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Overhaul of international institutions: **Is the G20 willing to deliver?**

The IFIs are gaining prominence but also attracting renewed criticism. We cover the political response to the financial crisis, IMF's programmes (page 2), the World Bank's boost in lending (pages 4 and 7) and reform of the international architecture (At Issue).

In the wake of a November summit (see *Update* 63) of the G20 leaders, a grouping of roughly the largest 20 economies in the world, an international work programme of financial reform is taking shape. But the ambition of the discussions will be dependant on both how vocal citizens become and the depth of the economic gloom.

The next G20 leaders' summit will be 2 April in London. It will be preceded by a specially planned G20 finance ministers meeting in mid-March in Sussex, UK. The meeting in London is being billed as the "London Summit" rather than a G20 summit, because some rich country governments are worried about the G20 supplanting the G7 as the forum for global economic decision-making.

The G20 working groups tasked with making proposals for reform have been announced, covering: accounting regulations and transparency; international cooperation on financial regulation; reforming the IMF; and reforming the World Bank and other multilateral development banks. Each working group is co-chaired by officials from a developing and a developed country. The full composition of the working groups is not public. The groups will make recommendations to the finance ministers at the March meeting. Inside information indicates that consensus on financial regulation is only likely on narrow changes.

The parallel process initiated by the United Nations General Assembly president Manuel D'Escoto (see *Update* 63) is also under way. The UN commission, chaired by former World Bank chief economist Joseph Stiglitz, also has four working groups – on regulation, multilateral issues, macroeconomic issues and reforming the global financial architecture. It met in early January and issued its first recommendations. They noted the deficiencies in the actions taken so far by developed countries and the need to learn lessons from countries that have avoided instability. A second meeting is planned in early March in Geneva.

ROBIN HEIGHWAY-BURY / THOROGOOD

More money for the IMF?

The UN commission pointed out "large asymmetries in global economic policies" and called it "imperative that developing countries be provided with funds to enable them to undertake … policies, to stimulate their economies, to provide social protection, and to ensure a flow of liquidity to their firms." It carefully demanded that the money "be provided without the usual conditionalities, especially those that force these countries to pursue pro-cyclical policies or to adopt the kinds of monetary and regulatory policies which contributed to the current crisis."

The IMF has already agreed nearly $50 billion in loans but with heavy conditionality (see page 2). That leaves the Fund with only $200 billion in available capital, plus another $100 billion that Japan agreed to lend it. IMF managing director Dominique Strauss-Kahn admitted that the IMF might need an injection of capital: "If in six months from now the crisis has worsened and many other of our members need our help, the demand may be above what we have." The G20 is likely to announce an increase in IMF resources, though it is not yet clear where these will come from.

It's the power, stupid

Everyone seems to agree – from African finance ministers and the UN financing for development process, to US president Barack Obama – that one element of any reform must be IMF governance.

A coalition of 15 mostly US-based academics wrote to the new US treasury secretary Timothy Geithner at the end of January calling the IMF governance reforms of 2008 (see *Update* 60) "inadequate particularly in light of the ongoing global economic and financial crisis." They urged Geithner and Congress to "reopen the package starting in discussions with other governments in advance of the meeting of G20."

But even agreement that global governance is problematic has not led to discussions on international reform being democratic or open. Civil society organisations have condemned the G20 process for being exclusive and secretive. Biaggio Bossone, a former Italian IMF executive director, noted the legitimacy of the original Bretton Woods agreement. "It is fundamental that world leaders walk the same path that was traced in Bretton Woods precisely not to leave anyone out."

The British government has different objectives: shoring up support for liberalisation. After a call to return trust to the financial markets, a letter from the UK finance minister to other G20 finance ministers states: "Open, innovative financial markets are critical in driving forward economic growth. … Our second objective, therefore, must be to retain and build on the benefits that open financial markets bring to the world economy."

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Will IMF loans hurt the poor this time around?

While the IMF undertakes high-speed reviews into its lending instruments and conditionality, it continues to make crisis loans with heavy conditionality that may adversely impact the poor in developing countries.

Pakistan's November loan (see *Update* 63) came with the requirement to raise interest rates and electricity tariffs before the end of 2008. It also contained as a condition that the World Bank create a plan by the end of March 2009 to strengthen social safety nets. Pakistan newspaper *Dawn* reported that "The finance ministry released only 70 billion rupees for development projects in July-December against an expected 200 billion rupees." It further noted, that "the government had been left with no option but to cut development expenditure and take other measures to meet the budget deficit target of 4.2 per cent by the end of June, as agreed with the IMF."

The IMF seems to have backtracked on one of its strict conditions in the case of Hungary (see *Update* 63). After an interest rate hike, currency devaluation and massive IMF loan last year, the country faced a further 22 per cent devaluation of its currency in January. However, the government has apparently agreed, with IMF knowledge, to compensate public sector workers who are losing their annual bonuses. When IMF managing director Strauss-Kahn visited Budapest in January he said that further structural reforms would be necessary.

Most of the IMF loan agreements so far have, like the Pakistan arrangement, included clauses about strengthening social safety nets and maintaining or increasing spending on social protection. This is an improvement from the way the IMF approached social protection in the Asian financial crisis in the late 1990s. But as recessions in the borrowing countries deepen, meeting strict spending limits in IMF programmes may be difficult without cuts to public services and social protection.

New loans out the door

Latvia secured an IMF stand-by arrangement worth more than $2.3 billion just before Christmas. Conditionality in the programme includes an immediate 15 per cent reduction in local government employees' wages, a wage bill ceiling that mandates a 30 per cent cut in nominal spending on wages from 2008 to 2009, a cut in government spending equivalent to 4.5 per cent of GDP, a pension freeze and a value-added tax increase.

These IMF conditions look like standard structural adjustment packages except for the IMF's agreement not to require a devaluation of the Latvian currency, which is fixed against the euro. Devaluation was opposed specifically by the European Central Bank and Latvia's Baltic neighbours. Like most of its crisis lending, the conditions and reduced government spending are opposite to the counter-cyclical economic policies that rich countries are pursuing to counter the global recession.

After its $2.5 billion IMF loan was approved in mid-January, Belarus saw a 25 per cent devaluation of its currency. While its loan documents have not yet been made public, the IMF press release indicates: "Fiscal tightening measures are aimed directly at slowing investment and consumption. Wage growth will slow… and public investment will be restrained." It adds that "the programme places economic liberalisation as a priority."

economic liberalisation as a priority

Two other countries have signed "precautionary" deals with the IMF: Serbia and El Salvador. The Serbian programme requires the IMF to approve any public sector pay increases or changes to pensions, and has been criticised by former World Bank chief economist Joseph Stiglitz: "countries that have entered into IMF stand-by arrangements of the kind that Serbia has agreed to, have not gotten much benefit."

An IMF press release on the El Salvador programme indicated that the government had committed to not increase its fiscal deficit as a percentage of GDP. Tajikistan has publicly announced that it is seeking a new IMF programme.

Rumours have been swirling about more countries. Turkey, the Fund's biggest borrower, does not have a current programme but has been negotiating with IMF staff for nearly a year. They have failed to agree on a fiscal deficit target.

Lithuania, Romania and Celtic tiger Ireland have steadfastly denied that they will approach the Fund soon. Even the UK opposition parties have been taunting the government over the potential for an IMF programme if the situation gets bad enough. Sri Lanka's central bank governor issued a steadfast rejection of an approach to the Fund in January.

ESF changes and new borrowers

Low-income countries are starting to feel the effect of the crisis. The Poverty Reduction and Growth Facility (PRGF) augmentations of 2008 (see *Update* 61) have given way to requests for support under the Exogenous Shocks Facility (ESF). The ESF, a short-term concessional window to help low-income countries cope with external economic events, was revised in September (see *Update* 62). The reduced conditionality burden under the revisions was enough to convince poor countries to sign up to ESFs for the first time.

In late 2008 Malawi agreed a $77 million dollar ESF loan, Senegal agreed a $75 million loan, the Comoros islands arranged for $3 million, and the Kyrgyz Republic for $100 million. In January Ethiopia borrowed $50 million. The Ethiopia and Comoros loans were of small values that will be disbursed under the so-called rapid-access component of the ESF, meaning little conditionality. But Malawi, Senegal and Kyrgyz opted for fuller programmes of 12 or 18 months. The Malawi programme includes conditions limiting government borrowing.

Conditions not up for discussion

The financial crisis programmes show that traditional conditionality requiring strict fiscal adjustment is still being used. The IMF managing director Dominique Strauss-Kahn ordered a review of all lending instruments and conditionality in October 2008, when the financial crisis broke. The reviews have been rushed and relatively closed.

The conditionality review will be prepared and discussed at the board around the end of February. It will only cover conditionality attached to IMF loans used by middle-income countries. Compared to the last conditionality review, conducted between 2001 and 2003, this review has been secretive, with no public consultation period, no open meetings and no discussion with external stakeholders.

IMF staff are also preparing two papers on the IMF's lending instruments – one on middle-income countries and one on low-income countries. On the latter, the Fund made available an issues paper which assumed, despite consistent objections from NGOs (see *Update* 60, 59, 56), that the IMF should have a strong medium-term lending role in low-income countries.

The IMF hosted two short "consultations" at the end of 2008 which involved only a web page, phone number and email address to which comments could be sent. There was little interest by NGOs. Oxfam International responded to the reviews by calling on the IMF "to revise the existing conditionality guidelines" to stop demands for privatisation, trade liberalisation, and ceilings on public sector wage bills.

It remains to be seen how these internal IMF papers and reviews will match up with the G20 working group that is handling IMF reform (see page 1). If the decisions about conditionality and lending instruments are taken in capitals, it would provide more fuel to proposals (see *Update* 61) to radically reform the composition and purpose of the IMF board.

IMF invites comments on review of Fund's financing role in member countries,
www.imf.org/external/np/pdr/financing/comments.htm

Financial crisis riots spread

The economic crisis caused by financial meltdown has translated into public anger, most notably in two countries that took IMF loans with tough conditions.

In Iceland, the financial mayhem drew thousands of protestors onto the streets in November, the time of the IMF rescue package. The protesters reappeared in January when the Icelandic parliament reconvened, with some of the protests turning violent. Eventually the rightwing government fell and a new left of centre coalition has taken over.

Riga, the Latvian capital also saw mass protests in January with violent clashes between the police and protesters. The protests, led by farmers who have been hit by falling incomes, have forced the Latvian agriculture minister to resign.

Global justice activists have taken note of these protests and the big demonstrations in France and Greece. This may herald the return of mass mobilisations against neo-liberal economic policies and the institutions that push them.

After Cannabilised Globalisation

COMMENT

by Eduardo Gudynas, D3E, Uruguay

The present financial crisis is continuing to develop rapidly and spreading globally, with uncertain outcomes. A recent report from the European Laboratory of Political Anticipation finds that the United States could fall into a cessation of payments by mid 2009. The situation in Europe is no better, and Iceland's bankruptcy is an example of what the future could hold.

This shows the gravity of the crisis, which is not restricted to the industrialised countries. The crisis is clearly a global problem despite the original claims of decoupling in several Latin American countries. In reality, Brazil was rapidly engulfed by this crisis because it is much more tied to the global circuits of commerce and capital than people believed. Therefore the crisis produced devaluation of the *real* and the rise and fall of the São Paolo stock market as a result of international market volatility. Today, all of Latin America is feeling the impact.

The global commerce and capital institutions have been totally incapable of confronting and solving this crisis. The IMF plays a marginal, almost irrelevant role. A few yards from the IMF, the messages from the World Bank are no more than whispers. At the World Trade Organisation, the crisis is just one more wound suffered after the failure to revive the Doha round. Contrary to their proclamations, many Latin American governments are studying protectionist measures to avoid an avalanche of cheap imports from Asia. Even the United Nations is apathetic with its mute secretary, Ban Ki-moon, showing no leadership. We are witnessing a crisis of the multilateral governanace system, which is a lot more profound than could be guessed at first sight.

Besides the bankruptcy of these international institutions, we are also left with a barrage of questions about the ideas and concepts that formed the basis for the optimistic visions about the globalisation of capital. Topics such as: the assumptions about the way the market operates, the claim that it was necessary to deregulate the flow of capital for growth, and the creation of derivate instruments, are all under public debate. They lack the support in which they were rooted; these are ideas that devoured each other, and gave way to the cannibalisation that has produced the present crisis.

However, it is necessary to recover a sense of balance and caution. Whilst orthodox ideas about globalisation and their institutions are crumbling, we are not necessarily witnessing a terminal crisis of contemporary capitalism. This crisis is due to orthodox ideas unravelling under huge transfers of wealth and the socialisation of losses. We will have to wait and see how the present crisis develops to evaluate the possibility with care.

In Latin America we do not see a clear alternative programme. In Brazil the responses are quite conventional, such as the liberalisation of state funds to keep financing exports. This shows that the attractions of commodity exports and incoming foreign investment still persist.

On a global level there is the chance that regulation of financial instruments could finally be accepted, especially the riskiest ones. This is because the corporate elite might recognise that they prevent capitalistic reproduction. A cannibal globalisation that may devour its creators must be stopped. The elite might accept the imposition of certain rules to ensure the continuity of other essential components of capitalism. However, it would not accept the more serious regulation of capital that would be necessary to guide it effectively towards development. There have not been many concrete proposals from governments to regulate the flow of capital.

Many of the recent claims from emerging countries such as China, India and Brazil, are not aimed at transforming the essence of global governance but at taking a bigger piece of the pie. This can be seen in the discussions over changing the G7 into a bigger group that includes emerging markets. These claims also include positive elements such as cutting the hegemonic power of the US, but there is a temptation to replace it with regional hierarchies, for example based in Beijing or Brasilia.

We cannot assume that genuine alternatives will be accepted by our governments. 'A new global order' is not something that you can create immediately, but something that needs to be fashioned from alternative ideas that need to be polished, tried out and coordinated, always with the support of civil society.

Overhaul of institutions

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Before Christmas, the UN Commission on Trade and Development issued a policy brief stating: "Multilateral or even global exchange rate arrangements are clearly necessary to achieve and maintain global monetary and financial stability." Globally managed exchange rates are unlikely to find backing in the West where interested parties prefer floating rates; nor in Asia, where governments do not trust the IMF to oversee such arrangements fairly.

Continental Europeans have been talking about stricter regulation and international oversight. At a January conference in Paris, French president Nicolas Sarkozy and German chancellor Angela Merkel called for a "new capitalism".

Merkel reiterated her idea for a UN economic council that would sit in parallel to the UN security council. It would presumably oversee international economic institutions such as the World Bank and IMF. Many fear that, like the security council, such a body would be dominated by a few large rich countries. The UN's existing body, the 54-seat Economic and Social Council (ECOSOC) with diversified regional representation, was described by Merkel as not viable.

The president of the UN general assembly proposes that a fully inclusive UN conference on the financial crisis take place from 26-29 May in New York. He wants it to include plenary meetings of heads of state as well as ministerial working group meetings.

NGOs' uphill battle

Civil society organisations have been trying to make their voices heard in these debates. In January the International Trades Union Congress (ITUC) organised an 85-member union delegation to meet with the Bank and Fund. As a result, "commitments to strengthen social programmes for workers hit by the economic crisis and to increase action on core labour standards were made" according to the ITUC.

In the UK, a coalition of environment, social and development charities is joining with trade unions to launch a mass mobilisation on 28 March under the slogan "Put People First: Jobs, Justice and Climate". Solidarity actions are being organised in other cities around the world.

John Hilary, director of UK NGO War on Want said: "The governments meeting here in London must realise that this is not just a banking crisis but an indictment of the entire economic model. We're calling on them to commit to an open and democratic process for rewriting the global financial architecture so that people and the environment are served by finance, and not vice versa."

www.londonsummit.gov.uk

G20 working groups
www.g20.org/about_working_groups.aspx

The first meeting of the UN commission
www.un.org/ga/president/63/commission/firstmeeting.pdf

UN proposal for crisis conference
www.twnside.org.sg/title2/wto.info/2009/twninfo20090204.htm

Put people first: March for jobs, justice and climate
www.putpeoplefirst.org.uk

World Bank's planned splurge: Do the numbers stack up?

The first signs of a promised dramatic increase in World Bank lending are emerging, but critics continue to attack the Bank's lending practices, including its controversial use of conditionality.

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In October last year, the Bank made a splash in the papers, promising to nearly triple its lending from the current $13.5 billion to $35 billion in 2009, with a total additional $100 billion earmarked over three years to middle income countries hit by the economic crisis. (see *Update* 63). The Bank's private sector lending arm, the International Finance Corporation (IFC) has also been actively seeking to increase its spending (see page 7).

The $100 billion would be raised by the International Bank for Reconstruction and Development (IBRD, the part of the Bank that lends to governments on commercial terms) borrowing money on the bond market. Shaken investors, seeking safe havens for their cash, are keen to buy safe IBRD bonds, meaning interest rates are at historically low levels and the Bank can borrow cheaper than ever.

There was a sharp upturn in IBRD borrowing at the end of last calendar year, with close to $20 billion IBRD bonds issued in 2008, compared to just over $10 billion the previous year. The IBRD expects to raise $25-35 billion this financial year, which ends in June. The first sign of lending specifically tagged as responding directly to the financial crisis, has been $500million over five years for Ukraine for 'structural reforms'.

In January, the Bank announced that it had raised $350 million, mostly from Scandinavian investors, through issuing 'green' bonds to raise money for "projects or programmes that support low-carbon activities in client countries." This is part of the Bank's climate change strategy, which envisages greatly increased Bank activity in this area in the coming years (see *Update* 62). Given the ongoing controversy over the Bank's approach and its significant carbon footprint, the projects these bonds support are likely to be watched carefully by NGOs..

lending has often responded to political factors

Donors asked for more cash

In January, World Bank president, Robert Zoellick called for donors to donate 0.7 per cent of their stimulus packages to a 'vulnerability fund', to be managed by the Bank. Priorities for the proposed fund, to which no one has yet contributed, would be safety nets, infrastructure, microfinance and finance for small and medium enterprises.

World Bank chief economist Justin Lin upped the ante in mid-February by calling for the establishment of a $2 trillion Global Recovery Fund to help the low-income countries to cope with the current financial crisis. The proposed five-year fund at $400 billion dollars annually is equivalent to about one per cent of rich country GDP. Lin proposed that the fund help low-income countries participate in a coordinated global stimulus and invest in bottleneck areas.

The Bank has also indicated that it will front-load its IDA expenditure, presumably expecting to gain more money later either from donors or from IBRD profits. The first indication of this intention is a new $2 billion facility to expedite IDA funding, for the broadly set priorities of safety nets, infrastructure and health.

Bank lending still controversial

A big increase in Bank lending will stir up existing controversies, both over the kinds of projects the Bank supports, and the conditions attached to loans given directly to governments (see *Update* 60, 58).

A recent report critical of Bank conditionality was released by the Dutch NGO A SEED, based on desk research from case studies in Mali, Malawi, Nicaragua, Zambia, Bangladesh and Mozambique. It concludes that; "privatisation and liberalisation policies that are neither designed, nor desired by the affected communities or countries, are still pushed through by the World Bank". It continues; "on several occasions, the implementation of the World Bank promoted policies seems to be correlated with an increase in levels of poverty." A SEED ends by calling for the Dutch government to demand a phase out of economic policy conditionality; a position which would bring it in line with other European governments, including the UK and Norway.

University of London economics professor, Jane Harrigan, had harsh words for the Bank's role in the Arab world. Research undertaken for her book *Aid and Power in the Arab World*, co-authored with Hamed El-Said and published late last year, examined Egypt, Jordan, Morocco and Tunisia. "IMF and World Bank lending to the four has been governed as much by geo-political considerations as the need for economic reforms", she said. " Lending has often responded to such political factors as a regime's shift towards a pro-Western foreign policy, peace overtures to Israel or opposition to the rise of Islamic fundamentalism."

The Bank is currently planning a review of its development policy lending between 2006-2008. This will be a repeat of its controversial 2006 review, which was criticised for miscounting controversial conditions, and putting too much emphasis on the numbers of conditions rather than their impact (see *Update* 58). As part of this review, the Bank aims to consult stakeholders in April.

treasury.worldbank.org

www.aseed.net/pdfs/ASEED_Report_on_Worldbank_Conditionalities.pdf

Lending in the Arab world viewpoint
www.soas.ac.uk/cdpr/publications/dv/47298.pdf

IFC accountability: alright in theory

According to the 2008 *Global Accountability Report*, written by UK NGO the One World Trust, the International Finance Corporation (IFC) scores well compared to other international institutions on its accountability policies. Overall the IFC gets a grade of 76 per cent, but falls down on participation. The report looks purely at the institution's stated policies, and has been criticised for giving a rosy tint to organisations whose accountability has been found wanting in practice. The 2007 report drew fierce criticism from the NGO Forum on the Asian Development Bank (ADB), who called its figures "highly questionable" and its assessment of the ADB "greenwash".

www.oneworldtrust.org

Ghanaians call for expulsion of Bank rep

In January, Ghana Web, a daily news and resource site, issued a sharp attack on the World Bank and its country representative in Ghana. A demand was made to Ghana's president to expel the World Bank country director in Ghana, Ishac Diwan, from his post, arguing that policies pushed on the country by the Bank were not in the best interests of Ghanaians. In a stinging letter, Ghana web argued that the Bank had no legitimacy to demand policy changes, and that the Ghanaian government be answerable only to its citizens.

www.ghanaweb.com/GhanaHomePage/NewsArchive/artikel.php?ID=155973

IMF doles out poor tax advice in Pakistan

Tax experts in Pakistan commented critically on the IMF's December mission on the country's tax system. Lawyers Huzaima Bukhari and Dr. Ikramul Haq billed the meetings to devise a strategy to enhance revenue as a "closed door session of bureaucrats and their handpicked so-called experts, excluding the real stakeholders." They accused the Fund of being incapable of even dressing wounds let alone "treating the cancerous growth in the body of [the] patient." They also lambasted the IMF for imposing "all kinds of proposals for regressive taxation but never [forcing] the government of Pakistan to levy taxes where these are due".

www.southasianmedia.net/index_opinion4.cfm?id=167227

IMF conditionality made public

In early January the IMF finally made publicly available its full database of conditions included in IMF loans. The monitoring of fund arrangements (MONA) database contains the most comprehensive history of conditionality in IMF-supported programmes. Its publication was part of the IMF board response to Independent Evaluation Office criticisms of IMF structural conditionality (see *Update* 60). However, the MONA database only includes data from loans where the letter of intent has already been made public by country authorities. It excludes conditions included in secret side letters and conditions from programmes before 2002.

www.imf.org/external/np/pdr/mona

Inside the institutions

Who pays for the Fund and the Bank?

The IMF and the World Bank Group have two main income streams. The first one derives from their lending operations, charging mainly the borrowing countries; and the second from their income on investments in financial markets. Additionally, the International Development Association (IDA) receives contributions from members.

The net income on loans as well as investment returns are used to cover administrative expenses, build up reserves to strengthen balance sheets and – in the case of the International Bank for Reconstruction and Development (IBRD) and the International Finance Corporation (IFC) – provide annual transfers to the IDA.

IMF IMF resources total $363 billion, of which $265 billion are available for lending. When borrowing from the IMF under the General Account, debtor countries pay a refundable commitment fee, service charges and interest on outstanding credit. Interest rates are around one percentage point above the remuneration rate paid to members with deposits at the Fund. Charges and interest payments added up to $11.2 billion over the past five years. The biggest borrower over the last five years, for example, was Turkey, which paid $3.7 billion in interest and charges between 2004 and 2008.

The IMF has paid $5.5 billion in remuneration to members, distributed according to their actual financial position with the IMF, over the past five years. $3.6 billion of these payments were made to developed countries. Administrative expenses have reached $4.8 billion between 2004 and 2008, and the rest of the $11.2 billion has been used to increase the reserves of the IMF. The reserves, which consist of retained earnings from charges and investments, are currently $8.6 billion.

The IMF holds an investment portfolio worth around $9 billion, getting annual net returns adding up to $990 million over the past five years.

IBRD In 2008 the IBRD possessed $41.5 billion in equity, of which $11.5 billion was paid-in capital. For its lending, the IBRD raises money in financial markets by issuing bonds and other financial instruments. To cover borrowing costs and administrative expenses, it charges borrowing countries. These charges paid by developing countries were $24.4 billion between 2004 and 2008.

The Bank's borrowing costs, mainly the interest paid to private creditors, have been $18.3 billion. Administrative expenses totalled $6 billion.

In June 2008, the IBRD's outstanding borrowing from capital markets was about $80.7 billion in total; and $23 billion was invested in cash and liquid assets. Trading in financial markets, it earned $4.4 billion over the past five years.

IDA IDA is largely funded by repeated contributions of 45, mostly developed, countries. Every three years its resources are refilled. The IDA15 replenishment 2009-2011 has a total budget of $42 billion, of which donor countries gave $25.2 billion. These donor contributions are complemented by $6.3 billion from prior donor pledges to the Multilateral Debt Relief Initiative (MDRI). Additionally, IDA receives transfers of $3.9 billion from the IBRD and the IFC combined between 2009 and 2011. These are paid from the net income of these institutions, which partly comes from payments of debtor countries. Thus, they constitute a transfer from one set of developing countries to another. The rest comes from repayments, net charges and investment income.

IDA's credits are concessional with a grant element of about 60 percent, and 20 per cent of the credits are outright grants. The repayments made by IDA's borrowers, which totalled $5.6 billion between 2006 and 2008, are also used for further lending.

IDA lends a very small proportion of its credits (less than 5 per cent) on a variable rate, which was 4.2 per cent in 2008. Apart from that, it charges an administrative fee of 0.75 per cent against the outstanding balance of credits. There is also a variable commitment fee that is set annually in the range of zero to 0.5 per cent; for the current fiscal year (2009), this fee is set at zero. Over the past three years, these payments by developing countries have added up to $2.5 billion. IDA generated income of $1.6 billion on its investments between 2006 and 2008.

IFC The IFC has received $8.6 billion over the past three years from service fees and from its investments, i.e. loans, equity investments and debt securities. These costs are borne by the clients, i.e. companies investing in developing countries. From this money, the IFC has paid $2.2 billion towards the costs of borrowing in financial markets.

The income the IFC has made on its liquid asset trading was $1.5 billion over the past three years.

Main income sources and expenses

	Income (billion dollars)			Expenses (billion dollars)		
	Charges and fees paid by debtors	Donor contributions	Investment income	Borrowing costs/ remuneration	Admin expenses	Transfers to IDA
IMF (2004-2008)	11.2	-	1	5.5	4.8	-
IBIRD (2004-2008)	24.4	-	4.4	18.3	6	2.8
IDA 14	2.5	17.7 + 3.8 (MDRI)	1.6	-	2.8	-
IFC (2006-2008)	8.6	-	1.5	2.2	1.5	0.15

Who pays for the World Bank?
www.g24.org/008gva04.pdf

Burden Sharing at the IMF
www.unctad.org/en/docs/gdsmdpbg2420035_en.pdf

Financial crisis leads to a resurgence of the IFIs in Latin America

After years of playing an ever diminishing role in Latin America, the IMF and the World Bank are in pursuit of a resurgence in the region.

In recent years the role of the international institutions was hotly debated in the region. This was due to the diminishing lending of the IMF, the World Bank and the Inter-American Development Bank alongside the increasing prominence of other lenders like the Brazilian development bank, BNDES, and recently established Bank of the South (see *Update* 62).

According to a briefing by the Bank Information Center (BIC), Latin America's share of the total IMF portfolio fell from 80 per cent in 2005 to 1 per cent in 2008. However, in a dramatic turn around, the IFIs have announced billions of dollars worth of new lending projects for the region, spurred by the window of opportunity opened by the financial crisis.

Among the most visible of trends in the region is increased loans to Brazil, with the country taking on $4 billion in World Bank loans, the highest ever level. However, this pales in comparison to the role that BNDES plays in the country with $40 billion in loans in 2008. As a result, the World Bank is preparing a $1.3 billion loan directly to BNDES in direct response to the credit crunch. According to BIC, beyond playing a role in alleviating the credit crunch in Brazil, this loan presents the World Bank with an opportunity to redesign investment guidelines in economic sectors prioritised by the government and possible future safeguards for BNDES for evaluating high risk loans.

In December, the Bank's board of directors also approved $50 million to help the central bank of Costa Rica extend loans to national banks for channelling additional credit for working capital and trade finance for exporters. These are just a few examples of increasing loans being taken on from the IFIs in anticipation of financial downturns by Latin American countries, including El Salvador, Mexico and Colombia.

Regional initiatives continue

A handful of Latin American countries met in Caracas in late November to discuss the formation of a regional monetary zone. Among those gathered were Bolivia, Honduras, Nicaragua, the Dominican Republic, Venezuela, Cuba and Ecuador, which have undertaken technical studies on immediately creating a new accounting unit called the Sucre.

"We're not going to wait here with our arms crossed for the World Bank or the International Monetary Fund to come solve what this great threat unleashed on the world", said Venezuelan president Hugo Chávez. He proposed strengthening the role of the Bank of the South and pledged $500 million of Venezuelan funds to establish a regional "common monetary fund" and asked other countries to commit portions of their reserves.

Global crisis is good news for IFIs in Latin America, Bank Information Center
bicusa.org/en/Article.11015.aspx

The crisis: Opportunity for reform
www.latinbusinesschronicle.com/app/article.aspx?id=3056

Poznan and beyond: Concern over Bank's climate funding

Recent UN global climate negotiations in Poland highlighted ongoing tension over whether funds will be channelled through the UN or the World Bank and once again highlighted the role of the Bank as a major investor in carbon intensive projects.

The UN conference on climate change took place in Poznan at the beginning of December, drawing 11,000 delegates, including 1,500 corporate lobbyists, to discuss the way forward on global climate negotiations. A final deal is to be made in December 2009 in Copenhagen.

While the World Bank was not spoken of directly by many delegates in the negotiations, its presence was felt in discussions about support for 'existing funding mechanisms' (synonymous for Bank climate investment funds) as opposed to establishing new structures. This highlights the division between the G77 and China bloc (representing 133 developing countries), which support a new, democratically governed mechanism for climate change financing through the UN, and the G8 countries, which have supported channelling of investment through the World Bank.

Reflecting these concerns and others expressed by the G77, a coalition of 160 civil society organizations issued a joint statement calling for development of a Global Climate Fund under the United Nations Framework Convention on Climate Change (UNFCCC). Among the main principles highlighted are representative governance, participatory planning, capacity building, access for the most vulnerable, strengthening rights established under UN declarations and addressing root causes of climate change.

Climate policies vs. carbon emissions

Civil society participants in Poznan pointed out the contradiction in the Bank's desire to position itself as a major player in combating climate change while continuing to back carbon intensive projects around the globe. According to a report from the World Wildlife Fund, from 1997 to 2007, the World Bank financed over 26 gigatonnes of CO2 emissions, approximately 45 times UK annual emissions (see *Update* 62).

"It is sheer hypocrisy for the World Bank to claim any role in supposedly assisting the South in addressing the climate crisis when it continues to finance environmentally destructive projects and policies," said Lidy Nacpil, coordinator of Jubilee South Asia-Pacific Movement on Debt and Development.

Civil society participants at the conference in Poznan also called attention to the Bank's offer of $5 billion to Eskom Holdings Ltd. for unspecified projects to expand power production in South Africa. While it is not yet clear if funding will be channelled solely through the International Financial Corporation (IFC), the Bank's private sector division, the funding has been agreed in principle. Eskom's current plans for power generation include wind power, however, at least 90 per cent of their power generation is slated to come from coal. Citing reports that the loan could support development of six coal-fired power plants, activists fear it could be the most carbon intensive project ever undertaken.

IEG climate criticism

Bank energy policies are under further scrutiny with the release of the first report in a series on climate change from the Bank's Independent Evaluation Group. It finds that "there is a general tendency to prefer investments in power generation, which are visible and easily understood, to investments in efficiency, which are less visible, involve human behaviour rather than electrical engineering, and whose efficacy is harder to measure."

The report also highlights the need to address development models and the greatest sources of emissions by indicating that providing electricity for the world's unconnected households, would add only a third of one per cent to greenhouse gas emissions if renewable energy sources were not employed and even less if they were.

CTF criteria flawed

In January, the Bank released criteria for its Clean Technology Fund (CTF), one of two funds established to help developing countries adapt to climate change and switch to clean-energy technologies to reduce emissions (see *Update* 60). Despite the World Bank's own 2004 extractive industries review recommending an end to funding of coal, the clean technology fund criteria rely heavily on the financing of new coal-fired power plants that are carbon capture and storage (CCS)-ready and "highly efficient". CCS technology aims to capture carbon dioxide emissions from power station smokestacks and deposit them underground.

False Hope, a report released in May 2008 by environmental non-profit Greenpeace International, argues that "CCS is unproven, risky, expensive and investing in it threatens to undermine the range of clean energy solutions which are available right now." There is further concern that the technology will not be available in time to take the most needed action, with the Intergovernmental Panel on Climate Change estimating it will not be commercially viable until 2050.

With growing international pressure for concluding a deal in Copenhagen at the end of the year and increasing development of climate related funds at the World Bank, these debates and others are likely to intensify in coming months. This not only draws attention to the need for mutual agreement between developed and developing countries, but emphasizes a need for input from civil society and those most affected by climate change to establish lasting and sustainable solutions.

Global Climate Fund Statement
www.ips-dc.org/articles/957

$5 billion in World Bank loans in the works for South Africa's power utility
bicusa.org/en/Article.10992.aspx

Climate Change and the World Bank Group Phase I Evaluation
worldbank.org/ieg/climatechange

False hope: Why carbon capture and storage won't save the climate
www.greenpeace.org/international/press/reports/false-hope

Karachaganak: IFC still out of compliance

In April of 2008, the International Financial Corporation's Compliance Advisor/Ombudsman (CAO) found the IFC to be "out of compliance" with its own regulations at Karachaganak in Western Kazakhstan (see *Update* 61). More than 6 months later the case remains open with the CAO because the IFC has failed to address noncompliance in stack emissions and ambient air quality monitoring. "[Karachaganak Petroleum Operating] continues to flare gas, which pollutes the air and harms the health of Berezovka residents", commented Svetlana Anasova, leader of the Berezovka Initiative Group.

www.crudeaccountability.org/en/index.php?page=press-release-on-ifc-lack-of-compliance

World Bank debarred software provider

In December 2008 the World Bank declared that it had debarred Satyam Computer Services for providing "improper benefits to bank staff". Contractors also installed spyware allowing external hacking into the most sensitive data like those of the Bank's treasury unit.

First investigations were launched in 2004, but the Bank failed to take action until September 2008. Satyam had been the almost exclusive software contractor for the Bank, building and controlling the Bank's entire information network.

Having officially denied the accusations against Satyam in October 2008, the Bank had to reveal its ban after the watchdog organisation Government Accountability Project refused to keep the information confidential.

Bank results and monitoring weak: IEG

A recent Independent Evaluation Group (IEG) report, *Decentralization in Client Countries*, finds that in only a third of cases the Bank contributed positively to the effectiveness of recipient country attempts to decentralise public service provision. It finds the quality of Bank intervention to be mixed with the Bank often failing to provide consistent or coherent support. The Bank is said to have made a de facto strategic decision to support decentralisation, support that is "often insufficiently grounded in an understanding of the country's political economy, particularly at the local government level."

Decentralisation in client countries, IEG
go.worldbank.org/CYFMUZSHU0

WDR 2009's quiet entrance

The *World Development Report (WDR) 2009, Reshaping Economic Geography* was launched in November to little fanfare, submerged in the wake of the financial crisis. The report examines the importance of location for economic growth and finds that whilst three quarters of economic activity is generated in cities, three quarters of the world's poor live in rural areas. It acknowledges that current growth patterns lead to inequality but argues against distributing economic activity from urban centres. Duncan Green of Oxfam commented that "the report's version of geographical trickle-down feels like a step back from the WDR 2006" on equity.

oxfamblogs.org/fp2p/?p=79

IFC's lending increase: Corporate welfare or development finance?

The financial crisis has shrunk credit availability to the private sector, including in developing countries. The International Finance Corporation (IFC) plans to step into the gap, but there are questions about the likely development impact and implementation of environmental and social safeguards.

The IFC, the World Bank's arm for lending directly to the private sector, plans to provide more than $15 billion annually over the next two years, up from annual commitments of about $5 billion just 5 years ago. In mid-December the IFC board approved four measures in response to the financial crisis: a doubling of the global trade finance programme to $3 billion; an increase in IFC advisory services (see *Update* 62); a new infrastructure crisis facility; and a new fund for bank recapitalization.

IFC crisis response

The IFC is committing $300 million of its own capital to the infrastructure crisis facility, which it hopes will disburse between $1.5 billion and $10 billion in total. Since board approval, IFC staff have been intensively fundraising from governments and donor agencies. Some of the money it raises may come out of those donor agencies' increasingly squeezed aid budgets, meaning direct offsets in aid for other priorities such as social protection, health and education.

The facility will fund both private and public-private partnership (PPP) projects. There is no indication whether it will invest in controversial sectors such as water and electricity privatisation. While the IFC "will seek to ensure that the projects it finances are operated in a manner consistent with the IFC's performance standards on social and environmental sustainability", it is expecting the projects financed by this facility to be originated by IFIs. It will rely on the standards of the originating institition, even if they are laxer standards than its own. Most importantly it will conduct no due diligence of its own on projects not originated by the IFC.

The $3 billion bank recapitalisation fund will get $1 billion from the IFC's own resources and an additional $2 billion from the Japan Bank for International Cooperation (JBIC). It will "make equity and equity-related investments to recapitalise banks with systemic impact on IFC emerging market client countries." This is to allow emerging markets without sufficient capital to bail out their banks, like rich countries have. However these IFC bail-outs will have no public scrutiny and thus no chance of requiring measures designed to curb banking excesses such as large executive bonuses.

In the process, the IFC may also be ensuring that its own large investments in the banking sector in emerging markets, which some have blamed for facilitating the crisis (see *Update* 63), do not go bankrupt. It remains unclear how the fund will deal with cases where the entire banking sector has been taken over by foreign banks, such as in Eastern Europe.

Subsidising mines, oil

The IFC's chief executive Lars Thunell indicated in early December that the agency would increase its equity stakes in mining companies that have been hit by sharply lower commodity prices and the credit crunch. Antonio Tricarico of Italian based NGO CRBM called this outrageous: "This is simply global corporate welfare in the name of development. Once again public money will support bad companies without any consideration of the price for local communities and the environment."

The IFC was considering a large loan to a combined mining-power-transport project to export aluminium from Guinea. It was set to decide on the investment in late January, but all Guinean projects have been put on hold after a military take over of the government in November 2008.

Another massive infrastructure project, the Kafue dam (see *Update* 62), is looking threatened financially, not to speak of the complaints about its environmental and social impacts. Many of the private sector sponsors are pulling out of the project, a dam which would chiefly provide power to the Zambian copper mining industry, because of the drop in commodities prices. The IFC has so far only funded a feasibility study, but may plump for a bigger investment given the lack of private capital.

The next megaproject in the IFC's sights is the development of off-shore oil fields in Ghana. The IFC will consider $225 million in investments in February, but a coalition of Ghanaian and American NGOs have asked the board to delay a vote due to concerns over environmental protection, weak accountability and poor transparency of contracts.

Where is the IFC going?

The IFC is supposed to catalyse private sector investment by sharing risk and doing demonstration projects. The financial crisis may be pushing it to be one of several big, publicly backed financiers, that join together to provide cheap finance for private sector projects.

Margarita Flores of Colombian NGO ILSA, was critical: "This decade we have seen an increase in direct credits to the private sector from publicly-backed banks like the IFC, such as for the Camisea project in Peru and dams on the river Madeira in Bolivia and Brazil. These banks are not doing development, but merely financing multinational corporate profits."

IFC to increase mining equity stakes
uk.reuters.com/article/oilRpt/idUKL427265020081204

Bank falls foul of Inspection Panel

Inspection Panel reports relating to Albania and Uganda expose World Bank non-compliance in a number of areas. These findings are compounded by allegations of corruption and the obstruction of the Inspection Panel investigation.

Bulldozers in the Balkans

A leaked Inspection Panel report dated November, alleges that the World Bank failed to comply with its own policies on involuntary resettlement through aiding the demolition of informal settlements in the village of Jale, Albania, demolitions which were caught on film.

The $17.5 million International Development Association (IDA) project intends to "establish an integrated approach to coastal zone management."

Official correspondence on Bank letterhead and aerial photographs of the site were sent by the project coordination unit to the construction police, requesting that they "kindly make sure to take the necessary measures and as fast as possible." Although the Inspection Panel report notes that the demolitions were not directly financed by the Bank, the evidence contradicts the Bank's claims that the demolitions are "not linked directly or indirectly" to the Bank.

In a memo, the panel notes allegations that the Bank hampered the investigation by wilfully misrepresenting and withholding facts but does not directly address them.

In January the Bank temporarily suspended the IDA loan for the project citing "outstanding policy and operational issues related to project implementation". The Bank's executive board is due to discuss the panel's report in mid-February.

Bujagali blues

November saw the official release of the Inspection Panel, report into the ongoing saga of the Bujagali dam in Uganda (see *Update* 62). The Bank board endorsed management's weak action plan, which includes the establishment of a project monitoring committee, the creation of a plan for managing or preserving cultural resources and the disclosure of a report by an independent panel of social and environmental experts. Management is set to report to the Board on the progress of the action plan in six months

Werner Kiene, chairperson of the Inspectional Panel plainly disagreed with the approach: "several key panel findings are incompletely addressed in the response and action plan." Ugandan NGO National Association of Professional Environmentalists insisted that "the recent response by management makes it clear that they have no intention of addressing the many problems ... documented by the panel."

World Bank responsible for demolition of Albania village, Balkan Insight
balkaninsight.com/en/main/news/16349/

Nov 2008 letter on Bujagali
www.internationalrivers.org/en/node/3528

Recommended resources 2008

PAPERS

***International Monetary Fund programs and tuberculosis outcomes in post-communist countries;* D Stuckler, L King, S Basu**
Links IMF economic reform programs to significantly worsened tuberculosis incidence, prevalence, and mortality rates in post-communist Eastern European and former Soviet countries, independent of other political, socioeconomic, demographic, and health changes in these countries.
www.tinyurl.com/IMFprogsandTB

***The World Bank in fragile and conflict-affected countries: 'How', not 'how much';* Edward Bell**
Gives a summary of, and outlines problems with, the World Bank's evolving approach to development in fragile and conflict-affected states and makes recommendations for working in such complex situations.
tinyurl/WBandconflict

***The World Bank's new poverty estimates: Digging deeper into a hole,* Sanjay Reddy**
Argues that the Bank's re-estimation of poverty figures are still plagued by errors in calculation and methodology and so present a distorted image of what is necessary to achieve an adequate standard of living in developing countries.
columbia.edu/~sr793/response.pdf

***After structural adjustment, then what?;* Elisa Van Waeyenberge**
Criticises the Bank criteria for allocating IDA funds, arguing that the CPIA ignores need, assumes governments have full control and neglects external and structural issues.
www.soas.ac.uk/cdpr/publications/dv/46729.pdf

***Critical conditions;* Eurodad**
Updates and confirms findings that despite its 2003 conditionality guidelines, the IMF has not reduced the burden of structural conditionality in low-income countries.
tinyurl.com/criticalcondition

***No additionality, new conditionality;* Third World Network**
Criticises the Bank's role in climate change financing as creating parallel frameworks of climate change governance which may undermine existing multilateral climate change regimes.
www.twnside.org.sg/title2/climate/briefings/BP.bangkok.5.doc

***World Bank and its carbon footprint;* WWF**
Analyses the carbon footprint of the World Bank's energy portfolio, finding the last decade of projects will cause 26 gigatonnes of CO_2 emissions, equivalent to 45 times the annual emissions of the UK.
www.wwf.org.uk/filelibrary/pdf/world_bank_report.pdf

***Doing Business: An independent evaluation;* Independent Evaluation Group**
Validates trade union and civil society criticisms of the IFC's *Doing Business*. It finds problems with causality, data reliability, lack of consideration of the benefits of regulation, failure to uphold the spirit of ILO core labour regulations and more.
www.worldbank.org/ieg/doingbusiness/

***The growth report;* Growth Commission**
The Commission looks at how developing countries can achieve fast, sustained and equitable growth finding that the "right mix of ingredients" is quite different than what the economic orthodoxy and the IFIs have been telling developing countries.
www.growthcommission.org/

BOOKS

***Development redefined: How the market met its match;* Robin Broad and John Cavanagh**
A whirlwind tour of how activist movements rose up to challenge the Washington Consensus and international institutions over the last three decades.
Paradigm, ISBN: 978594515231

***The battle against hunger: Choice, circumstance, and the World Bank;* Devi Sridhar**
Uses the case study of a World Bank nutrition project in India to tackle questions on development assistance and hunger. Attempts to uncover the workings of power through a close look at the structures, discourses, and agencies through which nutrition policy operates
OUP, ISBN: 9780199549962

***The World Bank and the gods of lending;* Steve Berkman**
Former World Bank task manager Berkman exposes the Bank's lack of interest in fighting corruption. This book offers an insiders perspective on World Bank operations
Kumarian Press, ISBN: 9781565492592

***Beyond the World Bank agenda: An institutional approach to development;* Howard Stein**
Stein attempts to present an alternative vision of institutional development. Taking in-depth looks at finance, state formation and health care he offers a vision beyond the neoclassical workings of the Bank.
Univ of Chicago Press,
ISBN: 9780226771670

***African agriculture and the World Bank: Development or impoverishment?;* K Havnevik et al.**
This book assesses the validity of the Bank's statement that African smallholders can compete, given the destabilisation that has plagued the continent during the years of World Bank conditionality.
NAI Policy Dialogue, ISBN: 97871066084

***Can compensation prevent impoverishment?;* M Cernea & H Mathur**
Former World Bank sociologist, Cernera, heads a volume that searches for practical solutions to forced displacement with new ideas and policy recommendations to overcome shortcomings or omissions in current thinking, policies and practices.
OUP, ISBN 978195687132

ELECTRONIC RESOURCES

Casinocrash.org
A site launched by NGOs Transnational Institute (TNI) and Institute of Policy Studies to bring forward critical thinking on the financial and economic crisis.
www.casinocrash.org

TWN Climate listserv
The climate listserv features analysis and news on climate change negotiations at the UN and climate change financing, including at the World Bank. To subscribe, email: twnet@po.jaring.my
www.twnside.org.sg/climate.archives.htm

Bankspeak of the year 2008

Award for creative vocabulary

In a time of financial and economic crises, use of language is no doubt crucial. The wrong comments from a powerful figure could send currencies crashing, banks into bankruptcy or investors fleeing. So all credit goes to the IMF for its creative wordsmithing at the end of 2008. While rich countries such as the US were being urged to use fiscal stimulus to counteract a recession, the IMF programme document for Latvia called for a "negative fiscal stimulus". Presumably Fund staff figured that in the current climate everyone is in favour of a fiscal stimulus, regardless of the adjective put in front of it.

Award for best slip of the tongue

Civil society has long been critical of the Bank's private sector arm, the International Finance Corporation (IFC), which seems to be addicted to extractive industries, energy and infrastructure projects which have massive carbon emissions. Of course the IFC has claimed that one of its "five pillars" focuses on sustainability. Only in 2008 did we finally realise how the IFC defines it. Speaking to a news agency in December IFC chief executive officer Lars Thunell said "We believe in sustainable development, which means that we will try to invest in commercially viable projects."

Award for absurdity

Our thanks to Lucy Kellaway of the *Financial Times* for finding this amazing use of the English language. She heard: "a World Bank economist who hedged his bets so cleverly it was impossible to know what his view was on anything. As he told the BBC World Service: 'In our base case simulation there is an upside case that, er, corresponds on the flipside of the downside case in kind of an adverse direction.'"

Thank you for your support!

Following our appeal for assistance in *Update* 63, we would like to thank those readers who made donations. Your generosity is crucial for the survival of the Project, especially in the current economic climate. If you have not already done so, but would still like to make a contribution, please donate via our website where you can use a credit card or set up a direct debit.

www.brettonwoodsproject.org/donate

IFC keeping up with the kids

Not content to just launch its heavily-criticised *Doing Business* on online community second life (see *Update 58*), the World Banks International Finance Corporation launched a group on popular social networking site Facebook in 2008. Except for three official items – a link to an "About IFC" web page and links to two IFC recruitment pages – the wall and discussion board seem to have been taken over by people asking "Would you be my friend?" Perhaps the IFC was feeling lonely in second life?

www.facebook.com/group.php?gid=2551352314

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