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Civil society and Wolfowitz's World Bank : Reform or rejection revisited

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ABSTRACT

The debate over how - or even whether - the Bretton Woods Institutions (BWIs) can be reformed has taken on greater importance in recent years, thanks to an apparent fusion of neoconservative geopolitics and neoliberal economics in the leadership of both the World Bank (Paul Wolfowitz) and International Monetary Fund (Rodrigo Rato). Attempts at internal democratisation and governance restructuring failed during the late 1990s and early 2000s, although greater attention to corruption on Bank projects emerged in 2005. Debt relief was scanty, and little or no success was recorded in moving the World Bank away from environmentally destructive and economically painful projects and policies. While civil society cooption was one of Wolfensohn's specialties, this approach was both exhausted and fruitless by 2005, and protests against the new Bank president took on greater weight. The basis thus exists for a full-fledged decommissioning strategy, one adopted by leading Third World social movements and thinktanks.

Introduction

Can the World Bank and International Monetary Fund (IMF) be reformed? Or should they be rejected outright - and closed? What kinds of analysis, strategies, tactics and alliances allow us to even pose the question in the stark terms of 'fixing' or 'nixing' (i.e., defunding and decommissioning) the Bretton Woods Institutions (BWIs)? Does the advent of neoconservative control of the World Bank, along with 'anti-corruption' posturing in 2006, make any difference?

James Wolfensohn's 1995-2005 presidential reign muddied these debates, dividing advocacy movements over matters of legitimacy, accountability and militancy. At his retirement, some NGOs even gave him an endearing farewell party. With Paul Wolfowitz running the Bank at least through 2009 these questions are being raised in a new and different way. At last there is the possibility of uniting global justice movements to the broader anti-imperialism struggle via a focused campaign against an institutional enemy.

But matters are not so simple. First, consider the terrain upon which campaigners have been working over the past decade. When Bill Clinton anointed Wolfensohn Bank president, several opportunities arose for organisational change, based upon internal processes and external pressures. [\[1\]](#) Some followed directly on the sudden legitimacy crisis of the Bretton Woods twins in 1997-99, combining the institutions' global-governance 'democratic deficit', their continued reliance upon the 'Washington Consensus' approach to public policy, the Bank's ongoing orientation to controversial mega-projects, both agencies' failure to relieve Third World debt and international financial speculation born of liberalised capital markets, and the tenure of Joseph Stiglitz as chief economist during a period of middle-income meltdowns. Other catalysts included international, intersectoral commissions - emerging from public campaigning - on structural adjustment, dams and extractive industry.

We begin by considering these factors, then take stock of the first year of the Wolfowitz regime, and end with critical arguments about global justice movement capacities and priorities.

Wolfensohn's 'reform' era

The internal procedural changes, rhetorical shifts, individual initiatives and multi-stakeholder forum exercises introduced from 1995-2005 under Wolfensohn occurred at a time of legitimacy crisis for neoliberal ideology. Free-market economic principles were applied widely to macroeconomic and micro-development policy in the Third World (including South Africa, Brazil, Korea and India by mass-popular governments), and also in many northern 'Third Way' regimes. In spite of declarations at the March 2002 United Nations Financing for Development (FFD) summit in Monterrey, Mexico, that 'a shift from the Washington Consensus to a new Monterrey Consensus' [\[2\]](#) had emerged, the 'Post-Washington Consensus' challenge by Stiglitz starting at his famed January 1998 speech in

Helsinki made no dent. Issues posed by reformers—debt relief, citizen 'participation' in neoliberal programme design, democratic governance, transparency, global financial regulation, and commissions dealing with structural adjustment, dams and energy—were all rebuffed.

The FFD conference was one site to pose and begin answering such questions. It occurred auspiciously, just after South Africa's dramatic 2001 currency crash, in the wake of similar declines in Argentina, Turkey, Brazil, Russia, Korea, Malaysia, Indonesia and Thailand in a four-year arc of destruction that also included a \$7 trillion meltdown in New York stock markets. [3] However, rather than seriously address the structural challenges of Third World debt and financial speculation, the FFD meeting's leadership [4] merely reiterated UN Millennium Development Goals rhetoric while relying upon orthodox strategies and policies. It correctly observed 'dramatic shortfalls in resources required to achieve the internationally agreed development goals', [5] but endorsed the Heavily Indebted Poor Countries (HIPC) debt relief initiative as 'an opportunity to strengthen the economic prospects and poverty reduction efforts of beneficiary countries.' The limits of the institutions' capacity to change become evident on examination of HIPC, followed by subsequent attempts to draw in civil society through 'participatory' structural adjustment design and governance reform.

Notwithstanding its support for the HIPC debt scheme at Monterrey, the Bank conceded longstanding criticisms that its staff 'had been too optimistic' about the ability of countries to repay under HIPC, and that projections of export earnings were extremely inaccurate. Thus half the HIPC countries failed to reach their completion points. [6] The once pro-HIPC London lobby group Jubilee Plus admitted, 'According to the original HIPC schedule, 21 countries should have fully passed through the HIPC initiative and received total debt cancellation of approximately \$34.7 billion in net present value terms. In fact, only eight countries have passed Completion Point, between them receiving debt cancellation of \$11.8 billion.' [7] Add a few other countries' partial relief via the Paris Club (\$14 billion) and it appears that the grand total of the 1996-2003 debt relief exercise was just \$26.13 billion. (The 1998 G8 summit in Cologne, Germany had promised \$100 billion.) More than \$2 trillion of Third World debt that should be cancelled remains, including not just HIPCs but also Nigeria, Argentina, Brazil, South Africa and other major debtors not considered by global elites to be highly-indebted or poor. The more radical Jubilee South network, with leading members in Argentina, Nicaragua, the Philippines and South Africa, rejects Jubilee Plus ideas about how much debt is 'sustainable' and 'repayable', arguing for full cancellation, repudiation and G8-country reparations.

In 1999, HIPC was accompanied by a renamed structural adjustment philosophy: Poverty Reduction Strategy Papers (PRSPs). As the World Development Movement put it, the new version did not fool the victims: 'PRSPs have failed to deviate from the IMF's free market orthodoxy.' [8] In the same spirit, a May 2001 Jubilee South conference of the main African social movements concluded in Kampala:

" The PRSPs are not based on real people's participation and ownership, or decision-making. There is no intention of taking civil society perspectives seriously, but participation is kept to public relations legitimisation.

" The lack of commitment to participation is further manifested in the failure to provide full and timely access to all necessary information, limiting civil society's capacity to contribute meaningfully.

" The PRSPs are introduced according to pre-set external schedules, resulting in inadequate time for effective participatory processes in most countries.

" In addition to the constraints placed on governments and civil society organisations in formulating PRSPs, the World Bank and IMF may veto the final programs. This mocks the claim that the PRSPs are based on 'national ownership.'

" Another concern is how PRSPs co-opt NGOs to 'monitor' their own governments for the Bank and IMF, directly and indirectly. [9]

The latter gambit was failing when the FFD convened in Monterrey. For example, Ugandan civil society organisations expressed concern that their own 'participation in the endeavour has amounted to little more than a way for the World Bank and IMF to co-opt the activist community and civil society in Uganda into supporting the same traditional

policies.' [\[10\]](#) Other NGO, funding agency and academic studies of PRSPs were highly critical. [\[11\]](#) It was, hence, not surprising that subsequent debt relief concessions in 2005 were also unsatisfying; the G7 finance ministries provided merely \$2 billion per year in relief affecting fewer than 20 countries, whose debts were not completely written off, contrary to the advertised promise. The Bank and IMF attempted to periodically sabotage even that partial debt relief by limiting countries eligible and delaying implementation.

Lack of internal democracy is partly to blame. Barely acknowledging the global system's power imbalances, the Monterrey Consensus offered only timid suggestions for governance reforms. Just two directors represent the BWIs' nearly fifty Sub Saharan African member countries, while eight rich countries enjoy a director each and the US maintains veto power with more than 15% of the votes. (There is no transparency as to which board members take what positions on key votes.) The leaders of the Bank and IMF are chosen from, respectively, the US and EU, with the US treasury secretary holding the power of hiring or firing. [\[12\]](#) Although reformist gestures were needed for the sake of appearance, [\[13\]](#) the Development Committee's 2003 Bank/Fund strategy offered only minor amendments, such as adding one additional representative from the south to the 24-member board. In mid-2003 a leaked World Bank paper proposed raising developing country voting power from 39% to 44% and adding one new African executive director, but the June 2003 proposals neglected IMF governance, Bank/IMF board transparency or Bank/IMF senior management selection. [\[14\]](#) Even those milquetoast reforms were too much for the US, and the Bush regime's executive director to the Bank, Carol Brooking, opposed reforms, suggesting an extra research capacity fund instead. [\[15\]](#)

Reforms from the outside?

Under the prevailing balance of power, the top-down reform processes discussed above could not have worked. What of other efforts at reform from the outside (ostensibly from below) - particularly via international commissions in which the World Bank played a crucial hosting and financing role? Well-meaning civil society advocates went inside the Bank recently in three major recent processes: the World Commission on Dams, the Structural Adjustment Participatory Review Initiative (Sapri) and the Extractive Industry Review (EIR). In the first, Bank water expert John Briscoe actively lobbied southern governments to reject the findings of a vast, multi-stakeholder research team in 2001. [\[16\]](#) According to Patrick McCully of International Rivers Network, 'The World Bank's singularly negative and non-committal response to the WCD Report means that the Bank will no longer be accepted as an honest broker in any further multi-stakeholder dialogues.' [\[17\]](#)

As for Sapri, hundreds of organisations and scholars became involved in nine countries: Bangladesh, Ecuador, El Salvador, Ghana, Hungary, Mexico, the Philippines, Uganda and Zimbabwe. From 1997-2002 they engaged in detailed analysis, often alongside local Bank and IMF officials. Bank staff withdrew from the process in August 2001. In April 2002, when civil society groups tabled the 188-page *The Policy Roots of Economic Crisis and Poverty* report on the research, Washington ignored them. [\[18\]](#)

The EIR also nearly went off the rails when, despite environmental, human rights and social justice communities' objections the Bank approved loans for two pipelines in Chad-Cameroon and the Caspian. By late 2003, civil society pressure against the Bank was sufficient to move the EIR leader, former Indonesian environment minister Emil Salim, to include radical recommendations in the draft report: an end to World Bank coal lending by 2008 (worth billions in countries like India and China); mandatory revenue sharing with local communities; extensive environmental and social impact assessments; mining or drilling 'no go' zones in environmentally sensitive areas; no new mining projects dumping tailings in rivers; obligatory environmental restructuring and increased renewable energy investments. Few were surprised when lead Bank energy staffer Rashad Kaldany immediately and publicly disagreed with the Salim recommendations. [\[19\]](#) Several major environmental NGOs remarked upon the institution's poor track record:

One of the Bank's most important environmental reforms of the 1990s was its more cautious approach to high-risk infrastructure and forestry projects. This policy is now being reversed. The World Bank recently announced that it would re-engage in contentious water projects such as large dams in what it refers to as a 'high risk/high reward' strategy. In 2002, the Bank dismissed its 'risk-averse' approach to the forest sector when it approved a new forest policy. [\[20\]](#)

In August 2004, the institution's board rejected the main EIR recommendations. According to Samuel Nguiffo of Friends of the Earth Cameroon, 'The Bank's response is a deep insult for those affected by its projects.' His Amsterdam colleague Janneke Bruil added: 'Billions of misspent public dollars and sixty years of outcries by people around the world have not been enough. What more does it take?' [\[21\]](#)

Much more protest will be needed to tackle the primary environmental challenge, namely to urgently reduce carbon and other greenhouse gas emissions from levels already responsible for severe climate change. Instead of reducing, the Bank promotes a dubious mitigation strategy through its Prototype Carbon Fund (PCF), which manages monies from 17 corporations and several carbon-intensive Western governments. Thanks to the Bank's propensity to invest in projects such as methane extraction from toxic waste dumps (of which Durban's Bisaser Road is notorious, given the government's 1996 pledge to close it) or destructive timber plantations (such as Brazil's controversial Planitar), the Northern polluters who support the PCF face greatly reduced official pressure to cut emissions. [\[22\]](#) In opposition, a 'Durban Declaration' was signed by international environmental and social activists in October 2004. Signatories suggested numerous alternatives, once governments and international agencies become serious about global warming: regulation, taxation, support for existing low-fossil-carbon economies, energy efficiencies, development of renewables and non-fossil-fuelled technologies, responsible tree planting, and other strategies not involving commerce and not presupposing that big business already owns the world's carbon-cycling capacity. [\[23\]](#)

Far from seeking such alternatives, by April 2006 the Bank was endorsing nuclear power and mega-dam hydropower as potential 'clean energy' sources, and promoting the dubious science of carbon sequestration, in a paper before its Development Committee. Renewable energy funding remains an extremely low priority, even though a group of ecological economists within the Bank had tentatively begun to value depleted natural resources as a corrective to standard wealth/income/savings accounts. As Michael Goldman demonstrates in his book *Imperial Nature*, the Bank's 'green neoliberal project' fuses 'neocolonial conservationist ideas of enclosure and preservation and neoliberal notions of market value and optimal resource allocation' in order to make 'particular natures and natural resource-dependent communities legible, accountable and available to foreign investors... by introducing new cultural and scientific logics for interpreting qualities of the state's territory.' [\[24\]](#)

Hence the April 2005 merger of the Washington Consensus neoliberal agenda and the Pentagon-White House neoconservative programme was no shock. The board meeting where Wolfowitz was confirmed as James Wolfensohn's replacement may represent the peak moment for the big oil and energy companies.

Enter Paul Wolfowitz

The Bank's leadership transition from Wolfensohn - the longtime Democrat and neoliberal financier - to the neoconservative Wolfowitz based in the petro-military complex was revealing. George W. Bush needed some very strong allies to appoint a man responsible for mass destruction in Iraq and Afghanistan. Along with the presidents of France, Germany, Japan and Italy, South Africa's Thabo Mbeki was the other world leader Bush phoned to vet the appointment. A year earlier, Mbeki had expressed 'the urgent need for radical reform' of Bank and IMF governance. [\[25\]](#) Yet the same month, South African finance minister Trevor Manuel wrote a letter - as chair of the BWIs' Development Committee - conceding that reforms on 'voting rights' were 'likely to be postponed for some time'. In the meantime, said Manuel, the committee should address 'those situations where countries' quotas/capital shares were egregiously out of line with their economic strength.' [\[26\]](#) That strategy, endorsed by IMF leadership in 2006, will

further empower wealthier countries, especially Japan. The IMF will receive greater voting rights alongside increasing IMF quotas and World Bank capital investment. The result would be much more money for the two institutions, in the process strengthening the systemic inequality by which rich countries exert control. Tellingly, Manuel's letter did not refer to the highly controversial question of who would run the IMF.

This was either an egregious oversight or reflection of political cowardice, because a revolt was brewing - even by some IMF/Bank executive directors - simultaneously against a figurative apartheid-style 'Europeans Only' sign on the IMF managing director's office door. The sign was obvious when Horst Koehler resigned to become president of Germany in early 2004. From Spain's outgoing conservative regime, finance minister Rodrigo Rato got the job thanks to support from British chancellor of the exchequer Gordon Brown, chair of the other crucial IMF/Bank board committee. Rato's austerity-oriented role in Spain, according to University of Barcelona professor Vincente Navarro, should have generated a massive protest from Africa and the rest of the Third World. Rato, Navarro put it, 'is of the ultra-right.' As minister he encouraged the compulsory study of religion in schools, requiring more hours in it than in mathematics, worked against progressive taxation policies, funded a Francoist (Spanish fascist) foundation, and refused to condemn the fascist dictatorship. He reduced public social expenditures dramatically to eliminate the public deficit, resulting in 'the most austere social budget of all the governments of the European Community.' [\[27\]](#)

Notwithstanding four years of lobbying by Manuel, Mbeki and other Third World politicians for BWI reform, the succession of IMF leadership was less amenable to Africa in 2004 than in 2000. In the earlier struggle over the managing director's post, Africa's finance ministers adopted what Time described as a 'clever' strategy: nominating Stanley Fischer, the Zambian-born, South African-raised acting managing director of the IMF. But Fischer's 'fatal flaw' was his US citizenship, so Kohler got the job instead, in view of the unwritten rule that divides such spoils between the US and Europe. [\[28\]](#) 2004 saw no such clever attempt, and Africa's finance ministers expressed hope, instead, for merely a few more advisors to Rato and more resources for the two African executive directors. [\[29\]](#)

From such experience, Bush could reasonably expect Mbeki, other Third World elites and even the Europeans to accede to the his appointment. At a press conference in March 2005 to announce Wolfowitz's qualifications, Bush adlibbed with typical depth: 'He helped manage a large organisation. The World Bank is a large organisation; the Pentagon is a large organisation - he's been involved in the management of that organisation. He's a skilled diplomat, worked at the State Department in high positions. He was Ambassador to Indonesia where he did a very good job representing our country.' [\[30\]](#) Indeed, during his stint in Jakarta as Ronald Reagan's ambassador in the late 1980s Wolfowitz shored up Suharto's dictatorship. He regularly bragged about the strong role of US oil companies there, but never went on record against Suharto's myriad abuses, leading finally in 1998 to intense street riots and a forced resignation. [\[31\]](#)

Wolfowitz demonstrated similar diplomatic skills when he justified choosing to invade Baghdad, instead of Pyongyang, which really did control weapons of mass destruction: 'The most important difference between North Korea and Iraq is that economically, we just had no choice in Iraq. The country swims on a sea of oil.' [\[32\]](#) Wolfowitz also told Vanity Fair that the rationale for the invasion of Iraq was one of political convenience, not honesty: 'For reasons that have a lot to do with the US government bureaucracy, we settled on the one issue that everyone could agree on which was weapons of mass destruction as the core reason.' [\[33\]](#)

This was not his only lapse of judgment. US political commentator Arianna Huffington noted that during preparations for the war, *Wolfowitz mocked Gen. Shinseki as 'wildly off the mark' for saying the US would need at least 200,000 troops on the ground in Iraq. 'It's hard to conceive,' Wolfowitz told Congress three weeks before the invasion, 'that it would take more forces to provide stability in post-Saddam Iraq than it would take to conduct the war itself and to secure the surrender of Saddam's security forces and his army. Hard to imagine.' That failure of imagination has led to the death and mutilation of thousands of Americans and tens of thousands of Iraqis.*

Wolfowitz stated that the US would not have to pay for Iraq's occupation and reconstruction, thanks to '\$10 to \$20 billion in frozen assets from the Gulf War,' and '\$15 billion to \$20 billion a year in oil exports'. In fact, reported Huffington, the taxpayer tab for Iraq exceeded \$250 billion within three years. [\[34\]](#)

Colin Powell's former chief of staff in the State Department, Lawrence Wilkerson, explained how he and his boss helped advance Wolfowitz's agenda: 'I participated in a hoax on the American people, the international community, and the United Nations Security Council.' [\[35\]](#) In *Foreign Affairs* journal, former senior CIA analyst Paul Pillar claims that the hoax required Bush, Cheney, Rumsfeld and Wolfowitz to simply ignore their own spy agency: 'If the entire body of official intelligence analysis on Iraq had a policy implication, it was to avoid war - or, if war was going to be launched, to prepare for a messy aftermath.' [\[36\]](#)

In view of Wolfowitz's central role in the US-Iraq catastrophe, former IMF chief economist Kenneth Rogoff advised him 'to put himself in the hands of the professionals who run the World Bank's external-relations department'. With an 'extreme makeover' at their hands 'he'll be a star on his own in no time.' [\[37\]](#) The *Los Angeles Times* confirmed that he took this counsel quickly: 'Wolfowitz's most valuable contribution to date may simply be his role as a cheerleader.' [\[38\]](#) As Huffington observed, the 'Extreme Political Makeover' had 'Wolfie' moving 'from war hawk to ... Mother Teresa - all without having to make any kind of redemptive pit stop in political purgatory or having to apologise for being so wrong about Iraq.' [\[39\]](#) *Washington Post* journalist Dana Milbank addressed the same theme:

Being Wolfie means not having to say you're sorry... Since taking the World Bank job six months ago he has found a second act. He has toured sub-Saharan Africa, danced with the natives in a poor Indian village, badgered the United States to make firmer foreign aid commitments and cuddled up to the likes of Bono and George Clooney. [\[40\]](#)

For balance, other people Wolfowitz was close to within his president's suite included Robin Cleveland, Kevin Kellums and Suzanne Rich Folsom, high-profile Republicans from the military-industrial complex and Bush regime. Cleveland had been entangled in a Boeing/Pentagon scandal resulting in Air Force Secretary Jim Roche losing his job, and in nepotism charges while a White House Office of Management and Budget official. Ironically, a January 2006 brouhaha emerged over Wolfowitz's displacement of several Bank officials amid an anti-corruption drive led by his Republican cronies. Cleveland and Kellems were accused of receiving 'excessive pay and open-ended contracts' by Bank staff who filed a complaint to the Department of Institutional Integrity's whistleblower hotline, and the Bank Staff Association complained that standard hiring procedures were ignored for the Kellems and Folsom appointments. [\[41\]](#)

Still, after March 2005, Wolfowitz talked 'left' about unfair trade subsidies, meagre US aid, and corruption. The test to see if this was merely newly-learned rhetoric, veiling the petro-military complex agenda, would be in August 2005 in Ecuador. There, the centrist government employed a Keynesian finance minister, Rafael Correa, who renewed Ecuador's long-standing \$75 million tax-avoidance complaint against Occidental Petroleum. Wolfowitz opposed not only this, but also a new law which would redirect 20% of an oil fund towards social needs and 10% for national development in science and technology, instead of putting the surplus into debt servicing to foreign lenders. (The oil price rise windfall from \$18/barrel when the fund was set up, to \$70/barrel in 2005, was being directed to creditors.) Correa aimed to rescind Occidental's control of the oilfields, as the original contract allowed under conditions of non-performance.

Just two days after Ecuador decided to cancel Occidental's contract, Wolfowitz shelved the country's loan assistance, claiming it was financially instable. This created a governmental crisis, and President Alfredo Palacio persuaded Correa to resign, also firing the head of the national petroleum company. Its new head had previously assisted Occidental and favoured more privatisation. [\[42\]](#) Beside Ecuador, in Colombia, Wolfowitz had helped Occidental defend one of the most productive oil fields in the world, Cano Limon, whose pipeline runs through jungle adjacent to guerrilla controlled territory. The US Defence Department established a Colombian 'Pipeline Brigade' with a \$150

million grant Wolfowitz arranged when he was the second-ranking Pentagon official.

A seemingly opposite case arose a few months later in Africa. There, the controversial Chad-Cameroon oil pipeline's funds were redirected from poverty alleviation to the military. In spite of Wolfowitz's warnings, Chad's authoritarian president Edriss Déby and the country's parliament amended a 1999 petroleum revenue management law during December 2005. (According to Transparency International Chad is tied with Bangladesh as the most corrupt country in the world). The case was important because Bank cofinancing of the \$3.7 billion pipeline was targeted by community, human rights and environmental groups in a long-running international campaign on grounds it would simply empower the Chad regime without supporting health, education and rural development, or providing for future generations. In 1999, the Bank responded with the revenue legislation to mitigate these concerns. Hence Déby's 2005 amendment triggered Wolfowitz to withhold new funds, and halt disbursement already underway of \$124 million in International Development Association monies. A local group, the Chadian Association for the Promotion and Defense of Human Rights, endorsed the sanctions because 'new money would mainly be used for military purposes and increasing repression of the Chadian people. But we regret that the Bank did not listen to the warnings of civil society organisations earlier.'

Indeed, the Bretton Woods Project records that 'poverty, public health, human rights abuses and environmental problems continue to increase as the Exxon-Mobil led consortium running the project expands drilling activities in both existing and new oilfields.' The Bank's International Advisory Group monitoring the project's implementation, reports 'that the oil consortium is taking land from poor subsistence farmers without ensuring ... compensation payments' adequate to replace lost livelihoods. Local and military authorities 'extort money from villagers when they receive cash compensation from the oil companies' and the local human rights organisations defending peoples' rights are often threatened with death. The poorest peoples' health and crops are suffering the effects of pollution, and no studies are made on these matters. [\[43\]](#)

Perhaps surprisingly, this case of petro-military alignment was resolved against the World Bank's allies in repressive regimes and multinational corporations. Wolfowitz apparently required a dose of public credibility in Africa's highest-profile oil-related financing dispute. Cynics could add, however, that the clampdown also functioned to impose Bank discipline on an errant country, thus sending a tough lesson to others to obey Washington's orders.

The same conflict of objectives arose in Ethiopia and Kenya in late 2005. In the former, Africa's second most populous country and the world's seventh-poorest, donors suspended \$375 million in budget support following severe state repression, including a massacre of opposition political protesters and mass arrests. Although this threatened to wipe out a third of the country's budget, and although president Meles Zenawi - an ex-Marxist ex-guerrilla - was a neoliberal favourite, the Bank complied.

In Kenya, a corruption scandal debilitated Mwai Kibaki's government. By January 2006 Wolfowitz again suspended financing, in this case \$265 million, over half of which had been approved by the Bank's board a few days earlier. The motive here was the need to save face, given that the main Kenyan corruption investigator, John Githongo, had fled to Oxford. As Michaela Wrong reported, the Kenyan press began to 'drip-feed' Githongo's thirty-six page compilation of charges just as the Bank's loan was announced. His report accused key ministers, including finance, of establishing fraudulent contracts misappropriating hundreds of millions of dollars in public funds. Worse, even though Githongo had informed Kabaki, no action was taken. [\[44\]](#)

Former British ambassador Edward Clay accused Wolfowitz of 'blind and offensive blundering' for initially providing the loan to Nairobi, yet Department for International Development minister Hillary Benn granted Kibaki £55 million at the same time, essentially turning a blind eye to Nairobi's corruption. As Wrong explains, these paradoxes can be explained because Britain, 'having pushed for a doubling of aid and less conditionality for "progressive" African governments ... is finding it embarrassingly difficult to disburse.' Moreover, Nairobi was a solid ally of the UK and US

against Islam. Thus the temporary retraction of Bank funds earmarked for Kenya (loans resumed in April) reflected the embarrassment of the Bank's collaboration in corruption, just as Wolfowitz was shaking out the Bank staff of officials implicated in various other scandals.

Yet by early 2006 at least one such scandal appeared as too challenging for Wolfowitz. The Bank's Multilateral Investment Guarantee Agency had made a \$13.3 million political risk insurance investment in the Democratic Republic of the Congo's Katanga province just before an October 2004 massacre. The Dikulushi Copper-Silver Mining Project, run by the Australian firm Anvil Mining, gained support in spite of the country's intense social unrest. Indeed, DRC armed forces killed 100 people during the suppression of a rebellion by the Mayi-Mayi militia in Kilwa. The Australian Broadcasting Corporation reported that Dikulushi trucks moved troops to massacre's site and then moved corpses out. Although company headquarters denied knowledge of an Anvil role in the massacre, critics in the DRC and watchdog agencies assumed that a subsequent Bank investigation would reveal corporate connivance. With Wolfowitz still reluctant to disclose the facts five months after receiving the document, Nikki Reisch of the Bank Information Centre remarked: 'Stalling the release of the report only gives the impression that the Bank Group has something to hide. It seems strange that an audit of such a high-profile and controversial project would be kept secret.' [\[45\]](#)

Meanwhile in Iraq, which Wolfowitz knew far better, resistance to Bank and IMF dictates began shortly after he took office. The Bank agreed to co-administer the International Reconstruction Fund Facility for Iraq and World Bank Iraq Trust Fund in 2003, thus coordinating much international aid funding. The Pentagon and State Department, meanwhile, were short-changing the reconstruction programme notwithstanding the immense damage done by US/UK bombing (with South African supplied laser range finders), pulling back financing for hundreds of promised projects. This gave the Bank the opportunity, in July 2005, to prepare paperwork for \$500 million in International Development Association loans, to begin in November.

But strings were attached. For example, the Bank and IMF argued to the new government in late 2004 that the world's second-largest oil reserves be exploited by multinational companies through a very unusual arrangement, production sharing agreements, amounting to a privatisation process. According to the international NGOs producing the report *Crude Designs*, Iraq would suffer more than \$74 billion in losses for forty years, because Baghdad would be prevented from controlling the country's oil sector, responsible for 90% of Iraq's GDP.

Other IMF conditionality began biting in December 2005, as a \$685 million stand-by credit was advanced to Baghdad on four conditions: cutting public subsidies especially on fuel (the cheapest in the world); restructuring Iraq's external debt; strengthening administrative capacity, including statistical reporting; and restructuring Iraq's two state-owned banks. Riots ensued when the Baghdad government raised petrol and diesel prices by up to 200%, and the oil minister, Ibrahim Bahr al-Uloum, resigned in protest. Five Iraqi trade unions criticised IMF and World Bank policies and demanded:

complete Iraqi sovereignty over its petroleum and natural resources; increased transparency and additional Iraqi representation in IFI decision-making structures; cancellation of the former regime's debt and an end to conditionality; rejection of the privatisation of publicly owned entities; and rejection of petroleum product price increases.

There are many other cases of Bank corruption that Wolfowitz has and will avoid, according to Washington watchdog NGOs Food and Water Watch, 50 Years is Enough, Jubilee USA Network and the Development Group for Alternative Policy. For instance, Bank-financed Lesotho Highlands Water Project dams, which supply Johannesburg, were rife with bribery by a dozen multinational corporations. Although the Maseru government prosecuted several of the firms, 'foot-dragging on the part of the World Bank to debar the convicted companies has softened the impact of this high-profile case'. In particular, the German firm Lahmeyer International was indicted in 2001 and convicted two

years later, but by April 2006, the Bank had taken no action. In Ghana and Peru, the Bank's International Finance Corporation (IFC) financed Newmont mining in spite of citizens' protests over corruption and environmental destruction. In Uganda, AES Corporation was forced to pull out of a major World Bank project, the Bujagali dam, 'after corruption associated with one of its sub-contractors was found. The deal was investigated by the Ugandan Government and the US Justice Department. The IFC has invested \$800 million in AES projects since 1995.' The Bank also made \$15 million in investments in Shell oil operations in the Niger Delta, in spite of the firm's role in 'human rights abuses, including its collusion with the Nigerian authorities for the mass murder of community people impoverished as a result of the devastation of their natural environment and the destruction of community sources of livelihood by Shell.' Major firms that the Bank supported in recent decades include Exxon-Mobil, Enron and others with histories of corruption and destruction, which Wolfowitz has made no effort to prosecute. [\[46\]](#)

What can we conclude about the state of international development finance under the leadership of Wolfowitz, Rato and the like? In spite of rhetoric about 'good governance' under neoconservative rule, genuine democratisation has simply not happened, as Manuel conceded during a Development Committee press conference in April 2005: 'Both Rodrigo here and Paul Wolfowitz are wonderful individuals, perfectly capable. But unfortunately, the process hasn't helped. It's not their fault. It is a governance issue.' [\[47\]](#) At the September 2005 annual meetings, Manuel blithely remarked that the undemocratic system was impervious to change: 'Part of the difficulty in the present milieu is that it is more comfortable for too many countries to live with what we have, because there's a comfort zone around this, and that, I think, is a challenge.' [\[48\]](#) If the elites are not interested in fixing the system, the challenge posed to civil society is whether the financial agencies should then be 'nixed', and how.

Civil, civilised and uncivil society reactions

In the face of systemic elite failure, two responses from civil society forces have emerged: accommodation and activism. As South African activist Virginia Setshedi - one of roughly 200,000 protesters in Washington on September 24, 2005 demanding US withdrawal from Iraq - put it: 'It is not just about war. It is about how many people die around the world because of unfair policies and actions - a large part of which are economic. So it is not just the military injustice that we are facing. We need to connect the dots together.' Anti-war organisers attacked BWI's policies for placing 'corporate profits ahead of basic human needs worldwide. We will speak out against the corporate theft of Iraq's resources and the decimation of the Iraqi economy through privatisation and "free trade".' [\[49\]](#) According to Reuters, protesters grieved for 'the rights of the poor in Louisiana displaced by Hurricane Katrina, the poor in Iraq who are being hurt by war and those that protesters say are forced into poverty by IMF policies.' [\[50\]](#) A mock wedding was held outside the Bank on September 22 by the Mobilisation for Global Justice (MGJ), uniting the Pentagon with the Bank under Wolfowitz's leadership.

Two high-profile leaders of, respectively the US global justice network '50 Years is Enough!' and the anti-war movement, Njoki Njoroge Njehu and Leslie Cagan, wrote that the Bank's new president 'makes the link between US military and economic policy clear.'

It will do what is necessary to control whatever resources it considers essential, and it will use the available political, military, and economic tools to ensure that its dominance is never threatened, and in fact extended however possible... The culmination of any intervention by the United States and its allies ... whether economic or military, is the re-structuring of their economies to serve foreign and corporate interests. Sometimes that means preserving unsavory regimes; occasionally it means overthrowing them. Most often it requires less violent means - the enforcement of economic contracts by international institutions like the World Bank. [\[51\]](#)

Hundreds of activists from Jubilee South Africa and the Anti-Privatisation Forum protesting Wolfowitz's mid-2005 visit to Johannesburg seemed to agree. So did the Congress of SA Trade Unions (Cosatu) - formally allied to the ruling African National Congress whose head, Mbeki, had invited Wolfowitz - offering this condemnation:

Mr Wolfowitz embodies all the worst features of the international financial institutions Like them, he has been dedicated to entrenching the power of big business and multinational corporations, at the expense of the workers and the poor... Cosatu endorses the view of Joseph Stiglitz, former chief economist of the World Bank, that Wolfowitz's appointment is 'an act of provocation' that could 'bring street protests and violence across the developing world'. [\[52\]](#)

But we must also consider World Bank resilience, as reflected in September 2005 both in Wolfowitz's successful meetings with civilised society organisations inside the Bank, and in the release of the 2006 *World Development Report: Equity and Development*, whose cover notably borrowed the leftist Mexican muralist Diego Rivera's incendiary 'Dream of a Sunday Afternoon in Alameda Park' (1947-48). Rivera once worked for the Rockefellers, who destroyed his great Rockefeller Center mural because he would not remove Lenin's face. One could assess the Mexican National Museum's licensing of the artwork to the World Bank as either a blasphemous mistake or a logical result of Bank austerity policies leading to Mexican state fiscal shrinkage, especially in the arts, requiring the museum to shill its art collection even to Wolfowitz's World Bank. The use of the mural on the Bank's flagship report may also be a signal about how badly the institution required legitimacy, given its new president's record. The 2006 Report may be covering the Banks' slipping intellectual credentials too. According to Sanjay Reddy, it 'often relies on questionable indicators and analytical tools. For example, more secure property rights, as judged by foreign investors, are used as a proxy for the "quality of institutions"... Its intellectual basis is weak, its contents are not adequately complete and its prescriptions are often either questionable or of limited practical value.' [\[53\]](#)

As for the co-option of 'civilised society', a transcript of the meeting with Civicus and Wolfowitz, just after the mock wedding in Washington's streets, is indicative. The meeting's chair, Civicus board president Aruna Rao, opened the meeting by joking to Wolfowitz: 'We hope that despite the recent marriage that you will be open to a liaison with Civil Society Organisations'. She closed with praise for Wolfowitz's 'openness to dialogue with civil society organisations on a range of issues. So I will go back to how I started. I think this liaison, despite the marriage, is something that can continue.' An alternative approach for uncivil society groups, in contrast, is to frankly acknowledge the marriage of neoliberalism and militarism - and to then nix any further liaisons. [\[54\]](#)

Starting from scratch

What, then, is to be done about the BWIs: fix them or nix them? The debate continues amongst the intelligentsia and activists, but from a vantagepoint in the chief economist's office, David Ellerman finally threw up his hands, declaring that they 'are now almost entirely motivated by big power politics and their own internal organisational imperatives... Intellectual and political energies spent trying to "reform" these agencies are largely a waste of time and a misdirection of energies.' [\[55\]](#) Even Stiglitz contemplates abolishing the IMF (though he is quiet about the Bank) due to its abuse of power and dogmatic ideology: 'Is the institution so resistant to learning to change, to becoming a more democratic institution, that maybe it is time to think about creating some new institutions that really reflect today's reality, today's greater sense of democracy.' [\[56\]](#)

Concluding in the affirmative, Cape Town's Anglican Archbishop Njongonkulu Ndungane, '[I]f we must release ourselves from debt peonage - by demanding the repudiation and cancellation of debt - we will campaign to that end. And if the World Bank and IMF continue to stand in the way of social progress, movements like Jubilee South Africa will have no regrets about calling for their abolition.' [\[57\]](#) According to Walden Bello, director of Focus on the Global South in Bangkok and a key strategist in the global justice movement, the Bank's 'own evaluation of its projects shows an outstanding 55 60% failure rate.' It is even higher - ranging from 65% to 70% - in the poorest countries, supposedly the targets of the Bank's 'anti poverty approach'. Bello argues that 'it would be better to abolish an institution that has made a big business out of "ending poverty"' than to expect extraordinarily well-paid technocrats 'to do the impossible - designing anti poverty programs for folks from another planet.' Local, national and regional institutions would be 'better equipped to attack the causes of poverty.' [\[58\]](#)

By the early 2000s three universal reasons emerged for nixing the Bretton Woods twins:

" virtually all core value reforms in key areas of eco socio economic advocacy have been explored, and the profound limitations unveiled;

" restoring national state sovereignty, mainly through lifting IMF/Bank pressure, is of greater urgency than there is time to convince tens of thousands of Washington economists to reverse the policy advice defining their worldview since graduate school;

" the hard currency component of IMF and Bank lending should not be required once appropriate conditions are achieved.

This latter argument deserves justification, for if local, national and regional development finance is appropriate, then the technical (not political, moral, environmental) reasons to have an IMF and Bank evaporate. Such was the viewpoint of the African National Congress in its 1994 Reconstruction and Development Programme (RDP), in a sentence won only after much left wing lobbying: 'The RDP must use foreign debt financing only for those elements of the programme that can potentially increase our capacity for earning foreign exchange.' [\[59\]](#) (The ANC broke more than one such promise, but the principle here merits careful reflection.)

The motivations for rejecting hard currency loans for 'development' are the fear of the rising cost of repayment on foreign debt, once the currency declines, and the record of hard currency utilisation in most African economies. Foreign currency inflows via new Bank or IMF loans typically do not finance basic needs projects (with their low import-intensity) but instead are used to repay illegitimate foreign debt, import luxury goods for the rich, and replace local workers with inappropriate job killing, dependency inducing, capital-intensive technology from abroad. In sum, why take a US dollar-denominated loan for - to take an example - building and staffing a small rural school that has virtually no foreign input costs?

If most basic-needs development can be drawn from local resources, and if the hard currency needed to import petroleum or other vital inputs can be readily supplied by export credit agencies (competing against each other, in contrast to centralised financial power and coordination in Washington), the basic rationales for the World Bank fall away. To be sure, financing local development by issuing local securities - or even 'printing money' - certainly adds a risk of generating inflation, but that risk is smaller than the problems of repaying hard-currency loans for the same projects, given the need for greater export orientation and the rising cost of repayment once a local currency depreciates against hard currencies. And instead of relying upon the IMF to maintain a positive balance of payments when fickle international financial inflows dry up or run away frightened, Third World countries that climb out (in future) from under the heel of the IMF and Bank could realistically impose exchange controls and tax unnecessary imports. They would also have more freedom to default on illegitimate debt.

Argentina's experience is telling. In 2002, when a \$140 billion debt payment moratorium was imposed, the government ran out of money to repay. This was ultimately resolved in 2004 when the foreign lenders were granted as little as 30% of the original debt. The IMF's standard power of blacklisting did not work, because Argentina's trade surplus permitted easy access to trade finance. In 2005, Argentina announced it would repay IMF commitments early so as to not face subsequent pressure and neoliberal conditionalities. Brazil and Indonesia did the same. Several other countries with foreign currency reserves - Russia, Thailand and Bolivia - were expected to follow in 2006, leaving some observers wondering if the IMF would have any relevance for emerging market economies, and IMF staff worried that financial models based on interest drawn from such economies would now break down, leaving their institution in the red. [\[60\]](#)

In sum, the South ultimately should not need a dollar denominated IMF and Bank for development. Indeed it is probable that only when Washington's institutional power fades that local level, national and perhaps regional development finance officials can reacquire the ability they once enjoyed, a few decades ago, to tame their own

financial markets. (Such 'financial repression' entailed state interest rate subsidies, directed credit, prescribed asset requirements on institutional investors, community reinvestment mandates and other means of socialising financial capital.)

Thus the case for nixing not fixing the Bank and IMF reflects their:

- " inappropriateness as institutions for basic-needs development finance;
- " role as global neoliberalism's 'brains' and policemen;
- " reliance upon unreformed neoliberal logic, ranging from macroeconomics to micro development policy;
- " responsibility for even project-level conditionality;
- " support for commodification of even the most vital public services (as well as of air, in the case of carbon trading);
- and
- " severe legitimacy crises, as reflected in periodic IMF riots and other activism.

Popular campaigning has become quite surgical:

- " several international lobbies aim to force the WB/IMF and WTO to stop commodifying water, health, education and other services, and to remove the institutions from destructive roles in mega-projects, such as large dams or energy financing (they achieved partial success, as the US Congress now prohibits health and education user-fee requirements on Bank/IMF financing);
- " global justice movement components in particular Third World cities, towns and villages directly confront BWI-imposed neoliberalism or specific Bank projects;
- " Jubilee and other anti-debt movements continue fighting for debt repudiation and reparations (including for vast ecological debt the North owes the South);
- " components of the World Social Forum are developing tough positions (with the Southern African Social Forum demanding in November 2003 that Bretton Woods personnel pack up and leave); and
- " an 'IFIs-Out!' campaign founded in April 2004 (by some of the world's leading social movements and thinktanks), along with regionally-specific movements (especially in Latin America), devote themselves specifically to ridding their societies - and the world - of the BWIs.

The most intriguing tactic is the World Bank Bonds Boycott. [\[61\]](#) US groups like the Center for Economic Justice and Global Exchange continue working with Jubilee South Africa and Brazil's Movement of the Landless, among others, to ask of their northern allies: is it ethical for socially-conscious people to invest in the World Bank by buying its bonds (responsible for 80% of the Bank's resources), hence drawing out dividends representing the fruits of enormous suffering? The boycott impressed a *London Evening Standard* financial markets commentator during the IMF/Bank spring 2002 meetings: 'The growing sophistication of radical activists increases the likelihood that once accepted fixed income investment practices can no longer be taken as off limits from the threat of moral suasion.' [\[62\]](#)

In the short term, the boycott campaign sends a clear signal to the Bank: end anti-social, environmentally-destructive activities, and cancel the debt. When enough investors endorse the campaign, the Bank will suffer a declining bond rating, making it fiduciarily irresponsible to invest. This could lay the basis for a 'run on the Bank', defunding the institution entirely. This will happen initially through a collapsed bond market and then through northern taxpayer revolt, as the campaign gathers momentum and publicity.

The World Bank Bonds Boycott is only one of a variety of campaigns that could become more explicitly anti-capitalist, or that could rest at a comfortable populist, moral level. The anti-capitalist component of the global justice movements understands that the World Bank and IMF may have changed their rhetoric but not their structural adjustment programmes. The rhetoric of 'pro-poor' development does not conceal that the BWIs maintain their commitment to accumulation by appropriation and dispossession. The institutions' legitimacy is the only target that

Third World social movements can aim at. They have done so in recent years with an increasingly militant perspective that worries not about the World Bank's 'failure to consult' or 'lack of transparency' or 'undemocratic governance' - all easy populist critiques. Rather, leading activists' attention to the Washington Consensus ideology is directed to the core content: *commodification*, whether in relation to water, electricity, housing, land, health services, education, basic income grant support or other social services, ideally all at once and in cross-sectoral combinations.

Although this is not the place to elaborate, a feasible alternative strategy can be found in grassroots movements' efforts to decommodify the goods and services which the World Bank and IMF increasingly put out of reach. If the Bonds Boycott and subsequent taxpayer revolts against the institutions can galvanise a popular 'run on the Bank' from the North, and if ongoing IMF Riots and occasional defaults by Third World governments continue, then talk of reforming the operations of the Bank and IMF, especially during the Wolfowitz presidency, will become just as irrelevant as the reforms have been in practice.

Patrick Bond [\[63\]](#) - July 2006

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[\[5\]](#) The direct citations are from United Nations (2002), 'Report of the International Conference on Financing for Development', A/CONF.198/11, Monterrey, Mexico, 22 March.

[\[6\]](#) *Financial Times*, 27 February 2003. This possibility, stated at the outset by civil society critics, was only hinted at in Monterrey's official information source: International Monetary Fund and International Development Association (2001), 'The Impact of Debt Reduction under the HIPC Initiative on External Debt Service and Social Expenditures', Washington, 16 November. The Bank, paradoxically, blamed failure upon 'political pressure' to cut debt further as the key reason repayments were still not 'sustainable.'

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[\[11\]](#) See Bond, *Talk Left, Walk Right*, for citations of numerous reports.

[\[12\]](#) A reformed IMF International Monetary and Financial Committee opens the door for greater Third World inputs, but this has not changed power relations.

- [13] Weak governance reform proposals can be found in Pincus, J. and J.Winters (Eds) (2002), Re-inventing the World Bank, Ithaca, Cornell University Press; United Nations Development Programme (2002), Deepening Democracy in a Fragmented World, New York, July; United Nations University World Institute for Development Economics Research (2002), Governing Globalisation: Issues and Institutions, Helsinki, October; Varma, S. (2002), 'Improving Global Economic Governance,' Geneva, South Centre, August; Griffith-Jones, S. (2002), 'Suggestions on Reforming the Governance of the World Bank,' Sussex, University of Sussex Institute of Development Studies, <http://www.gapresearch.org>.
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pension/investment funds. During late 2003, the world's largest pension fund, TIAA-CREF, sold its World Bank bonds as campaigners made it a special target.

[\[62\]](#) London Evening Standard, 17 April 2002.

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