

From Wolfowitz to Zoellick: an opportunity lost

The worst crisis faced by the World Bank in over 60 years brought business to a halt for over six weeks. What really happened, what unfinished business remains, and what lessons have been learned?

In early April, US NGO Government Accountability Project revealed payroll data for Shaha Ali Riza, a Bank communications officer seconded to the US State Department to avoid a conflict of interest over her 'romantic links' with then incoming president Paul Wolfowitz. Riza had received pay rises which grossly exceeded those allowed by Bank staff rules. Wolfowitz, who had made the fight against corruption his signature issue (see *Update* 55, 53), had pushed the deal through.

The Bank's board formed an ad hoc committee to investigate. Initially Wolfowitz apologised for his "mistake" and said he would "fully cooperate" with the board's investigation. In an unprecedented move, ministers on the Bank's highest body, the Development Committee, commented in the spring meetings communiqué: "We endorse the board's actions in looking into this matter and we asked it to complete its work. We expect the Bank to adhere to a high standard of internal governance."

The more that came to light, the longer grew the list of those calling for Wolfowitz's head, including the Bank staff association, 37 of 39 country directors, 42 of the Bank's most senior former executives, managing director Graeme Wheeler, and the Independent Evaluation Group who lamented that "the ability of staff to carry out daily interactions with clients is eroding". Inside the Bank, work had come to a virtual halt under what staffers came to call "The Current Situation" or TCS.

Wolfowitz then hired attorney Robert Bennett, who accused detractors of leading a "smear campaign", attempted to discredit members of the board and staff, and threatened to reveal board and staff salaries.



ROBIN HECHTMAN/BERNARDINI/THORCOLO

However, former general legal counsel Roberto Dañino, former board member and chair of the ethics committee Ad Melkert, and former head of human resources Xavier Coll, rebutted all attempts to pin the blame for the affair on staff and the board.

European, Asian and Latin American board members were in the resign camp. A spokesperson for German development minister Heidemarie Wiczorek-Zeul was the first official to declare outright: "voluntary resignation [would be] the best solution for the Bank and its

goals". The US, Japan, Canada and Africa were said to remain defenders of Wolfowitz. The position of African ministers was made particularly difficult – Wolfowitz's support for debt relief in some African countries and veiled US threats made it difficult for them to call for his resignation. African NGOs distanced themselves from the insinuation that 'Africa backed Wolfowitz'.

After several delays as the board attempted to counteract Bennett's charges of a "rush to judgement", the ad hoc group released its findings 14 May. It concluded that

Wolfowitz had violated the Bank's code of conduct and a string of staff rules, and that his involvement in Riza's external assignment constituted a conflict of interest.

Three agonising days later, Wolfowitz resigned. Diplomatic niceties required the board to retreat from the clear-cut conclusions of the ad hoc committee: "He assured us that he acted ethically and in good faith in what he believed were the best interests of the institution, and we accept that." The date of his resignation was set for 30 June, with much speculation – neither confirmed nor denied – that his contract included a two-year service bonus which came due in June.

The staff association called on the board to place Wolfowitz on administrative leave effective immediately, "to protect staff against any retaliation" and to prevent Wolfowitz from making any decisions affecting the work of the Bank or its staff.

While Wolfowitz never embarked on a threatened 'farewell tour' to Africa, before his departure he did name Australian Simon Stolp, former consultant for the US Department of Defence, as Iraq country director. Stolp follows in the pattern of inadequately experienced political appointees. The Bank panel which interviewed candidates for the job said they "felt uncomfortable as to whether he could become a credible, substantive representative of the Bank ... on account of his weak analytical background, and lack of knowledge about the Bank."

The gang of six

A critical matter left unresolved is the fate of what have become known as the 'gang of six' – high-level appointments made by Wolfowitz.

Most controversial were former Bush administration officials Kevin Kellems, Robin Cleveland and Karl Jackson, appointed as 'special advisers' and given pay deals equivalent to the most senior Bank staff. Kellems was linked with a number of embarrassing indiscretions. In early May, he resigned.

Cleveland, intensely disliked by most staff, remains at the Bank. She vetted senior appointments, handing out posts to key allies of the

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Bush administration. She also briefed Marwan Muasher, the newly arrived director for external relations, on how to respond to the Riza affair. They agreed on a statement that included misleading claims.

Juan José Daboub, former finance minister under the right-wing ARENA government in El Salvador, was appointed managing director by Wolfowitz in mid 2006. He was first caught attempting to delete all references to family planning in both the Madagascar country assistance strategy and the Bank-wide health strategy (see Comment, page 3). Bank chief scientist Robert Watson then confirmed that Daboub had “literally tried to eliminate the words ‘climate change’ everywhere in [the clean energy investment framework] policy paper”.

Ana Palacio, former foreign minister under the right-wing Aznar administration in Spain, was appointed general legal counsel in mid 2006. Questions are being asked about the qualifications of her appointed staff and her professional conduct. Suzanne Rich Folsom, an American attorney, was appointed head of the Bank’s department of institutional integrity end 2005. There are questions about her willingness to investigate charges against key Wolfowitz allies.

Opportunity lost

A string of high-profile commentators called for an end to the gentleman’s agreement which sees the Americans appoint the head of the Bank and the Europeans the director of the IMF. A glimmer of hope came in a 29 May board statement, which gave a 15 June deadline for the submission of nominees to replace Wolfowitz and outlined key

qualities which any candidate should possess. These qualities included leadership, management experience in international organisations, willingness to tackle governance reform, commitment to development, and political objectivity and independence.

Immediately the Bush administration moved to crush any challenge to the status quo. The same day, after little or no consultation, they nominated Robert Zoellick, former US deputy secretary of state and lead trade representative.

NGO reactions were universally unfavourable. New economics foundation’s David Woodward highlighted “a track record of arm-twisting, blackmail, pay-offs and abuse of power in the WTO to promote US interests at the expense of the developing world”. Zoellick has close ties to the private sector, coming immediately from US investment bank Goldman Sachs and previously serving on the advisory board of disgraced US energy giant Enron.

Zoellick immediately embarked on a ‘listening’ tour of Africa, Europe and Latin America. He endorsed the Bank’s focus on Africa, hailed the importance to development of completing the Doha round of trade talks, and rebuked Venezuela’s leader Hugo Chavez.

After a bruising battle with the US administration over the Wolfowitz resignation, no country had the diplomatic nous to put forward an alternative candidate, despite a wealth of qualified developing country possibilities and some serious concerns about Zoellick’s suitability. A poll by US think tank

Center for Global Development ranked Zoellick seventh out of nine candidates based on criteria similar to those chosen by the board. Zoellick was confirmed as president 25 June and began his duties 1 July.

The task ahead for Zoellick is daunting. In the short term, he will have to deal with staff discontent, the legacy of Wolfowitz appointees, the IDA replenishment (see Update 55) and follow through on the implementation of Wolfowitz’s anti-corruption drive. In the medium term, Zoellick will have to decide how much priority to give to the Bank’s role in addressing climate change. He will also need to distance himself from US interference in the Bank’s reproductive health work. Bigger questions about the Bank’s role in an increasingly competitive international aid architecture and fundamental reform of its governance structure loom on the horizon. All eyes will be on his steering of an expected strategic review.

What have we learned?

One of the most damaging episodes in the Bank’s 60-year history presents a number of issues:

- Will future presidents learn from Wolfowitz’s fatal mistake? His initial decision to surround himself with Bush administration insiders confirmed the suspicions of his detractors. Those insiders directed appointments and the Bank’s agenda, turning staff against the president.
- The staff association played a decisive role in starting then stoking the fires of inquisition. Could Bank staff start to throw their weight around more on issues where highly-trained

development professionals should have more objective insight than political appointees, such as climate change, impact assessment or governance reform?

- Better relations with sympathetic staff are what NGOs need if they are to do a better job understanding the Bank, working with Southern shareholders, and exposing inner failings before they reach crisis levels.

- The board failed in its oversight of the president. Processes must be put in place for the board to evaluate the performance of the president against a work plan, and for the performance of the board itself to be evaluated.

- A leaked memo from senior Bank managers calls for greater separation of powers between the executive office and the legal, personnel and anti-corruption functions of the bank. The board would do well to listen. Best practice whistleblower protections are needed to ensure that staff come forward sooner and that they are heeded.

- The governance structure of the Bank is broken. The board must immediately end the gentleman’s agreement on leadership selection, and introduce democratic principles to the governance of the Bank. If they don’t, many countries will simply go elsewhere (see page 6). ©

www.worldbankpresident.org/

Report of the ad-hoc group, 14 May
go.worldbank.org/F0J8410XZ0

Communication from the board on the selection of the president

go.worldbank.org/JMN00VX150

Robert Zoellick and the World Bank: Putting the fox in charge of the hen-house, Jubilee Research

www.jubileeresearch.org/news/Zoellick1c.doc

arm-twisting,
blackmail,
pay-offs and
abuse of
power

Bank’s agriculture, for development?

On 16 October, world food day, the Bank will release its World Development Report (WDR) on ‘agriculture for development’. While a draft has undergone two civil society consultations, the details of the final report remain vague. A recent e-consultation concluded that it neglects crucial issues of food security, capabilities of Southern agriculture ministries and private sectors, and particularly the social and environmental repercussions of the report’s heavy promotion of industrialising agriculture. With other key Bank agriculture-related reports to be released soon after the WDR, media responses promise to be substantial; whether positive remains to be seen.

brettonwoodsproject.org/wdrag

IEG evaluation of regional programmes

In April, the Independent Evaluation Group (IEG) released its first-ever review of the Bank’s support for regional programmes, covering the period 1995 – 2005. It found that while the majority of programmes achieve their objectives, they often do not address underlying policy reforms, are weakly linked to national assistance strategies, and that incentives and procedures encouraging regional cooperation are lacking. Bank management broadly agreed with the evaluation, but pushed back against calls to strengthen the regional framework and link with country assistance strategies, arguing for flexibility to support regional activities “when opportunities arise”.

go.worldbank.org/EUPVTOJ4A0

Spanish parliamentary oversight of IFIs

On 30 May, the Spanish parliament approved a motion requiring the executive to report annually on Spanish positions adopted at the World Bank and IMF. The government will also have to report on the decisions taken by these institutions with regards to foreign debt, the “fight against poverty” and the Millennium Development Goals. The motion asks for: greater transparency on the financial resources allocated to the Bank and Fund; a strengthened presence of development experts and professionals in the IFIs; and promotion of research on the socio-economic impact of IFI actions undertaken at the initiative of Spain.

tinyurl.com/2er3fd

UK Treasury to focus on IMF surveillance

In its annual report to parliament, *the UK and the IMF*, the UK Treasury’s most ambitious goal for 2007 is a revision of the IMF’s surveillance framework (see page 7). While also emphasising governance reform, the report does not prioritise creating an open and merit-based process for selecting the managing director, overhauling the transparency policy, or grappling with the issue of what role the Fund should be playing in low-income countries. The 2006 annual report to UK parliament on relations with the World Bank, which is produced separately by the Department for International Development, has not yet been released.

hm-treasury.gov.uk/media/998/3C/imf2006_290307.pdf

AMANITARE, the African partnership for Sexual and Reproductive Health and Rights of Women and Girls, noted with great concern the controversy that surrounded the recently approved Health, Nutrition and Population strategy

of the World Bank that had initially given little reference to sexual and reproductive health and rights (SRHR). This indicated less funding and a lower priority for SRHR in development strategies around the world and particularly Africa. Many governments use the Bank strategy to guide their PRSPs, which have a direct impact on overseas funding and the World Bank resource allocation. Moreover this would undermine all the gains made towards the realisation of the MDGs especially universal access to HIV treatment by 2010 and universal access to sexual and reproductive rights by 2015. We would have questioned our own existence as AMANITARE if the draft was not amended.

The majority of women in Africa lack access to basic sexual and reproductive health services, safe labour and delivery services, emergency obstetric care, essential drugs and contraceptive supplies. They are also in danger from labour complications, unsafe abortions, and HIV and other sexually transmitted infections. Women now represent two-thirds of those infected with HIV in Sub-Saharan Africa. These shocking realities should now more than ever prompt multilateral organisations such as the Bank to not only increase resource allocation towards the realisation of SRHR but also promote public health and human rights for women and girls in Africa as a priority.

Despite the dramatic improvement of the final draft in support for SRHR and its affirmation of the plan of action of the international conference on population and development signed in 1994 by many countries, we feel the need for the strategy to highlight the causes and consequences of poor access to SRHR for women and girls in Africa and to state workable plans for reversing the trend. This would enable us to hold our governments accountable for allocating resources for SRHR in national budgets and PRSPs.

The second objective of the Bank's new policy spells out its approach to preventing poverty due to illness. Our experience in Africa has shown that illness is both a cause and a result of poverty.

Defending sexual and reproductive health rights

COMMENT

By Grace Karanja, AMANITARE Secretariat, Kenya

tending the farm or looking after cattle, which may be considered more important. They therefore remain sick for longer, meaning that they will work less, feed the children less and produce less, perpetuating the vicious cycle of poverty. It is therefore imperative that the Bank tackle the issue of poor access and lack of SRHR services as a means of poverty alleviation and not vice versa. It makes more sense in Africa to prevent illness due to poverty and not poverty due to illness, especially for women and girls.

The fourth objective of the Bank's new strategy acknowledges that good governance, transparency and accountability are crucial to running a successful health provision scheme by any government. This is vital especially in Africa where outright theft, corruption, mismanagement of funds, poor procurement procedures, mistreatment of the poor by health providers and kickbacks for services remain rampant. This brings into question the effectiveness of government regulatory instruments for ensuring that resources allocated for health, especially SRHR services, are not redirected to other uses or mismanaged altogether. We feel that the World Bank should explicitly acknowledge that civil society organisations serve as a strong mechanism for monitoring governments and setting the agenda in health provision issues, especially for the poor and vulnerable groups in our communities. A health surveillance monitoring system which incorporates civil society should be in place in all African countries.

Our duty now will be to closely monitor the application of the Bank's strategy at country and regional levels. We must ensure that SRHR remains in the core of each country strategy and more importantly that resources allocated in this vein are not redirected to other uses by governments and that their distribution reach everyone, with free access for the poor and vulnerable. ©

AMANITARE is a ten-year (1999-2009) initiative of women individuals, groups and networks from all African countries to facilitate the implementation of the principles embodied in the outcomes of UN conferences on human rights, population and women.

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World Bank's carbon trading plans fail Africa

While the World Bank promotes the burgeoning carbon trading market as a "tool to help Africa's poor", an investigation has unearthed gross incompetence with the Clean Development Mechanism (CDM). A report by Oxfam points out serious inadequacies with the Bank's figures for adaptation financing.

The Bank plays a key brokering role in the CDM, established under the Kyoto Protocol to allow industrialised countries to meet their greenhouse gas reduction commitments by investing in carbon emission reduction projects in developing countries (see *Update* 53, 47). In June the UK daily *The Guardian* uncovered UN paperwork which documents rule-breaking and possible fraud from CDM projects,

faults with up to 20 per cent of the carbon credits already sold, and gross incompetence from three out of the 17 specialist companies that validate and verify the projects.

The Bank's carbon finance unit is apparently oblivious to such scandals. In its *State and trends of the carbon market 2007* published in May there is only praise for the sharp growth and "relative price stability" of CDM projects. Africa accounted for just three per cent of certified emission reduction permit sales last year, with the majority going to China and India. The Bank recognised that the CDM lacks a facility through which developing countries can be rewarded for clean development. "Most African countries'

emissions are too low for them to qualify to earn credits for carbon reductions.

Oxfam International finds serious inadequacies in the World Bank's methodology for estimating the costs of climate change adaptation for developing countries. Oxfam sets the figure well above the Bank's widely cited estimate of \$10-40 billion annually, projecting at least \$50 billion and far more if emissions are not cut rapidly. The Bank only accounts for the costs faced by 'macro actors' (donors, governments and the private sector), such as integrating adaptation into planning and policies, and climate-proofing new infrastructure. It has failed to consider the costs of climate-proofing existing infrastruc-

ture and costs faced by 'community-level actors'. Citing the latter as the most effective actors in supporting adaptation, Oxfam argues for an approach rooted in equity and justice. Finance for adaptation should be provided in addition to aid and defined separately. ©

Abuse and incompetence in the fight against global warming, *The Guardian*
W business.guardian.co.uk/story/0,,2093836,00.html

State and trends of the carbon market
W carbonfinance.org/docs/Carbon_Trends_2007_FINAL_-_May_2.pdf

Adapting to climate change, Oxfam
W www.oxfam.org.uk/what_we_do/issues/climate_change/bp104_climate.htm

Avoiding deforestation but violating rights?

Alarm bells are being rung about 'avoided deforestation', the World Bank's latest tool in the fight against climate change, while a Greenpeace report has heavily criticised the Bank's failure to bring the Democratic Republic of the Congo's (DRC) logging industry under control.

Deforestation is estimated to account for 20 per cent of global carbon emissions. In June, the Bank got G8 support of \$250 million for an investment fund to reward countries such as Indonesia, Brazil and Congo for 'avoided deforestation' (AD). Private investors have reserved judgement over the fund: under the Kyoto Protocol, saving existing trees does not qualify as a means of generating emissions credits on the international carbon market.

A new report by UK-based NGO Forest Peoples Programme (FPP) cautions that the World Bank's proposed 'avoided deforestation' model has been developed without meaningful engagement with southern NGOs, indigenous peoples or southern governments. Despite references to "community forest management", it may result in the perpetuation of discredited Bank models of forest "development", such as large-scale plantation forestry (see *Update* 46). It would also have important implications for forest management, particularly for the livelihoods and cultures of millions of forest-dependent communities. In explor-

ing World Bank proposals, which include the Global Forest Alliance and the Forest Carbon Partnership Facility, FPP fears that rapid expansion of AD schemes risks:

- support for forest conservation models which lead to evictions and expropriation;
- unjust targeting of indigenous and marginal peoples as the drivers of deforestation;
- violations of customary land and territorial rights; and
- increasing inequality and potential conflict between recipients and non-recipients of AD funds.

Congo out of control

Greenpeace released a report in April, *Carving up the Congo*, which documents the social and environmental damage wrought by interna-

tional logging companies in the DRC. Greenpeace criticised the failing efforts of the World Bank to bring the country's logging industry under control "while the rainforest is being sold off under the illusion that logging alleviates poverty". The report calls on the

Bank to urgently act to stop the expansion of the logging industry in the country, and for the cancellation of logging titles issued since May 2002 which were signed in spite of a national moratorium on new

concessions.

Some of the key issues presented in the report include: negligible payments, such as bags of salt and beer, made to community leaders in return for lucrative logging rights;

negligible payment such as bags of salt and beer in return for lucrative logging rights

the destruction of habitats critical to the survival of the Congo's indigenous forest communities; rampant corruption in the issuance of logging contracts; and the tremendous release of greenhouse gases caused by deforestation.

The Bank is the Congo's most influential donor, encouraging investment in the country's natural resources, and since 2001 has lent more than \$2 billion to the country.

At the Bank's spring meetings in April, Greenpeace was joined by NGOs Rights and Accountability in Development (RAID) and Rainforest Foundation in revealing that mining and logging in the DRC are out of control, with devastating consequences for local communities and the environment. An international appeal, signed by over 100 organisations, was delivered to the World Bank demanding the renegotiation of mining contracts in the DRC (see *Update* 54). NGOs urged the Bank to ensure that its advice and lending do not facilitate private plunder of the country's resources. ©

Global Forest Alliance and Forest Carbon Partnership Facility, World Bank

www.fire.uni-freiburg.de/sevilla-2007/groups/Worldbank.pdf

Seeing "RED"? "Avoided deforestation" and the rights of Indigenous Peoples

www.forestpeoples.org/documents/ifi_igo/avoided_deforestation_red_jun07_eng.pdf

Honest broker? The IFC, extractives and affected communities

The World Bank's private sector arm, the International Finance Corporation (IFC) is planning to double its mining investment in Africa and increase involvement in Southeast Asia, raising civil society concerns about the rights of affected communities.

In Africa the IFC plans to diversify its gold-dominated portfolio to copper, aluminium and iron ore. In 2006 \$280 million was approved for three mining projects: \$125 million for the controversial Ahafo gold mine in Ghana (see *Update* 50), \$5 million for an iron ore project in Guinea, and \$150 million for a platinum mine in South Africa.

In the Ahafo gold mine case, 10,000 residents have lost their homes and livelihoods. Thousands more in farming-dependent communities are expected to be displaced by its second phase. Ghana's Food First Information and Action Network (FIAN) and Wassa Association of Communities Affected by Mining have urged the government to play a greater regulatory role to mitigate the adverse impacts of mining on local

communities. FIAN's coordinator Mike Anane believes that Ghana's laws "should protect the right of communities to free and informed consent for mining projects on community lands".

A civil society statement presented to a meeting of the African Commission on Human and People's Rights in Ghana in May expressed grave concern that "continuing extraction of natural resources in particular mining, oil, gas and timber by multinational companies ... as well as states and international bodies have resulted in serious and systematic violations of human rights". Signed by 45 representatives of affected communities and NGOs from Cameroon, Ghana, Liberia, The Gambia, and Zambia, the statement called on the Commission to condemn the pattern of human rights violations resulting from extractive sector activity; investigate abuses, and appoint a special rapporteur on the extractive sector and human rights.

In Southeast Asia the IFC's increased activity will focus on

Indonesia, the Philippines and Vietnam. It will provide risk mitigation to mining projects, help companies to deal with the "social and environmental impacts of mining", and develop community relations. Karsten Fielster of the IFC's newly created Southeast Asia resource division said: "We see that the uncertainties in mining in Asia might require an institution like ours to act as an honest broker and bring some stability." In Vietnam the IFC is interested in the bauxite, nickel and coal industries. In Indonesia the Bank is in discussion with the government about the drafting of its new mining law. In other countries this has been used as an opportunity to open up the sector to multinational companies (see *Update* 47, 37).

A new guide to the World Bank's indigenous peoples policy for affected communities, authored by UK-based NGO Forest Peoples Programme, explains the rules that World Bank projects must obey, and key processes and concepts such as social assessment and broad community support.

A report by US NGO World Resources Institute makes the business case for incorporation of "free prior and informed consent" (FPIC), which it states is a key part of legitimacy in large-scale development projects. FPIC is increasingly recognised in national law, international norms and voluntary best practice standards and guidelines. However, sponsors and financiers of high-risk projects may require community consultations as part of their assessment but rarely require that consent be achieved. ©

FIAN Ghana calls for stronger controls over mining industry

allafrica.com/stories/200704260837.html

Indigenous peoples and World Bank projects, Forest Peoples Programme

www.forestpeoples.org/documents/ifi_igo/wb_4_10_guide_may07_eng.pdf

Development without conflict, the business case for community consent, WRI

www.wri.org/governance/pubs_description.cfm?pid=4105

Inside the institutions **The World Bank and energy**

The World Bank Group's energy work is managed under the sustainable development network which promotes "environmentally responsible and socially acceptable" growth strategies, affirms Katherine Sierra, vice president of sustainable development. The Bank's energy objectives are to "improve access to clean, modern and affordable energy services for the poor" and "achieve sustainability in the environmental, financial, and fiscal aspects of the energy sectors".

The Bank's strategy to achieve these objectives is founded on: an effective regulatory system based on investor and consumer confidence in transparency and regulation; support for sustainable, rural energy solutions based on low-cost and efficient energy technologies; and access to modern energy services via low cost distribution methods, subsidies and incentives for local participation in the provision of these services.

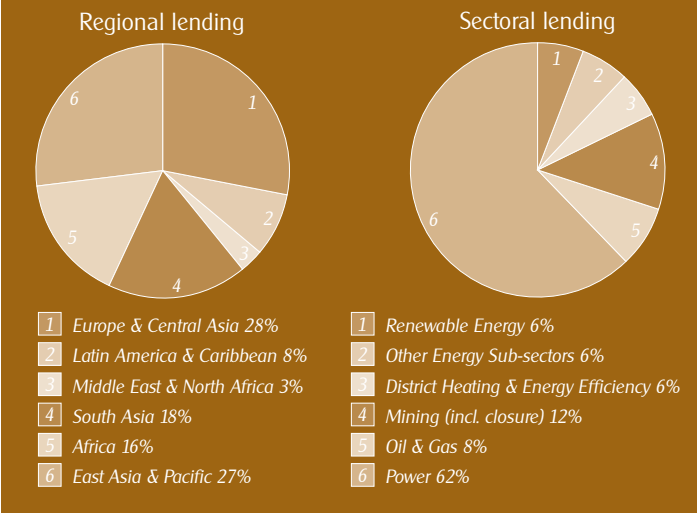
The Bank combines financing for its energy work with advice via four main instruments: loans, grants and equity investments; investment guarantees; policy advice and dialogue; and partnerships with external development agencies to generate policy-alignment. The Bank's regional units are responsible for implementing individual energy projects through loans and grants to recipient country governments, supported by the sustainable development network. Equity investments emanate from the Bank group's private sector arm, the International Finance Corporation (IFC), while investment guarantees are issued by another arm of the Bank group, the Multilateral Investment Guarantee Agency (MIGA).

International Bank for Reconstruction and Development and International Development Association (IBRD/IDA) lending portfolio: In fiscal year '05 total IBRD and IDA public sector lending for energy and mining projects was \$1.9 billion, compared to \$1.1 billion the year before. Over the past nine years, more than half of lending was directed to the European and Central Asian and East Asian and Pacific regions. The sectoral distribution of this lending was heavily focused on the power sector.

Since 2004, IBRD/IDA lending for renewable energy has been greater than for oil and gas. However, oil and gas continues to account for most energy funding from the IFC. During 2004 the IFC made \$340 million in commitments to seven oil and gas projects, and in 2006 claims commitments of \$430 million for similar projects. However, neither aggregate figures nor sectoral details comparable across the IBRD, IDA and IFC are available.

The World Bank states that it is the largest lender for Renewable Energy and Energy Efficiency (RE&EE) projects in developing countries since 1990, investing more than \$6 billion in Bank-managed resources and mobilising more than \$10 billion from other public and private sources. In 2004 the Bank committed to increase its RE&EE financing by 20 per cent per year over the following five years. There have been questions raised over the low baseline from which this

IBRD/IDA 1997-2005 energy lending



target was set, the Bank's definition of renewable energy which includes large hydropower and the exclusion of the IFC from the target. The Bank states that much of its RE&EE lending includes money from the Global Environment Facility and carbon finance funds, such as the Clean Development Mechanism and Prototype Carbon Fund (see *Update* 53, 47). In 2005 the World Bank launched its *Investment framework for clean energy and development* to address developing country energy needs, control greenhouse gas emissions, and support climate change adaptation (see *Update* 55, 52).

The Bank's energy and mining sector board guides its strategy and policy in these areas. Chaired by Jamal Saghir – also director of energy, transport and water at the Bank – it has approximately 15 members representing all regions and a variety of Bank departments, including the energy sector management assistance programme, the IFC, the oil, gas, mining and chemicals department, and the Independent Evaluation Group. The board believes that "access to energy services for the poor needs to be based on markets that function on sound commercial principles and on the preservation of the environment". ☺

World Bank energy strategy [W go.worldbank.org/N90EHSIPA0](http://go.worldbank.org/N90EHSIPA0)

World Bank renewable energy site [W www.worldbank.org/re](http://www.worldbank.org/re)

Bank replicates past hydropower mistakes?

In a progress report on the Nam Theun 2 dam (see *Update* 45), the World Bank and Asian Development Bank (ADB) refer to the next 12 months as a "vital phase" before the reservoir is filled in June 2008, saying that "satisfactory progress" is being made on environmental and social mitigation measures.

A May report by NGO International Rivers Network, based on a site visit in March 2007, warns however that the "model hydropower project is dangerously close to becoming a replica of past dam mistakes". They have found that: livelihood restoration programmes are in jeopardy in all project affected areas; the government and the power company are backtracking on commitments to ensure biomass clearance from the reservoir area and guarantee villagers' rights to their forest resources; and the power company has failed to disclose resettlement plans, in violation of World

Bank and ADB policies.

World Bank backing to the tune of \$360 million in loans and guarantees for Uganda's controversial Bujagali dam was finally approved in April (see *Update* 55). A month later the Inspection Panel was given the go-ahead by the board to investigate environmental, economic and social concerns raised by the Ugandan National Association of Professional Environmentalists (NAPE) and other local organisations. In June, the Ugandan government fronted \$100 million to Italian construction firm Salini so construction could begin immediately, despite other funders saying they would wait for the outcome of the Inspection Panel's findings.

Recent letters from Congolese NGOs to the Bank's board unsuccessfully urged them to consider the environmental and social legacy of the Inga 1 and 2 dams in

the Democratic Republic of the Congo before approving financing for the dams' rehabilitation or further hydro developments at Inga (see *Update* 53). The Bank approved a \$297 million loan in May for the Regional and Domestic Power Markets Development Project. The NGOs have asked that the Bank conduct further studies on the high levels of heavy metals identified in water samples from the Inga reservoir, and reclassify the project accordingly. They also question the ability of the government to manage the revenues for poverty reduction due to ram-

nant corruption and a lack of fiscal transparency. ☺

NT2 trip report and update, IRN
[W www.irn.org/pdf/namtheun/NT2TripReport2007_full.pdf](http://www.irn.org/pdf/namtheun/NT2TripReport2007_full.pdf)

Bujagali hydropower project
[W www.worldbank.org/bujagali](http://www.worldbank.org/bujagali)

Inspection Panel recommendation on request for Bujagali inspection
[W siteresources.worldbank.org/EXTINSPECTIONPANEL/Resources/UgandaeligibrepoMay3FINAL.pdf](http://siteresources.worldbank.org/EXTINSPECTIONPANEL/Resources/UgandaeligibrepoMay3FINAL.pdf)

IRN letter to World Bank board on Inga
[W www.irn.org/programs/congo/index.php?id=070528irnletter.html](http://www.irn.org/programs/congo/index.php?id=070528irnletter.html)

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 For the Spanish version of the Update, see: brettonwoodsproject.org/update/index-es.shtml

Just say no: rejection of Bank, Fund increasing

Member countries are increasingly rebuffing World Bank and IMF programmes, advice and even membership, with Latin American nations withdrawing from the Bank's investment arbitration mechanism.

The most outspoken critics of the international institutions are in Latin America, especially Venezuela's president Hugo Chavez. In a surprise pronouncement at the end of April, Chavez said he would formally pull Venezuela out of the World Bank and IMF, which he dubbed "the tools of the empire" that "serve the interests of the North". Chavez was forced to back down from an immediate exit because Venezuela's sovereign bond contracts require IMF membership, but confirmed his intentions to leave the institutions eventually.

Venezuela's anger stemmed partly from its view that the IMF persistently under-projects growth in the country. Venezuelan minister of finance Rodrigo Cabezas rejected the IMF's regional economic outlook for Latin America, saying: "It seems like their prognoses have a kind of political commitment in order to discredit the success of the Venezuelan economy in the last few years." The Fund report and its recommendations were also rejected by Argentina and Ecuador.

This view is buttressed by an April report from the US-based think tank Center for Economic and Policy Research, which found that IMF projections were consistently wrong in both Argentina and Venezuela. It found regular overestimation of growth when Argentina was following Fund prescriptions and underestimates when the country was in dispute with the Fund over debt renegotiation. The report concludes: "The IMF's large and repeated errors in projecting GDP growth in Argentina since 1999 strongly suggest that these errors were politically driven."

Ecuador moves against the Bank

In April Ecuador's president Rafael Correa declared the Bank's country representative, Eduardo Somensatto, as "persona non grata", essentially expelling him from the country. The expulsion relates to an accusation of "extortion" by Correa against Somensatto over the Bank's withholding of \$100 million in committed funds in 2005. The Bank withheld the money after Ecuador decided to revise the law governing its use of

oil revenue.

Correa also declared in May that Ecuador's revised constitution may recognise the concept of illegitimate debt. He has repeatedly hinted that he would declare a moratorium on debt repayments to foreigners (see *Update* 54), increasing the pressure on the Bank to renegotiate the terms of Ecuador's \$748 million in debt, which Correa believes to be illegitimate. In April he completed the promised early repayment of the country's IMF debt, stating: "We don't want to hear anything more from that international bureaucracy".

Taking a more conciliatory tone, Nicaragua's president Daniel Ortega requested a new Poverty Reduction and Growth Facility (PRGF) arrangement with the

Fund. Still, Ortega recognises that involvement with the international institutions is unpopular and stated that he planned to end Nicaragua's borrowing from the Fund within five years.

Bigger players grumbling

Latin America is not the only region with gripes against the Fund, as both Russia and China have recently vocalised their rejection of IMF policy prescriptions. Russian president Vladimir Putin called for a restructuring of the international economic architecture, saying that global institutions like the IMF and the WTO should have a much smaller role. In April, Russian deputy finance minister Sergei Storchak opposed IMF advice on the spending of oil rev-

enues, saying that oil exporters should be free to spend their revenues however they wish.

China has also continued to reject the IMF's advice on its exchange rate policy. Despite participating in the Fund's first multi-lateral consultations on global imbalances (see *Update* 54, 51), China continues to resist the idea that its pegged exchange rate is improperly set. The Chinese central bank's deputy governor, Hu Xiaolian, said in her IMFC statement, "given the limitations of various exchange rate analytical tools, it is well known that the concept of exchange rate misalignment is subject to theoretical weaknesses, their estimates highly unreliable, and therefore could not serve as a criteria or premises for surveillance."

The IMF is also facing accelerated declines in its credit outstanding with advance repayments on debt by Macedonia and Bulgaria on top of the completed early repayments by Ecuador and the Philippines.

Building alternatives

Many countries are looking to build regional alternatives to the Bank and Fund. Chavez has championed the idea of the Bank of the South (see *Update* 55), which came one step closer to creation in May as a summit of Mercosur heads of state decided on the institution's capital and shareholding structure. Despite last minute wrangling over the charter in June, the Bank of the South is expected to maintain equal voting rights for each of its member states.

An open letter from civil society organisations to the presidents of Latin American countries during a late June Mercosur summit called on them to "insure the necessary information, participation, and consultation with the organisations in societies which will be affected by the creation of the Bank of the South."

In Asia, moves to create an alternative to the IMF are slowly advancing. At a meeting of ASEAN+3 finance ministers in Kyoto in May, the countries of the region agreed to press ahead with an \$80 billion regional currency swap arrangement. Though the leaders only reaffirmed their previous commitment to work out the details of the arrangement, regional media hailed it as a fulfilment of the desires for an Asian Monetary Fund. ©

Threats to withdraw from Bank's investment tribunal

End April the leaders of Bolivia, Venezuela, and Nicaragua agreed to withdraw from the World Bank's International Centre for the Settlement of Investment Disputes (ICSID), a tribunal which rules on cases against governments brought by foreign investors.

Of the three countries, only Bolivia has formally declared its intention to withdraw from the ICSID convention. Bolivian president Evo Morales said that "(We) emphatically reject the legal, media and diplomatic pressure of some multinationals that ... resist the sovereign rulings of countries, making threats and initiating suits in international arbitration". Bolivia is aiming to limit investor-state arbitrations to domestic fora, rather than international venues such as ICSID. The move comes at a time when the country is in the midst of nationalising key sectors of its economy, with foreign investors hinting at international arbitration as a possible recourse.

The implication of Bolivia's move is unclear since no government has previously withdrawn from ICSID. The ICSID convention states that 'denunciation' shall take effect six months after the receipt by the World Bank of a notice to withdraw. There are legal disagreements over whether or not future arbitrations against Bolivia (on investments which pre-date the withdrawal) would continue to be handled by ICSID as is agreed in numerous bilateral investment treaties.

According to a new report from US NGO Food and Water Watch, *Challenging corporate investor rule*, ICSID tribunals have ruled in favour of the investor in over a third of cases, while a further third are settled out of court with compensation for the investor. "When contracts fail, as they inevitably do when private corporations are unwilling to provide the needed investment to maintain, build and expand the water systems, investor protections allow the companies to demand outrageous settlements from the countries they failed to serve," said director Wenonah Hauter.

ICSID faces growing challenges to its authority, as contradictions emerge in its rulings against Argentina, and civil society groups successfully demand their right to be heard with the submission of briefings (*amicus curae*) in the case of UK multinational Biwater versus Tanzania.

IISD investment treaty news

www.iisd.org/investment/itn/news.asp

Challenging corporate investor rule

www.ips-dc.org/reports/070430-challengingcorporateinvestorrule.pdf

Amicus curae submission in the case between Tanzania and Biwater

www.iisd.org/pdf/2007/investment_amicus_final_march_2007.pdf

Political forecasting? The IMF's flawed growth projections

www.cepr.net/index.php?option=com_content&task=view&id=

Open letter for the Bank of the South

www.eurodad.org/whatsnew/articles.aspx?id=1370

Heated exchanges over exchange rates: IMF surveillance reform

The IMF executive board agreed to revise the legal framework for bilateral surveillance in June with the final text incorporating many of the safeguards demanded by developing countries but still angering the Chinese.

Since last year the IMF has been mulling a change to the 1977 *Decision on surveillance over exchange rate policies*, the document that details member state obligations and the way the IMF will monitor them (see *Update* 53). The June decision to finally revise the surveillance framework adds no new obligations but one new principle to guide IMF member state policy: "A member should avoid exchange rate policies that result in external instability".

Agreeing on the definition of "external stability" was one of the most difficult parts of the discussion. In the end the directors approved that: "'External stability' refers to a balance of payments position that does not, and is not likely to, give rise to disruptive exchange rate movements." Thus a persistent balance of payments deficit or surplus which does not lead to wild fluctuations in exchange rates will not automatically fall foul of the principle. Earlier drafts of the text had included "fundamental exchange rate misalignment" as an indication of external instability.

As a compromise, the clause on misalignment was kept in a later section of the decision that describes indicators that "would require thorough review and might indicate the need for discussion with a member". More thorough analysis would also be triggered by "large and pro-

longed current account deficits or surpluses". The language on fundamental misalignment had been vigorously opposed by some emerging markets, particularly China, as being a green light for the Fund to target developing countries with pegged exchange rates. Many complain and the board recognised in its discussion that measuring misalignment is a very uncertain task. The Chinese executive director was the most vocal opponent of the final text, with Iran and Egypt also expressing reservations.

Another safeguard demanded by the G24 group of developing countries concerned the burden of proof for alleged violations of the principles. They won the concession that members would receive "the benefit of any reasonable doubt, including with respect to an assessment of fundamental exchange rate misalignment."

The decision, which only applies to bilateral surveillance and not lending arrangements or multilateral surveillance, also indicated that "the Fund will focus on those policies of members that can significantly influence present or prospec-

tive external stability." This will reduce the IMF's analytical work on sectoral areas, microeconomic issues and economic policies which are not directly related to a risk of disruptive exchange rate movements, such as public pension reform.

It is also unclear how this decision will impact the actual practice of bilateral surveillance, which is carried out through the annual Article IV report that the IMF produces on member countries' economic health, because the operational guidance note has yet to be produced by management for the staff. Operational guidance notes are not publicly available.

IEO report stirs the waters

The Independent Evaluation Office (IEO) report on exchange rate surveillance was completed early to feed into the discussions on revising the surveillance framework. Released in May, it found that from 1999 to 2005 "the IMF was simply not as effective as it needs to be in both its analysis and advice, and in its dialogue with member countries."

The evaluation cited numerous and complex reasons including failures by staff, management, the executive board and member countries. One of the clear subtexts of the report and subsequent discussions was the accusation that surveillance was not even-handed simply because the IMF has no ability to influence the exchange rate policy decisions of advanced economies. The evaluation finds: "The reduced traction is in danger of being extended to large emerging market economies, and beyond. Such an evolution is corrosive, breeds cyni-

cism amongst the staff as well as the members, and builds on perceptions of a lack of even-handedness."

The IEO's top line recommendation was for a clarification of the rules of the game, reviewing the 1977 decision, and for the development of practical policy guidance on key areas of potentially controversial exchange rate policy.

IMF staff took affront at the IEO allegation that exchange rate surveillance was ineffective, writing an 18-page response highlighting the progress made since 1999 and the ongoing work to improve surveillance. They wrote: "All in all, the report's consistently negative tone crowds out much valuable information and some useful conclusions." The managing director likewise felt that the report "does not offer a balanced perspective in identifying remaining weaknesses and their relative importance."

Despite staff reservations, the board found much to agree with, endorsing the conclusion that the Fund was not as effective as it needed to be. They agreed that the Fund needed to "address any perception of asymmetry in its exchange rate surveillance." Despite most directors finding that the rules of the game remain unclear, there was no consensus on whether or how to develop clear practical policy guidance. The directors did agree that "there remains scope to explore further ways to improve the dialogue with member countries, and to address any perception of lack of even-handedness." ©

New decision on bilateral surveillance over members' policies, IMF

🔗 www.imf.org/external/np/sec/pn/2007/pn0769.htm

An IEO evaluation of IMF exchange rate policy advice, 1999-2005

🔗 www.imo-imf.org/eval/complete/eval_05172007.html

reduce the IMF's analytical work on sectoral areas, microeconomic issues and economic policies

First class flights more important than voice

In the decision on IMF governance reform taken at the Singapore annual meetings, a commitment was made to increase the number of advisor and senior advisor positions for the offices of executive directors (ED) from large, mainly African, constituencies. However, in April the board's committee on administrative affairs, chaired by the Belgian ED, opposed giving more than one advisor-level post to the African groups, citing the Fund's budget crunch. A full board meeting in May was unable to reach further compromise on the issue, with EDs refusing to reduce their offices' other expenses, such as their first class flights allowance, so that Africans could have more say in decision-making.

PPIAF going down the drain?

The Public-Private Infrastructure Advisory Facility (PPIAF), a World Bank-administered consultancy that advises countries on "improving infrastructure through private sector involvement", is facing renewed challenges. On 22 May activists held an international conference in parallel to the PPIAF annual meeting in The Hague. Over 130 organisations signed onto an open letter to PPIAF donors calling for them: "to oppose the extension of PPIAF's remit and instead to create a wholly new mechanism to support public-public partnerships in the water sector." Building on Norway's withdrawal in the spring (see *Update* 55), the Italian government decided to stop its funding of the controversial entity.

🔗 www.corporateeurope.org/ppiaf.html

Chad-Cameroon non-completion

A report by NGOs in Chad, Cameroon and the US finds that the World Bank's Implementation Completion Report (ICR) for the Chad-Cam pipeline (see *Update* 53) is at odds with the findings of official project monitors. Though the ICR recognises that oil revenues will aggravate security problems in Chad, its ratings are "detached from reality, and it makes misleading statements for instance on compensation and the Indigenous Peoples Plan". NGOs urge the Bank to address the outstanding environmental and livelihood problems. Of special concern are Cameroon's threatened Bakola/Bagyeli people.

🔗 www.environmentaldefense.org/documents/6282_ChadCameroon-Non-Completion.pdf

WAGP: delays, investigation

The construction of the controversial West Africa Gas Pipeline (WAGP) (see *Update* 43) has been delayed by instability in the Niger delta. Ghana announced that the supply of natural gas from Nigeria would not be available in March as anticipated. In April the World Bank board approved a full Inspection Panel investigation into a May 2006 complaint filed by residents of twelve Nigerian communities. The complainants raised concerns over: the inadequacy of compensation to farmers who lost land; the lack of a safety assessment of an upstream pipeline; and the failure of the project sponsors to demonstrate how they will maximise the use of flared gas as opposed to tapping new sources.

🔗 www.bicusa.org/en/Project.39.aspx

Bank and Fund undermining health, education spending

A high-powered working group examining the IMF and health spending found that the Fund has unduly constrained countries' policy choices, while other recent reports accuse the World Bank and the IMF of undermining quality education. Meanwhile, the Bank's private sector arm has stepped up its support for private schooling in Africa.

US think tank Center for Global Development's health working group – chaired by ex-IMF staffer David Goldsbrough and including officials, academics, and representatives of civil society – released its report on the effect of the IMF on health spending after months of deliberations, including on detailed case studies from Mozambique, Rwanda and Zambia. It found that: "IMF-supported fiscal programs have often been too conservative or risk-averse. In many cases, they have unduly narrowed policy space".

Alongside recommendations for other stakeholder, the group had six recommendations for the IMF:

- help countries explore a broader range of options for the fiscal deficit and public spending;
- clarify the expectations for alternative analyses of aid by staff;
- be more timely in release of information about aid expectations;
- drop wage bill ceilings from nearly all programmes;
- give greater emphasis to short-term expenditure smoothing; and
- be more transparent about its rationales and assumptions.

Education uproar

In late June the World Bank co-hosted a conference in Mali on abolishing school fees. Despite such work from the School Fee Abolition Initiative, a joint project of the World Bank and UNICEF, the late UN special rapporteur on the right to education, Katerina Tomaševski, rebuked the Bank in her report, *The State of the right to education worldwide*. "The US government and the World Bank lead those who deny that education is a universal human right. ... The result is that governments are pressurised not to provide free education, but to transfer its cost to families and communities."

An ActionAid International report, *Confronting the Contradictions* takes the IMF to task for setting stringent macroeconomic conditions, particularly ceilings on the wage bill (see *Update* 51), on low-income countries that prevent the hiring of enough qualified teachers.

Based on in-depth research in Malawi, Sierra Leone and Mozambique, the report concludes: "The IMF may have varying degrees of influence in setting the wage bill ceilings. However, by insisting on overly restrictive macroeconomic policies that constrain government spending on wages, it is in part responsible for the persisting teacher shortage."

In response, Calvin McDonald, a director in the IMF Africa department, cited the complexity in getting more teachers into the classroom, and claimed the Fund was part of the solution, not part of the problem. At the user fees conference, a Fund representative argued that wage bill ceilings were not a major obstacle to recruitment. Akanksha Marphatia of ActionAid disagreed, noting that ceilings are still in place in Malawi and arguing that countries must be given more leeway to set their own budgets and macroeconomic policies: "the IMF should hand back control of policy making processes to sovereign government, the only body that citizens can hold to account for the use of public resources and the fulfilment of basic rights."

In a controversial move, in June the International Finance Corporation, the Bank's private sector arm, committed money to private schooling in Africa. The new Africa Schools Program has \$50 million for credit guarantees and \$5 million for advisory services in ten Sub-Saharan African countries.

Education activists are worried that international subsidies for private education undermine the quality and availability of public schooling and absolve governments of their obligation to provide education to all children. Gorgui Sow, the coordinator of the Africa Network Campaign on Education for All, said: "The World Bank and IMF policies are actually promoting a decline in spending on quality public education and literacy. They are asking our governments to recruit para-teachers for poor African children's education while supporting private schools for the minority of rich children. Without high quality public education for all children, there will be no way that Africa can meet the MDGs this century."

The state of the right to education

www.katarinatomasevski.com

Confronting the contradictions

www.actionaid.org/main.aspx?

PageID=581

Africa Schools Programme, IFC

tinyurl.com/39x66z

IFWatchnet relaunched

In May, IFWatchnet, connecting organisations worldwide which are monitoring international financial institutions, relaunched with a new interface, a site redesign, and a wiki. The new interface includes hosting campaigns and banners on the site, an IFI-related blog and the wiki for collaborative editing of documents and sharing ideas.

www.ifwatchnet.org wiki.ifwatchnet.org

Upcoming conferences and events

A decade after: Recovery and adjustment since the East Asian crisis

12 – 14 July, Bangkok, Thailand

IDEAs network conference to take stock of the processes of adjustment and restructuring, their impact in terms of recovery and growth, the degree to which the problem of fragility has been addressed and the fall-out for progress on the human development front.

www.networkideas.org/events/jun2007/ea14_Bangkok_Conference.htm

Understanding global finance – Building international resistance

15 – 17 July, Bangkok, Thailand

Focus on the Global South and others are sponsoring a conference to better equip campaigners from peoples' movements and civil society organisations with analytical tools to tackle the role of the IMF and global finance, and also to bring campaigners and activist-minded academics and policy analysts to strategise together.

www.ifwatchnet.org/?q=en/node/2821

Independent people's tribunal on the World Bank Group in India

21 – 24 September, New Delhi, India

An opportunity for concerned groups and individuals, including those communities directly affected by Bank-funded projects, to present research and evidence that objectively examines the impact of the World Bank's policies and projects in India.

worldbanktribunal.org

World Bank campaign Europe

Following the IDA 15 process all year

More than 70 European NGOs are calling for European governments to press the Bank to accept specific reforms or to channel their funding elsewhere. The demands are an end to economic policy conditionality and fossil fuel lending.

www.worldbankcampaigneurope.org

World Bank manga

Teaming up with a leading manga publisher (for those of you not down with the youf, manga are Japanese-style comics or graphic novels), the Bank has launched a new series of comic books, each highlighting a key development issue. The stories follow the adventures of 15-year-old Rei who discovers that "the only way to become a true warrior is to understand the challenges facing the poor and disadvantaged people he befriends along the way". In the third episode, "Rei goes to an island paradise complete with coral reefs, fluorescent fish, and pristine beaches. There he befriends an aged fisherman with nothing to catch... What is the secret behind the Lagoon of the Vanishing Fish?" Ah yes, it's the tailings from a Bank-funded gold mine.

publications.worldbank.org/ecommerce/catalog/product-detail?product_id=6361507



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