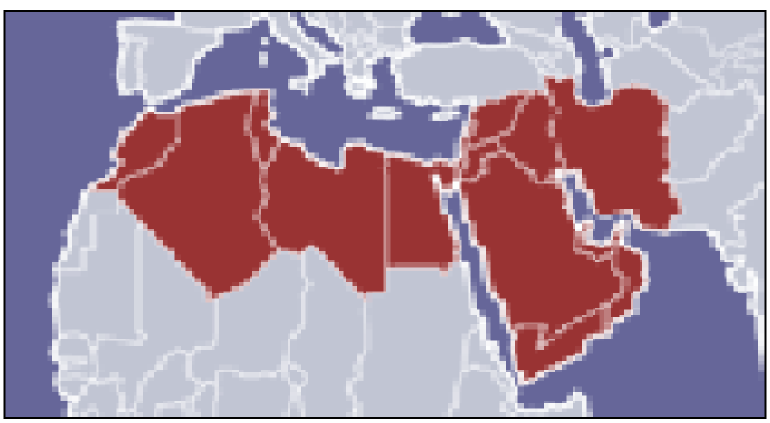
Bank Information Center

INTERNATIONAL FINANCIAL INSTITUTIONS AND THE MIDDLE EAST & NORTH AFRICA:

A primer for NGOs



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About the Bank Information Center

The Bank Information Center (BIC) partners with civil society in developing and transition countries to influence the World Bank and other international financial institutions (IFIs) in the interest of social and economic justice and ecological sustainability. BIC is an independent, non-profit, non-governmental organization that advocates for the protection of rights, participation, transparency and public accountability in the governance and operations of IFIs.

BIC is supported by private foundations and organizations that work in the fields of environment and development. Although based in Washington, D.C., in proximity to the headquarters of the World Bank and the International Monetary Fund (IMF), BIC is neither affiliated with nor funded by any of the IFIs or the United States government.

Bank Information Center
1100 H Street, NW, Suite 650
Washington, D.C. 20005 U.S.A.
phone: +1-202-737-7752, fax: +1-202-737-1155
email: info@bicusa.org
www.bicusa.org

Preface

What is this primer?

The purpose of this Primer is to shed light on the operations and impacts of international financial institutions (IFIs) that are active in the Middle East and North Africa (MENA), such as the World Bank and the International Monetary Fund, and to reveal how individuals and communities can hold those institutions accountable. The Primer aims at helping civil society groups in the region to more actively and critically engage with those IFIs in setting the development agenda and shaping policies and investments in their countries.

What is the “MENA region”?

BIC’s MENA program considers the region to be made up of the following predominantly Arabic-speaking countries: Morocco, Algeria, Tunisia, Libya, Egypt, West Bank and Gaza, Jordan, Syria, Lebanon, Iraq, Kuwait, Bahrain, Qatar, United Arab Emirates, Oman, Yemen, and Saudi Arabia. BIC also includes Iran and Israel within its MENA program. However, the countries defined as “MENA” vary from one institution to another, either for political reasons or simply because of the geographic mandate of the institution. The table on Page 6 shows the countries considered part of the MENA region by each IFI discussed in this Primer.

The wide range of economic and political conditions of the countries in the MENA region means that relations with IFIs vary considerably from one government to the next. Conflict-affected countries such as Lebanon, Iraq and Palestine, depend to a great extent on IFIs for financing and coordination of donor activities. A smaller number of the region’s countries that are considered “poor”, like Yemen, also rely fairly heavily on financing from IFIs. However, most countries in MENA are considered “middle income countries” by IFIs, and thus are not eligible for grants or the lowest-interest loans that the institutions offer. These countries are also better able to turn to other sources like private banks and commercial investors, to borrow money. Still other countries in the region are world-renowned for their oil riches, and thus are actually in the position of being “donor” countries rather than borrowers at

IFIs. While the governments of these countries may not be in need of IFI money, some IFIs appear interested in supporting investments in the countries' lucrative industries.

Despite the stark differences between countries' financial relations with IFIs, one thing is shared across the region: IFIs continue to exert considerable influence on economic and financial policies and national development strategies in MENA countries, not only as lenders, but as advisors, researchers and gatekeepers to finance from other sources.

The information in the following pages seeks to strengthen civil society's understanding of the multiple ways in which IFIs may be affecting people and the environment, and what the public can do about it.

Introduction to International Financial Institutions

What are International Financial Institutions (IFIs) and what roles do they play?

IFIs are public investment and development institutions owned by their member governments that provide funding, technical assistance and policy advice, research and other non-financial support to governments in "developing" and "transition" countries. Many IFIs also provide financing to companies investing in the developing world. The most well-known IFIs are the World Bank and International Monetary Fund (IMF). They are generally considered to take on three broad roles:

- **Lenders and Investors.** IFIs, of which the World Bank and IMF are the best known, are the largest source of development finance in the world, lending between US$30 and $50 billion to low- and middle-income countries each year. These IFIs take on different roles. Some provide loans and grants to governments, for specific projects or for policy reforms and technical assistance. Others invest in private businesses or provide guarantees (insurance) for private sector projects.

- **Knowledge Brokers.** IFIs, and in particular the World Bank, are also a dominant source of development "knowledge" and policies, and de-facto standard-setters for international finance and investment. Because of their roles as lenders and as knowledge brokers, IFIs wield significant influence over policy-making in many countries across Latin America, Asia, Africa, the Middle East, and Central and Eastern Europe.

- **Gatekeepers.** IFIs influence the overall amount and composition of development financing available to countries, directly and indirectly. Research and analysis from the World Bank and International Monetary Fund (IMF) about a country's economic policies often affect how much other donors are willing to contribute or how much businesses invest there. The role of the Bank and Fund as "gatekeepers" for international finance and credit is much stronger for aid-dependent countries without credit ratings than for countries that have access to international capital markets.

Why care about IFIs?

People have a right to take part in development decisions that affect their lives, livelihoods and the environment. IFIs, as public institutions operating in numerous sectors around the world, may be affecting you directly through the projects and policies they finance, or indirectly through their influence on governments, investors, and development discourse. Both as an individual and through your government, you have a right to a voice in how they operate.

Many IFIs, like the World Bank, maintain that the objectives of their support for investment projects or policy reforms in developing countries are to reduce poverty and encourage sustainable economic growth. However, much of the money provided in the name of development does not ultimately benefit the people most in need. In large part, this is because the public has little say in development decisions.

IFIs can affect anything from the price at which farmers sell their produce, the number of teachers that the government employs, access to clean and affordable water, laws governing labor, and the placement of a mine, to name only a few examples. In these ways, they may represent appropriate targets of your advocacy efforts, as institutions whose actions you are trying to change.

As public bodies owned by governments, IFIs have unique obligations, standards and commitments to account for their use of funds and for the impacts of their operations on people and the environment. They also have unique relationships to government officials and companies, and in this way can be important sources of information and influence.

How can working on IFIs contribute to your efforts?

Whether you are working on women's rights, labor conditions, the environment , or a wide array of other issues, IFIs may provide an additional channel through which to reinforce your efforts.

- **IFIs may be good advocacy targets.** Given the direct impacts of IFI projects and policies, and the influence they wield over other actors, changing their operations may help you achieve the changes you and your organization desire to see at a local, national or international level.

- **IFIs may be important sources of information.** Whether or not you agree with the content of IFI documents and the policy recommendations they make, the information generated by IFIs can often be useful to civil society actors. It may be difficult to access similar data from other sources. And because IFIs have obligations to provide public access to information, civil society actors have grounds on which to assert their right to documentation about development projects and policies supported by international institutions, even if such a right is not fully recognized in their own country.

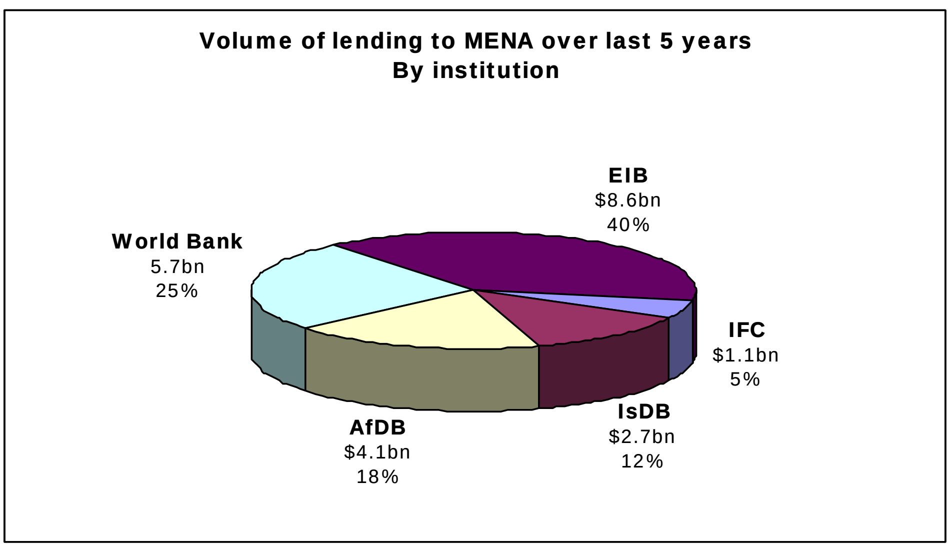
- **IFIs can be "lightning rods" for international attention.** Governments, private companies, civil society and media around the world pay attention to the activities of global institutions like the World Bank or IMF. As a result, highlighting the role of IFIs in a particular project or policy development may help to elevate concerns from the local level to the international sphere, attracting more attention than you might otherwise receive. Also, exposing the link between IFI activities and the issue on which you work may help you form alliances with other organizations working on IFIs internationally. This access to transnational civil society advocacy networks can help amplify your message and strengthen your campaigns.

What IFIs are active in the MENA region?

The various IFIs active in the region include:

- World Bank Group
  - World Bank (IBRD, IDA)
  - International Finance Corporation (IFC)
  - Multilateral Investment Guarantee Agency (MIGA)
- European Investment Bank (EIB)
- African Development Bank (AfDB)
- Islamic Development Bank (IDB)
- International Monetary Fund (IMF)

Together, these institutions have lent *over US$100 billion in MENA since 1950*, and *over US$22 billion in the region during the last five years alone*.



Sources: Figures compiled from World Bank Annual Reports; IFC Annual Reports; EIB website; African Development Bank Annual Reports; Islamic Development Bank Annual Reports.

Which countries do these IFIs consider part of the MENA region?

The table below shows which countries comprise the MENA region, according to each institution.

Country	World Bank	IFC	AfDB	EIB	IDB
Morocco	✓	✓	✓	✓	✓
Algeria	✓	✓	✓	✓	✓
Tunisia	✓	✓	✓	✓	✓
Libya	✓	✓	✓	✓	✓
Egypt	✓	✓		✓	✓
West Bank and Gaza	✓	✓		✓	✓
Jordan	✓	✓		✓	✓
Syria	✓	✓		✓	✓
Lebanon	✓	✓		✓	✓
Iraq	✓	✓			✓
Kuwait	✓	✓			✓
Bahrain	✓	✓			✓
Qatar	✓	✓			✓
U.A.E.	✓	✓			✓
Oman	✓	✓			✓
Yemen	✓	✓			✓
Iran	✓	✓			
Saudi Arabia	✓	✓			✓
Djibouti	✓				
Israel	✓			✓	
Other countries[1]					
Malta	✓				
Afghanistan		✓			
Pakistan		✓			
Sudan			✓		
Mauritania			✓		

[1] Note that BIC's definition of the MENA region does not include these countries, and any figures listed in this document concerning IFI lending in the region omit lending to these countries.

World Bank Group

While other international financial institutions may be less familiar, chances are you have heard of the World Bank. As the oldest international public bank, one of the most sizable lenders, and one of the most prolific sources of development research today, the World Bank remains a highly influential institution. Although there are many more sources of development finance today than when the World Bank was created, it continues to occupy a unique space.

When was it established?

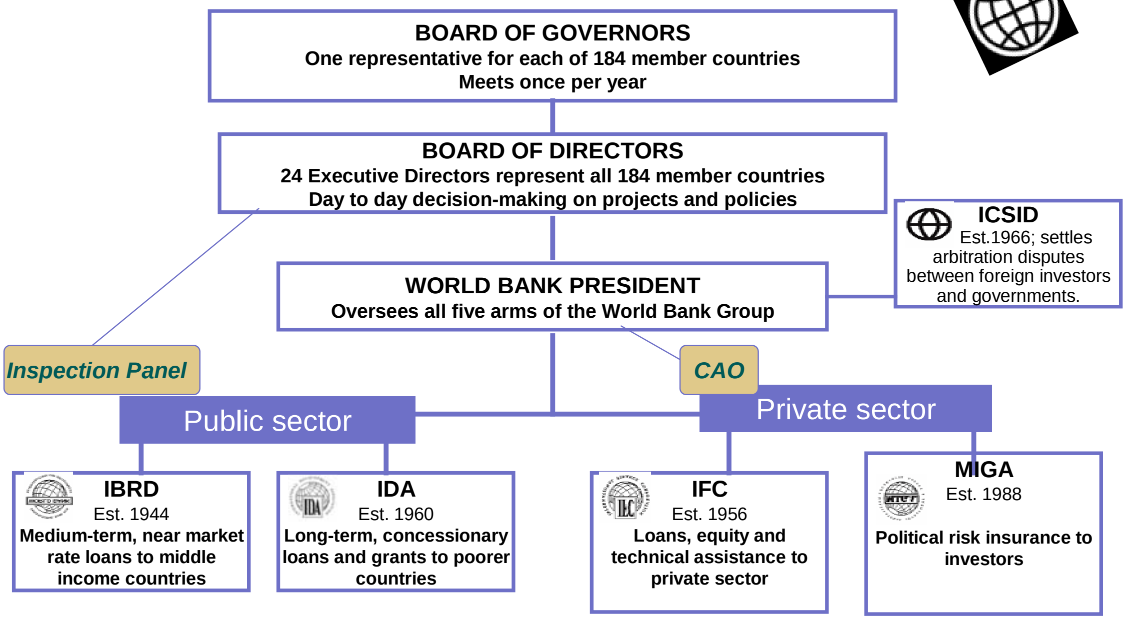
Both the World Bank and International Monetary Fund were established in 1944 at the Bretton Woods Conference in the United States. The World Bank was created initially to help rebuild Europe after World War II. Today, the World Bank is actually made up of several institutions, which together comprise the "World Bank Group." The separate arms of the World Bank Group are discussed below.

What is its mission?

Today, the World Bank's professed mission is to fight poverty and promote economic growth and development. The cornerstone of the World Bank Group's philosophy is that economic growth, principally through private investment, will lead to poverty reduction.

→ **Question for discussion:** How successful has the Bank been at achieving its stated mission of poverty reduction? What experience is there to support the assumption that economic growth leads to poverty reduction?

The World Bank Group
Who controls it and how does it work?



What are the different arms of the World Bank Group, and what do they do?

The name "World Bank" generally refers to the WBG's two public sector lending arms, the International Bank for Reconstruction and Development (IBRD), and the International Development Association (IDA).

The International Finance Corporation (IFC) and the Multilateral Investment Guarantee Agency (MIGA) are the WBG's two private sector arms.

- **World Bank (IBRD and IDA).** The World Bank lends money to low and middle-income governments for investment projects, generally public works, such as water systems, roads and schools. They also lend money for economic and institutional policy reforms, often known as "structural adjustment" or "development policy lending." World Bank lending can take the form of loans or grants.

Poor countries are eligible to receive grants and discounted loans from IDA, while middle-income countries receive loans at near-market interest rates from IBRD. In the MENA region, few countries are eligible to access IDA funds. Currently (in 2007), Yemen, Djibouti and Iraq are receiving IDA money. All the other countries that borrow from the Bank are considered middle-income, and borrow from IBRD if at all.

In order to access financing, governments are typically required to undertake certain actions, often called "conditionalities." Much of the criticism that the World Bank has received over the years refers to the controversial conditions that it applies to loans, such as requiring governments to privatize state-owned companies or adopt lower trade tariffs.

→ **<u>Question for discussion</u>:** Do you know of any such conditionalities that have been imposed in your own country? If so, how did they affect your daily life and what was the public reaction?

- **International Finance Corporation.** The IFC provides loans and equity financing, advice and technical services to businesses investing in developing and "transition" countries. An equity investment is the purchase of shares in a company or project.

- **Multilateral Investment Guarantee Agency.** MIGA provides private companies with political risk insurance to encourage them to invest in developing countries. It also assists host governments with legal services and strategic advice about attracting private investment.

→ **<u>Question for discussion</u>:** Should IFC and MIGA be accountable to their clientele (the private companies) or to the public in the developing countries where their operations take place? What if there is a conflict of interest between corporate clients and the local population?

Who runs the World Bank Group?

The World Bank Group is jointly owned by its 185 member country governments, each of which holds shares in the Bank roughly in proportion to the size of its economy. The size of each country's share determines the weight of its vote on the Bank's board.

- **Board of Governors.** Each country is represented on the Board of Governors - usually by its Minister of Finance or the head of its central bank. The Governors meet once a year at the IMF/World Bank Annual Meetings, to review and set policies and priorities for the institution.

- **Board of Directors.** Day-to-day decisions about financing and policy implementation at the World Bank Group are taken by the Board of Directors, which consists of 24 members, each representing one or more member governments. Representation on the Board depends on the country's share in the Bank. The eight countries with the largest economies, including Saudi Arabia, each have their own Executive Director, while the other 177 countries share the remaining 16 seats on the Board. In total, MENA countries account for just 8.5 percent of total IBRD voting powers. The Directors meet at least twice a week to approve financing, make decisions on policy and strategy implementation, and monitor the Bank Group's work.

- **President.** The President of the World Bank Group is traditionally nominated by the United States, and to date, has always been a white, American male. The President is confirmed by the Board of Directors. He chairs the Board of Directors, and each arm of the World Bank Group reports to him.

Where does the World Bank Group get its money?

Although member countries pledge fees to the World Bank Group, the bulk of the capital that IBRD uses to finance projects comes from selling bonds on international financial markets and earning interest from borrowing countries. The IBRD has made a profit every year since 1947.

The IFC earns profit on its own private investments. According to the IFC's 2006 Annual Report, it has earned more than US$4.2 billion over the last three years alone.

A portion of the profits from IBRD, and more recently the IFC, are used to finance the Bank Group's administrative budget and to provide funds to its soft-loan window, IDA. While IFC and IBRD transfers have in the past accounted for around 10 percent of IDA funding, the majority of IDA money comes from donor government contributions. The major donors to IDA, called the IDA Deputies, meet every three years to discuss new priorities for the institution and to determine their respective contributions. This process is called the "IDA replenishment process." Donor countries usually use this process to influence World Bank operations, linking their donations to certain policies, strategies and future lending priorities.

<u>Variations on the CAS</u>

For most countries in which it operates, the Bank prepares a country assistance strategy (CAS). However, different variations of the document may be used in some middle-income and conflict-affected countries. These variations may be called Country Partnership Strategies, Transitional Support Strategies, Country Reengagement Notes, or Interim Strategy Notes (ISN). ISN are typically used to guide Bank operations in countries emerging from conflict or where the Bank has not been active for some time, such as in Iraq.

→ **<u>Question for discussion</u>:** If the World Bank perpetuates itself by lending money to governments, can this represent a conflict of interest in assessing the soundness of certain projects or policy loans?

How does the World Bank Group get involved in a country?

The World Bank prepares a country-specific plan, often called the Country Assistance Strategy (CAS), for most countries to which it lends. The plan typically outlines the Bank's strategy for the next three to five years, indicating how much the Bank is prepared to lend during that time, what projects or policies it intends to support, and what non-lending activities it will pursue. In low-income countries, the Bank's CAS is supposed to be aligned with the government's own Poverty Reduction Strategy Paper (PRSP).

You can find out more about World Bank strategies and projects in your country on the internet at: www.worldbank.org/countries.

→ **<u>Question for discussion</u>:** How can civil society be involved in shaping the development strategy for their country through the PRSP or CAS processes?

Neither the IFC nor MIGA publishes its own formal country-specific strategies, though their activities are supposed to be consistent with the priorities identified in the Bank's CAS (or equivalent document). As a result, it is often difficult to know how IFC and MIGA select which sectors they engage in or specific projects they pursue.

What are some trends in the World Bank Group's involvement in the region?

The Bank's stated focus in MENA is on addressing unemployment through the promotion of "free trade" and the creation of a business-friendly environment to support private investment. In recent years, the World Bank Group has increased its investment in the finance sector (such as commercial banks), as well as energy and infrastructure.

Growing portfolio. Although the Bank's MENA portfolio is modest compared to its financing in other regions, it has grown steadily over the past few years. Altogether, the World Bank Group committed US$2.6 billion to the MENA region during Fiscal Year 2007 (July 2006-June 2007), which includes loans and grants to governments as well as private investments and guarantees from the IFC and MIGA.

MENA was the IFC's fastest-growing regional portfolio in 2007. IFC commitments in the region reached US$1.2 billion and represented nearly double its investments in the previous year. The IFC has indicated that it intends to maintain high levels of private investment in the region, focusing primarily on financial markets such as housing and small/medium enterprise (SME) sectors, as well as oil, gas and infrastructure projects.

Apart from its own investments, the IFC also facilitates private sector involvement in the region by advising governments on the implementation of investor-friendly reforms, including the privatization of state-owned banks and public utilities such as water services. The IFC indirectly takes the lead on many of these reforms through its managerial role in the multi-donor Private Enterprise Partnership (PEP-MENA) program.[2]

Emphasis on North Africa. Historically, the bulk of Bank Group financing for the MENA region has been channeled to North Africa, a trend which largely holds true today. The Bank Group's portfolios in Egypt, Tunisia, and Morocco are consistently the largest in the region, though Iran was the second biggest recipient of financing in the last five years, after Egypt.[3] Between 2002 and 2006, these four countries accounted for over 60 percent of the US$7 billion the Bank Group committed in MENA.

Infrastructure, energy and finance. Energy, water and financial sector projects account for a large portion of the Bank's new commitments. Increasing the involvement of the private sector in the provision of basic services is a key underlying theme of the Bank's support to the region.

→ **Question for discussion:** Given that unemployment is a stated focus of the Bank's work in MENA, how well are the projects and policies it promotes contributing to job creation?

Where can I find out more about the Bank Group's involvement in the MENA region?

The Bank Information Center's MENA webpage provides critical analysis of the Bank's involvement in the region, along with regularly updated news about IFI operations, important resources from civil society and the Bank, and relevant contacts at the World Bank. Visit our MENA webpage at: www.bicusa.org/mena

Also visit our website to find out more about the different arms of the World Bank Group from a civil society perspective:

- World Bank (IBRD & IDA): www.bicusa.org/wb
- IFC: www.bicusa.org/ifc
- MIGA: www.bicusa.org/miga

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[2] For more information on IFC's PEP-MENA program, see the IFC website: www.ifc.org/ifcext/mena.nsf/Content/IFCPEPMENA

[3] While Pakistan is the largest recipient of IFC funds in what IFC considers to be the MENA region, Pakistan is considered by the Bank to be part of Asia, and thus is not included in this ranking.

The World Bank's MENA Region webpage provides background information about the Bank's activities in the region, lists reports on trends in the MENA region (many available in Arabic), and contains links to each MENA country page. Visit the World Bank's MENA webpage at: www.worldbank.org/mena

On the World Bank's webpage for your country, you can find a list of proposed and active projects, project documents, Country Assistance Strategies, and contacts at your country's local World Bank office. Visit the Bank's page for your country at: www.worldbank.org/countries

Visit the IFC's MENA Region page to find out more about its activities at: www.ifc.org/mena. The IFC's webpage is also available in Arabic at: www.ifc.org/ifcext/arabic.nsf

Contact information for IFC field offices in the MENA region is available on the IFC's website at:
www.ifc.org/ifcext/mena.nsf/Content/Contacts

International Monetary Fund

The International Monetary Fund (IMF) and World Bank are often referred to as "sister institutions," since they were created together in 1944 to perform complementary roles. They often work together to influence the policies of borrowing governments, and the ability to access loans from one institution frequently depends on compliance with certain reforms or actions required by the other. The IMF and World Bank frequently employ *cross-conditionality*, meaning that a government is required to be in compliance with one institution's conditions in order to access funds from the other. The World Bank and many other donors will only lend to governments that have no outstanding arrears to the IMF and that comply with IMF policy recommendations. This practice grants the Fund tremendous power over countries' access to external financing.

Because of the influence it can wield over governments' economic policies and ability to access financing, the IMF can be an important advocacy target for civil society.

When was it established?

The IMF was established alongside the World Bank in 1944 at the Bretton Woods conference in the United States.

What is its mission?

The IMF's original mission was to monitor and manage a system of stable exchange rates and to provide countries with short-term financing to help them overcome temporary balance-of-payments deficits (when spending on imports exceeds revenues from exports) and to support their exchange rate values. However, over the years, changes in the global economy and international financial system have prompted the IMF to reshape its mission. In recent decades, the IMF has focused on monitoring countries' exchange rate policies, increasing its medium-term lending to countries with budgetary difficulties, and restructuring the economies of debt-ridden countries by imposing policy changes through structural adjustment programs and similar packages under different names.

What does the IMF do?

The IMF's operations can generally be broken down into three distinct areas:

- **Lending.** The IMF's primary and best-known role is that of a lender. It lends money to governments in the form of general budget support, and not for specific development projects. IMF loans aim at trying to close gaps in a country's budget, if the government does not have enough revenue to cover its public expenditures. However, the IMF generally requires governments to make changes to their economic policies in order to access this financing. These conditions (frequently called "conditionalities") are often very controversial because they have been shown in many cases to hurt the poor, and because they can be charged with eroding sovereignty and democracy. The conditionalities laid out in IMF lending programs in a given country and periodic reports on their implementation send signals to international donors and financial markets about the state of a country's economy, and thereby influence that country's access to funds from other sources.

- **Surveillance.** The IMF also conducts research and engages with member countries to provide advice on macroeconomic policies. This “surveillance” includes publishing reports, usually annually, about a country’s economic performance and macroeconomic trends, and holding regular consultations with governments. These IMF reports often contain information that may be useful to civil society organizations.

- **Technical assistance.** The IMF provides technical assistance to its member governments. One notable aspect is its program to train government officials, particularly in finance ministries. This is a channel through which the Fund exercises considerable influence over policy-making throughout the world, often in ways that are hard to track from the outside, and even in countries where it is not lending.

→ **<u>Question for discussion:</u>** How have IMF loan conditionalities affected your life?

Who runs the IMF?

There are 185 members countries subscribed to the IMF, and each is assigned a voting share, called a quota, based on the size of its economy.

- **Board of Governors.** Each member country has one representative on the Board of Governors, usually its finance minister or central bank governor. The Governors meet at least once a year during the IMF’s Annual Meetings (in September or October), and often at their semi-annual meetings (in April) and have the authority to take major decisions concerning the institution, such as changes to the Fund's structure and the acceptance of new members.

- **Executive Board.** The Executive Board carries out most of the day-to-day work of the institution. It is composed of 24 Directors appointed by countries or by groups of countries they represent. Of the 24 Directors, eight represent single countries, including Saudi Arabia, while the remaining 16 seats are shared among groups of member countries called “constituencies.”

- **Managing Director.** The Managing Director of the IMF is the head of the institution and is, by tradition, from Western Europe.

Where does the IMF get its money?

Most of the IMF's money comes from the quotas that member countries deposit when they join the institution. Member governments are also occasionally asked to contribute "quota increases," though this has not happened since 1998. The IMF also generates income from the interest and fees it charges on its loans, as well as earnings it makes on the investment of its massive reserves (much of which is held in the form of gold). When necessary, the Fund can borrow from the most financially sound member countries to supplement its income.

How does the IMF get involved in a country?

The IMF is often described as a sort of "credit union" for member countries. When a country joins the IMF, it pays dues (according to the size of its economy) which entitle it to borrow up to a certain amount if and when it faces a financial crisis, such as insufficient funds to cover its public budget. Each member country also agrees to let the IMF examine its economic and financial policies to evaluate whether the Fund believes they will contribute to economic growth and price stability. This assessment function is usually conducted annually and is called an Article IV Consultation, referencing the IMF's Articles of Agreement.

What are some trends in the IMF's involvement in the MENA region?

In line with its mandate to monitor countries' macroeconomic policies, the IMF offers recommendations to borrowers and non-borrowers alike. While these recommendations carry significant weight in countries that depend on IMF financing and the institution's "seal of approval" to access other funds, they are often ignored by the powerful, "developed" country members of the Fund. Although its influence has waned in the last few years, as many middle-income borrowers pay off their loans or decline to enter into new IMF programs, the Fund remains a strong promoter of deregulation, low inflation targets, and constrained public expenditure.

Meanwhile, many Arab countries have become wary of abiding by IMF recommendations, as IMF-backed reforms have generated dissent and led to severe political consequences. In 1996, for example, the government of Jordan removed subsidies on wheat as part of an IMF-sponsored economic reform program. The price of bread tripled as a result, leading to riots in southern Jordan in which five people were killed. In 2005, acting on IMF advice, Yemen partially eliminated subsidies on fuel. Prices increased dramatically, leading to rioting and fatalities.

Historically, Algeria has borrowed more than any MENA country from the IMF, to the tune of around US$3 billion. Algeria, too, has arguably suffered the most from the political fallout of IMF conditionalities; 200 people died in riots in 1988 in response to increased prices and unemployment resulting from structural adjustment. Morocco, Jordan and Yemen are the next largest borrowers from the Fund in the region.

As of late 2007, Iraq and Lebanon were the only MENA countries actively borrowing from the IMF, both under Emergency Post-Conflict Assistance loans. Though most countries in the region have repaid the principal on previous IMF loans, several are still paying interest or other charges and fees.

Where can I find out more about the IMF's involvement in the MENA region?

Read more about the IMF on BIC's website. Our IMF page contains useful information and critiques of IMF policies and trends, as well as civil society contacts and a list of resources. Visit our IMF page at: www.bicusa.org/imf

The IMF's own website is a useful resource for civil society to learn more about its activities in your country. IMF country pages contain links to relevant Article IV papers, information on IMF lending programs or other policy advice or technical assistance operations, reports on trends in the country and region, and country contacts at the institution. Country papers can be helpful sources of information for civil society, since at times they include information that may be difficult to get elsewhere, such as budgetary figures. Visit the IMF's page for your country at: www.imf.org/external/country

African Development Bank

The AfDB's involvement in North Africa is often overlooked, since most of its high profile loans and investments are made in sub-Saharan Africa, and its lending in North Africa is outweighed by that of the World Bank and European Investment Bank. While it has not received much attention in the past, the AfDB is growing in prominence, and has stated its intent to step up its involvement in the extractive industries, energy and infrastructure sectors, in particular.

When was it established?

The African Development Bank (AfDB) was formed in 1964, and is currently headquartered in Tunis, Tunisia.

What is its mission?

The AfDB shares a similar mandate to that of the World Bank Group: To help the poor and promote sustainable development. The principal difference is that the AfDB limits its engagement to the continent of Africa.

What are the different windows of the African Development Bank, and what do they do?

Like the World Bank, the AfDB lends primarily to governments for traditional development projects, such as infrastructure, schools, and agriculture, though it also gives budget support in the form of policy loans. In addition, the AfDB gives loans and other types of financial assistance to private companies in support of their projects throughout Africa.

The African Development Bank is made up of two main lending "windows": the African Development Bank (ADB) and the African Development Fund (ADF).

- **African Development Bank (ADB).** The ADB gives loan to governments in wealthier African countries. 13 of Africa's 53 countries are eligible to borrow from the ADB, including Tunisia, Morocco, Algeria and Egypt. The ADB is also the window responsible for the Bank's private sector investments.

- **African Development Fund (ADF).** The ADF provides grants and loans to 38 low-income African countries, and is roughly equivalent to the World Bank's IDA lending window. The ADF gets its money from donor member country contributions, plus a small amount from repayments of past loans. Donors meet every three years to decide on funding the "replenishment" of the ADF. Note that none of the North African countries that BIC monitors in its MENA program receive funding from the ADF.

Who runs the AfDB?

The AfDB's membership is predominantly though not entirely African. There are 52 African member countries, and 24 non-regional members from donor countries.

- **Board of Governors.** Like the World Bank Group, each member country of the AfDB is represented on the Board of Governors, typically by its Minister of Finance or the head of its central bank. The Governors meet once a year to make major decisions about the institution's leadership, strategic directions and governing bodies.

- **Board of Directors.** The Board of Directors is in charge of day-to-day decisions. Each member country is represented on the board, but its voting power and influence differs depending on the amount of money it contributes to the AfDB. African member countries possess 60 percent of the voting power on the Board, and 12 of the 18 seats. Non-regional members, which include Saudi Arabia and Kuwait, share the remaining 40 percent of voting powers and six Executive Directors. The AfDB's five North African regional members - Algeria, Egypt, Libya, Morocco, and

Tunisia – together wield slightly over 19 percent of total voting powers.

- **President.** The AfDB President is elected by the institution's Board of Governors for a five year term. Donald Kaberuka, a former Rwandan Finance Minister, was named President of the African Development Bank in 2005.

Where does the AfDB get its money?

The AfDB depends on money contributed by its member governments, loan repayments and bond sales on private capital markets.

How does the AfDB get involved in a country?

Like the World Bank, the AfDB prepares a country-specific strategy for most countries that it lends to. The AfDB's document is called a Country Strategy Paper (CSP), and it is meant to guide AfDB assistance to borrowing member countries. CSPs typically cover a period of three to five years. Reviewing the CSP can be helpful to understand the AfDB's planned activities in a particular country.

What are some trends in the AfDB's involvement in North Africa?

The AfDB has been an active supporter of North Africa's economic reform agenda. In 2006, Egypt received the largest ever loan in the Bank's history: a US$500 million credit to facilitate substantial reforms of Egypt's financial sector. The AfDB has indicated that it will continue to support further reforms in the region, and also prioritize upgrading infrastructure, enhancing competitiveness, and strengthening private sector development.

North African countries have historically been the largest recipients of AfDB funds. Over the past five years, the AfDB's North African borrowers – Algeria, Egypt, Morocco and Tunisia – accounted for nearly 31 percent of the AfDB's total portfolio, and 68 percent of the Bank's lending window for middle-income countries, the ADB.

Over the past three years, two-thirds of the financing approved by the AfDB have been channeled to the banking, transportation, and power supply sectors, while the social, water and sanitation, and environment sectors together received only 14 percent of new funds in North Africa.

> **<u>Question for discussion</u>:** If the mandate of the AfDB is to reduce poverty in the continent, how does it justify the fact that its largest exposure is in the richest countries on the African continent, not in the poorest ones? How can you influence the AfDB's strategy for your country, and how do the AfDB's stated priorities compare to those outlined in the World Bank's country strategy?

Where can I find out more about the AfDB's involvement in North Africa?

The Bank Information Center's African Development Bank webpage provides useful information about the AfDB's activities, analysis of trends in its lending, tips to navigating the AfDB website and finding proposed projects, information on its policies, and helpful resources including BIC's *Examining the African Development Bank: A Primer for NGOs*. Visit our AfDB webpage at: www.bicusa.org/afdb.

The African Development Bank's website (www.afdb.org) provides basic information about its operations. The site can be difficult to navigate, and project information is often unavailable or very sparse. If you are looking for something specific and are unable to find it, you can contact us.

Find out more about the AfDB's operations in your country, including approved projects, Country Strategy Papers, and annual lending figures at:
www.afdb.org/pls/portal/url/page/ADBHome/Countries

The AfDB maintains offices in Tunis, Tunisia; Rabat, Morocco; and Cairo, Egypt. Visit the AfDB's Contacts webpage for more information:
www.afdb.org/pls/portal/url/page/ADB_Admin_PG/ADB_Pages/Contact_us

European Investment Bank

In 2006, the European Union (EU) authorized its financial arm, the European Investment Bank (EIB), to increase its lending outside the EU by 30 percent. It specified that MENA countries would receive roughly one third of the US$36.5 billion committed for non-EU countries over the period 2007 to 2013. This substantial allocation reflects the EU's increasing interest in the Arab World, and its emphasis on facilitating private investment in the region. The EIB's stated intention to step up its engagement in MENA, particularly for energy and infrastructure, raises concerns about the social and environmental footprint of its investments.

When was it established?

The EIB was created in 1958, and is located in Luxembourg.

What is its mission?

Officially, the EIB's mission is "to further the objectives of the European Union by making long-term finance available for sound investment." While the EIB is often referred to as the "development bank of the European Union," the Bank does not have an explicit development or poverty reduction mandate. The EIB's operations outside Europe are supposed to be based on the EU's external cooperation and development policies, including those regarding cooperation in the Mediterranean neighborhood. According to the EIB, its lending outside the EU focuses on private sector and infrastructure development, security of energy supply, and environmental sustainability.

What does the EIB do?

The EIB provides loans for large capital investment projects that serve the EU's interests within and outside Europe. While it can lend to the public sector (within the EU), the EIB mostly provides direct financing to private companies, particularly those based in Europe, for investment projects. According to its mandate, the EIB cannot provide more than 50 percent of the total capital cost of a given project.

Who runs the EIB?

The EIB is owned by the 27 member states of the European Union.

- **Board of Governors.** Each member country is represented on the Board of Governors, usually by its minister of finance, which has a limited role in the Bank's operations.

- **Board of Directors.** The Board of Directors, which is made up of 28 individuals representing the EU member states and European Commission, is responsible for approving loans. The Board generally requires one-third of countries representing at least 50 percent of the subscribed shares in the Bank to approve operations.

- **President.** The EIB President chairs meetings of the Board of Directors and serves as the head of the Management Committee, the body in charge of implementing the Board's directives.

Where does the EIB get its money?

The EIB is funded through the shareholder contributions of its 27 member countries. Each shareholder's contribution is proportional to the country's economic weight within the EU. Because of the size of their economies, Germany, France, Italy and the United Kingdom, contribute the most and have the largest shares. The Bank also raises money for its operations by borrowing on capital markets.

How does the EIB get involved in a country?

Much like the International Finance Corporation, the EIB does not publish country-specific strategies to guide its investments. Instead, it responds to loan requests from companies and the interests of its member governments. The EIB's operations are supposed to be aligned with the EU's own priorities for a country.

What are some trends in the EIB's involvement in the MENA region?

The EIB has surpassed the World Bank in annual commitments to the MENA region, becoming the region's largest multilateral financier over the past five years. Since 2002 when it established a new framework for investment in Mediterranean countries, the EIB has committed over US$8.6 billion in new projects. It is playing an increasing role in facilitating economic integration, free trade and private sector investment in Mediterranean countries in advance of the creation of the Euro-Med customs union, expected in 2010.

While the MENA region accounts for only three percent of the EIB's total funding over the last five years, it was allocated over one third of its lending outside the European Union. The EIB maintains external country offices in the capitals of its top three borrowers: Egypt, Morocco and Tunisia. Together with Algeria, these North African countries have received 78 percent of total EIB loans to the region.

Over 40 percent of the EIB's lending to MENA countries during the past five years was earmarked for the energy sector. Meanwhile, the EIB has indicated that energy will remain a top priority for its investments in the region as part of the EU's strategy to diversify its sources of energy, particularly natural gas. The EIB is also involved in supporting public-private partnerships – the partial sale of state companies – for basic utilities such as electricity and water.

Where can I find out more about the EIB's involvement in the MENA region?

Read more about the EIB's activities in the MENA region, discover how the EIB is connected to issues you are interested in, find a wealth of resources specific to the EIB's work in MENA, and get a list of EIB contacts in the region on our website at:
www.bicusa.org/mena

Find out more about the EIB's activities in MENA countries, including region- and country-specific reports, at:
www.eib.org/femip

See what projects the EIB has financed in your country at:
www.eib.org/projects/loans/regions/med/

For more information about civil society groups monitoring the EIB in Europe, go to CEE Bankwatch's website:
www.bankwatch.org/project/eib/

Islamic Development Bank

The Islamic Development Bank (IDB) is the only multilateral development bank based in the MENA region and dedicated to providing financial services in compliance with the Shari'ah law. The available documents about the IDB, including those on its website, do not tell much about its operational systems. To date, it has received little attention from civil society, and its operations and policies remain largely unknown. However, its lending portfolio continues to grow. Its tendency to support infrastructure projects that can have significant environmental and social consequences makes it important that civil society increase its awareness of the IDB and consider more actively engaging with its projects.

When was it established?

The IDB was established in 1973, and is located in Jeddah, Saudi Arabia.

What is its mission?

The IDB's stated mission is "to foster the economic development and social progress of member countries and Muslim communities…in accordance with the principles of Shari'ah."

What are the different arms of the Islamic Development Bank Group, and what do they do?

- **Islamic Development Bank.** The IDB is the primary institution in the Islamic Development Bank Group. It lends to governments for investment projects, mostly for infrastructure such as public utilities. In accordance with Shari'ah, the IDB does not charge interest on its loans, but instead charges a service fee.

- **Islamic Corporation for the Development of Private Sector (ICD).** The ICD is the private sector lending arm of the Islamic Development Bank Group. Roughly equivalent to the World Bank Group's IFC, and in fact established with the IFC's support in 1999, the ICD lends solely to businesses.

Other parts of the IDB Group include the Islamic Corporation for the Insurance of Investment & Export Credit (ICIEC), which provides insurance for companies in a role similar to that of MIGA at the World Bank Group. The Islamic Research and Training Institute (IRTI) provides countries and communities with research, training and information services to help bring their economic, financial and banking activities into conformity with Shari'ah.

The International Islamic Trade Finance Corporation (ITFC) was established in 2006 to promote trade among IDB countries through providing finance and engaging in activities that facilitate regional and international exchange. Besides the aforementioned official arms there are a number of other affiliated institutions, which are described on the institution's website.

Who runs the Islamic Development Bank?

The IDB has 56 member countries and about two-thirds are located outside the MENA region, mainly in Africa and Asia. Its largest shareholders are Saudi Arabia (28%), Libya (11%), and Iran (10%).

- **Board of Governors.** The Board of Governors meets once a year to review the Bank's operations over the previous year and to make decisions on future activities. Each country is represented on the Board of Governors.

- **Board of Executive Directors.** There are 14 seats on the Board of Executive Directors. Seven countries - Saudi Arabia, Libya, Iran, Egypt, U.A.E., Kuwait, and Turkey - have their own seats and a combined 78 percent of the subscribed capital, while the remaining 49 member countries share the remaining seven directorships. The Board is responsible for the general operation of the Bank.

- **President.** The President heads the IDB. The current head, Dr. Ahmad Mohamed Ali Al-Madani, has served as the Bank's president since the IDB was created in 1975, and is Saudi Arabian.

Where does the IDB get its money?

The IDB depends on member country contributions for most of its capital. It also mobilizes financial resources through Shari'ah compatible modes. The Bank does not borrow from the market.

How does the IDB get involved in a country?

The Bank provides financing for a variety of projects, namely for infrastructure and agriculture. The IDB considers projects submitted by a member government, an international organization, or its own staff offices. To be considered, a project must be officially endorsed by the concerned government. The Bank then undertakes an appraisal that covers the technical, economic, social, financial, institutional and environmental aspects of the project. However, the standards that govern project appraisal are not clear.

What are some trends in the IDB's involvement in the MENA region?

Like the other international financial institutions active in the region, the IDB operates on the premise that private investment and high economic growth are the main engines for reducing poverty. To that end, the IDB emphasizes large-scale infrastructure projects, as well as higher volumes of investment through its private sector arm, ICD, and liberalized trade policies through its newly established ITFC.

Over time, roughly half of the volume of the IDB's investments has gone to MENA countries. Over the last four years, the IDB has committed over US$2.7 billion to projects in the region.

Historically, Pakistan has been the IDB's largest borrower overall. Within the MENA region, Iran and Algeria are the top recipients of IDB financing. While Algeria's borrowing has dropped significantly of late, Iran has remained the region's top borrower, taking an average of nearly US$500 million per year over the last three years. Saudi Arabia maintained the second largest portfolio during that time, at just over US$1 billion.

The IDB's primary focus in the MENA region is on infrastructure development, a classification which groups together water supply, sanitation, transportation and power supply. Social sectors such as health and education typically make up only a small proportion of the IDB's investments in the region.

While the volume of IDB lending in the MENA region pales in comparison to other IFIs, its portfolio has grown 50 percent over the last five years, a trend which many expect to continue. Meanwhile, it is the only IFI primarily owned and operated by MENA countries.

→ **Question for discussion:** With the spike in government revenues in the region due to high oil prices and the growing demand for Shari'ah-compliant investments, will the IDB become a more influential institution, potentially rivaling other IFI actors? What would this mean for civil society?

Where can I find out more about the IDB's involvement in the MENA region?

In comparison to the other IFIs, the IDB is considerably less transparent. Even basic project information is difficult to access, and its website contains only very general information.

Read more about the IDB's involvement in the MENA region in BIC's briefing, *The Role of IFIs in the MENA Region* at:
www.bicusa.org/ifisroleinmena

For more information about the IDB, including a list of contacts, annual reports, and more about the IDB's affiliate institutions, visit the IDB's website at: www.isdb.org

Influencing IFIs

Individuals and communities have a right to influence the development decisions that affect their lives. In countries where IFIs operate, this includes having a voice in the selection, design and implementation of the projects and policies that the institutions support.

What are some points of leverage over IFIs?

Below are brief descriptions of several tools and potential sources of leverage that civil society can draw upon to influence the operations of IFIs.

- **Reputation and public perceptions through the media.** One of the most important tools that activists can use is the media. Because public financial institutions are sensitive to their reputations, highlighting concerns in the press can often help civil society achieve remedies or prevent future harm. Other tactics that civil society groups have used to pressure IFIs include organizing public hearings, lobbying government officials and promoting parliamentary oversight of IFIs, holding popular referendums, and appealing to UN bodies and regional entities. Such actions serve to spotlight issues and amplify concerns, helping to increase pressure on these institutions.

- **Government shareholders.** Governments have a voice on the governing bodies of the institutions, such as their Boards of Directors and Governors. Many civil society groups, and governments, are trying to democratize the governance of IFIs, to increase the power of developing countries in the decision-making bodies and leadership positions.

  In some countries, society groups are working with legislators to increase parliamentary oversight of lending decisions and policy-making. Various legislators from around the world have increased their interaction with the institutions through initiatives such as the Parliamentary Network on the World Bank (PNOWB). In some countries, civil society is working directly with finance ministries to critique and develop alternatives to the lending frameworks and development models presented by IFIs.

How can you protect your rights in the context of IFI activities?

The World Bank Group and other IFIs are not a formal "parties" to international human rights conventions, and thus generally assert that they do not hold specific human rights obligations, even though nearly all of their member governments are signatories to the main rights conventions. Civil society groups and academics have been challenging IFIs to formally recognize their human rights obligations as an international organization and to uphold human rights in its lending operations. Complicating the picture, the World Bank Group and other IFIs are largely immune from prosecution in national courts, frustrating civil society attempts to hold such institutions legally accountable for their actions. As a result, IFIs remain today essentially "outside" or "above" the law. Absent recourse to external legal mechanisms, IFIs' own internal policies and procedures represent for now the next best option for regulating their operations and holding them to account.

- **Social and environmental "safeguard" policies.** The World Bank Group and the African Development Bank maintain their own sets of social and environmental standards, often called "safeguard policies," which establish mandatory procedures that they and their clients must follow when preparing and implementing the projects they finance. These safeguards are designed to provide minimum protections to the environment and vulnerable populations from the negative effects of these operations, and also provide important opportunities for civil society participation and access to information.

  While some progress has been made over the years to strengthen the "safeguards" at the World Bank and AfDB, the EIB still lacks clear and comprehensive environmental and social standards to guide its investments outside the EU. Civil society groups also argue that the EIB does not have sufficient expertise to properly assess and monitor its own operations.

  Because the IMF lends to governments for general budget support rather than specific projects, it does not require its operations to abide by environmental or social standards. Nevertheless, its policy recommendations often have far-reaching social consequences.

Meanwhile, the Islamic Development Bank includes language on its website about determining environmental and social impacts of its operations in the project appraisal phase, but it is unclear whether the IDB maintains clear safeguard policies to guide this process.

Read more about IFI safeguard policies and find links to information on the institutions' specific policies on BIC's website: www.bicusa.org/environment

- **Accountability mechanisms.** To date, there is no court to which individuals, communities, or even member governments, can take IFIs. Instead, some of the institutions have internal accountability mechanisms to which affected communities can appeal when IFIs fail to comply with their own policies in the projects they finance.

  World Bank Inspection Panel – When the World Bank (IBRD or IDA) or a borrowing government fails to comply with any of the Bank's policies in a Bank-financed project, communities can lodge complaints to the Inspection Panel, the independent office in charge of investigating policy violations.

  Compliance Advisor Ombudsman – Similar to the Inspection Panel, the CAO is the body that receives complaints from individuals or communities that feel they have been negatively impacted by projects supported by the IFC or MIGA.

  Independent Review Mechanism – The IRM is the newly established accountability mechanism at the African Development Bank.

  Currently, the **European Investment Bank** does not have an accountability mechanism to which non-EU citizens can appeal, though civil society groups are in discussion with the institution to establish one. Neither the IMF nor IDB have accountability mechanisms.

Read more about IFI accountability mechanisms and find links to our pages on each institution's specific mechanism on BIC's website: www.bicusa.org/accountability

→ **Question for discussion:** What else can civil society do to hold IFIs accountable?

- **Disclosure policies.** Each of the IFIs active in the MENA region, with the exception of the Islamic Development Bank, have recognized the right to information by establishing information disclosure policies, in the same way that some countries have adopted Freedom of Information laws. Understanding these policies will help you demand access to IFI documents when you need them. For example, it may be useful to know what projects or policies are being proposed and when they may be discussed by the board at the institution.

Tips on Accessing Information

- **Demand information early and often.**
- **Be specific** about what you want.
- **Be persistent**: don't take "no" for an answer.
- **Try multiple channels**: contact IFI staff, management and member governments.
- **Keep a record and make it public**: document and publicize requests for information and the institution's responses; share with member governments and the media.
- **Get help**: organizations like **BIC** and the **Global Transparency Initiative** can assist you.

Read more about IFI disclosure policies and find links to information on the institutions' specific policies on BIC's website: www.bicusa.org/transparency

Also find out more about civil society initiatives to increase transparency at the IFIs:

- IFI Transparency Resource: www.IFItransparencyresource.org
- Global Transparency Initiative (GTI): www.ifitransparency.org

Resources

- **MENA Region page**, Bank Information Center
  www.bicusa.org/mena

- **Examining the African Development Bank: A Primer for NGOs**, Bank Information Center
  www.bicusa.org/en/Article.3320.aspx

- **Tools for Activists: An Information and Advocacy Guide to the World Bank Group**, Bank Information Center
  www.bicusa.org/en/Page.Toolkits.aspx

- **Did You Know? Private Sector Participation in the Water Sector: The Role of IFIs in the MENA region**, Bank Information Center
  www.bicusa.org/proxy/Document.10545.aspx

- **Did You Know? Trade and Private Investment in the Energy Sector: The Role of IFIs in the MENA region**, Bank Information Center
  www.bicusa.org/proxy/Document.10546.aspx

About the Bank Information Center

The Bank Information Center (BIC) partners with civil society actors in developing and transition countries to influence the World Bank and other international financial institutions to promote social and economic justice and ecological sustainability. BIC is an independent, non-profit, non-governmental organization that advocates for the protection of rights, informed participation, transparency and public accountability in the governance and operations of the World Bank, regional development banks and the International Monetary Fund (IMF).

Bank Information Center
1100 H Street NW
Suite 650
Washington, DC 20005
Tel: +1-202-737-7752
Fax: +1-202-737-1155
Website: www.bicusa.org