

# **World Bank Policy:**

## **New focal areas as of October 2008**

### **Introduction**

One year after the appointment of Robert Zoellick, some new strategic directions are beginning to emerge for the World Bank group. Many of these merely exist at the policy level and have little bearing on the day to day activities of the Bank, so it remains to be seen whether they will be carried through into implementation. Nevertheless, the changes that appear to be underway do represent some fundamental departures from the traditional conceptions of the Bank's role and therefore warrant tracking in order to assess whether they materialise in operational strategies. In the section below, I set out some of the headlines of those changes.

### **Governance and anticorruption reform**

Governance and anticorruption have formed part of World Bank policies since the early 1990's under the influence of Bank strategists such as David Dollar, who asserted a positive link between 'good' governance and economic growth. Since that time, lending policies have been related to conditionalities on the transparency of public spending and clampdowns on corruption. Over the last two decades, the focus on good governance has emphasised what the Bank calls the 'supply side' of good governance, or a focus on public sector reform.

Over the years, civil society groups pushed hard for more transparency and accountability of world bank activities, both at the policy level and at the level of implementation. In response, during 2007, the World Bank drafted and approved its new Governance and Anticorruption Strategy (GAC). The central commitment of the GAC is to balance its old 'supply side' strategies with 'demand side strategies' which focus on the strengthening of citizen voice and capacity to participate in governance and accountability. The policy correction in this area is referred to as 'Demand for Good Governance' (DFGG).

This would appear to be good news. However, the DFGG vocabulary is deeply imbued with technocratic terminology which create a role for 'experts' who can develop 'criteria' for civil society participation, rather than just opening the door and letting civil society in. Also, there is a scattering of funds for a wide range of individual 'pilot' projects, and it remains to be seen whether these can be collected together into a coherent programme for enhancing citizen engagement.

### **Climate Investment Funds**

A major shift will be induced in the nature of the funds available at the World Bank by the approval of so-called Climate Investment Funds. The Board of Directors of the World Bank approved the creation of these funds in July 2008, and on the 26 of September this year, donors pledged a total of U.S. \$ 6.1 billion. Contributors to this fund were Australia, France, Germany, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom and the United States. These funds threaten to undermine the governance of the United Nations Convention on Climate Change, as each fund was originally designed to have an independent governance structure comprised of donors to that fund. After heavy protests from the NGO sector, a compromise governance structure was agreed consisting of 50% developed and 50% underdeveloped country representation. This issue is currently still being discussed. Furthermore, the existence of the Climate Investment Funds has not prevented the World Bank from investing U.S. \$ 2.3 billion in fossil fuel projects in 2008. Also, the great majority of 'climate' funds have been committed to the Clean Technology Fund which will stimulate low carbon technologies in upcoming markets such as China and India, while a small fraction of the funds committed will go to the Strategic Climate Fund aimed at financing adaptation in poor countries.

## **Human Rights**

Since 1990, there has been a gradual growth in the recognition by the World Bank that the rule of law and good governance have an important impact on economic growth. From very meagre beginnings, the rights based approach to development which gained currency elsewhere has begun to make inroads into the Bank. And although this process is far from complete, there are many signs of recent progress on this front. The first of these is the venture into fragile states, which is one of Robert Zoellick's six top priorities for the Bank in the future. The new emphasis on vulnerable groups in fragile states implies an emphasis on the restoration of the rule of law and the restoration of respect for human rights. Second, within the World Bank, an increasing number of calls have been made to mainstream a rights based approach to development. During a brief and abortive appointment of Ana Palacio at the Bank's legal department, open calls were made for more attention to human rights as a core aspect of human development. Third, Both ENDS' political café on the right to water and sanitation inside the building of the World Bank, while highly controversial for Bank staff, was nevertheless allowed to take place and was applauded by those Bank staff in favour of the rights based approach. Fourth, since 2007, three cases of World Bank projects and programmes brought before the Inspection Panel have led to rulings which require the Bank to take human rights issues into account. (These are the Honduras Land Administration Claim, the Chad Cameroon pipeline claim and the China Western Poverty Reduction Claim). In other words, a precedent is increasingly being set for the absorption of human rights criteria into the operational policies of the World Bank.

## **The 'triple hit'**

During the first ten months of 2008, the world experienced a sharp rise in the prices of basic food commodities such as maize, rice wheat and food oils, with some prices for these basic foodstuffs doubling in this period. This price rise was in part driven by demand for biofuels in Western Europe and North America, and in part by market speculation. In the same period, the world oil price crossed the U.S. \$ 100.- per barrel threshold and rose to \$ 145 a barrel before coming down again in the wake of the financial crisis. Both factors placed many poor countries under severe pressure, leading to bans or export restrictions on key foods by more than 40 countries and a severe drain on national budgets through oil imports. The Doha round of negotiations ground to a halt. Then, in October, this 'double hit' was joined by a third in the form of a global financial meltdown on a scale not seen for three decades. This led to a sharp withdrawal of investment from emerging markets and to a shortage of credit, both severely affecting poor countries which were already facing a tight squeeze. In May 2008, the World Bank opened a special Financing Facility of U.S. \$ 1.2 billion for support to those most severely affected by the food crisis, of which the lion's share was sourced from the European Union. Of this, some \$ 98 million or almost 10% of the facility is sourced from the Netherlands. The facility will focus on raising access to agricultural inputs and the stimulation of 'safety net measures'. All of these interventions are supply side measures and do not speak to inequalities in the world trade system.

## **Water Resources Management**

The World Bank currently has a U.S. \$ 3.1 billion water resources management portfolio, which is part of a much larger infrastructure portfolio that reached \$ 7.4 billion in 2005. The two are often linked, such as through hydropower projects which require both dam building and the layout of electricity transmission infrastructure. Lending to water resources projects had tapered off from close to \$ 600 million during 1998 to some 150 million in 2002. Since, then, however, lending has exploded again, climbing steadily to reach some \$ 800 million in 2007. The basis for current water infrastructure investment is the 2003 World Bank Water Resources Strategy, which has ushered in a new push on infrastructure. This strategy makes only fleeting reference to the recommendations in the report of the World Commission on Dams, which is the only existing, internationally work shopped standard reference containing safeguard procedures for water resources development.

Over time, the Bank has begun to engage with overarching themes of water resource management that stretch beyond the level of the individual project. On the one hand this takes place through the recognition of increasing water scarcity in quantity and quality. However, while the mantra of water scarcity is recited, the main cause of scarcity, i.e dam construction, is put forward as its solution. While dam building is a form of resource capture for the benefit of the elite, it is presented as a means to alleviate scarcity amongst the poor. Similarly, the bank provides assistance to individual countries in the development of regulatory frameworks for water management and water resource management strategies. This places the hydro political privilege in the hands of a small technical elite and cuts off the broader population from participating in discussions on water resource allocation. With the current drive to accelerate 'renewable' forms of energy such as hydropower, the drive for dam building is far from gone.

## **Rethink Bretton Woods?**

Both the current financial crisis and the gradual power shift in the global economy towards new powers such as the BRIC's (Brazil, Russia China and China) have led to calls for the reform of the World Bank's governance system as well as for a fundamental rethink of the oversight role of the IMF. Neither in the case of the World Bank nor in the case of the IMF have major governance reforms been accomplished, but the economic power of new entrants into the global system is beginning to result in influence out of proportion to their voting rights in the Bretton Woods institutions.

Thus Frank Walter Steinmeier, Germany's foreign minister, called for an entirely new and global supervision of finance by the IMF at the 2008 annual meetings. Similarly, World Bank director Robert Zoellick called for reform of the IMF in the direction of a more independent ability to intervene rather than to 'resolve'. Overall, there is a renewed interest in the role of the IMF, which was waning rapidly while international capital markets had ample supplies of funds. With the emergence of the financial crisis, the IMF now has a new lease of life and its role in stabilising financial markets has regained importance. Importantly, the stronger emerging market economies are now in a position to help stabilise the international financial system and this could strengthen their position within the IMF. Thus Yi Gang of China's central bank for instance has called on the IMF to increase its surveillance of developed countries with 'weak financial policy discipline'.

On the World Bank, caught in the middle between its current board of directors and the increasingly loud calls for change by new entrants into the world economy, Zoellick called for a rethink of multilateralism and a broadening of the G7. The new system, he stated, should be 'numberless and flexible' in response to an ever changing set of conditions in the global economy. On a more cynical note, this points partly to the fact that the climate investment funds have a separate governance structure to that of the World Bank as a whole, so that the internal structure of the Bank has become more 'flexible'.