

Issue update

Selected Issues on International Financial Institutions

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OECD knocks Britain over corruption

The UK government is under fire from both its allies and international civil society for its decision to scrap a public fraud inquiry into a massive arms deal. The Serious Fraud Office (SFO) was investigating allegations that UK-company BAE Systems made use of a slush fund to secure the £40 billion “Al Yamamah” deal with the Saudi government. The deal is the largest in the country’s history and is backed by the UK’s export credit agency.

This month over 140 non-governmental organizations (NGOs) warned the UK government of the “irreparable harm” the move may cause to the country’s reputation as an anti-corruption champion. British NGOs Campaign Against the Arms Trade (CAAT) and Corner House have signaled their intention to initiate a judicial review of the SFO decision to drop the inquiry.

The Organisation for Economic Co-operation and Development (OECD) expressed concern that Britain’s move will damage the credibility of the OECD’s Anti-Bribery Convention and suggested that it could investigate the case.

The British government dropped the inquiry in December 2006, arguing that its strategic relationship with Saudi Arabia, which it described as vitally important to counter-terrorism efforts, trumped all other interests.

Britain rebuked for dropping bribe inquiry

<http://news.independent.co.uk/uk/politics/article2165459.ece>

Developments following the dropping of the SFO investigation

<http://www.caat.org.uk/issues/sfo/sfo-latest.php>

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Bank “knowledge” biased, Internal audit finds

The “Knowledge Bank”, a term former World Bank President James Wolfensohn coined in 1996 to describe a role for the Bank in creating, sharing and applying knowledge about international development, came under scrutiny in December. An internal audit released by 25 academics found that, while the Bank does produce some “outstanding work”, almost two-fifths of this research was simply used to “proselytize” the Bank’s policies, “without demonstrating balance in the presentation of the facts”, and that “internal research that was favourable to Bank positions was given great prominence and unfavourable research ignored”.

The report singles out the Bank’s research on pensions and their privatization, and on the Bank’s “globalization, growth and poverty” agenda. It found, for example, that arguments frequently used by the Bank that “aid is most effective in countries with sound policies” and “growth is good for the poor” were based on weak evidence and unreliable results.

The report recommends that the Bank establish its own research department and a central statistical office, that the research budget be increased, that the Bank’s research be more regularly evaluated, and that the work be more focused. The audit drew from a random sample of 4,000 reports, books and papers produced by the Bank between 1998 and 2005.

The Full report: An evaluation of World Bank Research 1998-2005

<http://siteresources.worldbank.org/DEC/Resources/84797-1109362238001/726454-1164121166494/RESEARCH-EVALUATION-2006-Main-Report.pdf>

Government to revise report to MPs on Bank and Fund

In response to feedback from Parliamentarians and civil society, led by the Halifax Initiative, Finance Canada finally plans to change the format and content of its annual report to Parliament on the World Bank and International Monetary Fund (IMF). The annual report, which has been criticized for being a mere carbon copy of previous years’ editions, is the only device by which the government reports to Parliament on its activities at the Bank and Fund.

Going forward, Finance Canada plans to focus on a smaller set of current issues and future challenges, on the benefits that derive from Canada’s participation at the World Bank and on how Canada’s involvement at the Bank fits with our foreign policy. Finance also plans to provide more information on the positions the government takes on various policy issues and greater detail on Canada’s financial relationships with these institutions.

Finance consulted with groups to hear their views on the proposed changes.

Civil Society letter to Minister Flaherty raising concerns and recommendations for the annual report.

<http://www.halifaxinitiative.org/index.php/correspondence/935>

Notice Board

- 📄 In December, Dr. Mulu Ketsela, former state minister of Finance and Economic Development in the Ethiopian government, became the **first woman** to represent Africa on the **World Bank's Board of Executive Directors**.
- 📄 In January, **Ecuador and the Philippines** joined numerous other countries that have announced that they will **make early payments on their IMF debt** - amounting to US\$33 million and US\$220 million respectively. Ecuador has vowed to never return to the IMF. Uruguay, Argentina, Brazil and Indonesia made similar moves in 2006. The Fund is expected to lose income on the interest from the early repayments.
- 📄 **Montenegro** became the 185th member of the **World Bank and IMF**.
- 📄 Operations at **Goldcorp Inc's Marlin gold mine** in Guatemala have been hampered by **protestors** who have blocked roads leading to the site. http://www.mining-journal.com/Breaking_News.aspx?breaking_news_article_id=1651
- 📄 The **OECD Council** has approved "**upgrading**" the Export Credit Working Group's "**Action Statement on Bribery and Official Export Credits**" to a formal **OECD Recommendation**. http://www.oecd.org/document/62/0,2340,en_2649_34169_37858750_1_1_1_1,00.html
- 📄 The Inter-American Development Bank (**IDB**) agreed to **cancel US\$3.5 billion in debts** owed by Bolivia, Honduras, Nicaragua, Haiti and Guyana.

New Publications

- *"After the dust settles: Singapore in retrospect - Summary of meetings, events, and statements related to the 2006 IMF/World Bank Annual Meetings"*, Bank Information Center, December 2006. <http://www.bicusa.org/en/Document.9819.aspx>
- *"Ten Years After the Asian Currency Crisis: Future Challenges for the Asian Economies and Financial Markets"*, Speech by Rodrigo de Rato, Managing Director of the IMF. <http://www.imf.org/external/np/speeches/2007/012207.htm>
- *"Looting Africa: Some Facts and Figures"*, Tax Justice Network Africa, part of a new site: http://www.taxjustice4africa.net/cms/upload/pdf/TJN4Africa_Looting_Africa_-_facts_and_figures.pdf
- *"Debt sustainability or defensive deterrence? The rise of new lenders and the response of the old"*, EURODAD, January 2007. New sovereign loans from countries like China to developing countries have caused the World Bank to implement a policy curtailing allocations under its low interest window (IDA) to countries that borrow from these new lenders. By pushing new loans, the Bank argues that countries like China are "free riding" on the recent cancellation of debts to various IDA countries by taking advantage of their improved credit ratings. The Bank is concerned that this will threaten the long term debt sustainability of these countries. This report looks at the Bank's free rider policy, and the rise of "new money" in the context of a chronic shortage of "old money". <http://www.eurodad.org/uploadstore/cms/docs/Debtsustainabilityordefensivedeterrence.pdf>
- *"Let's Launch an Enquiry into the Debt"*, CADTM, October 2006. New manual on how to organize debt audits. http://www.cadtm.org/texte.php3?id_article=2296

“The Knowledge Bank” - managing global development thinking

“I want to focus on a specific form of partnership [...] as we enter the new millennium - a partnership for creating and sharing knowledge, and making it a major driver of development. [...] We need to become, in effect, the Knowledge Bank[.]”

James Wolfensohn, former World Bank President, 1996 Fall meetings of the World Bank and IMF.

In 1996, in a major speech that signaled the arrival of the “strategic compact” - an effort to make the World Bank more effective in achieving its basic mission of reducing poverty - James Wolfensohn proposed the idea that the Bank become not just a “lending” bank, but also a “knowledge” bank. This would help guide the strategic direction of the Bank, and through the internet, allow the Bank to act as a focal point for creating, sharing and applying knowledge within the international development community. Introducing a world-class “knowledge management system” became a major focus of the new strategic compact.

Research at the Bank takes place through a number of different offices within the Bank and in its regional offices. Most research, including the annual *World Development Report*, is conducted by the 80 plus economists in the Development Economics Vice Presidency (DEC) office. The World Bank Institute, a capacity development arm that “helps countries share and apply global and local knowledge to meet development challenges”, takes the lead on the knowledge management strategy.

Many groups responded negatively to the idea of the Bank becoming a “knowledge bank”, arguing that it was simply a way for the Bank to dominate development policy and thinking, and to push the Bank’s neo-liberal agenda. This audit throws into question the ability of the Bank to act as both as independent research body, policy advisor and financier for the majority of the world’s countries.

The Knowledge Bank

<http://web.worldbank.org/WBSITE/EXTERNAL/WBI/0,,contentMDK:20212624-menuPK:575902-pagePK:209023-piPK:207535-theSitePK:213799,00.html>

Research, knowledge and the art of “paradigm maintenance”

<http://www.brettonwoodsproject.org/art.shtml?x=546206>

*Knowledge Bank-rupted: Evaluation says key World Bank research 'not remotely reliable'

<http://brettonwoodsproject.org/researchevaluation54>