Debt aftershocks to shake Haiti’s recovery?

An IMF loan to Haiti in response to the devastating earthquake in early January has been criticised for exacerbating the country’s debt burden and endangering recovery.

The IMF approved a loan of $102 million at the end of January, which, although interest-free and subject to a five and a half year grace period, adds to Haiti’s existing $166 million debt to the Fund. The loan runs counter to earlier IMF warnings from the IMF that Haiti remains at high risk of debt distress and that “new borrowing policies must remain cautious.”

In reaction to the financial crisis, the IMF made loans to all of its poorest borrowers, including Haiti, interest-free from 2009 to 2012. However, when Haiti’s payments resume, the IMF expects they will equate to 2.8 per cent of government revenues by 2014, in a country with an 80 per cent poverty rate.

Civil society network Jubilee South expressed its “demand that the resources allocated for relief and reconstruction do not create more debt, or conditionalities.”

For its part, the World Bank made a grant of $100 million towards reconstruction and recovery, the cost of which could exceed $1 billion - 15 per cent of Haiti’s GDP - according to its preliminary estimates. The Haitian Prime Minister Jean-Max Bellerive voiced concern that the cost could be four times as much.

The Bank also announced it would suspend repayment demands for Haiti’s $39 million debt for five years. This amount is outstanding after almost half a billion dollars owed to the Bank’s International Development Association was cancelled last year as part of the Multilateral Debt Relief Initiative (MDRI) (see Update 49). Prior to the earthquake, Haiti’s total external debt stood at $1.25 billion, half what it was before a previous cancellation in 2009.

Dithering on debt cancellation

After facing fierce criticism from civil society that debt and conditionalities had exacerbated Haiti’s vulnerability by limiting the state’s capacity to prepare for disasters, the Bank and IMF joined a growing chorus advocating further debt cancellation. Bilateral creditors including the G7 countries and Venezuela announced they would cancel their share of the Haitian debt. Bowing to campaigners’ pressure, the G7 finance ministers stated, “The debt to multilateral institutions should be forgiven and we’ll work with these institutions and other partners to make this happen as soon as possible.” Details remained vague however, and the IMF’s director of external relations referred to debt relief for Haiti as a “medium-term issue.”

It is unclear whether cancellation will be financed from existing internal resources or with aid money from donors.

Camille Chalmers of the civil society network, Haitian Advocacy Platform for Development, said, “The debts imposed by the IFIs and the major world powers have contributed to destroying our country. It’s the equivalent of an earthquake which has lasted from late in 1983 when we signed the first stand-by agreement with the IMF. These loans have caused earthquakes, aftershocks and tremors that have undermined our institutions and our capacity to respond to a crisis of this magnitude.”

New global debt crisis

According to research by Benjamin Leo, a former US Treasury official, the World Bank’s lending to the most indebted countries remains almost as high as before it introduced the Debt Sustainability Framework in 2004 to avert debt problems (see Update 67). In a November 2009 paper for US think-tank Center for Global Development, Leo argues that the international financial institutions determine a country’s borrowing capacity on the basis of inadequate and volatile ratings. He warns that unsustainable debt has been further exacerbated by the IMF’s emergency loans in response to the financial crisis. Leo calls for donors to “re-examine ... the system for determining the appropriate grant/loan mix”, cautioning that without corrective action the international community could be forced into a further round of systematic debt cancellation.

Nick Dearden, director of UK NGO the Jubilee Debt Campaign, concurred: “Haiti would not be in this position if it weren’t for the serious flaws in the Heavily Indebted Poor Countries and MDRI debt cancellation schemes which mean that a country is guaranteed to run up new debt while it completes the debt cancellation process. In the case of Haiti, this is another example of recycling odious debts - run-up by the Duvalier regime.”

Meanwhile Iceland may resist pressure to rapidly repay its creditors, despite the UK and Netherlands blocking EU crisis funds, on which IMF disbursements depend, until repayment terms are agreed (see Update 68, 67, 63). Public pressure has led the president to set a referendum in early March on the repayment terms, an unprecedented move.

The rising debt crisis will strengthen calls for a proper arbitration mechanism for debts that compromise development or are illegitimate (see Update 67).
The Bank’s conflicted role in energy
Controversy at the executive board

A spat between the US administration and some middle- and low-income shareholders in the Bank highlights political tensions carried over from Copenhagen climate talks. While the Bank showcases its ‘clean’ energy investments, projects in the pipeline for 2010 look set to continue large-scale investment in fossil fuels.

During the Copenhagen negotiations the US Treasury quietly released a guidance note for multilateral development banks (MDBs) on developing countries and coal-fired power generation. The guidance emphasises that MDBs should build demand for no- or low-carbon energy sources. It also provides step-by-step procedures it wants MDBs to follow in order to ensure full consideration of no- or low-carbon options before approving fossil fuel power generation or retrofit projects.

However nine World Bank executive directors (EDs), representing a number of middle- and low-income countries, have sent an angry letter to Bank president Robert Zoellick, protesting against the US trying to use its influence as the Bank’s biggest shareholder to direct Bank operations. Signatories include representatives of India, China and Saudi Arabia. The letter also quoted Zoellick that “the bank has formally recognised the primacy of the [UN Framework Convention on Climate Change] UNFCCC.”

Stephen Kretzmann of NGO Oil Change International says, “this letter is a defence of multilateralism and UN authority, and an attack on US unilateralism. It appears to be a reaction to the process at Copenhagen and the US insistence on the centrality of the Bank.”

The US note has provoked conflicting opinions among World Bank shareholders as to the extent that the Bank should continue to lend to fossil fuel projects. As the World Bank begins consultations for this year’s energy strategy review (see Update 68, 67), some environmentalists have welcomed this initiative as a political signal that the US is serious about helping support low-carbon development in developing countries.

The ED’s letter cites the Bank’s Strategic Framework on Development and Climate Change (SFDC, see Update 61) which provides that “the Bank could support client countries to develop new coal power projects subject to certain pre-scribed conditions.” In early February, the board had discussed the staff guidance note for choosing coal projects according to the SFDC criteria, which could result in its revision. However, according to the letter, the Board has already responded to the US guidelines by dropping Pakistan’s Thar Coal and Energy Project.

The letter’s objection to developing countries having to use loans to finance more expensive renewable energy is a clear reference to the failure of Copenhagen to provide climate finance (see page 4). It states that under the UNFCCC, “the incremental cost of such mitigation measures will be met through grant assistance provided by developed countries.”

However, a three year analysis on the Bank’s annual average lending to the energy sector (2007-2009) by NGO Bank Information Center shows an average annual of $2.2 billion going to fossil fuels each year including $470 million for coal, while only $780 million goes to renewable energy (see Update 68). This looks set to continue, not least because a $3 billion Bank loan to the South African electricity company Eskom to complete a 4,800 megawatt coal-fired power plant is currently in the pipeline (see Update 65).

The Bank has also recently agreed to loan $180 million to India for the renovation and modernisation of coal-fired generating units in the states of Haryana, Maharashtra and West Bengal. The sponsors of the Nabucco gas pipeline, which is designed to carry gas from Central Asia to Europe, have reported that they approached the Bank’s private sector arm, the International Finance Corporation, about investing in the $1.5 billion project.

Meanwhile the Bank’s climate investment funds have been paying out. Recent settlements from the Clean Technology Fund (CTF) have included $500 million to new renewable and energy efficiency in South Africa and $750 million to fund five concentrated solar power (CSP) programmes in Algeria, Egypt, Jordan, Morocco and Tunisia.

Bank exacerbates resource curse
A recent Independent Evaluation Group (IEG) report on the failed Chad-Cameroon oil development and pipeline program, highlights the Bank’s troubled past in fossil fuel investments, confirming longstanding civil society critiques (see Update 56, 49). It found that “poverty developments were not adequately monitored, a serious shortcoming for a programme whose main objective was poverty reduction through the use of oil revenue,” and that during the period of funding “the oil revenue windfall was associated with a resurgence of civil conflict and a worsening of governance.” The lessons of the Chad-Cameroon pipeline will be important for the energy strategy review as well as the IFC safeguards review (see Update 67).

US guidance note to MDBs on coal-fired power generation
ED letter to Bank president Zoellick on US guidelines for coal
IEG calls Bank’s crisis action limited

A November report by the World Bank’s Independent Evaluation Group declared that the additional Bank funding made in response to the financial crisis was “sizeable yet modest, compared to the fall in private capital flows to emerging and developing economies and to the assistance provided by other sources.” Confirming IGO analysis (see Update 68), the report showed that disbursements remained flat in 2009. The UN’s Education for All: Global Monitoring Report, released in January, condemned the Bank’s reliance on front-loading as an “elaborate financial reshuffle” that was “neither a sustainable nor a credible response to a systemic crisis.”

Indian NGO Manthan Adhyayan Kendra has updated its book Water: Private, Limited. Covering developments since 2002, the book states, “until a few years back the World Bank and other international donor agencies were promoting privatization as ‘the magic potion’. Now there is a more defensive language on privatization. However, it would be wrong to see in this a rejection or reversal of the privatization process.” In the Bank’s strategies for India, it finds pressure for private sector participation and commodification of the right to water. It calls for alternatives such as public sector reform and recognition of the fundamental right to water.

Nigerian law makers: Bank loan invalid
In December the Nigerian House of Representatives declared a $300 million loan from the World Bank invalid, because the National Assembly had not been consulted before the government began negotiations for the loan. The Debt Management Act requires that all loans taken out by the federal government be ratified by the National Assembly. The loan was due to commence in November 2009. Assembly members advised the government to follow due process if it wished to pursue the loan. The World Bank has previously been strongly censured for failing to subject its plans to proper parliamenary scrutiny (see Update 46).

Compensation for anti-IFI protestors
The city of Washington has agreed to pay $137 million to 700 protestors and bystanders mistreated by police during demonstrations against the World Bank and International Monetary Fund in 2000. The settlement came after nine years of legal action by NGO Partnership for Civil Justice, which filed the class action lawsuit. Each member of the suit is to receive about $18,000 in the settlement, which still needs confirmation by the courts. “We think it’s an historic settlement. It’s the largest settlement for a protest case in Washington D.C. and we believe in the country,” said Partnership spokesman Mara Verheyden-Hilliard.

Bank’s water privatisation slammed

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Bank's dual personality
As the Bank seeks to position itself as a suitable institution for future climate finance (see page 4), it has tried to shift attention away from its fossil fuel investments. It has trumpeted its increase in funding for energy efficiency and renewable energy to 40 per cent of its energy sector portfolio in 2009 (see Update 68), though observers have noted that this includes retrofitting coal plants.

However, a three year analysis on the Bank’s annual average lending to the energy sector (2007-2009) by NGO Bank Information Center shows an average annual of $2.2 billion going to fossil fuels each year including $470 million for coal, while only $780 million goes to renewable energy (see Update 68). This looks set to continue, not least because a $3 billion Bank loan to the South African electricity company Eskom to complete a 4,800 megawatt coal-fired power plant is currently in the pipeline (see Update 65).

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the World Bank is a global inter-governmental institution devoted to reducing poverty, then its global duty should be to focus on achieving energy access for the poor, and certainly for the most vulnerable amongst the poor.

Considering energy policy from a human rights perspective means that we examine human rights problems faced by poor or marginal communities to determine what sorts of energy answers they will need to realise their rights. This profoundly alters the way we approach energy policy development.

A human rights approach would orient the World Bank’s energy policy towards guaranteeing equity in the provision and accessibility of services, non-discrimination in access to energy grids, and that the most vulnerable groups do not suffer a disproportionate burden of environmental degradation and contamination, resulting from dirty energy.

Further, a human rights perspective should help guarantee certain procedural dimensions of the Bank’s energy policy, ensuring access to information about energy policy and investment choices for the most vulnerable so that participation in the development of policy is guaranteed and effective remedies are in place where violations can occur.

Equity of access: the Bank’s energy policy should be heavily engaged in rebalancing energy equity in favour of developing countries, poorer communities, and particularly climate vulnerable communities. A greater portion, and in some cases all, of the costs should be absorbed by industrialised countries.

Prioritising vulnerable groups: human rights criteria should help inform energy investment choices, providing grants and low-cost financing, beginning with those communities that need energy most before financing less urgent cases.

Progressive pricing: dirty energy should generally be more expensive than renewable energy, with concessions considered for the most vulnerable groups to prevent human rights violations.

Consumption vs production: the human rights impacts of energy infrastructure and use are greater for basic needs, especially for low-income households, than for productive processes. Low-income households should take priority, with energy remaining economically accessible.

Consideration of social and environmental impacts: large Bank energy infrastructure projects have been rather limited in their consideration of social and environmental impacts – such as displacement, damage to ecosystems, etc. – while Bank policy and mechanisms to address these impacts have been limited in their effectiveness. Deeper consideration of trade-offs between investments and resulting human rights violations, as well as human rights impacts assessments and policy analysis from a victim’s perspective, are needed.

Energy for public institutions: the World Bank can be a source of renewable energy solutions for public institutions and infrastructure, particularly those providing key services, such as public hospitals and schools.

Adaptation funding: a human rights approach encourages and prioritises climate adaptation funding for climate vulnerable communities.

Mitigation funding: industrialised countries and the Bank should make investment choices between renewables and fossil fuels more attractive for developing countries by absorbing incremental costs through grants. This is part of the historical environmental debt owed by industrialised countries to developing countries.

Energy policy innovations: renewable energy, and particularly energy self-sufficiency can be extremely relevant to human rights realisation. Multifaceted approaches to development needs, which provide cheaper, cleaner and more reliable energy while helping tackle climate change, are the sorts of projects the Bank should catalyse on a large scale.

As an institution mandated to reduce poverty, the Bank must consider human rights realisation as central to its energy policy. A first step is to consider its energy policy from a victim’s perspective, not from a market perspective. The Bank’s top priority should be energy accessibility for the poor, in an equitable, safe, and sustainable manner.

Large hydropower: renewable or not?

Contradictions in the World Bank’s approach to hydropower call into question its burgeoning portfolio in this sector. While a September press release states that, “The World Bank considers hydropower, regardless of scale, to be renewable energy”, the Bank no longer counts medium and large dams as renewable energy for reporting purposes.

Nonetheless, Bank publications and planned projects show a continued drive for large hydropower, despite a temporary dip in funding. Lending for large hydropower declined to $177 million in financial year 2009, the lowest level for a decade and far below the $1 billion committed in 2008.

However, projects worth $2 billion are reportedly in preparation. The Bank has taken advantage of other investors’ retreat during the financial crisis to expand its role, insisting that hydropower is a vital source of clean energy to mitigate climate change.

While accepting the potential for small-scale hydropower to benefit the poor, critics such as NGO International Rivers, continue to voice major concerns about the social and environmental impacts of large dams (see Update 66). Yet a Bank report released in November 2009, Africa’s Infrastructure: A time for transformation, argues that large dams and regional power trade should play a central role in plugging the energy shortfall that it identifies as Africa’s most important infrastructure challenge. It envisages Ethiopia, Democratic Republic of Congo and Guinea becoming major energy exporters. Sub-Saharan Africa currently receives approximately one third of the Bank’s funding for hydropower.

The capacity of large dams and regional power trade to expand access to energy for the poor and to contribute to economic development has been questioned (see Update 67). For example, it was claimed that the Bujagali dam in Uganda, which received $360 million in loans and guarantees from the World Bank Group, would expand affordable energy. Contrary to these claims however, spiralling costs have prompted the Bank to recommend a 5 per cent increase in tariffs and a similar rise next year, according to recent news reports. In 2008, the Bank’s Inspection Panel agreed that negative effects had not been adequate-ly taken into account and questioned development benefits (see Update 64).

Frank Muramuzi, of the Ugandan National Association of Professional Environmentalists, states, “Small hydropower dams are more sustainable and economically viable than the large hydropower projects ... more importantly, the rural communities will access power.”

Bank president Robert Zoellick also visited Ethiopia in early February to hear officials make the case for $50 million for the massive Gilgel Gibe 3 dam. NGO CounterBalance has argued that the dam violates the Bank’s social and environmental safeguards, as well as national procurement standards.

Big dams widen gap between rich and poor, Frank Muramuzi

Human rights and the World Bank’s energy policy

COMMENT

by Romina Picolotti and Jorge Daniel Taillant, Centre for Human Rights and Environment, Argentina

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Big dams widen gap between rich and poor, Frank Muramuzi
Bank prospects for climate finance, others weigh innovative sources

Leaked documents reveal that the World Bank is anxiously awaiting the results of the Copenhagen Accord on climate change and is optimistic that it will play a leading role in future climate finance. Meanwhile, the looming gap in finance left unresolved in Copenhagen turn attention to innovative proposals, including those that involve the IMF.

Although approximately 120 national leaders participated in the Copenhagen negotiations, the final outcome was an Accord negotiated by a small number of countries, demonstrating a lack of transparency. The Accord is not legally binding and the United Nations Framework Convention on Climate Change (UNFCCC) has emphasized that it has no legal standing within the UNFCCC process.

The Accord proposes to raise $30 billion for fast-start finance until 2012, rising to $100 billion annually by 2020. It further proposes setting up a Copenhagen Green Climate Fund to disburse money for mitigation and adaptation. According to sources inside the negotiations, large donors like the US, EU, Japan and others have exerted influence in favour of using the World Bank.

While the $100 billion pledge for a green fund has been welcomed as an important step, it will be comprised of public and private finance and creates no specific obligations for countries. The Climate Action Network argues that $195 billion is needed in public finance alone. Of all the pledges made, the only genuinely new and additional money was from the Dutch. The UK, which pledged £2.4 billion in fast-start finance in December to kick-start negotiations, committed money that would largely be taken out of the existing overseas aid and has previously been announced.

IMF and new finance

A high level panel is being established under the guidance of the Conference of Parties (COP) to assess sources of finance. Innovative proposals include a tax on financial transactions (see Update 66).

In Copenhagen, financier George Soros, also suggested a proposal for the use of special drawing rights (SDRs), a reserve asset created by the IMF which is disbursed in proportion to IMF members’ shares in the institution, to provide a source of climate finance. At the World Economic Forum in early February, IMF managing director Dominique Strauss-Kahn announced discussions were being held between the IMF and central banks about creating new SDRs for wealthy countries to offset their contribution to a green fund with the aim of reaching its $10 billion target. It is not clear if this is the same green fund under discussion in the Copenhagen Accord.

There is an urgent need for developed countries to agree to new and innovative mechanisms to generate public finance for developing countries adaptation and mitigation needs,” says Illana Solomon of NGO ActionAid. Using SDRs for climate change could be part of the solution. However, any finance generated must be managed through funds accountable to the UNFCCC, where developing countries have an equal voice, rather than through the IMF or other institutions with an undemocratic system of governance.”

Bank climate leaks

A leaked document from Katherine Sierra, vice president of the Sustainable Development Network at the World Bank Group (WBG) shows that the Bank is positioning itself to capture new funds. “[W]e believe we are very well positioned and expect new demands for WBG support and opportunities for the WBG to demonstrate what it can deliver.”

According to the document, “The WBG is particularly well positioned to serve as a channel for fast track financing for adaptation and mitigation and we have sent the message that the CIFs [Climate Investment Funds] are able to receive additional funding”.

Meanwhile, the World Bank used Copenhagen like a dress rehearsal for a coming-out party, demonstrating its eagerness to play a central role in climate finance with a number of public events showcasing the CIFs pilots (see Update 66, 60). According to Sierra’s document in 2009, the CIFs allocated $3 billion and leveraged an additional $27 billion of which 30 per cent was from the private sector. At another event, Bank staff espoused the institution’s ability to coordinate with the UN, while UN agency staff seemed slightly more cautious about the relationship.

President Robert Zoellick also participated in meetings with country delegates and legislators. The Bank launched the Carbon Partnership Facility aimed at stabilizing and building carbon markets. It also received a $50 million pledge from the US which finally allowed it to launch the Scaling Up Renewable Energy Program in low income countries (SREP).

Sierra’s leaked memo outlines future plans for securing a significant role for the Bank. This includes an outreach campaign on the Bank’s role in climate finance to ministries of finance and energy; presidents’ and prime ministers’ offices; ministries of environment and foreign affairs. Furthermore, the Bank plans to demonstrate how its regular lending and grant instruments can support climate finance.

The Bank will also continue to reaffirm the importance of carbon markets in mitigation of national mitigation plans, supported by developing country capacity building. This will include scaling up the Carbon Partnership Facility (CPF), which was launched in Copenhagen. Future plans are to be outlined in a progress report on implementation of the Strategic Framework for Development and Climate Change later this year.

Leaked document

Climate summit fails poor

IMF urges donors to pay up in Malawi

In mid January, the IMF took the unusual step of asking a group of donors to release their budget support grants to Malawi, which they have been withholding until a new IMF programme is approved. The IMF board had shifted the decision for a new programme for Malawi to mid February, raising fears that donors would continue to withhold $545 million in aid. However, the World Bank threatened to cancel a loan for electricity transmission to Malawi at the same time, changing that legislators had taken too long considering it. Last November, the Malawian president changed the World Bank and IMF with causing foreign exchange shortages by forcing the country to liberalise the economy.

Bangladesh conference speaks out against IFIs

Civil society representatives from Bangladesh, India and Pakistan met at a December workshop in Dhaka on international financial institutions and debt, and said that it was time to free the region from the IFIs. The conference - organised by South Asia Alliance for Poverty Eradication, Institute of Environment and Development and Vikas Adhyayan Kendra - highlighted that South Asian countries have long suffered from a debt burden and neoliberal policy pressures from the IFIs. They proposed a South Asia Development Bank for mutual financing of development activities in the region.

IFC financing firms using tax havens

A Euroword report, Is the International Finance Corporation supporting tax evading companies? released in December 2009 accuses the IFC, the Bank’s private sector lending arm, of providing financial support to companies and banks that use tax havens. Each year developing countries are estimated to lose $3 billion through illicit flows, 65 per cent of which originates from tax evasion and avoidance schemes. The report finds the IFC has not yet taken leadership to address the problem or to address civil society concerns about specific IFC-backed operations involving private actors that use secrecy laws and tax havens.

Schwartz takes over as IEO director

In January, Moises Schwartz of Mexico took over the position of director of the IMF’s Independent Evaluation Office (IEO). Schwartz replaces Canadian Thomas Bemis, who moved to the Centre for International Governance Innovation in Canada. Schwartz, a macroeconomist, served most recently as the director of the National Institute of Finance and Savings in Mexico. Prior to that he was an executive director representing Mexico at the IMF. He has also worked as the chief of staff to the Mexican finance minister under centre-right president Vicente Fox, as well as at the Banco de Mexico, where he argued for the central bank to implement an inflation-targeting regime.
This year, donor countries will decide on their financial contributions to the World Bank’s International Development Association (IDA) for 2011-2014. This replenishment of funds takes place every three years and allows IDA to make cheap loans and grants to low-income countries. This is the sixteenth round of replenishment, ‘IDA-16’. For the previous replenishment, IDA-15, donor countries provided 60 per cent of the total $42 billion allocated, with the remainder coming from loan repayments and the other arms of the World Bank (see Update 59).

Although replenishment contributions do not affect members’ voting shares at the Bank, the negotiations provide a key opportunity for donors to try to influence the World Bank by imposing themes or conditions on their commitments. Donors have agreed on a limited number of ‘special themes’ for the last two replenishments (see Update 55). At the end of the process, a set of ‘monitorable actions’ is decided for the Bank to report against. If donors are still unsatisfied, they may put conditions on part of their contribution. For example, in 2007, Norway withdrew a quarter of the planned increase of its contribution, pending progress on conditionality. The process is also an important window for civil society organisations to raise critical issues (see Update 58).

**The replenishment process**

For IDA-16, negotiations will take place over three or four meetings between March and December. Three of these are expected to be held in Paris, Washington DC, and either South Africa or Egypt. Bank staff first present proposals as to how much finance that they expect to be held in Paris, Washington DC, and either South Africa or Egypt. Bank staff first present proposals as to how much finance that they think each IDA region can ‘absorb’, before donors respond with how much they think they can afford to give. At the table are Bank staff and donor countries’ IDA ‘deputies’ - senior civil servants from the ministries of development, finance or foreign affairs. Southern country observers were admitted for the first time in 2005; the last replenishment involved a dozen representatives of borrowing countries, as well as four observers from middle-income countries.

By the end of the year, the story turns to capitals where the budgeting processes needed to meet these commitments take place. This can be a non-event, as in the UK, where spending on IDA is subsumed under parliam entary approval of an entire departmental comprehensive spending review. In contrast, in the US, the Treasury must secure resources from Congress to meet IDA replenishment commitments. Congress has, in the past, used these opportunities to try to influence US Treasury policy towards IDA.

**Mid-term review and the financial crisis**

IDA’s performance is subject to evaluation at the mid-point of each three-year period. The mid-term review for IDA-15 took place in November 2009. Bank staff drew attention to IDA’s increased commitments and front-loading in response to the financial crisis, and called for donors to raise their replenishment contributions accordingly. Participants in the review also proposed a new Crisis Response Window (CRW), which was approved by the Bank’s executive board in December. To respond to the effects of the financial crisis, the CRW will channel $1.3 billion in redeployed Bank funds to 56 non-oil-exporting IDA countries during the remainder of IDA-15. It will also be open to voluntary donor contributions.

**Allocation**

IDA currently provides funds to 79 countries. The cut-off for IDA eligibility is decided by a measure of average income per person - $1,135 GNI per capita in 2010. The formula by which the IDA pot is divided amongst these countries is a complicated one. It factors in population and economic wealth, but is heavily weighted towards a ‘country performance’ rating. This rating is based both on the controversial Country Policy and Institutional Assessment (CPIA) scores that the Bank gives to the quality of the country’s policies (see page 6) and on the performance of the Bank’s lending portfolio in the country.

**Farming furor: Bank launches new agriculture fund**

[The Bank’s new multi-billion dollar agriculture trust fund has got off the ground while its recent agriculture strategy signals a renewed attempt to push the controversial policies of the 2008 World Development Report.](http://www.brettonwoodsproject.org/item.shtml?x=537850)

In September last year, responding to a G8 promise of $20 billion for sustainable agriculture, the Bank created an agriculture trust fund, pledging $1.5 billion of its own resources (see Update 68). In January this year, the Bank’s board agreed a donor-dominated structure for this Global Agriculture and Food Security Program (GAFSP): donors who contribute get board seats, and can select which developing country counterparts sit with them. At present it is unclear whether the Bank will adhere to this plan. The G8’s promised cash will pay off. Only a few donors have signalled an interest, led by the US, Canada and Spain, while others such as the UK and Germany have declined to contribute.

The GAFSP will provide funding for national plans through the inter-governmental Comprehensive Africa Agriculture Development Programme, which has been criticised for being developed with little civil society input. These plans will also have to be screened by a technical advisory committee, the composition of which remains unclear. Anne Jellema, of NGO ActionAid International noted that, “by giving the technical secretariat role to the World Bank along with convening power and a seat on the decision-making body, the proposal would undoubtedly give the Bank a great deal of influence on what is actually funded.”

**Controversial approach**

In July 2009, the Bank released its Agriculture Action Plan for 2010-12 intended to operationalise the Bank’s 2008 World Development Report (WDR) on agriculture (see Update 61). The plan’s five broad areas of action will allow any number of activities to be funded but the Bank intends to focus on core business lines including irrigation, land tenure, and research and extension. It says that agricultural markets and trade related programmes are increasingly demanded by client countries.

Like the WDR, the strategy contains a mix of approaches, but the overall thrust is to support concerted efforts to integrate smallholder farmers into growing agricultural markets and supply chains. This market-focussed approach downplays the role of government, and entails significant support for agribusiness and foreign investment. Emphasis is given to property rights and the need to strengthen land rental and sales markets, which will give ammunition to those critical of the Bank’s involvement in land-grabbing (see Update 68). The environmental focus is more on allowing the Bank to tap into carbon markets than integrating environmental considerations across the Bank’s agriculture portfolio.

The strategy’s approach to food crises is largely to provide emergency support with little attention paid to underlying causes except to “better understand the extent and drivers of food price volatility” and to continue to develop “innovative insurance products” which controversially link farmers to global financial markets (see Update 67).

Lim Li Ching of the Third World Network said: “the same failed World Bank policies on agriculture do nothing to address the root problems of food insecurity, including the collapse of many agricultural sectors due to structural adjustment, declining terms of trade, asymmetrical trade rules and financialisation of food commodities.”

The strategy emphasises that it will strengthen and leverage donor partnerships, suggesting that the influence the Bank exerts on policy-making and on other donors could be more important than the size of its agriculture portfolio, which is only projected to increase from 12 to 13-17 per cent of total Bank lending.

[Go to article](http://www.brettonwoodsproject.org/item.shtml?x=537850)
IEG calls for overhaul of Bank’s lending criteria

The withholding of a critical evaluation of the World Bank’s method of allocating lending to low-income countries raises suspicions that the Bank is seeking to avoid public criticism in advance of the upcoming negotiations for replenishment of the Bank’s cheap loan arm.

Last year, the World Bank’s Independent Evaluation Group (IEG) reviewed the Bank’s Country Policy and Institutional Assessment (CPIA). The CPIA is a rating of countries’ policies and governance which largely determines how much money low-income countries can borrow from the International Development Association (IDA), part of the World Bank Group. A leaked copy of the IEG report reveals a call for a complete overhaul of the CPIA, with a “thorough rethinking” of its methodology, and the abolition of the index itself in favour of publication of its separate components.

The CPIA is a controversial assessment of the policies and institutions of all the countries the Bank works in, though it only determines loan allocations for low-income countries. It is made up of sixteen indicators, grouped into four clusters (see Update 63, 52, 43).

The IEG report, due for publication no later than January under Bank guidelines, has not yet been released. The only permitted reason for this delay is if executive directors demand a discussion before publication. The CPIA has been one area of dispute among donor countries in advance of this year’s IDA funding round which is due to start in March (see page 5). Ministers from low-income countries at the IDA midterm review in November 2009 complained about the CPIA, arguing that its implicit conditionality should be reduced. The fact that the publication of the report is only expected in late February suggests that the cause of the delay may be a desire not to air this controversial topic in public before negotiations begin.

Mis-allocation?

The leaked IEG report says that “the literature offers only mixed evidence regarding the relevance of the content of CPIA for aid effectiveness broadly defined – that is, that it represents the policies and institutions important for aid to lead to growth.” This is a damning finding, given that this is exactly the purpose of the CPIA: to guide the allocation of the Bank cheap loans and grants.

The IEG also puzzles over the fact that 68 per cent of the weighting for determining IDA loans rests on the governance part of the CPIA, concluding that this “is driven much more by fiduciary and possibly other concerns of donors than by the objectives of achieving sustained growth and poverty reduction.”

Trade liberalisation bias

Trade indicators come in for most criticism, where the IEG finds that “the specification of particular tariff rates for different ratings reflects a one-size-fits-all approach to trade liberalisation that is not supported by country experience.” The IEG also recommends a complete reformulation of the financial sector indicator in the light of lessons learned from the financial crisis, giving further ammunition to those who have criticised the Bank’s promotion of financial sector liberalisation and deregulation (see Update 68, 63).

While finding that the Bank has improved the internal systems that produce the CPIA, the IEG notes that “having staff rate the countries on which their work programmes depend could lead to rating biases.”

In September last year, University of London academic Elisa Van Waeyenberge published a rigorous assessment of the CPIA. She found that “the CPIA perpetuates significant (and particular) [World Bank] influence over the policy space of [low-income countries] and that it steers Bank lending to promote the further adoption of the [Bank’s] traditional (neo-liberal) reform agenda.”

She argues that the use of the CPIA to guide IDA allocation is part of a longer term shift in Bank conditionality, away from trying to influence policy reforms towards directing funding to countries which already have policies that the Bank favours. She concludes that “the policies implied in the CPIA are in general neither sufficient nor necessary for growth and preclude the various types of strategic interventions that were deployed, for example, by the East Asian tiger economies.”

Further friction between Bank management and its arms-length evaluation unit was highlighted in the Bank management’s October response to the IEG’s 2009 Annual Review of Development Effectiveness (see Update 66). In a move which seems intended to water down the independence of the IEG, management asked them to stop evaluat- ing the Bank’s progress against IEG recommendations, and instead switch to measuring progress only against management commitments.

IEG evaluation of CPIA

IEG calls for overhaul of Bank’s lending criteria

Bank moving backwards on gender?

An evaluation of the World Bank’s progress on gender suggests that the Bank may actually be going backwards in some areas.

The World Bank’s arms-length evaluation unit, the Independent Evaluation Group (IEG) conducted a review of Bank loans in 93 countries between 2002 and 2008, with case studies in 12 of these. They did not cover the Bank Group’s private sector lending from the International Finance Corporation which is due its own IEG gender evaluation “in the near future.”

The IEG found that “the implementation of the Bank’s gender policy, initially strong, weakened in the latter half of the evaluation period” resulting in “a decline in the frequency of meaningful gender integration into [country assistance strategies].” This weakening of the Bank’s approach was caused by “insufficient steps to implement an accountability framework and set up a monitoring system,” the failure to properly integrate gender into high level decision-making, the absence of a results framework, sporadic funding, and the dipping of an approach that tried to integrate gender into all Bank work, in favour of one focussed on selected programmes.

The IEG is highly critical of this selective approach which “tended to diminish the relevance of the Bank’s gender policy.” They cite countries such as Bolivia and Pakistan, where the Bank identified only health and education projects as having important gender dimensions, meaning that other sectors, such as agriculture or municipal services could ignore gender without being in breach of Bank policies. This patchy approach is particularly worrying as “the evaluation found that in roughly 75 per cent of Bank operations, women... will participate less and benefit relatively less from project activities if the design does not mitigate such an impact.” In Benin, for example, the IEG found that a project in the cotton sector, where many women work, “did not address gender inequalities and could actually have resulted in strengthening unequal gender relations.”

Gender plan falls short

The Bank’s much criticised 2007 Gender Action Plan (GAP, see Update 57) should, according to the IEG, shoulder some of the blame for these problems as “the introduction of the GAP without appropriate policy foundations... had the effect of blurring the Bank’s overall gender policy.” A November Bank paper showed the limited effectiveness of the GAP, which was supposed to integrate gender into the ‘economic’ sectors of labour, land and agriculture, private sector development and infrastructure. The paper found that, between 2006 and 2008, “gender coverage” in GAP sectors remained very low, only increasing from 33 to 41 per cent.

The IEG recommended putting in place proper accountability, evaluation and monitoring frameworks, and “restoring a broader requirement for gender integration at the project level.” Further friction between Bank management and its arms-length evaluation unit was highlighted in the Bank management’s October response to the report agreed with many of the IEG’s recommendations; proposals are due to come to the Board in the second quarter of this year, and a “GAP transition plan” is due in the fourth quarter.

Elaine Zuckerman from US NGO Gender Action said “In addition to the problems of weak implementation, the Bank’s gender policy excludes development policy loans, notorious for conditionalities which harm most vulnerable groups including women, although these compose an increasing proportion of total Bank loans.”

IEG evaluation of CPIA

IEG calls for overhaul of Bank’s lending criteria

Bank moving backwards on gender?
IMF economic policies under fire: Hiding the conditionality problem

While the political agenda at the IMF is shifting back to mandate and governance reform, there are growing calls for the Fund to fundamentally rethink the monetary and fiscal policies it pushes if the institution is to retain legitimacy and renew its mandate.

An end January report from Action for Global Health UK and the Stop AIDS Campaign examines nine country programmes, chosen based on high HIV/AIDS prevalence, to assess the whether the IMF’s policy requirements create enough space for countries to scale up health interventions. While praising the IMF programme in Uganda for actually stopping the finance ministry from making deeper cuts, the study finds that “despite rhetoric of change, and claims of increased flexibilty, IMF policies in programme countries still lead to overly tight macro-economic practices with severe impact on government’s ability to invest in public health.” Other recent reports have also found that the IMF was being less flexible than needed in its crisis response programmes (see Update 68, 67).

The flagship annual report of the UN economic agencies, World Economic Situation and Prospects 2010, has also faulted IMF policies. Released in December, it found that “despite pronounced intentions, many recent IMF country programmes contain pro-cyclical conditions that can unnecessarily exacerbate an economic downturn in a number of developing countries.” UNESCO’s Education For All Global Monitoring Report 2010, which tracks education funding commitments, cautions that IMF programmes might create deflationary pressure, reducing the fiscal space needed to scale up education spending. It questions whether the Fund’s commitment to flexibility will be sustained in 2010.

 Tightening or flexibility?

IMF-demanded austerity measures continue to cause controversy. Serbia’s 150,000 public sector workers stepped up pressure on the government in January as the IMF suggested that on top of a pensions and salary freeze, more effort should be put into public sector staff cuts and privatisation. Latvia approved a 40 per cent public wage cut and tax increases in early December (see Update 68, 66). Later a constitutional court ruled that public sector pension cuts were unconstitutional, adding €250 million ($342 million) to the budget. The IMF reportedly agreed to allow the pension payments without offsetting spending cuts in 2010. The IMF and EU said they were likely to unfreeze a €20 billion bailout loan to Romania (see Update 68) after the new parliament pledged to curb the budget deficit. In addition to cutting 100,000 public jobs, in early February the new government committed to raise the retirement age and scrap some pension categories.

Sierra Leone was one of the few African countries to defy even the IMF’s looser advice on fiscal deficits by spending on labour-intensive infrastructure. Professor John Weeks, economic advisor to the Sierra Leonean finance minister, praised a package that combines higher deficit policies with monetary easing in the form of printing money, and called for “donors and the IMF to grant it policy space.”

A pre-crisis IMF economic report faulted Uzbekistan for financial sector intervention, trade restrictions and exchange rate management. Now, the country is hailed as a success story in a paper from the University of London. Even IMF board members on a country visit in October 2009 noted Uzbekistan had failed well due to its cautious approach to participation in global financial markets.

Tenets of economic policy

A new book released in December, The deadly ideas of neoliberalism: How the IMF has undermined public health and the fight against AIDS, argues that “IMF fiscal and monetary policies are tantamount to ‘health repression’.” On the IMF’s website, the book’s author Rick Rowden criticises the Fund for continually failing to grasp health campaigns main critique that “the IMF’s underlying ideological disposition... prioritises short-term financial sector variables in macroeconomic policy to the subordination or neglect of real sector variables, such as long-term developmental goals, industrialisation, higher employment or increased public investment.” The IMF staff’s response emphasises that the Fund has shown flexibility on fiscal and monetary targets during the financial crisis and that IMF-supported programmes promote growth.

The key issue is a lack of consensus over the definition of ‘macroeconomic stability.’ Critics such as Rowden believe that the IMF’s preference for single-digit inflation and low-single-digit fiscal deficit targets is not supported by the peer-reviewed economics literature. The US Government Accountability Office (GAO) published a report on this in November 2009, but immediately drew criticism. The GAO concluded that ‘empirical evidence generally suggests inflation is detrimental to economic growth after it exceeds a critical threshold, which is broadly consistent with the IMF inflation targets.’

Despite listing 16 empirical studies in the bibliography, the GAO had only analysed the nine papers on the inflation-growth relationship published since 1999. They then dropped three of the nine, for “methodological issues”, despite two of them providing evidence contrary to IMF targets.

IMF still failing to connect with members

The IMF’s Independent Evaluation Office (IEO) released a study of IMF interactions with member countries in mid January, showing a startling amount of displeasure with the Fund’s work. The evaluation asked work from 2000 and 2008, with surveys sent out at the height of the financial crisis in November 2008. It found that the IMF is not accepted as a policy coordinator by the richest countries and that emerging markets do not view the IMF as even-handed. Most telling, some large emerging economy survey respondents saw the Fund’s surveillance work to be conducted predominately in the interests of major shareholders, more than in their interests.

The evaluation “found that interactions were undermanaged” overall, with particular worries about the power dynamics of the IMF’s dealings with some of the poorest countries. “For the authorities of some [Poverty Reduction and Growth Facility, PRGF]-eligible countries, the underlying power imbalance was seen to drive interactions, including the adoption of what they saw as demanding and inflexible positions by Fund staff to which the authorities had to agree, or else.”

The PRGF is a subsidised lending window for low-income countries. The weakest area of work was in presenting “alternative scenarios”, for which developing country policymakers, on balance, did not find the Fund effective. Sixty-two per cent of the officials from a group of 19 large emerging markets agreed that, “The IMF has not been willing enough to experiment and innovate.”

The IEO also found that the IMF was generally failing in its interactions with stakeholders beyond government. Jo-Marie Griesgraber of US-based NGO New Rules for Global Finance said it comes down to trust and legitimacy: “The first step must be comprehensive governance reform to start breaking down the perceptions of bias.”

The resulting recommendations from the IEO covered many areas from staffing to incentives and strategy. However, the IMF board discussion led to few concrete decisions. An implementation plan of board-endorsed recommendations will be prepared, but the board “will need to reflect further on internal cultural changes to enhance the Fund’s engagement with its members.”

IMF interactions with member countries www.ieo-imf.org/eval/complete/eval_01202010.html

Buried in a footnote is the admission that “this exercise is not meant to imply that literature is conclusive.”

In its January World Social Situation 2010, the UN Department for Economic and Social Affairs argues that the IMF’s repeated claims that inflation is bad for the poor are dubious. It argues that the IMF ignores inflation’s positive impact on employment creation, the net debtor position of most of the poor, and the negative consequences of reduced social spending during recessions. “Stabilisation needs to be defined more broadly to include stability of the real economy” which “may require larger fiscal deficits and higher rates of inflation than prescribed by the conventional macroeconomic policy mix.”

The IMF, the global crisis and human resources for health tinyurl.com/aghreport


The deadly ideas of neoliberalism www.zedbooks.co.uk/book.asp?bookdetail=4333
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Makes recommendations for international monetary and financial system reform, calling for a global reserve system and a new credit facility with better governance arrangements than the IMF.

World Resources Institute: ‘The great land grab’
Examines the acquisition of land in developing countries by foreign investors, or ‘land grabs’.

Joseph Stiglitz: ‘Making recommendations for international economic policies’
Makes recommendations for the International Monetary Fund (IMF) and the World Bank.

Moving the goal posts: Accountability failures of the World Bank’s FCPF: Forest Peoples Programme
Challenges the view that the World Bank’s forest carbon programme can deliver sustainable development.

Zedillo commission report: Repowering the world’s energy system
Explores what the IMF and the World Bank are doing towards climate change.

Power, responsibility and accountability: Rethinking the legitimacy of institutions for climate finance; World Resources Institute
Outlines the desired shape of climate finance in an analysis of ongoing efforts to finance mitigation and adaptation in developing countries.

Are we nearly there? Bridging UK funded supported funds and a post 2012 climate architecture: BOND, BWP
Highlights the form that financial architecture for climate related interventions should take, what development models it should build upon and what technological approaches it should encompass.

BRETTON WOODS UPDATE

Bankspeak of the year 2009

Award for missing the point: illegitimate debt econometrics
The World Bank’s Economic Policy and Debt Department stumbled into the debate about illegitimate debt with an absurd approach. Its recent article on ‘Odious debt as a principal-agent problem’ modeled an economy of two goods – guns and butter. Its game theoretic framework and complex econometric analysis resulted in an equation-packed article that ignored most of the key aspects of the problem.

Out of the mess of mathematics came a convenient conclusion: that debt audits are the least hopeful avenue to address the problem, while the merits of both loan sanctions and responsible borrowing standards are ambiguous.

Civil society network Eurodad’s Gail Hurley concluded wryly that, “We are not too optimistic about the World Bank’s willingness to seriously tackle the issue of odious and illegitimate debt.”

Odious debt meets econometrics

IMF waters down transparency review

The IMF board significantly weakened many of the proposals made by Fund staff in a transparency review at the beginning of December, though they agreed to a new guiding principle: “The Fund will strive to disclose documents and information on a timely basis unless strong and specific reasons argue against such disclosure.”

Almost all IMF policy documents, including proposals sent for IMF board decision and staff papers for informal board discussion, will now be published. For loan documents and annual economic assessments called Article IV reports, the IMF will introduce a “non objection” policy, publishing documents one day after a board meeting unless there is no objection from the country concerned. Changes were also made to the archival policy requiring that board papers be released in the archives after three years instead of five and board minutes after five years instead of ten years.

While meaningful changes were made, the board rejected more ambitious proposals. The biggest loophole was a provision that “it would be possible for a member to notify the Fund that country documents and related policy intention documents should be published only with its explicit consent.” This allows a country to completely exempt itself from the non-objection policy.

The report for the review recognised that “the Global Transparency Initiative, a network of civil society organisations, considers access to draft policy documents to be of key importance in order to influence the policy debate inside the Fund.” However, the staff made no proposals to publish draft policy papers, instead committing to public consultations on “key policy issues.” Toby Mendel, director of Canadian NGO Centre for Law and Democracy, stated: “Although the new policy does promote greater openness, it is too little, too late, and the IMF remains far behind other international financial institutions, notably the World Bank, in terms of transparency.”

IMF to increase amount and timeliness of information

The Bretton Woods Project

Critical voices on the World Bank and IMF

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