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MAY/JUNE 2006

'Cleaning' energy: ambiguous framework proposes coal and large hydro

Environment and development groups have slated the World Bank's* Clean energy and development: towards an investment framework *for its perverse definition of clean energy, letting Northern polluters off the hook and neglecting the needs of the rural poor.

There are question marks about the framework's relationship to the existing international regime established under the United Nations Framework Convention on Climate Change, its emphasis on market-based approaches to tackling climate change and energy access, and how its recommendations will be mainstreamed into Bank policies and lending.

The framework comes in response to calls from the G8 summit in July 2005 to create "a new framework for clean energy and development" (see *Update* 47). The first phase, to be completed by the WB/IMF annual meetings in Singapore in September, will include an analysis of the adequacy of existing IFI instruments to address: the long-term energy needs of developing countries; the mitigation of greenhouse gas emissions; and the adaptation needs of developing countries. A longer term programme of country-level activities and global research is to be completed by the G8 summit in Japan in 2008. Implementation options include: the use of "innovative financial instruments"; public finance as a main driver of adaptation; an expanded role for the Global Environment Facility in funding adaptation; and private finance as the dominant mechanism for energy supply.

ROBIN HEIGHWAY-BURY / THOROGOOD

Despite the framework's clean investment mandate it includes proposals for untested coal technologies, nuclear power and large hydropower as solutions to global warming. Although it identifies decentralised, renewable sources of energy—such as wind, mini-hydro, solar photovoltaics and biogas—as low-cost solutions to climate change, such solutions are given scant priority in the Bank's current lending portfolio. Instead the framework focuses on centralised, grid-based power plants, downplaying the fact that nearly 1.6 billion people live in communities that are not connected to electric grids. Andrew Pendleton of UK NGO Christian Aid was shocked by the "staggering lack of reference to poor people, for whom most of the framework will be almost completely irrelevant".

There is no indication if the World Bank's energy lending will be reoriented to reflect the recommendations of the framework. Robert Watson, chief scientist at the World Bank has stated that to provide figures on this now would be "premature".

The framework claims to "take a global non-Bank-centric perspective", yet fails to emphasise the North's contribution to global carbon dioxide emissions or to call for deeper emissions reductions under the second commitment period of the Kyoto Protocol.

Environmental NGOs assert that given its heavy investment in fossil fuels the Bank is not the institution to address the 'climate, energy and development' problem. Instead an effective multilateral regime should be created under the UN Convention on Climate Change and UN bodies such as the Commission on Sustainable Development. "The Bank's fossil fuel policy is nullifying the effects of the 'climate solution' it is pretending to offer," said Larry Lohmann of The Corner House, a UK think-tank.

The Institute for Policy Studies (IPS) in Washington states the Bank has yet to conduct a full assessment of the climate impact of all of its lending. IPS finds that the World Bank's oil, gas and coal projects financed since 1992 will release over 43 billion tonnes of carbon dioxide over their lifetimes. The Bank also ignored its own Extractive Industries Review in 2004, which recommended that it get out of oil and coal investments by 2008 on the grounds that these harm the poorest.

Clean coal and large hydro

Watson said it was realistic to put coal above renewables such as wind and solar power, given that the latter only make up about three per cent of energy production worldwide. "I don't think there is anything to apologise for in saying that you can use coal but transform it to be environmentally friendly."

In disregard for the findings of the World Commission on Dams, large hydropower is central to the framework, particularly for Brazil, India, and Sub-Saharan Africa. This is despite devastating environmental and social impacts and greenhouse gas emissions of large dams in tropical regions. In FY 2005, 60 per cent of the Bank's support for "renewable energy and energy efficiency" was for just five large hydro projects.

Clean energy investment framework
siteresources.worldbank.org/DEVCOMMINT/Documentation/20890696/DC2006-0002(E)-CleanEnergy.pdf

Critique of the investment framework, IRN
www.irn.org/programs/finance/index.php?id=060414critique.html

Talking points on the investment framework, IPS
www.ips-dc.org/comment/wysham_wb_2006.htm

Nicaragua won't meet MDGs under IMF conditions —comment, page 3

Bank disaster work reactive, lacks strategy —page 5

IMF strategic review: too little, too late? —page 6

Malaria experts say Bank approved deadly treatments —page 8

Bank stumped on Uruguayan paper mills

The IFC and MIGA have been unable to manage the dispute created by their proposed investment in two pulp and paper mills in Uruguay (see Updates 48, 49), and have been forced to backtrack on their earlier assumptions that the mills should be built.

Environmental campaigners and community activists in Argentina and Uruguay have been leading angry protests against the projects on the Rio Uruguay just outside the town of Fray Bentos, which they say will damage local industry and the surrounding environment. In April Dutch bank ING, a leading advocate of the Equator Principles for environmentally and socially responsible financing, withdrew its consideration of funding. Construction of both plants by Swedish company Botnia and Spanish firm ENCE has since been stalled for 90 days.

The projects have become the source of acute high-profile diplomatic tension between the governments and citizens of both countries. According to national media they have polarised the communities on opposite sides of the river—Fray Bentos in Uruguay, and Gualeguaychu in Argentina. Uruguay claims that the pulp and paper mills will create jobs where they are needed most, and bring investment into the country. Argentina opposes the projects on environmental grounds, citing potential water, air and ground pollution, and damage to agriculture and tourism. In May Argentina filed a complaint at the International Court of Justice in The Hague, claiming Uruguay had violated the Uruguay River Treaty. In September, Argentine NGO the Center for Human Rights and Environment (CEDHA) filed a complaint to the Inter-American Commission on Human Rights.

A recent request by Uruguayan president Tabaré Vazquez for Bank approval for the projects was rejected on the basis that credits could only be disbursed on compliance with the Bank's safeguard policies. Both companies are dependent on World Bank financing for further private sector investment of other groups, including BBVA of Spain, Nordea of Sweden, and the Finnish and Spanish export credit agencies.

In February the Compliance Advisor Ombudsman published an audit which identified clear violations of the World Bank's environmental and social safeguard policies particularly in relation to transparency, consultation, and access to information. In April, the IFC released an additional study, carried out by independent consultants, to address social, economic and environmental issues in greater depth. It found the initial environmental impact assessments carried out by the companies to be inadequate. The Bank has since withheld approval of the $400 million requested for the mills until the companies complete further impact studies on air, water and soil contamination.

CAO due diligence audit of Uruguayan pulp mills
www.cao-ombudsman.org

Pulp mills campaign, CEDHA
www.cedha.org.ar/en/initiatives/paper_pulp_mills

IFC web page on Uruguayan pulp mills
www.ifc.org/ifcext/lac.nsf/content/Uruguay_Pulp_Mills

Inspection Panel condemns Bank forestry project in Cambodia

A leaked Inspection Panel investigation heavily criticises a forestry management project in Cambodia. The investigation, requested by local communities, the Cambodian NGO Forum and UK-based NGO Global Witness (see *Update* 46), finds the project helped private companies to produce forest management plans which were "deficient in almost all regards", failed to reduce poverty in Cambodia and, in the process, broke safeguard policies designed to protect human rights and the environment. Global Witness is now calling for a full-scale review of Bank policies on forestry and corruption.

The Panel found that the Bank broke its own rules by:

- *ignoring evidence showing the concession logging system had failed the Cambodian economy;*
- *failing to recognise that some of the areas put forward for industrial logging were also forests of "high ecological value";*
- *failing to disqualify companies with a track-record of illegal logging; and*
- *allowing companies to conduct community consultations about the project despite obvious conflicts of interest.*

The country's forests have been systematically pillaged over the last decade by government-approved private companies. The Bank-supported $5 million Forest Concession Management and Control Pilot Project was designed to improve forest management but merely gave support to the same companies previously responsible for ransacking Cambodia's forests over the past decade.

Global Witness said: "if the Bank is really serious about improving accountability, it will take tangible steps to ensure other forest projects and interventions in highly corrupt environments benefit the poor rather than local elites and dubious private companies."

In a surprise move, a letter from the Bank to Cambodia's government last November revoked its support of the concession system. "It has taken years for the Bank to recognise its thinking was misinformed. Now we need this stance to be made public and for the Bank to use its influence in pushing forward these sensible reforms", commented Global Witness. Another complaint about a forest management project in the Democratic Republic of Congo was recently lodged, citing similar concerns.

World Bank InspectionPanel
www.worldbank.org/inspectionpanel

Global Witness on Cambodia forests
www.globalwitness.org/press_releases/display2.php?id=365

Barrage of criticism over IFC safeguards review

In the run up to the IFC's 50th birthday, a number of new reports have come out in criticism of its recent revision of its lending standards (see *Update* 50). A report edited by Halifax Initiative in Canada provides a helpful analysis of each of the eight issue-specific performance standards and identifies what is missing in relation to the Extractive Industries Review. A second briefing by UK NGO Forest Peoples Programme looks at the IFC's indigenous peoples policy and finds that the IFC has yet to develop tools that could be used to monitor how corporations will assess and uphold indigenous people's rights and not interfere with states' obligations.

www.halifaxinitiative.org
www.forestpeoplesprogramme.org

Co-op Bank ditches IFC bonds over renewables

The UK's Co-operative Bank announced in April that it will not hold investments in the IFC because of its contribution to climate change. "We've looked at the recent investments of the [IFC] and conclude that there is an unhealthy focus on fossil fuel technologies. Henceforth, we will withhold investments until such time as renewable technologies are much better supported", said Paul Monaghan, head of sustainable development at the Co-op Bank. Industry monitors estimate that the IFC was the world's largest multilateral financier of fossil fuel extraction in 2005, devoting a mere four per cent of its energy lending to renewables. It has no concrete goals for increasing such financing.

brettonwoodsproject.org/ifccoop

World Bank to ditch enviromental unit?

At the spring meetings in Washington, a civil society participant asked about rumours that the Environmentally and Socially Sustainable Development (ESSD) network was going to be dismantled in a possible re-organisation of the Bank. This would coincide with the rumoured retirement of Ian Johnson, current head of ESSD. The Bank replied that no decisions have been made in this regard and that ESSD staff are "continuing with their important work on the environmental, social, and rural agendas". The re-organisation is expected to be announced by end June.

Request for inspection of West Africa gas pipeline

In April, the Ifesowapo Host Communities Forum (IHCF) in Nigeria requested the Inspection Panel investigate the West African Gas Pipeline (WAGP) project. The project, costing $590 million and delivering gas from Nigeria to Ghana, will affect a total population of over 140,000. IHCF and Friends of the Earth Nigeria assert that WAGP will cause irreparable damage to local citizens' land and health. Allegedly, the project violates Bank policies on environmental assessment, involuntary resettlement, economic evaluation of investment operations, project supervision and information disclosure. A decision from the Inspection Panel on whether to launch an investigation is due mid June.

Friends of the Earth Nigeria
www.eraction.org

One hand gives while the other takes: Nicaragua under IMF conditions

COMMENT

By Adolfo José Acevedo Vogl, Coordinadora Civil

IN THE UN declaration on the Millennium Development Goals (MDGS) all signatory states undertook to spare no efforts to "free our fellow men, women and children from the abject and dehumanising conditions of extreme poverty". The achievement of the MDGS, in the case of Nicaragua—as in the case of many developing countries—is severely constrained by the relationship of the country with the IMF. It is estimated that under current IMF conditionalities only half of the MDG targets will be met in Nicaragua.

The importance of achieving the MDGS for a country like Nicaragua is quite evident. Nicaragua is the poorest country in Latin America after Haiti, Bolivia and Honduras. Eighty per cent of its population lives on less than $2 a day and 46 per cent on less than $1 a day. The country registers higher-than-expected "income poverty" levels considering its per capita income.

Child poverty is high in Nicaragua. Education should be a priority. Primary education levels are comparatively lower than other Latin American neighbours such as Bolivia and Honduras. Only 41 per cent of secondary school age children actually attend. In comparison to neighbouring Honduras and Bolivia, which spent approximately 7 per cent of GDP on public education, Nicaraguan spending in this area was the lowest, at 4.3 per cent of GDP.

For the first time in its history, Nicaragua should be in a position to confront its structural problems: in the 1990s the country was in no position to take on the enormous financial investment required for human development given the amount of public resources it had to divert to paying its external debt. From 1994-1998 the government gave approximately 51 per cent of its total annual income of $455 million to debt repayments. Since qualifying for relief under the Highly Indebted Poor Countries (HIPC) initiative the country now devotes less than 9 per cent of its fiscal income to debt servicing. During this time government income has doubled to $900 million and Nicaragua receives one of the highest levels of foreign aid, $580 million per year since 2002.

The principle obstacle to Nicaragua increasing its spending levels on human capital to the level required by the MDGS is the surrender of fiscal sovereignty to IMF policies. The most stringent IMF macroeconomic condition is the requirement to make payment of domestic debt an absolute priority. This is aggravated by requirements to increase foreign exchange reserves and to maintain ceilings on the government's primary spending and fiscal deficit. In order to reach the financing levels required by the MDGS, the country would have to increase its spending over and above the levels imposed by the IMF, meaning it would need to use all of the resources freed under HIPC.

The government's domestic debt repayments were very reduced during the pre-HIPC period, but they have now become untenable. Internal debt servicing is now absorbing resources freed up by debt relief, which should be used for additional social spending. For a country where government spending totals $1.2 billion, sustaining international currency reserves of $800 million is a serious burden. For example, if imports grow by 20 per cent next year, the central bank's reserves must also be increased by 20 per cent, or $160 million, an amount similar to the total budget allocated to the ministry of education.

The IMF's new conditionality establishes that the government payroll will also have to remain frozen in real terms. This implies that it will be impossible to accomplish even the goal set in the National Development Plan of overcoming the enormous salary shortfall in education and health, and hire the new teachers and medical personnel necessary to meet the domestic goals regarding education and health.

It is ironic that northern donors who provide budget support to Nicaragua demand that on the one hand Nicaragua achieves the goals required to meet the MDGS, whilst on the other insisting that it comply with IMF conditions. This puts the country in a virtual position of schizophrenia. The most logical step would be to demand that the main purpose of IMF programmes be to contribute to the achievement of the MDGS.

Coordinadora Civil, Nicaragua www.ccer.org.ni
Adolfo José Acevedo Vogl acevedo@ibw.com.ni

Evaluation echoes civil society critique of debt relief efforts

An evaluation of the Heavily Indebted Poor Countries (HIPC) initiative by the Bank's Independent Evaluation Group (IEG) released in April begs the question what next for debt relief efforts. The evaluation builds on a 2003 evaluation of HIPC, but stops short of assessing the meaning of the new Multilateral Debt Relief Initiative (or G8 debt deal—see *Update* 50) for HIPC.

The IEG found that HIPC had cancelled $19 billion of debt in 18 countries between its 1998 start and 2006. The debt relief "appears to have been significantly additional", though looking forward the IEG cautions that donors will need to clearly establish what development aid would be in the absence of debt relief. The $19 billion figure was put into perspective by Jubilee Research: in 2005 alone, there was a $123 billion shortfall in aid actually delivered relative to the 0.7 per cent UN target for development assistance.

Most worrying is the finding that many countries quickly got back into debt trouble after completing the HIPC programme. In 8 of 13 post-completion countries, indebtedness once again exceeds dangerous levels. The IEG explains that post-HIPC countries have "not improved much" in revenue mobilisation or export performance. Jubilee Research concludes that "without a major increase in grants and a significant change in the balance of power in international trade" debt relief will be a "temporary solution at best".

The evaluation found that the Bank had been overoptimistic in calculating growth rates, seriously undermining the credibility of the Bank's debt sustainability framework. In April, the Bank and Fund published a joint evaluation of the first year of their new framework, finding it "broadly appropriate". Brussels-based NGO Eurodad has criticised the framework for its "de-linkage from achievement of the Millennium Development Goals".

The evaluation fails to offer any advice on how to speed up or broaden HIPC coverage. A conference of African finance ministers in Abuja, Nigeria, end May urged "an acceleration of qualification" for HIPC. In April, Bank and Fund staff released a final list of 11 additional countries that may qualify for HIPC debt relief if they are able to meet stringent IMF conditions.

Norway has established a fund for the Bank to undertake a study of illegitimate debt. This comes after Norway's commitment to examine what it believes may be illegitimate bilateral debts which it is owed. Eurodad asserts that Bank president Wolfowitz "must recognise that any comprehensive approach to corruption must necessarily involve the cancellation of debts found to be illegitimate." An international civil society conference on the cancellation of illegitimate debts was held in Jakarta end May. Participants worked on national and international strategies for illegitimate debt cancellation, including debt repudiation and debt audits.

Debt relief for the poorest, IEG
www.worldbank.org/ieg/hipc

How not to deal with debt—a pre-mortem of the HIPC initiative, Jubilee Research
www.jubileeresearch.org/news/HIPC_commentary_240506.htm

International conference on the cancellation of illegitimate debts
www.afrodad.org

Righting the Bank's agenda

The departing swansong of World Bank former legal counsel Roberto Dañino in January 2006 has finally put to rest any claims that the Bank is legally exempt from taking human rights into account.

He challenges the Bank's lack of accountability and states that consideration of human rights is now essential to the Bank's current mission. He cites international legal principles to refute assertions by the Bank that its articles of agreement prevent it from straying into the realms of civil and political rights and restrict it to working on "economic considerations".

In December 2005 the World Bank quietly produced a non-committal 'question and answer' on human rights. It is now considering how it might be "more explicit" in its approach. Until now it has skirted the issue of legally binding instruments and the appropriate use of human rights terminology. Instead it has used the ambiguous language of social development, such as empowerment, participation and good governance. It cites "new empirical evidence" proving "significant causal links between the provision of human rights, such as civil liberties, and positive development outcomes that include the enhanced success of Bank-funded investment projects".

The past decade has seen a proliferation of efforts by global civil society, academics, lawyers, economists and UN entities to bring the World Bank to account under international human rights law. These have given legal strength to the global moral outrage at the Bank's contribution to and complicity in human rights abuses. Such initiatives include:

- *legal arguments that the World Bank and the IMF are bound by international legal obligations and/or the obligations of their member states to take full responsibility where their activities negatively impact or undermine the enjoyment of human rights, including the Tilburg Principles, and those by Mac Darrow and Sigrun Skogly. These suggest that a legitimised institutional arrangement should be created to bring them to account formally for their actions;*
- *calls for the unconditional cancellation of and reparations from the Bank for illegitimate debt lent to rights-abusing regimes (see* Update 44*);*
- *the development of human rights impact assessments for project finance and investment, such as that of Rights and Democracy in Canada, and the Danish Institute for Human Rights;*
- *recent UN instruments including the UN norms for transnational corporations, the new human rights council, and the appointment of special rapporteurs on economic, social and cultural rights;*
- *demands that the Bank provide reparations for its complicity in projects resulting in grave abuses such as the Chixoy dam in Guatemala (*Update 43*), the Bulyanhulu gold mine, Tanzania (*Update 26*) and the Sardar Sarovar dam, India (*Update 20*);*
- *investigations into IFI-funded investment agreements that freeze the rights of governments to legislate for the protection of the human rights of their citizens as in the case of the Baku-Tblisi-Ceyhan (BTC) and Chad-Cameroon pipelines (*Updates 37, 47*); and*
- *the promotion of the right to information and calls for greater transparency and accountability from IFIs, such as that made by the Global Transparency Initiative (see* Update 47*).*

It is unclear where the rights agenda at the Bank is headed. Wolfowitz's corruption drive avoids this discourse. Claims that human rights are intrinsic in the World Development Report 2006 on equity and development have been challenged by critics such as Desmond McNeill, who point out that the document makes modest, inconsistent and inexplicit concessions on the issue. The human rights approaches advocated by the Bank-commissioned World Commission on Dams (2000) and Extractive Industries Review (2004) were rejected by the Bank, despite former Bank president Wolfensohn's progressive stance on the issue and his assertion that the UN declaration on human rights "could have been the framework which lead [the Bank] down the poverty reduction strategy approach". Other concessions included the appointment of Mohammed Sfeir-Younis as the Bank's 'special advisor on the social dimensions of globalisation' (Bank-speak for human rights). Wolfensohn's efforts seem to have followed him out, as did Sfeir-Younis and Dañino.

> the Bank has perverted solid concepts grounded in law

Civil society is cautious. Concerns exist that human rights are in danger of co-optation by the Bank's good governance and anti-corruption rhetoric, and the skewed US interpretation of human rights that places more emphasis on its concept of democracy. It would not be the first time that the Bank has perverted solid concepts grounded in international law, the most obvious example being the conversion of Free Prior and Informed *Consent*, to Free Prior and Informed *Consultation leading to Broad Community Support* (see *Update 47*).

There are also fears that given its economic and political power and influence, the Bank may end up assuming a role as the arbiter of human rights violations and burdening countries with an additional set of conditionalities based on human rights.

Nick Hildyard of UK NGO The Corner House states that major political work is needed to change the legal framework in which IFIs operate: "In the case of the World Bank, safeguard policies introduced largely in response to pressure from social movements are routinely ignored." He underlines the legal difficulty in establishing a causal link between the Bank's funding and the specific harm caused. Internal accountability mechanisms such as the Inspection Panel are deliberately set up to avoid the provision of hard and fast rules that would allow for the institutions to be brought to justice. The "specially negotiated legal regime" of BTC essentially surrenders sovereignty along the pipeline route to the oil consortium. "The effect is to replace 'hard' law with 'soft' industry guidelines, with the environment and human and labour rights the losers" says Amnesty International.

Roberto Dañino, Legal opinion
ifiwatchnet.org/documents/item.shtml?x=45667

Holding funders and companies to account
www.thecornerhouse.org.uk

African EDs urge top-up for capacity building

The pilot phase of the Analytical Trust Fund (ATF), which finances research to enhance Sub-Saharan African executive directors' (EDs) participation on the boards of the Bank and Fund, is coming to a close. Representatives from the four offices of African EDs say the initiative was slow to get off the ground due to coordination difficulties, and "misunderstandings" between the EDs and the organisation commissioned to conduct the research. The African EDs have urged replenishment of the fund. The UK Department for International Development "will review the project later in the year and there will be a joint donor decision on whether to replenish."

brettonwoodsproject.org/atfstart

Wolfowitz announces new managing directors

President Wolfowitz appointed Graeme Wheeler and Juan Jose Daboub to managing director positions in April. The two will divide the post that was previously held by Chinese national Shengman Zhang who left the Bank for the private sector at the end of 2005, allegedly over disagreements with Wolfowitz.

Before joining the Bank in 1997, Wheeler was deputy secretary to the New Zealand treasury. At the Bank he has been vice-president and treasurer since 2001. Daboub was behind privatisations of El Salvador's electric utility and telecommunications. As chief of staff and finance minister, he led the dollarisation of the economy and completed a free trade agreement with the US.

Donors fail to ante-up for Bank bird flu efforts

According to a June Bank report, a mere $286 million out of the originally pledged $1.9 billion has been committed for avian flu preparedness. The funds are to go towards "improving veterinary systems, vaccination programs, and providing education on hygienic animal-raising". In addition, the Bank and the European Commission have set up a joint $10 million trust fund. The Avian and Human Influenza facility (AHI) will be available in grant form to countries with insufficient resources, in order to reduce the social and economic impact in the event of a bird flu outbreak.

World Bank avian flu webpage
www.worldbank.org/avianflu

Bank staffer slams technical assistance

Buried in the text of the 2006 Global Monitoring Report (GMR), a Bank-Fund document to examine progress towards the MDGs, it suggests that technical cooperation funding not be tied to the countries giving the money. According to the *Financial Times*, GMR lead author Mark Sundberg asked at a Brussels launch event, "500 days of technical assistance costs the same as employing 5,000 teachers. Which does more to cut poverty?" The effectiveness of technical assistance will be a focus of the Real Aid II report to be released by ActionAid this summer.

www.worldbank.org/gmr2006

Real Aid: An agenda for making aid work
www.actionaid.org

Inside the institutions: The World Bank and ageing

The social protection group within the human development vice-presidency (both in Washington and in the regions) works on issues of income protection and poverty alleviation for the aged. The number of individuals working part- or full-time on ageing is approximately 60. The health group works on issues of provision of health services for the aged. The Poverty Reduction and Economic Management (PREM) vice-presidency works on reform issues for the aged to the degree that there are macroeconomic implications. Most of the intellectual leadership on this issue has come from the social protection group. However, leadership in specific projects varies, and may also include PREM and the financial sector group.

A key Bank intervention was the 1994 paper *Averting the old age crisis*. *Averting* rejected the traditional 'pay as you go' social security system (where current contributors pay for current recipients) widely used in most OECD countries. It advocated a 'multi-pillar system'. The approach was criticised by NGOs such as Global Action on Aging, for increasing inequity, abandoning the concept of social insurance, reducing coverage, and being less efficient. More recently, a key reference guiding the Bank's work is *Old age income support in the 21st century*, by Holzmann and Hinz (2005).

The only official board-approved strategy for pension reform is presented in *Social Protection Sector Strategy: From safety net to springboard* (2001). The strategy recommends the establishment of 'multi-pillar' pension systems: a 'zero pillar' that provides a minimum level of protection; a 'first pillar' that consists of a publicly managed, unfunded plan; a 'second pillar' that is a mandatory privately funded plan; a 'third pillar' that is a voluntary, privately funded plan; and finally, complementary provisions for uncovered workers and the poor.

World Bank support for pension reform (1984–2005)

Region	Countries	Projects	$billion
Africa	14	26	0.1
East Asia and Pacific	4	7	0.5
Eastern Europe and Central Asia	25	93	1.5
Latin America and Caribbean	15	57	3.1
Middle East and North Africa	6	9	0.1
South Asia	4	12	0.1
Total	68	204	5.4

A recent Independent Evaluation Group (IEG) evaluation of the Bank's work on pension reform found that between 1984 and 2004, the Bank gave over 200 loans and credits to 68 countries for reform of pensions, and issued more than 350 papers. The Bank provided $5.4 billion in pension-specific lending during this period. Financing has included support for policy adjustment, sector investment, technical assistance and capacity building. Financing can be dedicated; part of growth, competitiveness and investment reform loans; part of sectoral reform loans; or part of a Poverty Reduction Support Credit, Bank financing for a Poverty Reduction Strategy Paper, a country's national development plan.

Generally, the Bank works on national reform initiatives including mandatory public pension schemes, civil service pension schemes, and the framework for voluntary contractual savings. In recent years, it has also supported reform initatives at a sub-national level. Both financing and research are concentrated in the Latin America and the Caribbean, and Europe and Central Asia regions. This is now gradually extending to Sub-Saharan Africa and South Asia.

The Bank also has an active programme of knowledge management including many country, regional and international level training programmes, conferences and seminars developed by the World Bank Institute as well as initiatives by the social protection, financial sector and PREM groups. The Bank organises periodic two-week courses on pension reform which cover a range of approaches to pension reform issues.

Bank contact on ageing: Robert Holzmann
rholzmann@worldbank.org

Pension reform: An evaluation of World Bank assistance, IEG
www.worldbank.org/ieg/pensions

World Bank pension page
www.worldbank.org/pensions

The World Bank and the attack on pensions in the global south, Global Action on Aging
www.globalaging.org/pension/world/pensions.htm

Evaluation finds Bank's disaster work reactive, lacks strategy

In May the Independent Evaluation Group (IEG) published an evaluation of World Bank assistance for natural disasters. The evaluation finds that the Bank lacks a strategic approach to disasters, is failing to integrate disaster preparation in its lending, and lacks sufficient expertise or coordination mechanisms. Critics of the Bank believe that the "rehabilitation and relief complex" is using disaster reconstruction as a lever for market-based reforms.

The World Bank is the largest funder of disaster recovery and reconstruction in the world. Since 1984 the Bank has financed 528 projects that addressed natural disasters, representing more than $26 billion in lending—almost 10 per cent of all Bank loan commitments. Bank financing was most frequently requested to respond to flooding, followed by drought and fire. Sub-Saharan Africa and Latin America were the regions with the largest numbers of disaster projects. Lending has been highly concentrated, with 10 countries accounting for nearly 40 per cent of activity. Bank non-lending services include "convening of donor meetings, provision of assistance with post-disaster assessments, study preparation and technical assistance".

The IEG finds that the Bank response to disasters is "flexible" and "innovative". The Bank has "demonstrated its ability to work with other donors" and disaster projects "have had higher ratings for outcome and sustainability than the Bank's portfolio as a whole".

However, at the project level, objectives "rarely address the root causes of the disastrous impacts of natural hazards". Three-year lending, based on the Emergency Recovery Loan, while offering accelerated processing, risks "rushed appraisal, poorly designed interventions, and diminished poverty impacts". Crucial activities for long-term vulnerability reduction take longer than three years to implement and have weak borrower demand.

> disaster risks are infrequently considered in country programmes

Natural disaster risks are foreseeable, says the IEG, yet those risks are "infrequently considered in country programmes or in project financing". Only 9 of 59 Poverty Reduction Strategy Papers have incorporated aspects of hazard risk management. One-third of Bank Country Assistance Strategies in disaster-prone countries do not even mention disaster. Only 15 per cent of projects examined mentioned beneficiary participation.

The Bank's less centralised approach to hazard risk management "lacks an effective way to reliably bring staff and relevant knowledge to its borrowers". When a disaster strikes, it "can be difficult to disengage knowledgeable and experienced staff from their ongoing tasks".

The IEG recommends that the Bank develop a strategy which assesses country risk and gives more attention to natural hazards during project appraisal and in country lending strategies. It also calls on the Bank to hire more staff with disaster experience and to develop a mechanism to mobilise them to respond to natural disasters. In its response, Bank management has acknowledged the need for a comprehensive action plan, and announced its intentions to train existing Bank staff in disaster preparedness and form a quick reaction team of disaster specialists.

The IEG evaluation does not address more fundamental critiques about the role of the Bank in disaster assistance. Walden Bello, of NGO Focus on the Global South, points out that the Bank was heavily criticised after Hurricane Mitch in Central America for fast-tracking privatisation of transport, utilities and water; and again after the Asian tsunami for "placing emphasis on the rehabilitation of commercial enterprises such as prawn farms and tourist resorts". He argues that long-term relief and recovery aid "should be managed by a consortium led by UN agencies, with the role and programmes of the World Bank set by this grouping."

Hazards of nature, IEG
www.worldbank.org/ieg/naturaldisasters

The rise of the relief and reconstruction complex, Focus on the Global South
www.focusweb.org/content/view/935/29

IMF and World Bank emergency response
brettonwoodsproject.org/insideemergency

IMF strategic review: **too little, too late?**

Despite the most extensive critical thinking about and scrutiny of its role in years (see Updates 48, 50), the managing director's report on the IMF strategic review released at the spring meetings was short on specific proposals for implementation of reform and lacked commitments for improved democratic functioning or strengthened surveillance of large industrial countries.

Scholars across the political spectrum have recognised that the IMF risks losing what little remains of its credibility if it does not revolutionise its ways of working. Ngaire Woods of Oxford University has argued persuasively in a new book, *The Globalizers*, that the IMF must listen to its borrowers and meet their needs, create real ownership by enriching national policy debates, and involve them in decision-making.

The IMF report's only new proposal was the introduction of multilateral consultations to complement the single-country focus of its current economic monitoring. The IMF will, as necessary, arrange meetings of systemically important member countries to help them jointly try to resolve global macroeconomic imbalances. Deputy managing director Augustín Carstens stated: "The Fund is better placed than any other forum to be a catalyst for multilateral debate and action."

The International Monetary and Finance Committee (IMFC), the highest governing body of the IMF, welcomed the move, while the G24 spring communiqué only "urge[d] the IMF to do more to identify and promote effective responses to risks to global economic stability, including from global imbalances, currency misalignments, and financial market disturbances." Yilmaz Akyüz, former senior staffer of the United Nations Conference on Trade and Development, commented that the consultations were merely a new method for the Fund to accomplish its original mandate, to provide surveillance of the global economy, but he had doubts about their effectiveness given the failure of past multilateral efforts.

Some worry that the multilateral consultations will be used by powerful countries to extract favourable economic policies from smaller nations. UK NGO Jubilee Research issued a statement saying, "The move is explicitly designed to broaden the scope and influence of the Fund, and rectify the ever widening trade imbalance between the United States and the Asian economies." Rede Brasil, a network of Brazilian non-profit organisations focused on international financial institutions, has called on its government "to undertake diplomatic efforts in order to publicly refuse the current proposal concerning the strengthening of the IMF which intends to transform the institution into a global financial police at the service of powerful states."

The first test of this new procedure has already commenced, as a mid-May sell-off pushed down the value of the dollar and prompted the Fund to take action. On 4 June, the IMF officially announced its first multilateral consultation which will involve the US, China, Japan, the euro zone and Saudi Arabia. Some interpret this as the IMF yielding to US demands that the Fund bring China to heel over the country's refusal to let the yuan appreciate against the dollar. Akyüz doubted the efficacy of the process: "Effectively this is G7 plus China. Would it work this time? Would China be persuaded to alter its currency regime without the Bush administration putting its fiscal house in order? I do not think so."

Governance tinkering

Ariel Buira and Martin Abeles, in a G24 paper, argue that the Fund is the right institution to tackle global imbalances, but success "requires that the Fund is not seen as being managed according to the interest of its major shareholders. Indeed, the situation calls for a governance structure that is representative of its membership". Yet governance reform is increasingly talked about as a two-stage process, under which ad hoc quota increases for a few members will be considered first, with proposals to redress the lack of democratic voice for smaller developing countries consigned to a second phase at an undecided later date.

The only likely reform this year will be to increase the quotas of four to seven emerging economies. The beneficiaries with the most misaligned quotas are China, Korea, Turkey and Mexico, but expanded reform could also see increases for Singapore, Malaysia and Thailand. William Easterly, co-director of the Development Research Institute at New York University, said that the incremental governance reforms being considered would make no practical difference to the Fund. "I can't imagine the leadership of the IMF really changing away from being America- and Euro-centred any time soon. It's still the Americans and the Europeans who have the deepest pockets."

The IMFC preference for ad hoc quota increases ignored the G24 proposals for fundamental reform of the quota formula to incorporate vulnerability to economic shocks and measures of economic size using purchasing power parity. There has also been no movement on the demand for increasing the number of basic votes that each member country receives in order to enhance the voice of low-income members.

Edwin Truman of the Institute for International Economics critiqued the whole approach, saying: "On governance, the managing director has been too timid in his proposal for a two-stage process of redistributing quota shares, and so far he has been silent on the issue of representation on the executive board. An open-ended commitment to do something undefined at a later stage will not restore the IMF's legitimacy."

Managing director's report on the Fund's medium-term strategy
www.imf.org/external/np/pp/eng/2006/040506.pdf

The Globalizers: the IMF, the World Bank, and their borrowers, Ngaire Woods
www.cornellpress.cornell.edu/cup_detail.taf?ti_id=4479

More power for the powerful?
Jubilee Research at nef
www.jubileeresearch.org/news/imf_multilateral_surveillance.htm

Changes and continuities in the role of the IMF: An assessment, Rede Brasil
www.choike.org/documentos/imf_role_redebr.pdf

Internal financial crisis at the IMF

The impetus for the IMF strategic review has come as much from pressure to reform the institution as from a crisis in its finances. This stems from early repayments by its biggest borrowers, Brazil and Argentina (see *Update* 49).

Now Indonesia, currently the second largest debtor to the Fund with nearly $8 billion outstanding, has promised to repay half of the country's outstanding debts this year, with the balance to be settled in 2007. The Bank of Indonesia indicated it may even repay the second half of the debt before the end of 2006, at least 5 years earlier than the projected date for full repayment.

Smaller countries are also joining the trend. In May *The Statesman* newspaper in Ghana reported that the government there would exit its IMF-supported poverty reduction and growth facility programme by October, repaying its loans because IMF fiscal constraints prevented the government from borrowing in private markets. Serbia announced its intention to repay its debts of $983 million to the IMF earlier than expected.

This would leave the Fund with less than $20 billion in outstanding credits, its lowest in over 20 years. The bulk of the remainder is lent to Turkey, where there has also been discussion of early repayment. Academics Devesh Kapur and Richard Webb state in a paper for a March G24 meeting, "The de facto exit of its clientele, driven by the combination of high political costs associated with Fund borrowing and growing availability of alternatives, now poses an unprecedented challenge for the Fund, in particular on its income."

Facing this growing budget gap, the managing director drafted a committee of international experts, including former US Federal Reserve chairman Alan Greenspan, to advise the organisation on its finances. The committee, comprised of central bankers and senior management from private sector investment banks, is tasked with advising the Fund on possible sustainable sources for financing its administrative and surveillance expenses. They are expected to report back in the first quarter of 2007.

In addition, the Fund established an investment account. Instead of funding all of its administrative expenditures out of fees and interest on lending, the IMF plans to earn income by investing a portion of its reserves in government securities. The Fund is also reportedly instituting a one-off adjustment to its salary scale as part of its efforts to rationalise its finances. One wonders whether the Fund will be as good at implementing austerity programmes in-house as it is in designing them for its borrowers.

Beyond the IMF, Paper for the G24 by Devesh Kapur and Richard Webb
www.g24.org/weka0306.pdf

IMF appoints committee to study finances
www.imf.org/external/np/sec/pr/2006/pr06100.htm

IMF investment account
www.imf.org/external/np/pp/eng/2006/041406i.pdf

Bank cooks up growth study

At the spring meetings in April the Bank released a paper on fiscal policy for growth, and announced the creation of an independent commission on growth. Importantly, this marks the first foray of president Wolfowitz into development economics.

However, the composition of the commission suggests that its purpose is to shore up the widening cracks in the Washington consensus, rather than explore new thinking.

The joint Bank-Fund paper makes the admission that past efforts at stabilisation were achieved by "cutting public capital formation significantly, despite its potential negative impact on growth and poverty reduction." A new analytical framework—fiscal space diamonds—looks at how governments may create fiscal space for growth. On the four axes of the diamond are efficiency in public expenditure, revenue efficiency, access to external aid and access to credit.

Motivating the new framework is the Bank's need to increase financing for infrastructure—hard (transport, energy) and soft (health and education). This would kill two birds with one stone, allowing increased investment towards the MDGs, and boosting the Bank's sagging lending volumes. Unfortunately, largely missing from the discussion is the role of industrial and investment policies needed to stimulate growth and thereby increase domestic revenues.

The independent commission on growth and development will be chaired by Nobel laureate Michael Spence, former dean of Stanford business school. It is funded by the Swedish, Dutch and UK governments and the William and Flora Hewlett Foundation.

While Bank watchers welcome a re-examination of the institution's understanding of the dynamics of economic development, the composition of the commission suggests that no such effort is in the offing. The nominally independent commission is stacked with high-powered names from policy circles, business and academia. Professor Ha-Joon Chang at Cambridge University's Faculty of Economics expressed disappointment, saying "many people on the list are well-known advocates of the Bank-Fund line. It does not include anyone who can be considered a critic."

The commission would enjoy more legitimacy if it took on board divergent analyses on how growth occurs and what role it plays in development. Early in 2006, the UK's new economics foundation published a report finding that between 1990 and 2001, for every $100 worth of growth in the world's income per person, just $0.60 contributed to reducing poverty below the $1-a-day line. "The notion that global economic growth is the only way of reducing poverty for the world's poorest people", say authors Woodward and Simms, "is the self-serving rhetoric of those who already enjoy the greatest share of world income."

Although the commission has already held its first meeting, a detailed terms of reference will not be available for at least another month. The commission's final report will be released by the end of 2007, "meanwhile experts will produce papers on a range of subjects that will help shape the commission's views". Papers will be discussed at two to three conferences "that are in the process of being planned", to which civil society organisations will be invited.

Commission on growth and development
www.worldbank.org/prem/growthcommission

Growth isn't working, nef
www.neweconomics.org/gen/z_sys_PublicationDetail.aspx?pid=219

Inflexibility on aid scale-up haunts IMF fiscal conditions

The rigidity of Fund programmes is causing chafing at the collar in governments and civil society organisations in low-income countries, as the debate over the scaling up of aid rages.

The conflict between advocates for greater social spending and the IMF's fiscal affairs department flared during the spring meetings, when the department's deputy director Peter Heller walked out of a meeting with civil society after a disagreement about whether national governments or the IMF were behind budget austerity.

The meeting theatrics reflect a bigger debate on how aid can be effectively increased to help low-income countries meet their Millennium Development Goal targets. An open letter from civil society organisations attending a financing for development conference in Abuja, Nigeria in May alleges "nations such as Uganda and Bolivia, have been offered additional aid for education, yet have turned it down in part due to IMF pressure, as well as concerns about lack of long-term predictability of aid flows."

A Fund working paper released in April sought to counter the claim that IMF wage bill ceilings in PRGF programmes stand in the way of increased aid spending. But the paper itself notes that the flexibility of conditions needs to be improved and that "more could be done to enhance the transparency of how additional donor funds for wage spending are being accommodated in wage bill ceilings in IMF-supported programs."

A research paper on aid volatility by Fund staffers Prati and Tressel highlighted a similar point when examining the Fund's stance against surges in aid spending because of their negative effect on exports. "An important *caveat* is that, in years of negative shocks, which account for 44 per cent of the observations in the sample, foreign aid may have a *positive* effect on exports. This suggests that tightening of macroeconomic policies in response to a surge in aid would be unnecessary and inappropriate." The implication is that countries need more flexibility in how they deal with aid flows.

The question remains as to why such flexibility is not being built into Fund programmes. Nicaragua's revised policy conditions for its PRGF includes a wage bill cap that, while slightly higher than expected inflation (9.8 versus 8.8 per cent), does include the ministries of health and education under the ceiling. There is no provision in the country agreement for review of these conditions if major donors increase their aid.

Aid scaling up, IMF
www.imf.org/external/pubs/ft/wp/2006/wp06106.pdf

Aid volatility and Dutch disease, CEPR
www.cepr.org/meets/wkcn/1/1638/papers/Tressel.pdf

Uninspiring choice for IMF deputy director

Rodrigo de Rato missed a chance to move the Fund away from its lack of transparency in management selection when he nominated US banker John Lipsky as his new deputy managing director. This maintains the convention of keeping the top two posts at the Fund split between Europe and the US. Lipsky, vice chairman of JP Morgan Investment Bank, worked at the Fund from 1974 to 1984, including as the country representative to Chile when it was under Pinochet's rule. His statements show him as a supporter of greater financial and capital account liberalisation.

www.imf.org/external/np/sec/pr/2006/pr06104.htm

IMF multilateral surveillance lacks focus

The Independent Evaluation Office (IEO) report on the Fund's multilateral surveillance concluded that the Fund's activities lacked focus and did not pay enough attention to analysing cross-border spillovers. "The IMF needs to strengthen the multilateral dimension of surveillance, particularly for 'systemically important' countries." The report noted that this has long been a goal, but that implementation has repeatedly failed. The IEO also recommended that the IMF interact more effectively in other existing fora for discussion of the global economy to create, "a more robust global peer review system".

www.imf.org/external/np/ieo/2006/ms/eng/index.htm

External review of IFI collaboration

The external review of Bank–Fund collaboration, announced at the end of March, is only now getting off the ground. Four of the six members of the committee are former insiders at the Bank or Fund. The committee has yet to publish details of how it plans to engage with any stakeholders, though the external relations department at the IMF has promised a web page and email box for civil society comments. A source at the Bank indicated that most of the legwork of the 'external' committee would probably be performed by Bank and Fund staff. The committee will submit its report by the end of the year.

IMF and World Bank review cooperation
www.imf.org/external/np/sec/pr/2006/pr0665.htm

UK parliament mulls role of IMF

The Treasury Select Committee, which serves as the parliamentary accountability mechanism for the UK Treasury and its interactions with the IMF, has taken evidence from NGOs, Bank of England governor Mervyn King and chancellor Gordon Brown regarding the role of the IMF in the global economy. In grilling Brown in May, the parliamentarians asked some pointed questions, including on UK funding supporting conditionality and the transparency of the management selection process. The chancellor's replies echoed the official IMF position, and indicated the UK would retain its single seat on the board. The committee's report is expected out in mid-June.

www.parliament.uk/parliamentary_committees/treasury_committee.cfm

Malaria experts say Bank published false statistics, approved deadly treatments

A group of public health experts has called for an independent investigation into the World Bank's publication of "false epidemiological statistics", approval of "obsolete treatments" for a deadly strain of malaria, and failure to uphold its pledges for funding malaria control. They have called for the Bank to get out of health programme work. The charges, authored by Amir Attaran from the University of Ottawa, and the Bank's response appeared in the 25 April online issue of the British medical journal *The Lancet*.

Attaran and his colleagues assert that the Bank falsified statistics on its anti-malarial programmes in Brazil and India, hugely overstating their effectiveness. The Bank has conceded as much in the case of Brazil, correcting the original data on its website. In India, the Bank argues that the discrepancy between its numbers and those of the Indian government is caused by the Bank limiting its figures to those districts "with the highest burden of malaria" in which it funded projects. In communication with the Bretton Woods Project, Attaran has countered that "no data were given by the Bank for this claim, and if it is true, then several Bank districts underperformed the surrounding districts".

Most troubling are charges that the Bank approved the purchase of chloroquine, knowing it was ineffective for treating the deadly strain of malaria (*falciparum*) commonly found in India. In his response, Jean-Louis Sarbib, senior vice-president of the Bank's Human Development Network, defended the decision. He said that chloroquine is still generally an effective treatment for *vivax*, a non-deadly strain which causes 52 per cent of the country's malaria. Chloroquine is cheaper than other drugs and "India stood to get good value for money by spending scarce resources in accordance with local realities", said Sarbib. However, Dr. Nick White, professor of tropical medicine at Oxford and Mahidol Universities, and chair of the WHO committee that sets global guidelines for malaria treatment, disagrees with the Bank: "In much of malaria-affected India, both malaria species [*vivax* and *falciparum*] are present. ... It is clearly wrong to support ineffective treatments for life threatening infections."

In 2000 the Bank pledged to make available $300 to $500 million to fight malaria in Africa. After claims in 2001 that it had already made available $450 million, the Bank was forced to backtrack in 2002, admitting that the real figure was only $200 million, and that the number of countries where it supported anti-malarial programmes had been cut from 46 to 25. The number of malaria specialists at the Bank during this period fell from seven to zero.

Sarbib has conceded that efforts by the Bank in malaria control during this period "were understaffed and underfunded". He believes that the Bank turned a corner with the 2005 Global Strategy and Booster Program. The number of staff members working on malaria has grown from none to more than 40 in the past year. Sixty-two million dollars in new spending has recently been approved, with expected new commitments in Africa and South Asia to reach more than $500 million in 2006–2008. This figure however conflicts with Bank responses to questions from Attaran's team, when it said it would commit *up to* $500 million, shifting the rest of the financial burden onto unspecified "partners". The Bank has provided no data on country programmes to substantiate the new figure, with critics suggesting it may evaporate like the commitments made in 2000.

> the job to fix malaria must no longer be based at the Bank

As a result of their findings, Attaran believes that "the job to fix malaria must no longer be based at the Bank". His team thinks that the institution's "performance lags far behind the more agile Global Fund for AIDS, Tuberculosis and Malaria (GFATM)", its "technical expertise is insufficient", and it is "institutionally unsuited to deliver excellence on malaria". This conclusion, says Attaran, is backed up by the Bank-commissioned review of the comparative advantages of the Bank and the GFATM. It argued that "the lead responsibility for health systems should be with the Bank, and for prevention and treatment with the Global Fund."

The options, says Attaran, are for the Bank "either to spend years plodding to rebuild competence in malaria—years in which over a million people will die—or to honour its past and future funding commitments by handing that money to more expert institutions that are swifter to act."

The World Bank: false financial and statistical accounts and malpractice in malaria treatment, *The Lancet*
www.thelancet.com

Global Fund–World Bank HIV/AIDS programs: Comparative advantage study
www.worldbank.org

Call for international action against the IFIs

At the second south-north international consultation on resistance and alternatives to debt domination conference held in Havana in September 2005, representatives of movements and organisations from more than 50 countries agreed on issuing a "call for international actions against the IFIs". Jubilee South launched the initiative in June with a statement demanding debt cancellation, an end to conditionality and public service privatisation, and the cessation of finance to projects that destroy the environment. Signatures have been requested from organisations around the globe.

Global call for actions against international financial institutions
www.cadtm.org/texte.php3?id_article=1893

African film puts IFIs on trial at Cannes

The only African film to show at the 2006 Cannes film festival, *Bamako*, focuses on the injustices Africa has faced at the hands of the World Bank, the IMF, and other Western-dominated institutions. The film, by Malian director Abderrahmane Sissako, weaves the story of a mock court set up to put the international institutions on trial, with the stories of the inhabitants of a poor section of the city Bamako in Mali. *Bamako* won praise from critics for its acting, storytelling, and ability to educate the world about the consequences of globalisation.

www.bamako-film.com

Eyes on IFIs online catalogue of films on the IFIs
www.ifiwatchnet.org/eyes

Peter Chowla joins BWP team

Peter Chowla joined the Bretton Woods Project team in May in the role of policy and advocacy officer. Peter holds an MSc in development management from the London School of Economics, as well as degrees in engineering and economics. He has travelled extensively, bringing work experience with NGOs in India and working as a journalist in Korea. Peter will cover IMF issues for the Project.

pchowla@brettonwoodsproject.org

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Bretton Woods Project
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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