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Bank and Fund **in-roads into Iraq**

As the World Bank and IMF ratchet up efforts to plough money into Iraqi reconstruction, civil society groups call for greater scrutiny over crucial reforms and a total cancellation of the country's 'odious debt'.

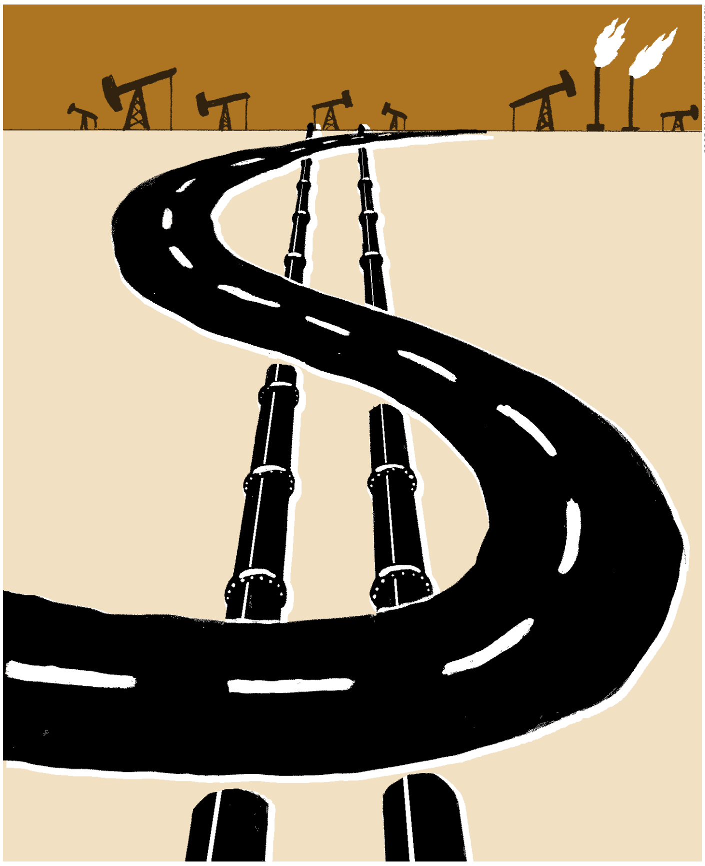
In November, the Bank's board of executive directors approved the first development loan to the country in over 30 years. This was followed by an IMF stand-by arrangement, quietly approved a week after Iraqi elections at the end of December. Compliance with the conditions of the stand-by arrangement has led to a dramatic increase in fuel prices, sparking riots in many parts of the country and leading to the resignation of the oil minister, Ibrahim Bahr al-Uloum in protest.

The stand-by credit arrangement of approximately $685 million is the Fund's first ever with Iraq and follows an emergency post-conflict-assistance disbursement in September 2004, and an Article IV consultation concluded in August 2004. The arrangement makes Iraq eligible for further IMF loans. It is also necessary to secure the 80 per cent reduction of Iraq's debt with the Paris Club as agreed in November 2004, and as a seal of approval to initiate aid from other donors. Key components of the arrangement include:

- *cutting of public subsidies, especially on fuel;*
- *a restructuring of Iraq's external debt;*
- *strengthening of administrative capacity, including statistical reporting; and*
- *reform and restructuring of Iraq's two state-owned banks.*

Consequently, the Iraqi government increased state-controlled prices of petrol and diesel by up to 200 per cent. Further rises are planned on a quarterly basis.

After a two-day seminar in Amman on IFI policies in Iraq, representatives of five Iraqi trade unions adopted a joint statement concerning the policies of the IMF and World Bank in the country and formed a permanent coordinating committee on the IFIs. Points in the statement included:



ROBIN HEIGHWAY-BURY / THOROGOOD

- *the importance of complete sovereignty for Iraq over its petroleum and natural resources;*
- *increased transparency and additional representation for Iraq in the decision-making structures of IFIs;*
- *cancellation of debt incurred by the former regime and an end to conditionality;*
- *rejection of the privatisation of publicly owned entities; and*
- *rejection of the increase in the price of petroleum products.*

Jubilee Iraq said that "the timing of the deal was very worrying, coming in the period after elections and before the formation of the interim government". They pointed out that if the deal had been made a few weeks earlier then it would have been an election issue. They stated that "there would be no need to borrow this money if Iraq were not paying more than $100 million a month in reparations and with a huge odious debt burden still un-cancelled from the Saddam era."

As part of the stand-by arrangement the debt that Iraq owes to the Paris Club has been reduced by the equivalent of 80 per cent in net present value terms. Non-Paris Club official debt constitutes about twice as much as that of the Paris Club. Only a small proportion of it has been reconciled so far. On 19 January Iraq issued its first bonds for trading as part of the restructuring of debt owed to commercial creditors.

Bank expansion

In spite of security concerns, Joseph Saba, the Bank's country director for Iraq asserts that Bank expertise is needed to "promote macroeconomic stability and improve governance". The ground work for the Bank and Fund's involvement in the country started shortly after the invasion with the International Reconstruction Fund Facility for Iraq (IRFFI) and the World Bank Iraq Trust Fund (ITF). The Bank administrates the ITF but does not contribute to it.

In July 2005 the Bank set out the framework for up to $500 million in concessional loans from the International Development Association of which the first instalment of $100 million for education projects was approved in November 2005.

Oil 'privatisation'?

In autumn 2004, the IMF and World Bank presented a report by little-known corporate lobby group International Tax and Investment Centre (ITIC) and multinational oil companies to the Iraqi ministries of finance, oil and planning. The report called for Iraq's oil reserves to be developed by multinational companies through contracts known as production sharing agreements. Doing this would break from the standard practice across the major oil producers of the Middle East, whose oil industries are in the public sector. *Crude Designs*, a report by PLATFORM and other UK and US NGOs revealed that such a move would cost the Iraqi economy between $74 and $194 billion, and restrict the future ability of the Iraqi government to control its oil industry for up to 40 years.

Statement by Iraqi trade unions, Jubilee Iraq
www.jubileeiraq.org/blog/2006_01.html#000921

Crude designs
www.crudedesigns.org

Bank freezes pipeline fund to Chad —page 2

Using human rights tribunals to force compliance in Uruguay —comment, page 3

World Bank, education and user fees —pages 4–5

Latin America sends IMF packing —page 7

Internal accountability creates "institutional discomfort"

In its recently published annual report for 2004–2005, the Compliance Advisor Ombudsman received 14 complaints. Experience with contentious projects in Guatemala, DRC, Brazil, India, Kazakhstan and Georgia, as well as the IFC safeguard policy review reveal that despite the CAO's best efforts to "ensure public accountability of IFC and MIGA", it is powerless to stop them from acting with impunity.

These institutions have ridden roughshod over the CAO's efforts by ignoring recommendations, contradicting findings and submitting inadequate or dismissive responses. On the other hand, questions regarding the CAO's role have also been raised by affected communities and civil society groups, many of whom have been dissatisfied with the way in which it has dealt with their complaints. It has been criticised for failing to take claims seriously enough; for coming down in favour of the IFC and/or the company; and for not going far enough in its recommendations. Members of the CAO's reference group ask whether "dispute resolution really holds IFC and MIGA accountable, or instead reinforces both institutions' abilities to more successfully undertake projects".

In July 2005 the CAO conducted an independent audit of MIGA's due diligence process for Anvil Mining's Dikulushi copper-silver mine in the Democratic Republic of Congo (see *Update* 47). Anvil is facing serious allegations regarding the company's role in a brutal massacre carried out by the Congolese armed forces. The final audit report was submitted for clearance to Bank president Paul Wolfowitz in October 2005 but has still not been made public. In December, UK NGO Rights and Accountability in Development wrote to Wolfowitz urging him to authorise the report immediately: "It is the victims of the Kilwa massacre and their families who have a right to know the outcome of the internal audit without further delay".

In a report in May 2005, the CAO looked at the impacts of the IFC-financed Amaggi soy expansion project in the Brazilian Amazon (see *Update* 44, 46) on deforestation in the region. It summarised that the IFC's environmental and social categorisation procedures are "loosely defined and rely heavily on professional discretion" and do not allow adequate consultation for affected parties. An unsatisfactory response from the IFC produced six months later expressed "surprise" at the CAO's findings in relation to the IFC's failure to ensure full compliance of the company with the IFC's environmental and social requirements. The response was dismissed outright by many Brazilian and international NGOs. At a public meeting in São Paulo in December 2005, Wolfowitz committed to NGOs present that he would pursue the issue on return to Washington. However, a response from Jean-Paul Pinard, director of the agribusiness department at the IFC, on Wolfowitz's behalf merely reiterated points made previously by the IFC and referred NGOs back to the CAO. In its annual report the CAO said the experience of the Amaggi audit reveals "a considerable institutional discomfort [on the part of the IFC] with the exacting nature of the compliance role".

A CAO investigation of the Glamis goldmine in Guatemala identified significant deficiencies in the IFC's due diligence in relation to human rights and security forces (see *Updates* 45, 47). The IFC's response from the director of its oil, gas, mining & chemicals department, Rashad Kaldany on 14 October brushed aside many of the findings, and claimed that most of the recommendations specific to the project were already being implemented.

Local NGOs questioned the independence of the CAO's assessment of Glamis. Madre Selva acknowledged the progressive findings and "reasonable recommendations" of the assessment, but found that these were "smothered by legalistic and bureaucratic language". Other groups also objected to the report's reference to a "factually unfounded campaign" carried out by local groups.

Similarly, in relation to the CAO's response to a complaint on the IFC-financed Allain Duhangan hydroelectric dam in India, local NGOs assert that the CAO was strongly biased in favour of the IFC and the company. Himanshu Thakkar, coordinator of the South Asia Network on Dams, Rivers & People added "the CAO office dealt with the issue with a pro-IFC and pro-developer bias", and failed to "address the core issues in the recommendations even though these were discussed in the report".

Compliance advisor ombudsman
www.cao-ombudsman.org/

Communities, ecology and mining
www.guatemala-mining.org

Letter to Wolfowitz on DRC mine
www.ifiwatchnet.org/doc/LettertoWolfowitzDikulushiCAO.pdf

Bank freezes pipeline funds to Chad

Fears over government corruption have already got the better of the landmark Chad-Cameroon pipeline, which the Bank had pioneered to prove that "petrodollars can benefit the poor" (see *Updates* 47, 48). Civil society activists, who have put forward strong warnings against the project since its inception, are largely in support of the Bank's move to withdraw support to Chad following its serious breach of a loan agreement. However, they hope that such a lesson will prevent the Bank from funding other high-risk extractive industry projects in the future, and hold the Bank responsible for addressing social and environmental problems resulting from the controversial mega-project.

The Chad-Cameroon pipeline, developed by an Exxon Mobil-led consortium was opened in 2003. In the first test of Bank president Wolfowitz's strong anti-corruption rhetoric, on 6 January the World Bank announced that it would withhold new loans and grants to the government of Chad and suspend disbursement of International Development Association funds, of approximately US$124 million. After several months of failed negotiations Chad's parliament approved legislation to amend the Bank-backed petroleum revenue management law at the end of December. This law, introduced in 1999, was crucial to the Bank's support of four percent of the $3.7 billion pipeline. It directed the bulk of government revenue from the project to agreed priority sectors such as health, education and rural development, and also created a Future Generations Fund (FGF), which diverted ten per cent of the oil profits for the benefit of future generations.

Amendments to the law include:

- *increasing the amount of petroleum revenues deposited into general government coffers from 15 to 30 per cent;*
- *bypassing the joint government-civil society revenue oversight committee;*
- *Eliminating the FGF and using the money accumulated (more than US$36 million) for immediate expenditures; and*
- *redefining "priority sector" expenditures to include spending on security.*

Following Chad's actions, its oil revenues deposited at the London branch of Citibank were automatically frozen as per its agreement with the Bank. The Bank's decision is also supported by the IMF. An IMF loan programme with Chad went off course early 2005 after Chad failed to meet agreed budget targets.

Many civil society activists, both inside and outside of Chad contend that recent events show that their doubts about the project were well founded. "I've tried not to say 'I told you so'" said Ian Gary from Oxfam America. "We had always feared that the leverage of the World Bank and other donors would decrease substantially once these oil revenues started to flow, and that's what's happening."

Delphine Djiraibe, from the Chadian Association for the Promotion and Defense of Human Rights agreed with the World Bank's decision: "new money would mainly be used for military purposes and increasing repression of the Chadian people. But we regret that the Bank did not listen to the warnings of civil society organisations earlier."

Ongoing responsibility

Poverty, public health, human rights abuses and environmental problems continue to increase as the Exxon-Mobil led consortium running the project expands drilling activities in both existing and new oilfields. The International Advisory Group, established by the World Bank to monitor project implementation, states that the oil consortium is taking land from poor subsistence farmers without ensuring that compensation payments will make up for lost livelihoods. Local authorities and the military are known to extort money from villagers when they receive cash compensation from the oil companies. Chadian human rights organisations report that human rights activists trying to defend local people's rights often receive death threats and have to flee the region.

"The World Bank bears responsibility for the project and must press Exxon-Mobil to vigorously address these problems," said Korinna Horta, of NGO Environmental Defense.

World Bank anti-corruption
brettonwoodsproject.org/corruption48

GRAMPTC (Tchad-Cameroun), NGO
www.gramptc.org

Using human rights tribunals to force Bank compliance: Uruguayan paper mill case

COMMENT

By Jorge Daniel Taillant, executive director, Center for Human Rights and Environment, Argentina

THE RECENT FILING of two international complaints against the IFC and MIGA-financed installation of what would be the world's largest production of paper pulp in Fray Bentos, Uruguay, posits a unique experiment in bringing World Bank projects under the scrutiny and judicial control of international human rights tribunals with the power and leverage to enforce international human rights and environmental law.

The Center for Human Rights and Environment (CEDHA) filed two international complaints last September: one to the Compliance Advisor Ombudsman (CAO) (*see* page 2) which reviews social and environmental policy compliance of IFC and MIGA-financed projects; the second to the Inter-American Commission on Human Rights (the Commission). This is the first time that a World Bank-financed development project is directly implicated in an international human rights violation case brought to an international tribunal, and the first time that the Commission is formally addressing alleged violations of human rights of local stakeholders due to Bank-sponsored investments.

The Commission generally receives complaints based on violations of human rights perpetrated by governments, mostly focused on violations of civil and political rights. Over the past decades, however, there have been a growing number of cases coming to the Commission based on violations of economic, social and cultural rights, and other procedural rights, such as access to information, similar to those rights violated in the paper mill projects. The appearance of a World Bank project in a human rights tribunal is drawing the attention of many observers who are curious to see how this international legal mechanism fares for IFI-financed problems.

The Uruguayan paper mill case involves many violations of IFC and MIGA social and environmental safeguards, the human rights of thousands of local stakeholders, as well as international treaty law between Argentina and Uruguay.

The case has already passed a first hurdle—the CAO has come out strongly against the IFC/MIGA project and is presently conducting a compliance audit, based on initial findings showing clear IFC policy violations. The CAO has stated the need to take seriously the legitimate concerns of local communities and has questioned the quality of the IFC-sponsored social and environmental impact assessments, which are central to the case and to the project's ultimate advancement.

The CAO filing was followed immediately with the claim to the Commission, against the government of Uruguay, for not taking into account the rights of local citizens in both Argentina and Uruguay. The Commission, by mandate, cannot rule against the World Bank, but can enforce social and environmental compliance. Since Uruguay is the host country for this IFC project, its government must face the human rights claims before the tribunal. The claim presented to the Commission is a landmark action in that it has opened up a channel for bringing governments into accountable justice mechanisms for actions sponsored by IFIs, which have traditionally operated in a judicial void due to their self-proclaimed immunity to international law. The Commission has already initiated an investigation into the allegations made by CEDHA and the 40,000 stakeholders who have signed both petitions.

Further, the Commission admitted the CAO's preliminary report on the case, and CAO staff met recently with Commission staff to discuss the case, setting a precedent of such institutional exchange. At the very least, this encounter establishes an important precedent for the provision of legitimate auditing measurements from an IFI control body to a binding judicial process. This lends enormous access to justice leverage to the great limitations the IFI control bodies have to render any sort of binding recommendations—one of the more serious critiques of bodies such as the CAO. The Commission, in this case, might be a useful ally for the CAO when it runs into institutional impasse within the Bank.

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Bank implementation falls short on oil, gas and mining

The release in December of the World Bank's report *Implementation of the management response to the Extractive Industries Review* (EIR) represents the first serious attempt by the Bank to bring its extractive industry sector operations in line with its mandate to "alleviate poverty through sustainable development". However, shortcomings identified by civil society remain similar to those that have been expressed since the Bank published its management response in September 2004.

The report concludes that the Bank "has moved actively to implement the specific recommendations of the management response to the EIR and its own evaluation reports" and that there have been improvements in its performance. It highlights successes in governance, achieving broad community support, revenue transparency, and tracking project impacts. However concerns expressed in a memo to several executive director offices from US NGO Bank Information Center (BIC) regarding the report do not support the Bank's findings. The concerns include: lack of effective consideration of governance; the IFC's failure to require investors to disclose project impacts; an over-reliance on investor's self-assessment of poverty impacts; an apparent lack of "broad community support" for several EI projects; and a failure to accurately represent the IFC's revised performance standards, sustainability policy and disclosure policy.

Grounded in Washington

A report by CEE Bankwatch and BIC assesses to what extent Bank projects in eastern Europe and central Asia comply with both EIR report recommendations and the commitments made by the World Bank Group management in their response to it. It assessed six projects using indicators covering both the EIR report recommendations and the management response commitments in Romania, Poland, Russia and Azerbaijan. Findings include:

- *violations of the Bank's own policies tend to be the rule rather than the exception. Violations were observed similar to those that were the source of public criticism leading former Bank president Wolfensohn to set up the EIR in the first place;*
- *project performance was the worst on indicators of revenue and contract transparency, with 90 per cent and 100 per cent unsatisfactory scores respectively across projects;*
- *there has been a clear improvement in linking projects with country assistance strategies and poverty reduction strategy papers;*
- *the Russkiy Mir case, which violates several IFC safeguard policies, was highlighted for its poor performance.*

The report concludes that there have been no significant qualitative shifts in the implementation of extractive projects in the region and that the EIR recommendations and management response commitments have not yet been institutionalised.

Implementation of the management response to the extractive industries review
www.worldbank.org/ogmc/

Grounded in Washington, CEE Bankwatch
aa.ecn.cz/img_upload/2a47e698cb07569dfd0ebe077b6aad99/grounded_in_dc_web.pdf

Both arsonist and fire-fighter: the Bank on school fees

COMMENT

By Katarina Tomasevski, visiting professor, faculty of law, Peking University

I WAS JOSTLING WITH Kenyan families at Sarit textbook centre in August 2005. The beautiful and expensive school books made me cringe as I calculated how little poor families could afford. My purpose was to see how far the government grant of 480 shillings (about $4) per schoolchild went in supplying school children with free books. Most families ended up with an invoice of ten times as much. That reminded me of glossy World Bank guidelines for textbooks whereby it pledged "to try to ensure that no pupils are excluded from school because they cannot afford to buy books". It certainly did not ensure affordable school books, whether it tried is a question which should be raised.

Why? Because Kenyan children are ostensibly enjoying free education after the hated school fees had been lifted in 2003. The World Bank pledged support. The model has been, as in other heavily indebted poor countries, to avoid finding out how much schooling actually costs and multiplying it by the number of school children per family. Instead, the central government grant given to schools for each child attending has been set at a level below the real cost of education. This made schooling cheaper. But primary school is not free in Kenya, or in Tanzania or in Uganda, where rolling back school fees is often presented as if education were made free.

These examples were supposed to be signposts for the World Bank's transformation from an arsonist to a fire-fighter regarding school fees. This transformation is best known in Malawi. In 1984, school fees were imposed on the World Bank's assumption that charging people for education would increase its quality and, thus, enrolments. That assumption was wrong and enrolments plummeted. The World Bank was there again, in 1994, when school fees were abolished by the new government. The World Bank was not called to account and forced to compensate Malawi for wrecking its education by wrong advice. Nevertheless, it was not amused: "the declaration of free primary education in 1994 undermined popular commitment as parents believed and expected that the government would now take over the full cost of primary education". Most people would agree that this is exactly what free primary education means and what should happen to enable poor children to go to school. The World Bank has a different view.

Two months later, I examined the World Bank's contribution to the 2005 *Education for All Global Monitoring Report* to see what its view might be. It authored table 3.4, entitled *Fees still exist in a large number of countries*. Kenya is listed as charging both legal and illegal fees. If you are puzzled, look at the small print below the table. It says that the criterion was "policy and practice", whatever that may mean. It is not too difficult to find out whether primary education in a country should be free or not. The country's constitution and the law should guide "policy and practice". The small print below the table says that "data was collected informally from World Bank task teams". They obviously disagreed among themselves because Tanzania is listed as having no fees at all and also as charging legal fees. This is also the case with Costa Rica. The commissioned paper which should have provided clues as to what for-fee (as different from free) education meant does not do this. It lists only five types of fees out of more than two dozen that are levied. It is possible that the World Bank task teams do not know that school children may be forced to pay for school transport, or school meals, or for health services provided at school, not to mention the cost of school books. Or, maybe they do not want to know because this enables the World Bank to square the circle. It can publicly state that it does not promote school fees and define as fees only those charges that it does not promote, at least not at the moment. And the rest? This would require proper research to be carried out rather than asking the World Bank's task teams. They have been known as both fire-fighters and arsonists.

The Bank can publicly state that it does not promote school fees —but define as fees only those charges that it does not promote

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Good news from Haiti labour dispute

In December an agreement was reached between management and the union at the IFC-backed Grupo M textile factory in the Ouanaminthe free trade zone. Wage issues were resolved, as were issues relating to union recognition, labour rights, and working conditions.

Charles Arthur of NGO Haiti Support Group said: "The IFC should have used its influence to pressure Grupo M to conclude a collective bargaining agreement with the Sokowa union in early 2004, but it did not, and representatives of organised workers had to fight tooth and nail for nearly two years to win this agreement."

www.haitisupport.gn.apc.org/zonefranche.html

Fury at Wolfowitz political appointee

Kevin Kellems, advisor to Bank president Paul Wolfowitz since June 2005, was named director of strategy of the external affairs department in January. Kellem's responsibilities are to better integrate the role of the department across the World Bank Group, and to "strengthen the Bank's global public affairs impact". Before joining the Bank, Kellems served as communications director for US vice president Dick Cheney. Bank staff are furious that Wolfowitz has made a political appointment in a post normally filled by a competitive process.

Wolfowitz Watch, Bank Information Center www.bicusa.org/bicusa/issues/wolfowitz_watch/index.php

Fury at Wolfowitz political appointee (2)

Wolfowitz has appointed Suzanne Rich Folsom to head the Bank's department of institutional integrity. Folsom, a US national and former attorney, joined the Bank in 2003 as counsellor to the president. She is married to George Folsom, former head of the International Republican Institute, a rightwing think-tank linked to coup attempts in Haiti and Venezuela. Most observers see the appointment as a response to pressure from US congressional hearings on corruption in the multilateral development banks (see *Update* 40).

Adding to the long list of resignations of senior Bank staff (see *Update* 48), Roberto Dañino, general legal counsel has announced his departure, rumoured to be unhappy with Wolfowitz's leadership.

Whistleblower standards pressure Bank

The UN issued a "new standard of whistleblower protection" in late December as part of an anti-retaliation policy, according to US NGO Government Accountability Project (GAP). GAP's Melanie Beth Oliviero says the new policy "signals the direction for reform of all specialised agencies of the UN, specifically the World Bank". The UN policy satisfies 15 out of 20 criteria in GAP's compilation of best practices for whistleblower protection; the World Bank's policy only passes 12 of the 20 tests.

UN issues groundbreaking whistleblower policy, Government Accountability Project www.whistleblower.org/content/press_detail.cfm?press_id=315

Inside the institutions

The World Bank and education

The World Bank's assistance for education "focuses on helping countries maximise the impact of education on economic growth and poverty reduction". It is the "world's largest single provider of external funding for education", and also provides policy advice, analysis and technical assistance. Bank lending for education began in 1963 and now constitutes nine per cent of its total lending, the fifth largest sector. Total World Bank lending for education last year was just under $2 billion across all projects and sectors up from $728 million in 2000. Primary education receives the largest percentage of lending, constituting 29 per cent of the total in 2005.

There are currently 182 staff in the Bank's education team. It is directed by Ruth Kagia.

The Bank supports two broad themes:

- ***Education for All*** (EFA): focussing on the 1990 global commitment to give "every citizen in every society" the opportunity for a basic education, and
- ***Education for the knowledge economy*** (EKE): based on the need to develop a well trained workforce "capable of generating knowledge-driven economic growth".

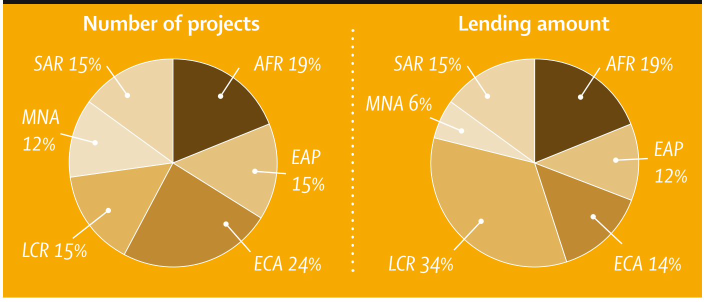
Key priorities cut across both themes: Economics of education, and school health and HIV/AIDS, which underscore the critical need to integrate education into a country's overall development context.

Regional priorities Last year, the largest amount of education lending was to the Latin America and Caribbean region, totalling $680 million and constituting 34 per cent of the total. The second largest amount of $369 million was to the Africa region, a total of 19 per cent. The largest number of new education projects in 2005 was in the Europe and Central Asia region which held 24 per cent of all new education projects.

Detailed aggregate data on Bank lending trends and operations in the education sector can be found on its website and through the EdStats World Bank financing modules and World Bank's project database.

Education for All This is an "international effort to provide every boy and girl in the developing world with a good-quality, free and compulsory primary school education". The World Bank supports EFA efforts primarily through: increasing access, equity, quality and learning outcomes; focusing on girls' education to improve retention rates; helping education systems cope with HIV/AIDS; promoting early childhood development; and protecting EFA prospects in post-conflict countries.

World Bank education lending by region 2005



The Education for All—Fast Track Initiative (FTI) is supported by the Bank and more than 30 bilateral, regional and international agencies and development banks. It was launched as a global partnership between donor and developing countries to ensure accelerated progress towards the Millennium Development Goal of universal primary education by 2015. All low-income countries demonstrating "serious commitment to achieve universal primary completion" by developing sound national education plans can receive FTI support. As of January 2006, 20 developing countries are FTI partners. Donors provide financial and technical support. The Bank hosts the FTI but it is unclear how much financial support it gives to it.

The Bank also recognises the need to increase the impact of adult basic education programmes as a part of EFA planning. It has established a unit to strengthen support for non-formal education efforts for children and youth and to help improve their transition to the labour market.

Education for the knowledge economy This aims to help developing countries equip themselves with the "skilled and flexible human capital needed to compete effectively in today's dynamic global markets", adapt to changing market demands and new technologies. Its efforts focus on: secondary and tertiary education; lifelong learning; science, technology and innovation; information and communications technology (ICT); and cross-cutting efforts to rethink the role of the state.

World Bank education page **www.worldbank.org/education**

World Bank "pushing big dams" across Asia

In recent years the Bank has returned to support large-scale hydro, which it financed to the tune of $449 million in 2005. Recent examples from Pakistan, India and China reveal a lack of public confidence in the Bank's assertion that it has "learned from its mistakes".

"Forging consensus": The Bank announced that it will support the controversial 3600-megawatt Kalabagh dam in Pakistan, once President Musharraf has "achieved consensus". The IMF has also approved the project's feasibility. This forms part of a larger Bank-endorsed plan to build three dams by 2016 to develop agricultural and industrial growth, and generate inexpensive hydroelectric power as outlined in the recent report *Country water resource assistance strategy: water economy running dry*. There has been strong opposition to Kalabagh, including from the political parties of three provinces (North West Frontier Province [NWFP], Sindh and Balochistan). According to protestors at a rally in NWFP, Sindh province will lose out on the water supply from the Indus river, and areas of NWFP province will face submergence and regular waterlogging.

Quantifying benefits: Canadian NGO Probe International points out that the World Bank gave China's second-largest hydro project, the Ertan dam, a satisfactory rating on the resettlement of 46,000 people despite serious lack of data. A 2005 report by the Bank's Operations Evaluation Department (OED) (recently re-named Independent Evaluation Group) stated "resettlement appears to have been successful". However the same report said that it is "impossible to quantify the degree of progress [on resettlement at Ertan] or the extent of the income shortfall of those resettled" because no income data was collected from resettled households. The $2.2 billion dam, now in its eighth year of operation received more than $1 billion in loans and a decade of assistance, the biggest ever loan package extended by the Bank

Indian northeast not for sale: Nearly 20 peoples' organisations from India's northeast demonstrated at a two-day consultative meeting on water resources in the region, held by the Bank and the ministry for development of the north-eastern region. Under the Civil Society Initiative Against IFIs (CSIIFI), the organisations opposed a plan proposing the construction of 116 dams and demanded that the Bank move out of the region. The plan is alleged to give no consideration to the traditional rights of local and indigenous people over their land and failed to consult civil society groups. In October 2005 the then senior water advisor for South Asia, John Briscoe announced the Bank's decision to "increase water lending to India from $200 million a year to about $1 billion a year for the next four years". Details are contained in the draft report *India's water economy: bracing for a turbulent future*. The report has been heavily criticised both within India and internationally. Himanshu Thakkar, coordinator of the South Asia Network on Dams, Rivers & People, said "the Bank's advocacy is not informed by a credible review of the state or performance of India's water storage facilities".

Large hydro solves climate change?: During the climate summit in Montreal, the Bank rebuffed criticism that it has failed to "take a leadership role in creating a new framework for clean energy and development", as agreed at the G8 summit by claiming that it had more than doubled its investment in renewable energy and energy efficiency (RE & EE) over the past year. It contradicted itself in a report in December 2005 which reveals that 60 per cent of its supposed support for RE & EE is in fact for large hydro projects. Patrick McCully of NGO International Rivers Network concluded: "Instead of pushing the much needed rapid scale-up of investment in new sustainable energy technologies, the World Bank is returning to its bad old ways of pushing big dams. This will neither help the climate nor deliver the affordable decentralised power systems needed to reach the 1.6 billion people without electricity."

Kalabagh dam campaign
www.kalabaghdam.org/

Save Indus
www.saveindus.org/

Article on Ertan dam in China
www.probeinternational.org

World Bank fails to live up to its clean energy mandate
www.irn.org/programs/greenhouse/index.php?id=051205leap.html

IMF shocks facility—will anybody use it?

In November, the IMF's board approved the establishment of the Exogenous Shocks Facility (ESF) to provide quick-disbursing funds to countries experiencing exogenous shocks. The Fund defines an exogenous shock as "an event that has a significant negative impact on the economy and that is beyond the control of the government. That could include commodity price changes (including oil), natural disasters, and conflicts and crises in neighbouring countries that disrupt trade". The board agreed that shocks due to shortfalls in aid flows "would not normally qualify for the ESF".

cheap financing?

The ESF has been established within the Poverty Reduction and Growth Facility (PRGF) trust. It will provide cheap financing (0.5 per cent interest and maturity of ten years) to low-income countries (annual per capita income below $895) that are experiencing shocks but which do not have a PRGF programme. For countries which do have a PRGF programme, the Fund will simply increase support to deal with the shock. An ESF arrangement can be extended up to a maximum of two years, during which time the amount of resources committed may be increased if the need is greater than originally expected. Access will be determined on a case-by-case basis, but the "norm" for annual access is set at 25 per cent of the member's quota in the Fund up to a maximum of 50 per cent.

It is unclear what conditions countries will have to meet to access the new fund. An interim Poverty Reduction Strategy Paper will have to be in place at the time of approval, or at the latest by the time of the first review of the ESF (which would take place bi-annually). As for structural reforms, the board would only say that they "could be less ambitious than under a PRGF arrangement".

The ESF adds to a growing list of virtually untouched IMF emergency funds. The difference with the ESF, according to the IMF, is that it is available at lower interest rates and requires the "formulation of a comprehensive economic programme". While lower interest rates are always more attractive to borrowers, the ambiguity over the amount of Fund conditionality that will accompany the facility makes it unclear if there will be any more interest in the ESF than there has been in its predecessors.

Analysts, while welcoming the idea in principle, are troubled by the details of ESF implementation. German NGO Erlassjahr is concerned that the definition of what constitutes a shock, the amount of funds that a country requires to tide it over the shock, and the structural adjustment needed to address the underlying cause of the shock are all left "up to the discretionary assessment of the Fund". Erlassjahr also questions the appropriateness of the timeframe for assistance, eligibility criteria which would exclude many disaster-prone countries, and the sufficiency of the resources available.

Donor contributions totalling $700 million are needed to subsidise planned total lending of $2.8 billion over the first five years of the facility.

Exogenous Shocks Facility fact sheet
www.imf.org/external/np/exr/facts/esf.htm

Shockingly weak shock facility for the weak
www.erlassjahr.de/content/publikationen/fonds20051205_esf_anaysis.php

Aid for trade: "distraction" from a bad deal

The consensus among civil society observers was that the agreement struck at the December Hong Kong WTO trade ministerial was a bad deal for developing countries, with IFI-backed 'aid for trade' used as a "major distraction".

In the run-up to the ministerial, the World Bank's trade department released their latest in a string of publications on the multilateral trade talks, entitled *Trade, Doha and development: A window into the issues*. A paper explaining why the Bank has been forced to backpedal on its estimates of the benefits of an agreement to developing countries says that one of the key reasons for the adjustment was that "the most heavily protected economies have been growing more rapidly than the less protected".

> the most heavily protected economies have been growing more rapidly

While most developing countries got something small out of the meeting, the more important agreements on manufactured goods and services were contrary to their interests. Aileen Kwa, of Focus on the Global South, believes that the agreement "will force developing countries to provide foreign investors with the same rights as local suppliers. This would lock up their ability to develop their own services sectors."

At the September annual meetings, the World Bank and IMF announced the key elements of their 'aid for trade' agenda, re-packaging existing plans for increased trade-related lending, technical assistance and support for adjustment costs (see *Update* 48). In Hong Kong, the industrialised countries joined the 'aid for trade' chorus, with the EU, Japan and the US all announcing major increases in their spending.

The Institute for Agricultural Trade Policy (IATP) called the 'aid for trade' package a "major distraction". Other critics of the 'aid for trade' deal have underlined the lack of new money available and the fact that most is in the form of loans, which will put countries further in debt. They stressed that aid is not a substitute for strong multilateral trade rules that prevent dumping and protect countries' right to design domestic policies according to their people's needs.

Despite such misgivings, the WTO director general was instructed in the ministerial declaration to consult with IFIs and relevant international organisations on how to secure additional financial resources for 'aid for trade', and to create a task force that "shall provide recommendations on how to operationalise aid for trade". The task force will submit its recommendations by July 2006. This is in addition to the task force that will look into the Integrated Framework (IF) for technical assistance (a multi-agency initiative to coordinate national ministries, donors and multilateral agencies in the provision of trade-related capacity building, see *Updates* 38, 34) and submit recommendations by April 2006.

Trade, Doha, and development: Window into the issues, World Bank
www.worldbank.org/trade

IATP analysis of the Hong Kong deal
lists.iatp.org/listarchive/archive.cfm?id=117088

Aid for trade policy brief, South Centre
www.southcentre.org/info/policybrief/02AidforTrade.pdf

Evalution of Fund budget strictures

The Independent Evaluation Office (IEO) has released a draft issues paper for a planned evaluation of the Fund's role in determining aid resources in sub-Saharan Africa. The evaluation, which should be of keen interest to civil society organisations, will look at the Fund's country dialogue, assessment of countries' ability to absorb aid increases, use of alternative macroeconomic scenarios and advice on managing aid volatility. The desk review will look at the 29 African countries with IMF programmes, while field visits will be undertaken in six countries.

www.imf.org./External/NP/ieo/2005/ssa/eng/121305.pdf

IEO on IMF in Jordan: "moderately successful"

The Independent Evaluation Office (IEO) has said that the IMF's role in Jordan in the period 1989–2004 was "moderately successful". The IEO said the Fund was "important in reinforcing necessary macroeconomic discipline and helping advance key reforms". Criticisms include the failure to provide "a clear rationale for the magnitude and composition of targeted adjustment"; adopting benchmarks on privatisation "that were not well designed"; and ineffective collaboration with the World Bank in the area of public expenditure policy. One of the key lessons was the need for "alternative policy options".

www.imf.org/External/NP/ieo/2005/pr/eng/pr0503.htm

Bank "pushing blueprint": Donor survey

The Multilateral Organisations Performance Assessment Network (MOPAN) of nine donor countries, has published its 2005 survey of the perceptions of multilateral organisations at the country level, covering the World Bank. According to the report, the World Bank needs improvement in the areas of capacity development, support to civil society and reform of its internal procedures in order to deepen PRS alignment and harmonisation. The Bank is perceived as "pursuing its own institutional goals and procedures" and "pushing a technical blueprint inappropriate to existing capacity".

www.ifiwatchnet.org/doc/MOPAN2005.pdf

Bechtel drops case against Bolivia

US water multinational Bechtel has dropped its $50 million case against the people of Cochabamba for ending its contract to provide water to the citizens of Bolivia's third-largest city. In April 2000, the company was forced to leave following massive protests against average rate hikes of over fifty per cent. In 2002, the company filed the legal action against Bolivia at the World Bank's International Center for the Settlement of Investment Disputes (see *Update* 27). NGO the Democracy Center says this sends a message to other corporations that "we will make you defend your actions in the court of world opinion, not behind closed doors where only a handful of lawyers has a voice".

democracyctr.org/bechtel/

IMF debt deal **"a victory"**

In December, the IMF board approved 100 per cent debt relief to 19 countries under the Multilateral Debt Relief Initiative amounting to $3.3 billion. The 19 countries that qualified included: Benin, Bolivia, Burkina Faso, Cambodia, Ethiopia, Ghana, Guyana, Honduras, Madagascar, Mali, Mozambique, Nicaragua, Niger, Rwanda, Senegal, Tajikistan, Tanzania, Uganda and Zambia. For this group of countries, debt repayments to the IMF stopped in January.

Additional countries will be eligible for relief under the Multilateral Debt Relief Initiative (MDRI) once they have reached the completion point of the Heavily Indebted Poor Country (HIPC) initiative. This includes ten countries which are currently in the middle of the HIPC process (Burundi, Chad, Democratic Republic of Congo, The Gambia, Guinea-Bissau, Malawi, São Tomé e Príncipe, Sierra Leone, Cameroon and Guinea) and countries which may still qualify for the HIPC programme under a 'sunset clause' which expires at the end of the year. A revised list of those countries which will qualify for relief under the 'sunset clause' (based on end-2004 debt levels) will be presented to the board in February.

Njoki Njehu, director of Solidarity Africa Network in Action, heralded "a victory for the people in the 19 countries that will finally get a chance to free themselves from the slavery of debt. However, there are dozens of other countries that need 100 per cent multilateral debt cancellation which are left out of this deal." Campaigners continue to oppose what they consider to be onerous economic conditions imposed on countries qualifying for the HIPC programme.

Eligible countries were required to pass a 'health check' ensuring that: macroeconomic performance had not "substantially deteriorated" since the completion of the HIPC programme; a Poverty Reduction Strategy was being implemented; and that public expenditure management systems were in place. Before the final announcement of the deal, there had been first concerns about pressure from several donor countries to impose additional conditions on countries before receiving debt relief, and then fears that as many as six countries would fail the Fund's 'health check'. These arguments did not win the day at the IMF board.

Mauritania was the only country to fall foul of the 'health check'. While the Fund refused to publicly state its reasons for excluding Mauritania, leaked Fund documents argue that there had been a "substantial deterioration" in budget formulation and public expenditure tracking. Rumours are that the previous regime falsified information given to the IMF to satisfy conditions for reaching HIPC completion point. Current Mauritanian prime minister Sidi Mohammed Weld Bu Bakker, under a military junta which seized power in an August coup, has asked the Fund to reconsider the postponement. He said that "the Mauritanian people should not be held responsible for mistakes of a former ruling regime". US congressman Bennie Thompson, in an end-year visit to Mauritania vowed to do "everything possible in order to have the Mauritanian debt" to the IMF and the World Bank cancelled. There will be a six-month probation period during which the IMF will monitor Mauritania's economic policy.

The IMF is using its own resources for the debt write-off. This will be financed from three sources: the Poverty Reduction Growth Facility (PRGF)-HIPC trust, the account for income from the sale of IMF gold, and the PRGF subsidy account (which subsidises the rate of interest on loans to the poorest borrowers).

World Bank: less and later

The World Bank is not expected to deliver its share of the debt cancellation deal until July, citing concerns that starting debt cancellation before the start of the 2007 fiscal year would disrupt International Development Association (IDA) allocations. The assessments of which countries will qualify for IDA debt cancellation will be included in a paper to be prepared before end March. The paper will also outline how donors will compensate IDA for losses it incurs under the debt cancellation plan.

Unfortunately, the cut-off date for debt included in the initiative has been set at end 2003. This means that only debt stocks contracted up until December 2003 will be eligible for cancellation by IDA. Conversely the IMF set its cut-off date at end 2004. The European Network on Debt and Development said this shows "that for donors it boils down to how much the plan is going to cost them rather than any real commitment to freeing up as many resources as possible for investment in the MDGs".

Multilateral Debt Relief Initiative factsheet, IMF
www.imf.org/external/np/exr/facts/mdri.htm

IMF concedes on 19 out of 20 but still a long way to go on debt cancellation
www.eurodad.org/articles/default.aspx?id=673

Latin America sends IMF packing

The IMF's role and financial health have been brought into further question as a result of the early repayment of two of its largest debtors. Argentine president Néstor Kirchner announced 15 December that Argentina would repay the entire $9.8 billion debt owed to the IMF through 2008. Two days earlier, Brazil had declared an early repayment of its outstanding obligations to the IMF amounting to $15.5 billion.

Fifty representatives of religious, trade union and human rights organisations in Argentina wrote a letter to Kirchner demanding a suspension in debt repayments pending the outcome of a supreme court investigation into allegations of illegitimacy. One of the signatories of the letter, Argentine MP Mario Cafiero, said the measure had converted the IMF into a privileged creditor. Elisa Carrió, leader of the opposition party Alternative for a Republic of Equals, also opposed the repayment: "This implies that Argentina waives the possibility of making the IMF share the costs of the crisis, in spite of having openly said that it was jointly responsible."

Debt campaigning network Jubilee South pointed out that the constitutional duty of the Brazilian parliament to carry out a debt audit had been violated. In contrast to observers who believe that the IMF had not sought early repayment, Jubilee South believes that "the IMF has attributed ever greater priority to recovering its solvency—and therefore its power to act—by rigorously collecting, if possible in advance, all its large outstanding debts." The group also pointed out that repaying IMF loans before other private financial creditors which charge higher interest rates made little economic sense.

In November, Kirchner asked finance minister Roberto Lavagna to resign, replacing him with economist Felisa Miceli, president of the state-owned Banco de la Nación. Unlike Lavagna, Miceli agrees with Kirchner's strategy for lightening the country's foreign debt load, and as president since 2003 of the state-owned bank, backs a pivotal role for the state in directing economic development. The IMF had targetted the bank for privatisation.

IMF financial dilemma

According to Jubilee Research, together with Turkey and Indonesia, Argentina and Brazil are the four largest borrowers from the Fund, accounting for 70 per cent of its outstanding loans. Indonesia declared in 2003 that it would repay its debt according to the original schedule. In fact, almost every borrowing country has reduced its debt to the Fund, cutting the total debt outstanding from $90 billion to $66 billion. Together with the decision to cancel some $3.3 billion of debts owed by the poorest countries, this means total funds owed to the IMF could fall to $40 billion by the end of the year.

This raises the question of how the IMF, which uses the proceeds from its lending to cover its operating expenses, will pay its $1 billion annual bill. A 30 December article in the *Financial Times* suggests some quick fixes: The board could cut the target for reserve accumulation, or cut the interest rate it pays to member nations on their contributions to the Fund.

In the longer term, the IMF's accountants have been working on a plan to cope by boosting its income from other sources. One possibility is investing a portion of reserves in higher-earning assets, such as longer-term securities. This raises the possibility of creating perverse incentives for the Fund to save its money rather than making it available to its members. Another option would be to levy charges for some of the other services the Fund provides such as technical assistance. Jubilee Research asks instead whether the Fund will be able "to undertake its own structural adjustment programme".

Letter to Kirchner protesting repayment
www.cadtm.org/article.php3?id_article=1726

After years of fighting the IMF, Lula turns Brazil into the best client, Rede Brasil
ifis.choike.org/informes/224.html

The IMF: the wrong business model—or the wrong business?, Jubilee Research
www.jubileeresearch.org/latest/imf130106.htm

Recommended resources 2005

BOOKS

Accountability of the IMF
Collection of academic papers with a policy edge, examining IMF governance reform.
Carin and Wood (eds.), Ashgate, 2005. ISBN: 0754645231

The new conditionality: The politics of Poverty Reduction Strategies
Detailed case studies back up the conclusion that "new conditionalities perpetuate debt servitude because aid agencies need to move money in order to survive."
Jeremy Gould (ed.), Zed Books, 2005
ISBN: 1842775227

Helping the poor: The IMF and low-income countries
Collection of analyses by both academics and civil society actors on issues including IMF poverty analysis and its approach to debt and financing the MDGs.
Teunissen and Akkerman (eds.), FONDAD, 2005
ISBN: 9074208258

The IMF and the World Bank at sixty, and ***Reforming the governance of the IMF and the World Bank***
The G24 has sought eminent scholars to inform its member governments about the latest thinking on issues such as conditionality, crisis prevention, industrial strategy and services provision, as well as World Bank-IMF governance reforms.
Ariel Buira (ed.), Anthem Press, 2005
ISBN: 1843311968

Imperial nature: The World Bank and struggles for social justice in the age of globalization
This book sheds light on the role of the Bank in increasing global inequalities.
Michael Goldman, Yale University Press, 2005
ISBN: 0300104081

OFFICIAL RESOURCES

US law on multilateral development banks
Progressive US law championed by Senator Richard Lugar, containing a number of significant anti-corruption, transparency and accountability provisions.
www.lugar.senate.gov/pressapp/record.cfm?id=248759

***Partnerships for poverty reduction: Rethinking conditionality*, DFID**
Up for civil society 'pleasant surprise of the year' award, the UK's Department for International Development released its new approach paper to conditionality—the first official agency to come around to the overwhelming body of academic and civil society research showing that economic policy conditionality doesn't work.
www.dfid.gov.uk/pubs/files/conditionality.pdf

WEB RESOURCES

IFIs Latin American monitor
Terrific new website which fills the gap between civil society work on the IFIs in Latin America and the rest of the world.
ifis.choike.org/

Global Transparency Initiative and IFI transparency resource
Bringing together IFI watchers and freedom of information campaigners, the GTI is attempting to change the transparency rules under which the IFIs operate. Includes the IFI transparency resource, a detailed database rating the different elements of all the MDBs' disclosure policies.
www.ifitransparency.org
www.ifitransparencyresource.org

CIVIL SOCIETY

***Chad-Cameroon: human rights "contracted out"*, Amnesty International**
Looks at the role of 'host government agreements' in relation to the Bank-financed Chad-Cameroon pipeline, and warns that the Bank must share responsibility for the danger such agreements pose to human rights or "risk freezing human rights protections for decades to come".
web.amnesty.org/library/Index/ENGPOL340122005?open&of=ENG-390

***Broken promises: the World Bank and Forests*, multiple agencies**
Examines how programmes funded by the Bank are causing destruction of the world's remaining forests and harming forest-dependent peoples. Cites case studies in DRC, Brazil, Cambodia, and India.
www.forestpeoples.org/documents/ifi_igo/wb_forests_joint_pub_apr05_eng.pdf

***Pumping poverty*, multiple agencies**
A series of resources examining the role that European public money plays in facilitating oil development. Includes reports on the roles of UK and Dutch development agencies, and DVD documenting a speaker tour of Friends of the Earth representatives from affected communities in Georgia, Guatemala, Ghana and Nigeria.
www.carbonweb.org/pump_pov.htm
www.ifiwatchnet.org/eyes/item.shtml?x=44730

***Global Health Watch Report 2005*, People's Health Movement**
Alternative to the WHO's World Health Report, assesses the state of health care systems worldwide. It targets the BWIs for their role in weakening public health care.
www.ghwatch.org/

***Changing course: Alternative approaches to achieve the MDGs and fight HIV/AIDS*, ActionAid International**
Blames Fund macroeconomic conditions for developing countries' inability to deliver economic growth and therefore the social spending required to meet the MDGs.
www.actionaidusa.org/pdf/Changing%20Course%20Report.pdf

***Do it yourself in Palestine*, Palestinian grassroots Anti-Apartheid Wall Campaign**
Describes the Bank's current and future role in co-ordinating "development and growth" efforts in Palestine.
www.miftah.org/Display.cfm?DocId=7844&CategoryId=8

ISSN 1471-1168

Bankspeak of the year 2005

A rose by any other name: 2005 was the year that the Bank found itself increasingly isolated on the use of economic policy conditions. But rather than admit its conditionality-heavy approach had been mistaken, the sharp pencils at the Bank simply defined-away the problem.

The Bank's conditionality review found that "the average number of conditions fell from 35 in the late 80s to about 12 in 2005". However, a careful look at how the Bank defines conditions reveals that benchmarks—while not directly tied to the release of funds, but which can lead to a suspension of payments if 'satisfactory progress' is not being made in implementing them—aren't conditions. Neither are triggers which include reforms which must be undertaken during the course of a lending programme to qualify for a subsequent programme. The only conditions that the Bank defines as conditions (and which, coincidentally, are the only type of conditions whose usage has fallen) are prior actions—reforms which must be completed before any money is handed over in the first place. Clear are you? Well, neither are borrowing governments. The Bank was forced to admit that, in practice, the "distinction in the role of conditions and benchmarks is sometimes lost on borrowers". Sometimes. A full seventy-five per cent of authorities responding to a Bank survey on conditionality did not make any distinction between conditions, benchmarks and triggers.

Bankspeak of the year 2004
brettonwoodsproject.org/bankspeak2004

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Following our appeal for assistance in *Update* 48, we would like to thank those readers who made donations. Your generosity is crucial for the survival of the Project. If you would like to make a contribution, please use one of these methods:

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  Somerset TA20 1BR

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Matteo Rizzo joins BWP team

Matteo Rizzo will join the Bretton Woods Project team in February in the role of policy and advocacy officer. Matteo holds a PhD in economic history from the School of Oriental and African Studies, University of London, as well as degrees in development studies and political science. He has conducted research for NGOs and bilateral development agencies on issues ranging from food crisis to country ownership.

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