

# RESPONSIBLE REFORM OF THE WORLD BANK

THE ROLE OF THE UNITED STATES IN  
IMPROVING THE DEVELOPMENT EFFECTIVENESS  
OF WORLD BANK OPERATIONS

Presented by a U.S. Civil Society Coalition

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## **A COALITION FOR REFORM**

This year World Bank donors will decide on the 13<sup>th</sup> three-year funding replenishment for the International Development Association (IDA), the arm of the World Bank that lends to the poorest countries. As the Treasury Department negotiates the IDA agreement and Congress authorizes and appropriates U.S. funding for IDA-13, the United States has an important opportunity to influence the way that the World Bank operates around the world. A broad array of civil society organizations, including development groups, people of faith, labor, environmental organizations, and gender advocates, have formed an unprecedented coalition to promote positive proposals for World Bank reform.

The goal of the reform proposals presented in this report is to improve the development effectiveness of U.S. foreign assistance through the World Bank and other international financial institutions. While increased funding for poor countries – especially through debt cancellation and the use of grants – is critical, more money without reform would be wasteful at best and harmful to its intended beneficiaries at worst. These taxpayer-supported institutions must be held accountable for the impacts and the results of their lending operations. Many civil society organizations have worked with the World Bank over the years to make the institution more accountable, transparent, and participatory and called on the Bank to more effectively promote development, fight poverty, and respect the environment, workers' rights, and human rights. While some progress has been made, the mixed record of this public institution demands that reforms are enacted before the taxpayer-financed U.S. contribution to the World Bank is increased. Our coalition is dedicated to making these reforms a reality.

<b>AFL-CIO</b>	<b>International Rivers Network</b>
<b>The Africa Society of the National Summit on Africa</b>	<b>International Water Working Group, U.S. office</b>
<b>American Lands Alliance</b>	<b>Jubilee USA Network</b>
<b>American Public Health Association</b>	<b>Labor Council for Latin American Advancement</b>
<b>Bank Information Center</b>	<b>Maryknoll Office for Global Concerns</b>
<b>Bread for the World</b>	<b>Natural Resources Defense Council</b>
<b>Catholic Relief Services</b>	<b>Oxfam America</b>
<b>Center for Economic and Policy Research</b>	<b>Pesticide Action Network North America</b>
<b>Communications Workers of America</b>	<b>Public Citizen</b>
<b>Consumer's Choice Council</b>	<b>RESULTS</b>
<b>Environmental Defense</b>	<b>United Methodist Church, General Board of Church and Society</b>
<b>The Episcopal Church, USA</b>	<b>World Vision</b>
<b>Essential Action</b>	
<b>Friends of the Earth</b>	
<b>Gender Action</b>	

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# **RESPONSIBLE REFORM OF THE WORLD BANK**

## **Executive Summary**

This report presents proposals from a wide range of U.S. civil society groups for reforming the World Bank. These proposals focus on:

- increasing the amount of resources poor countries can dedicate to development;
- making the World Bank more effective and accountable; and
- ensuring that Bank resources are used to make productive investments in human development, instead of being used to support policies that harm the environment, workers, and the poor.

As a lead negotiator in the agreement to replenish the International Development Association (IDA), the arm of the World Bank that makes concessionary loans to poor countries, the U.S. Treasury Department has a significant role to play in these reforms. Congress can also play an important part in pushing for reform as it authorizes and appropriates the IDA replenishment. Congress should ensure that the hundreds of millions of taxpayer dollars that are provided to the World Bank this year do not fund more failure at the institution. Reforms to cancel poor country debt, improve transparency, achieve positive health and education outcomes, ensure respect for core worker and gender rights, and protect the environment can deliver positive change to the lives of hundreds of millions of people in poor countries.

A broad range of organizations, including religious, environmental, development, gender and labor groups, have united to support a package of policy reforms that will improve outcomes at the World Bank. This reform package would not interfere with U.S. commitments to fund IDA, though it would condition future IDA funding increases on progress in adopting Congressionally designated reforms—just as the Treasury Department itself has pledged funding increases conditioned on performance indicators. Each section of this report addresses a different component of this reform package, and has been written by an expert in the relevant policy area. While each section represents the views of a particular organization or organizations, these proposals enjoy broad support among the coalition to reform the World Bank and form the centerpiece of our campaign on the thirteenth IDA replenishment.

### **Generate More Resources For Development**

1. **Debt Cancellation:** While the U.S. has canceled bilateral debts owed by poor countries, many of these countries continue to struggle with debt owed to multilateral institutions like the World Bank. The Bank should provide deeper and broader debt relief, using primarily its own resources, to countries that will apply debt cancellation to poverty reduction programs.
2. **Grants vs. Loans:** Although the terms of IDA loans are concessional, they still place the poorest countries under an untenable strain of indebtedness. The U.S. should promote a policy requiring fifty percent of new assistance to IDA-only countries on grant terms, while ensuring that overall levels of assistance to these countries are maintained or increased and environmental and social safeguard policies are complied with.

### **Ensure Accountability and Effectiveness**

3. **Increase Transparency:** U.S. leadership compelled the once completely secretive Bank to partially improve its information disclosure policies. The U.S. should press for further transparency, including reforms that require the Bank to open its Board of Directors' meetings

to the public, disclose transcripts of these meetings, and release all key documents prior to Board consideration of a loan. The U.S. Treasury Department should also demonstrate more transparency by posting its own Board statements and reporting to Congress on compliance with their mandates.

4. Assess Social and Environmental Impacts: While the Bank conducts environmental impact assessments of projects (for example, a power plant or a road) and sectoral reforms, they do not assess the potential impacts of other types of lending, including structural adjustment. Structural and sectoral adjustment loans make up an increasingly large percentage of the Bank's lending portfolio, and they have profound social and environmental impacts. The Bank should perform upstream environmental and social assessments for all types of loans to analyze the environmental, poverty, gender and worker impacts of the proposed action and eliminate or mitigate any negative impacts that have been identified.
5. Improve Poverty Reduction Strategies and Donor Coordination: A truly participatory process for poverty reduction strategy paper (PRSP) preparation – a requirement for Heavily Indebted Poor Countries (HIPC) debt reduction – is at odds with a country's urgent need for debt relief. Therefore, the U.S. should work to de-link the PRSP process from HIPC, strengthen country ownership of the PRSP and donor coordination, and ensure that World Bank loans are consistent with the PRSP.
6. Measure Health and Education Outcomes: The Bank must be held more accountable for the results of its programs, especially in core lending areas for IDA such as health and education. This is particularly critical as an increasing proportion of health lending is for “sectoral reform” rather than for concrete primary health care projects. The Bank's own staff and internal evaluation unit have acknowledged that most health reform lending does not effectively track or measure health outcomes. A number of health reform programs have, in fact, been correlated with worsened health outcomes. The U.S. should oppose health or education loans or grants that do not include mechanisms for measuring outcomes.

**Do No Harm to the Environment, Workers, Women, and the Poor**

7. Respect Worker Rights: Many World Bank loans directly affect labor laws and working conditions in borrowing countries. Declining labor standards in developing countries then have a negative impact on American workers. The U.S. should oppose any Bank loan that undermines internationally recognized worker rights.
8. Promote Environmental Sustainability: The U.S. should push the Bank to ensure compliance with environmental and social policies, reduce support for fossil fuel and mining projects, increase support for energy efficiency and renewable energy technologies, oppose dam projects that don't conform to World Commission on Dams recommendations, promote responsible forest protection policy, including a ban on World Bank lending for large-scale commercial logging operations in primary and old growth forests, and advocate for biological or environmental pest control methods.
9. Target Gender Equality: The World Bank's own research demonstrates that societies with greater gender discrimination tend to experience more poverty, slower economic growth and inferior living standards than societies with greater gender equality. Today seventy percent of the world's poor are women, yet most Bank loan benefits accrue to men. The U.S. should

ensure that all Bank project and adjustment operations undertake gender analyses and target women as necessary to promote gender equality.

10. End Harmful User Fees for Primary Health and Education Services: User fees imposed for primary health care and primary school have led to reduced access to critical basic health services, with increases in illness and maternal and child deaths, and reduced school enrollments (especially for girls). At the same time such fees have provided relatively small increases in budgetary support, sometimes not even covering the cost of fee collection, as in the case of health clinic fees. Data from UNICEF, the World Bank itself and from the World Health Organization (WHO) show that exemptions intended to protect the poor have largely failed. The U.S. should oppose any Bank program that includes user fees for primary health or education services in poor countries.
11. Target HIV/AIDS: World Bank loan programs can actually end up exacerbating the devastating crisis of HIV/AIDS in borrowing countries by imposing prohibitive fees on the users of health services, increasing economic and social dislocation, and miring poor countries in unpayable debt. The Bank should measure the impacts of its loan programs on the incidence of HIV/AIDS and other infectious diseases, support bulk procurement of pharmaceuticals to treat these diseases, and finance its HIV/AIDS programs with grants instead of loans.
12. Do Not Increase the Cost of Basic Services for the Poor: The Bank often prescribes measures that remove subsidies for poor people and deny them access to basic services such as water, health, and education. The U.S. should oppose actions that seek to increase cost recovery from persons with incomes of less than \$2/day to finance basic public services in IDA countries.
13. Stop Undemocratic Reductions in Public Ownership: The U.S. should ensure that privatization transactions are conducted in a transparent manner and that policies and regulatory regimes are in place to protect workers and vulnerable groups of society.
14. End Undemocratic Trade and Investment Deregulation: The U.S. should vote against any loan, grant, document or strategy that promotes non-transparent trade and investment deregulation in a country with a democratically elected national legislature unless the legislature has approved the policy first.
15. Do Not Undermine Tobacco Control: Experience suggests that the opening of tobacco markets leads to an increase in smoking rates. The U.S. should oppose any Bank program that reduces the public ownership or government regulation of any tobacco enterprise.

The World Bank should be an effective global development institution. The Bank cannot achieve this status – and does not deserve increased public support – while it continues to mire developing countries in an inescapable cycle of debt, fails to systematically measure the full impacts of its programs either before or after implementation, invests money in projects which hurt the environment, workers, women, and the poor, and operates behind a veil of secrecy. Americans are willing to devote more resources to poverty alleviation initiatives around the world, but they must have faith that these funds will truly contribute to equitable, sustainable, and democratic development. The proposals in this report are designed to help the World Bank meet this important challenge.

# **THE WORLD BANK AND DEBT RELIEF FOR THE POOREST COUNTRIES**

The Episcopal Church, USA

Over the last several decades, many of the world's poorest countries were burdened with large international debts that eventually became unpayable. These countries diverted scarce internal resources from critical needs like health care, education and clean water to pay foreign debts, in some cases reaching 30 to 40 percent of their budgets, which became a serious impediment to poverty reduction and development.

In 1996, the World Bank, IMF and their member governments agreed to provide debt relief to approximately 40 of the world's poorest and most indebted nations. The Heavily Indebted Poor Country (HIPC) Initiative was designed to cancel some bilateral and multilateral debt for eligible countries in order to reduce their external debt burden to "sustainable" levels. After adopting IMF and World Bank supported economic and governance reform programs for three years, poor countries could receive relief from debt service payments. Then, if reforms continued, they would become eligible for cancellation of some debt stock. Under this 1996 plan, only seven countries qualified for debt relief with little or no money freed for poverty reduction and development.

Under the banner of Jubilee 2000, religious and nonprofit communities around the world raised concerns that crushing debt burdens continued to push the poorest countries deeper into poverty. Campaigns emerged in over 60 countries, and received support from high-profile advocates like rock star Bono, the Pope and Desmond Tutu. In response, the G-7 major industrialized countries, followed by the Boards of the World Bank and IMF, adopted the Enhanced HIPC Initiative in 1999. It was designed to provide deeper debt relief for more countries more quickly, and to more directly tie the provision of debt relief to country-led poverty reduction plans. The United States agreed to cancel 100 percent of its bilateral debts and has contributed \$785 million to the program over the last three years.

Under the program, more than \$1.3 billion is being released annually to the 26 countries that have qualified so far, directing badly needed resources from debt service to health, education and other development priorities. The World Bank reports that about 40 percent of the debt savings are being directed to education and 25 percent to health care. Nearly every HIPC is using a portion of debt relief to create or expand HIV/AIDS prevention and education programs. To illustrate, Tanzania and Uganda ended fees for grade school, and Benin ended fees in rural areas, giving millions of children the chance to go to school.

## **Problem**

While progress has been made, the Enhanced HIPC Initiative does not provide a credible guarantee that these countries will reach or maintain "debt sustainability," the purported objective of the program. The program relies on three assumptions that are highly optimistic and unlikely to hold. The program assumes that once HIPCs receive relief:

1. Their exports will grow at almost twice the rate as they did in the 1990s (terms of trade for these countries would need to improve at 0.5 percent per year, though they fell 0.7 percent per year in the 1990s).
2. They will borrow less (from 9.5 to 5.5 percent of GDP) and grants will double, although several HIPCs are borrowing at even higher than expected rates.

3. They won't suffer any exogenous shocks, such as commodity price collapses, drought, flood, or disease, although nearly all HIPCs have suffered from unexpected factors, usually requiring emergency borrowing.<sup>1</sup>

In addition, the Enhanced HIPC Initiative does not provide the resources countries need to invest in key development priorities. Prior to 1999, the 26 current HIPCs were paying \$3 billion each year in debt service to their international creditors. While they have seen their debt service payments drop by \$1 billion, they are left with nearly \$2 billion in annual debt service, with the World Bank and IMF as the two largest remaining creditors.

### **Proposed Reform**

The World Bank, IMF and creditor countries should immediately provide deeper and broader debt relief to impoverished countries. In pursuit of this objective, the international community should consider (a) canceling 100 percent of the debts owed to the World Bank and IMF by impoverished countries, or (b) reducing debt stock to a level so that the annual payments on an impoverished country's debt are not more than 10 percent of the amount of the country's annual revenues (or in the case of a country suffering a severe public health crisis, such as HIV/AIDS, not more than 5 percent of its budget). Such proposals would relieve an estimated additional \$700 million to \$1 billion of annual debt service beyond the current debt programs. In financing these objectives, priority should be given to using the international financial institutions' own resources.

As with current debt relief efforts, countries should not be eligible to receive relief if the government of that country has an excessive level of military spending, supports terrorism, is failing to cooperate in international narcotics control matters, or engages in gross violations of human rights. All savings from debt relief should be directed to country-led poverty reduction priorities, such as health, education, clean water and sustainable environmental policies.

Deeper debt relief should not be linked to agreement by the country to implement or comply with policies that deepen poverty or degrade the environment, such as user fees for basic education and health, cost recovery from poor people for basic public services (such as water), reductions in a country's minimum wage or labor rights, or the unsustainable extraction of natural resources.

### **Role of the United States in Achieving Reform**

The United States, with the leadership of the President and support from Congress, should lead this effort for deeper and broader debt relief among the G-7 and at the Boards of the World Bank and IMF. Such leadership is necessary to spark a new round of negotiations. The U.S. Congress should make its support of this initiative clear by authorizing and appropriating the necessary funds, if any, to cover the U.S. share of writing down multilateral debt (the U.S. has already cancelled 100 percent of its bilateral debt).

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<sup>1</sup> This is based on a new book, *Delivering on Debt Relief: From IMF Gold to a New Aid Architecture*, by Nancy Birdsall and John Williamson, published by the Center on Global Development and the Institute for International Economics.

## **THE WORLD BANK AND GRANTS VERSUS LOANS**

Oxfam America

Providing the world's poorest countries with grants instead of loans from the World Bank's International Development Association (IDA) will help countries to reach sustainable debt positions in the long run. A move to 50 percent grants must be accompanied by a 1.5 percent annual increase in allocations from donor countries in order to maintain IDA's level of resources.

### **Problem**

Just as debt relief initiatives begin to reduce the unsustainable debt burdens of the Heavily Indebted Poor Countries (HIPCs), the countries are incurring new debts for education, health care and other purposes. Funding freed up by the debt forgiveness process is typically in the form of new loans which will need to be repaid after the initial grace periods, e.g. in ten years for IDA loans. If these loans are allowed to accumulate, they will, over time, again become unsustainable. Unless the international financial institutions and the developed countries are able to reduce the rate of increasing indebtedness, these countries will soon return to a situation of unsustainable debt. This situation could result in as little as ten years, according to the U.S. General Accounting Office (GAO).

At present, IDA loans are 65 percent de facto grants because of the impact of inflation over the 40-year repayment period. Currently, reflows from past loans account for about one third of IDA's resources each year. Using this as a guide, in the long term a move to 50 percent grants would mean a drop in resources of about 17.5 percent (over 40 years with the decrease beginning ten years after the move to grants). It will require an increase of approximately 1.5 percent per year above basic replenishments to maintain IDA's resources.

The U.S. has pledged to increase its current \$803 million IDA contribution to \$850 million in the first year. Subject to improved performance and effectiveness, in fiscal year 2004, U.S. funding for IDA would increase to \$950 million and to \$1,050 million in the final year of the IDA replenishment cycle. This constitutes an 18 percent annual increase over current levels.

### **Proposed Reform**

We support a move to 50 percent grants as long as the funding stream for IDA is secured, and as long as grants are used for pro-poor expenditures. Grants should support key basic services, especially for the very poorest countries, HIPCs, and countries emerging from conflict.

A move to grants must be matched with a 1.5 percent annual increase to cover the diminution of resources over time. This increase should begin in fiscal year 2003. We support the U.S. Administration's commitment to increase its contribution to IDA by 18 percent; however an increase of 40 million over the next three years will be needed to cover the cost of increased grants.

However, governments should also focus on the key issue: providing sufficient aid and debt relief to enable poor countries to reach the Millennium Goals. The United States and all OECD governments should commit to a significant increase in their aid budgets by 2007.

**Role of the United States in Achieving Reform**

The United States should pledge to increase its planned contribution to IDA-13 by an additional 1.5 percent each year of the three-year replenishment period to cover the anticipated cost of converting from grants to loans.

The United States should ensure that grants are used for pro-poor expenditures to support key basic services (particularly education and health), for the very poorest countries, HIPC's, and for countries emerging from conflict.

# WORLD BANK INFORMATION DISCLOSURE AND TRANSPARENCY

## Bank Information Center

The World Bank acknowledges that transparency and accountability are critical dimensions of development effectiveness.<sup>2</sup> Transparency is a central tenant of good governance—a key World Bank policy reform expected of borrowing countries. Access to timely information allows communities to participate in the design and implementation of projects and policies. But despite the importance of transparency for participatory and effective development, the Bank's own disclosure practices and decision-making processes are characterized by a continued lack of openness: key documents remain confidential or are released only after commitments have been made, and the proceedings of its Board of Directors are secret.

### Problem

Development effectiveness is enhanced by informed public debate. Development decisions undertaken without full information often fail in implementation in part because goals are not well understood or fully agreed upon. Country ownership of the development process is not served if communities and their legislative representatives have no access to draft documents. Civil society groups have long pushed for recognition of these fundamental principles of development in Bank operations.

The World Bank issued its first disclosure directive in 1985. Civil society and U.S. Congressional pressure during the IDA-10 replenishment (1993) led to a revised policy and to even greater amounts of disclosed information. However, documents central to the Bank's core operations—project and especially adjustment lending—have remained beyond public reach. Civil society groups in the North and South have called for the release of *draft* lending documents, arguing that “disclosure after a decision has been made does not foster ownership.... Meaningful ‘participation’ requires access to documents while they are still relevant to the ‘deliberative process’....”<sup>3</sup> The U.S. Treasury Department has pushed for greater disclosure, and G-7 countries have called on the Bank to “adopt a more open policy on information disclosure by making *draft* and final key policy and strategy documents available to the public.”<sup>4</sup> On January 1, 2002, a revised World Bank Disclosure Policy entered into force.<sup>5</sup> While the new policy improves certain practices, it falls far short of giving clear policy expression to the Bank's laudable rhetoric of “participatory development.” The policy:

- rejected G-7 calls for the release of *draft* versions of the Bank's core business plan for borrowing countries although the public is being asked to participate in that document's preparation.<sup>6</sup> The Bank refused even to match the disclosure standards of the regional development banks which release their equivalent documents, irrespective of income level (the Bank only requires disclosure for its poorest borrowers).

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<sup>2</sup> Transparency and accountability are part of the rating criteria the Bank employs to determine overall lending allocations to borrowers. Bank management in turn does not disclose the ratings, not even to the Board.

<sup>3</sup> Letter from over 500 civil society organizations to World Bank calling for further steps in disclosure policy, April 26, 2001, located at <http://www.bicusa.org/mdbs/wbg/info.htm>.

<sup>4</sup> G-7 Finance Ministers statement, Rome, Italy, July 7, 2001, located at <http://www.g7.utoronto.ca/g7/finance/fm010707.htm>. (Emphasis added.)

<sup>5</sup> Ironically, the World Bank has yet (as of 4/12/02) to disclose its new information disclosure policy. It has only released a matrix that outlines, with little detail, changes in disclosure requirements, available at [http://www.worldbank.org/infoshop/disclosure/Documents/DisclosureMatrix9\\_07\\_01.pdf](http://www.worldbank.org/infoshop/disclosure/Documents/DisclosureMatrix9_07_01.pdf).

<sup>6</sup> The Country Assistance Strategy (CAS) is the Bank's three-year business plan for each country that identifies priorities, levels of support, and “trigger” conditions for lending scenarios.

- refused to require the disclosure of Bank-generated key structural adjustment lending documents, let alone drafts.<sup>7</sup>
- denied the release of *any* of the key documents produced during project implementation, effectively shutting out communities although they are increasingly involved in project implementation.<sup>8</sup>
- rebuffed calls to open Board proceedings to the public and the media and to provide minutes and transcripts.<sup>9</sup> As a result, citizens are unable to determine what issues are being promoted on a day-to-day basis, or if positions taken are consistent with existing statutes. Further the Bank refuses to disclose most core Board discussion documents prior to decision making,<sup>10</sup> a practice followed by the Development Committee, the Global Environment Facility Council, and to an extent, the IDA-13 Deputies.

### **Proposed Reform**

The Bank has stated that country ownership and local empowerment are critical dimensions of poverty reduction. Without greater transparency and disclosure, those goals will remain unattainable and the Bank's own "democratic deficit" will continue. The publicly funded World Bank needs to open its decision-making processes to public scrutiny and to make core information available before decisions are finalized.

### **Role of the United States in Achieving Reform**

With IDA reauthorization, the U.S. Congress has the opportunity to advance greater transparency measures at the World Bank and at other international financial institutions. Congress should direct the Treasury Department to work toward ensuring that (1) meetings of the Board of Directors are open to the public and media, (2) transcripts of these meetings are made publicly available, and (3) all key documents are released prior to board consideration. Furthermore, the Treasury Department should set an example of greater transparency by posting the Board remarks of the U.S. Executive Director on Treasury's website.

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<sup>7</sup> Documents for Poverty Reduction Support Credits (PRSCs) are an exception, for which disclosure is presumed.

<sup>8</sup> The Bank did announce its intention to conduct "Targeted Learning Pilots"—voluntary agreements with 10 to 20 individual borrowers to implement disclosure standards beyond requirements of the new policy.

<sup>9</sup> Under the new policy, the Board will disclose for the first time an overview of its work program and monthly updates of its schedule. Brief summaries will be provided for a limited number of discussions. According to an internal Bank document, one director even objected to disclosure of the work program as he "felt this would invite external actors to become involved in the issues discussed by the Board." "Summary of Discussion at the Joint Meeting of the Executive Directors of the Bank and the Boards of Directors of IFC and MIGA, July 31, 2001."

<sup>10</sup> Except for PRSPs (final and interim), which are disclosed after Board distribution but prior to Board discussion.

## **THE WORLD BANK AND STRUCTURAL ADJUSTMENT LENDING: THE NEED FOR SOCIAL AND ENVIRONMENTAL IMPACT ASSESSMENTS**

Friends of the Earth and RESULTS

In addition to financing individual development projects, the World Bank also provides budget support to borrowing countries. This adjustment and policy-based lending, often referred to broadly as structural adjustment lending (SAL), involves large volumes of fast-disbursing loans, and includes a broad array of economic policy reforms as loan conditions. Adjustment loans comprise a significant share of the Bank's overall lending; in 2001, adjustment loans accounted for approximately a third of the institution's public sector lending portfolio. These loans have far-reaching impacts on the environment, public health, education, and social services, yet are exempt from the environmental and social policies that govern the Bank's project loans.<sup>11</sup>

### **Problem**

Structural adjustment loans come with strings attached. These strings or conditionalities often require borrowing countries to implement sweeping macroeconomic and sectoral changes, and are characterized by rapid deregulation of national economies, substantial reductions in public spending, including social services, and tight-money policies that make borrowing for small businesses and farmers difficult, if not impossible, to access. These conditions have severe environmental and social impacts.

A World Bank review of structural adjustment found that adjustment policies in several countries negatively affected investment, which is crucial to growth and poverty alleviation. Adjustment policies in the agricultural sector unleashed market forces that hurt the livelihoods of many small farmers and increased their debts. Female workers were especially hurt by public-sector downsizing.<sup>12</sup>

Another World Bank study on the impacts of its structural adjustment lending showed that in several African nations, increased production of exportable crops resulted in deforestation of critical forest areas.<sup>13</sup> In Cameroon, a study linked adjustment-related budget cuts, such as cuts in the forest service, to environmental impacts including encroachment by poor farmers onto ecologically sensitive land and rampant logging.<sup>14</sup>

In a leaked internal study<sup>15</sup>, the World Bank admitted that it rarely considered the environmental impact of its structural adjustment lending. Of the 54 loans the study reviewed, only nine made any reference to the environment. Environmental assessments are not required for these loans, and they are rarely performed. Social impacts are barely reviewed, in spite of widespread recognition of adjustment lending's negative impacts on a variety of social groups. According to the study, "the majority of loans do not address poverty directly, the likely economic impact of proposed operations on the poor, or ways to mitigate negative effects of reform." The report concluded that there is a "disconnect between Bank policy and practice" in adjustment lending.

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<sup>11</sup> In March 2000, the Bank amended its environmental assessment policy to apply to sectoral adjustment loans. Structural adjustment loans, however, remain exempt.

<sup>12</sup> *Adjustment From Within: Lessons from the Structural Adjustment Participatory Review Initiative*, World Bank, July 2001.

<sup>13</sup> *Social and Environmental Aspects: A Desk Review of SECALs and SALs Approved during FY98 and FY99*. 1999. World Bank/Division of Environmentally and Socially Sustainable Development: Washington, DC.

<sup>14</sup> Reed, D. 1996. *Structural Adjustment, the Environment, and Sustainable Development*. London: Earthscan Publications Ltd.

<sup>15</sup> *IBID 1999*

While the Bank has a series of environmental and social policies that guide its project lending, structural adjustment loans are exempt from this oversight. The absence of environmental and social assessment policies and procedures for structural adjustment lending creates a large loophole for the World Bank. The Bank is able to push large sums of money out the door without examining the potential impacts of the associated loan conditions, or considering alternative options that would better protect the environment, communities, workers and the poor. While the Bank has made half-hearted attempts to close the policy gap, more progress is needed. For example, last year the World Bank and IMF announced a pilot program to conduct poverty and social impact analyses in twelve countries. But this program is plagued by lengthy delays and has failed to move from concept papers to operations on the ground.

### **Proposed Reform**

The World Bank should adopt a policy to assess the environmental and social impacts of all Bank lending, including adjustment lending. These assessments should be conducted prior to loan approval, with the input of relevant stakeholders, and should be released to the public. Such assessments would help enable the Bank and borrowing governments to consider the impacts of major policy changes on vulnerable groups such as the poor, rural communities, workers, and the environment. They would also encourage greater public participation in and oversight of the adoption of economic policies that have major impacts on a country's economy and society. The outcome would be better policies that deliver improvements to the country's economy and people's livelihoods, greater ownership of economic programs, and more accountability on the part of the Bank and borrowing government for the impacts of programs.

World Bank President James Wolfensohn committed to make poverty and social impact analysis part of the institution's adjustment loans in the near term. Congress should request that the World Bank management and the Board of Directors act to adopt this policy.

### **Role of the United States in Achieving Reform**

As the largest voting member, the U.S. has significant influence at the World Bank and other International Financial Institutions. The U.S. Congress has played a positive role in the past in influencing a U.S. policy agenda that has promoted increased transparency and accountability. For example, the U.S. Congress was instrumental in pushing the U.S. government to seek, and achieve, environmental impact assessments for Bank project lending. This year's IDA-13 reauthorization offers Congress an opportunity to achieve greater World Bank reform.

Through IDA authorization, Congress should direct the Treasury Department to press the World Bank to establish a policy for social and environmental assessment of structural adjustment and other types of non-project lending. In addition, U.S. policy at the World Bank should be to oppose any structural adjustment loan that is not influenced by an ex ante, public environmental and social assessment.

## **THE WORLD BANK AND THE POVERTY REDUCTION STRATEGY PAPER (PRSP)**

Oxfam America and Friends of the Earth

In late 1999, the World Bank and the International Monetary Fund (IMF) announced that all countries receiving concessional loans would be required to develop country-owned national strategies for reducing poverty. Preparation of such strategies is a precondition for debt relief under the enhanced Heavily Indebted Poor Countries (HIPC) initiative, hence HIPC countries have been among the first to prepare such strategies. However, the total number of countries required to prepare the strategies is almost double the original 41 HIPC countries. These poverty reduction strategy papers (PRSPs) are supposed to be developed as part of a comprehensive transparent and participatory process that sets a country's development strategy and forms the development benchmarks which international financial institution (IFI) and donor lending supports.

### **Problem**

While the PRSP approach has increased civil society-government dialogue, more needs to be done if the PRSP process is to live up to its promise rather than result in disappointment and cynicism. For example, Bank and Fund staffs have repeatedly stated that governments are free to develop their own economic policy in the PRSP process (although the Boards reserve the right to refuse their support to PRSPs they do not approve of). However, the economic policy packages contained in PRSPs show no departure from adjustment programs previously prescribed by the Bank and Fund as conditionality in concessional lending and grants. More must be done to open the economic policy debate. The country as a whole must be able to debate policy *choices* if ownership is ever to be a reality. Some civil society groups have initially supported the PRSP approach in large part because it has been seen as an opportunity to open debate around structural adjustment. But this support will erode without significant progress in this area and a demonstration of space for countries to establish country-owned poverty reduction strategies. Further eroding civil society support is a lack of progress on moving toward a process of ex ante impact assessment, which has been identified by civil society and others as an essential component of poverty reduction strategies and the programs that support them.

While the PRSP process has provided some new opportunities for participation between civil society and government, the quality and breadth of participation could be substantially improved in all cases. Many critical stakeholders have been excluded from the PRSP process, making the multi-stakeholder process an aspiration rather than a reality. Civil society groups have also been critical of PRSPs that go to the Boards of the World Bank and IMF that do not reflect civil society inputs made during the PRSP process. It appears that PRSPs are being written with Bank and IMF approval in mind with civil society input being substantially ignored. If this continues, civil society will stop participating in the PRSP process.

Governments have also been critical that donors have failed to coordinate their lending procedures, which was supposed to be a feature of the PRSP. Adjustment programs have set prior benchmarks that the government must fulfill. Furthermore, desperately needed debt relief is conditioned on at least an interim PRSP, creating an additional hurdle that often overburdened and under-resourced countries must jump through.

**Proposed Reform**

The PRSP must be reformed so that it lives up to its promise as a country-owned, participatory document that sets a country's individual development path. Among the reforms needed, the PRSP must enable broad, informed, and timely participation by civil society in the design, implementation, monitoring, and evaluation of all components of the PRSPs. Technical assistance should be provided to civil society and governments, including parliamentarians, to enhance participation and accountability. IDA Directors should track the extent to which civil society views have been incorporated in PRSPs and require countries to list the civil society recommendations and reasons for not including them.

World Bank officials should take steps to ensure that IDA and other lending programs conform to the country's priorities as set out in the PRSP by stating how loan and grant agreements support the goals and strategies set out in the PRSP. Policy-based loans and grants must conform to the PRSP, with revision as necessary for policies that contradict the PRSP. Loan and grant negotiations should be subject to transparent and democratic procedures, including public disclosure of complete information and public reviews of proposed loans and grants.

To mobilize debt relief more quickly, the PRSP must be delinked from the HIPC initiative. HIPC debt relief should be subject only to the establishment of mechanisms that ensure the budgetary savings from HIPC debt relief are spent on poverty reduction needs, and the establishment of a plan for civil society participation in PRSP preparation.

After two years of PRSP implementation, Bank and IMF staffs conducted a review of the PRSP process. We encourage the Boards of both institutions to implement the above recommendations as part of the review process. The U.S. government should also make adoption of the above recommendations a priority.

**Role of the United States in Achieving Reform**

As the largest voting member of the World Bank and the largest IDA donor, the U.S. government has a strong role to play in pushing for the PRSP to live up to its billing. The U.S. Congress has taken action in the past two years to mobilize U.S. government support for reducing impoverished countries' debt burdens. Congress can again play a key role in ensuring that this debt relief is mobilized quickly to needy countries and that citizens have a say in determining how debt relief money is spent. Congress should work through the IDA-13 authorization and appropriation process to delink HIPC debt relief from the PRSP; increase genuine civil society participation at all stages of the PRSP process; and ensure coherence between the PRSP and donor lending by increasing the public disclosure, debate, and review of policies attached to IFI lending.

## **THE NEED FOR INCREASED MONITORING AND EVALUATION OF WORLD BANK LOANS RESULTS**

Despite recent improvements, the World Bank has not been adequately monitoring and evaluating the impacts of its health and education sector reform loans; it has often used insufficient levels of monitoring and inappropriate indicators. Reform programs have often failed to improve and have sometimes worsened health outcomes, yet such impacts have not been monitored. For many years, few actual health outcomes were used as monitoring & evaluation (M&E) indicators for assessing the success of health and education sector reform loans. The “success” of many projects had long been based on the implementation of administrative or bureaucratic reforms.

### **Problem**

The M&E of many World Bank health and education sector reform loans continue to primarily measure improvements in legalistic, accounting or other managerial and administrative reforms within the bureaucracies of the local and national health and education ministries. As a result actual outcomes of the policy reforms, such as immunization rates and under-5 child mortality and maternal mortality rates, have been neglected. For example, in the cases of World Bank health sector reform loans to Zambia and Uganda in the 1990s, the reforms resulted in significant drops in child immunization rates, and in the case of Zambia, the reforms precipitated a near dismantling of the national Tuberculosis immunization program. Yet these factors were not monitored nor were they part of the formal loan evaluations.

Within more recent World Bank health sector reform loans, there has been a noticeable increase in the variety and number of important health outcome indicators that are included among the monitoring & evaluation (M&E) criteria for the loans. However, it remains to be seen if the new M&E indicators will actually be implemented in practice.

Despite the increase of important health outcomes among the formal M&E indicators in some World Bank loans, there continue to be two important problems with the World Bank’s use of M&E indicators: the quality & frequency of M&E indicators, and a lack of sufficient funding for comprehensive tracking of M&E indicators.

The World Bank’s internal watchdog group, the Operations Evaluation Department (OED), has confirmed a marked increase in the number of health outcomes among the M&E indicators for health sector reform loans and projects. However, OED expressed a continuing concern over the quality and frequency of the data used in assessing these M&E indicators. One of the biggest concerns in this regard is the problem that current M&E assessments are compiled using field data from a number of different sources (government, NGO, international NGO, UN) with varying degrees of frequency and a considerable lack of uniformity. If loans had better and earlier tracking of results, donors could be better informed about where policy reforms are working properly, and more quickly alerted to problems where they have failed.

OED and Bank staff have noted that the lack of sufficient funding or domestic administrative capacity for fully tracking all the M&E indicators has been a major problem undermining both the quantity and quality of previous M&E efforts. Although the presence of increased health outcomes as part of the M&E indicators is a welcome sign, these will mean little in terms of

effective monitoring and evaluation if loans and projects do not include sufficient funding for gathering initial baseline data and/or tracking throughout the timeframe of the loan or project.

### **Proposed Reform**

Standard M&E indicators must be made more uniform and comprehensive; and more timely tracking must be conducted in accordance with the beginning, middle and end of project and loan cycles. Secretary of Treasury Paul O'Neill has suggested that loans should be continued based on measurable progress and results. For World Bank health sector loans or projects, a "success" ought to include measurable improvements in these indicators as a result of the loan or grant: immunization rates, percentage of underweight under 5-year olds, percentage vitamin A supplementation coverage, percentage coverage of DOTS TB treatment, percentage supervised deliveries, infant and under-5 child mortality and maternal mortality, net primary school enrollment, ratio of girls to boys in primary school and grade 4 completion rates.

Furthermore, full funding for comprehensive M&E in all World Bank loans must be significantly increased. If the U.S. and the World Bank are serious about getting improved results from foreign aid, then they must back-up this commitment by building-in sufficient funding for extensive and comprehensive tracking of M&E indicators throughout the beginning, middle and end of loan cycles. Such full funding would indicate the political will to meaningfully address this problem.

### **Role of the United States in Achieving Reform**

The U.S. government should ensure that the World Bank is held more accountable for the results of the health and education programs it finances. Through IDA authorization, Congress should ensure that all health or education loans or sectoral reform programs include measurement of specific baseline health and education indicators, projected measurable improvements in these indicators as a result of the loan or grant, and mandatory public reporting of these indicators.

## **THE WORLD BANK AND WORKERS' RIGHTS**

American Federation of Labor and Congress of Industrial Organizations (AFL-CIO)

The international community has endorsed the core labor standards as fundamental building blocks of equitable, democratic, and sustainable development. The International Labor Organization (ILO) defines core labor standards to include freedom of association and the right to organize and bargain collectively, the elimination of child labor and forced labor, and a prohibition on discrimination in employment. Research has shown that countries that respect the core labor standards tend to have higher economic growth, more equitable distribution of income, and stronger democratic institutions. These core worker rights are qualitative, human rights principles – not quantitative minimum standards – that countries are obliged to respect regardless of their level of development. According to the UN Summit on Social Development, international economic institutions are also supposed to play a positive role in promoting compliance with these standards.

### **Problem**

Despite this broad recognition of the importance of core workers' rights, the World Bank has no systematic way to measure the impacts its programs have on these rights. Many World Bank loans require countries to weaken their domestic labor and employment laws, privatize public enterprises and downsize the civil service, privatize the pension system, and freeze or reduce wages. Yet the World Bank has no screening mechanism or safeguard policies to ensure that these loans do not facilitate the violation of core workers' rights in borrowing countries. Failure to guarantee these rights leads to the poor performance of, and political opposition to, Bank programs in borrowing countries. Weakening of worker rights also contributes to the high inequality and unemployment that results from many Bank programs.

World Bank labor law reform programs, often designed to promote “labor market flexibility”, can undermine workers' rights in a variety of ways. Some programs require governments to decentralize their collective bargaining systems so that workers are only able to bargain at the enterprise level rather than at the company or industry level.<sup>16</sup> This was a central piece of Argentina's adjustment program, even though many Argentine trade unionists argued that such decentralization would effectively leave many workers unable to exercise their right to bargain collectively. The ILO requires governments to take measures to “encourage and promote the full development and utilization of machinery” for collective bargaining, and recommends that these measures make collective bargaining possible “at any level whatsoever,” including at the industrial, regional, or national level.<sup>17</sup> World Bank loan conditions fly directly in the face of these ILO standards, by dismantling the centralized machinery necessary to fully promote bargaining for all workers, and by restricting the level at which bargaining may take place.

World Bank labor market flexibility reforms can also give employers new freedoms to practice anti-union discrimination by reducing restrictions on the employers' right to fire employees. In some cases, labor market flexibility reforms also undermine workers' rights by creating more freedom for employers to hire part-time, temporary, and contract work – even where these

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<sup>16</sup> Very little information about these programs is public, since they are often part of adjustment loans, which are subject to the least information disclosure under World Bank policies. Some of the examples in this piece draw on IMF loan documents, which sometimes reference the World Bank as the implementing agency for structural measures such as labor law reform.

<sup>17</sup> See ILO Right to Organize and Collective Bargaining Convention No. 98 (a core convention of the ILO that all ILO members are obliged to respect) and ILO Collective Bargaining Recommendation No. 163.

workers are legally denied the right to organize and bargain collectively under domestic law. For example, Ecuador promised as part of its adjustment program to create new categories of temporary contract workers and part-time workers, and to create longer probation periods for workers. Ecuadorean trade unionists report that employers use this new flexibility to circumvent existing collective bargaining agreements through individual temporary and part-time contracts.

World Bank privatization programs also lack a consistent mechanism for ensuring that workers' rights are respected. Many public enterprises are unionized in borrowing countries, and yet World Bank loans that require a fixed number of enterprises to be privatized by a date certain do not regularly contain guarantees that this process will be conducted in consultation with affected unions, that collective bargaining agreements will be respected, and that newly created private entities will fully respect workers' rights and not interfere with union organization. As a result, mass privatizations in countries like Russia by-passed established worker representatives. This not only violates workers' right to bargain over their conditions of employment and resulted in massive layoffs, but it also led to fire sales of public assets with little or no public oversight – oversight that an independent union could have helped provide – and thus created opportunities for unbridled corruption and theft of public assets.

### **Proposed Reform**

The World Bank must create a screening mechanism for all of its lending to ensure that loan conditions do not undermine core worker rights. The Bank should also assess the impacts their loans will have on employment, wages, and income inequality in order to eliminate any negative impacts identified and ensure that adjustment measures truly contribute to broad-based economic development. Enforceable safeguard policies for workers' rights will ensure that workers whose rights have been violated can complain to the Bank's inspection panel. Closer cooperation with the ILO and with trade unions on the ground can help the Bank keep track of the impact its programs are having on workers' rights. Trade unions must be able to participate meaningfully in World Bank programs, and can only do so if full information about Bank lending is available to the public under vastly improved disclosure procedures.

### **Role of the United States in Achieving Reform**

The U.S. representative to the World Bank is already required under U.S. law to use her voice and vote to ensure that World Bank policies do not have a negative impact on workers' rights, to press for the World Bank to create a screening mechanism for its loans, and to press for closer cooperation with the ILO. While U.S. advocacy at the World Bank has had some positive results, much more can be done. The Treasury Department is required to report to Congress each year on its advocacy of workers' rights at the World Bank. No report was made for 2001, but previous reports made claims of U.S. advocacy that were difficult or impossible to independently verify, both because Bank Board records are secret and because few tangible results in the content of Bank lending and policies were evident. No real progress has been made on a screening mechanism for loans, and cooperation with the ILO is still not a routine part of Bank programs affecting labor. The U.S. should use the IDA replenishment process to require the Bank to adopt enforceable and comprehensive policies to protect core workers' rights. As IDA is approved, the Treasury Department must be made a stronger advocate for workers' rights, and should consistently and forcefully oppose any Bank program that threatens to undermine these fundamental human rights.

## THE WORLD BANK AND FOREST PROTECTION

### Environmental Defense

The World Bank has acknowledged the links between environmental sustainability and poverty alleviation for many years. However, the institution's own Operations Evaluation Department (OED) documents how the World Bank has failed to successfully mainstream environmental issues throughout its operations.<sup>18</sup> Environmental concerns have been relegated to the World Bank's safeguard policies, which aim to mitigate or prevent the negative environmental and social impacts of Bank operations. While these policies are far from perfect, they provide some important protections for the environment and vulnerable groups to which the Bank can be held accountable.

Several of these safeguard policies, including the 1991 Forest Policy, are currently undergoing revision and some policies have been weakened in the process. For example, the cornerstones of the World Bank's Forest Policy are its cross-sectoral approach (i.e., the policy applies to all Bank activities with potential impacts on forests) and a ban on direct Bank support for logging in primary tropical moist forests. In May, the Bank is scheduled to release a new draft policy that may substantially weaken or even eliminate these two critical provisions, and its Board of Directors is scheduled to approve the policy in June.

#### **Problem**

As it revises its Forest Policy, the World Bank is preparing to lift a ban on direct support for logging in primary tropical moist forests. There is little evidence that large-scale commercial logging can be conducted in primary forests in an environmentally sustainable manner and deliver development benefits to local people. Removing this ban would potentially open the floodgates for World Bank financing of large-scale unsustainable logging operations in some of the world's most biodiversity-rich forests. Given the Bank's history of poor environmental performance and weak safeguard policy compliance, as documented by the OED, the social and environmental risks of World Bank lending for logging in primary and old growth forests are significant.<sup>19</sup> A simple and clear safeguard policy is needed that provides unambiguous guidance to World Bank staff and prevents World Bank funding from becoming a catalyst for unsustainable large-scale logging.

An OED review of the implementation of the Bank's existing Forest Policy argues for rigorous implementation of a multisectoral approach to forests: "the Bank Group should ensure that forest concerns receive due consideration in all relevant sectors."<sup>20</sup> The review highlights that the most serious threats to forests are outside of the forest sector. For example, agriculture, infrastructure, and extractive industry projects are major drivers of deforestation. However, it is not clear that the revised Forest Policy will maintain the cross-sectoral focus and apply to Bank operations in these other sectors.

Corruption, trade liberalization, devaluation, and globalization also place significant pressure on forests, especially in countries where governance is weak.<sup>21</sup> Structural adjustment lending, which constitutes approximately 30 percent of the Bank's lending portfolio, includes loan conditions such

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<sup>18</sup> Operations Evaluation Department. *OED Review of the Bank's Performance on the Environment*. OED, World Bank: Washington, DC, 2001.

<sup>19</sup> *Ibid*

<sup>20</sup> Operations Evaluation Department. *A Review of the World Bank's 1991 Forest Strategy and Its Implementation*. OED, World Bank: Washington, DC, 2000.

<sup>21</sup> *Ibid*

as privatization and trade and investment liberalization that often promote these forest pressures. However, despite the findings of the Bank's OED report, the revised Forest Policy may not apply to structural adjustment lending. Exempting structural adjustment from the purview of the Bank's Forest Policy ignores important causes of deforestation and fails to hold the Bank accountable for the impacts of these macroeconomic reform conditions on the forest sector.

### **Proposed Reform**

In light of the Bank's poor record of compliance with its safeguard policies, the revision and weakening of the existing safeguard policy framework, and the institution's checkered history in environmentally sensitive sectors, the revised World Bank Forest Policy should explicitly cover all Bank operations that impact forests, including structural adjustment lending, and prohibit the financing of large-scale commercial logging operations in primary or old growth forests. A clear delineation of areas off-limits to World Bank financing for commercial logging is necessary to guard against individual interpretation by Bank staff and promote sound policy implementation.

The World Bank has an important role to play in the forest sector by encouraging policy reform, building institutional capacity, working to combat illegal logging, and addressing the driving forces of deforestation that are outside the sector, such as unsustainable trade, debt, and corruption. The Bank should provide support for community forestry and small-scale pilot projects to demonstrate how logging can be conducted in an environmentally sustainable, socially responsible manner. Finally, as called for in the accompanying Forest Strategy, the World Bank Forest Policy should outline clear standards and mechanisms to ensure local stakeholder participation and secure land tenure for forest peoples.

### **Role of the United States in Achieving Reform**

The Treasury Department and the U.S. Executive Director to the World Bank have an opportunity to oppose any revised World Bank Forest Policy that does not mandate a cross-sectoral approach to forests and prohibit support for large-scale commercial logging operations in primary or old growth forests. Furthermore, through IDA reauthorization and appropriation, Congress should ensure that the World Bank and other international financial institution investments support responsible forest protection policy: promoting the appropriate policy conditions to ensure sustainable forest management, protecting the rights of forest inhabitants in borrowing countries, prohibiting financial support for large-scale commercial logging or agricultural or industrial development in primary or old growth forests, and increasing support for biodiversity conservation in close collaboration with local communities.

# THE WORLD BANK AND FOSSIL FUELS AND MINING

Friends of the Earth

The World Bank invests over one billion dollars on average each year in fossil fuel and mining projects around the globe. Much of this support comes from the Bank's private sector arms and provides direct finance and insurance to corporations for their projects abroad. As part of the World Bank's development mission, these projects are supposed to deliver energy services, spark economic growth and increase incomes while protecting the environment. However, fossil fuel and mining investments frequently and irreparably harm to the environment, pollute communities and exacerbate climate change. Worse yet, these projects often fail to alleviate poverty—the central mission of the World Bank.

## Problem

Fossil fuel and mining projects often result in environmental degradation and according to more and more development experts, fail to raise incomes of the poor. Instead, these investments expose developing nations to higher rates of corruption, authoritarian governance, civil strife, human rights abuses, and environmental degradation. Yet the World Bank and other international financial institutions (IFIs) are using their limited development dollars to fund more of these projects, rather than catalyzing investments in truly sustainable projects, such as renewable energy and energy efficiency. Among the problems of World Bank fossil fuel and mining involvement are:

### *Environmental Impacts*

- **Polluted Communities.** Oil, gas and mining operations are significant sources of toxic pollution, even in wealthier nations that have relatively strong environmental standards. In poor countries with weaker standards and lax enforcement, the risk of spill, emissions, and contamination increases, while the capacity to mitigate these risks falls.
- **Ecosystem Destruction and Biodiversity Loss.** Because the most accessible deposits are likely to have already been exploited, new fossil fuel and mining projects are often in relatively unspoiled ecosystems, such as frontier forests. These extractive projects cause a disproportionate amount of deforestation and harmful impacts to sensitive, biologically rich ecosystems.
- **Global Climate Change.** Fossil fuel use is the primary cause of carbon dioxide emissions, the leading contributor to global warming.

### *Social Impacts*

- **Lower Economic Growth.** Economists such as Jeffrey Sachs have found that countries that rely heavily on fossil fuel and mineral extraction tend to suffer unusually low rates of economic growth.<sup>22</sup> By hampering growth, this “resource curse” can frustrate poverty alleviation.
- **Lower Standards of Living.** Countries whose economies rely heavily on the extractive industries under-perform relative to countries with more diverse economies on a range of human development indicators, including child mortality, child nutrition, life expectancy, and education and literacy rates.<sup>23</sup>

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<sup>22</sup> Jeffrey D. Sachs and Andrew M. Warner, *Natural Resource Abundance and Economic Growth*, Development Discussion Paper no. 517a. Cambridge: Harvard Institute for International Development (1995); See also, Terry Lynn Karl, *The Paradox of Plenty: Oil Booms and Petro-States*. Berkeley: University of California Press (1997); Michael L. Ross, *The Political Economy of the Resource Curse*, 51 *World Politics* 297 (1999).

<sup>23</sup> Oxfam America, *Extractive Sectors and the Poor* (2001).

- **Economic Benefits Limited to Enclaves.** Because extractive industries tend to employ only a small number of highly skilled (often foreign) workers, the income they generate tends not to be diffused throughout the economy. Rather, these projects raise incomes only among elites or in geographic enclaves near the project.
- **Increased Authoritarianism and Corruption.** The World Bank's own researchers have found oil and mineral dependence tends to make a country less democratic and more corrupt. Resource rich governments often use resource revenues to dampen democratic pressures through patronage and to finance internal security apparatus to stifle political dissent. Additionally, it has been shown that extractive industry developments do not tend to catalyze the kinds of social and cultural changes, such as increased educational levels, that produce a more democratic government.<sup>24</sup>
- **Increased Risk of Civil War.** Competition for resource revenue has been shown to cause, exacerbate and prolong armed civil unrest.<sup>25</sup>
- **Poor and Indigenous Communities Bear Disproportionate Costs.** The environmental and social upheaval that accompanies oil, gas, and mining projects falls most heavily on the poor. The poor are most likely to be forced off their lands by these projects, and to endure the environmental and health risks of these projects. At the same time, they are the least empowered to demand fair compensation or a share in the revenue. These impacts are even worse for indigenous communities, who suffer losses of population, territories, livelihoods and cultural identity.

### **Proposed Reform**

The World Bank and other IFIs must carefully examine these environmental and social failures of fossil fuel and mining projects. The institutions should shift their lending portfolios away from these investments towards renewable energy projects and projects designed to deliver energy services and poverty alleviation benefits to the world's two billion poor. In the interim, the World Bank and other IFIs should develop and implement project selection criteria that will screen out fossil fuel and mining projects that are likely to have the worst social or environmental impacts. And these institutions must ensure that extractive industry projects comply with their environmental and social safeguard policies during project design and implementation.

### **Role of the United States in Achieving Reform**

Through previous IDA authorizations and appropriations, the U.S. Congress has played a leading role in urging the World Bank to establish environmental safeguards for its projects. Congress can take an extra step this year to push the Bank to fully implement its policies and to shift its lending portfolio towards more clearly beneficial projects for the world's poor and the environment. The United States' World Bank representative should lead efforts to gradually reduce the amount of loans approved for fossil fuel projects and increase those approved for renewable energy and energy efficiency projects.

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<sup>24</sup> Michael L. Ross, *Does Resource Wealth Cause Authoritarian Rule?* World Bank (2000).

<sup>25</sup> Paul Collier, *Economic Causes of Civil Conflict and Their Implications for Policy*, World Bank (2000).

## **THE WORLD BANK AND THE WORLD COMMISSION ON DAMS**

### International Rivers Network

Over the past 50 years, the World Bank has been the largest single source of funds for large dam construction worldwide. Under its stated aim of alleviating poverty, the World Bank has promoted and funded dams that have displaced more than 10 million people from their homes and land, caused severe environmental damage, and pushed borrowers further into debt.

Faced with pressure from dam critics and affected people around the world, in 1998 the World Bank co-sponsored the creation of the World Commission on Dams (WCD), an independent, multi-stakeholder process that brought together government, industry, and civil society to examine the development effectiveness and impacts of large dams. The well-received WCD consensus report includes recommendations for decision-making on dams and energy and water resources development. However, the World Bank has refused to incorporate the recommendations into its policies, committing only to use them as a "reference point" on a case-by-case basis for its financing of dam projects.

#### **Problem**

The World Commission on Dams found that large dams have failed to produce as much electricity, provide as much water, or control as much flood damage as their supporters originally predicted. The benefits of large dams have largely gone to the already well off, while poorer sectors of society have borne the costs. Over the past century, some of these costs have included:

- Forced displacement of 40 to 80 million people from their homes and lands, causing extreme economic hardship, community disintegration, and an increase in mental and physical health problems. Indigenous, tribal and peasant communities have been particularly hard hit. People living downstream of dams have also suffered from increased disease and the loss of natural resources upon which their livelihoods depended;
- Severe environmental damage, including the extinction of many fish and other aquatic species, huge losses of forest, wetland and farmland, and the release of greenhouse gases.

The World Bank has provided more than \$74 billion for 538 large dams in 92 countries, supporting many of the world's largest and most controversial dam projects. In case after case, the benefits have been far smaller than promised, and the costs – in terms of money spent, debts incurred, communities uprooted, fisheries and forests destroyed, and opportunities lost – have been far greater than imagined. While Bank lending for large dams has declined significantly in the past decade, largely due to opposition from civil society, the Bank continues to fund controversial dam projects, such as Bujagali dam in Uganda and the proposed Nam Theun 2 dam in Laos.

#### **Proposed Reform**

To address the impacts of large dams, the WCD report identifies clear criteria and guidelines for equitable, efficient, participatory and sustainable water resource development, which, if followed, could solve many of the ongoing problems associated with existing dams, avoid past mistakes in future dams, and promote a broader array of water and energy options. Some of these recommendations include:

- (1) Comprehensive and participatory assessments of the energy, water, and flood management needs to be met and different options for meeting these needs are developed before detailed studies are done on any specific project.
- (2) Priority is given to demand side management measures and optimizing the performance of existing infrastructure before building any new projects.
- (3) Demonstrable public acceptance of all key decisions is achieved through agreements negotiated in an open and transparent process conducted in good faith and with the informed participation of all stakeholders. Decisions on projects affecting indigenous and tribal peoples are guided by their free, prior and informed consent.
- (4) All recognized adversely affected people negotiate mutually agreed, formal and legally enforceable mitigation, resettlement and development entitlements.
- (5) Periodic participatory reviews are done for existing dams to assess issues including dam safety, and the possibility of dam decommissioning.
- (6) Mechanisms are developed to provide social compensation for those who are suffering the impacts of dams, and to restore damaged ecosystems.

The recommendations of the final report have been endorsed by the United Nations Environment Program (UNEP), the World Health Organization (WHO), the U.S. Export-Import Bank, as well as by private-sector companies such as the Swedish construction firm, Skanska. However, the World Bank, one of the two original sponsors of the WCD, has refused to incorporate the recommendations into its policies. The World Bank's draft Water Resources Sector Strategy almost completely ignores the WCD and skims over the report's findings on the poor economic, social and environmental performance of large dam projects, including those funded by the World Bank.

#### **Role of the United States In Achieving Reform**

The United States should take a lead in pushing the World Bank to incorporate WCD recommendations into its binding policies. Congress should use the IDA reauthorization and appropriation as an opportunity to press the World Bank to adopt and implement the World Commission on Dams' recommendations as binding policy. Specifically, Congress should direct the Department of Treasury to oppose dam projects financed by the World Bank and other multilateral development banks that do not conform to the recommendations of the World Commission on Dams.

## THE WORLD BANK AND PESTICIDES

Pesticide Action Network, North America (PANNA)

The World Bank's binding policy on pest management, Operational Policy 4.09 (OP 4.09), promotes the adoption of ecologically sound farming practices and seeks to reduce reliance on synthetic chemical pesticides through integrated pest management (IPM).<sup>26</sup> Yet, World Bank projects still supply farmers with pesticides, introduce agricultural systems that lead farmers to become highly dependent on chemical inputs and/or fail to provide effective training in ecological alternatives—clear violations of this policy. A review of World Bank agricultural projects approved between 1997 and 2000 reveals that—with few exceptions—the historical bias towards intensifying production with greater use of pesticides predominates.<sup>27</sup> Few project documents even mention IPM.

### Problem

The industrial model of farming promoted in many World Bank agricultural projects relies on the use of hybrid seeds, chemical fertilizers and pesticides, and irrigation.<sup>28</sup> Frequently entailing a shift to intensive cultivation of a single non-native crop for export, this model is neither ecologically sustainable nor appropriate for the ecosystems where it is introduced. Resulting environmental problems include soil degradation; chemical contamination of soil, water and air; more frequent and severe pest outbreaks as beneficial insects are wiped out; greater use of toxic pesticides; loss of biodiversity; and deforestation.<sup>29</sup>

Furthermore, the economic, social and cultural impacts of World Bank agricultural projects and policies are often ruinous to the poorest farmers. Typically living on marginal lands, peasant farmers are rarely able to compete for long in the export or cash-crop market. Unable to repay the cost of inputs provided by the World Bank, many fall deeper into debt or are forced to sell their land. They are also highly vulnerable to global market fluctuations in crop prices and risk failing to earn enough cash to buy adequate food. Health problems associated with pesticide use include acute poisonings, cancer and disruption of the neurological, respiratory, endocrine and immune systems.<sup>30</sup> The adverse effects of pesticides can further be aggravated by malnutrition, a condition common in many of the Bank's borrower countries.

The World Bank considers the private sector to be a key partner in global development. But when it comes to pest management, its partnerships tend to benefit large pesticide corporations more often than poor farmers. Meanwhile, farmers participating in these projects jeopardize their health and the ecological stability of their farming systems by using more pesticides.

The World Bank's poor choice of development partners is evident in its "Staff Exchange Program," a program that enables the Bank and selected companies to exchange staff, ostensibly to share

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<sup>26</sup> World Bank, *Operational Policy 4.09 on Pest Management*, World Bank, Washington, DC, 1998. Full text available at [http://www.worldbank.org/environment/op\\_policies.htm](http://www.worldbank.org/environment/op_policies.htm).

<sup>27</sup> Tozun, N., "New policy, old patterns: a survey of IPM in World Bank projects," *Global Pesticide Campaigner*, April, 2001.

<sup>28</sup> Hansen, M., *The First Three Years: Implementation of the World Bank Pesticide Guidelines*, Consumer Policy Institute, New York, 1990. See also World Bank, "Integrated pest management: strategy and policy options for effective implementation," *Environmentally Sustainable Development Monograph Series*, No. 13, World Bank, Washington, DC, 1997.

<sup>29</sup> Dinham, B., *The Pesticide Hazard: a Global Health and Environmental Audit*, Zed Books for the Pesticide Trust, London, U.K., 1993.

<sup>30</sup> Murray, D., *Cultivating Crisis: the Human Cost of Pesticides in Latin America*, University of Texas Press, Austin, TX, 1994. See also Richter, E. & N. Chlamtac. "Ames, pesticides and cancer revisited." *Int J Occup Environ Health*, 8(1):63-72, 2002. Wesseling, C. et al. "Long term neurobehavioral effects of mild poisonings with organophosphate and n-Methyl carbamate pesticides among banana workers." *Int J Occup Environ Health*, 8(1): 46-59, 2002. London, L. et al. "Pesticide usage and health consequences for women in developing countries: out of sight, out of mind?" *Int J Occup Environ Health*, 8(1): 46-59, 2002.

knowledge and experience in global development. Staff exchanges routinely occur between the World Bank and the major pesticide companies<sup>31</sup> (e.g., Rhône Poulenc (now Aventis), AgrEvo (now Aventis<sup>32</sup>), Novartis (now Syngenta) and Dow AgroSciences). These companies have been involved in a range of harmful activities, including illegal toxic shipments, chemical dumping and accidents, chemical testing on humans, harassment of farmers, false advertising and racketeering.<sup>33</sup> For taxpayer monies to support the placement of World Bank staff at these companies constitutes a gross violation of the Bank's pest management policy; it is also antithetical to the Bank's commitment to sustainable development and a misuse of public funds. Instead, Bank partnerships with biological control companies and food and commodity producers, processors and retailers with an interest in reducing pesticide residues would be a wiser choice and far more likely to lead to sustainable production.

### **Proposed Reform**

The World Bank's pest management policy requires projects to promote ecologically based integrated pest management, a system in which pests are managed using biological controls, resistant varieties, crop rotation and other environmentally sound practices. The UN Food and Agriculture Organization promotes an IPM training approach in which farmers learn to observe the development of their crops and the numbers of pests and beneficial insects in their fields. Based on their analysis of the agricultural ecosystem, farmers make decisions about how to manage their crops and pests for maximum yield and minimal financial cost and environmental damage. More than two million farmers have been trained in these techniques since 1990,<sup>34</sup> and with greater support from the World Bank, millions more could gain access to this type of training.

To this end, the World Bank should:

- Reject projects that finance and/or include highly hazardous pesticides;
- Approve only projects with ecologically based IPM plans that show commitment to reducing pesticide dependence;
- Avoid actions inconsistent with the Bank's pest management policy, OP 4.09 (e.g., eliminate staff exchanges with pesticide companies);
- Investigate partnerships with small and medium sized enterprises whose products or services are likely to empower farmers and promote ecologically based IPM;
- Support independent, community-based monitoring of projects;
- Evaluate progress toward reduced reliance on pesticides in borrower countries.

### **Role of the United States in Achieving Reform**

Through IDA reauthorization and replenishment, Congress and the Treasury Department have the opportunity to promote biological and environmental pest management methods at the World Bank and ensure that reliance on synthetic chemical pesticides in Bank projects is reduced. The U.S. Executive Director should oppose actions that are inconsistent with the World Bank's policy on pest management. Successful implementation of OP 4.09 will help the World Bank achieve its goals of sustainable development and environmental protection. Even more importantly, it will reduce rural poverty by helping farmers spend less money on pesticides, and improve public health worldwide by reducing farmers' and consumers' exposure to toxins.

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<sup>31</sup> World Bank Staff Exchange Program Web site, <http://www.staffexchange.org>.

<sup>32</sup> Bayer is currently in the process of acquiring Aventis CropScience.

<sup>33</sup> Pesticide Action Network North America. Corporate profiles for Bayer, Dow, Dupont, Monsanto, Syngenta, PANNA, San Francisco, CA, 2002.

<sup>34</sup> Community Integrated Pest Management Web site, <http://www.communityipm.org/>.

## THE WORLD BANK AND GENDER

### Gender Action

Despite mounting evidence correlating gender equality with poverty reduction and economic growth and vice versa, gender equality remains a distant goal: seventy percent of the world's poor are women. Billions of dollars of World Bank investments in developing countries have done little to increase gender equality and reduce poverty.

#### **Problem**

Research increasingly underlines that reducing poverty is not possible without considering the role of women. Mounting evidence correlates gender equality with poverty reduction and economic growth.<sup>35</sup> Conversely, societies with greater gender discrimination tend to experience more poverty, slower economic growth and inferior living standards than societies with greater gender equality.

World Bank investments are not doing enough to reduce gender disparities. Some think this issue has already been addressed. On the contrary, it remains a pressing issue. A recent World Bank evaluation of over 3,000 loan agreements found that only seven percent contained references to gender or women.<sup>36</sup> Most loan benefits have accrued to men and not only have women benefited less but their welfare has often deteriorated. A review of recent World Bank investments in numerous countries found that gender has been little analyzed and targeted in all project cycle stages, even in sectors like employment and water, where women play a major role.<sup>37</sup>

Although the World Bank has a gender unit and incorporates gender considerations into many reproductive health and some education and microcredit projects, most Bank analytical work, country dialogue, public expenditure reviews, and large investments contain few gender considerations. For example, Bank studies and investments in poverty, transport, employment, privatization, agriculture, environment, water, power, resettlement, governance, and trade projects rarely address gender issues. With few exceptions, structural adjustment programs pay virtually no attention to gender impacts. Select sector examples follow:

- ♦ **Poverty:** Projects typically target “the poor”, “poor communities”, “vulnerable groups” and “poor households”, not men and women separately. But poverty has different consequences for men and women reflecting differences in control over resources and income. Treating communities and households as single units can overestimate women's well-being since community and household distribution often favors men. It is important to disaggregate poverty effects by gender.
- ♦ **Assets:** Gender disparities in access to and control of productive assets (such as land, information, technology and credit), human assets (such as education and training) and social assets (such as business networks), hinder women's opportunities and reduces their economic autonomy and ability to influence decisions. For example, African women access less than 10

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<sup>35</sup> World Bank. 2001. Engendering Development: Through Gender Equality in Rights, Resources, and Voice. Policy Research Report. Oxford University Press.

<sup>36</sup> World Bank. Operations Evaluation Department (OED). 2000. “Integrating Gender in World Bank Assistance.” World Bank. Washington, DC.

<sup>37</sup> Zuckerman, Elaine. 2001. Engendering Poverty Reduction Strategy Papers (PRSPs): Why it Reduces Poverty and the Rwanda Case. World Institute for Development Economics Research. <http://www.wider.unu.edu/publications/publications.htm>; Zuckerman, Elaine. 2000. “Macroeconomic Policies and Gender in the World Bank.” Background paper for the World Bank Gender Strategy; Zuckerman, Elaine. 2000. Country Gender Review Guidelines: World Bank. Draft; Zuckerman, Elaine. 2000. China: Country Gender Review: World Bank. Draft.

percent of small farmer credit and less than one percent of total agriculture sector credit although women constitute 70 percent of African farmers.

- ♦ **Housing:** Projects rarely address women's lack of legal rights to housing ownership in many developing countries. Female-headed households are particularly vulnerable to homelessness.
- ♦ **Employment and Privatization:** Women are usually the first to be laid off and last to be rehired in downsizing and privatizations. Resulting loss of social services expands women's caring role and reduces their time for income-earning activities. Male unemployment victims often engage in alcoholism and domestic violence. These consequences are often ignored in IFI projects.
- ♦ **Agriculture:** Projects usually target male farmers and 93 percent of African extension agents are male although women constitute 70 percent of African farmers. Women food producers have access to smaller, inferior plots and fewer inputs than do men. Women are often denied legal rights to own land.
- ♦ **Transport, Water, Fuelwood and Crops:** In many countries, water, fuelwood, crops and other necessities are transported by women on foot. In African countries they are often transported by women on their heads. Although IFIs have financed many transport investments, rarely have they reduced women's transport burdens and facilitated children's access and safety in traveling to school.
- ♦ **Environment:** Most environmental information and training targets men although women manage natural resources daily through activities such as collecting and burning fuelwood. Women are also the primary environmental educators of children regarding sanitation, including hand-washing and excreta disposal.

### **Proposed Reform**

All MDB investments should incorporate gender analyses and address the differing needs of men and women. The World Bank should translate its compelling research findings that demonstrate how gender equality is essential to reduce poverty into its investments. Two decades of studies and rhetoric indicate that this will not happen automatically. Incentive structures need to be revised to encourage World Bank project managers to incorporate gender concerns into investments and more information about the importance of gender in the development process must be provided to them.<sup>38</sup> More IFI training is needed to raise awareness about gender gaps and the methods to redress them. IFIs should adopt mandates to redress gender inequalities.

As a result of concerted and persistent advocacy campaigns by environmental NGOs beginning in the early 1980s, the World Bank mandated environmental impact analyses and do-no-harm environmental policies for all investments. Although environmental considerations remain imperfectly addressed in project implementation, at least environmental impacts are analyzed in project designs and projects or components with harmful environmental impacts might be rejected or redesigned. In contrast, IFI staff today merely include a paragraph or two on gender issues, similar to the obligatory environmental paragraph of the early 1980s, but redressing gender inequalities is not yet mandatory. Mainstreaming gender equality in all World Bank investments needs to be mandated.

### **Role of the United States in Achieving Reform**

IDA-13 replenishment provides an opportunity for the U.S. to pressure the World Bank to make it mandatory to analyze all investments for their gender impacts and to target investments to poor women and men based on their specific needs.

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<sup>38</sup> Morgan, Peter. 1998. World Bank. "Mainstreaming Gender in the World Bank: An Organizational Analysis." Mimeograph.

## **THE WORLD BANK AND USER FEES**

### **RESULTS**

User fees are fees imposed for primary health care or education (e.g. school fees, fees for textbooks; fees for using a health clinic). Many of these services were previously provided for free or at nominal cost. The idea of charging user fees has been aggressively promoted by the World Bank and International Monetary Fund (IMF), and the fees have often been a condition for new loans and debt relief. In many of the world's impoverished countries, the imposition of user fees for basic education and health care has locked the poorest people out. User fees have led to increased illness, suffering and death when people cannot pay for health services, and decreased school enrollments when poor families can not afford to send children to school:

Zimbabwe: UNICEF reported in 1993 that the quality of health services had fallen by 30 percent since 1990, twice as many women were dying in childbirth in Harare hospital as before 1990 and that fewer people were visiting clinics and hospitals because they could not afford hospital fees. Attendance at one clinic went from 1200 in 3/91 to 450 in 12/91 following the imposition of fees.

Ghana: The Living Standards Survey for 1992-1993 found 65 percent of rural families said they could not afford to send children to school consistently. Furthermore, 77 percent of street children in the capital city of Accra dropped out of school because of inability to pay fees.

Malawi: When Malawi eliminated a modest school fee in 1994, primary enrollment soared by 50 percent almost overnight—from 1.9 to 2.9 million pupils.

Uganda: When Uganda eliminated school fees in 1998, the primary school enrollment rate climbed from 50 percent to 90 percent.

Kenya: The introduction of fees for patients of Nairobi's Special Treatment Clinic for Sexually Transmitted Diseases (STDs) resulted in a decrease in attendance of 40 percent for men and 65 percent for women over a nine-month period. Failure to treat STDs can significantly increase the likelihood of transmission of HIV/AIDS.

Tanzania: Primary school fees were introduced for the first time in 1999—and even included as part of the HIPC debt relief agreement. According to the Evangelical Lutheran Church of Tanzania, less than half of the projected revenue from school fees has been collected—because families simply could not pay. When Tanzania recently eliminated the user fees, school enrollments jumped by 1.5 million students in three months.

### **Problem**

The World Bank claims that charging user fees will not hurt the poorest citizens because they have included provisions for “waivers” or “exemptions” for the poor. However, the World Bank's Operations Evaluation Department (OED) reported on the widespread failure of exemption systems to adequately protect the poorest citizens from health clinic user fees (“Investing in Health,” OED, 1999). Even the Bank's annual World Bank World Development Report 2000/2001 (WDR) states: “few developing countries, however, have successfully implemented price discrimination in health services through sliding scale fees. In most African countries such exemptions tend to benefit wealthier groups (such as civil servants). In Ghana's Volta Region in 1995 less than 1 percent of patients were exempt from health user fees and 71 percent of exemptions went to health service staff.” And according to a January 2000 UNICEF paper (“Absorbing Social Shocks, Protecting Children and Reducing Poverty”), “remarkably little evidence exists on the effectiveness of exemption systems [for user fees].”

In a landmark move, in 2000 the U.S. Congress included language in the foreign aid appropriations bill report that requires the U.S. to oppose any World Bank, IMF, or other multilateral development bank loan which includes user fees for basic health or education services, and to report to Congress within 10 days should any loan or other agreement be approved that includes such user fees. The legislation had a significant impact inside the World Bank: In September 2001, the World Bank issued a revised user fees policy, acknowledging that the fees have prevented poor people from accessing primary schools and health clinics. After supporting the fees for over 15 years as a source of extra revenues, the new policy states that the World Bank now *“opposes user fees for primary education and basic health services for poor people”*.

While the World Bank has largely revised its stand on primary school fees, the Bank’s new policy statement on user fees is far less clear on the need to abolish user fees for primary health services. While the World Bank’s exploration of various alternative public health insurance schemes is laudable, the new policy allows for the continued use of health user fees at health clinics and dispensaries: *“In the absence of ...insurance schemes, well-designed and implemented user fees can mobilize additional resources from better-off groups that can in turn be used to improve services for poorer groups.”* This statement is problematic: the poor have not been exempted from user fees in practice, and user fees are an inefficient, ineffective and regressive means of mobilizing resources.

Despite the new World Bank policy on user fees, many developing countries continue to charge user fees to their citizens for basic health and education services. In many cases, the finance ministries justify continuing with the fees using many of the arguments that the World Bank had used for over 15 years.

Current research indicates that the new statement alone will not be adequate to end the harmful practice of charging fees for basic services in the world’s poorest countries. In fact, regarding education user fees, although the Bank will no longer include user fees for primary education in its loan conditions, many governments continue to charge the fees. In February 2002, the Education section of the World Bank’s Human Development Network completed a wide-ranging internal policy review of primary education. The report’s recommendations went even farther than the Bank’s new user fees policy by suggesting that the Bank *actively work with governments to abolish the fees and find alternative funding* for education budgets.

### **Proposed Reform**

As it is doing for primary school fees, the World Bank must unequivocally state its clear opposition to all user fees at primary health clinics. Furthermore, the Bank should work with governments to explicitly remove such fees and assist governments to find alternative financing for the adequate provision of universal education and health primary services.

### **Role of the United States in Achieving Reform**

An important next step for the U.S. Congress is to strengthen and reinforce the existing language on health and education user fees to eliminate the loophole for failed exemption schemes, and to mandate that the U.S. Executive Directors to the World Bank and other international financial institutions oppose any loans, grants or agreements including such fees.

## **THE WORLD BANK AND HIV/AIDS**

### Essential Action

There are now 40 million people in the world who are HIV-positive, making HIV/AIDS the worst pandemic at least since the Black Death struck Europe more than 500 years ago. In some countries in sub-Saharan Africa, where the incidence is highest, as many as one in four adults are HIV-positive. For all but a handful of people in the poorest countries, an HIV diagnosis is a death sentence -- treatments available to prolong life in rich countries are unaffordable and out of reach.

#### **Problem**

HIV/AIDS is concentrated in sub-Saharan African countries with the highest levels of foreign debt, with the world's weakest economies and with most limited healthcare infrastructure and treatment capacity.

Governments with overwhelming foreign debt payment obligations are forced to cut back on what they might otherwise allocate to the healthcare sector, including funds that might be used for HIV/AIDS prevention -- condoms, HIV testing, posters, STD treatment, etc. -- and treatment. In Zambia, where 20 percent of the adult population is HIV-positive, for example, the country spends \$76 million on its health budget and \$89 million on debt service to the IMF and World Bank.

Malaria and tuberculosis, as well as other infectious diseases, afflict many of the same poor countries that suffer from the highest HIV/AIDS incidence. These diseases can be prevented and treated for less money than is required for HIV/AIDS, but are similarly and tragically unaddressed -- with external debt playing an important contributing role in starving countries of the resources that could be allocated to save lives and prevent spread of disease.

In addition to the debt problem, many World Bank, International Monetary Fund and other international financial institution policies may worsen the AIDS pandemic and diminish countries' ability to provide treatment and care.

User fees -- charges -- for healthcare are an important component of many World Bank and IMF structural adjustment and sectoral adjustment programs. These fees diminish people's access to care, including for treatment of AIDS-related opportunistic infections and treatment of STDs (the presence of which facilitate HIV transmission). When, as part of a World Bank project, Kenya imposed charges of \$2.15 for STD clinic services, attendance fell 35 to 60 percent. Similar results have been seen throughout the developing world.

The increase in economic inequality associated with many World Bank and IMF economic policies has further undermined the ability of many HIV-positive people to access needed healthcare.

And structural adjustment policies that lead to severe economic disruptions may create conditions that facilitate the spread of HIV. For example, as Dr. Peter Lurie and collaborators have argued in the journal *AIDS*, agricultural liberalization may undermine local farmers and prompt a shift to large-scale plantations, thereby contributing to displacement of rural communities, and increasing migration and urbanization. Many men leave rural villages for work in big cities or in mines, contract HIV/AIDS from casual sex partners or sex workers, and then spread the disease to spouses in the home village. The displacement of children and young women into the cities has led to a sharp increase in commercial sex work and heightened rates of HIV/AIDS.

**Proposed Reform**

Given the enormity of the HIV/AIDS crisis and its concentration in many of the world's poorest countries, it is vital that the World Bank and other international financial institutions consider the impact of projects, loans and strategies on prevention and treatment of HIV/AIDS, tuberculosis and malaria. This should force a revision of policies on healthcare user fees and in other areas.

World Bank and other international financial institution projects should support dissemination of best practices in prevention and treatment of HIV/AIDS, tuberculosis and malaria. Importantly, the myth of the trade-off between treatment and prevention should be put to rest; treatment gives people hope of living and an incentive to get tested and engage in safer sex, thereby reducing spread of the disease. Brazil's HIV/AIDS program, the most effective treatment system in the developing world, has demonstrated how crucial treatment is to slowing spread of the disease.

Treatment of HIV/AIDS requires procurement and distribution of expensive pharmaceuticals. However, there are enormous savings to be achieved in acquisition through efficient bulk procurement of products at best world prices from producers meeting appropriate quality assurances. The Bank and other international financial institutions should support such bulk procurement arrangements.

Countries with high levels of HIV/AIDS need to concentrate their resources on addressing public health priorities, as well as other public needs. Especially because so many are already so indebted, and because that debt has intensified the HIV/AIDS problem, it is essential that the HIV/AIDS pandemic not worsen countries' external debt situation. Accordingly, support from the World Bank and other international financial institutions for projects related to HIV/AIDS, malaria and tuberculosis should be provided on a grant basis.

**Role of the United States in Achieving Reform**

The U.S. government representatives to the World Bank and other international financial institutions should support these appropriate policy initiatives. They should oppose any project, loan or program related to HIV/AIDS, malaria and tuberculosis which is funded on a loan rather than grant basis.

## **WORLD BANK AND IMF WATER POLICIES THAT UNDERMINE PUBLIC HEALTH**

International Water Working Group, Public Citizen and RESULTS

Access to clean and affordable water is vital to public health. More than one billion people, mostly in the developing world, lack access to clean and affordable water. Approximately 2.4 billion people lack access to proper sanitation services. Over two million children die each year of diarrheal diseases related to lack of access to clean water and sanitation. These are preventable deaths. Increased public funding for universal access to basic water and sanitation services could solve this problem.

### **Problem**

Rather than increasing funds for public water and sanitation services, World Bank and IMF policies push full cost recovery and water privatization. Many World Bank structural adjustment loans and water sector restructuring loans now require governments to replace public subsidy with a policy promoting “full cost recovery” or “economic pricing.” This means that water consumers must pay the full price for operation and maintenance (and sometimes even expansion) of the water utility. Increasing the price of water in developing countries, where the majority of the population makes less than \$2 per day, reduces access to clean water. This is not responsible public health policy.

A review of IMF loans in 2000 found water sector policy conditions in 12 out of 40 countries that included increased cost recovery and water privatization. Increased cost recovery policies often precede privatization because an “improved” tariff structure will make the public water utility more lucrative on the international market. IMF loans also promote “automatic tariff adjustment formulae.” Automatic tariff adjustment formulae ensure that consumer water rates or tariffs reflect the shifts in the international exchange rate of the domestic currency. In other words, when the domestic currency depreciates, consumer water rates go up. This is a common requirement of multinational corporations who want to be shielded from the effects of shifts in soft currency exchange rates when they operate in developing countries.

The social impact of increased fees for water can be devastating. World Bank and IMF policies must prioritize public health BEFORE increased cost recovery. For example, when water becomes more expensive and therefore less accessible, women and children, who bear most of the burden of daily household chores, must travel farther and work harder to collect water - often resorting to water from polluted streams and rivers. This increases the risk of diarrheal diseases, including cholera and parasitic diseases. In developing countries, many people are outside the piped water system or cannot afford treated water. Those who are outside the piped water system must depend upon costly tanker trucks or streams, rivers and lakes that may be polluted. Those outside the piped water system already pay exorbitant fees for access to clean water. In Ghana, *after IMF and World Bank policies required a 95 percent raise in water fees in May 2001*, three buckets of water cost a family almost half of the minimum wage. In India, some poor households pay as much as 25 percent of their income on water. In Lima, Peru poor residents pay as much as \$3 per cubic meter for buckets of water.

In developing countries, water-borne diseases are usually the second most common cause of morbidity and mortality. Diarrheal diseases due to pathogens such as cholera, E.coli, shigella, amoebas and giardia account for up to half of all clinic visits. Increased water fees reduce access to

clean, affordable water. Families are forced to make daily trade-offs between safe water, food, clothing, school fees and health care.

In South Africa, increased water fees led to water supply cuts for people who were too poor to pay their accounts, this *resulted in the outbreak of a cholera epidemic* in KwaZulu-Natal, the Water Affairs and Forestry Ministry admitted in October 2000. Similarly, water-borne guinea worm has been making a comeback in a region of Ghana where a World Bank water & sanitation project required unaffordable capital contributions from local communities as a precondition for installing standpipes and bore-holes.

World Bank and IMF policies are biased in favor of large multinational water companies. The World Bank routinely argues that the private sector is more efficient and cost-effective than the public sector. However, water is a natural monopoly and the water “market” is dominated by a few large multinational companies. The top water companies are part of the Fortune Global 500 List. The lack of market competition among water companies does not provide an environment conducive to efficiency. World Bank loans require that governments privatize their water utility without undertaking a comparative analysis of the option of restructuring and rehabilitation of the public water utility. IMF and World Bank loan conditions often result in a government commitment to privatization without the participation, knowledge or discussion among citizens, local government officials, or parliaments.

In many developing countries the public water utility is in desperate need of restructuring, rehabilitation, and expansion. Water and sanitation services are failing to meet the needs of growing populations. The result is a serious public health and environmental crisis. The World Bank says the private sector is positioned to resolve this crisis. However, private sector water companies are not providing investment in desperately needed restructuring, rehabilitation and expansion of water utilities. In general, they prefer leases, management and service contracts that enable them to intersect with the rate-paying consumers *without* providing such investment.

The large water companies introduce new financial demands on the water system. These include the demands of company owners for profits and dividends, which may be globally redistributed for investment in other company activities. The World Bank and the IMF, as public institutions, should not be using the leverage of loan conditions to promote new business opportunities for private international corporations.

### **Proposed Reform**

World Bank and IMF loans should not impose conditions requiring full cost recovery and water privatization. Public health objectives should be prioritized in devising water sector reform policies. Rather than full cost recovery and water privatization, the objective should be increased access to water and sanitation services in poor and underserved areas. Equally important, grant aid should replace more loans. Developing countries do not need new debt.

### **Role of the United States in Achieving Reform**

Rather than new credits, the U.S. should increase grant aid with clear performance objectives focusing on the restructuring, rehabilitation, and expansion of water and sanitation services. The Treasury Department should instruct the U.S. Executive Director at each international financial institution to oppose the endorsement or approval of any loan, grant, document or strategy which includes increased cost-recovery from persons with incomes of less than \$2/day to finance basic clean water services.

# THE WORLD BANK AND TRADE AND INVESTMENT LIBERALIZATION AND PRIVATIZATION POLICIES THAT UNDERMINE DEMOCRACY

Center for Economic and Policy Research

Approximately one third of the World Bank's lending is currently "adjustment lending" rather than "project lending" – that is, more than 30 percent of World Bank loans are tied to policy changes expected from borrower governments rather than being tied to the completion of physical projects. Among the policies promoted by the World Bank (and other international financial institutions, such as the International Monetary Fund) in this manner have been the removal of government regulations on trade and investment and reductions in public ownership.

## **Problem**

In recent years, these policies have become increasingly controversial on two grounds. First, critics have questioned whether these policies have increased economic growth and reduced poverty – the stated purpose of these institutions. A study by the Center for Economic and Policy Research (Washington) found that the overwhelming majority of countries in the world had slower growth in the period 1980-2000 (the period of IMF-World Bank structural adjustment policies) than in the previous twenty years, and showed slower progress on many social indicators during the second period.<sup>39</sup>

Second, critics have charged that these policies have often been implemented by the World Bank and other international financial institutions in an untransparent and anti-democratic manner. Even where democratically elected national legislatures exist, they are often bypassed.

For example, when the World Bank pressured Mozambique to dismantle its cashew nut processing industry (throwing 10,000 people out of work) by removing export tariffs on raw cashews – and threatened to cut off access to debt relief and credit if the Mozambican government did not comply – the Mozambican parliament was not consulted. Even though executive branch officials opposed the policy, they were pressured by World Bank officials to lie and say that it was Mozambican government policy.<sup>40</sup>

## **Proposed Reform**

A central criticism of the international financial institutions has been that their operations are secretive, untransparent and anti-democratic. In response, the institutions often claim that the issue of democracy is outside of their purview. But the very least that should be expected of institutions that receive the support of U.S. taxpayers is that they "do no harm" to democracy, that they do not undermine democratic institutions.

Where democratically elected national legislatures exist, a policy cannot legitimately be called "country-owned" if such a legislature is bypassed. Officials of the international financial institutions must take responsibility for the impact of their actions on democratic process, work to ensure that legislatures are fully consulted and that legislatures assent to changes in trade and investment policy or reductions in public ownership before agreements between borrower governments and the IFIs are brought before the IFI boards.

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<sup>39</sup> See "The Scorecard on Globalization 1980-2000; Twenty Years of Diminished Progress," Center for Economic and Policy Research, [www.cepr.net](http://www.cepr.net).

<sup>40</sup> See "Power Without Responsibility: the World Bank and Mozambican Cashew Nuts," Joseph Hanlon, Review of African Political Economy, March 2000.

**Role of the United States in Achieving Reform**

The United States can bring effective pressure to bear on these institutions to ensure that their policies and practices do not undermine democratic process by working to oppose loans, grants, documents and strategies at the international financial institutions which include trade and investment liberalization or reductions in public ownership that have not been subject to normal democratic decision and debate in those countries where such institutions exist. This does not simply mean voting “no” at the Boards of the international financial institutions on agreements that have bypassed democratic process, but working to ensure that agreements that bypass democratic process do not reach the Boards. The United States monitors the progress of democracy in poor countries; it can monitor whether democratic process is being undermined by the international financial institutions.

## **THE INTERNATIONAL FINANCIAL INSTITUTIONS AND TOBACCO**

### **Essential Action**

An estimated four million people will die worldwide from tobacco-related disease this year, according to the World Health Organization (WHO). By 2030, WHO projects that 10 million will die from tobacco-related causes, with 70 percent of those deaths occurring in developing countries. There is overwhelming evidence, much of it from the United States but also from countries as diverse as Thailand, Poland and Norway, that sound tobacco control measures can significantly reduce cigarette consumption and save millions of lives.

The World Bank has been a leader in recognizing the severe health consequences of smoking and, particularly, the economic costs to society of cigarette consumption. The Bank has done a good job in arguing for the economic benefits of public health measures to discourage smoking, and it will not make loans for tobacco-related projects. As a policy recommendation, the Bank has supported increased excise taxes on cigarettes -- a vital tool to discourage consumption -- and the Bank and the International Monetary Fund have supported cigarette tax increases as revenue earners.

#### **Problem**

However, the Fund has supported privatization of tobacco-related enterprises, despite evidence that such measures increase the power of tobacco multinationals and increase cigarette consumption. And the Fund has also supported, through its adjustment lending and adjustment-related plans and strategies, reductions in tobacco tariffs and, in some cases, tobacco excise taxes -- again despite strong evidence, including from the Bank, that such measures are among the most important to discourage smoking.

The Fund has pressed for privatization in, among other countries, Turkey, Thailand, South Korea and Moldova, in many cases despite strong opposition in the countries to these measures. The Fund has supported tariff or excise tax reductions in Uganda, among several other nations.

Whatever the merits of privatization of other sectors of the economy, tobacco represents a unique case, and policies relating to tobacco must be guided above all by public health considerations.

Selling off state-owned tobacco enterprises generally has the effect of transferring control of cigarette markets from state companies to the handful of tobacco multinationals (BAT, Japan Tobacco, Philip Morris and a couple more minor players) which are the almost certain acquirers. This transition harms public health, because state-owned tobacco enterprises are less aggressive market and political participants than the multinationals. The state companies tend to be less aggressive and innovative marketers of cigarettes, both in terms of advertising/promotion and in designing products that have broad and diverse appeal. They are less likely to attempt to influence, skirt or undermine domestic tobacco control regulations.

The impact of privatization is suggested by the experience in opening of Asian markets to foreign imports. After misguided U.S. pressure forced open markets in Japan, Taiwan, South Korea and Thailand, smoking rates jumped. Tobacco liberalization led to aggregate increases in smoking rates of 10 percent, according to World Bank analyses. The effects are particularly serious among teens and women, who have lower smoking rates in many developing countries, and who the multinationals have expertise in inducing to smoke. In South Korea, according to the General

Accounting Office, the smoking rate among teenage girls quintupled in a single year following the opening of the market to the multinational tobacco companies.

The evidence on the impact of price on smoking rates is incontrovertible. Higher prices deter smoking; lower prices lead to higher smoking rates. In industrialized countries, cigarette price increases of 10 percent produce a four percent decline in cigarette consumption; in developing countries, evidence suggests the benefits may be twice as great.

The main way governments control cigarette price is through taxation. The World Bank supports higher taxes on cigarettes but favors nondiscriminatory excise taxes over tariffs. Yet IMF adjustment packages and adjustment-related plans and strategies have supported cuts in tariffs without correlative increases in excise taxes -- with the impact of decreasing prices -- as well as occasional cuts in excise taxes.

These price cuts are sometimes justified on the grounds that high tariffs or taxes encourage smuggling, but this argument is not well supported. Tobacco smuggling is a serious problem -- it is estimated that as many as one third of all internationally traded cigarettes are smuggled -- but it is not due to tax differentials between countries. Only a small proportion of smuggled cigarettes are moved from a low-tax country to a high-tax neighbor; the norm is diversion of cigarettes while in transit and before any tax or tariff is paid at all. Moreover, there is emerging evidence suggesting some tobacco multinationals may be deeply involved in smuggling; and it is clear that both exporting and importing countries have effective measures available to them to prevent smuggling that leave taxes and tariffs in place.

### **Proposed Reform**

Given the life-and-death stakes in the case of tobacco, public health must be absolutely prioritized over countervailing considerations of ideology and generic policy preferences. The international financial institutions should end all support for, or endorsement of, tobacco privatization, reductions in tobacco excise taxes and reductions in tobacco tariffs and duties (at very least without simultaneous, offsetting increases in excise taxes).

### **Role of the United States In Achieving Reform**

The U.S. Executive Directors to the international financial institutions should advocate for these positions, and oppose any loan, plan or strategy that includes support for or endorsement of tobacco privatization or reductions in cigarette excise taxes or tariffs.

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