

Charging interest on bullets:

Calls mount for debt cancellation

High-profile debt cases in South Asia (see Comment, page 3), Argentina and Iraq are leading to increased calls worldwide for independent tribunals to determine which debts are not legally enforceable.

On 14 January, Argentina launched its offer to exchange \$102.6 billion in defaulted debt, offering approximately 30 cents on each dollar. Argentine economy minister Roberto Lavagna announced that the government would be satisfied if just 50 per cent of bondholders participate in the restructuring. Bondholder associations believe a 75 per cent acceptance is necessary. The IMF has demanded 80 per cent participation.

Local pension funds holding 17 per cent of the bad debt have already signed up for the exchange. The offer has also been approved by the market regulators of two of the largest holders of the bonds, the US and Italy. This weakens the prospects of a creditor revolt. The main obstacle to success is the Global Committee of Argentina Bondholders which says it represents \$38 billion of the debt in default that will not be swapped. The final result will not become clear until close to the 25 February deadline for creditors to accept the deal.

Last August the IMF suspended its agreement with Argentina pending the government reaching a deal with its bondholders. The country faces a steep increase in debt payments this year and will have to choose whether to repay its \$15 billion obligations to the Fund or negotiate a new deal to rollover the debt. Many commentators both in Argentina and abroad have called for the country to cut its ties to the Fund.

Complicating matters for both private and multilateral creditors is the question of how much of the debt might eventually be declared illegitimate. Argentine MPs Mario Cafiero and Maria Angelica Gonzales sent a letter to the US Securities and Exchange Commission last July



“If a despotic power incurs a debt not for the needs or in the interest of the state, but to strengthen its despotic regime, to repress the population that fights against it, etc., this debt is odious for the population of all the state.”

Russian scholar of international law, Alexander Sack, 1927

highlighting the omission of relevant legal information from the proposed issue of new sovereign bonds. They point to an Argentine federal court decision in July 2000 that found that many of the 152 sovereign debt bonds to be swapped

were illegal in origin. In the decision, judge Jorge Ballester placed blame on the “complicity of international lending agencies, international private banks and transnational companies which, while knowing the prevailing economic condi-

tions of our country and due to the lack of democratic controls, decided to enter agreements with the military regime.”

While Cafiero and Gonzales plan to table an odious debt bill in the congress, a similar challenge will be brought before the Argentine courts. Two investigators, Alejandro Olmos Gaona and Daniel Marcos, will request that the debt swap be halted until legal questions over the origins of the debt are resolved. Both efforts aim to have foreign debt contracted by the military dictatorship (1976–83) declared odious.

Iraq: loans for “destruction and war”

In November, Paris Club creditors agreed to write off 80 per cent of Iraqi debts. Thirty per cent would be written off immediately, another 30 per cent tied to an IMF standby programme expected in mid-2005 and a further 20 per cent to be cancelled in 2008 if Iraq completes the three-year IMF programme. The US has cancelled 100 per cent of the \$4.1 billion it says it is owed by Iraq, contingent on the completion of the Fund programme.

Mahdi al-Hafez, Iraq’s minister of planning, said that the Paris Club plan does not go far enough and that Iraq seeks the cancellation of 95 per cent of its debts: “Iraq will resort to international arbitration if negotiations with these states reach a dead end.” Finance minister Adel Abdul Mahdi said that Iraq had considered designating some of its obligations as “odious debt”, loaned for “destruction and war”, which need not be repaid. Civil society groups have said that the imposition of IMF conditions on the repayment of odious debt adds insult to injury. Mohammed Kamil of the Iraqi Prospect Organisation: “when Saddam executed people, he used to charge their families for the bullets used—this is precisely what the creditor countries who financed Saddam are asking of Iraqis today.”

In mid-December Iraq cleared \$110 million of overdue debt payments to the World Bank. Payment of the arrears was necessary to allow the resumption of BWI lending, however observers have questioned the logic which sees a country at war and with

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“If Bank involvement means mega-projects, it should be avoided.”
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IFC funds deforestation and “violates Bank safeguards”
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Bank on agricultural trade: export strategy “impoverishing”

The latest World Bank publication on agricultural trade finds that a “development strategy based on agricultural commodity exports is likely to be impoverishing in the current policy environment”. How this finding will be reconciled with twenty-five years of policy advice and loan conditions to the contrary is unclear.

With agriculture looking to be the key issue in the next WTO ministerial meeting at the end of the year, the Bank released *Global Agricultural Trade and Developing Countries* in January. The volume contains contributions from various Bank economists, and is edited by Ataman Aksoy and John Beghin with guidance from the former and current chief economists, Nicholas Stern and Francois Bourguignon, and the director of the trade department, Uri Dadush. The work is divided into two parts. The first examines key policy issues while the second looks at specific commodities such as sugar, rice and groundnuts. The chapters on cross-cutting issues come to a number of conclusions:

State of agricultural trade: Authors are “surprised” to find that developing countries saw little increase in their share of agricultural exports despite the introduction of “rapid trade reforms”. Protection remains high in industrial countries while developing countries have “significantly liberalised their agricultural sectors since the 1980s”.

Trade preferences: Preferential access given to certain countries for specific products have provided “limited gains at best”. Inconsistency, uncertainty and inapplicability to key products constrain the ability of developing countries to fully exploit existing schemes. Rather than working to make preferences more predictable as many developing countries suggest, the Bank argues for their elimination altogether.

Welfare gains: Contradicting previous Bank cheerleading for the benefits of trade reform, real welfare gains from global agricultural reform “often amount to 1 per cent or less of base income”. This is in line with the work of economists such as Weisbrot and Baker, who argue that the enthusiasts for broader trade liberalisation have “substantially overstated” its benefits.

Furthermore, the new Bank research finds that if welfare models incorporate low agricultural productiv-

ity growth in developing countries, the countries risk becoming “much larger importers of food”. Different assumptions about productivity “could lead to different conclusions about the direction of food self-sufficiency.”

Research caution to the wind

This note of caution about the impacts of different assumptions was nowhere to be found when Bank and Fund representatives took the floor during a November session of the WTO agriculture committee. The Bank argued that developing countries should not use the ‘special products’ category to seek exemptions from liberalisation because the negative effect of liberalisation is “minor” and offset by the benefits. “The concept of food security and special products could be re-defined to recognise that structural food security is generally reduced, not enhanced, by trade barriers to food imports” the Bank proposed. The representative of the Philippines countered that “special products are a progressive rather than regressive element.”

A coalition of NGOs sent a letter to Bank president James Wolfensohn in September last year, protesting against similar Bank interventions on trade issues which undermine developing country negotiating positions. At the time, Bank trade director Uri Dadush had rejected EU proposals to provide exemptions from liberalisation for the poorest countries (see *Update* 41). In the Bank reply, Gobind Nankani, vice president of the poverty reduction and economic management unit, argued that “there was no such thing as a free lunch.” ©

Global Agricultural Trade and Developing Countries

www.worldbank.org/prospects/globalag

Bank response to NGO letter

www.coc.org/resources/articles/display.html?preview=yes&ID=891

G33 countries warn against tariff reduction method, Third World Network

www.twinside.org.sg/title2/twninfo178.htm

Poor numbers: The impact of trade liberalization on world poverty, CEPR

www.cepr.net/publications/poor_numbers.htm

trade liberalisation enthusiasts have substantially overstated its benefits

Evaluation of Bank global programmes: “poorly-defined” and excluding the poor

The World Bank’s Operations Evaluation Department (OED) has released its evaluation of the Bank’s approach to global programmes, finding the approach “poorly defined” and the voices of developing countries “inadequately represented”.

The evaluation is based on lessons from 26 of the 70 Bank-supported global programmes. The Bank defines these as “partnerships whose benefits cut across more than one region and in which the partners: agree on objectives; establish a new organisation; generate new products or services; and contribute dedicated resources”. This includes large, well-known programmes such as the Global Environment Facility and UNAIDS, capacity-building initiatives such as the Integrated Framework, and knowledge-oriented projects such as the Global Development Network. The Bank manages the largest amount of trust fund monies of any international organisation—\$7.1 billion in 2004. Sixty-four per cent of these funds go to global and regional programmes. Disbursements for global and regional programmes in 2004 were over \$1.2 billion.

The report is scathing in its findings. On the bank’s **selection** of global programmes to support:

- voices of developing countries are inadequately represented and poverty is not an explicit criterion among the selectivity criteria;
- while programmes meet selectivity criteria, this is because the criteria are “broad and difficult to apply”; and
- 12 of the 26 programmes brought in almost \$90 million in administrative income in 2003. “This can itself become an unstated incentive for partnerships.”

On the **value-added** to the Bank’s development objectives:

- “difficult to judge” what value they have added; and

• time to move from “letting a thousand flowers bloom to assessing which programmes deserve continuing Bank support”.

On **governance, management and financing** of the programmes:

- focus largely on improving the behaviour of developing countries and less on improving the internal workings of donor countries, donor agencies or international organisations;
- strain the limited financial and institutional capacity of developing countries;
- growth of global programme financing “appears to be coming at the cost of country-level assistance”;
- scientific and advisory committees “too often seem ceremonial”; and
- approach to working with NGOs is “ad hoc rather than strategic”.

On **World Bank performance**:

- Bank’s strategy for global programmes is poorly defined. Programmes would “serve the clients better if they were more independent of the Bank—so as to inform, not reflect, the Bank’s approaches”;
- independent oversight is needed; and
- few mentions of the issues that global programmes address in national development strategies. Poor alignment with Bank sector strategies.

The OED recommends that the Bank should, in consultation with developing countries, the UN and other donors, develop a strategy for the Bank’s involvement in global programmes. It calls on management to link financing to priorities; improve approval, oversight and evaluation criteria; and develop universally accepted standards of good governance, management, results-orientation and evaluation. ©

Evaluating the World Bank’s approach to global programs, OED

www.worldbank.org/oed/gppp/

Integrated Framework: demands too much of the poorest

The multi-agency initiative for trade-related capacity building comes in for particularly heavy criticism in the OED report:

- “wide gap between objectives and the expectations of developing countries.”
- “inadequate either for widening external market access or for loosening domestic supply constraints. Indeed the IF seems to lack enough funds even to meet its more limited objectives.”
- “demands too much of the poorest and too little of industrial countries.”
- “impacts beyond the studies conducted, reports published, or individuals trained are lacking.”
- board meetings need more “businesslike conduct”, “transparency and openness.”
- some countries see the IF “as run by and for its six international agency partners”.

World Bank trade capacity building: “doing it for them”

brettonwoodsproject.org/ifreview

THE PARIS CLUB communiqué released on 12 January stated that creditors would wait on the assessment from the World Bank and IMF on the reconstruction and financing needs in tsunami-affected countries before they deal with the repayment of the debts that these countries owe to creditors. This of course includes Indonesia, the worst-hit country.

The tidal wave and earthquake in Aceh and North Sumatra has killed at least 140,000 people, destroyed most of the infrastructure and made 500,000 people homeless. In the recent Consultative Group on Indonesia (CGI) meeting—a consortium of donors and creditors—reconstruction costs for Aceh and North Sumatra were estimated at \$2 billion. Indonesia received \$1.7 billion from the CGI—\$1.2 billion in grants and \$500 million in concessional loans.

The multilaterals, including the World Bank and the Asian Development Bank (ADB), were pretty quick in responding to reconstruction needs. They have both given soft loans to Indonesia. The World Bank, the IMF and the ADB have played a bigger role in Indonesia's economy ever since the financial crisis that hit the country in 1997. With project loans worth \$1.1 billion and the policy reform support loan, the Bank pushed for privatisation and other new regulations that would support economic liberalisation. From this loan, came Indonesia's new laws on oil and gas, and electricity that allow for privatisation of the respective state enterprises.

Like any other country that has received an IMF programme, Indonesia has had to liberalise its trade, allowing giant retailers like Carrefour and Circle K to operate in Indonesia. Privatisation of education and health services are soon to follow. Even after Indonesia terminated its programme with the IMF at the end of 2003, the programme of liberalisation and privatisation continues. Taking the option of post-programme monitoring, Indonesia continuously holds consultations with the IMF in which the progress of the adjustment programme is regularly assessed. The Indonesian economic white paper, dubbed 'post-IMF', is merely a continuation of the IMF programme.

The role of the World Bank and IMF in post-tsunami Indonesia

COMMENT

Binny Buchori
Prakarsa

The second biggest issue in Indonesia where the Bank plays an important role is the financing of infrastructure. While it is true that Indonesia's infrastructure needs boosting, the Bank is directing infrastructure development towards energy and transportation mega-projects that would require huge capital.

The recent infrastructure summit reveals the plan of both the gov-

ernment and the creditors to open investment, in other words, privatise power, water and sanitation, telecommunication and roads. The Bank's role in Indonesia has been that of promoting investment and inclusion of big companies rather than poverty eradication and ensuring equity.

The Paris Club press release that gave a huge role for the Bank and the Fund in the assessment of reconstruction financing is therefore a major concern. One of the concerns is of course in whose interest would the assessment be based on? What guarantee do we have that these institutions will not put the mega-projects as the priority of infrastructure reconstruction in Aceh and North Sumatra?

It is intriguing that the IMF is invited to calculate the financing needs for reconstruction in tsunami-affected areas. Isn't this institution supposed to specialise in monetary and fiscal policy? While Indonesia is engaging this institution on adjustment policies that have impoverished the people through austere fiscal policies and tight budgets, we should never involve them further in programmes that are not their main mandate.

If multilateral institutions are to be involved in the reconstruction of Aceh and North Sumatra, they should clearly follow the agenda of poverty reduction and the promotion of equity. In the case of Indonesia, where the most urgent need is finance without conditionality, the Bank would be helpful if it supported the efforts of the Indonesian people to seek comprehensive relief through the provision of grant financing.

If the World Bank's involvement in reconstruction means further mega-projects, it should clearly be avoided. ©

✉ bbuchori@theprakarsa.org

Odious debt: calls for arbitration mount

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infrastructure in tatters making such a payment at this time. "The World Bank, IMF, and Iraq's other state creditors—who account for 90 per cent of claims against Iraq—want to bury their mistakes. They would rather give up their claims under the guise of charity than have the spotlight of international arbitration expose that they financed a vicious dictator against his people," said Patricia Adams, author of *Odious debts: loose lending, corruption and the third world's environmental legacy*.

Haiti: Loans to slave-holders and dictators

In early January, the World Bank announced it would release \$73 million in cash to Haiti's government. The resumption of funds marked the end of a nearly four-year freeze on disbursements. For Haiti to get the World Bank cash it had to pay \$52 million

in outstanding arrears, for which Canada gave a \$12.7 million grant. An aid freeze was imposed on Haiti in 2000 after it failed to meet IMF conditions and maintain democratic standards. The new loans are being handed over to the government of Gerard Latortue which seized power in a coup after elected president Jean Bertrand Aristide was forced from office.

Debt campaigners have argued that a country as poor as Haiti should not be sending \$40 million to the World Bank. According to the Haiti Support Group, "in 1825 Haiti had to pay France \$21 billion (in 2004 dollars) to compensate French slave-holders for their loss of property. Haiti's debt to international financial institutions and foreign governments has grown from \$302 million in 1980 to \$1.13 billion today. About 40 per cent of this debt stems from loans to the brutal

Duvalier (Papa and Baby Doc) dictators. According to international law, this debt need not be repaid."

Audit the debts

To date, international institutions have failed to address the issue of odious debt. Civil society organisations have called for an independent assessment of which debts are legally enforceable. In November, NGO Jubilee South hosted an international workshop on debt auditing in Brasilia. Attended by 17 activist organisations from Latin America and the Caribbean, the workshop called for a detailed analysis of the

motives and manner in which external debts had been contracted, the amounts repaid on interest charges and debt servicing and the resulting impact on the citizens of each of the countries concerned. ©

Odious Debts

🌐 www.odiousdebts.org

Jubilee Iraq

🌐 www.jubileeiraq.org

Haiti Support Group

🌐 www.haitisupport.gn.apc.org

Committee for the abolition of the third world debt

🌐 www.cadtm.org

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in the online edition
at brettonwoodsproject.org

Cautious dialogue as conflict over water continues

The deep freeze on communications between the World Bank's water unit and civil society groups thawed a little at a recent dialogue. A revolt against private sector participation in Bolivia shows just how far there is to go.

Over 30 participants from civil society groups worldwide and a dozen World Bank staff attended a dialogue on water and sanitation in London in November. Hosted by UK-based NGO WaterAid, the dialogue was intended to build on a previous initiative from Bank staff with US NGOs in 2003. That effort was aborted due to weak buy-in from senior Bank staff. The objectives of the dialogue were to build understanding between csos and Bank staff; provide an opportunity for csos to input to Bank policies and operations; and identify areas for further work, whether jointly or separately undertaken.

A number of groups decided to boycott the November session. Sara

Grusky, of Public Citizen's Water for All campaign, protested that "it is clear that the World Bank does not have any serious intention of addressing our issues of concern. Nor could the organisers guarantee that the dialogue would take place in UN languages in order to include the participation of the non-English-speaking majority."

Jamal Saghir, Bank director for water and energy, was reported to have found the experience of dialogue with civil society a "positive one". Participating csos identified a number of areas for follow-up:

Information access: A group of csos will work with the Bank in the first week of March to become familiar with all project

documentation prepared at different stages of the Bank project cycle, understand the significance of these documents, and inform the Bank what documents are important to make public and how to do so.

Cost recovery policies: Existing materials should be shared, and a glossary of terms created to establish a common vocabulary to enable further discussions.

Scaling-up: A report is planned of cases of scaled-up community-based projects.

Lobbying, advocacy and co-ordination: An advocacy pack will be produced to assist efforts to prioritise water and sanitation issues in development plans.

Further dialogue: A dialogue with csos on cost recovery is scheduled for the Bank's 'Water Week', 1–3 March in Washington.

Many observers of the sector are asking why the Bank decided to restart discussions with csos. Belinda Calaguas, senior water advisor at WaterAid, believes that it may be a recognition by the Bank that with increased lending in the sector, the Bank "needs both the oversight and the capabilities of civil society to avoid the mistakes of the past." ©

Participate in the dialogue follow-up

✉ belindacalaguas@wateraid.org

Notes of WB-CSO dialogue

🌐 brettonwoodsproject.org/waterdialogue

World Bank water supply and sanitation

🌐 www.worldbank.org/watsan

Bank conditionality review takes shape

Bank president James Wolfensohn agreed in October to a review of the conditions that the Bank attaches to its lending, owing to pressure from the UK government. The UK has recently revisited its own policy in this area (see *Update* 43). The scope of the year-long review is becoming clearer after a meeting in mid-December involving Jim Adams, Bank vice president for operations policy and country services, and the UK development secretary, Hilary Benn.

The Bank is planning consultations with civil society in April in Berlin, at the spring meetings in Washington in April, and in Cape Town in May during a practitioners' forum on budget support. Separate consultations are planned with governments. A raft of new analytic work is planned for the review including a poverty reduction support credit retrospective, a mapping of trends in structural adjustment conditions, and a review of the content of conditionality including an appraisal of lessons from the 'Washington consensus'.

At the mid-December meeting, it became obvious that the Bank is struggling to collaborate with the Fund on the review. No measure of aggregate conditionality—the combined impact of Bank and Fund conditions—has been developed, and there has been no monitoring of the 'off-loading' of Fund structural conditions onto Bank programmes. Instead, in what might be seen as putting the cart before the evaluation horse, the Fund flatly asserted that streamlining has been a success. ©

Review of Bank conditionality issues note

🌐 siteresources.worldbank.org/PROJECTS/Resources/REVIEWOFBANKCONDITIONALITY.doc

Citizens of El Alto claim victory in second 'water war'

After three days of a general strike in early January, the Bolivian government has been forced to cancel the contract with Aguas del Illimani for water and sewer services in the cities of El Alto and La Paz. Citizens were dissatisfied with high costs and a lack of service in outlying areas. French water giant Suez-Lyonnaise des Eaux owns 55 per cent of Aguas del Illimani; the International Finance Corporation, the Bank's private sector arm, holds an 8 per cent stake; the remainder is held by South American investors.

The decision to privatise water and sewage utilities in La Paz and Cochabamba was taken as a condition for the extension of a World Bank loan to Bolivia in 1997. The Bank provided nearly one quarter of the \$68 million for the initial five-year phase of the project. In 2000, after a 'water war' and one protester killed, US multinational Bechtel was driven from Cochabamba.

NGOs have been calling for a multistakeholder review of private sector participation in water provision. So far, both the Bank and the UK government have resisted the calls.

IMF: you don't need no education

Research by ActionAid International finds that IMF polices, which require low inflation rates, public spending caps and limits on foreign aid, present the biggest obstacle to attaining the Millennium Development Goal (MDG) for education. The finding is in line with that of the UN report *A practical plan to achieve the MDGs*: "In the vast number of country programmes supported by the IMF since the adoption of the goals, there has been almost no discussion about whether the plans are consistent with achieving [the MDGs]".

Contribute to ActionAid's research

✉ david.archer@actionaid.org

A practical plan to achieve the MDGs

🌐 unmp.forumone.com/

Evaluations of education, conflict

The World Bank's Operations Evaluation Department (OED) is to evaluate Bank investments of over \$10 billion in primary education worldwide since 1990. The OED will conduct case studies before meeting with its external advisers in June. The draft report is due in September.

Terms of reference have been posted for the evaluation of the Bank's approach in low-income countries under stress (LICUS). The evaluation will look at whether the approach is relevant, how effectively it has been implemented and how appropriate the Bank's policies, procedures and support are for such countries. A draft is scheduled for February 2006.

🌐 www.worldbank.org/oed/approach_papers

Italian bank dumps troubled pipeline

Italy's largest bank is selling its \$60 million stake in the controversial IFC-backed Baku-Tbilisi-Ceyhan oil pipeline. Banca Intesa is so concerned at the reputational and other risks associated with involvement in the project that it has already sold one third of its share at a loss.

The Italian bank only agreed to invest because of the IFC's involvement. It pulled out when major problems arose related to a faulty pipe corrosion protection system. Intesa are "staggered" by the scale of the problem and the lack of due diligence.

Major private backer pulls out

🌐 www.bakuceyhan.org.uk/press_releases/intesa.htm

West Africa gas pipeline approved

The Bank's board approved an investment guarantee for the \$590 million West Africa gas pipeline in November despite strong civil society resistance. The pipeline will transport natural gas from the Western Niger Delta area of Nigeria, to Togo, Benin and Ghana. The Bank has provided a \$125 million investment guarantee to encourage private investors to come up with the remaining \$465 million. Friends of the Earth Nigeria charge that the pipeline "is being implemented in total disregard of environmental and livelihood concerns of Nigerian communities."

African network for environment and economic justice

🌐 www.aneej.org

In response to the Indian Ocean tsunami there has been a massive mobilisation of global resources. Beyond calls for debt cancellation of the affected countries (see *Comment*, page 3), this has stirred interest in the role of the IMF and World Bank in responding to emergencies and coordinating with relief efforts.

IMF: meeting foreign exchange needs IMF assistance in a natural emergency is aimed at meeting immediate foreign exchange financing needs. Since 1962, 34 countries have received more than \$2.3 billion in emergency assistance from the IMF. In 1995 the IMF's policy on emergency assistance was expanded to cover countries in post-conflict situations.

IMF emergency loans are usually quick-disbursing and not based on adherence to performance criteria. The request for assistance is granted when the IMF is satisfied that the member will cooperate with the Fund in finding solutions to its balance of payments difficulties. Emergency assistance is usually limited to 25 per cent of the member's quota in the IMF and loans usually have to be repaid within 3 to 5 years. Macroeconomic policy advice is a central component of IMF emergency assistance.

World Bank: Long-term recovery and disaster planning Rather than immediate disaster relief, the Bank sees its primary focus to support "near and longer term recovery and reconstruction" in order to reduce the vulnerability of affected communities. Since 1980 the Bank has financed 550 disaster-related projects worth \$40 billion. The Bank's assistance in disaster response is coordinated by the affected country unit. The World Bank's hazard management unit provides technical assistance to developing

countries to plan for potential natural hazards, instead of confronting them only as a humanitarian emergency when a crisis strikes.

Once rescue and relief efforts are in place, the Bank undertakes a damage assessment to identify needs for reconstruction and recovery. The Bank works with the government to calculate the cost of the losses and of re-building; identify urgent priorities for short-term recovery; and begin a re-building strategy in partnership with the communities and government.

In responding to an emergency, the Bank considers "individual country needs" in terms of local circumstances and the strength of government and financial systems. Assistance is made available in the form of grants, credits and loans. The Bank aims to coordinate with the IMF, the UN and aid agencies to work towards a smooth transition from relief to development support.

Additional emergency recovery loans are provided where re-allocation of funds is insufficient. Incremental country allocations from IDA may also be sought where necessary.

In *Lessons from Natural Disasters and Emergency Reconstruction 2005*, the Operations Evaluation Department (OED) outlines its key findings and lessons for the future in relation to the Bank's role in natural disasters. These include:

- Effective coordination is needed between multilateral donors;
- Country directors should have sufficient authority to make programming and implementation decisions in the field;
- Project design should be based on local community participation and capacity for implementation;
- Survivors should be provided with income earning opportunities;
- Reconstruction of damaged infrastructure is imperative but insufficient in itself; and
- Supervision should be intensive and flexible to accommodate rapidly changing post-disaster conditions. ©

IMF emergency assistance

www.imf.org/external/np/exr/facts/conflict.htm

WB hazard risk management unit

www.worldbank.org/hazards

OED lessons from natural disasters and emergencies

www.worldbank.org/oed/disasters/lessons_from_disasters.pdf

IMF emergency assistance related to natural disasters 1995-2004

Country	Year	Event	Amount	% of quota
Bangladesh	1998	Floods	138.2	25.0
Dominican Republic	1998	Hurricane	55.9	25.0
Haiti	1998	Hurricane	21.0	25.0
Honduras	1998	Hurricane	65.6	25.0
St Kitts and Nevis	1998	Hurricane	2.3	25.0
Turkey	1999	Earthquake	501.0	37.5
Malawi	2002	Food shortage	23.0	25.0
Grenada	2003	Hurricane	4.0	25.0

The end of the Wolfensohn era

Bank president James Wolfensohn has said he will retire on 31 May after 10 years in the post. In a note addressed to the dean of the board, Yahya Al-Yahya of Saudi Arabia, Wolfensohn said: "I would like to retire at the end of my term and would suggest the board seek a new president for the institution as I would not wish to be considered for a third term."

There were rumours that Wolfensohn had been lobbying hard for a third term. Washington insiders believe that he was unable to win over the support of the Bush administration in the wake of his outspoken comments on US military expenditures on war in Iraq.

By informal agreement since the establishment of the Bretton Woods Institutions in 1944, the US administration selects the president of the Bank, while a European candidate is given the top job at the IMF. Normally the lead on the decision would be taken by the undersecretary for international affairs at the US Treasury. However, with the current undersecretary John Taylor in the list of rumoured candidates, the decision may fall to White House staff

working at the Council of Economic Advisers. The long list of rumoured candidates is catalogued on a new website worldbankpresident.org.

Civil society groups will be pressing for the selection process to be transparent and meritocratic. After the surprise resignation of former IMF managing director Horst Koehler in March, disappointment was widespread that the stitch-up that ensures that Europe nominates the Fund's head had been allowed to continue. In its *World Economic Situation and Prospects* published in January, the UN showed exasperation with the inability of the Bank and Fund to meet their commitments to increase developing country participation. While board discussions can be useful, said the report, "real changes in representation can only be achieved through fundamental reform that has to come from political leaders".

The Bretton Woods Project has long argued that fixing the leadership selection issue is only the tip of the iceberg. In the interests of legitimacy and the effectiveness of the institution, the Bank needs to re-balance the composition and voting power of its board, make its

governing bodies more transparent, and hand back power over policy-making in developing countries to elected parliaments. Bank-watching NGOs are calling for parliamentarians who have taken an interest in the institution "to contact their ministers and the media to demand that the process be made transparent and meritocratic."

The search has begun to replace outgoing head of the International Finance Corporation, Peter Woicke. Asaad Jabre, vice-president of operations at the IFC, has been appointed acting head. A replacement is not expected to be appointed until after the announcement of the new World Bank president. ©

Who will be the next World Bank president?

www.worldbankpresident.org/

World Economic Situation and Prospects

www.un.org/esa/analysis/wesp/wesp2005files/wesp2005.pdf

International Parliamentarians' Petition

www.ippinfo.org/

Open statement on steps to democratise the World Bank and IMF

brettonwoodsproject.org/iffgovstat

WB tsunami response

Shortly after the tsunami the Bank committed an initial \$250 million for emergency reconstruction to be made available from existing programmes. It announced that detailed evaluations of up to two or three months to identify longer-term construction needs would be needed.

The Bank has assessment teams in affected areas. The IFC has committed \$2.5 million to match the costs incurred in post-tsunami relief work by "selected partner companies" in the affected countries.

Sri Lanka: Up to \$10 million has been made available from on-going projects. A further \$100 million is expected to be disbursed.

Indonesia: Bank staff have been assigned to the government's Aceh recovery and response centre. \$300 million has been made available for reconstruction and rehabilitation in North Sumatra and Aceh.

India: Following a request for assistance from the government for reconstruction and disaster-preparedness, the Bank will carry out a needs assessment.

Maldives: Immediate IDA assistance includes a credit of \$7 million and a \$5 million grant. Most of this will come from the reallocation of existing portfolio. ©

IFC-backed mine violates Guatemalan law

One person was killed and ten were injured when the Guatemalan police and military took action to disperse protesters blocking a convoy of mining equipment destined for a gold mine funded by the International Finance Corporation. Opponents accuse the Guatemalan government of violating national law in respect of indigenous peoples' rights, and the IFC of violating the Bank's response to the extractive industries review.

The Marlin mine, in the San Marcos department, is being developed by Montana Exploradora de Guatemala, a subsidiary of Canadian mining company Glamis Gold. In June 2004, the IFC's board agreed to lend \$45 million to Glamis to develop the project.

Protests began in Los Encuentros, Sololá, 3 December, when locals set up road blocks to stop a convoy of trailers carrying mining equipment. Workmen hired by the mining firm planned to dismantle a footbridge in order to allow the convoy to pass. The footbridge had been built by local villagers to allow them to cross the highway. On 11 January police and military arrived to escort the equipment through. When local villagers opposed the workmen dismantling the footbridge, accompanying police shot and killed one man, critically injuring others.

In 1996 Guatemala ratified ILO convention 169 on the rights of indigenous and tribal peoples, which includes the right to prior consultation where resource development is to take place on indigenous lands. However, more recent legislation passed by the government allowed the granting of mining concessions to for-

eign mining companies. Many of these were approved by national authorities without even consulting affected indigenous communities. Local and indigenous organisations, such as the National Council of Indigenous Peoples, argue that these licenses are illegal, given that they were approved after the ratification of ILO convention 169.

In financing the mine, the IFC has violated the Bank's response to the extractive industries review (EIR) which promises that "free prior and informed consultation should take place with indigenous people's communities leading to their broad support". In a letter to UK executive director to the Bank, Tom Scholar, NGO Indigenous Peoples Links stated that "some of the people who are on lists provided by the company to the IFC of those supposedly consulted, did not believe they had been consulted. They conceded that maybe they had been informed about mining in general, or mine-related tree farm projects, etc., but had not entered into any kind of good faith informative or meaningful consultation". The IFC argues that the Marlin mine enjoys broad community support and Glamis Gold states that the project is "strongly

supported by local residents as well as municipal and federal government officials". Such claims are questionable given that the government chose to bring in the military in order to resolve the confrontation with communities.

In May 2004 Guatemalan organisations called on the IFC to delay approval of the mine in order to allow time for outstanding issues to be resolved. The groups argued that more consultation was necessary and that large segments of the local population did not support the project. Regardless of such calls, it was approved on schedule in June 2004 (see Update 41). Since project approval, local groups have repeatedly raised their concerns with the Bank but have not received a satisfactory response. This includes groups in the immediate area, and national indigenous peoples' organisations that have raised broader concerns about the scores of mining concessions that have been issued in recent years.

In the first Guatemalan national forum on mining in December 2004, the World Bank, Canadian embassy, and the Guatemalan ministry of energy and mines attempted to come up with a national consensus on mining. Participation at this event was by invitation only,

and consisted largely of representatives from government, investors and mining companies. Indigenous participation was reportedly marginal, despite the fact that indigenous peoples account for over half the population and roughly 90 per cent of concessions fall within indigenous territory.

Guatemalan and international NGOs have written to the IFC insisting that they:

- visit those communities that both support and oppose the mine;
- coordinate their visit with the communities directly, and not use the ministry of energy and mines as their liaison;
- verify the results of the consultation that the company claimed to have carried out.

They have also asked the IFC why, given that it was informed of protests a month before the fatal clash with authorities, it did not visit the project, investigate or send a conflict resolution specialist.

The IFC was expected to send a delegation to Guatemala City in the last week of January. ©

Guatemalan gold project gets financing
www.brettonwoodsproject.org/glamisgold

Letter from Indigenous Peoples Links
www.ifwatchnet.org/doc/guatpiplinks.pdf

Bad faith consultations

Draft indigenous peoples policy riddled with loopholes

Although the current revised draft policy has improved in terms of integrating some previous recommendations made by indigenous peoples, says UK NGO Forest Peoples Programme (FPP), it remains riddled with legal loopholes and ambiguous definitions. The previous draft policy on indigenous peoples failed to meet expectations of indigenous peoples and NGOs involved in the process. It was scrapped in 2002 (see Update 37). A number of key issues are not addressed, or dealt with only partially. Moreover the draft fails to incorporate key recommendations of the extractive industries review (EIR), and to directly address indigenous recommendations relating to international human rights law, free prior and informed consent, and land and territorial rights.

FPP highlights a number of points not included in the draft that were part of indigenous peoples' submissions to the Bank. The organisation states that any credible and effective safeguard policy must contain mandatory provisions that:

- are consistent with protections under existing international human rights standards;
- prohibit Bank funding of projects that risk contravening a borrower's obligations under international human rights and environmental agreements;
- prohibit forced relocation;
- recognise the right of indigenous peoples to free prior and informed consent;
- recognise and protect indigenous peoples' ownership and property rights over lands, territories and resources in accord-

ance with their customary law, values, usage and customs; and

- apply the principle of self-identification as a fundamental element in determining the scope and coverage of the policy.

FPP suggests that in order to achieve this the policy should:

- incorporate key recommendations of the EIR;
- use international law as a guide to standard-setting and for a more action-oriented, rights-based policy;
- acknowledge consent as being broad support from indigenous peoples and not "communities" (this negates the principles of territoriality and self-identification of indigenous peoples);
- give rights to indigenous peoples to take action on issues of land rights rather

than leaving this up to the borrower;

- establish safeguards for the protection of indigenous rights through the Bank's systems **before** proposing to use national laws and institutions in their place; and
- encourage further face-to-face meetings with Bank staff to discuss the shortcomings in the draft policy, instead of relying solely on written communication.

The revised draft has been available for public comment since December 2004 and will remain so until 28 February. It has been developed over the last six years and has involved consultations with indigenous peoples' leaders, civil society and borrower governments. ©

FPP Critique of draft policy
www.forestpeoples.gn.apc.org

IFC funds Amazon deforestation, undermines safeguard policies

International and Brazilian NGOs charge that IFC-funded soy and cattle projects in the Amazon further deforestation, ignore social and environmental risks and contradict World Bank policy. The Bank's private sector arm has lent \$155 million to André Amaggi Corporation for two soy plantations over the past two years (see *Update 40*), and is considering whether to provide \$300 million to Bertin Limited for cattle ranching. A decision by the board is expected at the end of February.

Robert Goodland, former environmental advisor to the World Bank for 25 years, has stated that "the Bertin project violates the Bank's environmental safeguards, including the Bank's environmental assessment policy, the natural habitats policy, probably the indigenous peoples policy and also the World Bank Group's new official strategy on cattle ranching".

Both the existing soya and the proposed cattle projects have been classified by the IFC as environmental risk 'category B'. Civil society groups state that this is in direct contradiction with the World Bank's environmental assessment policy, which mandates a 'category A' designation for large-scale agro-industries, controversial projects, and those threatening indigenous peoples and critical natural habitats. IFC have responded that a category B rating is "more appropriate" and claim that the environmental and social impacts are both "limited and manageable".

During the ongoing review of its environmental and social safeguard policies, the IFC has claimed that it is "committed to maintaining its leadership in social and environmental sustainability among financial institutions". This assertion is weakened by comparison with the European Bank for Reconstruction and Development which automatically assigns a 'category A' designation to every large-scale livestock project.

The Bank and IFC at odds

According to the Bank's 2001 strategy on cattle ranching, *Livestock development: implications for rural poverty, the environment, and global food security*, the Bank should be phasing out its support for large-scale industrial cattle projects. The publication, co-authored by the Bank's livestock specialists, goes into much greater

detail regarding the Bank's recommended approach to the livestock sector than the board-approved rural development strategy. It states that the Bank's support for small-scale mixed farmers that integrate crops and livestock should be strengthened, in the interests of both the environment and equity. Since the publication was issued in 2001, the Bank has not invested in any large-scale industrial livestock project.

The livestock publication also argues that the Bank should avoid "funding large-scale commercial grain-fed feedlot systems and industrial milk, pork and poultry production". However, as the US environmental NGO Sierra Club highlighted in a letter to Bank president James Wolfensohn in January 2004, since the issuance of the publication the IFC has financed five industrial milk, pork and poultry production projects.

The IFC has said in two separate letters to the Sierra Club that the livestock paper is "not an official World Bank Group strategy paper". Rather, "it was developed as part of a discussion to support a review of the Bank's rural strategy and has not been discussed or endorsed by the board".

Such a contradiction adds weight to the argument that the current development of environmental and social safeguard policies for the IFC separate from that of the rest of the World Bank Group, will allow it to disregard Bank policies to which it had to formerly adhere (see article at right).

The IFC has reportedly said funding for the cattle project would only take place if certain standards are met. A meeting was planned between civil society groups and IFC staff in early February to discuss the soy and livestock loans.

CAO investigation

Friends of the Earth Brazil have expressed their concerns to Bank president Wolfensohn about the soy projects. As a result, Peter Woicke (the outgoing head of IFC) asked the CAO to conduct a compliance audit of IFC's categorisation of the most recent loan to Amaggi. This was to start at the end of January. ©

Letter from IFC to Sierra Club
www.ifwatchnet.org/doc/ifcsierralet220704.pdf

Consultations extended for IFC safeguard review: doubts remain

In response to a global civil society boycott launched in September (see *Update 43*), the International Finance Corporation (IFC) has extended the timeline for public consultation on the review of social and environmental safeguards and the information disclosure policy. The revised timetable was to see the publication of an "indicative draft" and guidance notes (formerly known as "interpretation notes") at the end of January. Public comment on the disclosure policy will be received until 31 March, and on the safeguard policies until 29 April. The IFC expects the performance standards, which will replace existing Bank safeguard policies, to come into effect in January 2006.

In spite of high-profile boycotts, the IFC claims to have received "substantial and diverse input" from various stakeholders throughout the consultation period from September to December 2004. It also asserts that the indicative draft and guidance notes will show the "weight of comments received so far through consultation". A number of civil society position papers have been published in response to the safeguard review: the *Platform for rights, rules and responsibilities for the IFC's safeguard policy review*, signed by over 220 organisations and networks, representing over 1000 NGOs from fifty-three countries, and *Proposals for embedding human rights principles and requirements into IFC's policy on social and environmental sustainability and performance standards*. Civil society groups have withheld comment on the revised process until the contents of the indicative draft and guidance notes have been made public.

Country systems update

Meanwhile, at the close of the public consultation period of the WB's country systems approach to social and environmental safeguards (see *Update 40, 42*), NGOs in both north and south have protested against what they say will result in a weakening of Bank safeguard policies. The country systems approach would see the application of a borrower government's social and environmental policies rather than the Bank's policies in select cases where the country policies are judged to be "equivalent" to those of the Bank. Following consultations in seven cities worldwide, a revised version of the country systems paper will now be sent to the board. If approved the new approach

will be tested in 8-12 pilot projects over the next two years.

While NGOs have always supported a strengthening of national and corporate social and environmental standards and capacities and the ownership of development policies and projects by southern countries, they assert that international actors need to comply with international standards. The World Bank should not become involved in projects unless it respects such standards. A comparative matrix prepared by the Centre for International Environmental Law (CIEL) lists about 150 instances where current Bank policies will be weakened and 20 instances where they will be strengthened under the new country systems approach.

A report by US organisation Environmental Defense outlines the evolution of World Bank environmental and social safeguard policies. A few decades ago, under pressure from civil society, the World Bank Group established a set of policies to protect people and the environment against the most harmful impacts of Bank projects. Yet internal and external evaluation has revealed how in many cases implementation of such policies has been inadequate. Rather than deal with

this institutional failure, the Bank has begun to shift from "explicit, mandatory policies, to which it can be held accountable, to flexible principles or national standards, permitting the investor and/or the borrowing government

to determine the project's social and environmental requirements". This is illustrated most clearly by the ongoing reviews of the IFC's safeguard policies and the piloting of the use of country systems by the World Bank. In response to these trends, civil society organisations have reiterated their commitment to strong, transparent, specific, mandatory social and environmental standards that ensure the World Bank and other financial institutions are held accountable for the impacts of their projects. ©

IFC safeguard policy and disclosure review
www.ifc.org/policyreview

Comparative matrix, CIEL
www.ciel.org/Publications/Matrix_WorldBank_Nov04.pdf

Retreat from the safeguard policies
www.environmentaldefense.org/documents/4279_RetreatSafeguardPolicies_0105.pdf

in direct contradiction with the Bank's environmental assessment policy

flexible principles

Recommended resources 2004

BOOKS

The World's Banker

A revealing insight into the management foibles of Bank president Wolfensohn, however, the author's misguided attack on NGOs has given ammunition to those who would like to rollback civil society input in economic policy-making. Beware the 'Mallaby effect'. Sebastian Mallaby, The Penguin Press, 2004 ISBN: 1594200238

Participation, from tyranny to transformation?

Exploring new approaches to participation in development, this book addresses problems of power and politics which have beset some approaches to participation. Hickey, S and Mohan, G (eds), Zed, 2004 ISBN: 1842774611

WEB RESOURCES

IFWatchnet

A groundbreaking initiative in international NGO networking, going from strength to strength in its second year of operation. Connects organisations worldwide who monitor international financial institutions. Boasts over 60 participants globally... and counting.

www.ifwatchnet.org

CIVIL SOCIETY PAPERS

The Innovators

Part of a network of Bangladeshi civil society organisations who have challenged the Bank's request for blanket immunity. Important work when development needs more accountability, not less.

www.unnayan.org/Other/IFI_Watch_Bangladesh_Vol_1%20No_1.pdf

Dogmatic Development, War on Want

Looking at case studies from six countries, this report examines how conditionalities and pressures from aid agencies and development banks force developing countries to adopt privatisation policies in public services.

www.waronwant.org/?lid=7540&cc=1

Owning the loan—poor countries and the MDGs, AFRODAD and Christian Aid

Urges an increased role for parliaments and civil society organisations in loan contraction processes.

www.afrodad.org/archive/owningtheloan1.pdf

Noose of global lenders, National Alliance of People's Movements, India

A special issue on the sixty years of the Bretton Woods institutions, includes submissions from Medha Patkar, Anil Sadgopal and Souparna Lahiri.

themovement@riseup.net

The energy tug of war: the winners and losers of WB fossil fuel finance, SEEN

Reveals how Bank-supported oil projects fail to satisfy developing countries' energy needs and instead benefit both industrialised country consumption demands, and the profits of northern-based corporations.

www.seen.org/PDFs/Tug_of_war.pdf

OFFICIAL RESOURCES

Striking a better balance: Final report of the extractive industries review, and Final World Bank Group EIR management response

Progressive recommendations in the final EIR report presented a victory for environmental and human rights campaigners. Months later came the disappointment with the World Bank's watered-down management response.

www.worldbank.org/ogmc

Crude Accountability

Works with local activists and citizen groups in the Caspian basin to ensure environmental justice for communities impacted by natural resource development.

www.crudeaccountability.org

Zambia: Condemned to debt, how the IMF and World Bank have undermined development, WDM

The report concludes that the IMF and World Bank's influence over Zambia's economy has been "unsuccessful, undemocratic, and unfair", resulting in high unemployment, the destruction of industries, social unrest and increased poverty.

www.wdm.org.uk/cambriefs/debt/zambia/zambia.pdf

Blocking progress: How the fight against HIV/AIDS is being undermined by the World Bank and IMF, ActionAid

Puts into sharp focus long-standing criticism of the IMF's prescriptive loan conditions that demand low inflation and tight budget ceilings which in turn constrain public spending towards HIV/AIDS. The Fund was moved to an unprecedented homepage rebuttal.

www.actionaidusa.org/blockingprogress.pdf

Access to justice from local village to global boardroom: An experience in international accountability. The World Bank Inspection Panel and the Chad-Cameroon oil and pipeline project, Association Tchadienne pour la Promotion et la Défense des Droits de l'Homme

A comprehensive study revealing both how numerous environmental and social safeguards were violated during project construction, while illustrating the need for reforms in the functioning and mandate of the Inspection Panel.

www.environmentaldefense.org/documents/4065_AccessToJustice.pdf

Bankspeak of the year 2004

2004 was a bumper year for new acronyms from the masters of the art form. But three new outstanding additions deserve special mention:

Silliest acronym of the year: Goes to the IMF trade team for the TIM. The Fund's new Trade Integration Mechanism, meant to compensate losers from trade liberalisation, left governments cold and men named Tim confused. If not for the keen eye of the designers of the Fund's new Policy Monitoring Arrangement, a Fund programme for countries who don't want a Fund programme, lonely TIM could have been paired with an unloved PAM.

Earth-shattering change award: Shared by the Bank and the Fund, this award goes to the architects of the replacement for Joint Staff Assessments, or JSA, much maligned documents which ensured IFI control over national development plans. Ownership is being embraced and old ideas thrown away with the introduction of the Joint Staff Advisory note (JSAn).

But **first prize** goes to the Bank for its re-definition of an acronym which had been developed through a decade of international debate over the rights of indigenous peoples. The Bank took the concept of Free, Prior and Informed Consent (FPIC), central to discussions on the Extractive Industries Review and—*presto-chango*—came up with Free, Prior and Informed Consultation (FPIC). All of the letters—none of the meaning.

Bankspeak of the Year 2003 award

brettonwoodsproject.org/bankspeak2003

IFI events at World Social Forum 2005

This year's World Social Forum, which took place in Porto Alegre, Brazil at the time of publication from 26–31 January, hosted a number of World Bank/IMF related workshops and events. For information about which people and groups were there and IFI related events, visit IFIwatchnet.

ifiwatchnet.org/events/2005/wsf

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Bretton Woods Project

c/o Action Aid, Hamlyn House, Macdonald Road, London N19 5PG, UK

+44 (0)20 7561 7610

+44 (0)20 7272 0899

info@brettonwoodsproject.org

www.brettonwoodsproject.org

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