THE 15th REPLENISHMENT OF THE INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA) AND THE 11th REPLENISHMENT OF THE AFRICAN DEVELOPMENT FUND (AfDF)

HEARING

BEFORE THE

COMMITTEE ON FINANCIAL SERVICES
U.S. HOUSE OF REPRESENTATIVES

ONE HUNDRED TENTH CONGRESS

SECOND SESSION

JUNE 18, 2008

Printed for the use of the Committee on Financial Services

Serial No. 110–121

U.S. GOVERNMENT PRINTING OFFICE

44–186 PDF WASHINGTON : 2008

For sale by the Superintendent of Documents, U.S. Government Printing Office
Internet: bookstore.gpo.gov Phone: toll free (866) 512–1800; DC area (202) 512–1800
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THE 15th REPLENISHMENT OF THE INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA) AND THE 11th REPLENISHMENT OF THE AFRICAN DEVELOPMENT FUND (AfDF)

Wednesday, June 18, 2008

U.S. HOUSE OF REPRESENTATIVES,
COMMITTEE ON FINANCIAL SERVICES,
Washington, D.C.

The committee met, pursuant to notice, at 10:03 a.m., in room 2128, Rayburn House Office Building, Hon. Barney Frank [chairman of the committee] presiding.

Members present: Representatives Frank, Waters, Sherman, Baca, Scott, Green, Cleaver, Moore of Wisconsin, Ellison, Klein, Carson; Bachus and Feeney.

The CHAIRMAN. This hearing of the Committee on Financial Services will come to order.

One of the most important but least noticed parts of this committee's jurisdiction is our jurisdiction over the relationships between the United States Government and the various international financial institutions, which is one that I am very pleased that we have. In the Senate, the jurisdiction is in the Foreign Affairs Committee, but here it is in the Financial Services Committee. One strong reason for that is that under our statutory scheme, the American representatives to those institutions are affiliated with the Treasury, and the Secretary of the Treasury has the major impact, and I think that is appropriate.

This committee has a history of a lot of concern in this area. In the previous Congress, when the Republicans were in the Majority, at the initiation of then-Chairman Leach, the current Ranking Member Mr. Bachus, myself, and Ms. Waters, four fairly senior members of the committee, we got together to push debt relief, frankly, over the objections of the Republican leadership in the House, the Democrat leadership in the House, and the Clinton Administration. People say, "I don't like to say I told you so," but I do, and we did, and we were right. And debt relief has been very successful.

We recently, in a totally bipartisan way, initiated a second round. In the Congress before that, when the Democrats were last in control, we took some action that led, I believe, to the establishment of the inspection panels by dragging our feet on funding the tranches, and we also, I think, had a good impact on openness and transparency.

We have recently addressed in the Jubilee Act, in a bipartisan way, a set of views on conditionality. Again, it was a bipartisan one. I commend people to look at the comments that this committee added, not the comments, but the legislation regarding conditionality. It is a very bipartisan piece of legislation. Some of the language was suggested by each side.

This brings us to two of the issues we have today. I believe that we are much better off having these institutions than not. I think there have been significant improvements. In fact, when we were considering this in the 1990's, we were in the midst of the 50 Years Is Enough campaign. While 50 years may have been enough, 60 years doesn't appear to be, because I am pleased that we do not now have the strong argument from many of the NGOs that the time had come to abolish the World Bank and the IMF.

The IMF is, I will acknowledge, in a bit of a search. It is less clear than it used to be just exactly what it is the IMF is supposed to be doing because currency regimes have changed. But the need for development assistance to diminish poverty is, of course, as great as it ever was. So with regard to the World Bank, the International Development Association, the International Financial Corporation, and the other regional banks and their concomitant entities, that job is still very important. I remain very supportive, and I believe this committee is supportive as well.

But there are two issues. I believe that 10 years ago and more, there was a serious ideological bias in the approach that was taken. The market obviously is a great developer of wealth, but an excessive faith in the market alone and a hostility to public-sector activity can be taken too far. I do believe that in the Asian crisis of about 10 years ago, the Clinton Administration was guilty of at first pushing the wrong remedies.

We have evolved some, and I am pleased that the World Bank itself has issued principles that say that conditionality has gone too far. The IMF has acknowledged that. Structural adjustment is a thing of the past, theoretically, but there remain two problems. First, we have received strong evidence, I believe, that more conditionality survives than was supposed to, if you read the statements. Now some kinds of conditionality are very important. We embody in our Jubilee Act a mandate with regard to debt relief for what I would call procedural conditionality, for openness, for democracy, and for opposition to corruption. But there are public policy choices that ought to be made without coercion by the public elements.

This committee did a trip to Africa, a bipartisan trip, and there was staff on both sides, and we heard in Ghana, for instance, which has been a very successful economic entity, complaints about excessive pressure to privatize their water system. I think there continues to be more conditionality than there ought to be, but less than there used to be. That is one of the things we will be concerned about.

Second, we have the "Doing Business" report. The "Doing Business" report, it is clear, does have an impact on allocations, and contains ideological biases, in particular, the worker section. When countries are incentivized by the World Bank to cut down on vacation time and to lower pay, these are not appropriate measures for the World Bank to recommend. People can debate them or not. I would obviously be on the other side from many of them. But we are not here debating whether the World Bank is right or wrong to include these substantively, but procedurally. They just not should not be imposed on countries. When Saudi Arabia looks better than Sweden in some aspects because of employment practices, things have gotten very much out of hand.

Those two areas we will continue to discuss: excessive conditionality of a substantive sort; and an intrusion of a bias with regard to worker rights and treatment of workers in the "Doing Business" report. Those are two of the issues that we will have before us.

We have the legislative jurisdiction. I think it is time to do funding for the International Development Association and for the African Development Bank. The normal way these work, people should know—it has for some time been unwise to bring these to the Floor of the House. But this committee has developed the expertise, and we are in touch with the Appropriations Subcommittees on Foreign Operations in both the House and the Senate which do the actual legislating. The usual procedure I hope to follow here is that we will be marking-up our version of these next week, and we will be transmitting what we vote out to the Appropriations Subcommittees on Foreign Operations, and we will hope that they will be responsive. As I said, we will be looking in part at those issues.

The final one—I appreciate the indulgence in time and I will give equal time to all—is the difficult issue with the fragile states. The first two, I think it is clear to me what we would like to see done and not done, at least to many of us. The fragile state issue is less ideologically charged, more a question of competence and specificity. We do want to guard against the possibility that fragility will invite even more intervention of the wrong kind. But the fundamental issue is what is the appropriate way to help fragile states, and that is one where we want to be totally cooperative and supportive in trying to figure out what to do.

Now the ranking member, who has been from the time of the debt relief a leader in the effort to get policies that are truly responsive to the terrible needs of poverty in the world, the gentleman from Alabama.

Mr. BACHUS. I thank the chairman for holding what I think is a very important hearing on authorizing the United States' commitment to the International Development Association, the IDA, and the African Development Fund, thereby fulfilling our previous commitment to these 82 highly indebted poor countries.

I want to associate myself with the remarks of the chairman when he said that this committee in a bipartisan way has been committed to supporting authorization and appropriation of these funds, which I believe are increasingly becoming more effective and now have an established track record of achievement and success in many of these countries.

By fulfilling the United States' commitment to IDA 15, or the 15th replenishment of IDA, and to the AfDF 11, we fund two of the most effective vehicles for delivering aid to the world's most impoverished countries. As examples, in the last 15 years, IDA contributions have helped rebuild—and these are just some specific examples—9,000 miles of roads in Ethiopia, tripled the number of girls attending Bangladesh secondary schools, and helped improve availability and access of 25 million people in the world's poorest counties to safe drinking water and sanitation.

For countries unable to borrow at market rates to meet the basic medical, educational, and nutritional needs of their peoples, both programs are a vital financial lifeline. Not even the strongest proponents contend that these programs are perfect, and today's hearing offers this committee an opportunity for oversight to work with the Administration, NGOs, the World Bank, and others to help strengthen and ensure that the funds that U.S. taxpayers contribute are being used wisely and effectively.

In this regard, recent reforms undertaken by the IDA with encouragement from the United States and other donor nations are worth noting. Among other steps, the IDA has reevaluated the conditions placed on countries, improved its system for monitoring results, increased its role in engagement in fragile and postconflict states, and is working to become more transparent. As the chairman said, we have to be very careful with the conditions that we impose and how we impose those.

Next week, the committee will consider legislation authorizing funding for both of these entities. It is my hope that we will fulfill our prior commitments to assist these 82 heavily indebted countries and approve a bill free of new conditions that would weaken, not strengthen, the United States' voice within the World Bank.

As I have said before, the cost of not acting is not just hopelessness, but increased political unrest throughout the world, because poverty creates a fertile environment for terrorism and corruption and creates the type of conditions that allow dictators to thrive. This sentiment is echoed in the report of the 9/11 Commission, which states: "When people lose hope, when societies break down, when countries fragment, the breeding ground for terrorism is created."

I think there is general consensus among the Administration and both the Majority and the Minority in this Congress that this legislation is very consistent with our foreign policy objectives and really strengthens and helps us achieve those objectives.

Mr. Chairman, the United States Government has pledged this funding. It is now up to Congress to authorize it. This is an important and noble task. We have an opportunity to make a difference over the long term to countries mired in poverty and strife. We should not turn our backs on this important work or on them.

While I look forward to hearing the testimony of all of our witnesses, including Assistant Secretary Lowery and witnesses on our second panel, I want to extend a special welcome to David Beckmann, or Dave Beckmann, president of Bread for the World. Mr. Beckmann and I have worked together on providing assistance to developing countries in the past, and his book, "Grace at the Table," helped inspire me to become involved in this effort. He is, in many regards, a mentor to me.

With that, Mr. Chairman, I thank you again for your leadership on this issue. You are an inspiration to others. I applaud you for holding this hearing, and I yield back the balance of my time.

The CHAIRMAN. I thank the gentleman. I think our collaborative efforts in this area over a long period of time have really been one of the highlights of the committee's work.

The gentleman from California is recognized for 5 minutes.

Mr. SHERMAN. I have always been an extremely strong supporter of increased American effort to help the world's poor, and that is why nothing is more embarrassing to me than the World Bank and the stubborn effort of this Administration and others to funnel our scarce foreign resources, foreign aid resources, through the World Bank.

We have a choice when we tax the American people and use those funds to help the world. We can funnel that money through the World Bank, through other international organizations, or directly through USAID and other organizations totally separate from the United States Government.

There are those who are say that whatever flaws the World Bank has, if we don't put money in, the Europeans and the Japanese won't either, and they will cut their foreign aid. What an outrageous attack on the morality and ethics of the people of Europe and Japan to think that they would use our decision, a possible decision that I would advocate, not to use the World Bank institution, as an excuse to reduce their total aid to the world. They might join with us and decide to funnel their foreign aid through other organizations, but to use as the boogeyman that we have to fund the World Bank or Europe and Japan will immorally cut their efforts to the world's poor is an insult to our intelligence and to their morality.

Why is the World Bank such an embarrassment? Why does it pose a great threat to all of us Members of Congress and others who support increased foreign aid? There are many reasons. I will focus on just one. That is the decision of the World Bank to loan $1.35 billion to the Government of Iran over the last 8 years.

We will be told that this is from the IBRD and not the IDA, and that if we in Congress are really stupid, we will think there is a big difference. Let's look at the World Bank Web site, the one before they took it down in order to hide the truth, the one they had up for many years, which says IBRD and IDA are run on the same lines. They share the same staff, the same headquarters, report to the same President, and use the same rigorous standards when evaluating projects. IDA simply takes its money out of a different drawer.

A country must be a member of IBRD before it can join IDA. Let me quote again the words, "They use the same rigorous standards when evaluating projects." Why would we take our scarce foreign aid dollars and route them through a staff who decides that one of the good uses of money is to send it to Tehran, and how are we supposed to go to our colleagues and urge them to vote for more foreign aid when we expose them to the risk that their constituents will notice that some of that money is going to Iran?

I would say there are so many deserving organizations, so many ways in which we can support ending poverty in the world. For us to send the money to the World Bank is an abdication of our responsibility and imperils U.S. support for foreign aid.

What does sending that money to Tehran do? It allows Iranian politicians to stand in front of water purification plants or sewage plants and cut the ribbon in the same way those in Congress know is so important to staying in power, because you have to bring home the bacon. I know it is not kosher, but you have to bring home the bacon. But what better way to illustrate to the Iranian people that the nuclear program of their country hardly cuts them off from the world, but rather that the whole world is sending money to that government. What better way to illustrate that they are losing nothing by building nuclear weapons than to cut the ribbon in front of a project funded by the World Bank, funded by an organization which is just one drawer away from a drawer in which we are being told to put more American money.

Let us support our efforts to help the world's poor by stopping our involvement with the World Bank until it stops funding the Iranian Government. That is the only way to go back to our districts with a straight face, not having to hope that our constituents don't know what we are up to, but rather to be able to go back and honestly advocate for more foreign aid.

I yield back.

The CHAIRMAN. The gentleman from Texas.

Mr. GREEN. Thank you, Mr. Chairman. I especially thank you for holding this hearing. I believe it to be exceedingly important.

I have had the opportunity to travel to Darfur, Africa, and I have seen some of the conditions there that merit a lot of attention. But I have also had an opportunity, Mr. Chairman, to travel to Haiti, and Haiti is in our hemisphere, just off the coast of Florida. In Haiti, we have a poverty rate of about 80 percent. We have about 70 percent of the people living off of $2 per day, or less; about 56 percent, more than 50 percent, live off of $1 per day, or less. They have the highest HIV/AIDS rate in the Western Hemisphere.

In Haiti, they have five seasons. Of course, we have four. The fifth season is the hunger season, a time when they can predict hunger will exist to the extent that it will cause great pain and death to some people.

So I am very pleased that this hearing is taking place because I am very much interested in what is happening just off the coast of Florida in a country that begs for help. They do not have a fishing industry. They are now becoming a staging point for drugs. They have large-scale corruption that is being dealt with. It is my hope that somehow we can see some help flow to a country that is so near to us and in desperate need of attention.

Mr. Chairman, again, I thank you, and I thank the ranking member as well.

I yield back the balance of my time.

The CHAIRMAN. There being no further members—Ms. Moore has joined us. The gentlewoman from Wisconsin is recognized.

Ms. MOORE OF WISCONSIN. Thank you, Mr. Chairman.

Thank you, panel, for joining us today for this very, very important issue of World Bank conditionality. This is something that is of real interest to me, given that the chairman has given me responsibilities as the committee's representative to the Parliamentary Network on the World Bank.

I am very interested in your comments. I have more questions than I do answers. So with that, I will yield back the balance of my time.

The CHAIRMAN. The gentleman from Indiana.

Mr. CARSON. Thank you, Chairman Frank and Ranking Member Bachus, for holding this hearing today regarding the 15th Replenishment of the International Development Association and the 11th Replenishment of the African Development Fund.

As we consider these proposals today, we face critical questions about the effectiveness of current aid and how we can work to rebuild failed or fragile states. I am very pleased that the Administration sought significant increases in the U.S. contribution to IDA and for the African Development Fund. We must target these crucial multilateral resources towards fighting the HIV/AIDS epidemic across the globe, combating global climate change, stabilizing weakened governments, and addressing the global food crisis.

Yesterday, I met with David Miner, chair of the board of directors for Bread for the World, and a highly respected member of the Indianapolis community and a very proud Hoosier. He highlighted the severity of the world food crisis and how important it is that we give weight to this problem in examining how global assistance through the IDA is directed.

He said that the current food prices represent a significant setback that at this point he doesn't think the world community has fully realized the impact of, and I could not agree with him more.

I would also like to add that during my recent trip to Haiti, I was deeply moved by those I saw suffering from extreme poverty and hunger. In a world with such wealth and resources, we must aggressively fight to make sure the resources we devote to foreign assistance can truly bring about the substantive and structural changes within governments to help those living at the margins of society.

Further, I appreciate that since 2005, the World Bank has been increasingly open to suggestions about policy and has recognized to some extent the negative implications of imposing harsh conditionalities on recipient countries. Privatization of public services and user fees on secondary education, health care, and even water have not stimulated economic growth in these countries. Rather, they have served only to exacerbate the dire circumstances of the citizens within recipient nations.

Lastly, I think it is very important to note that Chairman Frank has been a great leader in promoting transparency and accountability within the World Bank. I commend him for his work and would note how important it is for affected citizens to be able to weigh in on the policies imposed by the Bank and offer opinions on how to strengthen those policies.

I would like to thank the witnesses today for attending, and I look forward to this important discussion. Thank you.

The CHAIRMAN. We will now hear from a regular and welcome witness, the Assistant Secretary for International Affairs at the Department of the Treasury, Clay Lowery.

Mr. Lowery.

STATEMENT OF THE HONORABLE CLAY LOWERY, ASSISTANT SECRETARY FOR INTERNATIONAL AFFAIRS, UNITED STATES DEPARTMENT OF THE TREASURY

Mr. LOWERY. Thank you, Chairman Frank, Ranking Member Bachus, Congresswoman Moore, and Congressmen Green, Carson, and Sherman. Thank you for the opportunity to discuss the Administration's request for the authorization of the United States to participate in the 15th Replenishment of the International Development Association, known as IDA.

IDA is the main vehicle of the World Bank to support 82 of the poorest countries around the world by providing the largest source of interest-free loans, grants, and debt relief of any multilateral development institution. Our request for $3.7 billion over 3 years represents a 30 percent increase over IDA 14.

Due to the shortness of time, I am not going to be discussing the African Development Fund replenishment, but I am happy to take any questions on that.

There are a myriad of reasons to support the authorization and appropriations of IDA. Today, I want to highlight three: effectiveness; leverage and coordination; and U.S. foreign policy objectives.

The bulk of development research suggests that for assistance to be effective, it should be country-driven, performance-based, and measured systematically for results. IDA is a leader in all three areas. Countries receive assistance from IDA that reflects their own priorities. IDA helps countries build the systems and capacity within governments to enable them to tackle barriers to growth and poverty reduction, working across sectors such as agriculture, education, infrastructure, and health. IDA is performance-driven, as the top-performing 10 percent of countries receive 7 times as much assistance on a per capita basis as the poorest-performing 10 percent of countries.

IDA is also the first international financial institution to systematically track the outcomes that countries achieve under their programs, such as educating girls. This measuring for results system provides greater accountability, as well as a valuable evaluative tool.

IDA's effectiveness can be seen in such areas as IDA countries in the last 40 years—in IDA countries, people are living on average 15 years longer than they did; illiteracy has been cut in half over the past 30 years, from 50 percent to 25 percent of the population; and 80 percent of children now complete primary education.

There are many country-specific examples. I will just give you one. In Senegal, IDA supported the country's rural infrastructure projects, which improved roads, strengthened decentralization and financed microprojects, including water, schools, livestock, and other development needs. The results are that beneficiary households in the 110 participating rural communities reported a 25 percent increase in incomes. Markets, schools, and health facilities are now more accessible. Children now typically spend 10 minutes getting to school, instead of 30 minutes, and the weight and height under 3 years of age has improved.

These efforts are being noticed. In a recent article Bill Easterly, who is a notable development expert and very harsh critic of development assistance providers, ranked IDA as the number one donor using best practices in aid in his evaluation of 39 multilateral and bilateral agencies.

As a multilateral institution, IDA provides financial leverage for development resources. For every dollar the United States contributes to IDA, it is expected that $15 will be provided in loans or grants to those countries. IDA's leverage, though, is not simply financial. At a time when the average number of donors per country has grown from 12 in the 1960's to more than 30 today, IDA can support the country by providing coherence among donors and sharply reducing the transaction costs for recipient countries.

IDA is also renowned for its convening power, as has been very evident lately, given Congressman Carson's question about the World Bank's response to increasing food prices. Through the effective leadership of President Zoellick, the World Bank has played a central role in galvanizing the international community to try to meet not only the short-term needs of many poor countries, but also advocating the appropriate policies to address ways to include agricultural productivity in the long run.

The United States has a wide international reach, however, we can't do it alone. The greatest opportunities and the most serious threats to U.S. interests now come from the developing world. While IDA accounts for only a small amount of the Administration's foreign assistance request, its global reach and expertise make it a very effective instrument for advancing U.S. strategic objectives abroad.

For instance, since 2002, the World Bank has committed $1.56 billion for 36 reconstruction projects and 3 budget support operations in Afghanistan, and just last week it committed another $1.1 billion over the next 5 years in Afghanistan. This assistance has helped rehabilitate schools and decentralize management to increase enrollment across grades, especially among girls.

My boss, Secretary Paulson, is fond of saying that if the private-sector organization does not change with the times, it is likely to go out of business, whereas a public-sector institution is likely to become irrelevant.

Thus, the United States uses the IDA replenishment negotiations as a platform to leverage reforms that we think are necessary to make the World Bank change with the times. Over the years, our forum agenda has taken IDA to new frontiers on measuring and achieving development results, delivering 100 percent debt relief to potentially over 40 countries, securing grant finance for the poorest countries, and enhancing accountability and transparency. In the latest negotiations, we made a major effort on a number of areas that you all have commented on, such as working to coordinate and find mechanisms to assist in the revitalization of fragile and postconflict countries in a much more effective way.

IDA is now taking a much greater role in supporting regional projects, which are important for many countries to address water management, road networks, trade facilitation, and energy assets.

In conclusion, the fight against global poverty is one of the biggest challenges of our time. As both a courageous and generous Nation, the United States is a natural leader in this fight to support those in the greatest need. IDA is probably the most effective institution through which we can invest to achieve that goal. This is not to say IDA and the World Bank are perfect. Rather, it underscores the need to constantly reevaluate IDA's approach to find out what works and what doesn't.

In the end, what we would ask for is the full funding of our request, which is something that IDA needs to help make those contributions and to help pay for that debt relief. The continued arrears by the United States jeopardizes our ability to deliver on our promises and hurts our influence to lead IDA.

We respectfully urge your support. I look forward to answering any of your questions.

[The prepared statement of Assistant Secretary Lowery can be found on page 60 of the appendix.]

The CHAIRMAN. Mr. Secretary, we share, many of us, the Administration's view that support for these institutions is important, but you just heard a very strong argument that might have some appeal here from our colleague from California. What is your response to those who say, "Well, but the World Bank is lending money to Iran, and therefore we should sever relations?" What are we doing about that, and how do you respond to that?

Mr. LOWERY. Congressman Sherman's question, I know he is no longer here, but it is true that IDA and the IBRD are associated, but the IBRD is financed through putting bonds out in the market. IDA is financed through donor support.

The World Bank, over the objections of the United States, strong objections, has provided finance in the past to Iran. The last time that was done was over 3 years ago.

If you cut assistance to IDA, what you are cutting is assistance to Haiti, Liberia, Afghanistan, Ghana, and Uganda. You are not cutting assistance to Iran. So in that respect, I think it is a mistake to think that there is no distinction between IDA and the IBRD.

Secondly, in terms of what is going on in Iran, we have been very critical of the World Bank providing any assistance to Iran. Most of the assistance was associated with the earthquake in Bam a few years ago, to help provide support to help with the problems that happened with that earthquake.

We have nothing against the Iranian people; we have something against the Iranian Government. I would say I can't think of anybody who has done more to try to help stop financing to Iran than Secretary Paulson and Under Secretary Levey at the Treasury Department. So we stand very strongly with the Congressman from California on the goals of what he wants to achieve. We just don't think his methodology is correct.

The CHAIRMAN. Two things. This is a financing separation, but let's talk about what is going forward. Is there anything pending from the World Bank? Part of the problem with Iran is not simply that we have very legitimate concerns with the irresponsibility of the government and its continued insistence on getting nuclear weapons. It would be an inconsistency between tough economic sanctions and this. But it would come as a surprise to people who think of the Bank as trying to help poor countries. Iran must be edging up into the category of countries that even the middle-income countries aren't there.

Are there any pending proposals to provide aid to Iran? I assume we would strongly oppose them. We have this alliance with several of our allies. We don't ourselves have the votes solely to block it, but I would think if you got the countries that have been working with us on sanctions, the Western Europeans and others, we ought to have the votes to say no to it.

Mr. LOWERY. That is a good question. The World Bank, as I said, has not provided any assistance to Iran for over 3 years in terms of making new commitments. My understanding is that there is no plans or pipeline coming up to provide new assistance to Iran. I believe that there are disbursements from old loans that are still going out, and those are very difficult to stop once the decision has been made to let them go forward.

As I said, we thought it was a mistake to let them go forward. I think we have been proven right, as we have now seen since those have gone forward, the U.N. has taken a number of sanctions on Iran. Just this week, we saw the European Union agreeing with the United States on taking financial sanctions against one of the financial institutions in Iran.

But to my understanding, the World Bank—one thing we were questioning is whether the World Bank is actually living up to U.N. sanctions. The general counsel of the World Bank has given an opinion after discussing it with the U.N. general counsel that they are.

I agree with you completely, we need to continue to stop this until the Government of Iran does change—

The CHAIRMAN. I think it would be helpful, both as a matter of policy in general—and again, we are not talking about poverty there. If they can afford to do some of the things they are doing, I would think they don't need the World Bank's help. But I would tell you, I think a letter from the Secretary of the Treasury not only reaffirming our intention to vote against any new money for Iran, but reassuring us that this Administration is working in concert with various allies to get the votes to block it, which we ought to be able to do. I would think if our European allies and Japan and some others who have joined us in this were to join, we could block it.

I also would hope that Mr. Zoellick would certainly not be supportive of this, and I don't think he would be, both, again, because of the economic necessity, etc. I understand it is a different story to be disbursing what is already there. If we can get those assurances, I think that would be very helpful

Mr. LOWERY. We can definitely look into that.

The CHAIRMAN. The last thing I would add, I have here the "Doing Business" report. They gave some awards. The head of Doing Business was—the Bank gave out its annual Doing Business Reformers' Club Awards. The best reformer was that noted paragon of human rights and equity, Egypt. Unfortunately, Saudi Arabia and China were only in the top 10.

Now, a report which talks about how good Saudi Arabia and China are just can't be what we want to see. They won this award because—and I notice one of the things they say in here is that they worry that people get 1 day a week off, and some other things.

This index is really a problem. Saudi Arabia and China are in the top 10; that can't be good. So I would hope you would join us in trying to deal with this. That is another threat to the level of continued support that we want.

I would ask at this point to put into the hearing record—I am quoting from the letter from Peter Bakvis, the Director of the International Confederation of Free Trade Unions, his Washington office, to his labor colleagues; and an article from that radical publication, the Wall Street Journal, authored by Mr. Bob Davis. The headline is, “Report on World Bank Sees Deregulation Bias.” That is a report from the Bank’s own internal investigator.

I ask unanimous consent to put these in the record. Without objection, it is so ordered.

The gentleman from Alabama is recognized.

Mr. BACHUS. I thank the chairman.

It does appear that a lot of the resistance to this bill deals with channeling our efforts through the World Bank. One thing in this regard I think is important for us on this committee to keep in mind is that I think Bob Zoellick is providing wonderful leadership at the World Bank. He is very well respected, not only here in the United States, but I think throughout the globe. It is a difficult balancing act.

But I will ask you that question, Assistant Secretary Lowery. Is it better for us to contribute to the World Bank or to give—is that the most effective way, or is it more effective to give through our own government programs?

If we do give through our own government programs, do we sacrifice some of the marshalling and coordination where the World Bank convenes and will marshal assets, and really, in my mind sometimes, the total effect is greater than the parts?

Mr. LOWERY. I think you ask a very good question. I used to work for one of the bilateral development agencies, the Millennium Challenge Corporation. I think it is important to actually have a broad strategy on how you are doing development. There are things that USAID does that, frankly, they do better than anybody else in the world. There are things that MCC is doing—I don’t think MCC has the track record to say they are doing it better than anybody else in the world, but they are doing something that I think is very different, and I am very hopeful about their future.

Then there is the World Bank. The World Bank is doing things in a way in terms of leveraging others’ resources and in terms of the way they focus on such issues as measuring results and actually providing assistance to the poorest countries on a performance-based allocation system and working with those countries that is very, very highly rated.

I mentioned Bill Easterly in my testimony. But the United Kingdom, for instance, increased its resources to IDA by 50 percent in this last replenishment mainly because they said we did our own rating of all the development agencies out there, and IDA was the best one that there is.

So I think it is an effective institution, and obviously we think it should be supported.

Mr. BACHUS. Thank you.

I would agree with you that they have expertise in certain areas that we simply don’t have. I think by participating with others as partners, I believe that there is a lot of benefit and value in that, and because of Bob Zoellick, simply because he is president gives me much greater comfort.

Mr. Assistant Secretary, is it correct that if we do not authorize the entire IDA package, that the United States actually forfeits $232 million prepaid credit toward our share of debt relief for the world's poorest countries, money we pledged but have not paid, and what would be the consequences if that happened?

Mr. LOWERY. If we do not authorize the 3-year increase and appropriate what we have done, there are a couple of things that will happen. One is the effect that you are talking about, which is that part of the IDA replenishment is to actually help fund the debt relief through IDA, so it is basically using the reflows and funding that.

We had basically agreed with the world that we would try to do this on a dollar-for-dollar basis to continue to provide new assistance to poor countries, so IDA will be basically paying for the debt relief. Right now that is why, if you look at our arrears request, it was for $42 million for IDA. That was basically so we could make good on the debt relief part of our IDA request. We actually have a higher IDA number in arrears than that $42 million, but we wanted to get at what was vital to debt relief. So if we don't approve the whole thing, we could easily get into a situation where we are no longer financing the debt relief that we pushed so hard for.

In addition, the reason why we are looking for a 3-year authorization is because IDA is trying to make sure that it has 60 percent of its commitments to start putting out new money by December of this year. The authorization on a 3-year basis is about basically trying to get to that 60 percent number. The United States is obviously the second largest donor to IDA, so that is a good way at getting toward that 60 percent figure.

Mr. BACHUS. Thank you.

The CHAIRMAN. The gentleman from California.

Mr. SHERMAN. Thank you, Mr. Chairman, and thank you for joining with me and others in focusing on the Iran part of the World Bank's portfolio.

About a year ago, the Secretary of the Treasury was here before us and he described in detail all the hard work he had done—calling finance ministers around the world, putting America's credibility on the line, hour after hour of hard work to try to save Mr. Wolfowitz's job. He also indicated that he hadn't spent a full 60 seconds of personal effort to prevent the World Bank from disbursing money to Iran.

Are you aware of what the Secretary of the Treasury has personally done? How many hours of his time would you estimate he has put in; how many finance ministers has he personally called in an effort to halt all further disbursements to Iran?

Mr. LOWERY. I can say this: Under Secretary Paulson's leadership, not one new dime has been committed to Iran by the World Bank.

Mr. SHERMAN. My question was—

Mr. LOWERY. You asked about his leadership, and that is his leadership.

Mr. SHERMAN. I phrased the question very carefully; I said to prevent disbursements. By that, I think we clearly understand disbursements on the $1.3 billion of money in the pipeline already approved. So as to stopping disbursements, how many finance ministers has the Secretary personally called?

Mr. LOWERY. I don't have an answer to your question. I can say this, that the Secretary of the Treasury has worked hard to basically stop disbursements to Iran. He has worked, I know, and had discussions with not just finance ministers, but also with the president of the institution. He has asked us, and we have followed up on making sure that is Iran's disbursements by the World Bank in line with U.N. sanctions, to the point where the General Counsel's Office at the World Bank went and talked to the general counsel at the U.N. to make sure that they were within sanctions to continue the disbursements, and it turns out they are. It just turns out legally they are.

I can also say that the Secretary of the Treasury has spent innumerable numbers of hours, and there is no way I can count it, on basically working on stopping finance to Iran. In fact, I would suggest that nobody you know has spent more hours than Secretary Paulson on that issue.

Mr. SHERMAN. Sir, by changing the question, you were able to give me the answer that you wanted to give. Are you saying that the United States takes credit for the fact that of the $1.35 billion approved for disbursal during this Administration, only half has actually been disbursed? Are you saying that the United States takes credit for the fact that roughly $667 million has not been disbursed yet?

Mr. LOWERY. I don't take credit for any of it because we voted against those commitments. We think it was outrageous that the World Bank made those loans. We tried to prevent them. We were unsuccessful. That doesn't mean we didn't work hard at it.

Mr. SHERMAN. We have had testimony before this committee that indicates that you did very little except vote "no," and, of course, you are required to do that by law.

But you are missing my question. My question is not preventing approval of the loan, it is taking the extraordinary action of blocking disbursements after the loan has been approved. Some $667 million has not actually been disbursed, even though it has been approved. Does the Administration take credit for the fact that there seems to be a slowness in the checks being cut?

Mr. LOWERY. I don't think I would want to take credit for that. I think that basically we have worked hard to prevent any new funding from going to Iran. We have been successful at that. We are working hard—we would like to stop the disbursements, but we are right now not in a position that we can block those disbursements. We do work with our partners on those issues, but I don't want to take credit for that.

Mr. SHERMAN. World Bank practice is not to approve loans unless there is a country assistance strategy in force. There was no country assistance strategy for the two projects approved in 2005, and yet they were approved anyway. So the World Bank has violated its own practices in order to approve loans to Iran.

What assurance do you have that a new country assistance strategy will not be approved by the World Bank? If they approved one tomorrow, would that be in violation of any promises that have been made to us either by World Bank executives or by the board members in the countries they represent?

Mr. LOWERY. My understanding is that the World Bank does not have any new loans in their pipeline for Iran. They do not have a country assistance strategy that is being prepared for Iran, and we obviously would be working against that. We would work with our European and Japanese allies on such a issue. My guess is, given the way the sanctions have been done over the last few years, that some of their positions on World Bank financing for Iran will have changed over that time.

Mr. SHERMAN. So we have fond hopes, but no promises. Have we indicated that our policy toward any other country on any issue would be affected? In effect, have we used linkage to indicate to our European and Japanese friends that approval of additional loans to Iran or disbursements of loans in the pipeline may adversely affect our opinion of some issue of importance to them?

Mr. LOWERY. I don't know of anything.

The CHAIRMAN. Will the gentleman yield?

It is a central question. My staff, who does an excellent job of keeping up with this, tells me the reason the general counsel of the U.N. was able to tell the general counsel of the World Bank that this did not violate sanctions is that there was an explicit loophole or an explicit exception for Iran getting—for the World Bank and the sanctions resolution. If that is the case, one of the things that would be helpful is, as it does appear to be a toughening on the part of some of our allies, to try and get a new resolution that rescinded that permission, because apparently it is not a surprise that there is language in the resolution that went through the Security Council. Maybe that was the best deal we could get at the time. But if there is going to be new Security Council resolutions, rescinding that exception would seem like one way. Then you would have a much stronger argument on the disbursements.

Mr. LOWERY. The exception is for humanitarian and development assistance purposes, which is not just the World Bank, I am sure. But it is an exception we actually have tried to close in various U.N. negotiations. We have not been successful at that.

Mr. SHERMAN. Just reclaiming my time for a second, the reason our U.N. sanctions have such loopholes, including this one, and the reason the loopholes aren't closed is our unwillingness to use linkage, our unwillingness to tell Russia or China that how they voted at the United Nations will have any effect on what we do on issues important to them, whether currency valuations or anything else. Likewise, the Under Secretary has indicated that our European and Japanese friends have never been told that how we react to any issue of concern that comes within Treasury's jurisdiction will be affected by their actions with regard to Iran. So in the absence of any ability to bargain, it is not surprising our diplomats have—

Mr. LOWERY. I will also say that it is the efforts of the Treasury Department that have been able to actually get just this week the European Union to actually put sanctions down on something like Bank Melli, which was a large effort on our part, and now successful effort, in terms of the European Union to have the same type of sanctions we already have, and that is an effort, frankly, of the Treasury Department as well as the State Department.

The CHAIRMAN. I would also remind you that this House passed a bill that originated in this committee, the Iran Sanctions Act—

and the gentleman from California was a major sponsor—that would remove any obstacles from corporations or State governments from divesting, and that has been bottled up in the Senate. It would be helpful if there was some action there.

The other thing, as you say, we talk about the inspection panel. Fifteen years ago, this committee did the inspection panel. Sidney Key was then our staff director and played a major role. The way it was done, we had no authority to order the World Bank to do an inspection panel. They had no ability to order to provide them the money. What we did was to act on the principle that the gentleman from California is basically invoking, the ankle bone is connected to the shoulder bone ultimately. So we would advise some attention to that.

The gentleman from Georgia.

Mr. SCOTT. Thank you very much, Mr. Chairman.

Mr. Lowery, let me just bring your attention to another area. Let me find out what you are all doing, what is IDA doing with Haiti, and what are you doing with Africa, because there are many things that the human body can do without, and none of them are either food or water.

It just breaks my heart as I watch the television screens and read in the newspapers of the devastation of hunger and people going without food in Haiti, which is right off our shores. I want to know what IDA is doing to help with that situation.

Secondly, I want to know, now we have a problem with water on the Continent of Africa, especially in the area of Rwanda. I want to know what the IDA is doing to help with water scarcity in that area. I do understand you are moving in some directions with the program in Rwanda, but I think that all of us on this committee, and the American people, certainly would like to know. These are two very pressing humanitarian issues of the maximum degree, food and water.

In Haiti and Africa, what are we doing about it, what is IDA doing about it, how much money are you spending on it, and can you give us a complete understanding of the gravity of the situation and where you are placing that on your agenda?

Mr. LOWERY. Thank you. You asked a couple of questions in there. Let me try to see what I can do.

In Haiti and in Africa, the United States has been leading the way, although IDA has been doing a lot of work, on providing a significant amount of debt relief to those countries. Haiti is basically—this one, I would say, has been a big U.S. effort—going to get over $1 billion in debt relief from the IMF, the World Bank, and the Inter-American Development Bank. There is no way that would have ever happened without the United States. It would never have happened.

Secondly, the African countries, most African countries, are getting a huge amount of debt relief. I just had it next to me. Rwanda is going to get $1.8 billion of debt relief from the IMF, the World Bank, and the African Development Bank, as well as debt relief from its bilateral creditors.

Mr. SCOTT. Can you explain to me, I am just a country boy from Georgia here, tell me how directly debt relief will be able to put food directly in the stomachs of the people in Haiti and get water to the people in Africa.

Mr. LOWERY. Basically, the idea is that what debt relief does is take the stock of debt and basically reduces i. That means that the flows from debt do not have to be paid any more. So because of that, you actually have savings from that.

Now, the idea is that they use the savings to do things like put more money towards education or health care or water systems or towards agricultural production, which is important for food. On top of that, going beyond debt relief, the World Bank provides obviously a lot of new assistance to countries like Haiti, Rwanda, and so forth through IDA. And that is what this whole allocation system, that is what I am here doing today. In Haiti, for instance, the World Bank was going to provide $80 million in the first half of this year alone to Haiti as a grant. But because of what has been going on with food prices and food inflation, they are putting another $10 million on the table basically as emergency food support for the people of Haiti. So these are the type of things they have been doing.

In fact, President Zoellick—I know the ranking member had mentioned his leadership in a number of areas—I would say his biggest area that he has been a leader on is this agricultural problem. How do we get short-term assistance to countries like Haiti and other countries? And he has basically led an effort to get about $1 billion around the world to countries. On top of that, how do we address the medium-term and longer-term agricultural productivity issues so we don't get back into these problems?

Mr. SCOTT. Mr. Lowery, is there a way that IDA can help put pressure on getting food now into Haiti? Is there any role that you can play that—the people are hungry right now.

Mr. LOWERY. Yes.

Mr. SCOTT. The people are starving right now. This is an urgent matter that is not going to wait on a crop to grow. So what can you do, what can your agency do to help put pressure, and where would that pressure be to get food there now?

Mr. LOWERY. That is an example of what the World Bank is doing. They are providing short-term assistance. When I say short-term assistance, that is about providing food now. And that is—sometimes it is done through the World Food Programme, which is a U.N. organization. Sometimes it is done through bilateral organizations. IDA is already putting on the table an emergency $200 million, of which $10 million is going to Haiti to actually put food down there now.

Mr. SCOTT. All right. Good.

Now, please, Mr. Chairman, just one little question I have. I know my time is running out. But on the water—

Mr. LOWERY. Yes.

Mr. SCOTT. —are there specific programs—why is this? This is a phenomena to me. I am just finding out about this today as a matter of fact, that they have a water problem there; people going without water. And you are involved in that. Can you give a quick summary of what you are doing there? And are you moving ahead with what we call harvesting water for the future?

Mr. LOWERY. No, I think that—I mean, the World Bank's efforts on issues like water are going to be about the future most of the time, because it is—what they are doing is they are not a humanitarian organization. So if there are humanitarian needs, usually it is not the World Bank. It is things like the United Nations; or USAID is, I think, the best humanitarian organization in the world probably; or NGOs and so forth.

What the World Bank will have the best expertise on is providing support, financial support, technical support on developing better water systems, and so increasing water so that you can get water for the future, such as, you know, there are different ways of building systems. I think that is where the World Bank has the expertise.

I don't know the specifics in terms of Rwanda in terms of how much financial assistance they are providing. We can get that for you. But that is where the World Bank usually focuses its attention.

Mr. SCOTT. Okay.

Thank you very much, Mr. Chairman.

If you could get me a report to my office on what specifically you are doing for the immediate situation and crisis in Haiti, and what you are doing for the immediate situation with the water crisis in Rwanda, I would deeply appreciate it.

Mr. LOWERY. Yes, sir.

Mr. SCOTT. Thank you, Mr. Chairman, for your indulgence.

Mr. BACHUS. Mr. Chairman?

The CHAIRMAN. Yes, the gentleman from Alabama.

Mr. BACHUS. If I could take maybe 1 minute to address what the gentleman from Georgia was referring to. I think it would also be helpful—one thing I don't want the committee to miss is what the Assistant Secretary said about Bob Zoellick's leadership in, not only addressing the short-term needs, which are going to continue to be needs if you don't increase the domestic productivity in agriculture. And so the report could also include the efforts of the World Bank and the IDA to promote policies which lead to greater agricultural production in a lot of these countries, and long term, these countries feeding their own people is really, that is the very best solution. I think that is one of the things that leads to the best successes.

Now, we also have another situation, and that is not for this hearing, but it is the effect of ethanol on the world food prices. And that is—I won't get into that.

Mr. SCOTT. [presiding] The gentleman from Texas, Mr. Green.

Mr. GREEN. Thank you, Mr. Chairman.

Mr. Lowery, as you know, I opened up with a Haiti question, so please don't feel as though we are picking on you as it relates to Haiti.

But it is something that really does touch our hearts and our souls and shocks our consciences because I have actually been there, and I have seen the circumstances of which others read about. And it really is deplorable and in need of some immediate attention.

You indicated that we have provided about $1 billion in debt relief. What is the total amount of debt owed, please, from Haiti?

Mr. LOWERY. I don't have that figure in front of me, but I can try to get it. I don't have that figure. I know that it is about $1.1 billion of debt relief. My guess is that is almost—I think that should be related to basically 100 percent of the debt from bilateral official creditors and the multilateral official creditors. There is probably some small change left after that. Haiti is still going through this debt relief program. It should conclude that program by early next year.

Mr. GREEN. I am concerned about the debt relief, because you have explained that, in essence, what happens is this: When you have debt relief, you can then take your funds and rechannel them to other things that are more urgent.

Mr. LOWERY. Yes.

Mr. GREEN. Why is it, in a country wherein you have about 70 percent of the population living off of $2 a day or less, more than 50 percent living off of $1 per day, 80 percent poverty, the highest HIV/AIDS rate in the Western Hemisphere; they have a hunger season; why can we not give them total debt relief given that we can see that the debt is a part of the problem? There is no escaping the fact that the debt is a part of the problem. Why can we not give them total debt relief?

Mr. LOWERY. We are giving them total debt relief.

Mr. GREEN. But we are—excuse me, just a minute, and I don't mean to be rude, crude, and unrefined, but I have little time. "We are giving" is not quite the same as "We have given."

Mr. LOWERY. Right.

Mr. GREEN. And I want to get to the "We have given" point in the conversation.

Mr. LOWERY. Yes.

Mr. GREEN. When can we have total debt relief for Haiti?

Mr. LOWERY. It is expected that total debt relief for Haiti will be finished and completed by early next year.

Mr. GREEN. I take early next year to mean some time in the month of January. That would be my definition. If my definition—

Mr. LOWERY. I am hoping it will be earlier than that.

Mr. GREEN. —is incorrect, I would gladly want to hear yours.

Mr. LOWERY. No, no, right now the best expectations, basically the way the debt relief initiative has been set up a long time ago for all countries, Haiti and lots of other countries, is you start receiving debt relief on what is called an interim basis. That means on a flow basis, and then so you start getting the debt relief on the flow basis. The stock, where you do the 100 percent debt relief, that happens once you have completed kind of a program. The program is associated with some of the type of criteria that was in the Jubilee bill this year.

Mr. GREEN. Yes, because I have limited time I will look forward to hearing more from you about the debt relief. And maybe you and I can remain in contact with each other such that we can—

Mr. LOWERY. I would be happy to talk to you or your staff at any time.

Mr. GREEN. —get more intelligence on this as it progresses.

Next point, sir, sometimes shining a light on a problem will cause more attention and more help to manifest itself. Have we done any trips to Haiti at the level of the Secretary, wherein someone actually goes there and you actually take the world there through the lens of the camera so that people can see what I have seen and perhaps have a much more sympathetic response?

Mr. LOWERY. Yes. Well, Secretary Paulson has not gone to Haiti. I know that he has met—

Mr. GREEN. Have you gone, by any chance?

Mr. LOWERY. I have, but it was in a previous job. I have been to Haiti.

Mr. GREEN. You know about the food riots?

Mr. LOWERY. Yes. In fact, actually, I met with the prime minister who gave up his seat literally 2 weeks before the food riots, where he basically said, "I need to step down."

Mr. GREEN. Can we look at a trip to Haiti, someone, so that we can show the world what is happening right here in the Western Hemisphere?

Mr. LOWERY. Right. I think that actually—I know that Assistant Secretary Shannon from the State Department, and I know that other high-level officials from our State Department and our AID have been to Haiti. At the Treasury Department, we only have a few people who travel. And so it is—there are many things. But let me look into it.

Mr. GREEN. I really believe someone needs to make a trip to Haiti a priority so that we can bring the world's eye in by the way of the lens of a camera.

Let me just share this with you. Here we have this some 9 million people as I understand it. They are on an island. If they leave and they come to the United States, we immediately send them back. They don't have the benefit of wet foot/dry foot. Doesn't matter if they are completely dry and they get there and they have a job, they are still going to be sent back. So they are locked into this land mass with the highest HIV/AIDS rate in the Western Hemisphere, a high infant mortality rate, living off of $1 to $2 per day, drugs now coming through there because it is a staging point to get drugs to the United States of America. This is a human tragedy of the highest proportion, and it is right off the coast of Florida. We really have to do more. And I beg that you would be a part of that avant garde to make that change that is necessary. Thank you.

Mr. LOWERY. I can say I do know that our Agency for International Development has stepped up its efforts and is putting another $45 million on the table to do what you were just saying to help the people of Haiti. So, we are doing things in the Administration; it just might not necessarily always be at the Treasury Department.

Mr. GREEN. Thank you very much, sir.

I yield back.

Mr. LOWERY. You are welcome.

Mr. SCOTT. Thank you very much, Mr. Green.

Mr. Cleaver from Missouri is recognized for 5 minutes.

Mr. CLEAVER. Thank you, Mr. Chairman.

Mr. Lowery, I apologize. I am shuttling—you know how this system works—between two committee hearings, and I desperately wanted to be here.

I wanted to follow up on my colleague's questions. And I am wondering if there is any pushback from Treasury on World Bank conditionality in terms of greater transparency so that parliamentarians, people around the world can actually have—can actually look at the conditionality issues and participate in decisions at the World Bank.

Mr. LOWERY. I think that in the United States, we actually have been probably the leading advocate for pushing for as much transparency as possible from the World Bank, including putting loan documents, which is where you get into conditionality and covenants and so forth, on the Web site.

So, yes, we are a big supporter of that.

Mr. CLEAVER. What is the likelihood that greater transparency will in fact occur? I mean, if the United States is supportive, what else is needed? Is there something that we—

Mr. LOWERY. I think the World Bank actually has become more and more transparent over the last I would say probably 10 years and puts a number of documents on its Web site. In fact, if anything, the one problem sometimes is the Web site is just filled with documents.

But I think in terms of conditionality, what the World Bank has done is it has done a study, it has brought in independent advisors to talk to it about its conditionality. It goes to Chairman Frank's questions earlier or points earlier about how there is probably too much conditionality. How do you streamline it? How do you make it more targeted so it is specific about getting the outcomes that you want out of particular programs? And we are a big supporter of as much transparency as possible.

I think you have a witness on the next panel whom I believe has had fairly significant access to World Bank files on the types of conditionality they have.

Mr. CLEAVER. Is the World Bank conditionality database available on the Web site?

Mr. LOWERY. I am hearing both "yes" and "no" behind me. I don't know the answer myself. Why don't we get you an answer in writing on that one, sir?

Mr. CLEAVER. Okay. Who is going to do it?

Mr. LOWERY. We at the Treasury Department will take care of that.

Mr. CLEAVER. All right.

Thank you, Mr. Chairman. I yield back the balance of my time.

The CHAIRMAN. Thank you.

The gentlewoman from Wisconsin, who has been one of the members with the greatest interest in the IFIs, and especially with regard to Africa, but not exclusively.

The gentlewoman from Wisconsin.

Ms. MOORE OF WISCONSIN. Thank you so much, Mr. Chairman.

I have listened very intently to your testimony, Mr. Lowery. I was particularly interested in a comment that you made in your written testimony about the complex international aid architecture. I think I will steal that for future rhetoric. I think it is very, very telling.

Just sort of piggybacking on questions that others of my colleagues have already asked, I just want to laud the Treasury Department; I want to laud the World Bank and the IDA for its increased transparency that you have mentioned over the last 10 years.

And it is only because of this transparency that we know so much about how conditionality sometimes undermines the very admirable goals of eliminating or reducing poverty. We have already talked about conditionality. Bad habits are hard to break, as we all know. And so, even though we have called for reducing some of the conditionality, there are still tremendous calls for governments to issue presidential or executive orders which undermine legislative oversight, call for labor market flexibility that undermines worker protections and violates the spirit of international laws. And we have seen poverty, quite frankly, rise.

Can you tell me, can you describe for me how the IDA works within this complex international aid architecture with the International Finance Corporation, with whom you have a relationship, and the WTO, and maybe the Organization for Economic Cooperation and Development, other sort of trade laws that in fact maybe could spawn this continued conditionality? And I can give examples, but go on.

Mr. LOWERY. Well, IDA is usually one of the largest, if not the largest, donor in almost every country because of the size of it. And you can leverage resources from around the world.

IDA actually focuses on development. I mean, that is what they do. And they focus on—they have people who are experts on specific functional issues, like how do you get better agriculture productivity? How do you build a road? How do you basically educate kids in a better way? And they obviously have people who are country experts.

They work very closely with the bilateral aid community. And the couple of organizations you mentioned, the WTO is obviously about trade negotiations and trade type of issues. The OECD is mainly like sort of a think tank for developed countries in terms of economics around the world; although there is a coordinating mechanism under the OECD that actually tries to help coordinate among some bilateral donors on the aggregated basis as opposed to the country-specific basis. The World Bank is much more about the country-specific type of coordination.

In terms of how that relates to conditionality, I think the World Bank has basically tried over—through a number of analyses that it has done internally and externally, has basically taken their criteria for conditionality and tried to streamline it over time. And in some respects, I think they have been pretty successful, and tried to make it much more focused, much more targeted on what it is you are trying to achieve in that particular loan or that particular program.

That doesn't say they are perfect. It means they are making progress.

Ms. MOORE OF WISCONSIN. Let me stop—for example, let me give you another example, Afghanistan currently. We are sort of forcing a lot of privatization of public institutions. We have talked a lot here today about water and so on. We have seen in recent times a great deal of inequality and lack of services, really no payback to many countries, and yet we continue to do that.

In terms of streamlining these conditionalities, all you do is put two or three conditions within one condition, and then you can say, "We only have 27 conditions," but actually the average is about 72 conditions.

So right now, in Afghanistan, we are forcing them to privatize. And that continues to be two of the main thrusts of conditionality, privatizing. We have seen it contribute extensively to poverty. This is one of the conditions that doesn't seem to be able to be extracted from these agreements. Can you tell us, as we look at replenishing the IDA fund, can you give us a defense of privatizing?

Mr. LOWERY. I am not sure I agree with your analysis.

First of all, I am not sure there are 72 conditions. In fact, I would say there are probably more like 13 that IDA tries to do.

There are sometimes benchmarks within those. And by the way, I am a big supporter. You need to have benchmarks. How are you doing on your program? What is actually happening here? Is this program working?

In terms of conditionality, in terms of privatization in Afghanistan, Afghanistan will not succeed unless it has a private sector that is actually thriving so you can get greater economic growth and reduce poverty.

That said, to my knowledge, the World Bank has not conditioned any programs in Afghanistan on privatization. But that doesn't mean that it is not a good thing. Sometimes privatization is a good thing. Sometimes it is not the appropriate thing.

Ms. MOORE OF WISCONSIN. Sometimes it is, and sometimes it isn't. But the parliamentarians have to decide that.

Mr. LOWERY. Parliamentarians, I mean, it depends on your system. I don't know the governmental system. I have just been to Afghanistan, and there are private sector institutions that are starting to pop up, and they are starting to do well. And I think that we should, as a country, and the World Bank should try to help create the conditions so that you can have a private sector that actually does thrive in Afghanistan. If that doesn't happen, then Afghanistan will never grow its way out of the problems that it has.

Ms. MOORE OF WISCONSIN. My time has expired too soon.

The CHAIRMAN. The gentleman from Indiana.

The gentleman has no questions.

Mr. Lowery, I thank you. The staff of the committee, I think bipartisan, will be available to work with you on a couple of the issues. The Iranian one is obviously an important one, but conditionality, as you can see, is also. We would like to be able to work with you to a common end here. And I thank you for your testimony.

Mr. LOWERY. Thank you very much.

The CHAIRMAN. We will have the next panel.

Mr. CLEAVER. Mr. Chairman? As he is leaving—

The CHAIRMAN. Mr. Lowery, can you hang for one second for Mr. Cleaver?

Mr. CLEAVER. No, you don't need to answer. There are 37 conditions. You said 13. There are 37.

Mr. LOWERY. In what?

Mr. CLEAVER. Per loan, average conditionality.

Mr. LOWERY. I am not sure I agree with that, but why don't I work on it and get a letter to your office.

Mr. BACHUS. Mr. Chairman, Assistant Secretary Lowery, one thing, I will just say this, one thing the Assistant Secretary said was that much of the aid that went to Iran is for the earthquake.

The CHAIRMAN. Yes.

Mr. BACHUS. It would be helpful to—

The CHAIRMAN. Mr. Secretary?

Mr. BACHUS. —have those figures.

The CHAIRMAN. Probably, if you would leave, we could get started. You will never get out of here otherwise.

And obviously, the hearing record remains open, and there can be some further conversations and we will preserve them for the record.

The next panel is four people from various organizations that have been very much involved here.

We will begin with David Beckmann, who is president of Bread for the World and Bread for the World Institute.

Mr. Beckmann.

STATEMENT OF DAVID BECKMANN, PRESIDENT, BREAD FOR THE WORLD INSTITUTE

Mr. BECKMANN. Chairman Frank, Ranking Member Bachus, and members of the committee, I really do think this committee has done a great job over a period of years making the World Bank and the other MDBs into better institutions. They are better institutions, and this committee has led the way. So I applaud you.

And I thought the questions today, especially the questions about what is going on in Haiti and Rwanda, the sense that something really bad is going on, again the committee, I think, is ahead of the curve.

I want to start by talking about the hunger crisis that we are going through right now, because I think it changes the context for the work of the World Bank and the African Development Fund, and then talk a little bit about the World Bank and the African Development Fund and my recommendations for the committee.

I think that the great majority of the poorest billion people in the world have suffered a serious reduction in their miserable living standards over the last year or so. I don't think it has dawned on most of us yet how severe a setback the world has suffered in its work to overcome poverty. It is mainly because of high food prices because very poor people spend almost all their money on rice or wheat or corn, and all those prices have gone up by roughly 100 percent over the last year. But it is also high fuel prices and other malfunctions in the economy, that mean that a lot of the poorest people in the world are down to one meal; they are pulling their kids out of school; they have sold the goat. And their governments, the poor country governments that import food and fuel are going broke in a hurry. My guess is that food-importing low-income countries are spending $70 billion more on food this year than they did 2 years ago.

Now, in this context, the World Bank has done a remarkably good job. The whole world, I think, has been a little slow off the mark. But the World Bank has been a leading agent in catching on to what was going on, responding in a quick way, and leading the world in a very sophisticated way in figuring out how to respond. They have set up—they are increasing their lending, their credits for agriculture.

But the most impressive thing is that they have set up a rapid response facility which will fund emergency humanitarian activities, but also fertilizer and seeds. This is a case in which they are not being ideological about prices. They are helping these governments subsidize fertilizer and seeds for poor farmers because the farmers can't afford fertilizers at today's prices. They would like to respond to high prices for food, but they need fertilizer and seed.

I think the Bank's quick response in this situation illustrates some of the strengths of the MDBs, their analytical capacity. In the case of the African Development Bank, the analytical capacity is not as formidable as the World Bank, but its African capacity. They are focused on poverty more than most institutions, certainly more than the Agency for International Development. Partly because of congressional mandates, the Agency for International Development does a lot of other things besides poverty reduction. So if you look at where the money goes, the money that you authorize for IDA and the African Development Fund goes to poor countries. The money that Congress gives to AID mostly doesn't go to poor countries.

Third, I think the MDBs have pretty good partnership relationships with the recipient governments and much more than in the past with civil society.

And finally, I just want to give the World Bank credit for its system of self-evaluation and its, compared to the past, just dramatically more open attitude toward diverse opinions and criticism of the Bank.

So my recommendation to the committee at this point, you know, Bread for the World has been critical of the Bank over the years, but my recommendation to the committee at this point is that you authorize these replenishments, that you give them clean 3-year authorizations. I think the banks have earned a vote of confidence, partly because of your past work. I think the United States will be a stronger leader in these institutions if the United States comes across as a team player.

Also, this world hunger crisis is going to require a significant financial response. And authorization of the replenishments is one thing that you can help with.

[The prepared statement of Mr. Beckmann can be found on page 49 of the appendix.]

The CHAIRMAN. Next, we have Nuria Molina-Gallart, who is a policy and advocacy officer at the European Network on Debt and Development.

Ms. Molina-Gallart.

STATEMENT OF NURIA MOLINA-GALLART, POLICY AND ADVOCACY OFFICER, EUROPEAN NETWORK ON DEBT AND DEVELOPMENT

Ms. MOLINA-GALLART. Thanks very much, Mr. Chairman and members of the committee, for inviting us to share our views on World Bank conditionality today.

Conditionality is still a heavy burden on developing countries, as we have heard today. It makes it unpredictable. It undermines—

The CHAIRMAN. Why don't you pull the microphone closer, because as you drop your head, you lose it. So pull the microphone very close, up closer that way. Yes.

Ms. MOLINA-GALLART. I guess I am too short.

The CHAIRMAN. No, it is when you read, and you move your head.

Ms. MOLINA-GALLART. Yes. It makes aid unpredictable, as I was saying. It undermines domestic accountability, as it has been said today, as well. The World Bank has acknowledged that it hasn't been efficient in leading the reforms that they were intended for, and it is very questionable that it has contributed to poverty reduction.

Because of all these criticisms, criticisms from NGOs but also from the British Government, in 2005, the World Bank adopted the Good Practice Principles on conditionality to govern the way they apply conditionality, mainly intended to streamline conditionality, reinforce country ownership and mutual accountability, and customize conditions to the country's circumstances.

What has happened since? Well, two reports from the World Bank have been published, in 2006 and 2007, but they paint an overly optimistic picture. And here I come to the issue on numbers that was very recently being discussed. Is it 37, or is it 13 or 12, like the representative from Treasury was saying? Well, according to a Eurodad report published in November 2007, precisely to provide an alternative and more independent view to the World Bank reports, conditions have only dropped from 46 before the implementation of the good practice principles to—2 years after the approval of the good practice principles, they have only dropped to 37. And here basically we count, we include the benchmarks that the representative of the Treasury has mentioned basically because benchmarks are future conditions in future loans, and because developing countries, according to a survey conducted by the World Bank in 2005, perceived these benchmarks as if they were binding conditions. So they have the same impact.

But these numbers could be higher, because actually the Bank usually uses what they call umbrella conditions. It bundles different policy actions into a single condition. And if these are unbundled, actually numbers could increase around 12 percent. Basically, if this committee recommends Treasury to advise that IDA should have an independent monitoring system on conditionality, should systematically assess the impacts of reforms, and improve implementation of Good Practice Principles, you will agree with me that this is three conditions. This is not one. And this is the way the World Bank sometimes bundles conditions.

Seventy-one percent of all grants and loans, according to the Eurodad study, still contain some sort of sensitive policy reforms, such as price liberalization, privatization, commodity price regulation, or trade reform or tariff reductions, and 12 out of the 16 countries assessed face privatization-related conditions.

I agree here with the representative of the Treasury that privatization and liberalization are not bad, per se. Sometimes it is the right policy needed. But I agree as well with Representative Moore that this is a decision that needs to be taken by national governments in dialogue with national constituencies and parliaments and not by outside actors.

It is also important that regulatory frameworks are in place, and these are not rushed processes. And mostly, it is very important that the impact of the reforms on the poor is carefully assessed.

The World Bank has committed to do these sort of assessments of the impact of the reforms they are putting as condition on the poor. But, actually, for instance, in the case of Mali, these assessments showed that the privatization condition of the Bank on the cotton sector could increase poverty in 4.6 percent. What happened? Well, the report was not made public.

Even worse, in Afghanistan, as it has been also said, the World Bank has backed, in 2007, a policy to privatize more than 50 state-owned enterprises. This is very problematic in a fragile state such as Afghanistan.

And also more striking is privatization, as we have heard, in essential services, provision of essential services, such as water or health. This is also happening in 2007 in Sierra Leone or in the case of the health sector in Afghanistan.

The Bank claims that these are conditions which are owned by these countries. But recently a partner that we work with in Uganda said, yes, it is true the Bank has put the governments in the driver's seat, but the Bank, the passenger, still writes the map. So basically the concept of ownership needs to be carefully reassessed. And not only conditionality, but also the Bank gives advice and technical assistance.

To wrap up, I would like to recommend to this committee to apply pressure, as it has done in previous occasions, to set up targets to streamline and reduce the number of conditions until conditions are completely phased out, to increase transparency and participation of parliamentarians and also the Bank focus on development outcomes, and most importantly, to systematically assess the impact of the reforms they put as conditions on the poor.

It is also most important that an independent monitoring system be set up, because the fact that the Bank monitors its own progress is obviously, clearly problematic.

Last but not least, I would also support the suggestion of Mr. Cleaver to publicize the World Bank database on conditionality, which, no, indeed, it is not accessible on the Web site.

Thank you.

[The prepared statement of Ms. Molina-Gallart can be found on page 65 of the appendix.]

The CHAIRMAN. Thank you.

Next, Mr. Edward Bell, who is senior program advisor at International Alert.

STATEMENT OF EDWARD BELL, SENIOR PROGRAM ADVISOR, INTERNATIONAL ALERT

Mr. BELL. Thank you very much. It is a great honor to be here, and thank you for the opportunity to speak to you.

I have spent the last 18 months doing research in the field and from London on the World Bank decisionmaking in fragile and conflict-affected countries. And what I would like to do in the 5 minutes that I have is try to shift the emphasis a little here onto political analysis, the actual governance context in which the World Bank is making very difficult decisions.

So just in three parts then: First, I would like to talk about the role of the World Bank in these places; second, the institutional blockages to more effective action; and third, some suggestions on ways forward that I hope the committee will support.

So, first, there are still some very influential people who think that the World Bank should not be involved in fragile contexts. It is too political. It is too difficult, and security situations often make Bank behavior or Bank activities very difficult.

I think this is wrong headed. I think that due to the dire realities of poverty in these situations and the global and regional spillovers from them, I think it is essential for the World Bank to continue to engage and deepen their engagement in these countries.

Second, I think it is important, as specific teams and the Bank have recognized, that all economic development and social sector activities impact on fragility and the peace-building context in these very difficult, unstable countries.

So the question is, how does the Bank behave better to turn around that state and societal fragility? There are three institutional blockages to this, I think, and they are interrelated. The first relates to the Bank's organizational culture. This is changing, but I think the World Bank needs to do more to deepen its understanding of political contexts, because if you don't understand the conflict dynamics in these 40 to 50 countries in the world, then I think the activities will be simply wrong. And I think maybe we will come back to it in the question and answer period, but this has major implications on conditionality. The point about conditionality is how to change government behavior, get people involved in the decisionmaking on what works in that particular country.

Second, my point about institutional blockages relates to the Bank's results measurement system. I think this is absolutely key to the incentives for staff, motivating decisionmaking in country operations. The Bank certainly needs a global standardized assessment system so that it can market its quality to the people who fund it. But I think there needs to be some reassessment of what incentives need to be in place for staff in decisionmaking in very, very difficult political and security contexts.

The third area I think I wanted to mention is the administrative budget of the World Bank. This is currently—it is very, very complex, but in simple terms, it is pegged to the IDA allocation to that particular country. So you can end up in a situation with immensely difficult, fragmented, factional political systems where the Bank is very short staffed on the ground. And I would urge the donors to IDA and the board members to it to allow a little bit more flexibility to put people on the ground working in these difficult political environments so that the Bank can provide the most effective technical accompaniment, facilitating ironing out problems and working with national actors, and ensuring the participation in negotiation, that it involves the people of these countries in the Bank's work and in the national-led development.

So my third and last section is just looking at the ways forward for the World Bank. I hope that this committee and the United

States Representatives working with the Bank can do this. First is to shift the mind set. I think I absolutely applaud President Zoellick for driving down throughout the Bank attention to strategic directions on fragility and conflict. I think it is absolutely essential. And at the same time, to continue to support this emerging governance and accountability facility, looking at how Bank analysts, Bank public-sector governance expertise can help deliver on poverty reduction and social service delivery efforts.

I think the Bank needs to accelerate its efforts to adapt and nuance its results framework so that it can integrate qualitative as well as quantitative results measurements.

And lastly, the point I mentioned about the administrative budget, it is absolutely essential that the Bank is able to accompany, facilitate, and sort out the difficulties that inevitably arise in these incredibly difficult operating environments like Liberia, Burundi, and Sri Lanka. The list is extremely long, too long.

Thank you very much.

[The prepared statement of Mr. Bell can be found on page 52 of the appendix.]

The CHAIRMAN. Finally, Lori Udall, who is a witness who has been here before and was in fact very much involved when we acted 15 years ago to do the inspection panel and related matters. She is a senior advisor to the Bank Information Center.

STATEMENT OF LORI UDALL, SENIOR ADVISOR, THE BANK INFORMATION CENTER

Mr. UDALL. Thank you, Chairman Frank, Representative Bachus, and other committee members.

Fifteen years ago, during the negotiations of the 10th replenishment of IDA, it was you, Chairman Frank, with bipartisan support, who provided the vision and leadership by pressuring the World Bank to establish two public accountability reforms: The creation of the World Bank Inspection Panel; and the revision of the Bank's information disclosure policy. These two reforms constituted a sea change in the way the Bank relates to civil society and to the people who are adversely affected by Bank projects and programs.

For those committee members who may not know, the panel is a three-member team independent of Bank management that reports directly to the Bank's Board of Executive Directors. The panel receives and investigates claims from people who are directly adversely affected by Bank projects as a result of violations of Bank policy. The panel remains, to this day, the only avenue for affected people to obtain an independent investigation of a World Bank public project or to have an indirect voice at the board level.

The panel was the first of its kind among the international financial institutions and it set a precedent for the other banks. Today, all the regional banks also have similar mechanisms. And the commercial arm of the World Bank also has a mechanism called the Compliance Advisor Ombudsman.

A testament to the panel's importance is the extent to which it has been used by adversely affected people and communities in developing countries. In the 15 years that it has existed, the panel has processed 52 claims, with mostly positive outcomes for claimants. In its 2006–2007 annual report, the panel stated that it was the busiest year that it had since its creation. It registered six new claims, completed two investigations, and conducted three investigations simultaneously; 2008 has also been an extremely busy year. The existence of the panel has produced project reform and also created political space for affected people in developing countries.

Some of the outcomes have been that claimants have received compensation; environmental impacts have been mitigated; project information has been released; resettlement packages for people have improved; evictions have stopped; and projects have been redesigned and, in some cases, suspended or cancelled.

Additionally, research on the impacts of the panel on the Bank as an institution suggest that risky and potentially damaging Bank projects have not made it to the drawing board due to the panel's existence. It has also caused the Bank to rethink how it assesses risky projects and implements safeguard policies.

The cumulative evidence underscores that the panel is doing a superb job within its prescribed mandate and powers. However, there is still quite a bit of work that needs to be done to ensure that the panel process is more user-friendly for the affected people and that these people are consulted about the remedies and solutions to their problems and to project improvement.

The recommendations that we are making today are relatively simple reforms to strengthen the panel process without actually changing the panel's governing statute. The first recommendation we are making is about claimant access to the panel and the panel process.

The current panel process has important instances where the claimant is completely left out of the process, and it is difficult to get information or to engage with management or the board. For example, the claimants are rarely involved in the remedies and the project improvements that are put forward by management. This needs to change. Management already has a mandate to involve the claimants, but they have not implemented this mandate.

The claimants also don't have access to important information during the panel process. For example, claimants don't see the panel's final report or management's response until it has already gone to the Bank board and the board has made a decision. So then it is too late for the claimants to actually influence the outcome.

The second issue is panel monitoring and follow-up. The panel currently has no mandate to follow-up or to monitor compliance for improvement after the claim has gone through the cycle. Experience suggests that monitoring compliance is a critical element in enforcing the reforms and the remedies that need to be implemented on the ground. Monitoring would also provide the board with continued independent information about the project and put pressure on management to follow through with the improvements.

The third area is the selection process for panel members. The selection process has grown increasingly nontransparent and secretive over the years. In the early days of the panel, the executive board was much more involved and there was much more openness to civil society recommendations. Currently, the selection committee has four people, two from management and two from the board. In our view, it is a conflict of interest for management to be involved in the selection process. We therefore recommend that the structure of the selection committee be reformed to include a civil society representative, the chair of the inspection panel, and two board members. We also recommend that the process be opened up more; that it be publicly announced and advertised; and that both the panel and civil society be engaged and consulted.

The fourth area is public outreach. Despite public outreach activities of the panel, the panel is still not well known or understood in many developing countries. And the World Bank Board should empower the panel to increase its public outreach programs.

The final one is the budget process. We just hope that Congress will monitor this, because some of our recommendations, such as follow-up and a more robust outreach panel, would require additional resources for the panel.

In conclusion, the inspection panel is still an important and effective tool for communities. With these few innovations, the panel could become even more accountable and responsible to the people who need it most.

We thank you, Chairman Frank, and we thank all the committee members for your leadership and your future action on strengthening the inspection panel process.

[The prepared statement of Ms. Udall can be found on page 71 of the appendix.]

Mr. CLEAVER. [presiding] Thank you very much.

Chairman Frank will return shortly.

All of you hit on some things that I think are critically important.

And I am sorry Mr. Lowery is not here, although I do appreciate his candor for the most part. But he mentioned in his testimony that the World Bank has moved over the past 10 years toward much greater transparency, and I am sure there is some greater transparency. But, you know, I raised the question with him about the Web site issue, whether that conditionality was on the Web site. I guess someone on his staff said “yes.”

You are saying “no,” Ms. Molina-Gallart, and we were unable to find it either.

So if there is some transparency, greater transparency, perhaps it is not as great as we were led to think during his testimony.

Do any of you believe that there is a need for the World Bank to revisit the definition of ownership so that the policies are country-selected rather than Bank-selected in an attempt to make sure that government-supported Bank selection is not the predominant factor in selections? Anyone?

Ms. MOLINA-GALLART. Yes. Yes, I guess I can respond to that one, because one of my recommendations was precisely to revisit the Good Practice Principles. And conditionality, one of them; it is ownership the first of them.

Basically, what has happened all too often with ownership is that policies have been designed by the Bank and then sold to the countries, and then the Bank has said they are owned by the country. But this is not what we think that an owned policy should be. It should be not only country-selected, but it should also be country-led. That is why sometimes we talk about country leadership rather than country ownership, country leadership over the development process.

Mr. CLEAVER. Thank you.

I am going to yield now to the ranking member, Mr. Bachus.

Mr. BACHUS. Thank you.

Let me just say to all the panelists, I think your testimony, which I have read much of it, and I will read it in its entirety, and our staff will, too, has already been very helpful on certain issues, such as privatization.

You know, some of the adverse effects of conditionality or adverse effects of some of the actions of the World Bank, I think particularly, Ms. Udall, it is fascinating how the panel and its very existence has changed, has resulted in some positive outcomes or at least avoided negative outcomes, too.

I am particularly interested at some point in talking about China, and if the panel has been able to operate successfully and made changes in their policy or in some of the World Bank projects there, where, you know, in the past, some have negatively impacted on people.

I will yield back at this time, but we may at some point follow-up with you for additional questions about your testimony.

I appreciate your valuable testimony.

And I appreciate, Mr. Beckmann, your emphasis on the fact that you were for conditional funding or partial funding, I am not sure, and that now you advocate full funding. I do believe the World Bank has made positive strides, so thank you.

Mr. CLEAVER. Mr. Bell?

Mr. BELL. Yes, I would just like to make a point about conditionality. It is absolutely not wrong in and of itself. It depends what the conditions relate to. There are countries, I mean take Burundi as an example. My organization has been very closely involved in efforts to involve coffee growers in the reforms to the coffee sector. Currently, that sector is deliberately unaccountable and does not deliver benefits equitably to the people who grow coffee. Now, the World Bank has a very delicate negotiation with the IMF about what kind of approach to take with the Burundian government, which currently is—the ruling party is defying its own constitution and barring some rebel members of it from sitting in parliament. Parliament does not pass laws in the Burundian parliament. So I think when considering conditionality, it is essential to look at the details of the situation in the country.

Mr. BACHUS. And I would totally agree. I am not saying conditions are not—you know, they can be good or not good. We call them safeguards when they are good, or reforms. You know, they sometimes slow the process. Sometimes that is good. And you also have issues of sovereignty. But I think your testimony does accurately outline some of the problems that the World Bank has and how we need to be careful with conditionality and make sure that they benefit the people.

But thank you.

Mr. CLEAVER. Thank you, Mr. Bachus.

One question, and then I will pass this on to others. Our colleagues, Mr. Bachus and Ms. Waters, introduced the Jubilee Act. And it was passed, of course, and it deals with the whole issue of debt forgiveness. I was one of the sponsors, and I think it was one of the better things we have done. If we needed a Jubilee Act 2, what would you want to see us include in Jubilee—actually, Jubilee is supposed to be every 8 years. I will have to figure out a way to make it make sense with some numbers. But Jubilee 8.2, whatever, what do you think we would need to add?

Mr. Beckmann?

Mr. BECKMANN. Well, I think it would be really helpful for the committee to look into this current crisis in world hunger. I think it is going to last for a long time. People expect these high food prices to moderate a little bit but to stay high for at least 5 years. Fuel prices aren't going to go down. So I am concerned.

I am delighted that the World Bank has already set up and is operating this rapid response facility. But the amounts of money they are talking about are not close to the needs of the countries, as far as I can see.

And then the Bank has put in some grant money, but mostly this is lending. And the IMF, I think in June, is planning to set up a similar facility to lend money to these desperately poor countries that are under incredible pressure, not of their own making. But that is going to be loan money.

Mr. CLEAVER. Yes.

Mr. BECKMANN. So these countries are going to go very rapidly into debt. Those low-income governments, those low-income country governments have responded to the current crisis before anybody realized it was a global crisis, because when the price of their staple went up by 100 percent, they knew that they couldn't let that price go up for their people by a 100 percent. So they are taking action, you know, the kind of thing that the IMF shakes its finger at. And for most of the poor people in the world, there is no program, no food aid that is going to reach them. It is only the moderation of the prices that is going to help. So those poor country governments need to take the hit. And it is going to translate into deeper debt for those governments.

So I would think that the next—we need a Jubilee. And the first thing is to help the world figure out—really, everybody is—I think people don't yet realize how serious a problem this is. And it is going to mean that the—I think what the IMF and the World Bank are doing with these rapid response facilities is the best response that is underway. But it is too little, and it is debt rather than grants. So that is—I would love the committee to get into that. I think we are going to need a Jubilee before we get to the 7th year.

Mr. CLEAVER. Thank you.

The CHAIRMAN. If the gentleman would—if I could indulge, because I have a meeting I am going to have to go to, so if I could ask my questions now, and then the gentleman from Missouri would stay on.

I appreciate the kind words.

Let me ask, on conditionality, where I believe it certainly is a good sign that we are hearing people now not defend conditionality—let's make the distinction. I assume we agree that there is a kind of conditionality that is important, and that is the anti-corruption, pro-transparency. There is almost a procedural substantive split. And I think that is a very important point. In our amendments on the Jubilee Act, that is very much what we said.

But on the substantive conditionality, there, again, we want to stress that the argument is not necessarily that these things are bad, but that they ought to be done locally.

I also think there are some things—Mr. Beckmann, I appreciate what you said about the fertilizer. But in fact, as I recall, it is the case that was a kind of a reverse on the part of the Bank. We had the example, someone in the New York Times wrote it up, where the Bank was objecting to Malawi's policy of subsidizing fertilizer.

Would you comment? I mean, this was a reversal. Can we—is this something we can sort of take for granted going forward? Do they understand the mistake now?

Mr. BECKMANN. I think that the Bank has tended to be critical of big programs of subsidized fertilizer, subsidized seeds. And the Bank has pushed over the years to reduce those subsidies, you know, on the grounds that in fact they are financially difficult for governments to sustain. You know, the subsidies tend—you end up with subsidized fertilizers going to certain farmers, often the bigger farmers who can pay under the table to get some government official to give them subsidized fertilizer. So the Bank has had a more market approach over the years to subsidies in agriculture. They have also tried to reduce the price ceilings that many developing countries put on agricultural output.

The CHAIRMAN. Let's stay with fertilizer.

Mr. BECKMANN. No, no, the point, Mr. Chairman, is just that in this crisis, what I have seen is that the Bank is moving quickly to get money to governments to subsidize fertilizer, subsidize seeds because that is what is needed now. So it is an example of flexibility.

The CHAIRMAN. I understand that. But in the first place, if it is helpful for growing food, maybe if we had been doing this before, we wouldn't have had quite as much of a crisis. Are you suggesting this is just something that is just going to be that way for the crisis, and if and when this crisis ends, they are going to revert to opposing these subsidies for fertilizer?

Mr. BECKMANN. It is a response to the crisis. I don't know how long it is going to go on. But I think the Bank is right to say that farmers ought to get a fair price for their food.

The CHAIRMAN. Mr. Beckmann, I don't understand why we are having trouble here. I am talking about the fertilizer subsidy. I don't understand how subsidizing fertilizer means that they are not getting a fair price for their food. Let's stick with this. Are you saying, then, that once this crisis is over, you would think it okay for the Bank to revert to a policy of opposing the subsidy of fertilizer and seed?

Mr. BECKMANN. Yes. I think there are better ways to use money to support farmers than subsidizing fertilizer.

The CHAIRMAN. What would they be?

Mr. BECKMANN. Invest in rural roads that all farmers can use, and need.

The CHAIRMAN. But you do support the subsidy of fertilizer and seed now because there is a food crisis.

Mr. BECKMANN. Right.

The CHAIRMAN. Do you anticipate that is going to go away anytime soon?

Mr. BECKMANN. I don't anticipate it. I don't know what I think about a year from now, or 2 years from now.

The CHAIRMAN. But as long as there is a food shortage, you would be in favor, if they chose to subsidize fertilizer and seed.

Mr. BECKMANN. Right now the price of fertilizer has gone up so quickly that poor farmers cannot respond to higher food prices by planting.

The CHAIRMAN. As long as we have this food crisis—I mean, you talk about the World Bank's policy on farms. What do you think the World Bank's evaluation of the American agriculture bill would be?

Mr. BECKMANN. I think they have been clear about it, that trade-distorting, protectionist subsidies are bad for global development.

The CHAIRMAN. So the standard by which the World Bank has been critical of some of the developing countries, if, in fact, that were applied to the United States, it would be against our agricultural policy.

Mr. BECKMANN. Yes. And they would be right.

The CHAIRMAN. I think that is something that people ought to consider. I suppose you can be in favor of either side, but it is hard to understand how people could advocate both.

I thank the gentleman.

I will yield back.

Mr. CLEAVER. Thank you. We will now call on the gentlelady from California Ms. Waters.

Ms. WATERS. Thank you very much.

I would like to thank the members of the panel for being here today. I am sorry I am late. We had a markup in another committee. But I really needed to be here when the Honorable Clay Lowery, the Assistant Secretary for International Affairs of the United States Department of the Treasury, was here because I basically needed to talk about the global food crisis and suspension of debt payments, and, of course, I wanted to ask some very pointed questions about Haiti. I suspect that our witnesses here today are all of similar opinions about what is happening with this global food crisis.

Let me just say that last month, this committee held a hearing on the global food crisis, and while the crisis has several causes, it was clear from the testimony that of the causes was the policies of the World Bank. Since the early 1990's, the World Bank has promoted a free-market approach to agriculture in developing countries. Developing countries were instructed to eliminate government agriculture programs such as grain marketing boards, food storage and distribution services, and subsidies for seeds and fertilizer. I think I heard some reference to that a moment ago.

Developing countries were simultaneously pressured to liberalize their trade policy, allowing food to be imported. Farms in developing countries were forced to compete with imports from the United States and the European Union, where agricultural production continued to be heavily subsidized. Theoretically these policies were supposed to improve efficiency and create opportunities in the private sector. Instead they contributed to the decline of agriculture.

According to the testimony of Rob Patel of the Institute for Food and Development Policy, import surges became common. Import surges occurred when a developing country lowered import tariffs on agricultural goods and then was flooded with these goods. The result was often a decline in domestic production. It is interesting.

In Senegal, tariff reduction caused an import surge in tomato paste, and local production was cut in half. In Chile, an import surge in vegetable oil caused local production to be cut in half. In Ghana, local rice production fell from over 80 percent of domestic consumption in 1998 to less than 20 percent in 2003.

Rob Patel also testified that the World Bank continues to condition loans to developing countries on free-market agricultural policies despite past failures. In the World Bank's most recent round of poverty-reduction support credits, Tanzania was required to prepare four crop boards for sale. Benin was required to privatize its cotton sector. And Moldova was required to liberalize agricultural support programs.

One country that decided to ignore the World Bank's advice was Malawi. Following a disastrous corn harvest and a resulting famine in 2005, the government reinstated fertilizer subsidies. The result was record-breaking corn harvests in 2006 and 2007. Acute childhood hunger has fallen considerably, and Malawi was able to export corn to Zimbabwe and sell excess corn to the World Food Program last year.

Despite the fact that all of us are so supportive of debt relief and some of the other things that we do, I think that we are not very effective in dealing with some of these issues. I suspect and I know it is long past time for the World Bank to change its approach to agricultural development.

Do you have any advice for us about how we can be more effective in getting the World Bank—and tell me what some of the programs and organizations are doing to try and offer advice and pressure to the World Bank to change its approach to agricultural development. Any enlightenment that you can do, that would be helpful to us. Anybody?

Mr. BELL. My first piece of advice is not to cut off your nose to spite your face. There is a great difference between emergency agricultural relief, such as Mr. Beckmann has talked about, and long-term IDA projects to try to transform the operating environment in which poor people are trying to grow food and an income.

The two countries that I have spent considerable time in the last 2 years, Nepal and Burundi, both of these countries, the vast majority of the poorest grow food for themselves. They are not really affected by the surge of imports because they are not able to earn an income to be able to buy food.

There are multiple factors locally that affect the ability of people to feed themselves. I think that to ignore the governance issues, the fact that subsidies on fuel may only—by cutting them, you may only be affecting the very rich or the people who are able to be rich.

So I think that it is absolutely essential to focus on how the bank takes its decisions rather than "X" or "Y" policy, per se, is wrong.

Ms. WATERS. Any other comments? If not, I would like to move to—you probably have had some discussion on this maybe today—suspension of debt payments for decision point countries. My question is: Would you support an immediate suspension of debt service payments by all of the HIPC decision point countries while they continue to implement debt relief conditions and food prices remain high? Anyone?

Mr. BECKMANN. What I think we are going to need is additional debt relief. We are going to need concession to these rapid response facilities—it is mainly, as I understand it—I mean, on the impact of the hunger crisis, we really don't know a lot yet, but I think it is a slightly different group of countries. It is the low-income countries that import food and fuel where people are going to die and where the governments are going to go broke. So there needs to be some additional funding through debt relief, additional concessional funding.

There needs to be a response. I am not sure whether it should be just what you are suggesting as you take all those HIPC countries. Maybe it is not exactly that set of countries, but the basic idea is right, that we need to provide additional funding for a lot of low-income countries that have suddenly been put in a much worse situation and are likely to be there for the foreseeable future.

Ms. WATERS. The decision point countries, there are 10: Afghanistan; Burundi; Central Africa Republic; Chad; Democratic Republic of Congo; Republic of Congo; Guinea; Guinea-Bissau; Haiti; and Liberia.

I have been really disturbed by the food riots in Haiti, and I don't understand why—I sent a letter to Treasury Secretary Paulson urging him to use his influence to expedite the cancellation of Haiti's debts and to immediately suspend all further debt payments from Haiti. Fifty-four Members of the House signed the letter, including Chairman Frank and Ranking Member Bachus.

Unfortunately, I received a disappointing response to my letter. Treasury informed me that Haiti is not expected to receive complete debt cancellation at the present time, but Haiti is receiving other forms of aid. While I appreciate that the international financial institutions and the United States are providing loans and grants to Haiti, this is simply, of course, not enough while Haitians are starving. I, once again, will call on Treasury Secretary Paulson to do everything in his power to provide immediate debt cancellation for Haiti because I don't see how we can in good conscience accept payments from Haiti at this time of desperate need.

Haiti owes over $1 billion to multilateral financial institutions, and Haiti is scheduled to pay more than $48 million in debt service this year. This is money that could be spent to develop Haiti's economy, rebuild crumbling infrastructure, and expand agriculture. It could be spent on food for hungry people. Instead, it is being used to service Haiti's debts.

How loud is the outcry from organizations such as Bread for the World and Bread for the World Institute and other organizations about what we are watching and what we are saying in this food crisis in particular in Haiti? What are people saying?

Anybody? Yes.

Mr. BECKMANN. Mr. Lowery—when you weren't here—said that, in fact, they have arranged cancellation of virtually all of Haiti's debt by early next year from the multilateral institutions. He is not here, but I think what I heard was he must have gotten your letter and paid attention to it.

Ms. WATERS. He didn't pay attention to it if he said they will do it by next year. I am talking about immediately.

Mr. BECKMANN. The question you addressed on Bread for the World, we are being just as loud as we can be about—I think the right word for it is a hunger crisis. It is not just food, it is fuel. And the issue is not only—I mean, it is that high food prices are what is making people hungry, but the crisis is that people—most of the world's poorest people are getting poorer, and people who are just out of poverty, maybe 100 million people, have been driven into extreme poverty, we think. So the crisis is the hungry people, and there is no relief in sight.

The policy response to date, the supplemental appropriation that Congress is considering, the rapid-response facilities of the Bank and the Fund, the extra money that has been collected for the World Food Programme are a drop in the bucket compared to the crisis.

So it is not only in Haiti. In Ethiopia, right now, we have starving babies again. Ethiopia has made wonderful progress. In 1990, 30 percent of the kids were in school. Now 90 percent of the kids are in school. There is lower child mortality. So they have done a lot. But over the last few years they have been struggling with these high food and fuel costs. Now they have drought. So we are seeing starving babies.

I think in a number of the fragile states, countries like Liberia, where political solidity just isn't there, then if you take the staple crop, the thing that people eat, and you double the price of that, some of those governments are going to fall. So I think we are going to see a string of humanitarian crises and we are going to see a string of political crises. In my judgment, none of us yet has really picked up on how big a setback in the world's development we are experiencing, so Bread for the World is trying to sound the alarm.

Ms. WATERS. What should we be doing?

Mr. BECKMANN. I liked the idea of a Jubilee II. You held a hearing on the food crisis just a month ago, but I think that idea, to look at what is the Bank doing, what is the Fund doing, what the institutions under your jurisdiction, how are they responding, and what more could be done, because my guess is that—I think actually the Bank and the Fund, what they are doing to help the low-income country governments, and in some cases they do have welfare systems, so they need to strengthen those systems of welfare, of assistance to—humanitarian assistance to poor people. They have food shops, ration shops.

So some of this money from the Bank and the Fund is supporting that, some of it is subsidizing fertilizer and seed so that farmers can plant for the next harvest. I think what they are doing is about the best thing that the world is doing, but it is not nearly on the right scale, and it is mostly loan money. It can't be loan money. These countries are broke.

I think the committee could accelerate the process of getting the U.S. Treasury, the Bank, the Fund, and the other multilateral banks to focus on this. Ask the African Development Bank what they are doing. It would just help to move the whole thing forward. In fact, none of us has full knowledge; nobody knows how many people—for example, I am guessing it is 800 million people—have taken a hit of 10 to 50 percent in their real income. I said that to the director of the agriculture department at the World Bank, and I said, "Does that strike you as crazy?" He said, "No. We are trying to get the numbers together, but that strikes me as plausible."

What is striking is that nobody knows the full scale of this problem, so the committee could really help just by asking about it and then pushing for more vigorous response.

Ms. WATERS. Thank you very much.

Yes?

Ms. MOLINA-GALLART. I would like to add another point, because I think that we have been focusing our responses on what needs to be done in the context of emergency, but I think it is important to think of long term as well. And to think of longer term, we have to assess the mistakes of the past. I think that, quoting the testimony that was here a few days ago, you have mentioned a number of them.

Since we are speaking about conditionality today, we have to be aware and learn from the past and the conditions that undermine the agriculture in a number of countries. I do agree with other testimonies that have mentioned there is no single response to what should be done in the agriculture sector to secure that these don't take place again. But what is very important is that these conditions and policy advice on agricultural development, it is not biased simply or uniquely to the market, strictly market model, but rather that since we are talking about low-income countries with little capacity to devise and design different policy scenarios, what international institutions have to do is not provide one single response, but help to draft different policy scenarios on different policy choices and what could be the impact of each of these in terms of poverty reduction. This is the way that they can assist countries to take better-informed policy decisions.

Ms. WATERS. Thank you very much for your generosity.

Let me say, Mr. Chairman, I have this old-fashioned belief that to the degree countries can grow their own food, and particularly their basic crops, such as rice and wheat, then they will not be hungry.

Mr. CLEAVER. We thank the gentlelady from California. Her Jubilee Act is consistent with what she is saying now, and the more I hear today, the more I am thinking that we do need Jubilee II.

I will now call on the gentlelady from Wisconsin Ms. Moore.

Ms. MOORE OF WISCONSIN. Thank you so much, Mr. Chairman. This has been a fantastic panel. Thank you for your patience.

I have listened very carefully to all of your testimony, and it occurs to me—unless I am hearing things wrong—that while we have made great progress in bringing some accountability to the World Bank's lending practices, its transparency, you mentioned the 15-year anniversary, Ms. Udall, of the inspection panel, and some of the problems associated with that, that claimants don't really have access to the panel. They are rarely involved in remedies. When we do have problems—I guess I want to associate myself with the opening remarks of Congresswoman Waters. I think she very aptly described some of the problems that we have heard about when there are—for example, in Ghana, where we recently visited, this committee, where cheap imports of rice undermined the local production of rice in that country.

I also am hearing very clearly what Mr. Beckmann is saying about hunger really being the canary in the coal mine of other kinds of problems. Certainly Ms. Molina-Gallart's testimony has been very important in terms of identifying the continued conditionality, bad conditionality, because there are good conditionalities that ought to be expected of anyone, but bad conditionality continuing to pressure these low-income communities.

I want to start out by asking Mr. Bell a question. You mentioned something in your testimony about how we need to shift the minds of the World Bank. You also talked about the organizational structure and culture and a reassessment, I believe, of underwriting criteria and looking at the administrative budgets involved. I reiterate, plucking out certain comments that you made, tying them to a comment that Mr. Lowery made about the complex international aid architecture, and I renew a question that I made to Mr. Lowery about whether or not what we are seeing is the development of very complex and sophisticated world trade policies, economic policies, the OECD, the WTO, subsidies in this country, farm subsidies in this country, and then, on the other hand, not allowing subsidies in other countries, conditionality that prevents other countries from raising tariffs so that they empower European and the United States exports and products.

Are we at a point that we really need to look worldwide at an organizational structure and culture of lending where you have these—you always have winners and losers, but where you have some people being thrust into deep, extreme poverty, and others being wealthy? Are we at that point, Mr. Bell?

Mr. BELL. That is an amazingly complex question. It goes beyond the entanglement of institutions to different units and teams and groups within institutions having corresponding interlocutors in different groups and units of international institutions. So everything is interlinked.

To take the example of how the OECD is a collection of bilateral donors, and the Development Assistance Committee works very closely with the World Bank and the United Nations Development Program to develop principles for more effective engagement in fragile states, or more globally, the Paris Declaration on Aid Effectiveness, I think there are definitely strong efforts within these institutions to harmonize the efforts and achieve coherence in their policies, but there are enormous competing priorities, I couldn't agree more.

It comes back to my point about how you pay attention to the detail and your ability to pay attention to the detail, because the places that I have worked in the last 2 years, a lot of the reasons for hunger relate to the decision of local people that they want to be associated with a higher income bracket and eat rice rather than millet or barley that they can grow more easily locally.

The ownership point is exactly right. I think we have to segregate and say, ownership by whom? An illegitimate or oppressive or ineffective government can be more of a problem than the actual capacities of local people to deal with the problem. It is a balance.

Ms. MOORE OF WISCONSIN. So, with your permission, Mr. Chairman, my time seems to have expired, can I just follow up with the other panelists?

The CHAIRMAN. Yes.

Ms. MOORE OF WISCONSIN. Given this, I guess I would ask Mr. Beckmann or Ms. Molina-Gallart or Ms. Udall, any of you who would like to chime in to my remaining time, do you think while there is a lot of demonization of the World Bank, and, of course, the only reason we know of their failings is because they have been more transparent, they have published what they have done, and they are critical in terms of helping the world, but do you think that the World Bank really has its hands tied in terms of trying to render assistance to low-income communities, to countries, to communities that are postconflict, because, in fact, they are coming under intense pressure from all these other financial institutions to create a favorable environment for the private sector, to create a favorable environment for European and donor countries' exports?

Do you think that the World Bank does not have the kind of independence that it needs to get away from conditionality? Do you think—this is sort of a backdoor approach to the same question I asked Mr. Bell—that in terms of a major reform, we have to look at all of the competing interests in the rest of these financial institutional structures, the culture, as it were?

Mr. Beckmann?

Mr. BECKMANN. I really don't think that the World Bank is hostage to the commercial interests in the industrialized countries. I think it is doing a pretty decent job on the issues that the other panelists talk about. There is an understanding that—

Mr. MOORE. If not the World Bank—you talk about food. What about commodities; I mean, food and trade conditions?

Mr. BECKMANN. I think in terms of restructuring the international architecture for development, some of the reform needs to happen in the U.S. Government. We have 36 institutions within the U.S. Government that provide development assistance in developing countries. In fact, the World Bank does a pretty decent job of trying to coordinate the development efforts of many donor governments, but it doesn't help that the United States Government has 36 different agencies of its own going to developing countries, going to poor countries to try to run little development programs.

In the area of trade, part of the problem is in agricultural trade that our policies undercut the capacity of African farmers, have for 30 years undercut the capacity of African farmers to produce. It is that rice that I think you mentioned; subsidized rice is being produced in Georgia and Arkansas and Texas, and it is subsidized because of the U.S. farm bill. We just passed a farm bill that maintains those subsidies.

So, in my judgment, in agriculture, before this hunger crisis is over, we are going to need a new Doha Round, we are going to need—developing countries want us to reduce our protectionism in agriculture, and that can be part of a process; not a strictly ideological process, but broadly we need an agriculture that is less protectionist, less clunky, more market-oriented, more responsive to changing needs, and because poor countries in general have comparative advantage in agriculture, a more open, global market in agriculture will help people get out of poverty.

Ms. MOLINA-GALLART. Going back to the World Bank, definitely it will require that position, as the previous speaker was saying, change at the donor level by the governments who sit at the Executive Board and at the Governing Board of the World Bank. But obviously the institution is fragmented, as any other big institution, and it will require as well changes in management and staff. So basically, if the executive board improved good practice principles and conditionality, as they did in 2005, but an improved set, and monitoring and performance assessment mechanisms were set to monitor progress at the level of the staff and the management, probably in 2 years' time from now we could take another step forward, as we did from 2005 until now.

Mr. CLEAVER. Thank you.

Are there any other panelists who would like to respond? If not, we want to thank all of you very much for your testimony. I think your testimony balanced quite well the testimony of Mr. Lowery, and we appreciate the suggestions and the recommendations that you brought forward.

There may be some additional questions for this panel which members may wish to submit in writing. Without objection, the hearing record will remain open for 30 days for members to submit written questions to these witnesses and to place their responses on the record.

The hearing is adjourned.

[Whereupon, at 12:32 p.m., the hearing was adjourned.]

A P P E N D I X

June 18, 2008

ANDRÉ CARSON
7TH DISTRICT, INDIANA

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Financial Services Committee
Full Committee Hearing: "The 15th Replenishment of the International Development Association (IDA) and the 11th Replenishment of the African Development Fund (AfDF)"
Opening Statement for Congressman André Carson
June 18, 2008

Thank you, Chairman Frank and Ranking Member Bachus for holding this hearing today regarding the 15th replenishment of the International Development Association (IDA) and the 11th replenishment of the African Development Fund. As we consider these proposals today, we face critical questions about the effectiveness of current aid and how we can work to rebuild failed or fragile states.

I am pleased that the Administration sought significant increases in the U.S. contribution to the IDA and for the African Development Fund. We must target these crucial multilateral resources towards fighting the HIV/AIDS epidemic, combating global climate change, stabilizing weakened governments and addressing the global food crisis.

Yesterday, I met with David Miner, Chair of the Board of Directors for Bread for the World and a highly respected member of the Indianapolis community. He highlighted the severity of the world food crisis and how imperative it is that we give weight to this problem in examining how global assistance through the IDA is directed. He said the following:

> "After making significant progress in the last two decades, the current high food prices represent a significant setback. At this point, we don't think the world community has fully realized the impact of this. We are delighted that these conversations are being held because this is a very important issue."

I could not agree with him more and I would add that during my recent trip to Haiti, I was deeply moved by those I saw suffering from extreme poverty and hunger. In a world with such wealth and resources, we must aggressively fight to make sure the resources we devote to foreign assistance can truly bring about the substantive structural changes within governments to help those living at the margins of society.

Another important concern is ensuring this assistance reaches citizens more directly. The Bank has a history of working with primarily the politically elite in weak and failing recipient countries, which were not being held accountable for the needs of their citizens.

So I am pleased that during negotiations for IDA-15, donor countries focused on the needs of fragile countries.

These fragile states only account for one fifth of IDA recipients, yet they represent over one third of the extreme poor. The World Bank's practice of being detached from resolving conflicts within these fragile states is outdated and I am pleased to see that in this budget, there is increased commitment in staffing and resources towards bringing about stability in recipient countries.

Further, I appreciate that since 2005, the World Bank has been increasingly open to suggestions about policy and has recognized, to some extent, the negative implications of imposing of harsh conditionalities on recipient countries. Privatization of public services and user fees on secondary education, health care and even water have not stimulated economic growth in these countries; rather, they have served only to exacerbate the dire circumstances of the citizens within recipient nations. I hope that the Bank continues to build on the Good Practice Principles with regard to conditionalities.

Lastly, I think it is important to note that Chairman Frank has been a leader in promoting transparency and accountability within the World Bank. I commend him for his work and would note how important it is for affected citizens to be able to weigh in the policies imposed by the Bank and offer opinions on how to strengthen those policies.

I would like to thank the witnesses for attending and I look forward to this important discussion today.

Hearing in the Committee on Financial Services
Opening Remarks
By Rep. Maxine Waters

"The 15th Replenishment of the International Development Association (IDA) and the 11th Replenishment of the African Development Fund (AfDF)"

Wednesday, June 18, 2008
2128 Rayburn, 10:00AM

I would like to thank Chairman Barney Frank and Ranking Member Spencer Bachus for organizing this hearing on the 15th Replenishment of the International Development Association (IDA) and the 11th Replenishment of the African Development Fund (AfDF). It is unfortunate that Congress must consider these proposed replenishments in the midst of an unprecedented global food crisis.

Global Food Crisis

Last month, this committee held a hearing on the global food crisis, and while the crisis has several causes, it was clear from the testimony that one of the causes was the policies of the World Bank.

Since the early 1990's, the World Bank has promoted a free market approach to agriculture in developing countries. Developing countries were instructed to eliminate government agricultural programs, such as grain marketing boards, food storage and distribution services, and subsidies for seeds and fertilizer. Developing countries were simultaneously pressured to liberalize trade policies, allowing food to be imported. Farmers in developing countries were forced to compete with imports from the United States and the European Union, where agricultural production continued to be heavily subsidized. Theoretically, these policies were supposed to improve efficiency and create opportunities in the private sector. Instead, they contributed to the decline of agriculture.

According to the testimony of Raj Patel of the Institute for Food and Development Policy, import surges became common. Import surges occurred when a developing country lowered import tariffs on agricultural goods and then was flooded with those goods. The result was often a decline in domestic production. In Senegal, tariff reduction caused an import surge in tomato paste, and local production was cut in half. In Chile, an import surge in vegetable oil caused local production to be cut in half. In Ghana, local rice production fell from over 80% of domestic consumption in 1998 to less than 20% in 2003.

Raj Patel also testified that the World Bank continues to condition loans to developing countries on free market agricultural policies, despite past failures. In the World Bank's most recent round of Poverty Reduction Support Credits, Tanzania was required to prepare four crop boards for sale; Benin was required to privatize its cotton sector; and Moldova was required to liberalize agricultural support programs.

One country that decided to ignore the World Bank's advice was Malawi. Following a disastrous corn harvest and a resulting famine in 2005, the government reinstated fertilizer subsidies. The result was record-breaking corn harvests in 2006 and 2007. Acute childhood hunger has fallen considerably, and Malawi was able to export corn to Zimbabwe and sell excess corn to the World Food Program last year.

Clearly, the World Bank needs to change its approach to agricultural development.

Debt Cancellation

For over a decade, I have been working to cancel the debts that the world's poorest countries owe to multilateral financial institutions, like the World Bank. In July of 2005, G-8 leaders announced that they had agreed to cancel completely the debts of qualifying poor countries under the Heavily Indebted Poor Countries (HIPC) Initiative. As a result of this agreement, twenty-three of the world's poorest countries have reached the "completion point" of the HIPC Initiative and had their debts cancelled.

Earlier this year, this committee marked up, and the House of Representatives passed, the Jubilee Act (H.R. 2634) – my legislation to expand debt cancellation for the world's poorest countries. This legislation will make up to 25 additional poor countries eligible for complete debt cancellation. I deeply appreciate the support of the members of this committee for the Jubilee Act, and I look forward to its passage in the Senate.

The expansion of debt cancellation programs is one important way to address the global food crisis. Money that poor countries must spend on debt payments is money they cannot spend purchasing food or developing agricultural capacity.

Decision Point Countries

I am especially concerned about the impact of the global food crisis on heavily indebted poor countries that have not yet reached the completion point of the HIPC Initiative. There are currently ten poor countries that have reached the "decision point" of the HIPC Initiative but not the completion point, meaning that they have received partial debt relief and are in the process of qualifying for complete debt cancellation. These ten countries are required to continue to make debt service payments while implementing IMF and World Bank conditions for debt cancellation.

One of the ten decision point countries is Liberia. Liberia is one of the world's most impoverished countries, and it is in a difficult transition to a new democracy, following fourteen years of civil war. Per capita income was projected to be $136 per year, and that was prior to the world food crisis. The unemployment rate hovers around 85%, and more than three quarters of the population lives on less than $1 per day. Life expectancy is less than 45 years, and the infant mortality rate is 157 infants per 1,000 live births.

Liberia owes approximately $4.5 billion in external debts. Debt relief will free up resources to rebuild Liberia's infrastructure and meet the basic needs of its population. Debt relief will also provide a tangible sign of progress to the Liberian people, bolstering the democratically-elected government. Furthermore, the sooner Liberia receives debt relief, the sooner Liberia's government can devote its full attention to other critical issues such as poverty reduction, financial management, and good governance.

Another one of these ten decision point countries is Haiti. Haiti is already the poorest country in the Western Hemisphere. According to the World Food Program, the average Haitian diet consists of only 1,640 calories. That's 460 calories less than the typical daily requirement of 2,100 calories. Reuters has reported that prices for some items in Haiti, such as rice, have doubled in the last six months. Haiti is one of several countries in which the global food crisis has led to riots over food prices.

Haiti owes over one billion dollars to multilateral financial institutions, and Haiti is scheduled to pay more than $48 million in debt service this year. This is money that could be spent to develop Haiti's economy, rebuild crumbling infrastructure, and expand agricultural production. It could also be spent on food for hungry people. Instead, it is being spent to service Haiti's debts.

On February 28, 2008, I sent a letter to Treasury Secretary Henry Paulson, urging him to use his influence to expedite the cancellation of Haiti's debts and to immediately suspend all further debt service payments from Haiti. The letter was signed by 54 members of the House of Representatives, including Chairman Barney Frank and Ranking Member Spencer Bachus.

Unfortunately, I received a disappointing response to my letter. Treasury informed me that Haiti is not expected to receive complete debt cancellation at the present time, but Haiti is receiving other forms of aid. While I appreciate that the international financial institutions and the United States are providing loans and grants to Haiti, this is simply not enough while Haitians are starving. I once again call on Treasury Secretary Paulson to do everything in his power to provide immediate debt cancellation for Haiti. We cannot in good conscience accept debt payments from Haiti at this time of desperate need.

Given the severity of the global food crisis, I believe the World Bank should consider providing additional relief to all of the ten decision point countries. This relief could come in the form of an immediate suspension of debt service payments, followed by expedited consideration for complete debt cancellation. It is both unjust and unwise to require countries that are doing their best to implement World Bank conditions to continue making debt payments to the World Bank while their people go hungry.

Conclusion

I look forward to the testimony of the witnesses. I am especially interested in hearing the witnesses' views on the impact of the World Bank's economic policy conditions on agricultural development. I hope today's hearing will help the members of this committee understand how World Bank policies contribute to or interfere with efforts to alleviate the global food crisis and fight poverty.

I yield back the balance of my time.

Testimony of David Beckmann, Bread for the World
"IDA and the African Development Fund"
House of Representatives Financial Services Committee Hearing
June 18, 2008

Chairman Frank, Ranking Member Bachus and Members of the Committee, thank you for this opportunity to testify.

We are right now in the midst of a world hunger crisis. I want to talk first about this crisis and the World Bank's role in addressing it. I'll then come back to discussing IDA and the African Development Fund more generally and my recommendation to this committee.

I went to the Rome conference on food prices earlier this month. On the airplane on the way home, I reviewed documents from the conference and became convinced that this crisis is even worse than I had thought. No one has good numbers yet. But my guess is that something like 800 million of the world's poorest people have over the last year suffered a serious reduction in their real income, ranging from 10 percent to 50 percent.

Hundreds of millions of people are eating less and eating famine foods. Many have sold their goats and are pulling their children out of school. High prices for oil and other economic problems are contributing to the crisis, but poor people are suffering mainly from dramatically increased prices for basic grains.

Food prices are expected to moderate somewhat, but remain high for years to come. I think we will see political unrest in some of the affected countries, and I'm afraid we will see a string of humanitarian crises, beginning with the severe hunger that has now hit parts of Ethiopia.

The annual food-import bill of the low-income food-deficit countries has gone up by roughly $70 billion over the last two years. The policy response so far is not at all commensurate with the scale of the problem. The supplemental appropriation that Congress is considering will be about $2 billion, mostly food aid – and that is more than any other donor government is doing.

The World Bank has since April been sounding an alarm about this crisis, and the Bank's analysis of what needs to be done is more sophisticated than we have from any other source. Both IDA and the African Development Fund have announced that they are expanding their investment in agriculture.

The World Bank has also launched a rapid response facility to help the hardest hit countries. Because the prices of fertilizer and seed have shot up, many poor farmers cannot afford to plant more in response to higher food prices. The new facility is helping to cushion the humanitarian impact of the crisis and helping to get affordable seeds and fertilizers out to farmers.

The World Bank's performance in this crisis has been particularly impressive, and it illustrates some of the ongoing strengths of both IDA and the African Development Fund.

One strength is analytical leadership. The World Bank has unrivalled capacity for analysis of international development problems and for helping the world to respond collectively. Under the leadership of Don Kaberuka, the African Development Bank is emerging as a development knowledge leader within Africa.

A second strength is that the multilateral banks are focused mainly on poverty-reducing development. By contrast, every dollar that Congress gives to USAID serves at least three purposes: winning influential friends for the United States, benefiting U.S. suppliers, and helping poor people. You can see the difference most clearly in the allocation of resources by country. IDA and the African Development Fund provide assistance mainly to low-income countries that are relatively well governed. Less of USAID's money goes to low-income countries.

Third, the World Bank and the African Development Bank have strong partnership relationships with developing countries. When I visit African countries, the World Bank's resident mission always knows as much as anybody about issues that are important to progress against poverty and how the government is addressing them. The World Bank has the ear of top government officials, even when the Bank is critical. The World Bank also does a much better job than in the past of relating to civil society and getting government agencies to listen to civil society, including people in low-income communities.

The African Development Bank is Africa-owned and managed and, for that reason, even more trusted by African leaders.

Finally, the World Bank has a better system of self-evaluation than any other organization in international development. We know that the World Bank has lots of failings, partly because the Bank analyzes and publicizes its failings. The Bank used to act as if it had all the answers. But in my experience, the Bank is now eager to hear diverse points of view and listen to its critics. As the hunger crisis has come to light, the World Bank has been working closely with many governments and U.N. institutions. Several weeks ago, Bob Zoellick convened a meeting with civil-society organizations from around the world so that managers from the Bank and the IMF could hear diverse perspectives on the crisis.

Early in my career, I served on the staff of the World Bank. I worked in various ways to make the Bank more effective in reducing poverty. I've been at Bread for the World since 1991, and for many years Bread for the World gave only qualified support for replenishments of IDA.

But at this point, I recommend that you authorize the entire replenishment of IDA without conditions. I recommend that you do the same for the African Development Fund.

These multilateral banks deserve your confidence. Their impact still falls far short of their aspirations, but they compare well to other agencies of international development.

Reauthorizing these replenishments without conditions would also strengthen the U.S. voice in these institutions. Other countries have increased their contributions more than we have, and we are in arrears to the World Bank. Our country put the World Bank through the tumultuous presidency of Paul Wolfowitz, and many people in other countries are impatient with U.S. foreign policy generally. So we would do well to be a team player in these reauthorizations.

Finally, the world hunger crisis is a huge setback in the world's progress against poverty. Clean reauthorizations of IDA and the African Development Fund would provide much needed financing for the recovery we will be struggling to achieve over the next several years.

International Alert.

Understanding conflict. Building peace.

Submission to the House Committee on Financial Services
for the hearing "The 15th Replenishment of the International Development Association (IDA) and the 11th Replenishment of the African Development Fund (AfDF)"
Wednesday, June 18, 10:00 a.m
Submission from: **International Alert[1], London, U.K.**

Key Points:

- For a number of years, specialist teams in the Bank have been generating knowledge on conflict-related issues, and have played an important role in international efforts to improve aid effectiveness in fragile states and situations. A review in 2006 by the Bank's Independent Evaluation Group highlighted many of the key ongoing challenges. Under President Zoellick and following the IDA15 negotiations, the Bank is now accelerating its efforts to improve its operations in these places. It is trying to improve financing arrangements and also generate greater knowledge on what aid modalities work best.
- Much of the institution, however, continues to treat conflict/fragility as a "thematic" issue. Discrete programmes and units are 'tacked on' to the 'standard' way of working. Conflict dynamics are not yet recognised as being fundamental to the context in which *all* types of Bank activities are taking place. Yet, in such settings failure to understand power relations and social dynamics, as well as the spatial, gender or identity group distribution of Bank assistance, risks not only ineffective assistance but also that aid itself becomes a resource worth competing for.
- *Institution-wide*, efficiency in country operations, including in fragile and conflict-affected countries, tends to be conflated with effectiveness. The absolute quantity of disbursements too often seems the benchmark by which 'success' is measured. Bank development professionals tend to focus on the endogenous, Bank system-related factors of a 'successful' project. The exogenous, context-related issues which determine the quality of outcomes over time for the country's people, not least in terms of governance relationships, continue to be underplayed.
- Raising the quality of assistance to Fragile and Conflict-affected Countries is expert labour-intensive. It requires that:
  - Staffing levels, skills sets and location be appropriate for ensuring the best possible design, implementation and follow-through on strategies and projects in very difficult operating environments.
  - Bank operations pay more attention to the recruitment processes for the implementation of Bank projects by recipient agencies (e.g. line ministries) as well as to subsequent contractor and consultant performance.
  - The right incentives need to be in place for staff to pay greater attention to these issues and to travel into districts to monitor them.

  The administrative budget and performance criteria should be adapted accordingly.
- Bilateral donors to IDA (in capital and the field) must increase their own human resource capacity and budgets so that staff can properly engage with Bank staff on their decision-making. They should be able to better track and support the World Bank in its own poverty reduction efforts and for its coherence with other institutions.

Introduction

1. The global effort to reduce poverty is often distilled into the Millennium Development Goals. These are technical, quantifiable targets by which the assistance of international development institutions, such as the World Bank, are measured and by which their performance is most often assessed. Yet the reality of development is that good intentions come up against the complexity of politics, identity and culture, stark inequities between sexes, as well as severely limited local economic opportunities. In these environments, all aid is political and politics impacts upon all forms of engagement.

2. In conflict-affected and fragile states (i.e. 40-50 countries worldwide)[2] the challenges to development are particularly acute. The often-desperate needs, fears and insecurity of populations sit alongside prejudice, discrimination, violence and exploitation – problems which are not limited to state borders. Existing national and local institutions are often neither delivering adequate services nor ensuring that tensions are managed peacefully. Recognition of these challenges is changing the way donors and multilateral development institutions like the World Bank provide assistance.

The World Bank and the 40-50 conflict-affected and fragile states

3. As a financier and provider of influential policy and technical advice in developing countries, the World Bank has very substantial direct and inadvertent impacts on local and national economic systems and governance, as well as cross-regional dynamics.[3] The Bank also plays a fundamental role in influencing the direction and characteristics of other aid and investment flows and in leveraging activities by governments who are accessing, or seeking to access, these external sources of funds. We agree with the Bank's own assessment that it "has a significant contribution to make by adapting its traditional economic and service delivery competencies to weak capacity environments and by tailoring its technical expertise to support the lead of the UN and other partners in efforts to consolidate peace and stability."[4]

4. The growing recognition in the Bank that it must not side-step conflict and fragility issues in its work is helping to drive greater efforts to improve the Bank's engagement. These include the following:

   a) Budgeted assistance to 'fragile states' is rising. During 2003-05, the lending and administrative budgets amounted to $4.1 billion and $161 million, respectively – increases of 67% and 55% compared with 2000-02. (It should be noted, however, that these figures are heavily influenced by the Bank's increased engagement in Afghanistan and to some extent Iraq.)
   b) The IDA15 replenishment negotiations involved commitments on staffing and on improving the system of 'post-conflict allocations', including through a review of the Post-Conflict Performance Indicators (PCPI) ratings and lengthening the phase-out period for the exceptional allocations. Commitments were also made with respect to the eligibility of, and guidelines for, countries 're-engaging with IDA'.
   c) Structurally, there have been important changes which have seen a beefed-up Fragile and Conflict-affected Countries team, led at director level in the Operational Policy and Country Services Vice Presidency, put in place to replace the Conflict Prevention and Reconstruction unit and the Low Income Countries under Stress

(later called the Fragile States) unit. There is also a Conflict, Fragility and Social Development unit embedded in the Bank's Africa division.

d) A new Operational Policy for Rapid Response to Crises and Emergencies (O.P. 8.00) was agreed by the Board in 2007 to help it deal with 'crises' in its operations. This established, in principle, that policies and procedures intended to reduce the impact of future disasters or crises, including prevention and mitigation measures, should be an integral part of all strategies for those countries. Changes to financing arrangements under the OP should have the effect of allowing the Bank to speed up the disbursement of funds in crisis-hit situations.

5. Although progress is certainly being made in some of the corridors of the Bank's headquarters and field offices, the substance and practice, institution-wide, still requires significant adaptation. The Bank needs to modify its organisational culture and also its internal procedures and processes. These are interrelated. Progress on each would be mutually reinforcing and would help *operationalise* better and more sustainable outcomes in fragile and conflict-affected countries.

Issues for the Bank:

Dealing with political economy issues?

6. The Bank's activities are set within a framework defined by the Bank's original charter: the 'Articles of Agreement'. This includes a requirement that "proceeds of any financing are used only for the purposes for which the financing was provided, with due attention to considerations of economy, efficiency and competitive international trade and without regard to political or other non-economic influences or considerations."[5] This clause affects the Bank's work in different ways. Depending on the situation, a narrow interpretation to 'stay away from politics' may sometimes be used for very pragmatic purposes in order to achieve initial progress on long-term goals (as with, for example, two recent projects in Nepal). The article may also be invoked as a rationale to skirt around difficult issues, a reason for seeing and pursing the often immense 'developmental' challenges as simply 'technical' - if they can be isolated from politics.

7. The Bank faces very serious dilemmas in its operations in unstable places, particularly in countries where there is no 'aid dependency', such as Sri Lanka. On the one hand, it must work with sclerotic or defunct administrative structures and within corrupt and faction-riven political systems. Ongoing physical insecurity also poses enormous operational challenges (such as in Burundi prior to the elections in 2005). On the other hand, in 'fragile' settings, 'considerations of economy' unavoidably include highly complex political economy issues. These characterise and determine the operating context. Furthermore, economic issues (and decision-making) are unavoidably political. The timing of the announcements on financial assistance may, for example, send important signals to the different parts of the polity. For example, the $60 million Economic Reform Support Grant to Burundi in 2006 was approved at a time of significant abuse of executive power such that citizens and civil society groups might question the commitment of the World Bank to improvements to their human security and to their system of government.

8. There is a fundamental difference between avoiding the politicisation of IDA and ensuring that IDA commitments are based on sound analysis of political dynamics and of how those funds and their spatial, gender and identity distribution, will impact on

power relations and the governance environment. If, for example, geographic disparities in Sri Lanka are a concern, then the Bank must hold true to its principles in deciding what funds to provide to the Colombo government, even if this adds risk to, or reduces, the portfolio. The Bank's procedures must not function so as to disincentivise staff from making such a position clear in public on a systematic basis, nor so that implicitly, or inherently, political statements are made on the basis of the ad hoc decision-making of individual personalities or teams.

9. A further difficulty for the Bank in dealing with political economy issues lies in the country-based approach (other than for projects on regional infrastructure or trade). Funding streams are generally tied to individual countries and staff largely limited to activities *within* national borders. However, blockages to development in Nepal, for example, would be better tackled if Bank staff in Kathmandu and in Delhi were more actively engaged together in addressing cross-border factors dynamics, notably in the Terai.

Dissecting the reality of 'country ownership' and the debate on 'conditionality'

10. There is no doubt that the Bank and IMF play a vital role in helping the governments of the world's poorest countries to address critical macro-economic and long-term economic issues. This may include, as in Burundi, efforts to prevent the collapse of a country's balance of payments account or to improve a government's ability to pay (and track) the salaries of the civil public sector and security services. The instability that can be caused by serious financial shortfalls in these areas has to be avoided, and the existence of a capable government is one of the primary pillars of an effective democracy. The Bank certainly needs to dedicate significant financial and human resources to these tasks. The dilemma, however, is that external actors like the Bank cannot at any time take events and government commitments at their face value, and should not, therefore, interpret the Paris Declaration on 'aligning with government priorities' too narrowly or implement it too rapidly.

11. In highly volatile political contexts, with very young or only nominally democratic traditions and institutions, it is insufficient and inappropriate to rely heavily on state actors to motivate and lead the process of change. This process involves transforming the 'way things are done' in the country so that ordinary people are empowered within an 'open access' economy and society. Key decision-makers in central government may have little interest in bringing this about. Moreover, the executive may be so divided amongst powerful individuals that it should not be treated, or referred to, as if it is a homogenous entity. The experience of the Rural Access Improvement and Decentralisation Project (RAIDP) in Nepal shows that pressure applied at the local level (where beneficiaries are informed as to the sources of the delays and blockages) can be successful in leveraging progress and makes the calibre, and accompaniment, of the 'social mobilisers' and lead consultant contractors all the more important. It also underlines the importance of a broader transformation of the 'culture of power' which lies behind the Poverty Alleviation Fund (PAF) project in that country. Overall, the main question that must be asked is what does a political leadership committed to development look like, and what will it take to get it.

12. The PAF and RAIDP projects in Nepal illustrate one of the most striking tensions that is emerging in the Bank's work in conflict/fragile settings. This is the question of balance in respect of, on the one hand, a 'statebuilding' (in line with the Paris Declaration's

alignment agenda and also the DAC Principles of Good International Engagement in Fragile States and Situations) and 'state avoidance' where such an approach is the only way to reach the poorest groups (and thus drive economic growth and MDG progress at the local level). Bank operations can end up fragmenting under competing corporate priorities (growth, statebuilding, poverty reduction) and under the contrasting approaches of different Task Teams. The Bank continues to risk ineffectiveness also where there is a similar lack of consensus with bilateral donors on what kind of development goals and approaches are necessary given the defunct, corrupt or faction-riven politics of the operating context.

13. A second tension, reflected in a much wider debate among NGO and governmental representatives, relates to conditionality on Bank financing and the bilateral assistance (e.g. debt relief) that may flow from it. Some civil society groups are opposed to it as a matter of principle, provided that the *unconditional* support is directed and closely monitored exclusively for poverty reduction purposes. Others believe that certain obligations must be attached to such finance in order to tackle 'elite capture' and ensure wider and fairer access to the benefits intended. For example, in International Alert's view, the process to liberalise and privatise the coffee sector in Burundi is an important opportunity to pull the coffee sector out of its current crisis and ensure a more equitable distribution of revenues, in particular to its farmers. But, given the crucial economic and political importance of the coffee sector, the reform is unlikely to take place unless the Bank and IMF can find ways to help reduce the degree to which key members of the politico-business elite control the industry By contrast, we do not consider the conditions attached to the Poverty Reduction Support Credit in Nepal to be appropriate to the dynamics of that country's transition. The bottom line is that the issues are always deeply complex and vary from country to country and case to case. The Bank's internal system' must, therefore, operate so as to ensure that staff make their decisions according to the needs of the context.

Defining results:

14. The way results are defined has a profound impact on Bank processes, outputs and outcomes. This, above all, is what determines staff incentives and decision-making. The key question is whether operational choices are driven by the 'supply' end of the relationship rather or whether the context is taken as the 'starting point' for determining the timeframe and modalities of disbursement and delivery?

15. The Bank (as with other donors) continues to be affected by a culture which incentivises officials to work on operations that are large in spending terms and involve significant disbursements to meet recurrent costs (such as in a Sector-wide Approach – SwAp – on education). Under the Bank's 'results measurement' system, this is how 'performance' is most easily assessed, as manifested in the 'Results-Based' Country Assistance Strategies, the annual Status of Project Execution (SOPE) and 'Country Portfolio Performance Review' documents. The emphasis of these is on tracking expenditure and attaining pre-determined disbursement targets. It is the thrust also of the Annual Review of Portfolio Performance (APPR), which summarises how well regions are performing on 'Development Outcomes' (as the term is used by the Bank). Moreover, a major motivation for the new OP 8.00 seems to be how to deal with the Bank's internal 'crisis' where its rules and regulations prevent money from getting out the door.

16. Some of the pressure to spend per se is also due to the fact that actual lending on per capita terms is correlated with performance levels and the combined rating is scaled up or down depending on the strength of the country's 'performance'. The Bank also has a 'three ticks' system for project disbursement so that slow disbursement is flagged to senior management, with possible negative consequences for the task managers involved. Although not wrong in and of itself, it can nonetheless be considered whether these internal pressures skew staff decision-making on operational choices as they seek to avoid criticism from Bank management and certain members of the Board about reduced disbursement levels. Such questioning must rather recognise that there is a fundamental difference between, on the one hand, the immense needs of countries to receive assistance and, on the other hand, whether sustainable improvements will actually accrue to the poor in the event that more money is forthcoming.

17. The spending incentives of the 'super-charged' aid system raise a number of related concerns about decision-making on risk. These include whether, in fragile and conflict-affected contexts, the Bank's institutional 'performance' criteria will push it towards sectors and areas where there is *less* risk of disbursement problems and greater likelihood of prodding MDG statistics across headline thresholds. It may well be, in fact, that the right 'outcome' actually demands the taking of risks in difficult geographic and thematic areas and a slower, longer, incremental and staff-intensive period of disbursement. It may also be that, instead of considering moving resources into 'better performing areas' (as is being considered with Nepal's RAIDP in the face of local violence in the Terai and poor district-level financial management), more resources should be allocated to riskier areas to obtain higher quality outcomes where they are most needed. The Burundi's troubled Bujumbura Rurale province is a case in point as regards the problems of relative neglect - instability there has continued to fester and threatens the development of the country as a whole.

18. The consequence of this 'results' system is that too many Bank development professionals focus on the endogenous factors of a 'successful' project and underplay the exogenous issues which determine the quality of *outcomes* over time for the country's societies. Efficiency is conflated with effectiveness and the absolute *quantity* of disbursements risks being the benchmark by which 'success' is measured. The impressive professionalism applied to project appraisal and evaluation, and the number of supervisory and assessment missions, remain insufficient (or incorrectly designed) to address this problem. The Quality at Entry process (QER) and the work of the Quality Assurance Group (QAG) and the Development Economics Research Group (DECRG), for example, do not yet ensure that political economy and psycho-social issues are given the attention they require in all types of operations, particularly once the funds are transferred to the government implementer(s).

The role of bilateral donors in improving the Bank's engagement

19. In the World Bank headquarters, decisions on strategies and programmes are often waved through without sufficient expert scrutiny or input from the field. In-country, where bilateral donors sometimes pay close attention to Bank activities, this tends not to be systematic. It depends on (a) the size of the given Bank project in proportion to the total donor engagement in that area, and (b) the size of the given donor's programme in that country relative to the overall level of international assistance. Most frequently, bilaterals struggle to monitor the Bank's decision-making because of the lack of staff time in both the relevant headquarters and country missions.

20. Yet inter-relationship of bilateral donors with the Bank really matters not only because they allocate significant sums for spending by the Bank (around £2.1 billion from the UK government for IDA15, for example) but also because they often have substantial bilateral aid programmes in the same recipient countries. Moreover, the accountability relationship of the bilateral donors to their respective electorates for development spending is distorted by increasing financial contributions to the Bank and other multilateral agencies. This carries political responsibilities (and risks) that cannot and should not be ignored.

21. The bilaterals have an important role to play in helping to change these and their institutions have relevant and useful expertise which can be harnessed to help the Bank improve its effectiveness in fragile and conflict-affected countries. In so doing, they would be improving the impact of their taxpayers' contribution to better development outcomes in these settings.

Ways forward:

22. The crux of the challenge is for there to be a fairly seismic shift in the 'institutional culture of the Bank so that there is a greater balance of expertise within genuinely *multidisciplinary* teams. The Board and Senior Management need to make clear that, for the organisation as a whole, conflict and fragility are not (and cannot be treated as) a "thematic" issue, involving discrete programmes and units that are 'tacked on' to the "standard" way of working. It is the context in which all types of programmes and approaches are taking place and which fundamentally impacts on the assistance provided (positively or negatively). All Bank activities have implications for longer-term relationships among competing elites, between citizens and the state, as well as between diverse and often fractured population groups.

23. In terms of its procedures and processes, the Bank's management should take the following steps:
    - **Measure country, project and staff performance** in terms of progress towards the context-specific strategic goals, rather than weighting them towards more generic indicators such as volume of funds expended. The Bank needs to be more candid (at least with itself) about how it thinks its budget support, infrastructure, education and other activities affect power dynamics and social relations. It needs to be more actively conscious of how it engages with recipient communities and constituencies, and of how well contractors and consultants are performing.
    - **Base staffing decisions on experience in fragile contexts**, analytical capacity and political acumen, not technical qualifications alone. These skills sets need to be integrated into the QAG, DEC as well as Independent Evaluation Group teams.
    - **Ensure that country teams are large and expert enough** to perform the in-country travel, ongoing analysis and political networking required to implement conflict-sensitive approaches effectively. Pressure from Finance Ministries to reduce transaction costs must be resisted, given the complexities of fragile settings. Effective assistance (which helps drive forward societies towards fuller participation, greater equity and peaceful development) is not just labour-intensive, it is *expert* labour-intensive. The Bank's administrative budgets and staffing plans should reflect this (as should the stance taken by bilaterals towards permitting those costs).
    - **Provide incentives for staff to spend more time in-country and in districts** so that they have a better understanding of the local political context and will be more

capable of dealing with the power dynamics and psycho-social which determine the overall as well as day-to-day progress of the relevant strategy document(s) and the projects which flow from that strategy. The 'mission culture', whereby DC staff travel to the field every now and again for a few days, is not sufficient, and does not help to improve coherence with the UN system in-country, in line with high-level commitments.

24. In addition, bilateral donors to IDA themselves need to take certain measures within their own set-ups to improve its own way of working with the Bank. If they are to be able to provide greater assistance to the Bank, and provide some oversight that its own policy commitments are being accounted for, it needs to:
    - ***Ensure sufficient (and sufficiently conflict-aware) human resources in IFI divisions*** of bilateral headquarters, and in Washington IFI missions, to monitor Bank strategy and project documents, and improve them, as appropriate, as they come before the Board of Executive Directors for approval. At a minimum, these units must be reinforced with sufficient numbers of staff, who can bring conflict/fragility expertise to bilateral interaction with the Bank in respect of the 40-50 different 'fragile' country operations.
    - ***Provide the right staffing levels and staffing incentives for field staff*** to engage Bank staff on a more systematic basis, providing expertise (and, if necessary, pressure) for Bank staff to integrate political and psycho-social factors into their ways of working and, as appropriate, engage other bilaterals in efforts to influence these non-economic dynamics.

Conclusion:

25. Attention to issues of power, to social relations, to the attitudinal obstacles to the inclusion of all population groups, whether defined by religion, ethnicity, caste, clan or gender, would allow the Bank to engage more effectively in the poverty reduction agenda which it has set itself. The question of 'how' is as important as the 'how much' because the ways that a strategy and a project are formulated, consulted on and implemented can mean that they themselves become a mechanism for promoting participation, accountability and social cohesion – objectives which are vital for sustainable development.

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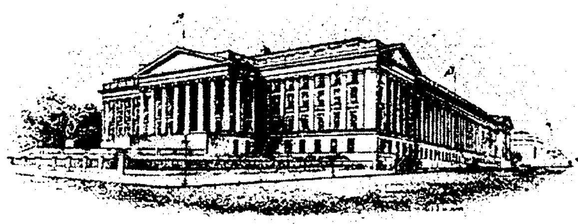
[1] International Alert is an independent peacebuilding organisation that has worked for over 20 years to lay the foundations for lasting peace and security in communities affected by violent conflict. Our regional work is based in the African Great Lakes, West Africa, the South Caucasus, Nepal, Sri Lanka, the Philippines and Colombia. Our thematic projects focus on cross-cutting issues critical to building sustainable peace. These include business and economy, gender, governance, aid, security and justice. We have more than 100 staff based in London and our 10 field offices. Website: www.international-alert.org

[2] "There is no agreed global list of fragile states…One common way to estimate the level of fragility is derived from the World Bank's Country Policy and Institutional Assessments (CPIA). CPIA scores divide low-income countries into five categories of performance, the lowest two of which are useful proxies for state fragility. There is a separate group of unranked countries, also deemed fragile. This provides a list of 46 fragile states. Middle-income countries are not included in this list" - from *Why we need to work more effectively in fragile states*, UK Department for International Development, January 2005

[3] IDA is the largest provider of multilateral ODA to low income countries with disbursements in the order of US$80 billion during 1994-2005.

[4] International Development Association (2007), *Operational Approaches and Financing in Fragile States*, Operational Policy and Country Services (OPCS) and Resource Mobilization Department (FRM), June 2007

[5] Article V, Section 1, paragraph (g)



U.S. TREASURY DEPARTMENT OFFICE OF PUBLIC AFFAIRS

Embargoed Until 10:00 a.m. (EDT), June 18, 2008
Contact Rob Saliterman, (202) 622-3431

Assistant Secretary for International Affairs Clay Lowery
Testimony Before the House Committee on Financial Services

Washington – Chairman Frank, Ranking Member Bachus, members of the Committee, thank you for the opportunity to discuss the Administration's request for authorization to participate in the 15th replenishment (IDA15) of the International Development Association (IDA). IDA is the main vehicle of the World Bank to support 82 of the poorest countries around the world, by providing the largest source of interest-free loans, grants, and debt relief of any multilateral development institution. Our request for authorization of $3.705 billion over three years represents a 30 percent increase over IDA14. We know this is a significant increase but we believe there are compelling arguments for this request and for the longstanding U.S. support for IDA.

There are a myriad of reasons to support the authorization and appropriations of IDA. Today, I want to highlight three: effectiveness, leverage and coordination, and U.S. foreign policy objectives. I will then briefly touch on our specific achievements in the recently concluded IDA15 replenishment negotiations.

The IDA Model and Development Effectiveness

The IDA model is *country focused*. Countries receive assistance from IDA that reflects their own priorities. IDA not only works across sectors such as agriculture, education, infrastructure, and health, but it builds systems and capacity within governments to be able to tackle the barriers to growth and poverty reduction. For instance, bilateral assistance in a given country could be targeted towards specific needs such as HIV/AIDS retroviral drugs. IDA then could focus on the health system to ensure services are delivered and the proper standards of care are in place. By focusing on systemic issues in each country, coordinating across sectors and donors, IDA helps other development assistance be more effective as well.

IDA is *performance driven* and allocates resources to good performers. Findings of the past 10 years of research on aid effectiveness confirm that reform-minded governments are much more accountable to their citizens and manage aid and their own resources more efficiently. In IDA, the top performing 10 percent of countries receive seven times as much assistance on a per capita basis as the poorest performing 10 percent of countries.

As one of the top donors to many of these countries, IDA has played a large role in helping countries achieve their development goals. In IDA countries for instance,

- People are living, on average fifteen years longer than they did forty years ago.

- Illiteracy has been cut in half over the past thirty years, from 50 percent to 25 percent of the population, and 80 percent of children now complete primary education.

- Regulatory obstacles to private sector development have been reduced by one-sixth between 2003 and 2005.
- Real GDP per capita has grown by 4.9% annually between 2002-2005; more than double the average rate between 1990 and 2002.

There are many country specific success stories but to highlight one:

- In **Senegal,** IDA supported the country's rural infrastructure projects, which improved roads, strengthened decentralization and financed micro-projects including water, schools, livestock, and other development needs. Beneficiary households in the 110 participating rural communities reported a 25 percent increase in incomes. Fiscal revenues for rural communities in the project area almost tripled. Markets, schools, and health facilities are now more accessible (children now typically spend 10 minutes going to school instead of 30), and the weight and height of children under three years of age have improved.

IDA's focus on quality and country-level effectiveness also led it to become the first international financial institution to introduce a results measurement system to systematically track key country outcomes as well as IDA's contribution to those outcomes. The measurement system provides an accountability function to demonstrate more precise results from resources invested, and a learning function to improve project design and direct resources to solutions that work.

These efforts are being noticed. In a recent article, William Easterly, a notable development expert and frequent critic of development assistance providers, ranked IDA as the number one donor using best practices in aid in his evaluation of 39 multilateral and bilateral donor agencies. In addition, DFID, the UK development agency ranked IDA as the most effective multilateral development bank and used this rationale as justification for increasing their IDA15 contribution by 50 percent.

Leverage and Coordination

As a multilateral institution, IDA provides financial leverage for development resources. For every dollar that the United States contributed to IDA14 (FY06 – FY08), IDA was able to provide more than $13 in loans and grants from other donors and World Bank resources, a number which is expected to increase to $15 during IDA15 (FY09-FY11). Further, IDA's investment in a country can signal to investors that the country is making progress and open for business, generating private sector flows.

IDA's leverage is not simply financial. IDA, and more broadly the World Bank's role in convening and coordinating donors at the country's request can make the impact of the whole greater than the sum of its parts. By providing a common platform, fragmented aid from multiple sources can align towards meeting a recipient country's development goals. At a time when the average number of donors per country has grown from 12 in the 1960s to more than 30 today, IDA can support the country by providing coherence among donors, sharply reducing the transaction costs for recipient countries, thereby focusing that more aid and government resources are used to support growth.

The increasingly complex "international aid architecture" underscores the importance of IDA's country-based model to improving the quality of aid and creating a more effective environment for U.S. bilateral assistance. This, of course, requires sufficient resources and reflects the tremendous non-financial assistance that IDA puts at the disposal of governments in their struggle to meet the development challenges they face. A compelling example of this convening power has been the World Bank's response to increasing food prices. Through the effective leadership of President Zoellick the World Bank has played a central role in galvanizing the international community in trying to meet not only the short-term needs of many poor countries but also advocating the appropriate policies to address ways to increase agricultural productivity in the long run.

Support for U.S. Foreign Policy Objectives

The United States has a wide international reach; however, we can't do it alone. The greatest opportunities and the most serious threats to U.S. interests now come from the developing world. While IDA accounts for only a small percent of the Administration's foreign assistance request, its global reach and expertise make it a very effective instrument for advancing U.S. strategic objectives abroad. Some notable recent IDA efforts include: (1) providing debt relief for the poorest countries; (2) helping countries develop and reform their financial systems and develop their local capital markets; (3) assisting post-conflict countries with economic revitalization and reconstruction; (4) preventing and controlling infectious diseases (such as avian flu); (5) providing assistance to help countries with anti-money laundering activities; (6) administering trust funds providing assistance to countries and global issues of importance to the United States; and (7) working to combat corruption and improve governance globally.

For instance:

- Since April 2002, the World Bank has committed $1.56 billion for 36 reconstruction projects and 3 budget support operations in **Afghanistan.** IDA's emergency assistance has rehabilitated schools and decentralized management to increase enrollment across grades, especially among girls. IDA's investments in roads since 2003 have helped to reconnect Kabul with the Tajikistan border, cutting travel time from 48 hours to about 6 hours, increasing opportunities for commerce.

- Even before **Liberia** was able to clear its arrears to the international financial institutions (IFIs), IDA was in that country providing technical advice and limited amounts of grant funding in order to pave the way for broader financial support from the donor community once arrears were cleared. U.S. financial support and leadership, particularly along with the G-8 and heads of the IFIs, encouraged 90 countries to reach consensus on clearing $1.4 billion arrears this past year. This was instrumental for Liberia's re-engagement with the world.

We have also been able to leverage substantial reforms through the replenishment process due to strong U.S. leadership and influence. Over the years, our reform agenda has taken IDA to new frontiers on measuring and achieving development results, securing grant finance for the poorest countries, and enhancing accountability and transparency. IDA, of course, was also critical to delivering the President's Multilateral Debt Relief Initiative (MDRI) in 2006 that is providing 100% debt relief to 21 Heavily Indebted Poor Countries (HIPCs). Our goals for IDA15 built on these successes.

IDA15 Achievements

In the IDA15 negotiations, the United States achieved all of its policy objectives, most of which built on core elements of reforms achieved in IDA14 and IDA13. The IDA15 and the African Development Fund (AfDF11) replenishments focused on key areas such as improving engagement in fragile and post-conflict countries, enhancing economic integration through a scale-up in regional infrastructure projects, strengthening the results measurement systems, and improving transparency. Let me expand on a few of these.

Fragile States: The challenges facing fragile states are important for the world – and especially IDA – to tackle more effectively. A large part of the focus in the replenishment agreement was to have IDA lead in better-coordinated advice on the ground where the interplay between political, security, and development objectives requires coherent policies that deal with multidimensional challenges, as well as find mechanisms to restore essential serves and jump start infrastructure investments.

Regional Integration: Some of the most pressing development needs identified, particularly by land-locked African countries, cannot be addressed only within that country and requires regional cooperation for needs such as water management, road networks, trade facilitation, and energy access. For most of their history, the MDBs have been designed to support programs in individual countries. Since IDA13 support for regional projects has become an increasingly important part of IDA's work program. In order to catalyze collaboration on specific projects among countries with differing development needs and resource profiles, in IDA15 funding is set aside to finance up to two-thirds of regional project cost. To ensure country commitment to project success, however, one-third of the cost must be funded by the participating country's IDA allocation.

Results Measurement: IDA was the first MDB to introduce a results measurement system to monitor development progress. It tracks individual country outcomes through indicators such as primary school completion rates and HIV prevalence rates, measures IDA's contribution to country outcomes through output indicators such as the number of teachers trained or facilities built, and tracks the number of projects that achieve their development objectives. Over the duration of IDA15, IDA will work to improve the quality of these data by building country statistical capacity. The agreement also commits IDA to continue efforts to link staff performance assessments to actual project results, thus placing the supreme value on the quality – not quantity – of assistance.

Why IDA and the Multilateral Approach?

A multilateral organization, such as IDA, has the scale and capacity to deliver development results better than any one donor does. By pooling donor contributions, IDA is able to multiply the impact of donor contributions, helping to make funding possible for long-term, large-scale projects such as road building or rural electrification. Sometimes an MDB such as IDA, by virtue of its structure as a member organization, can more easily work directly with governments to reform policies and improve capacity to achieve a country's own development agendas. MDBs are able to provide longer-term, predictable financing across sectors, generating efficiencies. The World Bank is able to design its interventions in IDA countries based on best practices and the lessons learned over time and in more developed countries. If we didn't have IDA, then I believe we would be working hard to create something very close to it.

The fight against global poverty is one of the biggest challenges of our time. As both a courageous and generous nation, the U.S. is a natural leader in this fight to support those in the greatest need. IDA is the most effective institution through which we can invest to achieve that goal. In supporting a country's own development plan, IDA can leverage other sources of funding, coordinate multiple donors around a shared goal, and is able to champion policies that are in line with U.S. policy priorities. This is not to say that IDA and the World Bank are perfect; rather it underscores the need constantly to re-evaluate IDA's approaches to find out what works and what doesn't work. Often with U.S. leadership, IDA has compiled an impressive record of adaptation and improved effectiveness.

But bold leadership also means fulfilling our commitments. We believe that the critical policy gains made in IDA15 on engagement in fragile states, regional integration, and results measurement justify the proposed 30% increase in resources to IDA. A three-year authorization is necessary for IDA to be able to make the long-term financing commitments needed to support country development plans. Since U.S. contributions to MDRI are funded through our contributions to IDA, full funding of our request to the MDBs is also necessary for the United States to meet its financial obligations to the costs of debt relief under MDRI. Continued arrears jeopardize the U.S. ability not only to deliver debt relief, but also to influence and lead IDA.

We respectfully urge your support for our request and I look forward to trying to answer your questions.

The World Bank failing to deliver real change on conditionality

Hearing at the House Financial Services Committee, 18 June 2008
By Nuria Molina, European Network on Debt and Development
With the endorsement of Oxfam America

Why economic policy conditionality doesn't work?

The World Bank's practice of economic policy conditionality - tying its aid to the implementation of certain policies by the recipient country - has long been a contentious issue. Civil society organizations, southern governments and academics have criticised the Bank's use of policy conditionality and, in particular, its use of economic policy conditionality, for being ineffective, undermining country ownership, and imposing inappropriate policy choices.

For many years economic policy conditionality – such as privatization or liberalization - has undermined the development of domestic accountability relationships. Such conditionality takes policy decisions away from sovereign governments and places them in the hands of unelected donor officials. This means that citizens often cannot tell who made policy choices, and who to blame when things go wrong. When policies are imposed from outside the country, government commitment tends to be lower. Frequent disputes about whether conditionality has been properly implemented make aid flows to impoverished countries very unpredictable. Conditionality also imposes huge transaction costs on often already over-burdened government administrations.

We are not opposed to privatization or liberalization per se. In some instances it might be the correct policy. However, this is a decision for national governments to take, in consultation with domestic stakeholders. It is not appropriate for this to be attached to a World Bank programme.

"Policy conditionality…is both an infringement on sovereignty and ineffective" noted the Africa Commission in 2005, whilst the G8 in that same year highlighted that it was the right of sovereign nations to determine their own economic policies. In response, the British and Norwegian governments have developed policies to end the tying of their aid to privatization and liberalization conditions.

Moreover, some economic policies promoted by the World Bank through conditionality have often been disastrous for poor people. Rushed privatizations and liberalizations have often undermined the access of poor people to basic services and have painfully increased the vulnerability of already weak economies. World Bank grants and loans should not impose economic policy conditions, which too often determine sensitive policy choices.

We recognise that Congress, as other parliaments, does not want to sign blank cheques, and that some forms of conditionality are therefore desirable. The Bank should introduce a set of responsible financing standards which are mutually agreed by the Bank and recipient countries. These should be aimed at ensuring due-process obligations, such as transparency and compliance with national democratic mechanisms for public consent, and respect for internationally agreed standards and development goals. The Bank should also explore the use of outcome-based conditions.

The rise of economic policy conditionality

In the early 1980s, the World Bank's portfolio shifted from support for discrete projects towards programme financing, so-called structural adjustment loans. Rather than finance the opening of a new mine, the Bank would back reform of the mining sector, or more broadly still, reform of the business climate in an attempt to encourage foreign mining companies to invest.

World Bank started to attach numerous economic policy conditions to its grants and loans, a practice that continues to this day. For example, the requirement that "Good faith negotiations are reached for the privatization of Rwandatel, Rwandex, and Nshili-Kivu tea plantation and initiate privatization process of rice factories of Rwamagana, Gikonko and Bugarama" (Poverty Reduction Support Credit II for Rwanda, 2005); "Issue tender for the selection of a private operator for the management of the electricity sector" (Poverty Reduction Support Credit IV for Burkina Faso, 2006); or "Adopt policies to encourage the participation of non-state establishments in the delivery of public services" (Poverty Reduction Support Credit 6 for Vietnam, 2007).[1]

With this shift, the portion of the Bank's portfolio directly governed by its social and environmental 'do-no-harm' policies declined, whilst that which involves active interventions into state sovereignty and policy-making grew. The number of conditions attached to the Bank's grants and loans peaked in the second half of the decade of the 1990s, with an incredible average of fifty conditions per loan given by the World Bank's concessional arm, the International Development Association (IDA).

In 2005, in the face of growing criticisms from NGOs such as Eurodad and Oxfam, and from legislators such as yourselves, the World Bank announced reforms. It adopted a new set of "Good Practice Principles" (GPPs) that were intended to govern the way Bank staff apply conditionality. These principles aimed to reduce the overall number of conditions attached to Bank lending and ensure that those attached respected and were drawn from nationally developed poverty plans in recognition that developing country ownership is the bedrock of successful development.

Is economic policy conditionality still a problem?

Eurodad has had an opportunity to study the World Bank's own database of conditions up to 2007. The results are in our report Untying the Knots, published last November. Its conclusions are that: Two years on from implementing the GPPs, World Bank data shows a reduction in the overall number of conditions attached to World Bank finance (from 46 per loan prior to the GPPs, to 37 per loan today). However, these numbers should be treated with caution as they paint an overly optimistic picture. This is because in some cases, the Bank is "bundling" numerous policy actions into one overall condition. For example, according to Bank data, Uganda has only eleven conditions in its PRSC V. However, when Eurodad counted the policy actions contained within each of these conditions, they found that Uganda actually had thirty-eight separate policy conditions. In a sample of 1,341 Bank conditions, Eurodad found that almost 7 per cent of Bank conditions contained multiple policy actions. If these are counted as separate condition, the number of overall conditions increases by 12 per cent.

What is clear, however, is that the GPPs have so far completely failed to make inroads into reforming the Bank's use of policy conditions in sensitive areas such as privatization and liberalization. This report shows that **71% of all grants and loans contained some sort of sensitive policy reform**, such as price liberalization, privatization, public enterprise restructuring, commodity price regulation and subsidies, trade

[1] Policy conditions stipulate that an aid recipient implement reforms in domestic policies such as public sector wage levels or subsidies to industry. They are commonly sub-divided into economic and governance conditions, though in practice the distinction is difficult to maintain. Process conditions relate to transparency, participation and accountability. They are less intrusive. Outcome conditions require that a government reach a certain goal to keep the aid money flowing. This may be an internationally-agreed target (such as the Millennium Development Goals), a donor priority, or, ideally, a priority of the citizens of the recipient country. Outcome conditions are meant to allow the government to determine the policies and institutions which it believes are appropriate to reach the specified outcome.

reforms and tariff reductions. The majority of sensitive policy reforms are privatization-related conditions. **12 out of the 16 countries assessed by Eurodad had privatization related conditions.**

Economic policy conditions – which include privatisation and liberalisation – have remained virtually unchanged, if taken as a percentage of overall Bank conditions. This lack of change in the proportion of economic policy conditions reveals that though the Bank might be willing to reduce other conditions in other areas, it is unwilling to relinquish its influence on the economy of poor countries via economic policy conditionality. Eurodad found that countries on average receive 11 economic policy conditions per loan. And as a percentage of overall conditions, Eurodad found that **economic policy conditions have risen since the GPP was implemented and now constitute a quarter of all World Bank conditions**.

The Bank does not seem to be listening to the findings of its own 2005 Conditionality Review, when it recognised that "The lessons of the 1990s show that generalised policy prescriptions often fail, and that there is no single model of development".[2]

What is wrong with privatization and sensitive economic policy reform conditions?

State-owned enterprises in poor countries receiving World Bank's grants and loans are often inefficient and a burden to the government's budget. Likewise, provision of utilities such as water and electricity, as well as of essential services such as health and education does not reach a good share of the population – particularly the poor – and the quality does not meet the minimum standards. Reform is certainly needed.

However, all too often privatization promoted by the World Bank through conditionality has led to disastrous results for poor people. Rushed privatisations and liberalisations have often undermined the access of poor people to basic services and have painfully increased the vulnerability of already weak economies. Privatization of sectors such as water or energy has sometimes limited the access of the poor to essential services. Companies in these sectors require large investments and thus are not always profitable, let alone in the short-run. Non-competitive selling of state companies or rushed privatizations has often led to underperformance of these sectors and the introduction of non-competitive monopolies. Sales have often been non-transparent and regulation and competition after sell-offs weak or non-existent.

In 2005 the World Bank and the IMF made their budget aid conditional on **on the liberalization and privatization of the Malian cotton sector**. Cotton privatization continues to be a condition of their lending today. Such conditions have at best failed to deliver for the poor and at worst have destroyed poor peoples' livelihoods. Liberalization of the cotton sector has exposed Malian cotton farmers to the heavily distorted world cotton market price. Prices have been in severe decline as a result of huge rich-country subsidies to their own farmers. The result: three million Malian farmers saw a 20 per cent drop in the price they received for their cotton in 2005. According to an unpublished study by the World Bank, this is likely to increase poverty by 4.6 per cent across the country.

In Zambia, the World Bank required that the the **state-owned Zambia Consolidated Copper Mines (ZCCM) should be privatized**. In 2000, ZCCM was sold to foreign investors. Privatisation increased the profits of the mining sector. However, this was a bad deal for the Zambian people, based on bad advice from the World Bank and IMF. The agreements made with foreign companies exempt them from covering most of ZCCM's liabilities (including employees' pensions) from paying most taxes, and from many national laws, for examples on environmental pollution. This prevented Zambian workers and, more generally, Zambian citizens to benefit from increased profits in the mining sector. The problem – as often – is in how this privatization was handled. As a result, the government, companies and aid donors face a crisis as communities on the Copperbelt express their frustration, through strikes, protests and the ballot

[2] World Bank: Review of World Bank Conditionality, September 2005.

box. A report by the Civil Society Trade Network in Zambia[3] attributes the legitimacy crisis to the widespread perception that "massive wealth is being generated by the mining as world prices for copper hit record highs but that, because of privatization, it is leaving the country before Zambians see significant benefits."

In Nicaragua, the World Bank required to privatize the electricity sector in 1998 as a condition of their lending. Today the ramifications of that decision are still being felt by Nicaraguans. Union Fenosa, a Spanish firm, was the only bidder to run the distribution companies, so it bought an effective monopoly over electricity distribution. Bringing in private companies to run the electricity sector provision has not resulted in additional investment in electricity provision. Instead this investment has come from the state, who has taken on loans worth $23 million to finance investment in infrastructure. The privatization has however resulted in adverse affects for Nicaraguan consumers. The quality of the service has worsened. Severe power cuts have been more pronounced in the past two years. Spiralling costs have also adversely affected consumers. The bills of one family in the Montoya region of Managua showed an increase of energy consumption of 1187% in two months (this doesn't make sense. Why did their consumption increase so much?), which in turn saw their charges for consumption increase by 2736% without spurious additional charges street lighting that was not delivered. In December 2006 the family owed US$1,836. The annual per capita income in Nicaragua is US$890.

Highly **sensitive policy reforms are also being promoted in fragile states** such as **Afghanistan**, where the World Bank is currently backing a policy which will lead to the **privatization of more than 50 state-owned enterprises** in the country over the next two years. This situation raises concerns about the potential social and political impacts of a rushed privatization process and the ability of the government to handle the transactions and the regulation and compensation necessary following the sell-offs. Around 90% of the economy is informal and unemployment is thought to be as high as one-third of the workforce. If the privatizations are to cause 14.500 job losses, then nearly $7 million would be needed to compensate these workers for one year, which would entail significant costs for the government and the donors. The Bank has failed to explain why these privatiszations are necessary now – it admits that the enterprises in question are not unduly burdening the Afghan public purse; and the economic benefits seem uncertain. Besides, such sensitive economic policy reforms should be accompanied by a public debate on the pros and cons of privatization. Afghan civil society and the new parliament must become more involved in this process if it is to be legitimate and responding to the needs of the Afghan population.

Privatizsation and liberalization are not good or bad per se. The issue at stake is that economic policy reforms should not be externally imposed nor induced, but they should be the result of national policy decision-making and debate among the relevant stakeholders in order to strengthen legitimacy of the decisions, as well as democracy and domestic accountability. Moreover, when taken at national level, economic policy reforms can take better into account the local political economy and more effectively contribute to poverty reduction.

Contractual terms of aid relationships: what are fair conditions?

Conditionality has proved to be ineffective when imposed from the outside. Therefore, mutual accountability rather than one-sided conditionality should be the framework of donor-recipient relationships. This is recognised by many scholars and in international commitments by the US and other governments, for example the March 2005 Paris Declaration on Aid Effectiveness. Eurodad and colleagues in other civil society groups have spelled out what we see as legitimate obligations which provide a reasonable guarantee that funds will be well-spent and which are effective in achieving this goal. In brief these are:

[3] Civil Society Trade Network in Zambia: For whom the windfalls? (2007): www.minewatchzambia.com/reports/report.pdf

- Due-process obligations, such as compliance with national democratic mechanisms for public consent; transparency – i.e. budget transparency – and disclosure of information; and accountability including, crucially to legislators.[4]
- Respect for internationally recognised standards, such as protection for human rights and the environment;
- Promotion of internationally agreed development goals, such as the Millennium Development Goals.

The failures of traditional economic policy-based conditionality have been recognised, leading to several proposals for new approaches which strengthen ownership and development effectiveness. One promising new approach, outcome-based conditionality, is now being adopted by the European Commission. This suggests linking disbursement to achieved or pledged development results, and encompasses, in principle, the potential to increase government ownership and link development programs to their impact on poverty reduction. It would also help measure the effectiveness of aid in delivering the internationally agreed Millennium Development Goals.

Aid donors should recognise that they cannot and should not control policy decisions in developing countries. Delegating policy decisions to sovereign governments and their peoples is the only possible way to trigger a positive circle of building capacities and responsibilities of national actors. "Good governance" is only possible when we get rid of the wrong conditionality.

Conclusions and recommendations

The World Bank's reform of conditionality is insufficient and going far too slowly. Good Practice Principles for the application of conditionality put in place after the 2005 Conditionality Review have not made any substantial difference in the numbers of legally binding conditions and have only brought about limited progress with regards to non-binding conditions. Moreover, the World Bank still attaches high priority to economic policy conditionality. This casts serious doubts about the Bank's political will to eliminate this type of conditionality, which is particularly controversial for it has often damaged national economies, undermined government ownership and has had a harmful impact on the poor.

This situation demonstrates the World Bank's inability to date to implement its own reform agenda. The Bank and the major governments who are currently considering increasing their financial commitments to the World Bank's International Development Association must take action. As the 2005 Conditionality Review and Good Practice Principles are failing to deliver, World Bank shareholders should use the opportunity of the IDA funding round to get firm, specific and timetabled commitments from the Bank to reduce and clean up its conditionality figures.

In particular we would like to see the **World Bank** commit to strengthen the Good Practice Principles by:

1. Including as a key principle the commitment to end World Bank use of economic policy conditions in all of its IDA lending;
2. Increasing the transparency of World Bank conditionality, by ensuring that parliamentarians, civil society organisations and other actors are able to participate in key decisions about World Bank lending programmes, prior to their implementation;
3. Providing more predictable aid by assessing conditionality progress every three years rather than every year;
4. Revisiting the definition of ownership to ensure policies are country *selected* rather than there simply being government support for Bank selected policies;

[4] Eurodad welcomes the Parliamentarians' Declaration for Shared Responsibility in Sovereign Lending. www.debtdeclaration.org

5. *Properly* implementing the GPPs -by ensuring that all new development policy lending is subject to an assessment that verifies that the principles have been properly integrated into its design, and reforming staff incentives to achieve this;
6. Working with donors to ensure annual *independent* monitoring of these new improved GPPs, that incorporate the views of southern governments, CSOs and independent researchers;

IDA contributing governments

The British and Norwegian governments have taken formal positions against economic policy conditionality. We urge the US Congress to take a strong stand and to use its influence to press for an IDA 15 settlement that mandates the World Bank to implement the above reforms.

Statement of Lori L. Udall

on Behalf of

Bank Information Center
Center for International Environmental Law
Environmental Defense Fund
International Accountability Project
National Wildlife Federation
Oxfam America
World Wildlife Fund

Regarding the World Bank Inspection Panel
Update and Recommendations for Reform in the Context of
The Fifteenth Replenishment of the International Development Association

Before the
Committee on Financial Services
U.S. House of Representatives

June 18, 2008

I. Introduction and Background

Good Morning. My name is Lori Udall, Senior Advisor to the Bank Information Center. I'm testifying today on behalf of Bank Information Center, Center for International Environmental Law, Environmental Defense Fund, International Accountability Project, National Wildlife Federation, Oxfam America, and World Wildlife Fund. Thank you for the opportunity to testify before the House Committee on Financial Services.

Fifteen years ago during the Tenth Replenishment of the International Development Association (IDA), under the leadership of Representative Barney Frank (D-MA) and the House Subcommittee on International Development, Finance, Trade, and Monetary Policy, the World Bank was pressured to establish twin accountability reforms: an independent appeals mechanism called the Inspection Panel and a comprehensive revision of the Bank's Information Disclosure Policy. These two reforms constituted a sea change in the way that the Bank relates to civil society and to people who are directly adversely affected by Bank projects in developing countries.

The World Bank Inspection Panel (hereinafter Panel) was established in 1993 by the World Bank Board of Executive Directors (hereinafter Board).[1] The purpose of the Panel is to serve as an independent body to investigate claims of policy violations in World Bank projects and programs brought by people who have suffered direct adverse impacts. The Panel also serves as a tool through which Bank Executive Directors receive information independently of Bank operations and management regarding compliance with Bank policies and procedures in specific projects and programs. Through these functions, the Panel serves to increase transparency and public accountability of the Bank. The existence of the Panel also underscores that the Bank acknowledges civil society as stakeholders with rights and interests that can be affected by Bank decisions and operations.[2]

The Fifteenth Reauthorization of U.S. participation in the International Development Association (IDA) provides an opportunity for legislators and policy makers to consider the development effectiveness of this soft loan window of the World Bank, whose mission is to help the world's poorest countries by reducing poverty, inequality and improving living conditions. During the 2007 IDA donor government meetings, IDA participants selected three special themes for the IDA-15 replenishment. The most relevant to the Inspection Panel is the theme of effectiveness of IDA's assistance at the country level.[3]

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[1] The Panel was created during the U.S. Congress authorization of U.S. participation in the International Development Association Tenth Replenishment (IDA 10) as a result of external pressure from NGOs, the US Congress, and internal factors such as the need for the Board of Executive Directors to have independent information and evaluation of problem projects. The Bank also revised its Information Disclosure Policy during this period. For a brief history of the creation of the Panel see: Lori Udall, "The World Bank Inspection Panel: A Three Year Review, Bank Information Center," October 1997, Chapter One, pages 5-15. See also Dana Clark, Jonathan Fox, Kay Treakle, *Demanding Accountability: Civil Society Claims and the World Bank Inspection Panel*, (Lanham, MD: Rowman and Littlefield, 2003), pages 258-266.

[2] Dana Clark, et al., *Demanding Accountability*, page 247.

[3] The other two themes are IDA's role in the global aid architecture at the country, regional and global level, and IDA's role in fragile states.

My testimony will provide an update on selected Panel features and offer recommendations for strengthening the Panel process in the context of the IDA-15 objectives. The recommendations take into consideration Panel reforms made in the intervening years since its establishment, as well as innovations in parallel accountability mechanisms at other International Financial Institutions (IFIs).

Past experience with opening the Panel's governing document, (called a "Resolution") for review suggests that the presence of external public pressure is crucial for the process to lead to the strengthening (and not weakening) of the Panel. Given the current political climate among World Bank management and the Bank's Executive Directors we do not recommend opening the Panel Resolution for review at this time. Today we are recommending a series of relatively simple reforms and updates that will make the Panel process even more accessible and user-friendly to affected people. These reforms are compatible with the current Panel Resolution.

Section II discusses the importance of the Inspection Panel; Section III lays out the previous Board amendments to the Panel Process; Section IV addresses problems with the current Panel process; and Section V lays out recommendations for reform. Appendices include a note on longer-term reform issues as well as background material on the Panel.

Key Elements and Independence of the World Bank Inspection Panel

The Inspection Panel is an independent mechanism that is empowered to investigate claims from people who are directly adversely affected by a World Bank project or program as a result of violations of World Bank policy and procedures.

The Inspection Panel has three members that are appointed by the World Bank Board of Executive Directors and serve for five years terms.

Independence of the Panel is safeguarded through the following features:

- The Panel is appointed by and reports only to the Board of Executive Directors;
- Panel members are selected on the basis of their ability to deal fairly and thoroughly with claims, their integrity and their independence from World Bank management, and their exposure to developmental issues and to living conditions in developing countries.
- Panel members are prohibited from ever working for the World Bank Group after their Panel terms are over.
- Panel members can only be removed by a decision of the Board of Executive Director for cause;
- Panel members are disqualified from participating in a hearing or investigation related to a matter in which they have a personal interest or had significant involvement in any capacity.

II. Significance of the World Bank Inspection Panel

At the time of its establishment the Inspection Panel was the first of its kind and provided a model for the other International Financial Institutions. Since then the Asian Development Bank (ADB), the Inter-American Development Bank (IDB), the African Development Bank (AfDB), the European Bank for Reconstruction and Development (EBRD), and the International Monetary Fund (IMF) have all created accountability mechanisms to deal with complaints from adversely affected people.[4] The International Financial Corporation (IFC) and Multilateral Investment Guarantee Agency (MIGA)—the commercial arms of the World Bank—also have a mechanism called the Compliance Advisor Ombudsman (CAO).

A testament to the Panel's importance is the extent to which it has been used by adversely affected people. It remains the only avenue for affected people to obtain an independent investigation of an IDA or International Bank for Reconstruction and

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[4] Since 2005, the Inter-American Development Bank (IDB) has had a proposed revised policy for its Independent Investigation Mechanism that has not yet been approved by the IDB Board.

Development (IBRD) Project and to have a voice at the Board level.[5] In its 2005-06 Annual Report the Panel stated that it was the busiest year to date, registering four new claims, and investigating five claims simultaneously. In 2006-07, the Panel registered six new claims, completed two investigations, and conducted three new investigations.[6]

In its 15 years, the Panel has processed 52[7] claims with both positive and negative outcomes for claimants. Overall, the Panel process has been positive, producing project level reform and/or creating political space for affected people in developing countries.

For example some of the results have been as follows:

- ✓ Claimants have received compensation;
- ✓ Environmental impacts have been mitigated;
- ✓ More project information has been released;
- ✓ Resettlement packages for affected people have improved;
- ✓ Evictions have stopped;
- ✓ Projects have been suspended, cancelled or redesigned.[8]

In addition to assisting affected people and reviewing non-compliance, research on the impacts of the Inspection Panel on the Bank as an institution suggests that risky and potentially damaging IDA and IBRD infrastructure projects have not made it to the drawing board because of the Panel's existence.[9] The World Bank Report *Infrastructure at the Crossroads* stated that, as a result of Panel claims on large scale infrastructure projects, staff held internal training and knowledge exchanges with a focus on safeguard policies, including lessons learned from Inspection Panel investigations.[10]

Former World Bank veteran Katherine Marshall cited the Inspection Panel review of the China Western Poverty Reduction Project as having forced the Bank to rethink how it assessed risk and implemented its safeguard policies.[11] Marshall also cites the Panel as an important evaluator of Bank projects and compliance with policies. Additionally the risk of being subjected to a Panel Inspection has caused operations staff to ensure compliance with World Bank policies and procedures.[12]

Independent analyses of the Inspection Panel have also underscored the Panel's importance.

For example:

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[5] The CAO conducts problem-solving and audits of investment projects of the commercial arm of the World Bank: the International Finance Corporation and the Multilateral Investment Guarantee Agency. This mechanism also provides an avenue for adversely affected people to be heard in the President's office and at the Board level on the Bank's commercial ventures.

[6] The Inspection Panel, *Annual Report, July 1, 2006-June 30, 2007*, page 13.

[7] Five of these claims were not registered.

[8] Dana Clark, et al., *Demanding Accountability*, pages 258-266.

[9] World Bank, *Infrastructure at the Crossroads: Lessons for 20 Years of World Bank Experience* (Washington: World Bank, 2006), page 68-71.

[10] World Bank, *Infrastructure at the Crossroads*, page 68-71.

[11] Katherine Marshall, *The World Bank: From Reconstruction to Development to Equity* (London: Routledge Press, 2008), page 127.

[12] Dana Clark, et al., *Demanding Accountability*, pages 269-274.

- ✓ In 2007, because of the Inspection Panel, the Global Accountability Report of One World Trust ranked the World Bank as the highest among 30 organizations studied for accountability policies on the issue of complaint and response mechanisms.[13]

- ✓ *Policing the World: Accountability Mechanisms for Multilateral Financial Institutions and Private Financial Institutions* discusses the importance of the Inspection Panel in the context of globalization and the need for accountability.[14]

- ✓ *Demanding Accountability: Civil Society Claims and the World Bank Inspection Panel* highlights the importance of the Panel and public accountability and evaluates the outcome of various claims.[15]

This cumulative evidence underscores that the Inspection Panel is thriving and doing a superb job with its current prescribed mandate and powers. However, there is still much work to be done to ensure that affected people have full access to the Panel and claims process and are consulted about the remedies for project improvement or re-design. There is also a need to link the Panel to the improvement of World Bank development effectiveness and project quality.

III. Previous Inspection Panel Process Reform

In 1996 and 1999 respectively, the Panel's governing document was opened for review by the World Bank Board.[16] The first review was mandated by the Board Resolution that established the Panel. The second review was forced due to some Board members and management interference with the Panel process. The second review involved Board consultations with claimants and international NGOs. The reviews cumulatively resulted in two amendments (called *Clarifications*) to the original Resolution leading to the following reforms:[17]

1) In 1996, the Board *specifically limited* the Panel's activities to making *findings, and prohibited it from making* ***recommendations*** in its final report.[18] This left only Bank management and operations with the task of making recommendations regarding remedial measures to be taken in connection with the report. (Bank management normally issues an action plan in its response to the Panel's report.)

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[13] Monica Blagescu and Robert Lloyd, *2006 Global Accountability Report* (London: One World Trust, 2006).
[14] Maartje van Putten, *Policing the World, Accountability Mechanisms for the Multilateral Financial Institutions and Private Financial Institutions* (Tilburg: Tilburg University, 2006), see generally chapters 1, 3 & 4.
[15] Dana Clark, et al., *Demanding Accountability*.
[16] The Inspection Panel, *Annual Report July 1, 2006-June 30,2007*, "Review of the Resolution Establishing the Inspection Panel 1996 Clarification of Certain Aspects of the Resolution" and "1999 Clarification of the Boards Second Review of the Inspection Panel," Annex 5, pages 98-108 (included as an annex to this testimony).
[17] The rationale for issuing clarifications instead of revising the resolution was concern among some Part I Board members that opening the resolution would result in a weakening of the Panel's mandate. However the clarifications did in fact weaken the panel and make a clear reading of the resolution impossible.
[18] This was a confirmation of the original Resolution which only allowed the Panel to make findings.

2) The Panel's mandate does not extend to reviewing the consistency of Bank practice with any of its policies and procedures across multiple operations, but is limited to cases of alleged failure of the Bank to follow its policies and procedures with respect to the design, appraisal or implementation of each individual project.

3) The Board directed Bank management to strictly follow the Resolution, and limited management's attempt to have *ex-parte* communications with the Board, to derail Panel investigations, or to generally interfere with eligibility determinations.

4) The Board would authorize investigations "without discussion or judgment" of the merits of the claim, except related to eligibility. This paved the way for a more fluid process that prevented Board members from blocking a claim on various grounds. The practical effect is that Panel investigations are more easily approved on a "no objection" basis.

5) For assessing material adverse effect, the Board made the standard more difficult by using a "without project standard." This approach requires assessing the potential damage that could have occurred in the complete absence of the project, and comparing this with the damage claimed to have occurred as a direct result of policy violations associated with the project.

6) The Panel ***does not*** have a mandate to monitor implementation of management action plans after an inspection is completed. *The Resolution and Clarifications are silent on whether the Panel can specifically monitor policy compliance.*

7) The Panel ***does*** have a mandate to report to the Board on its view of the adequacy of management's consultations with the claimants in the preparation of action plans (though the Panel is prohibited from undertaking field visits to assess the adequacy of these consultations without an invitation).

Three of these clarifications (1, 2 & 6) specifically limited the Panel's mandate; number 5 made it more difficult for claimants to establish eligibility, and numbers 3 & 4 facilitated the Panel process by making approval of investigations more streamlined, with less intervention by management and the Board. The Panel can also take site visits to determine eligibility without Board approval. Number 7 gave the Panel the power to comment on the extent to which management involved the claimant's in developing action plans, but at the same restricted the Panel from taking a site visit to assess this involvement. Number 4 was significant because the WB Board has not denied one investigation since this clarification.

As the clarifications illustrate, reviewing of the Resolution can result in both weakening and strengthening of the Panel's mandate depending on the internal positions and politics of the Board.

IV. Issues Related to the Inspection Panel Process

There has now been 15 years of experience with the Inspection Panel process, a number of recurring themes have emerged that require reforms. These include the need to: increase stakeholder access to the Panel Process (including being consulted about project remedies), increase the Panel's powers to conduct post inspection follow-up and monitoring of project remedies and compliance; develop a more transparent selection process, develop wider public outreach and communications, and secure Panel control over their own budgetary resources.

A. Need to Increase Access and User-friendliness for Claimants during Panel Process

Since the establishment of the Panel in 1993, NGOs have warned that the Panel process does not allow enough access for claimants to have their concerns heard by management and the Board *throughout* the Panel process.[19] These concerns have borne out in the intervening years.

1. Access to Information

The current Panel process has important instances when the claimant is left out of the process and finds it difficult to get information or provide important comments or input. For example, after the claim is filed and the Panel site visit has been completed, the claimant has few opportunities for engagement in the process.

Importantly, claimants do not have access to management's initial response to their claim of harm until it is too late to respond. Further on in the process when the Panel issues its final report to the Board, Bank management receives a copy, and sends a response to the Board that makes recommendations for next steps called an "action plan." (See page 35 for a chart outlining the Panel process.)

Currently, claimants do not see management's response to the Panel Report, or the Panel's final report, before it is sent to the Board or before a Board decision. While management and the Panel both have opportunities to report their views to the Board the claimants have no such opportunity.

The Panel has recently established a process that involves a site visit after the inspection is over to explain the inspection outcome, management response and the Board decision. While the Panel should be applauded for these efforts, unfortunately it is too late in the process for claimants to provide input that could change the outcome of the claim.

By contrast, at the ADB Accountability Mechanism, the claimant does have an opportunity to comment on the draft findings and has a 30-day period during the time that management is commenting to review and comment.[20] The ADB's Compliance Review Panel then reviews the response and makes changes to the report that it deems necessary. In addition to this, the ADB policy requires that the Compliance Review Panel attach the claimants' (and management's) comments to the final report it sends to the Board. The ADB is the only accountability mechanism that has this innovation.

[19] Testimony of Lori Udall, "World Bank Disclosure Policy and Inspection Panel," Hearing before the Subcommittee on International Development Finance, Trade and Monetary Policy, June 21, 1994.
[20] Asian Development Bank, Review of the Inspection Function: Establishment of a New Accountability Mechanism, May 2003, Point 125

2. Full Consultation with Claimants and affected Stakeholders on Developing Actions Plans

In 1999, the World Bank Board mandated that management should communicate to the Panel the outcome of its consultations with affected parties regarding the action plans, implicitly requiring management to involve claimants in developing action plans regarding project remedies. The Board also gave the Panel a mandate to comment to the Board on whether the claimants were adequately consulted on the actions plans. Neither of these processes has developed adequately.

For years, NGO case studies have documented the absence of claimant involvement in developing action plans or remedies to bring the project back into compliance.[21] For example in the Chad Cameroon Pipeline, the claimants whose livelihoods and environment were harmed by the pipeline said they were never consulted about the plans to improve compliance in the project, and thus the actions plans fell short of their needs.

Claimants usually have first-hand experience and knowledge to provide recommendations for remedial measures that would improve their own situation, but have generally been prevented by the process from doing this. As a result, management produced action plans are usually the course followed by the Board.

The irony is that the claimants are left with solutions offered by operations staff who often ignored their complaints in the first place and who are now also responsible for their implementation. As stated in *Demanding Accountability*:

> "The same Bank officials whose actions and omissions may have caused the claimants problems are tasked with resolving the very problems they may have caused. This is particularly ironic given that [ ] staff and management have frequently denied the problems existed."[22]

In a recent field study of six Panel claims, the fact that claimants have not been involved in action plans by management was cited a major shortfall of the Panel process.[23] The same study illustrated that a significant number of the Panel's findings in nine claims were ignored when they developed their actions plans. For example, in the India Coal Sector Claim the Panel made 27 findings, and in response, Bank management proposed only 9 actions in it plans.

If the claimants were involved in developing solutions, the likelihood of this problem would be drastically decreased.

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[21] For example see Delphine Djiraibe, Korinna Horta and Samuel Nguiffo , "Access to Justice from Local Village to Global Boardroom: An Experience in International Accountability-The World Bank Inspection Panel and the Chad-Cameroon Oil and Pipeline Project," September 2004. See also Dana Clark, et al., *Demanding Accountability*, pages 258-275. See also Lori Udall, "The World Bank Inspection Panel,: A Three Year Review."

[22] Dana Clark, et al., *Demanding Accountability*, page 266.

[23] Tess Bridgeman, "An Independent Evaluation of the World Bank Inspection Panel, Summary of Findings and Recommendations, October 22, 2007." This report evaluates six out of fifty two claims the Panel received.

B. Post- Inspection Follow-up and Monitoring

Since the establishment of the Panel, the World Bank Board has changed its position on whether the Panel should be empowered to monitor projects that have been the subject of a claim. In some of the early claims—such as the Rondonia Natural Resources Project in Brazil, the Itaparica Resettlement and Irrigation Project, the Jamuna Multipurpose Bridge Project, and the Yacyreta Hydroelectric Project—the Panel was asked to monitor and review the implementation of the Bank's action plans. In some cases, the Panel was asked to monitor progress in lieu of a full investigation.

Leading up to the 1999 Board Review of the Panel many borrowing (Part II) country Board members objected to the Panel returning to projects sites yet another time in order to monitor remedial actions. This resulted in the Board explicitly prohibiting the Panel from an oversight or monitoring role in management-generated action plans in the second clarification of the Panel's Resolution.[24] *However, the Board did not specifically prohibit the Panel from monitoring whether the project has returned to compliance with Bank policy.*

Over the years, the lack of monitoring and follow-up has resulted in inadequate resolution of problems and policy violations in many problem projects. In some claims, such as Yacyreta Hydroelectric Project, Itaparica Resettlement, NTPC Power Generation Project, Bujagali Hydropower Project and Brazilian Land Reform, the claimants have had no choice but to file additional claims to seek remedies for their problems and to request further policy compliance.

The Board has been left with overseeing implementation of remedies and ensuring that projects are being brought back into compliance, but the Board has no process for monitoring and has not appointed any independent panels to undertake this critical function. In some cases the Board has asked management to report back but this has no independent feature to it.

The current Bank Board may realize the limitations of not having an independent voice to follow-up on remedial actions and compliance. Recently it has requested the Panel to conduct follow-up fact finding in the Mumbai Urban Transport project and in the second Yacyreta Power project.

It has long been recognized by Panel claimants and advocacy NGOs that monitoring would be a logical and effective step to ensure that the issues that gave rise to the complaint are in fact being addressed. Follow-up and monitoring is also required in order for the Bank's Board to have independent information and to exercise effective oversight of management. Independent monitoring would also pressure the Bank's operations staff to fulfill their action plans.

By contrast the accountability mechanisms at the IFC/MIGA, IDB, AfDB, and EBRD all have monitoring functions. To date, experience with monitoring suggests that it is a positive process for checking back in with claimants regarding implementation of any

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[24] In the 1990s the Executive Board assigned the Panel monitoring roles in two claims, one in Brazil and one in Bangladesh, but Part II Executive Directors complained and in the end the Board clarified that the panel had no mandate to monitor. The exception to this as stated in Section I is that the Panel can review whether the development of actions plans involved consultations with affected people.

recommendations or, in the case of a mediation exercise, monitoring of the agreement. It may also prevent the time wasted when claimants must re-file a claim just to get attention or remedial action on project improvement.

C. Need for a Transparent Inspection Panel Selection Process

Panel members are supposed to be appointed by the World Bank Board of Executive Directors. On the appointment of Panel members, the Resolution states that

"The President, after consultation with the Executive Directors, shall nominate the members of the Panel to be appointed by the Executive Directors."[25]

In the early years of the Panel, the Executive Directors took a strong role in the nominations process by asking NGOs for names of candidates that would be suitable for the Panel positions. Many of the Part I Executive Directors actively promoted NGO candidates that were widely considered to be independent, possessing a high level of integrity and knowledge about conditions in developing countries. This was quite appropriate considering the strong role that NGOs had in promoting and establishing the Panel. In the mid- to late-1990s when Panel positions were open, the Panel members themselves were also consulted about possible candidates.

In the last several years the process for selecting Panel members has become increasingly more internal to the Bank and less transparent. Even the Panel itself has been left out of the process, limited to an advisory role when it comes to selection. This was evident during the 2007 process to replace retiring Panel member Edith Brown Weiss. The elevated secrecy around the selection process prompted Washington-based NGOs to write a letter to the Bank citing the lack of transparency and public participation.[26] Bank management's response was to defend the inadequate selection process. In 2008 another selection process is underway for retiring Panel member Mr. Tongroj Onchan.

The selection procedures for Panel members were approved by the Board without any public consultation and, until recently, there were no public advertisements of Panel positions.

Under current procedures, the President appoints a selection committee that includes two Board members (the Chair of the Committee on Development Effectiveness and the Dean of the Board) and two members of senior management including a Managing Director (or a regional Vice President) and the General Counsel. The involvement of upper-level management in selections has the potential to undermine the independence of the Panel and presents a serious potential conflict of interest, since the job of the Panel is, in effect, to review management and operations adherence to their own policies. A plain reading of the Resolution reveals that the President's involvement is based on his/her capacity as chair of the Board, not because management should be choosing independent Panel members.

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[25] World Bank, "Resolution No. IBRD 93-10 and Resolution No. IDA 93-6, The World Bank Inspection Panel, September 22, 1993," Point 2.

[26] CIEL and BIC Letter to President Wolfowitz, April 27, 2007 on Selection Process for the World Bank Inspection Panel Vacancy.

In most other accountability mechanisms selection processes are non-transparent in varying degrees and do not serve as a model for the World Bank. While the ADB and the AfDB did publicly advertise the opening of positions in their mechanisms, the ADB did so only after pressure from NGOs. The AfDB also appointed an external review committee to pick the roster members.

The CAO had the most independent selection process during the selection of the Ombudsman, Meg Taylor, in 1997. The CAO reports directly to the office of the World Bank President, so in this case it made sense for the President to lead the process. The President appointed a working group of six people from civil society and the private sector, all from outside the IFC/MIGA. The position was advertised inside and outside the Bank and after interviews the working group agreed to recommend two candidates to the President but also informed him of their top choice. The President selected the working group's top choice. This process has not yet been codified but it illustrates how a multi-stakeholder group can effectively be involved in the selection process.

D. Increased Public Outreach and Education

Since 1996, through its clarifications the Board has charged Bank management with the task of public outreach to make the Panel "better known" in the Bank's borrowing countries. Management has not filled this mandate and would be unlikely to do so since it has an adversarial relationship with the Panel.

The Panel is the appropriate body to conduct its own outreach and develop relationships with civil society stakeholders and NGOs. The Panel already holds meetings with NGOs during World Bank annual meetings and conducts outreach meetings in borrower countries. However in order to pursue a much more robust outreach program the Panel would need additional resources which would constitute a strong signal from the Board that it should develop a more effective outreach program. In a recent development, the World Bank's Board Committee on Development Effectiveness (CODE) requested the CAO to develop an outreach communications plan so that potential stakeholders could learn more about opportunities to engage with the CAO. There is no reason that the Board could not mandate or encourage the Panel to conduct a broader outreach program as well.

E. Panel Should Maintain Control over its own Budgetary Resources

The Panel Resolution provides that:

"The Panel shall be given such budgetary resources as shall be sufficient to carry out activities."[27]

One aspect of the Panel's independence is being able to secure the resources it needs to fulfill its mandate. The Panel's budget has been maintained in real terms over the years and recently increased slightly on an ad-hoc basis to reflect the increased case load. In 2006-07, the Panel budget was US$3.083 million. For 2007-08 the Panel requested and received an increase due to an expanding workload. To date there has

[27] The World Bank, "Resolution No. IBRD 93-10, Resolution No. IDA 93-6, The World Bank Inspection Panel, September 22, 1993."

not been a problem with obtaining the resources necessary: usually the Board Budget Committee approves the Panel budget increases.

Some of the reforms recommended in this testimony such as public outreach and follow-up and monitoring would involve the need for increased resources. We recommend that there be a transparent process for the Panel to secure the necessary resources.

V. Recommendations for Reform and Updates for the World Bank Inspection Panel Process

A. Increase Claimant Access to the Inspection Panel and the Panel Process

There are several areas where the Panel process can me made more user-friendly and increase access to the Panel process.

1. Information Access. Claimants should have access to the Panel's final report before or as it is sent to the Board and to management's response to the report and to action plans.

2. Claimants Involvement in Remedies and Management's Action Plan. Management should implement its mandate to involve claimants in remedies for projects and action plans. The Panel should implement its mandate to follow-up and comment on whether management sufficiently involved the claimants' in developing the action plan.

3. Claimants Access to the Board. The Panel and management both have access to the Board during the Panel process and after the Panel report is sent to the Board. The claimants should also be provided an opportunity to appeal to the Board with comments on management's response, actions plans or the Panel report. This would be especially important if the claimants disagree with management's responses, the action plan or feel there are missing remedies in the action plans.

B. Panel Selection Process

The World Bank Panel (like the CAO) could lead the other accountability mechanisms in developing a selection process that is open, transparent, and participatory. The unique character of the Panel deserves a participatory process to ensure the best interests of the mechanism are served and the credibility and independence of the Panel is preserved.

The following improvements are recommended and these would compliment the current policy.

1. Open Nominations Process. There should be an open and transparent nominations process that invites nominations from civil society and NGOs. Openings in the Inspection Panel should be publicly announced and circulated to NGOs and civil society groups through the Panel itself, World Bank External Relations, and World Bank field offices.

2. Public Roster. The C.V.'s of all nominees for the Panel should be kept on a roster and made publicly available by request or on the World Bank website for review.

3. Board Selection Committee with Civil Society Representation. The World Bank selection committee for the Panel should include one civil society representative, the Chair of the Panel, The Dean of the Board and the Chair of CODE.

These simple steps are compatible with the current Resolution, and could easily be instituted by the World Bank Board to add transparency to the process.

C. Post Inspection Follow-up and Monitoring

The Panel should be empowered by the Board with more flexibility to follow-up and monitor implementation of remedial measures to bring the project back into compliance with Bank policies and procedures. This follow-up is important to completing the Panel process and to ensuring that concrete improvements occur on the ground.

D. Public Outreach

The Panel should be empowered and encouraged to conduct extensive public outreach and communications, and provided the necessary budget to conduct this activity.

E. Budgetary Concerns

The Panel should maintain control over its budget and the budget should be increased for communications outreach and post inspection follow-up and monitoring compliance.

VI. Conclusion

The occasion of the re-authorization of U.S. participation in IDA 15 provides an important opportunity for review and reform of the World Bank Inspection Panel. The Panel now has 15 years of experience. It has been eight years since the Panel has been up for review by the Board of Executive Directors and 13 years since the Panel was reviewed in the U.S. Congress.[28]

The Panel is an important and effective tool for communities that are adversely affected by Bank projects and programs. With these few innovations and reforms the Panel process could be more effective and efficient and contribute to increasing project quality. An improved Panel would enable the Bank to strengthen its public accountability, transparency and, most importantly, to ensure that the Panel process is more accessible for poor and marginalized people who are adversely affected by Bank projects and programs.

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[28] World Bank Disclosure Policy and Inspection Panel, Hearing Before the Subcommittee on International Development Finance, Trade and Monetary Policy, June 21, 1994.

Note on Longer Term Issues Relating to the Inspection Panel
Below I have noted several issues relating to the Inspection Panel that should be addressed in the coming years.

A. IDA/IFA Joint Projects

IDA and IFC have recently launched a program of closer collaboration which will result in IFC transferring US$1.7 billion to IDA through year 2011. On March 25, 2008 IFC Executive Vice President and CEO Lars Thunell signed an agreement for IFC to transfer the first $500 million to IDA. In order to guide the IDA/IFC collaboration, a new IDA-IFC secretariat has been established and is looking to develop joint projects, particularly in infrastructure.[29] The IDA-IFC Secretariat has announced that it will conduct consultations with NGOs and civil society to listen to their concerns about the new collaboration.

The possibility of joint IDA-IFC projects raises a number of questions for NGOs in broader terms such as the different set of organizational priorities, policies, programs and standards and how these will play out in the context of the new term "lead agency" which implies that for each joint project either IDA or IFC would be the lead agency.

Regarding the Inspection Panel and CAO, NGOs are concerned that the joint IDA-IFC framework may cause confusion for affected people who may wish to file claims. For example: Would affected parties send a complaint to the CAO or to the Panel, or both? How would the difference in IFC and IDA safeguard policies play out? How would the CAO and Inspection Panel ensure maximum user-friendliness for the claimant?

With this in mind, the following guiding principles should undergird joint IDA/IFC claims process:

- ✓ The claims process should be transparent, user-friendly, and as simple as the current process in both mechanisms;

- ✓ The claimants should have a choice where to file a claim: with the Inspection Panel or with the CAO;

- ✓ If the claimant seeks both problem solving and compliance functions, the process should be afforded them without a predetermined rule that would force one process over the other.

While this issue may not yet be ripe for Congressional action, we hope the Committee will continue to monitor the developments.

B. Problem Solving Function for IDA and IBRD?

Several accountability mechanisms have instituted the innovation of providing an alternate "problem-solving" window for claimants to bring their grievances in addition to a compliance review unit. These include the CAO, ADB, AfDB, and the EBRD mechanisms.[30] These grew out of the practical reality that claimants are almost always

[29] The new Director of the IFC-IDA Secretariat is Nigel Twose.
[30] The IDB's draft policy also has a problem solving unit.

more concerned with finding solutions and remedies to their problems than they are with compliance or non-compliance. While the WB Inspection Panel in practice does conduct some problem solving in the initial stages of the inspection process, technically it does not have a mandate to review claimants problems that are not related to policy compliance. In such cases, the Panel has sent a notice to the Board and Senior Management describing the claimants concerns and noting its lack of authority to deal with the matter.

When there are other issues raised by claimants that do not relate to compliance the Panel has not been able to address them even if they are just as critical to the claim as the policy violations. For example, in the Chad Cameroon Pipeline claim, according to an NGO report, the Panel did not address problems relating to workers rights, capacity building in the project, and indigenous land security because the issues were not related to a policy violation.

As noted by two experts involved with the ADB's Review of the Inspection Function:

"MDBs have shifted their focus to both problem solving and compliance review from simply investigating the compliance or non-compliance of an MDB's operational activities. The move is in accord with the substantive principles behind empowering project-affected people to have affective access to the problem-solving institution. The [problem solving] phase adds stability, power, and effectiveness to the mechanism designed to enhance the institutions accountability and development effective on the ground."[31]

In the ADB, the claimants are first required to appeal to a problem solver function. The rationale for this is that often claimants have a problem with the Bank that could be resolved through mediation or dispute resolution and may not have any policy implications. If the claimant is dissatisfied with the problem solver process they can then proceed to the Compliance Review Panel. At the AfDB, the Director of the Compliance Review Mediation Unit conducts a preliminary review to determine whether the claim is eligible for a compliance review or problem solving.

At the EBRD, the chief compliance officer of the Independent Recourse Mechanism can determine whether the claim should undergo a compliance review or start a problem solving process in order "to facilitate the early resolution of issues."[32] However, the process is not as independent as other mechanisms since the President of the EBRD has to approve the problem solving effort.

At the CAO, the Ombudsman is the main port of entry, and the decision to refer the claim to the compliance auditor lies with the Ombudsman and not the claimant.[33] Of all

[31] Eisuke Suzuki and Suresh Nanwani, "Responsibility of International Organizations: the Accountability Mechanisms of the Multilateral Development Banks," *Michigan Journal of International Law*, Fall 2005, page 223.

[32] EBRD, Independent Recourse Mechanism, As Approved by the Board of Executive Directors on April 29, 2003.

[33] A compliance audit can also be triggered by IFC/MIGA Senior management or the President of the World Bank, or at the discretion of the CAO Vice-President. Also, under recent guidelines, problem solving claims that do not reach satisfactory outcomes are automatically referred to the compliance auditor for review.

the accountability mechanisms, the CAO has the most extensive experience with problem solving and under the new guidelines has a more user-friendly system.[34] The Ombudsman also has total independence to determine eligibility, conduct site visits, undertake an assessment or assist with resolution of a problem. Since 1999, the CAO has handled 66 claims in 24 different IFC/MIGA projects.

One of the advantages of problem solving over compliance review is the flexibility to address problems in a number of informal consensus based methods such as consultation, mediation, and dispute resolution. Another advantage is the absence of formal requirements such as policy violations in the claimant's submission. The problem solver can use various approaches, such as convening meetings with various stakeholders, organizing and facilitating consultations processes, and engaging in a fact-finding review. The problem-solving phase does not seek to put blame on any party but instead seeks consensus and agreement among parties as to the matters in dispute, the modality of problem solving, and the time frame.

Compliance reviews by their nature are contentious and often bring intense pressure on operations staff and local government agencies. The problem solving function on the other hand seeks to build consensus and is solution oriented. This makes problem solving an important compliment to compliance mechanisms.

C. Country Systems and the Inspection Panel Powers

The mandate and powers of the Panel could be diminished by changes to the policies and procedures that the Panel is charged to oversee. For example, the Bank's Operational Policy 4.00, which allows use of borrower systems to address environmental and social safeguard issues (known as "country systems"), presents risks of weakening environmental and social standards.

Under country systems, the Bank must first assess whether a borrower's laws, policies and procedures are "equivalent" to a streamlined version of existing Bank safeguard policies—not the full suite of safeguard policies—and reach agreement with the borrower on measures to fill "gaps" between its own standards and the Bank's streamlined policies. Additionally, the Bank must determine whether a borrower's capacity to implement its own laws, policies and procedures is "acceptable." Unfortunately, the equivalency determination is not fully transparent, the measures proposed to fill gaps are exceedingly unclear, and the timeline for implementing these measures is unapparent.

The acceptability determination focuses on very narrow aspects of borrower capacity, and the process by which the determination is undertaken is unapparent. As a result, communities would be left with little understanding of what is required of the Bank and borrower with respect to meeting environmental and social standards for the project. Increasing transparency associated with implementation of Operational Policy 4.00, including an independent third party review of its application, may prevent weakening of these standards as the World Bank moves to expand its country systems approach. Questions regarding Panel's authority to fully assess compliance with Bank policies arise under the country systems model.

[34] The CAO issued revised guidelines in April 2007 after receiving comments from civil society, NGOs, and IFC/MIGA.

ANNEX I

Source: World Bank Inspection Panel, *Annual Report, July 1, 2006, to June 30, 2007*, pp. 98-108.
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World Bank Inspection Panel 1993 Resolution

September 22, 1993

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

Resolution No. IBRD 93-10
Resolution No. IDA 93-6

"THE WORLD BANK INSPECTION PANEL"

The Executive Directors:
Hereby resolve:

1. There is established an independent Inspection Panel (hereinafter called the Panel), which shall have the powers and shall function as stated in this resolution.

COMPOSITION OF THE PANEL

2. The Panel shall consist of three members of different nationalities from Bank member countries. The President, after consultation with the Executive Directors, shall nominate the members of the Panel to be appointed by the Executive Directors.

3. The first members of the Panel shall be appointed as follows: one for three years, one for four years, and one for five years. Each vacancy thereafter shall be filled for a period of five years, provided that no member may serve for more than one term. The term of appointment of each member of the Panel shall be subject to the continuity of the inspection function established by this Resolution.

4. Members of the Panel shall be selected on the basis of their ability to deal thoroughly and fairly with the requests brought to them, their integrity and their independence from the Bank's Management, and their exposure to developmental issues and to living conditions in developing countries. Knowledge and experience of the Bank's operations will also be desirable.

5. Executive Directors, Alternates, Advisors, and staff members of the Bank Group may not serve on the Panel until two years have elapsed since the end of their service in the Bank Group. For purposes of this Resolution, the term "staff" shall mean all persons holding Bank Group appointments as defined in Staff Rule 4.01, including persons holding consultant and local consultant appointments.

6. A Panel member shall be disqualified from participation in the hearing and investigation of any request related to a matter in which he/she has a personal interest or had significant involvement in any capacity.

7. The Panel member initially appointed for five years shall be the first Chairperson of the Panel, and shall hold such office for one year. Thereafter, the members of the Panel shall elect a Chairperson for a period of one year.

8. Members of the Panel may be removed from office only by decision of the Executive Directors, for cause.

9. With the exception of the Chairperson who shall work on a full-time basis at Bank headquarters, members of the Panel shall be expected to work on a full-time basis only when their workload justifies such an arrangement, as will be decided by the Executive Directors on the recommendation of the Panel.

10. In the performance of their functions, members of the Panel shall be officials of the Bank enjoying the privileges and immunities accorded to Bank officials, and shall be subject to the requirements of the Bank's Articles of Agreement concerning their exclusive loyalty to the Bank and to the obligations of subparagraphs (c) and (d) of paragraph 3.1 and paragraph 3.2 of the Principles of Staff Employment concerning their conduct as officials of the Bank. Once they begin to work on a full-time basis, they shall receive remuneration at a level to be determined by the Executive Directors upon a recommendation of the President, plus normal benefits available to Bank fixed-term staff. Prior to that time, they shall be remunerated on a per diem basis and shall be reimbursed for their expenses on the same basis as the members of the Bank's Administrative Tribunal. Members of the Panel may not be employed by the Bank Group, following the end of their service on the Panel.

11. The President, after consultation with the Executive Directors, shall assign a staff member to the Panel as Executive Secretary, who need not act on a full-time basis until the workload so justifies. The Panel shall be given such budgetary resources as shall be sufficient to carry out its activities.

POWERS OF THE PANEL

12. The Panel shall receive requests for inspection presented to it by an affected party in the territory of the borrower which is not a single individual (i.e., a community of persons such as an organization, association, society, or other grouping of individuals), or by the local representative of such party or by another representative in the exceptional cases where the party submitting the request contends that appropriate representation is not locally available and the Executive Directors so agree at the time they consider the request for inspection. Any such representative shall present to the Panel written evidence that he is acting as agent of the party on behalf of which the request is made. The affected party must demonstrate that its rights or interests have been or are likely to be directly affected by an action or omission of the Bank as a result of a failure of the Bank to follow its operational policies and procedures with respect to the design, appraisal, and/or implementation of a project financed by the Bank (including situations where the Bank is alleged to have failed in its follow-up on the borrower's obligations under loan agreements with respect to such policies and procedures) provided in all cases that such failure has had, or threatens to have, a material adverse effect. In view of the institutional responsibilities of Executive Directors in the observance by the Bank of its operational policies and procedures, an Executive Director may in special cases of serious alleged violations of such policies and procedures ask the Panel for an investigation, subject to the requirements of paragraphs 13 and 14 below. The Executive Directors, acting as a Board, may at any time instruct the Panel to conduct an investigation. For purposes of this Resolution, "operational policies and procedures" consist of the Bank's Operational Policies, Bank Procedures and Operational Directives, and similar

documents issued before these series were started, and does not include Guidelines and Best Practices and similar documents or statements.

13. The Panel shall satisfy itself before a request for inspection is heard that the subject matter of the request has been dealt with by the Management of the Bank and Management has failed to demonstrate that it has followed, or is taking adequate steps to follow, the Bank's policies and procedures. The Panel shall also satisfy itself that the alleged violation of the Bank's policies and procedures is of a serious character.

14. In considering requests under paragraph 12 above, the following requests shall not be heard by the Panel:

(a) Complaints with respect to actions which are the responsibility of other parties, such as a borrower, or potential borrower, and which do not involve any action or omission on the part of the Bank.

(b) Complaints against procurement decisions by Bank borrowers from suppliers of goods and services financed or expected to be financed by the Bank under a loan agreement, or from losing tenderers for the supply of any such goods and services, which will continue to be addressed by staff under existing procedures.

(c) Requests filed after the Closing Date of the loan financing the project with respect to which the request is filed or after the loan financing the project has been substantially disbursed.[35]

(d) Requests related to a particular matter or matters over which the Panel has already made its recommendation upon having received a prior request, unless justified by new evidence or circumstances not known at the time of the prior request.

15. The Panel shall seek the advice of the Bank's Legal Department on matters related to the Bank's rights and obligations with respect to the request under consideration.

PROCEDURES

16. Requests for inspection shall be in writing and shall state all relevant facts, including, in the case of a request by an affected party, the harm suffered by or threatened to such party or parties by the alleged action or omission of the Bank. All requests shall explain the steps already taken to deal with the issue, as well as the nature of the alleged actions or omissions and shall specify the actions taken to bring the issue to the attention of Management, and Management's response to such action.

17. The Chairperson of the Panel shall inform the Executive Directors and the President of the Bank promptly upon receiving a request for inspection.

18. Within 21 days of being notified of a request for inspection, the Management of the Bank shall provide the Panel with evidence that it has complied or intends to comply with the Bank's relevant policies and procedures.

19. Within 21 days of receiving the response of the Management as provided in the preceding paragraph, the Panel shall determine whether the request meets the eligibility criteria set out in paragraphs 12 to 14 above and shall make a recommendation to the Executive Directors as to whether the matter should be investigated. The recommendation of the Panel shall be circulated to the Executive Directors for decision within the normal distribution period. In case the request

[35] This will be deemed to be the case when at least 95 percent of the loan proceeds have been disbursed.

was initiated by an affected party, such party shall be informed of the decision of the Executive Directors within two weeks of the date of such decision.

20. If a decision is made by the Executive Directors to investigate the request, the Chairperson of the Panel shall designate one or more of the Panel's members (Inspectors) who shall have primary responsibility for conducting the inspection. The Inspector(s) shall report his/her (their) findings to the Panel within a period to be determined by the Panel taking into account the nature of each request.

21. In the discharge of their functions, the members of the Panel shall have access to all staff who may contribute information and to all pertinent Bank records and shall consult as needed with the Director General, Operations Evaluation Department, and the Internal Auditor. The borrower and the Executive Director representing the borrowing (or guaranteeing) country shall be consulted on the subject matter both before the Panel's recommendation on whether to proceed with the investigation and during the investigation. Inspection in the territory of such country shall be carried out with its prior consent.

22. The Panel shall submit its report to the Executive Directors and the President. The report of the Panel shall consider all relevant facts, and shall conclude with the Panel's findings on whether the Bank has complied with all relevant Bank policies and procedures.

23. Within six weeks from receiving the Panel's findings, Management will submit to the Executive Directors for their consideration a report indicating its recommendations in response to such findings. The findings of the Panel and the actions completed during project preparation also will be discussed in the Staff Appraisal Report when the project is submitted to the Executive Directors for financing. In all cases of a request made by an affected party, the Bank shall, within two weeks of the Executive Directors' consideration of the matter, inform such party of the results of the investigation and the action taken in its respect, if any.

DECISIONS OF THE PANEL

24. All decisions of the Panel on procedural matters, its recommendations to the Executive Directors on whether to proceed with the investigation of a request, and its reports pursuant to paragraph 22, shall be reached by consensus and, in the absence of a consensus, the majority and minority views shall be stated.

REPORTS

25. After the Executive Directors have considered a request for an inspection as set out in paragraph 19, the Bank shall make such request publicly available together with the recommendation of the Panel on whether to proceed with the inspection and the decision of the Executive Directors in this respect. The Bank shall make publicly available the report submitted by the Panel pursuant to paragraph 22 and the Bank's response thereon within two weeks after consideration by the Executive Directors of the report.

26. In addition to the material referred to in paragraph 25, the Panel shall furnish an annual report to the President and the Executive Directors concerning its activities.
The annual report shall be published by the Bank.

REVIEW

27. The Executive Directors shall review the experience of the inspection function established by this Resolution after two years from the date of the appointment of the first members of the Panel.

APPLICATION TO IDA PROJECTS

28. In this resolution, references to the Bank and to loans include references to the Association and to development credits.

1996 Clarification

REVIEW OF THE RESOLUTION ESTABLISHING THE INSPECTION PANEL 1996 CLARIFICATION OF CERTAIN ASPECTS OF THE RESOLUTION

The Resolution establishing the Inspection Panel calls for a review after two years from the date of appointment of the first panel members. On October 17, 1996, the Executive Directors of the Bank and IDA completed the review process (except for the question of inspection of World Bank Group private sector projects) by considering and endorsing the clarifications recommended by Management on the basis of the discussions of the Executive Directors' Committee on Development Effectiveness (CODE). The Inspection Panel and Management are requested by the Executive Directors to observe the clarifications in their application of the Resolution. The clarifications are set out below.

THE PANEL'S FUNCTION

Since the Resolution limits the first phase of the inspection process to ascertaining the eligibility of the request, this phase should normally be completed within the 21 days stated in the Resolution. However, in cases where the Inspection Panel believes that it would be appropriate to undertake a "preliminary assessment" of the damages alleged by the requester (in particular when such preliminary assessment could lead to a resolution of the matter without the need for a full investigation), the Panel may undertake the preliminary assessment and indicate to the Board the date on which it would present its findings and recommendations as to the need, if any, for a full investigation. If such a date is expected by the Panel to exceed eight weeks from the date of receipt of Management's comments, the Panel should seek Board approval for the extension, possibly on a "no-objection" basis. What is needed at this preliminary stage is not to establish that a serious violation of the Bank's policy has actually resulted in damages suffered by the affected party, but rather to establish whether the complaint is prima facie justified and warrants a full investigation because it is eligible under the Resolution. Panel investigations will continue to result in "findings" and the Board will continue to act on investigations on the basis of recommendations of Management with respect to such remedial action as may be needed.

ELIGIBILITY AND ACCESS

It is understood that the "affected party" which the Resolution describes as "a community of persons such as an organization, association, society or other grouping of individuals" includes any two or more persons who share some common interests or concerns.

The word "project" as used in the Resolution has the same meaning as it generally has in the Bank's practice, and includes projects under consideration by Bank management as well as projects already approved by the Executive Directors.

The Panel's mandate does not extend to reviewing the consistency of the Bank's practice with any of its policies and procedures, but, as stated in the Resolution, is limited to cases of alleged failure by the Bank to follow its operational policies and procedures with respect to the design, appraisal, and/or implementation of projects, including cases of alleged failure by the bank to follow up on the borrowers' obligations under loan agreements, with respect to such policies and procedures.

No procurement action is subject to inspection by the Panel, whether taken by the Bank or by a borrower. A separate mechanism is available for addressing procurement related complaints.

OUTREACH

Management will make its response to requests for inspection available to the public within three days after the Board has decided on whether to authorize the inspection. Management will also make available to the public opinions of the General Counsel related to Inspection Panel matters promptly after the Executive Directors have dealt with the issues involved, unless the Board decides otherwise in a specific case.

Management will make significant efforts to make the Inspection Panel better known in borrowing countries, but will not provide technical assistance or funding to potential requesters.

COMPOSITION OF THE PANEL

No change in the composition of the Panel is being made at this time.

ROLE OF THE BOARD

The Board will continue to have authority to (i) interpret the Resolution; and (*ii*) authorize inspections. In applying the Resolution to specific cases, the Panel will apply it as it understands it, subject to the Board's review. As stated in the Resolution, "[t]he Panel shall seek the advice of the Bank's Legal Department on matters related to the Bank's rights and obligations with respect to the request under consideration."

October 17, 1996

1999 Clarification

1999 CLARIFICATION OF THE BOARD'S SECOND REVIEW OF THE INSPECTION PANEL

The Executive Directors approved today, April 20, 1999, with immediate effect, the report of the Working Group on the Second Review of the Inspection Panel, as revised in light of the extensive consultations that took place after the report was first circulated.

The report confirms the soundness of the Resolution establishing the Inspection Panel (IBRD Resolution No. 93-10, IDA Resolution No. 93-6 of September 22, 1993, hereinafter "the Resolution") and provides clarifications for its application. These clarifications supplement the clarifications issued by the Board on October 17, 1996, and prevail over them in case of conflict. The report's recommendations approved by the Board are as follows:

1. The Board reaffirms the Resolution, the importance of the Panel's function, its independence and integrity.

2. Management will follow the Resolution. It will not communicate with the Board on matters associated with the request for inspection, except as provided for in the Resolution. It will thus direct its response to the request, including any steps it intends to take to address its failures, if any, to the Panel. Management will report to the Board any recommendations it may have, after the Panel completes its inspection and submits its findings, as envisaged in paragraph 23 of the Resolution.

3. In its initial response to the request for inspection, Management will provide evidence that

i. it has complied with the relevant Bank operational policies and procedures; or that

ii. there are serious failures attributable exclusively to its own actions or omissions in complying, but that it intends to comply with the relevant policies and procedures; or that

iii. the serious failures that may exist are exclusively attributable to the borrower or to other factors external to the Bank; or that

iv. the serious failures that may exist are attributable both to the Bank's noncompliance with the relevant operational policies and procedures and to the borrower or other external factors.

The Inspection Panel may independently agree or disagree, totally or partially, with Management's position and will proceed accordingly.

4. When Management responds, admitting serious failures that are attributable exclusively or partly to the Bank, it will provide evidence that it has complied or intends to comply with the relevant operating policies and procedures. This response will contain only those actions that the Bank has implemented or can implement by itself.

5. The Inspection Panel will satisfy itself as to whether the Bank's compliance or evidence of intention to comply is adequate, and reflect this assessment in its reporting to the Board.

6. The Panel will determine the eligibility of a request for inspection independently of any views that may be expressed by Management. With respect to matters relating to the Bank's rights and obligations with respect to the request under consideration, the Panel will seek the advice of the Bank's Legal Department as required by the Resolution.

7. For its recommendation on whether an investigation should be carried out, the Panel will satisfy itself that all the eligibility criteria provided for in the Resolution have been met. It will base its recommendation on the information presented in the request, in the Management response, and on other documentary evidence. The Panel may decide to visit the project country if it believes that this is necessary to establish the eligibility of the request. In respect of such field visits, the Panel will not report on the Bank's failure to comply with its policies and procedures or its resulting material adverse effect; any definitive assessment of a serious failure of the Bank that has caused material adverse effect will be done after the Panel has completed its investigation.

8. The original time limit, set forth in the Resolution for both Management's response to the request and the Panel's recommendation, will be strictly observed except for reasons of force majeure, i.e., reasons that are clearly beyond Management's or the Panel's control, respectively, as may be approved by the Board on a no-objection basis.

9. If the Panel so recommends, the Board will authorize an investigation without making a judgment on the merits of the claimants' request, and without discussion except with respect to the following technical eligibility criteria:

a. The affected party consists of any two or more persons with common interests or concerns and who are in the borrower's territory (Resolution para. 12).

b. The request does assert in substance that a serious violation by the Bank of its operational policies and procedures has or is likely to have a material adverse effect on the requester (Resolution paras. 12 and 14a).

c. The request does assert that its subject matter has been brought to Management's attention and that, in the requester's view, Management has failed to respond adequately demonstrating that it has followed or is taking steps to follow the Bank's policies and procedures (Resolution para. 13).

d. The matter is not related to procurement (Resolution para. 14b).

e. The related loan has not been closed or substantially disbursed (Resolution para. 14c).

f. The Panel has not previously made a recommendation on the subject matter or, if it has, that the request does assert that there is new evidence or circumstances not known at the time of the prior request (Resolution para. 14d).

10. Issues of interpretation of the Resolution will be cleared with the Board.

11. The "preliminary assessment" concept, as described in the October 1996 Clarification, is no longer needed. The paragraph entitled "The Panel's Function" in the October 1996 "Clarifications" is thus deleted.

12. The profile of Panel activities, in-country, during the course of an investigation, should be kept as low as possible in keeping with its role as a fact-finding body on behalf of the Board. The Panel's methods of investigation should not create the impression that it is investigating the borrower's performance. However, the Board, acknowledging the important role of the Panel in contacting the requesters and in fact-finding on behalf of the Board, welcomes the Panel's efforts to gather information through consultations with affected people. Given the need to conduct such work in an independent and low-profile manner, the Panel—and Management— should decline media contacts while an investigation is pending or under way. Under those circumstances in which, in the judgment of the Panel or Management, it is necessary to respond to the media, comments should be limited to the process. They will make it clear that the Panel's role is to investigate the Bank and not the borrower.

13. As required by the Resolution, the Panel's report to the Board will focus on whether there is a serious Bank failure to observe its operational policies and procedures with respect to project design, appraisal, and/or implementation. The report will include all relevant facts that are needed to understand fully the context and basis for the panel's findings and conclusions. The Panel will discuss in its written report only those material adverse effects, alleged in the request, that have totally or partially resulted from serious Bank failure of compliance with its policies and procedures. If the request alleges a material adverse effect and the Panel finds that it is not totally or partially caused by Bank failure, the Panel's report will so state without entering into analysis of the material adverse effect itself or its causes.

14. For assessing material adverse effect, the without-project situation should be used as the base case for comparison, taking into account what baseline information may be available. Non-accomplishments and unfulfilled expectations that do not generate a material deterioration compared to the without-project situation will not be considered as a material adverse effect for this purpose. As the assessment of material adverse effect in the context of the complex reality of a specific project can be difficult, the Panel will have to exercise carefully its judgment on these matters, and be guided by Bank policies and procedures where relevant.

15. A distinction has to be made between Management's report to the Board (Resolution para. 23), which addresses Bank failure and possible Bank remedial efforts, and "action plans," agreed between the borrower and the Bank, in consultation with the requesters, that seek to improve project implementation. The latter "action plans" are outside the purview of the Resolution, its 1996 clarification, and these clarifications. In the event of agreement by the Bank and borrower on an action plan for the project, Management will communicate to the Panel the nature and outcomes of consultations with affected parties on the action plan. Such an action plan, if warranted, will normally be considered by the Board in conjunction with the Management's report, submitted under Resolution para. 23.

16. The Panel may submit to the Executive Directors for their consideration a report on their view of the adequacy of consultations with affected parties in the preparation of the action plans. The Board should not ask the Panel for its view on other aspects of the action plans nor would it ask the Panel to monitor the implementation of the action plans. The Panel's view on consultation with affected parties will be based on the information available to it by all means, but additional country visits will take place only by government invitation.

17. The Board underlines the need for Management to make significant efforts to make the Inspection Panel better known in borrowing countries, as specified in the 1996 "Clarifications."

18. The Board emphasizes the importance of prompt disclosure of information to claimants and the public, as stipulated in the Resolution (paras. 23 and 25) and in its 1996 Clarifications. The Board requires that such information be provided by Management to claimants in their language, to the extent possible.

19. The Board recognizes that enhancing the effectiveness of the Inspection Panel process through the above clarifications assumes adherence to them by all parties in good faith. It also assumes the borrowers' consent for field visits envisaged in the Resolution. If these assumptions prove to be incorrect, the Board will revisit the above conclusions.

ANNEX II List of Inspection Panel Claims

Source: World Bank Inspection Panel, *Annual Report, July 1, 2006, to June 30, 2007*, pp. 125-129.
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TABLE 1

SUMMARY OF REQUESTS FOR INSPECTION[1]

JUNE 30, 2007

	REQUEST (SHORT FORM)	REQUEST RECEIVED	REQUEST REGISTERED	INSPECTION PANEL RECOMMENDATION	RECOMMENDATION APPROVED BY THE BOARD	PANEL'S ACTIVITY
1.	**Nepal:** Arun III Proposed Hydroelectric Project and Restructuring of IDA Credit	October 24, 1994	Yes	Investigation	Yes	Eligibility Report and Investigation Report
2.	**Ethiopia:** Compensation for Expropriation and Extension of IDA Credits to Ethiopia	May 2, 1995	No	—	—	—
3.	**Tanzania:** Power VI Project	May 16, 1995	Yes	No investigation	Yes	Eligibility Report
4.	**Brazil:** Rondônia Natural Resources Management Project	June 16, 1995	Yes	Investigation	No	Eligibility Report, Additional Review report, and Review of Progress in Implementation
5.	**Chile:** Financing of Hydroelectric Dams in the Bio-Bio River	November 17, 1995	No	—	—	—
6.	**Bangladesh:** Jamuna Multipurpose Bridge Project	August 23, 1996	Yes	No investigation	Yes	Eligibility Report, and Report on Progress on Implementation of Action Plan
7.	**Argentina/Paraguay:** Yacyretá Hydroelectric Project (1996)	September 30, 1996	Yes	Investigation	No	Eligibility Report and Review of Present Project Problems and Assessment of Action Plans
8.	**Bangladesh:** Jute Sector Adjustment Credit	November 13, 1996	Yes	No investigation	Yes	Eligibility Report

continued

[1] Normally, the Panel advises the Executive Directors and the President when it receives a Request for Inspection that it cannot process (as it did in the Requests regarding Chile: Bio-Bio River, India: NTPC, Second Request, Cameroon: Pipeline Project, Second Request and Burundi: Public Works and Employment Creation Project). The Inspection Panel received a letter, dated August 27, 1999, also addressed to the President and the Executive Directors of the World Bank, requesting for the second time the "installation of an Inspection Panel" to investigate the Itaparica Resettlement and Irrigation Project in Brazil. Since the Bank's loans for this project were then long closed, the Panel was precluded from processing this Request. Furthermore, as the Request had been already addressed to the President and Executive Directors, no action on the part of the Panel was necessary. However, some regard this extemporaneous request as a formal Request for Inspection that should be added to the Panel's records.

	REQUEST (SHORT FORM)	REQUEST RECEIVED	REQUEST REGISTERED	INSPECTION PANEL RECOMMENDATION	RECOMMENDATION APPROVED BY THE BOARD	PANEL'S ACTIVITY
9.	**Brazil:** Itaparica Resettlement and Irrigation Project	March 12, 1997	Yes	Investigation	No	Eligibility Report and ActionPlan review
10.	**India:** NTPC Power Generation Project	May 1, 1997	Yes	Investigation	Yes	Eligibility Report and Report on Desk Investigation
11.	**India:** Ecodevelopment Project	April 2, 1998	Yes	Investigation	No	Eligibility Report
12.	**Lesotho/South Africa:** Phase 1B of Lesotho Highlands Water Project (1998)	May 6, 1998	Yes	No investigation	Yes	Eligibility Report
13.	**Nigeria:** Lagos Drainage and Sanitation Project	June 17, 1998	Yes	No investigation	Yes	Eligibility Report
14.	**Brazil:** Land Reform Poverty Alleviation Project	December 14, 1998	Yes	No investigation	Yes	Eligibility Report
15.	**Lesotho:** Highlands Water Project (1999)	April 26, 1999	Yes	No investigation	Yes	Eligibility Report
16.	**China:** Western Poverty Reduction Project	June 18, 1999	Yes	Investigation	Yes	Eligibility Report and Investigation Report
17.	**Argentina:** Special Structural Adjustment Loan	July 26, 1999	Yes	No investigation	Yes	Eligibility Report
18.	**Brazil:** Land Reform Poverty Alleviation Project, Second Request	September 14, 1999	Yes	No investigation	Yes	Eligibility Report
19.	**Kenya:** Lake Victoria Environmental Management Project	October 12, 1999	Yes	Investigation	Yes	Eligibility Report and Investigation Report
20.	**Ecuador:** Mining Development and Environmental Control Technical Assistance Project	December 13, 1999	Yes	Investigation	Yes	Eligibility Report and Investigation Report
21.	**India:** NTPC Power Generation Project, Second Request	November 27, 2000	No	—	—	—
22.	**Chad:** Petroleum Development and Pipeline Project, Management of the Petroleum Economy Project, and Petroleum Sector Management Capacity-Building Project	March 22, 2001	Yes	Investigation	Yes	Eligibility Report and Investigation Report

continued

	REQUEST (SHORT FORM)	REQUEST RECEIVED	REQUEST REGISTERED	INSPECTION PANEL RECOMMENDATION	RECOMMENDATION APPROVED BY THE BOARD	PANEL'S ACTIVITY
23.	**India:** Coal Sector Environmental and Social Mitigation Project and Coal Sector Rehabilitation Project	June 21, 2001	Yes	Investigation	Yes	Eligibility Report and Investigation Report
24.	**Uganda:** Third Power Project, Fourth Power Project, and proposed Bujagali Hydropower Project	July 27, 2001	Yes	Investigation	Yes	Eligibility Report and Investigation Report
25.	**Papua New Guinea:** Governance Promotion Adjustment Loan	December 6, 2001	Yes	No investigation	Yes	Eligibility Report
26.	**Paraguay/Argentina:** Reform Project for the Water and Telecommunication Sectors, SEGBA V Power Distribution Project (Yacyretá 2002)	May 17, 2002	Yes	Investigation	Yes	Eligibility Report and Investigation Report
27.	**Cameroon:** Petroleum Development and Pipeline Project, and Petroleum Environment Capacity Enhancement Project	September 25, 2002	Yes	Investigation	Yes	Eligibility Report and Investigation Report
28.	**Philippines:** Manila Second Sewerage Project (MSSP)	September 26, 2003	Yes	No recommendation, as the Requesters failed to satisfy a procedural criterion, that the Requesters had brought the subject matter to Management's attention and that, in the Requester's view, Management failed to respond adequately.	Yes	Eligibility Report
29.	**Cameroon:** Petroleum Development and Pipeline Project (not registered)	November 26, 2003	No	—	—	—
30.	**Mexico:** Indigenous and Community Biodiversity Project (COINBIO)	January 26, 2004	Yes	In fairness to all parties concerned, the Panel could not take a position on whether the Request merits an investigation and awaits further developments.	Yes	Eligibility Report

continue

	REQUEST (SHORT FORM)	REQUEST RECEIVED	REQUEST REGISTERED	INSPECTION PANEL RECOMMENDATION	RECOMMENDATION APPROVED BY THE BOARD	PANEL'S ACTIVITY
31.	**Colombia:** Cartagena Water Supply, Sewerage, and Environmental Management Project	April 20, 2004	Yes	Investigation	Yes	Eligibility Report and Investigation Report
32. &	**India:** Mumbai Urban Transport Project	April 28, 2004	Yes	Investigation	Yes	Eligibility Report and Investigation Report
33.	**India:** Mumbai Urban Transport Project—Gazi Nagar	June 29, 2004	Yes			
34.	**Pakistan:** National Drainage Program Project	September 10, 2004	Yes	Investigation	Yes	Eligibility Report and Investigation Report
35.	**Burundi:** Public Works and Employment Creation Project	September 17, 2004	No	—	—	—
36.	**Cambodia:** Forest Concession Management and Control Pilot Project	January 28, 2005	Yes	Investigation	Yes	Eligibility Report and Investigation Report
37.	**Democratic Republic of Congo:** Transitional Support for Economic Recovery Credit Operation (TSERO) and Emergency Economic and Social Reunification Support Project (EESRSP)	November 19, 2005	Yes	Investigation	Yes	Investigation Ongoing
38.	**Honduras:** Land Administration Project	January 3, 2006	Yes	Investigation	Yes	Investigation Report
39.	**Romania:** Mine Closure and Social Mitigation Project	January 6, 2006	Yes	In fairness to all parties concerned, the Panel could not take a position on whether the Request merits an investigation and awaits further developments.	Yes	Eligibility Report
40.	**Nigeria:** West African Gas Pipeline Project	April 27, 2006	Yes	Investigation	Yes	(First) Eligibility Report and Final Eligibility Report; Investigation Ongoing
41.	**Brazil:** Paraná Biodiversity Project	July 10, 2006	Yes	No investigation	Yes	(First) Eligibility Report and Final Eligibility Report
42. & 43.	**Argentina:** Santa Fe Infrastructure Project and Provincial Road Infrastructure Project	August 28, 2006 September 21, 2006	Yes Yes	No recommendation, as the Requesters failed to satisfy a procedural criterion, that the Requesters had brought the subject matter to Management's attention and that, in the Requester's view, Management failed to respond adequately.	Yes	Eligibility Report

continue

	REQUEST (SHORT FORM)	REQUEST RECEIVED	REQUEST REGISTERED	INSPECTION PANEL RECOMMENDATION	RECOMMENDATION APPROVED BY THE BOARD	PANEL'S ACTIVITY
44.	**Uganda:** Private Power Generation Project	March 5, 2007	Yes	Investigation	Yes	Eligibility Report; Investigation Ongoing
45.	**India:** Uttaranchal Decentralized Watershed Development Project	March 7, 2007	Yes	In fairness to all parties concerned, the Panel could not take a position on whether the Request merits an investigation and awaits further developments.	Yes	Eligibility Report
46.	**Albania:** Power Sector Generation and Restructuring Project	April 30, 2007	Yes			

ANNEX III

Source: Adapted from World Bank Inspection Panel, *Annual Report, July 1, 2006, to June 30, 2007*, pp. 17-20. Reprinted with Permission of the Inspection Panel

THE INSPECTION PANEL

PANEL PROCESS

The Panel's process is straightforward. Any two or more individuals or groups of individuals who believe that they or their interests have been or are likely to be harmed by a Bank-financed Project can request that the Panel investigate their complaints. After the Panel receives a Request for Inspection, it is processed as follows:

- The Panel determines whether the Request is barred from Panel consideration.
- If not, the Panel registers the Request—an administrative procedure.
- The Panel promptly notifies the members of the Board that a Request has been received and sends the Request to them and to Bank Management.
- Bank Management has 21 working days to respond to the allegations of the Requesters.
- Upon receipt of Management's Response, the Panel conducts a review in 21 working days to determine the eligibility of the Requesters and the Request for an Investigation.
- The Panel delivers its Eligibility Report and any recommendation on an Investigation to the Board for its approval on a no-objection basis.
- If the Panel does not recommend an investigation, the Board of Executive Directors may still instruct the Panel to conduct an investigation if warranted.
- After the Board's approval of the Panel's recommendation, the Requesters are notified.
- Shortly after the Board decides whether an investigation should be carried out, the Panel's Report (including the Request for Inspection and Management's Response) is publicly available at the Bank's InfoShop and the respective Bank Country Office, as well as on the Panel's Web site (http://www.inspectionpanel.org).
- If the Board approves the Panel's recommendation for an investigation,[36] the Panel undertakes an investigation. The investigation is not time bound.
- When the Panel completes an investigation, it sends its findings on the matters alleged in the Request for Inspection to the Board and to Bank Management for its response to the Panel findings.
- Bank Management then has six weeks to submit its recommendations to the Board on what, if any, actions the Bank intends to take in response to the Panel's findings.
- The Board then takes the final decision on what should be done based on the Panel's findings and Bank Management's recommendations.

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[36] See Conclusions of the Board's Second Review of the Inspection Panel, paragraph 9: "If the Panel so recommends, the Board will authorize an investigation without making judgment on the merits of the claimant's request..." See, 1999 Clarification, available at the Inspection Panel's homepage (http://www.inspectionpanel.org) and included in Annex I of this report.

- Shortly after the Board's decision, the Panel's Report and Management's Recommendation are publicly available through the Inspection Panel's Web site and Secretariat, the Bank's InfoShop, and the respective Country Office.
- The Panel's Report, Management's Response, and the press release concerning the Board's decision are posted on the Panel's Web site (http://www.inspectionpanel.org).

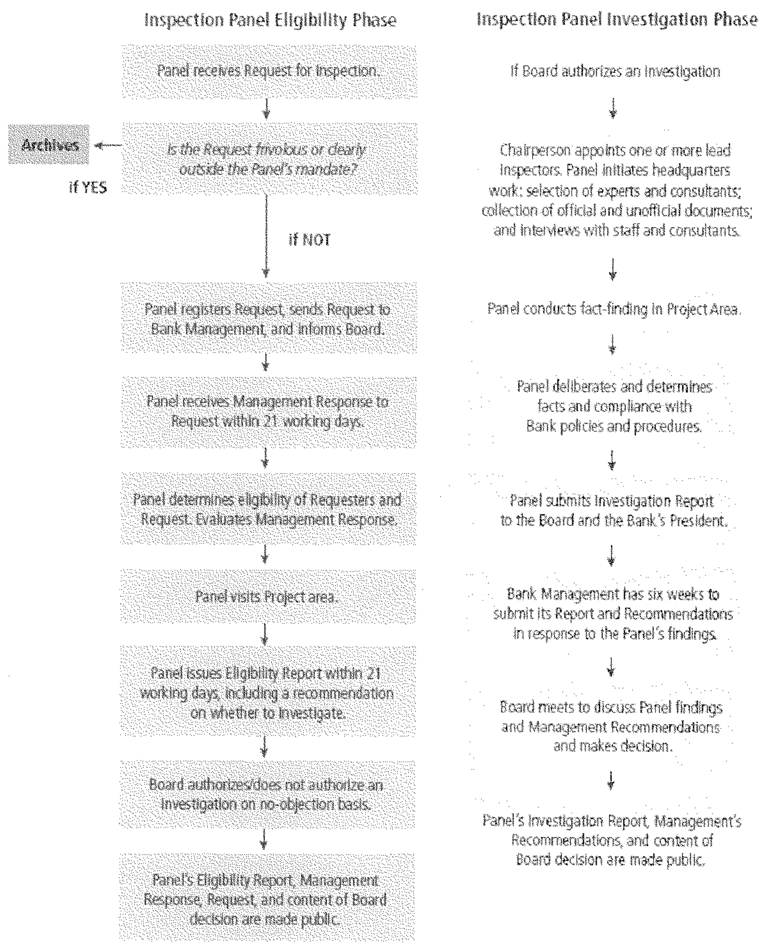
Who may submit a Request for Inspection?

- Any two or more persons directly affected by a Bank-supported Project.
- Local representatives on behalf of directly affected persons with proper proof of authorization.
- Subject to Board approval, a non-local representative (in exceptional circumstances where local representation is not available) may file a claim on behalf of locally affected persons.
- An Executive Director.

What are the criteria for recommending an Investigation?

- The affected party consists of any two or more persons in the borrower's territory who have common interests or concerns.
- The Request asserts that a serious violation by the Bank of its operational policies and procedures has, or is likely to have, a material adverse effect on the Requester.
- The Request asserts that its subject matter has been brought to Management's attention and that, in the Requester's view, Management has failed to respond adequately in demonstrating that it has followed or is taking steps to follow the Bank's policies and procedures.
- The matter is not related to procurement.
- The related loan has not been closed or more than 95 percent disbursed.
- The Panel has not previously made a recommendation on the subject matter or, if it has, the Request asserts that there is new evidence or circumstances not known at the time of the previous Request.

FIGURE 1
INSPECTION PANEL PROCESS



GLOBAL UNIONS
ITUC, GUFs, TUAC

Washington Office
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Washington DC 20006
Tel: (202) 974-8120/21 Fax: (202) 974-8122

June 17, 2008

Dear Colleague,

Last Thursday the World Bank's Independent Evaluation Group (IEG) issued a report on the World Bank's highest circulation publication, "Doing Business" (DB), and heavily criticized its deregulatory bias, the lack of rigor and transparency in the way the data is compiled, and the fact that "DB's assertive marketing strategy" (p. 53) is based on "overstated claims of the [DB] indicators' explanatory power" (p. 52), notably false claims of causality between the DB indicators and a variety of economic outcomes.

DB ranks countries according to indicators which purport to measure countries' "ease of doing business," and asserts that countries that do away with labor-market and other types of regulation will make their economies more attractive to investors.

In particular, the IEG report on Doing Business determined the following:

- "... this evaluation found no statistically significant relationships between the ... DB indicators and growth rates" (p. 6)
- "No significant association emerged between ... [the DB indicator on] employing workers and employment" (p. 6)
- "... recent analysis found no significant relationship between reforms as measured by changes in the DB indicators and aggregate investment and unemployment rates" (p. 6)

The International Trade Union Confederation and its predecessor organizations complained to the World Bank since shortly after the first edition of DB was published in October 2003 that the Bank was using DB to push governments to deregulate labor markets, that DB-inspired reforms harmed workers, and that DB had never shown any credible link between its indicators and positive economic outcomes.

Beginning in 2007, the International Labor Organization (ILO) prepared a number of detailed analyses which came to similar conclusions. Both the ITUC and ILO also pointed out that by rewarding countries that had eliminated workers' protection, DB frequently gave its best scores to egregious violators of workers' rights.

Although the IEG only undertook a limited analysis of DB's "Employing Workers" indicator, it acknowledges the indicator's inherent bias because it "measures costs but not benefits of regulation or other dimensions of labor market flexibility" (p. 32), a point repeatedly made by the ITUC and ILO. The IEG also notes that the high-ranking countries for employing workers "include a surprising number of small island states" (p. 32) that have almost no labor regulations.

The IEG opines that DB's assertion concerning the indicators' consistency with core labor standards is "generally valid," but it finds that some DB labor indicators in the area of termination of employment "are consistent with the letter, but do not reflect the spirit, of the relevant ILO provisions" (p.33).

At the launch of the IEG report Thursday in Washington, former World Bank chief economist François Bourguignon, who retired last year, strongly supported the IEG's critique of DB and emphasized DB's absence of rigorous analysis, its misleading use of country rankings, and the fact that DB's advice contradicts other World Bank perspectives. During the discussion, most of the specific criticism focused on DB's "Employing Workers" and "Paying Taxes" indicators. It was pointed out that the latter indicator, which penalizes countries according to the level of any kind of mandated payment companies must make – including pension, social security, health and safety and maternity contributions – gave the best rankings to tax havens and oil states.

The IEG report also notes the lack of rigor of DB's data compilation system, which essentially relies on reports submitted, without verification, by corporate law firms. The report notes that data are frequently erroneous and substantially modified from year to year without any form of explanation, something that the ITUC has also noted in its critiques.

The recommendations formulated by the IEG are modest compared to the indictment of DB's deeply flawed methodology and unjustified use of the indicators. The report calls for DB to change its data compilation method, increase transparency, "be clear about the limitations" (p. 54) of the indicators and reform some of them. It may be noted that the IEG is "independent" in that it reports to the World Bank's executive board rather than to Bank management or other departments. However IEG is part of the Bank's structure and IEG staff often rotate in and out of jobs in other Bank departments.

Although the highly polemical lead author of DB was recently moved out of his post, perhaps in anticipation of the IEG report, the strongly critical report does not appear to have slowed down the Bank in its hyping of DB. Earlier last week the Bank gave out its annual "Doing Business Reformers Club" awards to the top ten reformers for 2008. This year's best reformer was Egypt, inheriting the crown from last year's champion, Georgia, which won its award because it did away with most of its labor regulations. Runners up among the top ten DB reformers of 2008 include Macedonia, Colombia, Saudi Arabia and China.

Best regards,

Peter Bakvis
Director, ITUC/Global Unions – Washington Office

THE WALL STREET JOURNAL.
Published since 1889 by DOW JONES & COMPANY

Report on World Bank Sees Deregulation Bias

BY BOB DAVIS

WASHINGTON—The World Bank's flagship effort to encourage poor nations to slash business regulation is deeply flawed, the bank's in-house watchdog reported, reflecting a growing divide within the bank about how best to boost development.

Since 2003, the bank's private-sector arm, the International Finance Corp., has produced an annual series of indicators ranking countries on the ease of doing business, including starting a business, getting credit, laying off workers and registering property. Countries vie to become one of the "Doing Business" report's "top reformers," by slashing regulations and rewriting laws in a way that will boost their rankings.

Last year, Egypt used its top-reformer status as part of a pitch for more investment abroad and as reinforcement for policy makers who want to hack away at decades of regulations from Egypt's socialist past. Developing nations compete with each other to move up on the rankings of 178 nations, figuring that a better ranking will mean additional investment and, ultimately, economic growth.

But a critique by the bank's Internal Evaluation Group, which doesn't report to the bank's management, said the Doing Business survey is biased toward deregulation and hypes its results. The watchdog report also said there was "no statistically significant relationship" between the indicators and growth rates.

"Because most of the indicators presume that less regulation is better," the watchdog report said, "it is difficult to tell whether the top-ranked countries have good and efficient regulations or simply inadequate regulation."

Victoria Elliott, the report's lead author, said countries get higher scores if their tax rates are low—giving tax havens like the Maldives inflated rankings.

Within the bank, the watchdog report has deepened resentment of the Doing Business indicators, which gets the attention of media and top policy makers globally. The bank's governing board, which usually doesn't take up Internal Evaluation Group reports, met for four hours to discuss this report.

Bank officials say that France especially has long been opposed to the indicators, which it feels are biased toward a U.S. or British model of deregulation. (French-speaking African nations generally do more poorly in ranking than English-speaking Africa.) France's representative on the governing board declined to comment. A number of big developing nations, including India, also are skeptical of indicators in general because they may rank poorly on some listings.

Michael Klein, the IFC's chief economist, says that Doing Business generally takes the view that unwieldy business regulation has hampered development in many impoverished nations and that policy makers should be encouraged to liberalize the economy. That has largely been the mantra of development officials since the early 1990s. For instance, countries get good marks if it is easier to lay off workers, because the IFC figures employers will be quicker to hire staff if they know they aren't stuck with them during downturns.

"Flexible labor markets tend to be good for people who don't have jobs," said Mr. Klein. "More rigid markets are more favorable to people who already have jobs. In emerging markets, labor-market rigidity is very high."

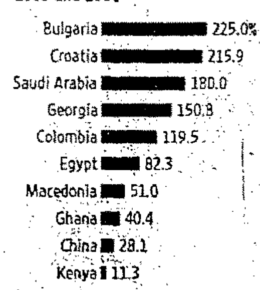
But many poor countries have grown skeptical of market-oriented solutions, feeling that they have helped mostly elites in rich and poor nations. The watchdog report reflects more of that point of view. It argues, for instance, that the indicators aren't consistent with the "spirit" of International Labor Organization agreements, because "it gives low scores to countries that have chosen policies for greater job protection."

Vinod Thomas, the IEG's director-general, says the report doesn't have an ideological point of view but rather tries to weigh the rigor of the Doing Business indexes.

Top Reformers

How governments highlighted by the 'Doing Business' report in 2007 have fared in attracting investment

Change in foreign direct investment stocks between 2003 and 2006



Sources: World Bank; United Nations

DEPARTMENT OF THE TREASURY
WASHINGTON, D C

ASSISTANT SECRETARY

The Honorable Barney Frank
U.S. House of Representatives
Washington, DC 20515

Dear Chairman Frank:

Thank you very much for the opportunity to testify before the Committee on Financial Services last week on the Administration's request for authorization for replenishment of the International Development Association (IDA) and the African Development Fund (AfDF). We appreciate the strong interest of the Committee and look forward to our continued work together to help ensure the effectiveness of these institutions in delivering concrete results for many of the world's poorest people. I wanted to respond in writing to questions raised by several members of the Committee during the hearing.

Representatives Scott and Green made an impassioned case for increased assistance to places where there is great need and hardship, in particular about what IDA is doing to address the water crisis in Rwanda and the needs of the people of Haiti, including the current food crisis. Representatives Moore and Cleaver raised concerns about conditionality in World Bank assistance, notably in Afghanistan, and about the availability of World Bank's database of loan conditions to the public

Rwanda

Last December, IDA concluded a 7-year, $20-million Rural Water and Sanitation Project (RWSSP). The project provided access to improved water services to over 400,000 Rwandans. In addition, IDA financing and policy advice assisted Rwanda's government to increase direct financing from the national budget for district water supply projects, from $2 million in 2006 to $7 million in 2007. As one component of a $70-million grant, IDA is also helping the Rwandan government implement a plan to increase the number of households within 500 meters of an improved water source, from 63 percent to 80 percent by 2010.

Haiti

The United States has strongly supported MDB reengagement in Haiti. Since 2004, the MDBs have provided loans or grants of nearly $600 million and both the MDBs and the IMF are currently devoting significant resources to Haiti. For example:

- IDA has provided $82 million in grants to Haiti through the first half of 2008.
- Last month, IDA approved a $10 million grant from the new Global Food Crisis Facility, providing financial support to the Haitian government's food-related social programs.

- IDA is also providing technical assistance to improve the targeting and transparency of the price subsidy program and to develop a medium-term solution for improved agricultural productivity
- The Inter-American Development Bank (IDB) is providing up to $50 million in grants to Haiti each year from 2007 through 2009 In addition, the IDB provided a $12 5 million grant and authorized the disbursement of US$14.5 million from a previously approved soft loan to support the Haitian government's efforts to pursue poverty reduction in the face of soaring global food prices
- The IMF is providing approximately $109 5 million to Haiti over three years of which about $27 million will be disbursed in fresh money by June 20th

In addition to the efforts of the multilateral development institutions, the Bush administration has been an extremely strong supporter of Haiti bilaterally. USAID recently increased Haiti's total assistance package to an estimated $128 million for 2008 and the US Government has undertaken such specific actions to address the food crisis as:

- Providing $45 million in Emergency Title II commodities;
- Reprogramming $14 5 million to short-term job creation programs, including $1 million to the International Office for Migration (IOM) for an agricultural development program; and
- Providing $150,000 in International Disaster Assistance Funds for emergency seeds and tools

Conditionality in Afghanistan Projects

There was a concern raised at the hearing about conditionality in Afghanistan regarding privatization As I mentioned, it will be very important for Afghanistan to have a thriving private sector However, our understanding is that the Bank has not insisted on a single privatization but has provided technical advice in the development of a carefully prioritized approach to dealing with state-owned enterprises Conditionality focused not on specific privatizations but rather the preparation of the list of state-owned enterprises, with the government determining which would remain in state hands and which it recommended for divestiture The first 2T state-owned companies to be privatized are currently inactive and no longer employ anyone, so that privatization effectively means the sale of real estate and equipment. Where the government has chosen to retain ownership, the Bank is working with the authorities on possible restructuring to minimize losses to the budget. Afghanistan collects just over 7 percent of its GDP in revenue -- low even by standards of fragile states and simply unsustainable -- leaving no room for the government to focus on anything more than the most basic of service provision.

Conditionality Database

As you know, under the leadership of Presidents Wolfensohn, Wolfowitz, and Zoellick, the World Bank has significantly increased its transparency and accountability, both to the people it serves and to its donors, making publicly available country covenants, loan agreements, and investigative reports on project implementation as well as corruption allegations.

The World Bank's database of loan conditions is not available on the institution's public website, in part due to its size but also technical requirements of maintaining frequent updates. Instead, the World Bank has made the database available on a CD ROM upon request. Also, the loan documents, from which the conditionality data are pulled, are all available on the World Bank's public website.

Thank you again for your support of strong US leadership in the multilateral development institutions. Please feel free to contact my office with any further questions.

Sincerely,

Clay Lowery

Cc: Representative Spencer Bachus
Representative David Scott
Representative Al Green
Representative Gwen Moore