BRETTON WOODS update

A BI-MONTHLY DIGEST OF INFORMATION AND ACTION ON THE WORLD BANK AND IMF

Agribusiness vs. food security:
The food crisis and the IFIs

The causes of and remedies for the food crisis are hotly contested. How this rupture in the status quo is resolved will have decisive implications for the roles of the IFIs as well as more broadly for global food security and ecological sustainability.

The UN estimates that the recent food price increase will add 100 million to the over 850 million people who were already short of food. The IFIs trace 15 per cent of the increase to higher energy and fertilizer costs linked to skyrocketing oil prices, and another 15 - 30 per cent to the impact of biofuels. They have been silent on the role of speculative financial capital, which Peter Rosset, researcher at the Centro de Estudios para el Cambio en el Campo Mexicano, calls "one of the most important" short-term causes. Other short-term factors include record-low food stocks and severe weather events such as last year's Australian drought.

Commentators are agreed that food production, especially in many developing countries, has failed to keep pace with rapidly growing demand. One factor being blamed for this failure is a two-decade-long across-the-board decline in support for investment in agricultural productivity. Multilateral aid to African agriculture, for example, fell from 32 per cent of total aid in 1981 to a mere seven per cent in 2001, as highlighted by the Bank's evaluation unit (see *Update* 58).

US and EU food subsidies, combined with WTO and IFI pressure for import liberalisation are being blamed by numerous NGOs, academics, and southern governments for hurting countries' abilities to feed themselves. Henk Hobbelink of NGO GRAIN said "many countries became dependent on food imports, as local farmers could not compete with the subsidised products from the North. This is one of the main factors in the current food crisis, for which the IMF is directly to blame."

ROBIN HEIGHWAY-BURY / THOROGOOD

Indian UN ambassador Nirupam Sen blamed IFI advice encouraging countries to shift from domestic food crops to cash crops for exports. In a paper for the Nordic Africa Institute, Oxford University researcher Deborah Bryceson describes the IFIs' approach as "de-peasantization" – phasing out of a mode of production to make the countryside a more receptive site for intensive capital accumulation.

Harvard economist Dani Rodrik counterargues that the retention of import restrictions would have lowered the global supply of food, not increased it. He surmises that import protection would have led global production to be reallocated "from efficient exporters to inefficient importers". He concludes that "if you are for self-sufficiency, you must be willing to live with high prices".

This reflects the complexity of the relationship between food prices, the nature of development, and poverty reduction efforts. The latest World Bank research by Maros and Will paints a mixed picture: "short-run impacts of higher staple food prices on poverty differ considerably by commodity and by country, but, poverty increases are much more frequent, and larger, than poverty reductions". Other analysts believe that in the longer-term, higher prices could begin to benefit rural producers, slow the exodus of farmers from rural areas, and improve environmental sustainability.

The World Bank has swiftly seized upon the crisis to broaden its mandate. A $1.2 billion "rapid financing facility" has been created to address immediate needs, including $200 million in grants for the poorest countries (grant operations have been approved for Haiti, Djibouti and Liberia; operations are being processed for Togo, Tajikistan and Yemen). This is not new money but has been re-allocated from existing budgets.

The Bank is also working with the UN's Food and Agriculture Organisation (FAO) to get seeds and fertilizers to those developing countries where smallholder farmers could expand production this season. The Bank says it will boost overall support – including loans, grants and technical assistance – for agriculture to $6 billion next year up from $4 billion. It also promises to launch new risk management tools and crop insurance.

For its part, the IMF has doubled lending to four low-income countries (Burkina Faso, the Kyrgyz Republic, Mali, and Niger), and is discussing increases with another eleven. The Fund's board was to review in June a proposal for improving the effectiveness of the Exogenous Shocks Facility, a low-interest fund for low-income countries suffering the painful short-term impacts of events beyond their control (see *Update* 49). As with the Bank, it will be critical to monitor the conditions that accompany these funds and the increased debt levels they entail.

Meanwhile, the IFIs have published a list of dos and don'ts for developing country governments responding to the crisis. On the do side: scaling up social safety nets; eliminating tariffs on key food items; and the temporary use of subsidies on food items vital to the poor and inputs for poor farmers

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IMF challenged on accountability, governance

A scathing report from the Independent Evaluation Office (IEO) highlights the IMF's lack of transparency and accountability, but there appears to be little shareholder agreement on the conclusions.

The IEO evaluation of IMF corporate governance finds that accountability and voice are its weakest features and notes "these weaknesses entail risks to the Fund's legitimacy, which in turn has a bearing on its effectiveness." Despite both broad and detailed recommendations, the IMF board did not endorse any specific recommendation, contrary to its usual practice after discussing IEO reports. Inside sources indicate that the board feels that the issues, many of which deal with the design and functioning of the board itself, can only be addressed in national capitals.

The IEO had four broad conclusions: there is need to clarify the roles and responsibilities of each of the IMF's governance bodies; the Fund should constitute a decision-making body called the IMF Council that would bring in more ministerial involvement; the executive board should shift from overseeing day-to-day operations to playing a more systemic and supervisory role; and a framework needs to be put into place to hold senior management accountable for its performance.

Specific IEO recommendations that have previously been supported by civil society include:

- *an end to executive directors being appointed by the largest shareholders;*
- *the publication of all board documents after two years; and*
- *the creation of a merit-based selection process for the managing director and deputy director posts.*

The most radical reform proposed was that "the board should meet less frequently. A refocused board could perhaps meet for one week a month, allowing more time for board members to consult their authorities and to do the background work needed to have greater impact during meetings."

Some cold water was thrown on the Fund's repeated claims that programmes and conditionality are driven by country authorities: "there is evidence of a 'chilling effect' that deters authorities – especially those from low-income countries – from challenging management and staff views for fear of negative repercussions."

Some of the IEO report covers the same ground as a panel on IMF reform hosted by US-based NGO New Rules for Global Finance. Its director Jo-Marie Griesgraber welcomed the recommendations, saying "the *sine qua non* for a legitimate and effective IMF is accountability including evaluation, transparency, participation and an external complaint mechanism. To date, the board's non-response to this report is further evidence of the absence of accountability."

IMF head Dominique Strauss-Kahn has indicated that he plans to announce some measures on governance reform in the coming weeks, including rumours that he has commissioned a high-level task force of outside advisers. But as with most IMF reform, not much is expected quickly.

The IEO also found that the practice used to prepare "summings up", the public documents that report the decisions of the executive board, "is outdated and undermines efforts at transparency". An IEO background paper reveals that the board agreed a policy on the use of code words in 1983 which still stands. Board summaries describe the views of board members based on the number of directors that agree, with "a few", "some", "a number of", "many", "most", and "nearly all" being clearly defined. The summaries use the phrase "the view is held that" to indicate what the US says without clarification that it was simply the view of one director.

Part of the board's problem in addressing the IEO report was the view of European directors. They are loathe to discuss issues of constituencies and representation. As promised (see *Update* 60), European commissioner for economic and monetary affairs Joaquin Almunia called for the consolidation of European representation in international bodies in the report on the 10-year anniversary of the euro.

Strauss-Kahn attended the report's launch, but his comments were not helpful: "The problem is not whether the Europeans should have a single chair in the IMF, the World Bank and other international institutions ... because having several chairs in different institutions is not a problem as long as they all say the same thing."

Governance of the IMF: An evaluation
www.ieo-imf.org/eval/complete/eval_05212008.html

Panel on IMF board accountability
www.new-rules.org/docs/imf_board_accountability.pdf

IMF structural conditionality here to stay

Despite the criticism of Fund structural conditionality levelled in the IEO's January report (see *Update* 59), the management implementation plan of board-endorsed recommendations provides little confirmation that the IMF will solve the problem. In fact Juan Zalduendo of the IMF's policy department declared during the spring meetings that "IMF conditionality is here to stay".

One statement in the plan undermines recipient country ownership of conditionality. "Staff will propose the policy strategy necessary to achieve the programme goals at the pre-brief meeting. This strategy should include a preliminary indication, to the extent possible, of the structural conditionality". Not mentioned is that the 'pre-brief meeting' occurs in Washington before Fund staff visit the country. The paper cautions that "such conditionality would need to reflect the outcome of discussions with country authorities" but it is not clear how that is possible before Fund staff have met the recipient country officials.

The board was vague on conditions set in areas that the Fund has no expertise in, such as civil service reform. It will be up to the drafters of the operational guidance note, the document that directs staff behaviour, to recommend how to deal with conditionality in the Fund's non-core areas of work.

Board discusses implementation plan following IEO evaluation of conditionality
www.imf.org/external/np/sec/pn/2008/pn0852.htm

IMF allowed to plug budget hole

The IMF executive board approved three measures to plug the budget deficit. The Fund's investment authority will be expanded to allow investment of reserves in riskier assets. This was approved by the board of governors in May but requires an amendment to the Articles of Agreement, so still needs legislative approval from member countries. The executive board approved the creation of an endowment from gold sales but the actual sales require a further board decision. By US law, the US executive director is not allowed to agree to them without prior Congressional approval. The IMF will resume charging Fund-held trust funds (for low income countries) for administrative expenses. Europeans agreed to restart these payments once the US agrees to gold sales.

All change at the top of the Fund

With 13 of the IMF's 20 Washington-based departments facing a change of leadership, the IMF may be at its most malleable state ever. The voluntary retirement packages to facilitate downsizing (see *Update* 59) were enough to convince more than 590 Fund staff, including six department directors, to jump ship. Combined with moves and retirements, the Fund will have new heads of every area department, external relations, policy development, and fiscal affairs, among others. A few key recruitments were already announced: Olivier Blanchard of MIT as the new chief economist and Liberian finance minister Antoinette Sayeh as head of the Africa department.

See full article online:
brettonwoodsproject.org/imfstaff61

IEO issues paper on member relations

The IEO has released the draft issues paper for an evaluation on the relationship between the IMF and its member countries, which will focus on the interaction of staff with member-country officials. Though "the evaluation will not focus on evaluating the specific advice conveyed during the interactions", it will assess the quality of the interactions. That should leave plenty of scope for the IEO to consider whether Fund staff were on their best behaviour. The evaluation may also include a thematic study on "interacting with civil society and partners, including with donors". The IEO is taking feedback on the draft before publishing a final issues paper.

www.ieo-imf.org/eval/ongoing/051508.pdf

Asian Monetary Fund on the cards?

The long-awaited multilateralisation of the Chiang Mai initiative was agreed in early May in Madrid on the sidelines of the Asian Development Bank annual meeting. The Chiang Mai initiative is a series of bilateral agreements among the 10 members of the Association of Southeast Asian Nations (ASEAN) and neighbours South Korea, China and Japan. The so-called ASEAN+3 group agreed to set up an $80 billion fund with 80 per cent of the money coming from the non-ASEAN members. Full details of surveillance mechanisms and conditions for use of the money have not yet been settled. Separately India signed a $3 billion bilateral currency swap arrangement with Japan.

Turkey and the long decade with the IMF

COMMENT

by Erinç Yeldane
Bilkent University, Ankara

IN MAY Turkey ended its latest stand-by agreement with the IMF. To some this meant the long awaited declaration of autonomy for Turkey and the loss of the final 'consumer' for the IMF. For others who adhere to the neoliberal orthodoxy, this meant the graduation of Turkey and the successful completion of the IMF programme. The reality is that neither is correct. Turkey is currently trapped in a high debt, high unemployment, speculative growth environment; and the independence of its institutions is under siege by the intervention of the IMF and World Bank. There is neither autonomy, nor successful graduation.

Turkey and the IMF signed a Staff Monitoring Programme in 1998 to enable closer Fund supervision and control of the Turkish economy. Turkey experienced a severe economic crisis in November 2000 and again in February 2001 when it was following the exchange-rate based disinflation programme led and engineered by the IMF. The burden of adjustment fell disproportionately on the working classes as unemployment rose to 10 per cent and real wages were reduced abruptly by 20 per cent. The IMF provided financial assistance of $20.4 billion between the crisis onset in 1999 and 2003.

The rapid increase of private sector debt reveals the true essence of the IMF-engineered adjustment following the currency and banking crises. The underlying characteristics of the post-crisis adjustments ultimately relied on maintaining high real interest rates in anticipation of increased capital inflow. Coupled with contractionary fiscal policy, the programme found the main source of expansion in speculative inflows of foreign finance.

This programme was clearly stated in the Turkey country report prepared by IMF staff in late 2001. The targets of the 2001 IMF report have eventually become the official targets of all successive governments. The targeted rate of real GNP growth, for instance, was persistently set at 5 per cent, despite the observed rapid expansion of the economy at rates often exceeding 7 per cent in the preceding year. This choice was clearly no coincidence. Likewise, the inflation targets of the 'independent' central bank each year followed the path envisaged in the 2001 IMF report, beginning with 20 per cent in 2003 to 5 per cent in 2006, and beyond. Finally, the primary surplus target of the public sector, at 6.5 per cent of GNP, clearly finds its origins in the aforementioned report.

The high interest rates of the post-crisis IMF programme attracted short term capital; and the relative abundance of foreign exchange led to overvaluation of the lira. Cheap foreign exchange led to an import boom both in consumption and investment goods. Achievement of the fiscal contraction under severe retrenchment of public expenditure, in turn, further boosted the hungry expectations of financial arbitrageurs. The end results were the shrinkage of the public sector in a speculative-led growth environment; and the consequent deterioration of education and health infrastructure which urgently need increased public funds. Furthermore, as domestic industry intensified its import dependence, it was forced to adapt increasingly capital-intensive foreign technologies with adverse consequences on domestic employment.

It is clear that the IMF programme was not simply to "stabilise" the economy, but goes much further: to radically alter the social structure of the country. Turkey's post-crisis adjustment traces the steps of many developing countries which are dependent upon foreign capital and conditioned to adopt or maintain contractionary policies in order to secure "investor confidence" and "international creditworthiness". They are restricted to a balanced budget, entrenched fiscal expenditures, and a relatively contractionary monetary policy with an ex ante commitment to high real interest rates.

Turkey is now entering the second half of 2008 with severe disequilibrium and an increased external debt burden. The favourable global conditions conducive to rapid economic growth are, generally speaking, not present now. Turkey has to face the current turbulence and decline in global credit and financial markets with a strained labour market and intensified external fragility. There is no doubt that the necessary adjustments that lie ahead for securing economic stability in Turkey will be more costly and difficult. What is clear is that over its long decade with the IMF, Turkey managed to replace public deficits with a democracy deficit.

yeldane@bilkent.edu.tr

Agribusiness vs. food security

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such as fertilisers. The latter recommendation represents a 180 degree shift from previous efforts to eradicate the use of such subsidies in countries such as Malawi. On the don't side are export controls, price controls and general subsidies.

The IFIs proposed a package of medium-term measures including:

- *doubling investment in research and development over the next five years (conceding the inadequacies of the global network of Consultative Group research centres);*
- *easing bio-fuel subsidies;*
- *investing one per cent of sovereign wealth fund assets across Sub-Saharan Africa, some of which may go towards agricultural productivity;*
- *a 'green revolution' for Africa - the Bank is considering joining the private-donor led Alliance for the Green Revolution in Africa; and*
- *completing the Doha trade round.*

While most civil society organisations would agree both on the need for increased investment in research and the need to end biofuel subsidies, that is where the similarities end.

NGO Institute for Agriculture and Trade Policy insists that the Doha round would lead both to increased dependency of poor countries on food imports, and increased volatility in food prices.

There is also enormous scepticism about the benefits of the current agribusiness model. The International Assessment of Agricultural Knowledge, Science and Technology for Development (IAASTD), a three-year high-level exercise, came under "enormous pressure" according to one high-level insider to conform with the findings of the Bank's *World Development Report* on agriculture (see *Update* 58). In contrast to the WDR, the IAASTD emphasises food security, environmental sustainability, and traditional knowledge. It criticises trade liberalisation and stresses the need to "preserve national policy flexibility".

La Via Campesina, an international peasant movement, proposes replacing the current model with one based on the notion of food sovereignty – the right of a country to determine its production and consumption of food and the exemption of agriculture from global trade regimes. They are one of the signatories to a global civil society statement on the world food emergency. It calls for the UN Human Rights Council and the International Court of Justice to investigate the contribution of agribusiness to violations of the right to food; the establishment of a UN Commission on Food Production, Consumption and Trade; and the restructuring of multilateral organisations involved in food aid and agriculture, including the World Bank.

African agriculture and the World Bank: Development or impoverishment?
www.nai.uu.se/publications/books/book.xml?id=25256

IAASTD
www.agassessment.org

CSO statement on world food emergency
www.foodsovereignty.org

Failing small farmers: WB and agriculture
brettonwoodsproject.org/agriculture58

Bank undermining human rights accountability

A UN report says the World Bank's investment arbitration facility is at odds with the protection of human rights. The CAO found that the IFC violated its standards in Kazakhstan, and a new complaint has been lodged against a sugar company in Nicaragua.

In an April report, following three years of consultations, UN Special Representative on human rights and transnational corporations John Ruggie, says that so-called 'stabilization clauses' in investment contracts (see *Update* 60) can make it difficult for host states "to strengthen domestic social and environmental standards, including those related to human rights, without fear of foreign investor challenge".

Making matters worse, such investor challenges occur under arbitration processes that are conducted in strict confidentiality, often failing to alert the public in the country facing a claim. Ruggie calls on "institutions supporting investments" to develop arbitration procedures which better "balance investor interests and the needs of host states to discharge their human rights obligations". This is a direct challenge to the Bank's International Centre for the Settlement of Investment Disputes (ICSID), a tribunal which rules on cases against governments brought by foreign investors (see *Update* 56).

The report calls on export credit agencies to require clients to perform adequate due diligence on their potential human rights impacts, though fails to make the same demands of the International Finance Corporation (IFC). While the IFC has produced a set of guidelines for companies on how to conduct human rights impact assessments (see *Update* 57), these have little status as they are not integrated into the IFC's performance standards (IFC-specific substitutes for environmental and social safeguards, see *Update* 50), that are supposed to be a contractual requirement on borrowing companies.

The UN Human Rights Council has responded positively to Ruggie's report, agreeing to a three-year renewal of his mandate. However, what UN member states have asked him to do falls short of what NGOs have been seeking, which is more emphasis on closing regulatory gaps and on removing barriers to access to justice faced by victims of corporate abuse.

A submission to Ruggie by a group of NGOs including the Center for International Environmental Law (CIEL) condemns the IFC's performance standards on human rights grounds. Using the Danish Institute's human rights compliance assessment methodology, the NGOs find that the standards: fail to address many critical human rights issues or do so in a way that does not meet international norms and standards; do not provide an adequate framework for human rights due diligence; and do not specify an adequate grievance mechanism. The submission urges Ruggie to build on his current mandate in the next phase by assessing ways for the IFC to embed human rights standards and rights-compliant procedures and accountability mechanisms into its financing requirements.

Violations: CAO

The Compliance Advisor Ombudsman (CAO) has found that the IFC is out of compliance with its own safety standards for toxic emissions at the giant Karachaganak oil and gas field in western Kazakhstan (see *Update* 45). Local residents have suffered respiratory, nervous system and skin ailments, caused by extremely high levels of hydrogen sulphide emissions. The CAO found the monitoring programme and smokestack emissions data "insufficient in order to verify compliance with IFC requirements".

Equally worrying was that "the production-sharing agreement governing the project does not reference IFC requirements" and that "there are only limited signs of IFC guidelines influencing the monitoring programmes". The IFC responded that it had "refrained from formally introducing [its guidelines] as a requirement" even though "we may have referred to them in our practice." The CAO scolded the IFC for failing to mention this to the Bank's board or the public. Kate Watters, of NGO Crude Accountability, said "the IFC has violated Kazakhstani legislation, international standards and its own regulations."

A complaint has been submitted to the CAO by local residents affected by the operations of Nicaragua Sugar Estate Limited (NSEL). Issues raised include: health problems, union busting activity, air and soil pollution, groundwater depletion, and harassment of whistleblowers. In late 2006, the IFC provided a $55 million loan to finance expansion of NSEL's production and processing of sugarcane, including the construction of an ethanol plant.

Protect, respect and remedy: a framework for business and human rights
daccess-ods.un.org/access.nsf/Get?Open&DS=A/HRC/8/5&Lang=E

Crude Accountability
www.crudeaccountability.org/

Complaint to CAO on Nicaragua Sugar
www.ciel.org/Publications/NSEL_Complaint_31Mar08.pdf

Rethinking the World Bank role in conflict states

A new report from NGO International Alert draws lessons for the Bank's work from its experience in Burundi, Nepal and the Democratic Republic of Congo.

In 2006 the Independent Evaluation Group (IEG) released its review of World Bank support to 'fragile states', raising serious questions about both the way the Bank is organised internally to deal with fragile states and the system it uses to allocate resources to them (see *Update* 53). Since then, 'fragility and the conflict' has been identified as one of six 'strategic themes' by Bank president Robert Zoellick.

The Bank has responded with a series of internal changes. The low income countries under stress and the conflict prevention and reconstruction teams were merged in 2007 to form a fragile and conflict-affected countries group; their accompanying trust funds are also being merged to create the State and Peace-Building Fund (SPF). A total of $100 million in World Bank funding is planned for the SPF in fiscal years 09-11, to be supplemented by donors. A conflict, fragile states and social development team has been embedded in the Africa regional vice-presidency. A committee of managing directors has been established to discuss specific 'crisis' countries. Finally, during a January tour of African countries, Zoellick said the Bank had to figure out "some way to get additional private capital" to countries recovering from conflict, but it is unclear how.

The International Alert report welcomes the Bank's increased attention, but asks whether internal systems continue to undermine overall effectiveness. The report highlights a number of issues:

- *the Bank places too much emphasis on formal institutions in assessing progress;*
- *caution is urged before rushing to use budget support, country systems and aligning with government priorities in fragile states;*
- *Bank staff require more multidisciplinary expertise, and should be free of pressure to meet spending targets;*
- *the current 'results' framework fails to integrate a long-term change agenda; and*
- *the Bank should not be afraid of high-risk projects, especially where national development progress depends on their implementation.*

In turn, the report's authors make a number of recommendations including institutionalising an analysis of power relations in Bank decision-making; amending the way results are measured to integrate political economy considerations; improving internal and external accountability of staff; and improving collaboration with partners. Emphasis in the International Alert report on the need for greater attention to issues of power and participation echoes the finding in a report last year by US-based NGO Gender Action that only a fraction of Bank reconstruction initiatives focused on the needs of women.

While providing useful process recommendations, the International Alert report chose not to address the theoretical foundations upon which the Bank's conflict work is based. Heavily influential has been the work of former Bank economist Paul Collier. He has popularised the idea that greed is more important than grievance in explaining conflict, and that there are very high risks of reoccurrence of violence. Collier's broadly-accepted conclusions have come under fire, even from within the Bank itself. In the 2006 evaluation of World Bank research known as the Deaton report (see *Update* 54), reviewer Daron Acemoglu said Collier's methodology was inappropriate, was not at "the frontier of applied research", and interpreted correlations as causal effects that "are really no more than correlations".

The World Bank in fragile and conflict-affected countries: 'How', not 'how much'
www.international-alert.org/publications/380.php

Inside the institutions: The World Bank and transport

Given that the World Bank's primary activity in its first decades of operation was financing infrastructure, the fact that transport is the single largest sector for Bank lending should come as no surprise. However with the prevalence of concerns about underinvestment in social sectors, transport lending was on the decline in the late 90s and early part of this century. Now the pendulum is swinging back and transport lending is on the rise in both the public and private sector arms of the Bank.

The transport sector is part of the energy, transport and water department which is within the sustainable development network headed by Kathy Sierra. Bank-wide coordination is provided by the Transport Sector Board (TSB). The TSB comprises the managers of transport development operations in each of the World Bank's six regions and the manager of the central transport department based in Washington, as well as representatives of the Bank's private sector arms, the International Finance Corporation (IFC) and Multilateral Investment Guarantee Agency.

The strategy for the transport sector has been in a process of redrafting since 2006 (see *Update* 56) and was finally published in May 2008 after considerable debate over incorporation of climate change issues. The new strategy – which promises safe, clean and affordable transport – includes five strategic objectives: create the conditions for increased support for transport investment and governance, deepen engagement in the roads and highways subsector, increase engagement in the urban transport subsector, diversify engagement in transport for trade, and control the emissions from and mitigate the climate impact of transport while climate-proofing transport infrastructure.

The strategy proposes four adjustments to the Bank's work: increase the amount of Bank lending that is programmatic rather than project-based, enhance the quality of policy dialogue and sharing of knowledge, improve monitoring and evaluation, and capture synergies across the sectors and different arms of the World Bank Group.

The most recent count of World Bank professional staff working in the sector at end-2007 showed that transport, with 123 full-time people and 24 long-term consultants, was smaller than most other sectors. The overall number of transport sector staff has decreased from 141 in 2000, but the Bank is planning to hire more staff to cope with the increasing lending in this area. Forty per cent of the staff are based outside Washington.

Over the period 1996-2007, the transport sector averaged 15 per cent of all lending, larger than any other sector. When broken down by theme instead of sector, transport came second only to work on law, governance and the public sector. There were an average of 78 projects a year with some transport component. In fiscal year 2007 over $5 billion was committed to the transport sector and at the end of the year, the Bank's active transport portfolio stood at $22.5 billion. The Bank expects annual commitments to remain above $5 billion for the foreseeable future.

Road and highway projects account for 75 per cent of the active portfolio, followed by general transport (including urban public transit) and railways at 13 and 7 per cent respectively. The new strategy envisions reducing commitments to road building and within the subsector spending more on road safety and transport services. The subsector accounts for only 62 per cent of the total lending committed between 2002 and 2007.

Broken down by region, there has been a clear shift in the countries doing transport projects. Between 1996 and 2001, 30 per cent of commitments were made in Europe and Central Asia, with another 30 per cent in East Asia and the Pacific. South Asia was only four per cent of the total. But between 2002 and 2007, South Asia had rocketed up to 32 per cent with Europe and Central Asia dropping back to three per cent. Sub-Saharan Africa, Latin America and East Asia each accounted for about 20 per cent in the recent period.

The IFC has also increased its work in the transport sector, moving from financing just one project in 1999 to an average of 13 projects in each of the last 5 years. Between 1996 and 2007 IFC commitments in transport projects totalled $2.1 billion. The new strategy envisions much greater private sector involvement in transport projects, including identifying more than 90 areas where there are opportunities for increased private sector participation.

At the crossroads: Which way the World Bank's transport strategy?
brettonwoodsproject.org/transportatissue56

World Bank transport website
www.worldbank.org/transport/

Upheaval planned for IMF technical assistance

The Fund has decided to revamp technical assistance (TA), one of its three main pillars of activity, but the changes weaken country ownership.

Despite reservations from low-income countries (see *Update* 60), the IMF plans "a more proactive approach to mobilizing new resources for TA" meaning that it will be competing with developing countries for aid. Fund internal financing of TA will decline by 16 per cent this year and 21 per cent over three years, with donor financing growing by as much as 58 per cent. The Fund board approved the "bundling of TA into topical trust funds for fund-raising purposes". Thus the Fund and donors will control the allocation of resources for TA, not recipient countries. The Fund training programme is facing similar changes.

The prioritisation of subjects for technical advice will be handled by Fund area departments based in Washington. The Fund had experimented with Technical Assistance Country Strategy Notes, usually written by Fund staffers while on mission in the country, but these will be scrapped in favour of Regional Strategy Notes (RSNs) written from headquarters. No RSNs have yet been finalised and it is unclear how much genuine consultation there will be between area department staff and country authorities when the notes are written. The policy proposal admitted that "there is a need to strengthen coordination with country authorities".

However, the paper devotes little space to recipients and much to discussing coordination with donors. Using the rhetoric of the Paris Declaration on Aid Effectiveness, the paper makes much of donor harmonisation but completely ignores ownership. In numerous places in the paper and the summary of the board discussion, IMF TA is referred to as complementing donor development strategies and policies including the need to "make Fund TA more 'marketable'". However, it is only once linked to recipient country poverty reduction strategies, which are listed as being equally important as the Fund's opinions on economic policy for the prioritisation of TA.

difficult to convince others of its objectivity

A separate policy paper on the dissemination strategy indicates that donors and other TA providers will get privileged access to TA reports, even though the reports are not currently shared with parliaments or the public in recipient countries.

The IMF also plans to charge countries for TA. While the full decision of what to charge has not yet been made, and will be determined by IMF management and not the board, the preliminary proposal was for a sliding scale of 20 per cent cost recovery from low-income countries, up to 100 per cent for rich countries. Borrowing countries will be exempt from the charges. Citizens will thus pay for TA but not see the results.

The policy paper also admitted that the oversight of IMF TA is in disarray, including poor usage of the Technical Assistance Information Management System (TAIMS), a database for TA administration. "Only 15 per cent of all TA missions in FY2007 were linked to TAIMS projects. Although all externally financed projects should be registered in TAIMS, two-thirds lacked an end-of-project assessment; one-fifth did not have project outputs; and more than one-tenth did not have project objectives." All Fund TA will now be managed as projects and each project must have objectives, assumptions, activities, outputs and outcomes set out in advance. The paper says that country authorities will be "consulted in the design of the main project deliverables".

"At a time when the Paris Declaration and other initiatives are seeking to loosen the ties of aid to its sources, and to encourage country ownership and choice, the IMF may find it difficult to convince others of its objectivity as a provider of 'free-standing' TA", commented Stephen Browne, author of a UNDP book on capacity building. "When the IMF 'consults with' developing countries, the dialogue has usually been in only one direction."

IMF board discusses technical assistance
www.imf.org/external/np/sec/pn/2008/pn0858.htm

Donor cartel undercuts renewables: **Bank's climate funds finalised**

The World Bank and donors have finalised the design of the Climate Investment Funds (CIFs) despite continued complaints over governance and investment in non-renewable energy.

Representatives of the World Bank, multilateral development banks (MDBs), and 40 industrialised and developing countries held their third design meeting in May. The final proposals now include a Clean Technology Fund (CTF) and a Strategic Climate Fund (SCF). The latter will serve as an umbrella for previously proposed funds on forests and adaptation (see *Update* 60).

The proposals now open with a long preamble of references to the UN Framework Convention on Climate Change (UNFCCC) and assert that the CIFs will be an interim measure designed for MDBs to "assist in filling immediate financing gaps" with the inclusion of specific sunset clauses "linked to the agreement on the future of the climate change regime".

It is anticipated that the CTF will receive contributions of $5 billion from donors, far outstripping the expected value of the SCF. A Pilot Program for Climate Resilience (PPCR) will be immediately established within the SCF, supplanting what the Bank had previously called the Adaptation Pilot Fund. The PPCR is expected to hold $500 million. The Forest Investment Fund will come under the SCF umbrella and is expected to be established by end 2008. A third element of the SCF, a planned fund for "greening energy access" in low-income countries, requires more work.

The proposals are scheduled for approval by the Bank's board 1 July, in time for the final announcement to take place at the G8 summit. The final negotiations on the CIFs were held after receiving comments from stakeholders, but the consultation period was just a week long.

Both funds will be overseen by trust fund committees rather than the Bank's board. The trust fund governance arrangements will be mirrored at the sub programmes of the SCF. The committees of the CTF and SCF will consist of up to eight representatives from donor countries and an equal number from eligible recipient countries, a senior representative of the Bank and a representative of the MDBs. Decision making will be by consensus.

The SCF committee will include representatives of the UNFCCC, Global Environment Facility (GEF), UNDP and UNEP as observers, while the CTF committee will include a GEF representative and a single UN representative. The SCF committee will invite civil society to identify a representative to observe but there was no clarity on how the person would be chosen. Other interested parties will be confined to an annual talk-shop called the Partnership Forum.

A briefing by NGO Third World Network says: "the language in the draft proposals implies recognition of the UNFCCC principles as merely guidance for policy agendas of the CIF, rather than as binding internationally negotiated commitments of state parties which must be respected".

As yet unsettled is a decision over the channelling of finance as grants or loans, the CTF proposal currently suggests a mix depending on the project. The UK prefers concessionary loans rather than grants because of domestic budget constraints. The US is said to support more grant finance.

NGOs have insisted that climate change funds be additional to aid, given that the overwhelming responsibility for climate change lies with rich countries. Nnimmo Bassey of Friends of the Earth Nigeria stated "industrialised countries owe it as an obligation, if not a debt to places that have provided a lot of the resources to make them what they are".

Clean tech or business as usual?

The CTF document's key terms such as "transformational", "low-carbon" and "clean technology" remain undefined. The CTF plans to be "technology neutral", meaning there will be no exclusion list or priority for specific technologies, leaving the path open for business as usual. References to clean coal have been reduced but not eliminated in the latest draft.

A report from the US think tank Center for Global Development referred to the CTF as a "cash cow for coal". Various NGOs are calling on the Bank to help fill the cost gap between clean alternatives and fossil fuels, and facilitate the scale-up of renewable energy. A statement endorsed by over 120 NGOs was released in June demanding more time to address concerns.

Proposed Climate Investment Funds
go.worldbank.org/58OVAGT860

No additionality, new conditionality: A critique of the World Bank's CIFs
www.twnside.org.sg/title2/climate/briefings/TWN.BP.bonn.2.doc

Global civil society statement on CIFs
www.endoilaid.org/wbcif

Climate change strategy misses the point

As the successor to the Clean Energy Investment Framework (see *Update* 58, 55), the Strategic Framework on Climate Change and Development (SFCCD) for the World Bank Group will be proposed for endorsement by the board in September. The Bank is holding consultations around the world through the end of June. Judging by recent reports they will not receive much positive feedback.

A June report by the World Resources Institute takes the Bank to task for not integrating climate change considerations into its lending. The report finds that "almost 50 percent of lending in [the energy] sector was made without any attention to climate change at all." Another report from US NGO Sustainable Energy and Economy Network accuses the Bank of being a "climate profiteer". Faulting the Bank's focus on developing carbon markets, it notes the absence of "any mention of reducing global greenhouse gas emissions or promoting clean, renewable energy" in the mission of the carbon finance programme.

World Bank climate profiteer, SEEN ***www.ips-dc.org/reports/#292***

Climate change and the MDBs
wri.org/publication/correcting-the-worlds-greatest-market-failure

New African dams to power mining

Two dam projects are being rushed to power the mining booms in Africa. In May the IFC started a feasibility study on the Kafue Gorge Lower project, which was originally proposed in the 1970s. The 750 megawatt dam, the largest ever African public-private energy project, would require six years and $1 billion to build, with interest expressed by a private electricity provider to copper mining companies. The World Bank and African Development Bank are considering funding the Akagera dam at Rusumo falls in the Kagera Basin bordering Burundi, Rwanda and Tanzania. The 60 megawatts of power is destined for mining interests in western Tanzania and Burundi but the project is facing delays.

bicusa.org/en/Article.3718.aspx

Much needed increase in UK WB oversight

Susanna Moorehead, former DFID head in India, has been appointed UK executive director (ED) to the World Bank; Alex Gibbs will remain ED to the Fund. Labour MP and member of the International Development Committee (IDC) Hugh Bayley has been elected chair of the Parliamentary Network on the World Bank, succeeding US Congresswoman Betty McCollum. More hands on deck are welcome considering DFID's increase in support to the Bank (see *Update* 59) and weak oversight. DFID's response to the critical IDC report on *DFID and the World Bank* was described by the Bretton Woods Project as a "sheepish defence".

brettonwoodsproject.org/idcdfid08

Intermediaries neglect safeguards: evaluation

The Independent Evaluation Group (IEG) found 'high development outcomes' in approximately two-thirds of projects funded by IFC-financed financial intermediaries (FI) which serve micro, small and medium enterprises (MSME). In contrast, only one quarter of SME-FIs received satisfactory ratings for environment, health and safety performance. The IFC is increasing the share of its financing going via FIs; nearly $500 million for MSME-FIs in FY06. The IEG reported separately that 62 per cent of IFC projects in middle-income countries achieved 'high development outcomes' (see *Update* 58), and "at least one form of financial additionality" in around four-fifths of projects.

www.ifc.org/ifcext/ieg.nsf/Content/Highlights_MSME-FI

Inspection Panel conflicts

The Inspection Panel has closed applications for a new Panel member to replace Tongroj Onchan. An NGO letter had expressed concerns about the conflict of interest posed by the inclusion of Bank staff on the selection committee, and the failure to involve civil society in the process. The Bank responded by removing Pamela Cox from the committee as projects in her region (Latin America and the Caribbean) are the subject of Panel complaints. It rejected the argument on conflict of interest for the Bank and claimed that involving civil society would present "practical difficulties".

www.ciel.org/Publications/Zoellick_InspectionPanel_17Apr08.pdf

Evaluation faults Bank's 'same old formula' for public sector reforms

In May, the Independent Evaluation Group (IEG) released its evaluation of Bank support for public sector reform, giving high marks for looking after the books, but failing grades for reforming the civil service and rooting out corruption.

The Bank's strategy guiding work on public sector reform (PSR) for the period evaluated (1999 - 2006) was written in 2000. About one-sixth of Bank projects supported public sector reform, though this average hides a doubling in the percentage of PSR projects from 7.6 in 1999 to 14.5 per cent in 2006.

Evaluators concede the difficulty in proving any causal links between Bank-led reforms and improvements in governance. Three-quarters of countries receiving PSR lending experienced "at least some" improvement in the Bank's governance measure. Even without the necessary qualifications on the weaknesses of the governance indicators included in the Country Policy and Institutional Assessments (CPIA – see *Update* 52), inferring causality between specific lending programmes and the outcomes of subjective broad-based indicators is tenuous. A box is included on the 'pros and cons of CPIA' without listing any cons.

In a second attempt to prove the value of Bank PSR investments, three-quarters of projects received an overall IEG outcome rating of 'moderately satisfactory' or better, with higher ratings for projects in richer countries. To explain this, the report's authors suggest that poorer countries have weaker institutions, and that Bank-prescribed reforms are sometimes "too complex for still-developing countries". The Bank has more to do, says the report, to understand the political foundations of governance, and might consider a political economist rather than a macro-economist at the core of its team in some countries.

The most successful work, according to the IEG, is on public expenditure management. However, it cautions that progress is "uneven". Success would be greater with more focus on local context, getting the basics right, and support for country-based procurement systems.

On civil service reform, the IEG said the Bank has "continued to endorse the same formula" of retrenchment and salary cutbacks "with similar lack of success". A recent shift to merit-based recruitment and promotion has also been relatively unsuccessful. Too often diagnostic work "is simply not done before projects tackle reform". Countries getting several Bank loans "did not do better on average than those getting only one".

Bank efforts in anticorruption were the target of the heaviest criticism. Governance indicators on corruption were criticised for not being 'actionable'; procurement and financial management systems are not adequately protected against the risk of corruption; and there was an "absence of political and cultural factors" in corruption analyses. Direct anti-corruption efforts, such as establishing anti-corruption commissions, have met with little success. The IEG encouraged more work on indirect ways to reduce corruption, such as transparency in tax administration, and more focus on the 'demand' side, such as civil society oversight, in fighting corruption. The Bank defended its position by pointing to the new governance and anti-corruption strategy (see *Update* 57) which was not covered by the period under IEG study.

A new report on procurement from UK NGO Engineers Against Poverty cites corruption as a "major inhibiting factor" to the achievement of social development objectives; however the group warns against a zero tolerance approach which may inadvertently benefit international contractors. It is important, says EAP that "inflexible procurement procedures and the drive for market competition do not compromise donors' desire to derive increased social benefit". Bank-led Country Procurement Assessment Reports are criticised for recommending the removal of preferences for domestic bidders (see *Update* 60).

An IEG review of Bank support for decentralisation is due imminently, while a review of the Bank's work on judicial and legal reform is expected later in the year.

New anti-corruption head

Leonard McCarthy will replace Suzanne Rich Folsom as head of the Bank's anti-corruption unit, the department of institutional integrity (INT), at the end of June. Folsom's handling of corruption was a flashpoint in the debacle that led to the ouster of former Bank president Paul Wolfowitz (see *Update* 56). McCarthy leaves his post as head of South Africa's directorate of Special Operations, an anti-corruption unit known as the "Scorpions".

Public sector reform: What works and why?
go.worldbank.org/1C817NN930

Modifying infrastructure procurement to enhance social development
www.engineersagainstpoverty.org/docs/Procurement%20Report.pdf

Bank and poverty debates (II): Poverty reduction claims vindicated?

Two new World Bank working papers have rekindled the debate over how to count the poor, with the Bank asserting that even more people have been brought out of poverty in China than had previously been estimated.

End 2007 came the publication of preliminary recalculations of global economic output excluding differences in domestic prices and currencies using so-called purchasing power parity (PPP) figures (see *Update* 59). That survey found that prices in China and India were higher than had been previously guesstimated, and therefore the purchasing power of their currencies was lower. Consequently, the Bank shrank its estimate of China's output by a remarkable 40 per cent, and India's by over a third. However, the meaning of these revisions for assessing the effectiveness of poverty-reduction efforts awaited further research.

In a May working paper, Bank researchers converted national poverty lines (themselves based on new data) to a common currency using the new PPP figures. This analysis showed that the Bank's famous '$1 a day' absolute poverty line (using the 1993 baseline and old PPP figures) was no longer representative of the poorest countries. It was too low. They have proposed a new international poverty line of $1.25 a day (using both the new baseline of 2005 and new PPP figures).

The other interesting finding from the study was that relative poverty is becoming a more important concern in an increasing number of countries.

The next step was to evaluate what all of this means for global poverty reduction efforts. A separate paper asks the question for the key country in the debate - China. Under previous estimates (using the $1 a day line), poverty had fallen from 64 per cent in 1981 to 10 per cent in 2004. Using the new $1.25 line, poverty fell from 87 per cent to 34 per cent; a similar decline.

However, the authors argue that this last estimate understates Chinese poverty reduction efforts due to the sample bias in the 2005 price survey. The Chinese government only allowed the survey to be conducted in eleven cities; Ravallion and Chen argue that "the prices obtained are unrepresentative of China's rural areas, where prices are appreciably lower for many goods, especially food for which the poor tend to have the highest budget share". Attempting to adjust for the sample bias, they find that poverty actually fell from 84 per cent in 1981 to 22 per cent in 2004; a fall of 62 percentage points. This would mean that 553 million people had been lifted out of poverty, compared with the old estimate of 509 million.

Future work will use the new data and poverty lines to estimate aggregate poverty measures for the developing world.

Behind the headline figures, debate continues to bubble over whether or not either the old or new figures tell us very much about changes in absolute poverty. Further complicating matters are debates over whether or not the Bank can take credit for having influenced Chinese policy reforms. One thing is for sure - with rising commodity prices putting pressure on those items that most directly affect the poor, this debate is far from finished.

Dollar a day revisited
go.worldbank.org/489ZT990G0

China is poorer than we thought
go.worldbank.org/IKGSY0AA21

A consistent measure of real poverty: A reply to Ravallion
www.undp-povertycentre.org/pub/IPCOnePager54.pdf

New figures cast shadow over Bank poverty reduction claims
brettonwoodsproject.org/ppp59

Everything old is new again: Growth Commission rediscovers the state

The Commission on Growth and Development, a group of policy makers, business leaders and scholars, has warmed to state intervention and cooled towards unfettered market-led reforms.

Led by Nobel Laureate and Stanford University professor of business Michael Spence, the Commission released a final synthesis in May of its many papers, case studies and workshops. It has been working since April 2006 with the support of the World Bank, the Hewlett Foundation, and the governments of Australia, Netherlands, Sweden and the UK.

The Commission's growth fetish was made evident at the outset through its equating of quality growth with increases in GDP. It chose to study the thirteen economies that have expanded at an average rate of at least seven per cent a year for 25 years or longer since the second world war: Botswana, Brazil, China, Hong Kong, Indonesia, Japan, Korea, Malaysia, Malta, Oman, Singapore, Taiwan and Thailand. According to the Commission, the group share five characteristics: exploitation of the global economy; macro-economic stability; high rates of saving and investment; market-allocated resources; and capable governments.

The admission that policy making is complex and heterogeneous is refreshing. The key policy-making task is to "improve the effectiveness of government institutions rather than stripping them of their tasks". The authors encourage governments to test policies through step-by-step gradualism and learn from mistakes.

The report's criticism of the Washington Consensus is striking considering that it involved many of the key figures identified with the failed paradigm, such as former US treasury secretary Robert Rubin. The commissioners admit that developing countries often lack key market and regulatory institutions, "and policy makers cannot always know how the market will function without them". They concede that they do not know the sufficient conditions for growth, nor can they say for sure whether the measures that they recommend are necessary.

Amongst their recommendations are some predictable findings but also a number which break with prevailing economic orthodoxy. Investments in both physical and social infrastructure are emphasised, with the warning that "in too many cases, the division of labour [in public-private partnerships] has put profits in private hands, and risks in the public lap." The commissioners back the transition of citizens out of agriculture and into export factories, and support the use of Special Economic Zones (though rights "should not be sacrificed").

More surprising is the grudging admission that industrial policies can be effective if used strategically and temporarily. There is also cautious support for exchange rate management. The consensus came out against rapid financial liberalisation, saying developing countries "have come under considerable pressure from IFIs". "Whether this is good advice", the report continues, "seems to depend heavily on whether the economy is diversified, its capital markets mature, and its financial institutions strong."

In recognition that these conditions are often not present, the Commission flies in the face of two decades of IMF doctrine, stating bluntly that "the fact that [capital] controls may be leaky and imperfect does not seem a decisive argument against them." This is not the only black eye for the Fund. The report questions the benefits of bringing inflation down to very low levels, advocates caution against central bank independence, and allows for flexibility in fiscal policy because "growth may itself depend on government investment".

The Growth Commission report discusses a number of cross-cutting issues including: global warming (backing contraction and convergence); rising income inequality and protectionism; the rise of China and India and the decline of manufacturing prices; the rising price of food and fuel; demographics, aging and migration; and global imbalances and global governance.

While Commissioners will be pushing the findings in their home countries, the impact of the report on the Bank and Fund is unclear. Some Commission members have been at pains to say that they wanted to influence developing country decision makers, not Bank policy. The UK Department for International Development is setting up a £40m International Growth Centre, to fund top economists to advise developing country governments on their growth strategies, opening late 2008. More good money after bad?

Growth commission website

www.growthcommission.org

Jeff Powell leaves the Project

Jeff Powell is leaving his position as coordinator of the Bretton Woods Project after over six years with the organisation. In September, he will start doctoral studies in economics at the School of Oriental and African Studies in London.

Jeff took over leadership of the Project from founder Alex Wilks in 2004. In the intervening years, the Project has continued to be a strong advocate for social and environmental justice, tackled the IFIs' democratic deficit, and fought against the World Bank's dominance of development research and advocacy.

Jeff commented: "I was fortunate both to come into an organisation with such an excellent reputation and to have been supported by hard-working committed colleagues throughout. I hope my new research focus on financialisation and development will allow me to stay in touch with friends in NGOs, research centres and official circles from around the world."

Recruitment for a new coordinator was ongoing at the time of writing, with an announcement expected in July.

World Bank rewrites Bolivian history

The World Bank's Bolivia office has decided to get into the propaganda game, producing tens of thousands of copies of a 22-page booklet titled *Ten things they never told you about the World Bank in Bolivia*. According to NGO the Democracy Center, the booklet, distributed in three major Bolivian daily newspapers, is rather liberal with the truth. Particularly amusing is the claim that the Bank's arm for investment arbitration helped resolve the dispute over water privatisation to the benefit of Bolivian citizens. Of course, this ignores that the Bank required the botched water privatisation as a loan condition in the first place. The Bank also tries to claim credit for debt relief. Despite an invitation to respond, no World Bank official has participated in the debate on the Democracy Center's website.

www.democracyctr.org/blog/2008/04/world-bank-tries-to-re-write-bolivian.html

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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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