiglitz report calls on rich countries to open their markets without requiring poorer ones to liberalise. Stiglitz says many developing countries have been hurt by past trade agreements and have been forced by the IMF to take trade liberalisation measures that had damaged their economies.

Bissio letter to Wolfensohn

ifwatchnet.org/doc/bissiotrade.pdf

Stiglitz paper

www-1.gsb.columbia.edu/ipd/commonwealth/execsummary.doc

# Moving the goalposts

## Zambia's misery prolonged

*Despite intensive efforts to implement the necessary conditions, Zambia has been told that it will have to wait even longer for debt relief.*

Zambia had expected to reach the 'completion point' of the Heavily Indebted Poor Country (HIPC) initiative, making it eligible for debt write-off, by December 2004. However, due to delays in the approval of its programme with the IMF, the country will now have to wait until its performance against the conditions of the latest loan can be evaluated before it is eligible for debt relief. IMF resident representative Joseph Kakoza said that the boards of the Fund and the Bank would meet in the first quarter of 2005 to consider Zambia's record of economic reforms and decide whether to approve a debt write-off at that point.

Zambia's finance minister Ngandu Magande responded that the delay in attainment of HIPC completion point would undermine efforts against poverty. Finance permanent secretary Richard Chizyuka contended that "the issue in Washington has nothing to do with economic performance because we were given a tick on all the numbers". According to Stephen Lewis, UN envoy for HIV/AIDS, Zambia's attempts to comply with Fund requirements, including

caps on wages in the public sector and increased taxes, have already caused "staggering damage to the social sector".

In a report on Zambia's debt crisis, UK-based World Development Movement conclude that the IMF and World Bank's involvement in Zambia has been "unsuccessful, undemocratic, and unfair". According to the authors,

Zambian economists Jack Zulu and Lishale Situmbeko, HIPC is the lever through which the IMF and World Bank wield influence over Zambia's economy. Reforms forced on Zambia have resulted in tens of thousands being unemployed, the destruction of key industries, social unrest and increased poverty. Trade liberalisation, a key part of Bank and Fund economic policy prescriptions, has wreaked havoc on Zambia's manufacturing sector especially the textile industry. Reduced tariffs on textile products have resulted in cheap imports of second-hand clothing flooding local markets and crowding out Zambian products.

Fund conditionality, say the authors, has undermined democratic accountability. Conditions requiring the privatisation of the state electricity company and national bank were

initially met with enormous public resistance. The IMF's resident representative, Mark Ellyne, put it simply "if they don't sell, they will not get the money". Zambia's government was subsequently forced to rescind its decision and that of its parliament not to privatise.

Critics have pointed out that unrealistic benchmarks have been set in the Zambian case. A June editorial by the Lusaka Post asked the IFIs to consider "at whose expense their inhumane policies are being implemented". "Zambia's experience", they add, "confirms HIPC as an unsuitable substitute to complete debt write-off." ©

Lewis statement, 11 June

[www.stephenlewisfoundation.org/news.html](http://www.stephenlewisfoundation.org/news.html)

Zambia condemned to debt, WDM

[www.wdm.org.uk/cambriefs/debt/zambia/zambia.pdf](http://www.wdm.org.uk/cambriefs/debt/zambia/zambia.pdf)

## Conditionality: two steps forward, two steps back

The World Bank's forum on conditionality was held at the World Bank Conference Centre in Paris in early July. The majority of participants were representatives of bilateral and multilateral aid agencies. The two NGO representatives in attendance (ActionAid and SAPRIN) reported that no significant outcomes were noted or decisions taken.

At an ActionAid seminar on conditionality in late June in London, Harold Bedoya of the Operations Policy and Country Services team at the Bank made a presentation analysing trends in adjustment lending and conditionality.

He argued that the focus of Bank conditionality has shifted from industry and infrastructure to a more pro-poor policy agenda. Less emphasis is being placed on public enterprise restructuring and privatisation conditionality and more on reform of legislatures.

In his view, the focus of Bank and Fund conditionality in low-income countries has shifted over the past few years with the average number of structural policy conditions under IMF-PRGF arrangements and reviews decreasing sharply. In parallel, the Bank has expanded structural conditionality beyond its core areas—

governance, regulatory reforms and poverty reduction strategies—to civil service reform and financial, social and rural sectors.

The UK's Department for International Development (DFID) are still working on their policy paper on conditionality aimed at the Bank/Fund annual meetings early October. At the same time, DFID will release the final version of its institutional strategy paper on the World Bank. During consultations, DFID was urged to put pressure on the Bank to streamline conditionalities in line with the recent Fund exercise. ©

## Debt sustainability debates; new proposals for cancellation

Preliminary analysis of the IFI's new debt sustainability framework by US-based Citizens' Network on Essential Services (CNES), argues the proposal emphasises the rights of creditors over all other development challenges, including the attainment of the Millennium Development Goals (MDGs). The focus on future borrowing and debt "thresholds" may undermine the argument for the cancellation of old debts and preclude a fundamental questioning of the role of loans.

Special UN adviser Jeffrey Sachs, has suggested that African countries should refuse to repay their foreign debts, urging developed countries to cancel Africa's \$201 billion debt which makes it impossible to achieve the development goal of halving poverty: "if they won't cancel the debts, I would suggest obstruction".

Analysts have pointed out that if the debt sustainability proposal is to advance the MDGs, the level of grants needs to increase to ensure

net transfers to low income countries are not reduced. A high policy score might not assure countries increased overall assistance if the proportion of grants to loans is lower.

Debt campaigners have long questioned the 'grants vs. loans' approach. They argue that a better approach would be to assess country needs for development finance against benchmarks such as the MDGs, cancel all debt and make up the balance through grants.

CNES analysis casts doubt on the administration of debt sustainability pointing out that it assumes a level of coordination among multilateral lenders that does not exist. They argue that the proposal will result in more stringent terms for grant aid, and a shrinking of countries' policy autonomy. The proposal would effectively sanction a policy cartel propagating 'one-size fits all' policies.

Press reports of a US government plan to back a proposal for 100 per cent cancellation of multilateral debt

ahead of the June G8 summit was seen by analysts as an attempt to get backing for Iraq's reconstruction. It is believed that the UK may be holding out for their 2005 G8 presidency to make a 'grand announcement' on debt relief.

Perhaps the greatest obstacle to debt cancellation is the lack of clarity on who will pay. Birdsall and Deese of the Center for Global Development, suggest mobilisation of more IMF gold, increased bilateral assistance, higher interest rates on loans to upper middle-income countries, and a new 'insurance policy'. The latter would require creditors to take partial responsibility for both unanticipated shocks and inaccurate predictions which lead to debt accumulation.

The Debt Coalition in Ireland argue that the IMF and World Bank could afford 100 per cent cancellation from their own resources without impacting their ability to lend to other developing nations.

Researchers at the University of Bayreuth, Germany, who define debt distress taking into account the MDGs, propose a Board of Trustees on Sustainability (BOTOS). Similar to an arbitration tribunal for private insolvencies, the BOTOS would be a neutral authority with equal representation of debtors and creditors allowing all parties space for constructive dialogue.

The HIPC initiative, due to expire at the end of this year, is likely to be extended. The final G8 communiqué urged its full implementation. UK Chancellor Gordon Brown called for a consideration of "all options to finance further debt relief for the poorest countries, including making better use of IMF gold". ©

Saving debt relief from itself, CGD

[www.cgdev.org/Publications/?PubID=116](http://www.cgdev.org/Publications/?PubID=116)

The BOTOS approach, WISOTREN

[www.erlassjahr.de/content/languages/englisch/dokumente/20040607\\_botos\\_approach.pdf](http://www.erlassjahr.de/content/languages/englisch/dokumente/20040607_botos_approach.pdf)

# Bank evaluation vindicates PRSP critics

*The World Bank's Operations Evaluation Department (OED) released end July an evaluation of the Poverty Reduction Strategy Paper (PRSP) process.*

While the PRSP initiative is an "improvement" from the policy framework papers of the 90's, the review notes it has "yet to fulfil its full potential". Changes are suggested "to reduce or eliminate uniform requirements, encourage PRSPs to explore a wider range of policy options and define clearer partnership frameworks for better accountability".

The review acknowledges the tension between conditionality in Bank programmes and the principle of country ownership. Self-censorship means PRSP documents contain standardised strategies. Rushed preparation of documents "to meet BWI deadlines" was cited as a problem in Cambodia, Mozambique, Nicaragua and Tanzania.

The review commends the involvement of new actors in the policy dialogue process. However, this falls short of exerting a significant influence over the content of PRSPs. There is little discourse on possible policy trade-offs and alternative macro-economic frameworks.

Due to weak country monitoring mechanisms, there is a tendency towards donor-focused monitoring. This results in skewed accountability. Efforts for donor coordination around the PRSP remain unrealised.

The review suggests Bank staff should not "impose a particular World Bank view point". A tall order consid-

ering the enormous influence of joint staff assessments, Bank economic sector work and the final power of sign-off retained by the IFIs.

The review acknowledges the contradiction of a Washington sign-off: "the Bank management's process for presenting a PRSP to the

## Who will assess the assessments?

Civil society organizations remain concerned that Poverty and Social Impact Assessments (PSIA) will not deliver the desired outcomes. PSIA are meant to ensure that policy-making is informed by analysis of the impact of reforms on various vulnerable groups. Equally important is their intended role in improving the quality of debate and opening up space for negotiation between government, civil society and donors.

The UK's Department for International Development (DFID) has shown interest in supporting the monitoring of IFI commitments to PSIA. A meeting with UK NGOs in early July explored ways this could be done. An information hub on PSIA is to be created to bring together case study material in collaboration with country partner organisations. Such information could be useful for lobbying IFIs for improved assessments.

Together with the Bank, DFID has commissioned a sourcebook

board undermines country ownership". Bank and Fund staff assessments of PRSPs "have shortcomings that undermine achievement of goals"—they tend to be descriptive rather than analytical. The review suggests "a major redesign or discontinuation of the joint staff assessments" and proposes interactive means such as stakeholder workshops.

The review highlights other key civil society critiques of the PRSP initiative namely persistence of structural adjustment policies, little parliamentary involvement, non-institutionalised participation mechanisms, weak implementation of impact assessments and poor donor coordination. PRSPs are not mainstreamed in national pol-

icy-making processes and are disconnected from budgetary and electoral processes.

The review points out that the PRSP process has meant different things to various actors—governments see it as added conditionality, civil society as offering scope for leverage and voice in policy-making, while for donors it offers a mechanism for better aid delivery. These varied interpretations have implications for coordination and implementation.

A parallel evaluation by the IMF's Independent Evaluation Office of the Poverty Reduction and Growth Facility was released end July. ©

PRSP evaluation, OED

www.worldbank.org/oed/prsp

for PSIA. Named TIPS—Tools for Institutional, Political, and Social analysis—it is being produced by the Centre for Development Studies at the University of Swansea and should be ready by the end of September. DFID has stated it is keen to have NGOs input into the sourcebook especially in terms of country case studies of PSIA experience. The sourcebook is intended to balance the current over-emphasis on econometric modelling.

Many questions remain including where PSIA are being conducted, who chooses the topics, what policy areas are covered, what is the role of IFIs, and when and to what extent results are made available.

Through the World Bank Trust Fund for Environmentally and Socially Sustainable Development (TFESSD) Norway has financed eight PSIA thus far. Norway is leading a network on PSIA capacity building, established at an international workshop on PSIA held last year

(see Update 37). A number of other PSIA are currently under development. These are funded by both the Bank and DFID. There is a risk that the multiplicity of donor and IFI processes around PSIA seeking to distil country 'best practice' could overburden borrower countries.

Responding to an NGO letter (see Update 40) raising concerns over the IMF's new PSIA unit, deputy managing director Anne Krueger conceded that PSIA need to be country-owned and that the choice of PSIA topics would be part of PRSP processes. Fund PSIA will focus on the impact of the measures demanded in the Poverty Reduction and Growth Facility. Krueger rejected suggestions that the team of four macroeconomists should be balanced with social scientists. ©

DFID PSIA meeting notes upon request

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To contribute PSIA country case studies contact Jennie Richmond

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## ICSID to hear Cargill case against Poland

US-based agricultural giant Cargill has filed a \$130 million claim against Poland at the International Centre for Settlement of Investment Disputes (ICSID), the World Bank arbitration tribunal. The multinational alleges a breach of a 1994 US-Poland investment treaty. Cargill says it has received treatment less favourable than its competitors in the Polish sugar industry, after changes were made to quotas as a requirement of EU accession.

Invest-SD news bulletin, 16 July 2004, IISD

www.iisd.org/pdf/2004/investment\_investsd\_july16\_2004.pdf

ICSID list of pending cases

www.worldbank.org/icsid/cases/pending.htm

## Bank constructs "governance states"

Finding star pupils of its reforms justifies the Bank's massive intervention in Africa. A new book by Graham Harrison at the University of Sheffield examines the role of the World Bank in constructing "governance states". Harrison argues that the "intimacy of the Bank's intervention allows it to represent its actions not as external intervention but as a 'partner' within sovereign states". "The fragility of governance states and the largesse of external agencies produce the 'grease' that allows African elites to embrace the governance model as part of their own desires for enrichment and social ascendance." Should be required reading for members of the Commission for Africa.

## African directors capacity fund underway

The Analytical Trust Fund (ATF) for sub-Saharan African executive directors at the Bank and Fund will hold its inaugural steering committee meeting in Nairobi in September. A majority of donors have now made their financial contribution. The African Economic Research Consortium (AERC) won the contract to assist the two sub-Saharan African executive directors with research to support them in their roles. Dr. Dominique Njinkeu has been chosen by the EDs to act as their adviser, lending technical expertise to the consideration of concept proposals and work received from the AERC, and bringing issues of relevance to development in Africa to their attention.

## Brazilian bill requires approval of IFI reps

The lower house of the Brazilian parliament is considering a bill which would require the appointment of posts in international organisations such as the Bank and Fund to receive confirmation by the senate. The NGO Rede Brasil has called for civil society to back the bill, saying that it is because the IFIs "remain immune from scrutiny by parliaments and society that such organisations become capable of unduly and harmfully interfering in internal policies of borrower countries."

Brazilian bill requires legislative approval of country reps in IFIs, Rede Brasil

www.rbrasil.org.br/publicacoes/textos/efblczysjm/pl\_2785\_engl.pdf

## Review: 'one-size fits all' solutions persist

The World Bank's Operation Evaluation Department (OED) released its 2003 Annual Review of Development Effectiveness (ARDE) in June. The review examines the "effectiveness of Bank support in helping borrower countries put in place policies that are conducive to sustainable poverty reduction" for the years 1999 to 2003.

This objective itself is problematic, suggesting that there is no debate over which policies are conducive to poverty reduction. This concern was highlighted by the bias in the selection of the four policy indicators used to evaluate if developing countries' policies are improving: the Bank's internal Country Policy and Institutional Assessment, the Heritage Foundation's index of economic freedom, the Economist's index of country risk and the Political Risk Service Group's international country risk guide.

### Picking winners

The report concludes that the Bank has been "reasonably good" at aligning its support with countries that are improving their policies. It finds that the chances for successfully inducing pro-poor policies is significantly reduced in countries with a "poor or non-existent track record". Yet, inevitably, poor track records are put down to the failure of borrowers to implement structural adjustment programmes, while the policy content of the programmes is left unquestioned. The Bank has had "only modest success" in curbing corruption.

### Participation insufficiently thought through

The strongest sense of ownership is developed "where a highly inclusive participatory process is conducted in tandem with the country's normal political processes." Uganda is cited as best practice. The review finds, however, that the potential of the Poverty Reduction Strategy Paper for fostering country ownership is "undermined by its role as condition for access to concessional assistance from the Bank and Fund." Moreover, "the attempt to broaden participation within society beyond government was perhaps insufficiently thought through."

### Inadequate country knowledge

The review vindicates Bank critics who accuse the agency of 'one-size fits all' policy reform. The Bank's performance "has been mixed, hampered

in some cases by inadequate country knowledge, in others by insensitivity to country policymaking styles, and in still others by attempts to transplant policies and institutions without adequate analysis of the context." In transition economies, the review points to a recent OED evaluation which found that the "sequencing of reforms was often wrong."

Costa Rica and Uruguay are cited as examples where the Bank-set pace of reform was inappropriate for country context. Other countries provide examples where economic analysis has missed the mark. In Zimbabwe, the report found that inadequate analytical work had led to policy recommendations "leading to the rapid accumulation of additional debt".

As for examples of good policy reform results, the review offers the observation that Chinese reforms have been successful despite a "rejection of approaches based on conditionality".

Conditionality is effective in linking Bank support to reform "only in certain circumstances". The review suggests that outcomes-based conditions are less ambiguous and "could also provide more flexibility to the borrowing country to meet objectives in the best way under the circumstances."

The review concedes that there are "tensions between the use of policy indicators which are based on the premise that their underlying criteria reflect good policies at all times and in all places and the findings that good policies have context specific elements."

### Narrowly focused

The "Bank has done a good job in aggregating knowledge but has been less successful in fostering adaptation to country contexts." A survey of Bank clients found that the Bank is "too narrowly focused in the analyses and 'best practices' that it presents with little or no attention to alternative perspectives or to individual country circumstances." Several said that the "Bank's insistence that its approach is the only correct approach generates mistrust and suspicion." Respondents suggested the increased use of local expertise. ©

Annual Review of Development Effectiveness 2003, OED

www.worldbank.org/oed/arde2003/

Clarify Bank's openness to alternative development strategies

brettonwoodsproject.org/cdfreview

Bank's approach generates mistrust and suspicion

## Annual meetings update: NGO press pass cancelled

A decision has been taken to discontinue the NGO press pass for the meetings, marking a serious step backwards in relations with civil society. To join a letter urging the reinstatement of the pass, contact Jeff Powell [jpowell@brettonwoodsproject.org](mailto:jpowell@brettonwoodsproject.org).

The Board of Governors of the Bank and Fund will meet in Washington D.C. on 4-5 October. The International Monetary and Financial Committee (IMFC) and the Development Committee will meet on 2-3 October. Official agenda items are likely to include: infrastructure and the middle-income country strategy, innovative sources of development financing, debt sustainability, the OED/IEO reviews of PRSP/PRGF and a report on the 'voice roadmap' on Southern country representation at the IFIs. G-24 and G-10 ministers' meetings, official civil society dialogues and unofficial events will be scheduled in the week prior.

Annual meetings 2004

www.imf.org/external/am/2004/index.htm

IFlwatchnet calendar

iflwatchnet.org/calendar

## Lucy Baker joins BWP team

Lucy Baker will start with the Bretton Woods Project in September in the new role of policy and networking officer. Currently finishing studies in international development at the School of Oriental and African Studies, Lucy has previously worked as a campaigner and communications officer with the Amnesty International secretariat and Oxfam Great Britain.

lbaker@brettonwoodsproject.org

## IFlwatchnet in your region ... and in video!

IFlwatchnet has established regional animators in Africa, Asia, Europe, Latin America and North America to assist organisations which monitor the international financial institutions to participate in the network. If your organisation watches the World Bank or one of the regional development banks, contact your regional animator:

Africa: AFRODAD, Douglas Ngwenya

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IFlwatchnet will soon add multimedia information to its growing archive of information and analysis on the IFIs. To find out more, or to contribute information about relevant films and video to the pilot 'Eyes on IFIs' portal, contact Zoe Young.

eyes@iflwatchnet.org

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www.iflwatchnet.org



Published by Bretton Woods Project  
Critical voices on the World Bank and IMF

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An independent non-governmental organisation supported by a network of UK NGOs and by the C.S. Mott Foundation.

Designed and typeset by King Graphics. Printed by RAP Spiderweb on recycled paper.