The IFC at fifty:
All that glitters is too much gold

As the International Finance Corporation (IFC) marks its golden anniversary, the institution claims to serve “as a catalyst for innovative, market-based solutions for reducing poverty and addressing environmental and social challenges”. The reality fails to justify such a glittering perspective.

Problem projects in Ghana, Peru and Kyrgyzstan, criticisms over the IFC’s recent performance standards (see page 6), and serious weaknesses in its recent human rights impact assessment programme undermine the future credibility of an institution that is increasingly losing out to private finance.

An upcoming briefing by a coalition of NGOs looks specifically at the IFC’s involvement in the gold mining industry and challenges the institution to prove how it is genuinely fulfilling its development role.

The document points out that the IFC refuses to report on its development impacts on a project-by-project basis and instead produces an annual report that presents its “aggregate” development impact data. Human and environmental costs and benefits can not be averaged across the IFC’s portfolio, unlike financial profits and losses: “The farmer who loses his land in Peru does not benefit when a small business owner in central Europe gets a catering contract with a mining company”.

Ahafo, Ghana: In recent decades, the IFC has invested millions of dollars in large-scale gold mines in Ghana. In January 2006 it approved $125 million to Newmont mining’s Ahafo goldmine (see Update 50) and in July Newmont announced that it was about to produce its first gold bars. The goldmine has been at the centre of controversy concerning the livelihood impacts of the massive resettlement of more than 9000 people in its first phase alone, and outstanding environmental issues such as the risk of contaminating the local water supply through the use of cyanide in gold extraction and destruction of protected forest zones. Environmental and human rights NGOs have questioned the need for the project. There are also concerns regarding weaknesses in the terms of reference for the external monitoring body established by the IFC and Newmont.

Yanacocha, Peru: The IFC has been investing in Newmont’s Yanacocha gold mine in Cajamarca, Peru since 1993 (see Update 43). In June 2000 one of Minera Yanacocha’s contractors spilled 150 kilogrammes of mercury through the towns of Choropampa, Magdalena and San Juan affecting more than 1000 people. In August the mine was forced to shut down for 24 hours following a blockade by local community leaders protesting at the mine’s failure to benefit the highly-impoverished local community.

Kumtor, Kyrgyzstan: This mine has benefited from $40 million in loans and equity investments from the IFC, despite a catalogue of problems. In May 1998, the release of nearly 200 tonnes of cyanide and sodium hypochloride poisoned the Barskoon River, leaving several people dead and hundreds seeking medical treatment. In July 1998, 70 litres of nitric acid were split, and in July 2002, a Kyrgyz worker was buried in the collapse of a 200 metre high pit wall at the mine. In 2004, the IFC sold its holdings in Kumtor, earning a substantial profit and distancing itself from liability for the social and environmental damage.

Ignoring the law

In the meantime the IFC has started working on a human rights impact assessment (HRIA) programme, of which Newmont is one of the cheerleaders. The first draft of the programme was produced in June and will be completed by December 2006 jointly with the International Business Leaders’ Forum. The programme claims to address human rights concerns through the recently launched performance standards, including those dealing with the process of establishing a grievance mechanism, core labour standards and indigenous people’s rights. The draft HRIA “represents an additional tool for IFC clients and the wider private sector to look at human rights concerns and at how to address them.”

Peter Frankental, of Amnesty International said: “The IFC’s performance standards ignore the evolution of international human rights law within the UN system, which should have been the basis for applying minimum standards to their clients. Instead they use language and concepts which are vague, open to interpretation and may not provide the protections that are required under international law”.

Diana Bronson of Canadian organisation Rights and Democracy said: “It would have been much better for the IFC to clearly state that it intends to comply with international law and to ensure that its projects do not undermine human rights directly or indirectly, as called for in the Extractive Industries Review. The process surrounding the development of this new HRIA has been opaque, with little consultation with directly affected communities or civil society groups working in the area.”

www.ifc.org/ifcext/IFC/hr/overview.htm
www.ifiwatchnet.org
www.ifiwatch.net

Time to listen to Lesotho!
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Amidst a storm of controversy about the causes and solutions to corruption, the World Bank has announced a corruption amnesty and released an anti-corruption framework. The issue is high on the global development agenda, as the Bank halts project finance in Indonesia and Cambodia, and the fiasco continues over oil revenues in Chad.

In early August, the Bank announced the Voluntary Disclosure Program (VDP). Under the programme, firms, NGOs and individuals must reveal any misconduct in their involvement in Bank projects over the last five years (those under active investigation by the Bank will not be eligible to enter the programme). Participants will then be subject to a three-year monitoring programme managed by the Bank’s department for institutional integrity, during which time they may continue to bid for work.

Reactions to the announcement amongst civil society groups have varied widely. Huguette Labelle, chair of NGO Transparency International, said that “the more tools we have like the vdp the more we will be able to reduce corruption in a substantial way.” In contrast, Patricia Adams of NGO Probe International fears that the programme “immunises bribers from debarment, allows the Bank to cover-up its own negligence or complicity, and undermines the administration of justice in countries where it is a criminal offence to bribe a foreign official”. If the programme protects the Bank from odious debt challenges: “This is bad for developing country citizens and taxpayers, and the rule of law.”

The Bank’s new anti-corruption framework strikes a conciliatory tone, professing that there are “no one-size fits all reforms”, and that “modesty is warranted”. The Bank concedes that it does not have the “required staffing, skills and incentives in governance to effect results-oriented changes at the front lines of Bank operations”.

Despite the more “modest” approach, Adams believes the new framework amounts to “a lot of rhetoric and arm-waving, perhaps to divert attention from the single most effective anti-corruption measure in its arsenal which is to audit all of its existing loans to determine which funds have been used corruptly, get the money back, and debar the guilty parties.”

Where “corruption poses a major obstacle to reducing poverty” but the government is committed to solving the problem, the Bank’s country assistance strategy will feature governance as a main theme, and will use “anti-corruption action plans and teams” and “governance advisers”. The framework’s authors caution that this may result in a slowdown in the pace of Bank lending and progress on other Bank priorities such as infrastructure development. What they do not say is that this will also result in serious mission creep—the Bank has proposed to “systematically scale up governance work”, providing capacity building for civil society, the judiciary and media. Most attention however will focus on countries with widespread corruption and little or no government commitment to solving the problem. Here the Bank says it would identify specific conditions which would trigger a shift to “tightly restricted financing”. This raises alarm bells about significantly increased governance conditionality. “Very unusually”, financing for problematic countries could be completely cut off. In any such cases, focus would shift to non-financing activities such as technical assistance with parliaments, judiciary, civil society and the media. This is an area of contention with recipient governments and European donors who see a risk that the Bank will abandon those countries which most need assistance. Steps to be considered at the project level include: establishing anti-corruption teams to review project design and anti-corruption plans; strengthening the department of institutional integrity which investigates corruption in Bank-funded projects; and supporting country efforts to investigate and prosecute corruption.

The framework recommends a harmonisation of donor action on corruption, including rules to recognise each other’s sanctions of companies found guilty of corruption; working with the private sector, civil society and the media to promote change; and supporting implementation of key international anti-corruption conventions. Suggestions for greater donor harmonisation raise red flags for some civil society groups which fear that this means donors lining up behind the Bank and a subsequent narrowing of policy space available to recipient governments.

In a letter to Bank president Wolfowitz in July, NGOs expressed “deep concern at the extremely untransparent and non-participatory manner in which [the anti-corruption framework] is being elaborated.” The letter was authored by NGOs and the African, Latin American and European networks on debt and development. In response, management has proposed follow-up consultations at the country, regional and global levels, importantly on both the “strategic directions” and the implementation of the framework.

The NGO networks conducted a survey of opinion with civil society organisations in 24 southern countries, finding that the Bank “lacks credibility in terms of its intentions and capacity to address governance and anti-corruption”. The Bank is feared to take a “narrow approach to governance, focusing on the economic policy environment”, and to be concerned about macro-economic stability, private sector investment and public financial management, rather than accountability of the state to citizens. Those surveyed agreed the need for contractual obligations in relation to the transparent use of aid, but made a key distinction between this and policy conditions attached to loans or grants.

The World Bank board met to discuss the draft framework end August. The cost of implementation of the framework has been estimated at $20 million, with half of the bill funded by reallocating existing resources. After a final round of revisions to the framework, the paper goes to the board of governors at the annual meetings. There are rumours that opposition from key northern donor countries may mean the paper gets sent back for further re-drafting.

The Bank “lacks credibility in its capacity to address governance”
Time to listen to Lesotho! The World Bank and its new anti-corruption agenda

COMMENT

By Hennie van Vuuren, Institute for Security Studies

LESOTHO, the tiny Southern African mountain kingdom, punches above its weight. It has done what is seldom ‘expected’ of relatively weak African states—tackled corruption in the multi-billion rand Lesotho Highlands Water Project head-on, by prosecuting both corrupt officials and bribe-paying corporations. It has in short proved afro-pessimists wrong, while dealing a knock-out blow to those who argue that it’s improbable that corporations can be held to account for criminal behaviour in the ‘developed world’—and impossible to do so in the ‘developing world’. The scheme was the world’s biggest construction project when unveiled twenty years ago and was designed to pipe water hundreds of kilometres away to apartheid South Africa’s thirsty industrial heartland centred on Johannesburg. In turn, designed to pipe water hundreds of kilometres away to apartheid South Africa’s biggest construction project when unveiled twenty years ago and was designed to pipe water hundreds of kilometres away to apartheid South Africa’s thirsty industrial heartland centred on Johannesburg. In turn, the otherwise resource-impoverished Basotho people were promised the benefit of electrification and monetary compensation.

To finance the project the corrupt South African regime needed access to capital that was no longer readily available as a result of international sanctions against apartheid. The World Bank came to the rescue and effectively helped launder the funding to Pretoria through the project’s financial advisers based in London. The deal, argued by some to be on the borderline of illegality, set the tone for what was to come once contracts were awarded to construction companies. By the start of this decade over a dozen international construction companies had been charged with bribing a senior Lesotho official and a number have since been found guilty in the Lesotho courts in landmark judgements that detail the flow of funds through Swiss banks and the hands of intermediaries acting for the corporations.

The response from the World Bank has consistently erred towards caution. Despite promises as far back as a 1999 closed-door meeting that it would provide financial support to the Lesotho prosecutors—no assistance has been forthcoming, leaving a poor state to foot the multi-million dollar legal bill. Equally the Bank was slow in applying its policy to exclude corrupt companies from future World Bank contracts, eventually debarring the Canadian multinational Acres in March 2004 for three years. This came over thirty months after an internal investigation of good governance.

In a statement at the first session of the Human Rights Council in Geneva in June, Joseph Ingram, special representative of the World Bank to the United Nations and the World Trade Organisation stated that the advancement of human rights is “critical” to the Bank’s own poverty reduction mission, including the “global fight against corruption and the promotion of good governance”.

Any cautious welcome that this statement has received has been overshadowed by fears that the Bank’s adoption of the human rights discourse is more about the creation of greater governance conditionality. A genuine commitment to human rights principles would include: not financing activities that contravene international human rights law; taking full responsibility where the activities of the institution negatively impact or undermine the enjoyment of human rights; and addressing complicity in past abuses.

The statement claims that the Bank’s legal department has developed a ‘human rights matrix’ which “maps current Bank policies and activities against the provisions of international human rights treaties and covenants”. The matrix aims to “enable the Bank to be more strategic in supporting the provision of basic services—as rights—through its existing instruments, such as its operational policies, country assistance strategies, the poverty and social impact assessment, and poverty reduction strategies.” However, the statement reduces the legal activities of the institution negatively impact or undermine the enjoyment of human rights; and addressing complicity in past abuses.

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Justice or conditionality by another name? Bank at Human Rights Council

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Analysis casts doubt on Bank scorecard: CPIA numbers made public for first time

In June, the World Bank disclosed for the first time details of its Country Policy and Institutional Assessments (CPIA), but analysis for the Bretton Woods Project suggests that this costly and influential exercise is just another way to force borrowers into adopting the model of economic development supported by the Bank.

The CPIA is made up of 16 indicators, covering four clusters: economic management, structural policies, policies for social inclusion and public sector management and institutions (see Update 43). Each criterion is given a score on a scale from one to six. The ratings, undertaken since 1997, are prepared annually in all countries by Bank country teams and then subjected to a process of internal review. In 2000, the Bank began disclosing the ratings, but only in an aggregated format—countries were ranked and placed into one of five groups, referred to as ‘quintiles’. In 2004, after calls from both the board and an external review panel, Bank management agreed to make the detailed scores for the 2005 ranking available for low-income countries. The ranking is particularly important for low-income countries as it plays a central role in the Bank’s allocation of grants and low-interest loans.

Analysis for the Bretton Woods Project compared the detailed 2005 CPIA scores and trends in previous aggregate scores with relevant indicators produced by other civil society or UN agencies. This comparison revealed a number of discrepancies. A note of caution is warranted in interpreting these discrepancies—efforts to match time periods were restricted by data availability.

Comparison between the overall CPIA scores and growth in Gross Domestic Product (GDP) in the same year showed that many CPIA low-performers are growing faster than countries that score well in the CPIA. Together with the world’s fastest growing economy oil-producing Angola, other economies like the Democratic Republic of Congo, Ethiopia, Sudan, Mozambique, Sierra Leone, Niger, Cambodia, Uzbekistan and Laos, all have GDP growth rates higher than Tanzania, Bhutan, Cape Verde, Senegal, Sri Lanka, Ghana, Uganda, Indonesia and other countries which score better in the CPIA.

The tenuous relationship between the quality of policies and institutions as rated by the CPIA and growth is also highlighted by looking at the longer-term trend using aggregate data. Samoa and Honduras, for example—which have been ranked in the first quintile of the overall CPIA score since 2002—showed an average growth in the period 2001–2005 that is much lower than the average GDP growth rates among other countries belonging to the first quintile. The same discrepancies between quintiles’ average growth rates and countries’ average growth rates for the 2001–2005 period are shown by Bolivia, Grenada, Benin, and Kenya in the second quintile; Madagascar, Moldova, Mozambique, Ethiopia, Tajikistan, Niger in the third quintile; Mauritania, Nigeria, Sierra Leone, Cambodia and Laos in the fourth quintile; and by Chad, Democratic Republic of Congo, Sudan and Angola in the fifth quintile.

Comparison of the overall 2005 CPIA scores with the United Nations Human Poverty Index (HPI), reveals several striking discrepancies. CPIA low-performer Sudan is ranked in a much higher position on the HPI than Senegal, Burkina Faso and Tanzania—all higher scorers than Sudan on the CPIA. In contrast, Burkina Faso, Mali, Lesotho and Mozambique—all of which scored high on the overall CPIA score—scored poorly on the HPI. Benin, Haiti, Eritrea, Nigeria and Togo also exhibited large differences in the scores obtained in the two indicators.

Discrepancies were also revealed between the CPIA’s ‘transparency, accountability and corruption’ index and the Corruption Perception Index 2005 (CPI) produced by Transparency International (TI). Georgia, for example, scored very well in both the overall CPIA score and the specific transparency and accountability index. However, in the TI-produced CPI, Georgia was ranked amongst the bottom countries, after Mongolia, Nepal, Sierra Leone, Eritrea and Gambia (all of which scored much worse than Georgia on the CPIA corruption index). Georgia’s notable improvement seems more related to what was reported in the World Bank’s Doing Business 2006 report, which trumpeted Georgia’s recent introduction of major reforms to its labour laws, removing restrictions on working hours and dismissal procedures, and thereby lowering firing costs to some of the lowest levels in the world.

While these preliminary comparisons are certainly not enough to dismiss CPIA scores, they cast doubt on both the methodology of the assessments and the confidence with which they should be used as a basis for vital aid allocation decisions. Publishing the full ranking was a welcome step towards more transparency but it is still not sufficient. Until more detailed information on how each score is obtained are released, suspicions will remain that the CPIA score is based more on the implementation of preferred policies than on an impartial assessment of countries’ economic and political policies and institutions.

CPIA scores 2005
www.worldbank.org/ida
The World Bank policy scorecard: The new conditionality?
brettonwoodsproject.org/atissuecpiainfo

BTC: destruction, abuse and betrayal
In July, as the oil in the IFC-supported Baku-Tbilisi-Ceyhan (BTC) pipeline (see Update 46) finally began flowing a year behind schedule, civil society groups presented evidence of destruction, abuse and betrayal in relation to the project. The project has run 32 per cent over budget and has been dogged by construction failures and malpractice. Manana Kochladze, of Tbilisi-based group Green Alternatives said “the public banks have made up their mind that BTC is an unmitigated success story [yet] horrendous testimonies abound along the pipeline route of unpaid compensation, prostitution and trafficking, and failures to keep commitments to reduce poverty and create quality employment.”

www.baku.org.uk/

Enrolment up, learning down
The Bank’s evaluation unit has given the Bank passing grades on increasing primary school enrolment and access for the disadvantaged, but failing grades on learning outcomes and educational management. Members of the report’s external advisory panel however said the report failed to address teachers, the impact of HIV/AIDS, and the role of IMF macroeconomic constraints. Meanwhile the State of the flight to Education Report 2006 has accused the Bank of perpetuating for-fee policies, and has called for an end to its role in education funding.

www.worldbank.org/ieg/education
Right to Education report 2006

New Bank lawyer, HD head retires
In mid-June, Ana Palacio was appointed General Counsel, replacing Roberto Dañino who left the Bank in January, rumoured to be unhappy with Wolfowitz’s leadership (Update 49). Palacio served as Spanish foreign minister in the People’s Party government of José María Aznar oversee- ing the controversial decision to support the US-led invasion of Iraq. In her appoint- ment, Wolfowitz cited Palacio’s experience “strengthening ties with Middle East nations”. In mid-July, World Bank Vice President for the Human Development Network (HDN), Jean-Louis Sarbib, retired. The current director of network operations in the HDN, Nicholas Kafft, will serve as acting vice president.

Mauritania, Malawi qualify for debt relief
Mauritania qualified for the Multilateral Debt Relief Initiative (MDRI) in June. Although it had completed the Heavily Indebted Poor Country (HIPC) programme, Mauritania did not initially qualify due to outstanding public financial management reforms and the tracking of social expendi- tures. However with the implementation of the required remedial actions and six months of satisfactory macro performance, Mauritania has now qualified.

End August, Malawi qualified for cancel- lation of $2.9 billion in debt owed to the World Bank and IMF having completed the HIPC initiative.

www.brettonwoodsproject.org/wdebtdeall50
Almost half of the population in developing countries is under the age of 24. Despite facing urgent development challenges, the World Bank says that youth is often a “neglected constituency”. According to the Bank, young people between the ages of 15 and 24 account for 47 per cent of unemployment globally, nearly half of all new HIV infections, and could play a pivotal role in the outbreak of civil conflict in countries with large young populations.

The World Bank’s Children and Youth (C&Y) Unit was established in late 2002 within the Human Development Network to “guide and foster coordination and partnerships that contribute to more effective children and youth development work”. Its main objectives are to:

• provide the Bank with a programmatic framework for action;
• support the regions implementing and monitoring C&Y plans;
• promote C&Y learning outcomes and improve coordination among sectors, networks, and national regions;
• shape the Bank’s collaboration with other international agencies; and
• facilitate dialogue with children and youth worldwide.

The Bank’s conceptual framework for working with youth argues that it is “economically efficient to invest in the early years”, that “demographic urgency” puts a political imperative on policy makers to address youth issues, that a “life-cycle approach”, which recognises that certain risks are age-specific, is required; and that interventions must be multi-sectoral to be effective.

The framework identifies nine key areas of intervention. At a young age, a safe and healthy environment; early childhood development and child health and nutrition; education; social protection; and employment are priorities in youth up to 25 years of age. By the late 2002 within the Human Development Network to “guide and foster coordination and partnerships that contribute to more effective children and youth development work”. Its main objectives are to:

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Internal reviews find that the World Bank is “broadly following” new good practice principles on the use of conditionality in adjustment lending, and support the continued “judicious use” of conditions in investment lending. Meanwhile critics grow increasingly frustrated with the conditionality status quo, leading nongovernmental Christian Aid to call for an end to UK financial support for the Bank and Fund.

Responding to intense pressure, the Bank undertook an evaluation of its use of conditionality in adjustment lending in 2005. The resulting paper committed the Bank to five ‘good practice principles’ of ownership, harmonisation, customisation, criticality, and transparency and predictability (see Update 47) in its ‘development policy lending’ (the Bank’s new term for structural adjustment lending).

The need for a new approach to conditionality is critical at the current juncture. As aid volumes rise, conditionality is cited as one of the major causes in aid volatility. This renders government planning, and hence scaling-up social programmes to achieve the Millennium Development Goals, fiendishly difficult. Moreover, the current zeal to combat corruption (see page 2) threatens an increase in governance-related conditions. All of this poses a particular threat to low-income countries, where Bank data reveal that unlike middle-income countries – the number of conditions still poses a heavy burden.

The Bank committed to reviewing implementation of the principles one year-on from their introduction. The review’s findings that the principles have been “fully integrated” across the Bank’s work with glowing results, contrasts sharply with the findings of NGO shadow reports:

On ownership: The Bank concludes that it uses conditionality “in such a way that it does not interfere with internal consensus-building processes.” ActionAid finds that Bank staff continue to work with an “extremely narrow definition of country ownership”, which in Pakistan has “led to a large dam-building programme being driven forward in the face of public opposition”. On customisation: according to the Bank review, sensitive policy reforms, such as privatisation and trade liberalisation, “respect government preferences and take into account government constraints”. Research by Brussels-based network Eurodad found that in Mozambique, Uganda, Zambia and Benin, World Bank loans were conditional on privatisation of certain public services – even though these privatisations were not called for in the government’s national development strategies.

On criticality: The Bank says that programmes give “clear indications of the actions considered critical by the Bank”. A study by Debt and Development Coalition Ireland found that ‘non-binding’ conditions are being used to push policies which are not high priorities on government agendas. Contrary to the internal review findings, ActionAid concludes that the Bank does not have an adequate plan for implementing the good practice guidelines. They call on the Bank to develop the “right procedures, incentives and monitoring mechanisms” to fully implement the principles.

A second internal Bank review looked at the use of policy conditions in investment lending which comprises 70 per cent of total lending. The review concludes that the Bank’s use of conditions “has declined across all sectors” although “there is scope for further improvement.” The report advocates the use of analytic and advisory activities “to build ownership and consensus for reform”, and continues to support sector reform through the “judicious use of sector policy conditions in investment operations”.

The continued use of “damaging conditions, including forcing poor countries to privatise key services” is a central reason why UK nongovernmental Christian Aid is calling for an end to UK funding of the World Bank and IMF, and will be taking this message to the UK Treasury on 14 September.

Night and day: reviews highlight contrary views on use of conditionality

The number of World Bank projects with youth components increased from 15 in fiscal year 2000 to 46 in fiscal year 2004. In the same period, the total investment in youth components went up from $752 million to $1.5 billion. The nature of these investments has broadened from a focus on education in the nineties to include urban development, health, social development and social protection. The Africa region had the highest share of lending towards youth (49 per cent, or $742 million in 2004). The C&Y unit claims four dedicated staff and a network of approximately 60 staff with C&Y expertise in country/regional offices. Over 30 country offices have established youth consultation networks “to both inform youth about what the Bank does and is, as well as to incorporate their perspectives into Bank strategies and programmes”. The respective country social/civil-society specialists in the missions often are the youth focal point persons.

The theme of the World Development Report (WDR) 2007 is youth. The report, which will be released at the annual meetings in September, will focus on capabilities and transitions in a young person’s life: “learning for life and work, staying healthy, working, forming families, and exercising citizenship.” The report also emphasises three policy pillars for public interventions addressing young people’s development: “expanding opportunities, enhancing capabilities and providing second chances.” The Bank has recognised that its capacity, and that of governments, partner agencies and youth organisations, “needs to improve”. More effective policies, tools and efforts are necessary “to bridge gaps in knowledge around what works and doesn’t in youth development.” A priority for the Bank is to assist developing countries in the development of “comprehensive C&Y strategies”, to prioritise youth components in their national development strategies, Poverty Reduction Strategies and C&Y Development Strategies, and to scale up their investments in youth at both the national and local levels.
UK parliament says support for Bank fossil fuel investments is unacceptable

A cross-party parliamentary inquiry into the role of the IMF produced a hard-hitting report calling for substantial reform, while another parliamentary group has criticised the Department for International Development over its energy and climate change policy.

The Treasury Select Committee, responsible for oversight of the UK Treasury, released its report on the role of the IMF in July. The report called for increasing IMF voting rights for both emerging market and low-income countries and asked the government to "look at whether any more innovative solutions, beyond reform of the quota system, are possible". The committee also advocated against a two-stage reform process and pushed for a consolidation of euro-zone representation on the IMF's executive board.

The report elaborated recommendations for UK IMF policy in the spheres of surveillance, lending and financing. The committee stated its agreement with the UK policy against the use of economic policy conditionality and asked the government to work for reform at the Fund in this regard. The committee also supported the move for the IMF to have fewer and clearer roles focusing solely on areas squarely in its mandate such as addressing global imbalances and their spillovers.

DFID environmental incoherence

Another parliamentary group, the Environmental Audit Committee, took a swipe at the Department for International Development (DFID) over the consistency of its environmental policy. In an August report, the cross-party committee stated "the IMF’s climate change policy lacks coherence. On the one hand it highlights the seriously detrimental impacts of climate change on the most poor. On the other it is directly and indirectly responsible for very significant emissions of carbon into the atmosphere through the projects it funds." This echoes a joint UK NGO statement, issued in July, which found cross-ministry contradictions in UK policy related to the World Bank’s clean energy investment framework.

The report emphasised that DFID support for oil, gas and coal projects is contradictory to its stated aims of addressing the effect of climate change on development. DFID’s reliance on fuelling energy sector funding through World Bank institutions such as the International Finance Corporation (IFC) was heavily criticised. "For DFID to have no clear strategy in this area, and for its main focus to be to work through multi-lateral organisations ... is entirely unacceptable."

The report also directly questioned the World Bank’s commitment to the environment. In discussing Poverty Reduction Strategy Papers, the committee wondered why the Bank ignored that poverty alleviation programmes may have negative impacts on the environment of the poor. This “raises the question of whether the World Bank has a coherent policy towards sustainable development.”

White paper not clear

DFID’s new white paper on its strategy for tackling global poverty included a chapter on reforming the international development system but it contained few details or concrete commitments in relation to the Bank and Fund. The strategy notes that developing countries are weakly represented on both boards, but did not set out any ways the UK would help to change the situation.

It asserts that the Bank has roles in ensuring the predictability of aid and loans, working in fragile states, financing clean energy and tackling corruption. For the IMF, DFID sees a “focus more on macro-economic policy advice, and less on structural policies, for its track record has been mixed.” It does however support the IMF’s role as a gate-keeper of aid.

IFC safeguards response

While the white paper expresses support for environmental and social safeguards on Bank lending, DFID ignored a number of civil society demands in regards to the IFC’s safeguard policy review (see Updates 46, 50). The recently revised social and environmental lending standards of the IFC, the private sector financing arm of the World Bank, demonstrate serious shortcomings on international envi-

ronment and human rights standards; rely heavily on the discretion of private sector clients; and do little to address the IFC’s goal of poverty alleviation.

Campaigners in the UK pushed for DFID to honour its rhetoric on the need for stronger safeguards and in a series of letters and meetings with the government demanded how it was not meeting its own policies on principles-based decision making, a rights-based approach to development and the Extractive Industries Review. Despite NGOs asking for “a considered response” to each of the points raised”, DFID’s final reply was to point the organisations back to the very documents they were critiquing and to “encourage broad participation in the comprehensive review” of the safeguards that will take place in three years.

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Cape Verde becomes third PSI country

In August, the IMF board approved Cape Verde’s application for the Policy Support Instrument (PSI), a non-financing pro-

gramme for low-income countries. It is only the third country, after Nigeria and Uganda, to join the programme, though Tanzania is expected to apply as well. By agreeing to the PSI, Cape Verde submits itself to Fund oversight and conditionality but receives no funding in return. In this case, the conditions attached to the pro-

gramme include ceilings on both external and domestic debt and the implementa-

tion of an automatic utility tariff adjust-

ment mechanism which would pass energy cost increases directly on to consumers.

UK Treasury Select Committee

Environmental Audit Committee

DFID white paper

Raghu Rajan to leave Fund

‘Chicago boy’ Raghuram Rajan (see Update 35) has announced his intention to leave his post of economic counsellor and direc-

tor of research at the IMF at the end of the year. The Indian national with a doctorate from the Massachusetts Institute of Tech-

ology will return to teaching duties at the University of Chicago because the university refused his request for additional leave to work for reform at the Fund in this regard. The committee also supported the move for the IMF to have fewer and clearer roles focusing solely on areas squarely in its mandate such as addressing global imbalances and their spillovers.

DFID environmental incoherence

Another parliamentary group, the Environmental Audit Committee, took a swipe at the Department for International Development (DFID) over the consistency of its envi-

ronmental policy. In an August report, the cross-party committee stated “the IMF’s climate change policy lacks coherence. On the one hand it highlights the seriously detrimental impacts of climate change on the most poor. On the other it is directly and indirectly responsible for very significant emissions of carbon into the atmosphere through the projects it funds.” This echoes a joint UK NGO statement, issued in July, which found cross-ministry contradictions in UK policy related to the World Bank’s clean energy investment framework.

The report emphasised that DFID support for oil, gas and coal projects is contradictory to its stated aims of addressing the effect of climate change on development. DFID’s reliance on fuelling energy sector funding through World Bank institutions such as the International Finance Corporation (IFC) was heavily criticised. “For DFID to have no clear strategy in this area, and for its main focus to be to work through multi-lateral organisations ... is entirely unacceptable.”

The report also directly questioned the World Bank’s commitment to the environment. In discussing Poverty Reduction Strategy Papers, the committee wondered why the Bank ignored that poverty alleviation programmes may have negative impacts on the environ-

ment of the poor. This “raises the question of whether the World Bank has a coherent policy towards sustainable development.”

White paper not clear

DFID’s new white paper on its strategy for tackling global poverty included a chapter on reforming the international development system but it contained few details or concrete commitments in relation to the Bank and Fund. The strategy notes that developing countries are weakly represented on both boards, but did not set out any ways the UK would help to change the situation.

It asserts that the Bank has roles in ensuring the predictability of aid and loans, working in fragile states, financing clean energy and tackling corruption. For the IMF, DFID sees a “focus more on macro-economic policy advice, and less on structural policies, for its track record has been mixed.” It does however support the IMF’s role as a gate-

keeper of aid.

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DFID white paper
Tinkering at the edges of governance reform: IMF quota proposals

After months of official wrangling and European stalling, proposals for changing IMF quotas, which determine financial contributions and voting power in the organisation, have coalesced around a small ad hoc increase for four countries, a commitment to make the quota formula more closely match economic realities and an increase in the basic vote.

Developed by the managing director Rodrigo de Rato after a jet-set summer visiting capitals across the globe, the plan was passed by the executive board end August. It will now be sent to the board of governors, the IMF’s highest governing body made up of finance ministers and central bank governors, where it will have to be agreed by an 85 per cent majority before 18 September.

The resolution includes an immediate ad hoc quota increase for China, South Korea, Turkey and Mexico, equal to one-third of the gap between their current quotas and their calculated quota. This is accompanied by a commitment from developed countries to review the quota formula over the next two years.

In order to prevent the quota change from adversely impacting the voting shares of low-income countries, the resolution includes provisions for “at least a doubling of basic votes”, the votes allocated to every country just for being a member. A leaked memo from the three African executive directors revealed their anger that in a draft resolution the basic vote increase would have had to await two rounds of ad hoc quota increases and an amendment to the quota formula, during which time they would have seen their meagre voice at the Fund further eroded. After the draft was amended to ensure that a second round of quota increases will have to await resolution of the basic votes issue, the Africans supported the resolution.

Ranjit Bannerji, a senior advisor to the Indian delegation at the IMF, preferred the G24 proposals which suggest changes in how quotas are calculated. “The Africans would gain far more if a new quota formula based on GNI at [purchasing power parity] terms and variability (including the variability of flows on account of fluctuating commodity prices) is adopted. But… the Europeans will have none of it.” It is believed that India was joined by a number of Latin American countries in refusing to support the resolution.

An alliance of more than 40 European civil society organisations has proposed more radical governance reforms than those being discussed in official circles. Their open statement calls for restructuring to bring the institution’s governance in line with standards that are considered acceptable at the national level. As an interim step towards achieving that long-term goal they have supported an immediate shift to a double majority voting system, under which any decision would have to be supported by a majority of member countries and a majority of the voting weight. In addition, they demanded an end to the convention of the IMF’s top job always going to a European and full transparency, including publication of board meeting transcripts and votes.

Despite this statement, European governments have not yet come forward with their own proposals for governance reform. A council of European Union finance ministers was scheduled to discuss the topic in early September at an informal seminar in Helsinki.

Shrink it or sink it

As governments continue to try to opt out of the IMF—Uruguay has joined Indonesia (See Update 51) in announcing its intention to pay off the entirety of its IMF debt early—the Fund is looking increasingly marginalised. A large coalition of NGOs have come together under the banner of “Shrink it or sink it” with a declaration that recognises, “these circumstances provide critics of the Fund with an opportunity to radically shrink, disempower, if not decommission it altogether.”

The campaign, spearheaded by Bangkok-based Focus on the Global South but with participation from more than 50 organisations across the globe, urges developing country governments “not to enter into new loan agreements with the Fund”, “unilaterally repudiate debts claimed by the Fund”, and “to dispense with the advisory and management services of the Fund and Bank and review the commitments they have made under these programs, if not abandon them unilaterally.”

Independence of IMF’s evaluation arm questioned

In an evaluation of the IMF’s Independent Evaluation Office’s first five years of work, an external committee concluded that the IMF management may have undue influence over the body. Additionally the IEO set itself an ambitious work plan for the next year, as it plans to delve into the Fund’s internal organisation and trade policy.

The external committee—chaired by Karin Lissakers, a former US executive director at the IMF, and comprising former govern of the State Bank of Pakistan, Ishtiaq Husain and Ngaire Woods of Oxford University—submitted its controversial report to the IMF board in March. The report alleged undue influence management influence on an IEO report on the Fund’s work in Argentina during its 2001 financial crisis. The external evaluators cited “a number of executive directors [who] voiced a concern that management exercises too much influence over the final product.”

Mario Cañero, a former member of parliament in Argentina, said, “We knew the IEO had produced a solid report to facilitate the IMF’s attempt to get out of its tremendous responsibility in the Argentine case.” Montek Singh Ahluwalia, now at the Indian planning commission but director of the IEO at the time of the Argentina report, flatly denies these claims: “I would like to place on record that at no time was I subjected to any pressure from management to tone down the criticism in this, or any other report.”

The panel also worried that even if the executive board endorses IEO recommendations, there is no mechanism to ensure that management implements them. Both the management and staff responses to the report were at pains to state that once the board adopts IEO suggestions they become Fund policy just like any other board directive. The staff response suggested that the IEO “refrain from making specific recommendations … leaving it to Fund management and the board to identify appropriate solutions.”

The committee overall felt that “the IEO has served the IMF well” but suggested ensuring that evaluations address the fundamental question of whether the IMF is fulfilling its mandate; diversifying the mix of staff at the IMF beyond its current Fund staff; creating a more systematic method for follow-up on IEO recommendations; and overhauling the IEO’s dissemination and outreach activities.

Current IEO director Tom Bernes welcomed the evaluator’s report and its recommendations. Shortly thereafter the IEO released its work plan for next year, detailing the four evaluations it will undertake. First, the body will address aspects of IMF corporate governance—including the role of the board, marking the first foray into the Fund’s internal organisation. Another inward-looking evaluation plans to look at how the Fund sets and implements its research agenda.

Additionally the IEO will examine the IMF’s relations with its member countries, a broad topic that will likely focus on how the Fund interacts with governments and external stakeholders. It will also examine whether IMF analysis and advice is appropriately country-specific and reflects national priorities. The final evaluation will address the Fund’s approach to international trade issues.

Once burned, twice shy

Asian countries have mounted massive foreign reserves to avoid risking a return to the Fund for a bailout. Through the Chang Mai Initiative, a smaller-scale version of the idea for an Asian Monetary Fund, Asian countries have agreed to some limited reserve pooling. This trend is now moving to Latin America as well. Inspired by Argentina’s president, Hugo Chavez, the ‘Bond of the South’, to be jointly issued by Argentina and Venezuela, is the latest in moves towards regionalisation of country insurance against economic shocks. Argentina’s president, Nestor Kirchner, called the bond the first step “in the construction of a bank, a financial space in the south that will permit us to generate lines of finance.” Eventually this may be a mechanism to cope with potential financial crises without involving the IMF.
Bank environmental commitment under fire

Despite the Bank’s patchy track record on sustainability and current involvement in disastrous forestry, dam and genetically modified agriculture projects, President Wolfowitz announced in June that the Environment and Socially Sustainable Development department (essd) is to be disbanded and merged with the Bank’s infrastructure and energy units. The move has created uproar amongst civil society and Bank staff. Surrendering the structural independence of a department dealing with the environmental and social dimensions of development and merging it with a body working on infrastructure and extractives risks sending a signal that the Bank is not serious about protecting ecosystems and livelihoods. The new department called the Sustainable Development Network will be led by the current head of the infrastructure department, Kathy Sierra, and a new position will be created for a “world class environmental expert”.

Forestry lessons learned?
The Bank has acknowledged a highly critical Inspection Panel review of its forestry work in Cambodia (see Updates 46, 51), which found that a project had broken six internal safeguards policies, and ignored the views of forest-dependent communities. Bank management has produced a remedial action plan committing to continued engagement in Cambodia’s forest sector, with an assurance that future Bank forest projects will increase local participation and better address environmental concerns.

UK-based NGO Global Witness pointed out that the remedial action plan gives no guarantees as to what the Bank will actually do or when it might do it: “President Wolfowitz should task the Inspection Panel with monitoring progress to ensure the Bank management does go on from here to play a constructive role.”

Harmonising diversity

The World Bank is set to secure funding from the Global Environment Facility (ger) for two projects, one in West Africa and the other in Latin America, that biodiversity groups fear will aggressively drive genetically modified (gm) crops into the heart of peasant agriculture and threaten food sovereignty. A joint report by the African Centre for Biosafety, the etc Group, grain, and Red por una América Latina Libre de Transgénicos states that the projects “are driven by the agenda of the World Bank and US government to harmonise regulations for gm crops across regions in order to override national processes that are susceptible to local opposition”.

The cotton project in West Africa focuses on ważmu—a grouping of 8 West African states whose secretariat has the power to impose the “fast track adoption” of compulsory ‘enabling’ legislation on its members. “If ważmu is able to harmonise national bio-safety legislations and later to enforce a decision taken in one country in the other countries, it will drastically improve the investment climate in biotechnology for cash and food crops in the ważmu area,” states the project proposal.

The Latin America project—in Brazil, Colombia, Costa Rica, Mexico and Peru—focuses on cassava, cotton, maize, potato and rice, which millions of people in Latin America depend upon for food, medicine, livelihoods and cultural identity. The project’s stated aim is to “strengthen the capacity of participating countries to implement the Biosafety Protocol” but seems counter that “the project’s introduction of gm varieties of these crops will inevitably contaminate traditional varieties and pave the way for the destruction of indigenous seed and food systems.”

“Criminal Silence” in Pakistan

In August serious flooding occurred in the Indus river basin in Pakistan as a result of a series of breaches in the Left Bank Outilf Drain (1800) following heavy rains in Sindh province. The Bank-funded Laon, part of Pakistan’s National Drainage Programme (nnp), was completed in 1997. This flooding is the latest in a legacy of damage including frequent flooding, land degradation, forest destruction, ground water salinisation and destruction of fishing and agricultural livelihoods.

A letter from the Sindhu Bachao Tarla (Save Indus Struggle) to John Wall, the World Bank’s country director for Pakistan has accused the Bank of a “criminal silence”. It pointed to the Bank’s complicity in the recent devastation and expressed serious discontent over the delayed release of an Inspection Panel report. Those affected by the 1800 project filed a claim to the Inspection Panel in September 2004. A year since the panel visited the area a report has still not been made public.

World Bank Forestry Fiasco, Global Witness

www.globalwatch.org

Press releases/display2.php?id=370

Joint NGO statement on biosafety
www.grain.org

Front_files/WB-GEF-2006.pdf

NDP Pakistan, Inspection Panel
www.inspectionpanel.org

World Bank–IMF annual meetings 2006

Members of staff of the Bank and Fund, board members, development and finance ministers will be travelling to Singapore this year for the annual meetings, 17–20 September. Once every three years, the meetings are held outside of Washington.

International Peoples Forum vs. the World Bank and IMF

Convened by a large number of IFI-monitoring organisations from around the world, the IPF will be held in Batam, Indonesia 15–17 September. Workshop topics will include: a day on issues specific to Indonesia, illegitimate debt, corruption, climate change, private banks and post-conflict reconstruction.

www.ipf.home.net

IMF: Shrink it or sink it?

Focus on the Global South are hosting a conference on shrinking or replacing the IMF 17 September in Singapore. The conference will propose principles and institutions of an alternative international financial system.

www.focusweb.org/content/view/985/27/

Civil society dialogues with the IFIs

Organised by NGOs, discussion topics will include: illegal logging in Africa, public services, climate change, anti-corruption, infrastructure, women and trade, debt and many others.

World Bank–IMF formal agenda

16 Sept G24 ministers’ meeting and G7 finance ministers’ meeting
17 Sept International Monetary and Financial Committee: Global economy and financial markets; IMF strategic review with a focus on governance reforms
18 Sept Development Committee: Anti-corruption framework, clean energy investment framework, middle-income countries
19–20 Sept Plenary sessions

Development Committee and IMF documents

www.imf.org/calendar/am/2006/

A comprehensive calendar of events, contact information for groups in Singapore and Batam, and links to documents released by civil society are available on IFIwatchnet.

www.ifiwatch.net

Evaluate the Update and win great books!

It has been four years since we last solicited your opinion on the Bretton Woods Update, and the time has come again. Based on your feedback in the last survey, we introduced a variety of new features. This time we are conducting the survey online as well as via a paper questionnaire included in the mailout of the Update, and you have the chance to win one of five copies of three new books on the IFIs:

• The New Development Economics, Ben Fine and Jomo K.S. eds., Zed books
A clear presentation of current trends in development economics as well as a critique of the post-Washington consensus.
• The World Bank and Governance, Diane Stone and Chris Wright eds., Routledge
A critical retrospective of World Bank policy reforms during the past decade.
• The Globalizers: The IMF, The World Bank and Their Borrowers, Nqaiq Woods, Cornell University Press—Outlining four reasons why the IMF and World Bank must change and four ways they can.

Please complete the survey by 15 October to be included in the prize draw.

brettonwoodsproject.org/2006survey

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Critical voices on the World Bank and IMF

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