

# **Governance and Accountability at the Regional Development Banks**

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May 2008

## ***A. Introduction***

This paper presents an overview of the governance and accountability issues at the regional development banks (RDBs). The RDBs consist of four institutions: The African Development Bank (AfDB); the Asian Development Bank (ADB); the European Bank for Reconstruction and Development (EBRD); and the Inter-American Development Bank (IDB).

We will discuss each RDB by examining the key issues presented by (1) its governance structure, and (2) the accountability mechanisms it has adopted to better address the concerns of a wider set of stakeholders.

Under the rubric of governance, we will discuss the following issues:

**(1) The basic organizational structure of each RDB, including a comparison of the voting power and obligations of the Banks' member countries.** The RDBs often draw most of their finances from their developed-country member states. Many wealthy non-regional countries were allowed to join the RDBs because of their contributions, and their money has provided a substantial portion of funds for the RDBs. Consequently, the voting structures (based on distributed shares) of the RDBs are often designed to allow the wealthy donors (such as the United States and other Western countries) to dominate their decision-making processes. Even in the midst of much institutional change in the voting structure over the past few decades, critics have continued to argue that RDB policies and voting structures do not reflect new economic and development realities. The practice of weighted voting in some of the RDBs has been considered undemocratic, as it allows the donors to control the RDB.

**(2) Information disclosure policies.** Most RDB policies have been based on decisions made in private by its Board of Directors or Executive Board. Additionally, the RDBs usually

do not disclose internal documents. Because RDBs are not subject to traditional democratic processes or external controls, weak disclosure policies threaten to make these institutions less accountable to their stakeholders, which include member states, non-governmental organizations, and individuals. In addition, lack of disclosure prevents non-governmental organizations (NGOs) and civil society members from acquiring the knowledge required to give meaningful input, feedback, and criticism to the RDBs. A true presumption of disclosure, which would allow civil society to scrutinize the Banks' policies and proposals, may change the behavior of RDB management to reflect the needs and concerns of a broader range of stakeholders.

The next three issues frame our discussion of accountability at the RDBs:

**(1) Internal accountability and oversight.** RDBs are mostly not parties to international treaties or other instruments that invite outside regulation. As a result, internal indicators of performance and self-evaluations for RDB projects are crucial to ensuring their effectiveness and efficiency. Internal indicators are also crucial for measuring both the positive and negative impacts the RDB projects have on the environment and human rights of affected individuals. In general, the NGOs have been critical of the RDBs for their lack of consideration in these two areas.

Each RDB's anti-corruption policy also guarantees the efficacy of RDB projects. It provides important disciplinary measures against any misconduct related to RDB activities, especially since RDB staff members are often immune from legal suits within the laws of the RDB member states.

**(2) Independent review mechanisms.** These measures allow individuals or groups directly affected by RDB projects to express their grievances to the RDB. However, the RDBs usually have required the stakeholder to demonstrate that the harm suffered was caused by the RDBs' failure to comply with its operational rules. Critics have argued that this prerequisite to the independent review mechanism allows harmful policies of the RDB to escape liability or meaningful scrutiny. If the review mechanisms were conducted more like judicial proceedings, and were more independent from the management of the RDBs, they may give rise to personal liability for the RDBs' staff and to a stricter scrutiny of RDBs' policies. Currently, the review

mechanisms do not amount to judicial proceedings, and the RDBs cannot be sued in the courts of their member states.

**(3) The role of civil society.** NGOs and civil society in general have led the way in monitoring, assessing, and criticizing the RDBs. The RDBs have been criticized for paying too little attention to NGOs, as well as individuals and groups that are directly affected by the Banks' development projects. Although civil society exists within the RDB member states, RDBs have been criticized for not conducting a sufficient number of consultations with these stakeholders.

## ***B. African Development Bank***

### **1. Background**

The African Development Bank came into existence on September 10, 1964. The Bank was founded as part of the pan-African movement at the beginning of decolonization in the mid-twentieth century. Initially headquartered in Khartoum, Sudan, the AfDB was created to “contribute to the development and unity of Africa.”

Like the World Bank, the AfDB is a “Group” that consists of independent, yet interrelated institutions. The African Development Bank Group consists of (1) the African Development Bank; (2) the African Development Fund; and (3) the Nigeria Trust Fund.

### **2. Governance**

#### **a. Basic Structure of the AfDB**

The Board of Governors is the highest-ranking decision-making body at the AfDB. Each Governor and an Alternative represent an AfDB member state. Governors and Alternatives are most often senior officials from the finance or economic ministries of the member states that they represent. Indeed, they serve on the Board at the discretion of the member state that appointed them.

The Board of Governors has the exclusive power to (1) admit new members, (2) increase the capital stock, (3) amend the Articles of Agreement, and (4) elect the Board of Directors and

the President. The Board of Governors is responsible for holding annual meetings, as well as others that it or the Board of Directors deems necessary.

The Board of Governors meets occasionally throughout a given year to make decisions on the broader policy goals of the Bank. On the other hand, the Board of Directors has the power to manage the Bank's daily operations. There are two Boards of Directors at the AfDB: one for the African Development Bank, and another for the African Development Fund.

The Bank's Board of Directors consists of eighteen individuals, twelve of whom are selected by the regional (that is, African) member states of the Bank. The remaining six Directors are selected by the Bank's non-regional member states. Individuals elected to serve on the Bank's Board of Directors cannot also hold a position on the Board of Governors. The Bank Directors are elected for a three-year term, and are eligible to serve a maximum of two terms. Like the Board of Governors, the Bank's Board of Directors also allows for Alternates. Alternate Directors are selected by the Directors, provided that they are not of the same nationality (except for the American Director and his or her Alternate).

The Fund has twelve Directors on its Board, all of whom also serve on the Bank's Board. The Fund's Board is comprised of: (1) the six Directors of the Bank's Board that were selected by the non-regional (that is, non-African) member states; and (2) half of the remaining twelve Directors on the Bank's Board. The regional Directors of the Bank's Board select amongst themselves the six Directors that will serve on the Fund's Board. The AfDB President serves as the Chairman for both Boards of Directors.

#### **b. Voting Power of Member Countries**

The AfDB Articles of Agreement require a two-thirds majority vote for decisions by the Board of Governors and the Bank's Board of Directors. Should a member country believe an issue presented to either of the Boards to be of great importance to it, the Agreement allows the member to request that the decision require a 70% majority vote. These voting rules appear to empower the regional member countries. As in other RDBs, regional member countries receive economic assistance from the AfDB, while the non-regional member countries contribute the funds that allow the AfDB to give assistance in the first place. The AfDB voting rules are

designed to allow regional member countries to shape the assistance they receive from the AfDB to fit their interests and needs, rather than those of the non-regional donor countries. The regional member countries hold two-thirds of the voting power in both the Board of Governors and the Bank's Board of Directors. The rules also require non-regional member countries to cooperate with the regional member countries in order to influence decisions at the AfDB. Additionally, the rules enable regional member countries to unite against an unfavorable proposal by a non-regional member country.

Moreover, the voting scheme at the AfDB is in line with its "African character": Nigeria wields the greatest voting power at 8.739%, while the United States comes in second with 6.366%. In the least, this distribution of voting power symbolizes Africa's ownership of development assistance from the AfDB. Vote allocation at the AfDB is also unique because it is designed to prevent a single Governor or Director from controlling the outcome of the decision-making process. Put differently, the AfDB voting arrangement differs from that of the World Bank. There, the recipient countries appear to have less ownership of development assistance: the United States holds 16.41% of the voting power, followed by Japan at 7.87%, Germany at 4.49%, and France and United Kingdom at 4.31%.

Despite the fact that non-regional member states are the minority shareholders of the AfDB, they nevertheless hold considerable influence over Bank activities. Not only do they make the key capital contributions as donors, they often have greater capacity as developed countries to collect more information on Bank projects than the representatives of the regional, developing member states on the three AfDB Boards.

### **c. Transparency and Information Disclosure**

The current information-disclosure policy ("the policy") at the AfDB is the broadest yet in its history. It was last amended in 2005 in response to (1) demands for greater transparency in the AfDB decision-making processes, and (2) an ongoing effort among the international financial institutions to work towards a uniform standard for disclosure.

In general, the policy obliges the AfDB to disclose all information except when compelling reasons exist otherwise. The AfDB has invoked two reasons to withhold information

under this rule. First, it has classified certain types of information for the effective functioning of the Bank Group. Specifically, it has withheld: (1) information on the Boards of Directors, including information on their internal administrative and deliberative processes; (2) internal financial information; (3) privileged information; (4) pre-qualification information for certain procurement processes; (5) credit information on a member country; and (6) other documents and categories of information not specifically disclosed under this policy. Second, the AfDB allows its Boards of Directors to prevent disclosure of information, even if the policy specifically provides for that type of information to be made public.

The latest amendments to the disclosure policy have been designed to allow a wider range of stakeholders to participate in the AfDB's decision-making processes earlier on than they have been able to before. In its 2005 version, the disclosure policy provided for a wide distribution of the Country Strategy Papers—even in their draft stages—to various stakeholders who would be affected by the development projects that the AfDB and the recipient-country government were planning to pursue. In effect, this would allow civil society to participate in drafting the Country Strategy Papers, which contain assessments of the recipient country's interests and needs. The 2005 version of the disclosure policy also provided for an annual release of Country Performance Assessments, a group of indicators measuring the fitness of a recipient country's governance.

Despite the Bank's efforts to increase transparency, the 2005 version of the policy has been roundly criticized. Civil society has noted that the disclosure-policy provisions have become meaningless because the AfDB has (1) not yet disclosed the information it has decided to make public under the policy, or (2) not yet disseminated the disclosed information. Additionally, the Bank is behind in conducting an assessment of the disclosure policy, even though it had stated in the 2005 version that the policy would be reviewed two years after its implementation. The AfDB is also behind schedule in creating a Bank staff manual on the disclosure policy. Even if all of the information the AfDB has agreed to disclose were readily available to the public, it would not promote the effective inclusion of non-state stakeholders—such as non-governmental organizations and individuals—in its decision-making processes. In most cases, the AfDB only releases information under the disclosure policy after its Boards have received it first. Even in the case of the Country Strategy Papers, information deemed

confidential by the AfDB and the recipient-country government is not disclosed to non-government stakeholders.

### **3. Accountability**

#### **a. Internal Accountability and Oversight**

Within the AfDB, the Anti-Corruption and Fraud Division (ACFD) of the Office of the Auditor General is responsible for ensuring the integrity of all AfDB activities. To further this goal, the ACFD is responsible for (1) investigating allegations of corruption, fraud, or staff misconduct in AfDB activities; and (2) promoting a professional culture denouncing these practices amongst the Bank staff and the regional member countries. Through its investigation, the ACFD seeks to determine the validity of the claim by asking whether it was “more probable than not” that the party in question committed the illicit conduct. The ACFD reports its findings to the President, who ultimately decides whether the investigation confirms the claim(s) filed. Should the President conclude that the party in question did engage in corruption, fraud, or other misconduct, the AfDB (1) will halt the project involving the guilty party and may ask it to return any loans granted to it; (2) will institute internal proceedings against any guilty staff of the Bank; (3) may place a guilty contractor on a “black list”; and (4) may refer any and all guilty parties to the law-enforcement authorities of the relevant member state(s).

In an effort to establish a comprehensive regime against corruption, fraud, and misconduct in its activities, the AfDB introduced the Whistle-blowing and Complaints Handling Policy in 2007. The policy offers anonymity to anyone who, based on his or her personal knowledge or good-faith belief in the occurrence of the conduct in question, reports or desires to report them to the ACDF. The policy encourages voluntary reporting by complainants not affiliated with the Bank, and serves to complement the duty of AfDB staff to report any instances of illicit conduct within seven days of acquiring actual knowledge of its occurrence.

Despite its lofty goal and well-placed incentives, the Whistle-blowing and Complaints Handling Policy has several weaknesses. First, the Auditor-General of the AfDB is limited to granting anonymity to the whistle-blower or complainant “to the extent possible.” Depending on the facts of each case, the protection offered by the Auditor-General may not be sufficient for the

potential whistle-blower or a non-Bank-staff complainant to report the illicit activities. Second, the AfDB cannot fully enforce the policy in favor of non-Bank-staff complainants. While the policy defines retaliation to be “any act direct or indirect, recommended, threatened or taken against a whistle-blower or complainant by any person,” the policy only allows the AfDB to provide remedies against retaliations taken by the Bank (including, but not limited to (1) reinstatement, (2) back pay and benefits, (3) compensatory damages, (4) adjudication expenses, (5) intra-Bank transfer for whistle-blowers, (6) intangible benefits—public recognition of the whistle-blower, and (7) any other relief recommended by the Auditor General) against the employment of whistle-blowers or complainants. In other words, the AfDB cannot provide a remedy to non-Bank-staff complainants for retaliatory measures not taken by the Bank.

### **b. Independent Review Mechanism**

At first blush, it may be difficult to distinguish the AfDB’s Independent Review Mechanism (IRM) from the internal proceedings the AfDB takes against its staff with regards to corruption, fraud, and misconduct. Although they are related processes, they are different because they cover different types of grievances that AfDB stakeholders may file against the institution.

The IRM allows individuals, groups, and other civil-society stakeholders harmed by AfDB projects to allege that the institution failed to comply with its own policies and procedures in pursuing a particular development project. Designed to provide mediation and compliance-review services to stakeholders regarding AfDB projects in both the public and private sectors, the IRM came into existence on June 30, 2004. The IRM consists of two sections: the Compliance Review Mediation Unit (CRMU) and the Roster of Experts.

The IRM is triggered when an AfDB stakeholder files a request for mediation or compliance review. Requests may be filed by (1) any group of two or more people, located in a country where the Bank is pursuing the allegedly harmful project, (2) any organization of the people harmed or likely to be harmed by the Bank’s project, or (3) a local representative of the concerned population. The CRMU Director is responsible for determining whether the allegations in the request merit further action, and if so, whether the request should be subject to the mediation or compliance-review procedures. The IRM adopts different levels of inquiry for

public- and private-sector projects. More specifically, the IRM may only review the AfDB's compliance with its social and environmental policies for the institution's private-sector projects. The IRM may hold the institution to a higher standard for public-sector projects, by challenging its adherence to all of its policies and procedures applicable to the project in question. The AfDB requires the disclosure of (1) the registration of request, (2) the CRMU mediation reports, (3) the CRMU eligibility reports for compliance review, (4) compliance review panels report, and (5) decisions by the Boards of Directors or the Bank President in response to reports (2)-(4). The CRUM Director has discretion to decide whether to grant any request by the requestor to keep the information contained in these documents confidential.

It is difficult to assess the benefits and costs specific to the AfDB's IRM because it has been used only once. However, civil society has been quick to mention that the IRM, like its counterparts in other international financial institutions, does not always provide the remedy sought. More specifically, the IRM is not designed to stop the allegedly harmful project(s) even after the concerned people(s) or their representative(s) have filed a request. The IRM does not provide traditional remedies that arise from lawsuits because the complainants cannot take the AfDB to court. The most that the complainants may hope to obtain from the IRM is that the AfDB agrees to change the problematic aspect of the project in question to comply with Bank rules.

### **c. The Role of Civil Society**

Unlike the other RDBs, the AfDB does not have an extensive history of engaging civil-society stakeholders. Although the AfDB has proposed a comprehensive policy for integrating individuals, groups, and NGOs into the various aspects of the AfDB operations, no discernable actions have been taken as of yet.

## ***C. Asian Development Bank***

### **1. Background**

The Asian Development Bank was founded in 1966 "to foster economic growth and co-operation in the region of East Asia and the Far East," particularly amongst its developing member countries. Since 1999, when the ADB decided that its poverty-reduction strategy would

be a key component of its agenda, the Bank has narrowed its focus to the eradication of poverty in the region. ADB now designs all of its activities to promote “economic growth; human development; gender and development; good governance; environmental protection; private sector development; [and] regional cooperation.” In practice, the ADB primarily (1) lends funds and (2) provides technical assistance to the governments of, and businesses in, its developing member countries. Countries desiring ADB membership must demonstrate their membership in the United Nations system.

## **2. Governance**

### **a. Basic Structure of the ADB**

The Board of Governors holds all powers of the Bank. Each Governor and his alternate represent the member country that selected them for their respective posts. These individuals are usually high-ranking officials from the economic or finance ministries, or central banks, of their appointing member country. The Governors attend an Annual Meeting held by the Board to exercise their decision-making powers.

The Board of Governors possesses a wide range of non-delegable powers. It is the only authoritative body of the ADB allowed: (1) to decide on matters of membership and capital stock; (2) to review the interpretations or applications of the ADB’s charter by the Board of Directors and consider any amendments to that document; (3) to enter into agreements with other international organizations on behalf of the ADB; (4) to elect Directors and the President, and determine the terms of their employment; and (5) to manage the Bank’s finances.

The Board of Directors is the second-highest authority at the ADB. Stationed at the ADB headquarters in Manila, Philippines, the Board oversees the day-to-day workings of the Bank. The Board consists of twelve Directors, eight of whom are elected by the Governors of the regional member countries. The remaining four Directors are selected by the Governors of the non-regional member countries. Each Director is allowed to select an alternate, provided that they are nationals of different member countries.

The ADB President chairs the Board of Directors. The President is the highest-ranking member of the Bank’s Management Team, and serves as the Bank’s legal representative. Like

the Directors, the President is elected by the Board of Governors. The President's main responsibility is to ensure that the ADB follows the decisions of the Board of Directors in its operations. Four Vice-Presidents and one Managing Director-General assist the President on the Management Team.

#### **b. Voting Power of Member Countries**

As in all RDBs, the ADB consists of both regional and non-regional member countries. Non-regional countries such as the United States, the United Kingdom, France, and Germany are nonetheless members of the ADB because they make capital contributions to the Bank. Like the AfDB, the regional member countries at the ADB hold clear majorities in number, and in voting power, in both the Board of Governors and the Board of Directors. The Board of Governors consists of 48 regional-member-country Governors who hold 65.040% of the total voting power in that body. Of all the 67 member countries of the Bank, Japan, a regional member country, holds the greatest voting power at 12.756%. The People's Republic of China, another regional member country, comes in second at 5.442%. The United States has the largest share of votes among the non-regional member countries, tying Japan at 12.756%. The regional member countries possess 75% of the total voting power within the Board of Directors, as they select eight of the twelve members of that body.

However, these majorities do not necessarily favor the regional member countries. At the ADB, the voting rules for both Boards simply require "a majority of the voting power represented at a meeting" for a decision to be made, which weakens the impact that regional member countries have in the Boards of Governors and Directors. In other words, non-regional members may pass decisions in meetings where they constitute a majority. Absolute majorities in the Board of Governors may matter under two limited circumstances. When the Board decides to identify a member country as "developed" or "developing," it needs a vote of two-thirds of the total number of Governors, representing not less than three-fourths of the total voting power of the members. Additionally, electing the Bank President requires a vote of a majority of the total number of Governors, representing not less than a majority of the total voting power of the members. The majority requirements for the Bank's Presidential election do not allow regional member countries to vote meaningfully as a majority block. The Bank

President has always been from Japan, though the founding Agreement allows the President to be a national from any regional member country.

### **c. Transparency and Information Disclosure**

ADB's information-disclosure policy was last revised in 2005. This current version of the policy reflects many of the suggestions made by NGOs in their consultations with the Bank. The policy now expressly requires the ADB to actively disclose all information when confidentiality cannot be justified by a compelling reason. While individuals do not have to ask for information to obtain it from the Bank, the policy obliges the ADB to honor all inquiries for information falling within the presumption in favor of disclosure. Consequently, the ADB must disclose information even if such disclosure portrays it in an unfavorable light.

The policy also enumerates the types of information that the ADB will not make public. Explaining that legal and practical considerations do not allow for complete disclosure, the ADB assures its stakeholders that the undisclosed information is miniscule when compared to all the information the Bank plans to make public. However, the actual list of protected information appears quite sizeable. It includes nineteen categories of "current information," or information on current Bank activities, many of which pertain to the decision-making processes of the Board of Directors. The list also contains ten categories of "historical information," or information on past Bank activities.

These protective measures are mitigated by the "public interest override" and the ADB policy on "historical information." First, the policy requires ADB to disclose two categories of "current information"—namely, (1) internal documents, memoranda, and other similar communications to and from the Board of Directors, the Management, and ADB staff and consultants, and (2) communications between the ADB and its member states—as well as all ten categories of "historical information," upon request by (a) a member country; or (b) the Bank's own determination that the benefit to the public interest from the disclosure will be greater than the harms arising from it. Despite its potential for broad application, the "public interest override" is subject to legal constraints on the ADB. Specifically, the ADB cannot divulge information without the informed consent of the party to whom it made a legally binding promise of confidentiality. Also, the ADB cannot make disclosures that may be against any

applicable law. Second, the ADB must honor requests for “historical information” if these requests are for documents issued twenty or more years before the date of request.

Since implementing the 2005 version of its disclosure policy, the ADB has been recognized by civil society as a leader in promoting openness among the other international financial institutions. The ADB ranked high in all categories of the IFI Transparency Indicators in late 2005. The IFI Transparency Indicators highlighted the unique characteristics of the ADB’s new disclosure policy. First, the ADB was found to provide the greatest amount of detail about its projects through the Project Information Documents (PIDs). What’s more, the ADB policy advocates for early disclosures of key documents to the public to encourage participation from non-state stakeholders. More specifically, the ADB policy seeks to distribute documents on country strategies to these non-state stakeholders before their consultations with the Bank on potential projects in their country. The “public interest override” allows ADB to make more information available to the public than other international financial institutions. Lastly, the ADB was found to be the only RDB to provide written responses to requests for information.

Despite acknowledging the ADB’s relatively liberal disclosure policy, civil society has continually pressed for a greater volume and a wider scope of disclosures from the ADB. Critics have called the ADB to disclose all board documents and information pertaining to private-sector development, much of which the Bank has determined to fall outside the presumption of disclosure. Critics have also urged the ADB to translate its documents into more languages so that they may be understood by a wider audience.

The ADB conducted its own evaluation of the implementation of its new disclosure policy from September 2005 to August 2006, and reported the results in March 2007. The ADB reported its shortcomings in complying fully with the disclosure policy, most of which involved delays in disclosures. Following the report, the ADB established deadlines for improving its compliance with the disclosure deadlines in the 2005 policy. The ADB plans to conduct a second self-evaluation of the 2005 disclosure policy in January 2008. This evaluation will cover the implementation of the policy from September 2005 to December 2007.

### **3. Accountability**

### **a. Internal Accountability and Oversight**

Among the RDBs, the ADB has been a pioneer in developing and implementing policies for internal accountability. It adopted its first Governance Policy in 1995, and has operated under the Second Governance and Anticorruption Action Plan (GACAP II) since July 2006.

At the Bank, the Integrity Division of the Office of the Auditor General (OAGI) is responsible for processing allegations of corruption or fraud through its investigatory framework. First, the OAGI receives complaints against contractors (either individuals or firms) or ADB staff involved in a Bank project. These complaints may be filed by anyone, and anonymously, if the complainant so desires. However, anonymous filings are not necessary according to the OAGI, as it promises to protect the complainant's identity throughout the investigatory process. The OAGI screens the complaints to identify and recommend the meritorious ones to the investigatory stage. Once the OAGI has determined that a complaint has merit, then it proceeds to investigate the claims therein, allowing the alleged wrongdoer to respond to them in writing. The OAGI submits this writing, together with the findings of its investigation, to the Integrity Oversight Committee. The Committee examines the facts to determine whether the alleged wrongdoer should be penalized. Penalties include sanctions for contractors, and internal reprimand for Bank staff. Contractors found guilty by the Integrity Oversight Committee may appeal once to the Sanctions Appeals Committee.

The anti-corruption policy has not addressed all concerns regarding internal accountability at the ADB. Currently, the ADB is under attack for tolerating a governance arrangement which has allegedly weakened internal accountability at the Bank. Since mid-January, the United States and other non-regional members of the ADB have criticized the Bank for allowing Japan to have a significant influence over the selection of high-ranking ADB officials. Japan has always appointed the ADB president and the Director-General of the Budget, Personnel, and Management Systems Department—a position unique to the ADB.

As a part of their comprehensive reform plan for the ADB, two former U.S. Directors of the ADB have called the Bank to (1) divide the budget and personnel elements of the Budget, Personnel and Management Systems Department; (2) minimize Japanese control over key posts at the ADB; (3) provide more staff and funds for implementing the ADB's anti-corruption policy,

and select an auditor based on his or her skills (that is, not based on his or her nationality) and have him or her report to the Board of Directors, and not to the President; and (4) promote a culture of openness in debates and discussions among senior Bank officials.

The debate on ADB reform continues, as another former ADB staffer has suggested the ADB's Board of Directors to play a greater role in upholding accountability at the ADB, and to have both Japan and the United States—the two largest shareholders of the ADB—back away from appointing their nationals to key positions. Traditionally, the United States has always appointed the ADB General Counsel.

### **b. ADB Accountability Mechanism**

The ADB established the current Accountability Mechanism in 2003 to allow outside stakeholders harmed by Bank projects to launch complaints against the Bank for failing comply with its own policies and procedures.

The ADB Accountability Mechanism consists of (1) the consultation phase, and (2) the compliance-review phase. Anyone who wishes to invoke the Mechanism must first file a complaint for consultation with the Special Project Facilitator (SPF). This requirement provides outside stakeholders with more avenues for voicing their complaints. Should the SPF determine the complaint to be valid, the Bank is required to provide consultation services even if it did comply with its operational policies or procedures. Outside stakeholders eligible for filing complaints include: (1) two or more individuals in the member country where the Bank project is found; or (2) representative(s) of the group harmed by the project. While the SPF rejects all anonymous complaints, they honor requests to protect the identity of the complainant. The consultation phase appears to favor the Bank over outside stakeholders because the complaint does not halt the Bank project in question unless the ADB and the member country or the “private project sponsor” agrees to it.

The compliance-review phase kicks in only after the outside stakeholder has filed a complaint with the SPF for consultation first. The purpose of this phase is to determine whether the ADB has “directly, materially, and adversely” affected outside stakeholders by deviating from its own policies and procedures in developing and implementing the project in question.

Outside stakeholders become eligible to request compliance review when their complaint to the SPF is rejected. They are also free to file for compliance review at any stage in the consultation process after “review and assessment.” Requests are to be filed with the Compliance Review Panel (CRP). Unlike the SPF, the CRP reports to the ADB Board of Directors.

As in the case for all regional development banks, complainants cannot sue the ADB. Rather, they must settle for the Bank taking it upon itself to correct the non-compliant aspect of the project challenged by the complainant.

### **c. The Role of Civil Society**

The ADB constantly seeks to build stronger relationships with NGOs. The Bank’s current policy on cooperation with NGOs is a 1998 revision of the original policy formulated in 1987. The ADB wants to incorporate NGOs into its activities because the Bank views them as a source of much “experience, knowledge, and expertise” that would be helpful to the Bank in achieving its development objectives. The Bank has operated its NGO Center since 2001, and has established an NGO Cooperation Network to ensure the presence of civil-society specialists throughout the organizational structure of the Bank.

The Bank works with NGOs to disseminate technical assistance to member countries, and holds two to five consultations in a given year with the NGOs to discuss developing, implementing, and assessing Bank activities. The ADB also provides resources for development efforts led by civil society itself. The Bank has funded some NGO activity, and has supported partnerships between NGOs and private-sector entities.

Some in civil society have criticized the Bank for limiting itself to superficial measures when trying to reach out to the NGOs. Previously, concerns about the Bank’s NGO outreach efforts were expressed by the NGO Forum on ADB. This group feared that the overarching framework for ADB interaction with the NGOs would be nothing more than an effort by the Bank to weaken complaints from outside stakeholders. However, the group also noted the importance of communicating with the ADB, and has pushed to develop relations with it. In doing so, it has urged the ADB to rename its outreach effort so that non-NGOs would not shy away from participation. Additionally, the NGO Forum on the ADB has demanded that the

NGO Center facilitate communications between civil society and the ADB, instead of serving as the only contact civil society may have with the Bank. The group asked for quality in staff and services provided by the NGO Center. Most importantly, it has called the NGO Center to make ADB's independent review mechanism central to the Center's operations.

#### ***D. European Bank for Reconstruction and Development***

##### **1. Background**

The European Bank for Reconstruction and Development (EBRD) was established in 1990 and began operations in 1991. The EBRD was created during the disintegration of the Soviet Union and its mission was directly related to the USSR's demise. The Agreement establishing the EBRD states that the purpose shall be "to foster the transition towards open market-oriented economies and to promote private and entrepreneurial initiative in the Central and Eastern European countries" and work toward three important principles: multiparty democracy, pluralism, and market economics. While the primary goal of the EBRD is to help Central and Eastern European countries move toward market-oriented economies after decades of state-run economies, the Agreement makes clear that the EBRD is also committed to promoting the rule of law, respect for human rights, and the strengthening of democratic institutions. The EBRD, which some have described as "stand[ing] out" because of the specific political goals in its charter, has been criticized at times for holding its annual meetings in dictator-run countries and not applying pressure for democratic change.

##### **2. Governance**

###### **a. Basic Structure of the EBRD**

All powers in the EBRD are vested in the Board of Governors, and each member country of the EBRD appoints one Governor. The Board of Governors can delegate all but a few tasks to the Board of Directors, and the Board of Directors function as the principal "office" of the EBRD and is in charge of the day-to-day decisions. The President is elected by the Board of Governors to a four-year term, is the legal representative of the EBRD, and conducts the current business of the EBRD under the guidance of the Board of Directors. The President also has the ability to appoint one or more Vice Presidents.

The EBRD employs around 1300 people, 1000 of which are based out of the London headquarters. In 2006 the EBRD released a new human resources strategy that outlined several priorities for bank staffing. While the strategy promotes placing a stronger emphasis on staff performance and rewarding staff according to achievement, the strategy also notes that “international diversity among employees remains a key component.” These goals have been noted by critics as perhaps inconsistent because performance-based promotions may be hampered by nationality requirements or quotas. With regard to staff representation, the EBRD has a Staff Council, whose goal is to promote the rights of staff as well as develop problem-solving mechanisms. The EBRD also developed a new Grievance and Appeals Procedure for staff in 2006, with the final stage of appeal at the EBRD Administrative Tribunal (which consists of judges external to the EBRD).

#### **b. Member Country Voting Power and Symmetry in Obligations**

Membership of the EBRD is comprised of mostly European and Central Asian countries as well as a small number of non-European countries. Similar to other regional development banks, voting power in the EBRD is proportionate to the number of shares held by the member country. The largest shareholders in the EBRD are the United States (10% of voting power), the United Kingdom (8.5%), Italy (8.5%), Japan (8.5%), France (8.5%), and Germany (8.5%). Russia, Spain, and Canada also have large subscriptions. The U.S. and other non-regional members are some of the biggest contributors to the EBRD, and therefore their membership is crucial to the EBRD’s operations and financial mission.

Although there is no explicit distinction between borrowing and non-borrowing countries in the EBRD, the voting power held by the de facto non-borrowing countries (Western Europe and non-European) far outweighs the voting power held by the borrowing countries (Eastern European and Central Asian). Although the EBRD’s charter allows additional capital stock to be authorized and issued, the charter requires a majority of stock (and therefore voting power) to belong to countries that are members of the European Economic Community (mostly Western Europe). This provision was included because of the desire for the EBRD to be a fundamentally “European” bank. Further, the EBRD charter explicitly grants Western European and non-European countries the ability to elect a majority of the Board of Governors. The Board of

Governors elects the President and Board of Directors of the EBRD. Thus, decision-making power remains firmly in the hands of the non-borrowing members of the EBRD. This is in contrast to organizations like the Inter-American Development Bank, where borrowing members hold a 51% voting power majority over non-borrowing members.

Further, many of the voting requirements in the EBRD's charter favor the EBRD's non-borrowing members. For example, certain operational decisions require two-thirds of the Board of Governors' vote but three-fourths of the total voting power of the members. The President must be elected by a majority of the Board of Governors, but also a majority of the total voting power. There is also an informal agreement at the EBRD that the President will either be from France or Germany. Since the Bank was formed in 1990, there have been three French Presidents and one German President. However, this arrangement has recently been opposed by several of the EBRD's borrowing member countries. The current President of the EBRD, Lemierre, will step down in the summer of 2008. The western European countries met privately in March 2008 and decided to support Thomas Mirow of Germany, but countries such as Hungary have opposed his nomination and argued that the EBRD President should reflect the priorities of those countries that the EBRD was established to benefit.

Thus, the power within the EBRD to make important policy decisions rests in the hands of its non-borrowing members. Although these non-borrowing members control the voting power of the EBRD and make project decisions and determine the loan conditions, they are not subject to any of the terms of the EBRD's loans. Therefore, the potential for inequity exists, as well as what could be termed a democracy deficit, as the borrowing members (those using the EBRD) have comparatively less power to control the EBRD's policies.

### **c. Transparency and Information Disclosure Policies**

The EBRD states that its information disclosure policy is guided by a "presumption that, whenever possible, information concerning the Bank's operational activities will be made available to the public in the absence of a compelling reason for confidentiality." However, the EBRD also stresses that it will "safeguard" the EBRD's business approach by keeping confidential certain information involving its business dealings with clients. Despite the

EBRD's hesitance to disturb its "business" relationships, the EBRD did expand its disclosable information in approving a new Public Information Policy (PIP) in 2006.

The PIP emphasizes the addition of two interrelated categories of disclosable information: (1) general institutional information, and (2) material concerning accountability and governance. Under the former category, the EBRD is now disclosing minutes of the meetings of the EBRD's Board of Directors within a month of their occurrence. The minutes are general summaries but include the amount and type of loans approved for specific projects.

Another concern of the EBRD has been the availability of EBRD documents in the languages of its member countries. This is important because most of the members of the EBRD speak unique languages. The EBRD now, for example, discloses its Environmental Impact Assessments in thirteen languages.

The EBRD also now publishes its Country Strategies—strategic investment plans that set out the economic and political conditions of each country—and invites comments on each strategy. The comments are then publicly posted in summary form along with the Country Strategy. Nearly all of the Country Strategies are in the members' native languages. The EBRD also has begun disclosing Project Summary Documents (PSD), which disclose the goals of a project, the financial details, and potential environmental and social issues. The EBRD reserves the right, however, to delay publication of the PSD if there exist "client concerns" about confidentiality, concerns about project changes that could lead to client embarrassment, or financial market sensitivity concerns. The EBRD reports that 181 PSDs were published in 2006, with 10 PSDs being delayed due to confidentiality. Most of the PSDs delayed were private projects.

Despite the EBRD's increasing disclosure and more liberal information policies, critics still criticize the ease with which documents can be withheld. Global Transparency Initiative (GTI) criticizes the EBRD's exceptions to disclosure as being overly broad and states that the absence of a harm requirement (that disclosure would concretely harm EBRD interests) for the EBRD's exceptions to disclosure make it easy for potentially all EBRD information to be withheld from the public. The EBRD also has a narrow range of situations where "public interest" can override an EBRD determination of confidentiality. GTI gives this override

provision qualified praise, but criticizes the provision as too narrow and only usable in very limited situations.

In sum, the EBRD has expanded the scope of its disclosable information in recent years and is now disclosing important information that allows citizen participation, such as PSDs and Environmental Impact Assessments. However, EBRD policy insists on “safeguarding the business approach,” and therefore the EBRD has the right to withhold (mostly private) documents if it believes that confidentiality will be compromised. Confidentiality override provisions are limited to situations of exceptional circumstances. It should be noted that the EBRD was in the process of further revising the PIP and the new draft was in the public comment phase as of April 2008.

### **3. Accountability**

#### **a. Internal Accountability and Oversight**

This section includes EBRD internal oversight policies that seek to optimize performance and efficiency as well as policies governing corruption and fraud within the EBRD. Internal accountability and evaluation are important because, according to Article 46 of the EBRD’s charter, no legal claims can be brought against the EBRD by its member countries or those deriving claims from a member country in a national court.

The Evaluation Department within the EBRD operates independently of the EBRD’s banking operations and evaluates how well its projects complied with the planned objectives. However, only selected projects are evaluated. The Evaluation Department has evaluated 521 projects since 1996, with 54% of these achieving a good or excellent rating and another 23% achieving a satisfactory rating. In 2006, 80% of those projects assessed had a good, excellent, or satisfactory rating, while 20% were rated marginal-negative.

The EBRD also does environmental impact assessments as part of its project evaluation process. However, CEE Bankwatch Network (Bankwatch), a monitoring group, believes the EBRD should also include routine human rights impact assessments in its overall project assessments. Bankwatch states that human rights monitoring is especially important because many of the EBRD’s projects are carried out in the Caucasus and Central Asian region, one that

is “unfortunately well known for a widespread poor human rights record.” Bankwatch also calls on the EBRD to especially consider the impact of its projects on women, who it claims “disproportionately suffer the adverse impacts of financial projects.”

With respect to internal employee oversight, the EBRD charter grants immunity to EBRD employees with respect to acts performed in their official capacity. Internal corruption and malfeasance mechanisms are therefore important to maintaining the accountability of EBRD officials. The Office of the Chief Compliance Officer (OCCO) is responsible for enforcing the EBRD’s anti-corruption measures. Two Codes of Conduct were adopted in 2006 and regulate the behavior of EBRD employees and Directors. The Code of Conduct for Officials of the Board of Directors lays out specific rules of ethics that govern a spectrum of activities, from the accepting of gifts to the rules regarding lectures or talks that Directors may give.

The EBRD also emphasizes all staff members’ duty to report suspicions of misconduct. Misconduct includes “intentional or negligent failure by a Bank employee to observe rules of conduct or standards of behavior prescribed by the EBRD.” Whistleblowers are to be protected against reprisals or retaliation. The EBRD conducts mandatory ethics training called “Integrity Matters!” that has been attended by 1,150 of the EBRD’s staff members. The EBRD’s Anti-Corruption Report noted that since the implementation of the current corruption reporting and investigation system in 2002, there have been 45 allegations of misconduct by staff members, but none involved staff member corruption. The Report notes that several staff members have been terminated since 2002 for serious misconduct and a variety of less-serious punishments have been meted out for other staff members.

Although the EBRD has been accused of avoiding public accountability, the EBRD appears to place increasing emphasis on evaluating its projects and publicizing that information. However, as critics note, the EBRD does not always take all social factors into account when evaluating its projects.

#### **b. Independent Recourse Mechanism**

The EBRD adopted its Independent Recourse Mechanism (IRM) in 2003, later than the other Banks and after much criticism directed at the lack of such a mechanism. The IRM has

two parts: (1) a compliance review function, which assesses whether the EBRD has complied with its operational policies (namely the Environmental Policy and the Public Information Policy); and (2) a problem-solving function, with a goal to resolve the underlying issues that led to the complaint. This second part of the IRM attempts to overcome a frequent criticism of development banks' complaint mechanisms—that the mechanisms are too limited because they only address whether the bank has complied with its own policies and do not allow parties to challenge the policies themselves. Importantly, however, the IRM does not allow complaints regarding fraud or corruption.

The IRM accepts complaints within twelve months of the completion of a project or final disbursement of a loan. Any two persons who claim to be directly and adversely affected by an EBRD project can file a complaint, but they must describe what steps they have taken to resolve the problem with the EBRD prior to filing under the IRM. The Chief Compliance Officer (CCO) receives the complaint and has five days to determine whether the complaint is manifestly ineligible. If not ineligible, the CCO passes along the complaint to an Eligibility Assessment Expert chosen from a special roster of individuals. This roster is composed of a group of people appointed by the Board of Directors. The CCO and the Eligibility Expert then determine within thirty days whether the complaint is eligible. At that time the CCO also considers potential problem-solving techniques that might be used to resolve the dispute. If the complaint is determined to be eligible or ineligible, that recommendation is forwarded to either the President or Board of Directors (depending on whether the project has already been approved). Importantly, the CCO can also recommend immediate fast-tracked action or the suspension of the project if there is a possibility of irreparable harm. The Board of Directors then decides whether to accept the eligibility recommendation of the CCO and Eligibility Expert, and either approves an investigation or dismisses the complaint. An investigation report will be submitted to the President or Board, where they will decide on whether to take action. The report of the investigation will also be made available to the public once a decision has been made. The Eligibility Expert can also make remedial recommendations, such as a proposal for EBRD internal changes to ensure future compliance or a proposal for a change in the implementation of the project involved. The CCO has the ability to monitor the implementation of any actions that arise out of the IRM process.

Use of the IRM has been sparse. In 2006, the EBRD received two complaints under the IRM, one of which was declared manifestly ineligible by the CCO and the other of which was submitted for further processing. Two complaints that were received in 2005 continue to be processed through the IRM mechanism process.

The IRM is only five years old and has only processed several complaints. Therefore the EBRD has not conducted a systematic analysis of the IRM's effectiveness. However, NGOs and others have directed several criticisms toward the structure of the IRM. Bankwatch claims that the IRM was "established to prevent NGO participation" because its complaint eligibility is restricted to "affected groups" and does not include general civil society organizations. Bankwatch also criticizes the impartiality and lack of independence of the IRM because the Chief Compliance Officer and Eligibility Expert can only make *recommendations* about the eligibility of a complaint or whether there will be remedial changes to the EBRD's policy as a result of an IRM complaint. Bankwatch recommends that complaint eligibility determinations be made without the need for Board approval. Bankwatch also recommends that the EBRD completely separate its compliance-review and problem-solving parts of the IRM.

### **c. Role of Civil Society**

The EBRD has implemented many consultations and programs that involve dialogue with local NGOs as well as allow citizen input into various projects. These opportunities for citizen and NGO involvement might be a response to past critics of the EBRD, who criticized the EBRD's lack of formal channels for citizen feedback on various projects. Others have stated that the EBRD lacked a mechanism to gauge the response of local communities to EBRD projects and loans. Past EBRD ties with dictatorships—such as having the EBRD's annual meeting in Uzbekistan—have also led some commentators to call the EBRD the "European Bank for Repression and Dictatorship." The EBRD suffered embarrassment and some questioned its political mandate when, at the 2003 Annual Meeting in Uzbekistan, despite assurances, Uzbek President Karimov refused to condemn torture. However, in a recent interview EBRD President Jean Lemierre insisted that human rights and political structures do play a role in EBRD loan approval. Lemierre stated that where there is evidence of political repression or human rights violations, the EBRD limits its funding to private sector projects.

As noted in other sections of this paper, the EBRD has recently pushed for the translation of EBRD documents into the myriad languages of the EBRD's member countries. This would allow local citizens and NGOs access to Project Summary Documents (PSDs), for example, and allow them to make informed complaints and raise questions regarding EBRD policy. PSDs in particular are required to be published a certain number of days prior to a Board meeting so that the Board may consider public comments. Environmental Impact Assessments (EIAs) also require a consultation period, open to the public, prior to the project's approval.

The EBRD has developed programs to encourage exchange between NGOs and the EBRD. The EBRD's Outreach Unit publishes a newsletter for NGOs, has a special area on the EBRD's website for NGOs, and organizes various meetings with NGOs. At the EBRD's 2006 annual meeting, 76 organizations from 25 countries attended the EBRD's special session for NGOs and community organizations. NGOs often meet with Board members at Board Consultation visits to member countries, and NGOs also meet with the EBRD regularly to discuss particular projects as well as policy issues. The Environmental Advisory Council (ENVAC) is a group of independent NGO directors and academic professors that meet with the EBRD twice a year to discuss policy and technical issues as well as emerging trends.

Critics have noted several perceived deficiencies with civil society interactions with the EBRD. Global Transparency Initiative (GTI) praised the EBRD's initiative in meeting with more NGOs and civil society groups on EBRD visits to its project countries. However, GTI stated that NGOs often learn of EBRD visits too late in order to request or schedule a meeting with the EBRD entourage, and claims that only certain NGOs are invited to participate in the dialogue process.

GTI also called on the EBRD to disclose a greater number of Environmental Action Plans (EAPs) rather than only disclosing them for high-risk projects or in response to case-by-case public requests. GTI also recommended that EIAs be disclosed 120 days prior to the Board's consideration of the project so that there is adequate time for "thoughtful input."

Thus, the EBRD's policies appear to emphasize the role of citizen feedback as well as consultation with NGOs, although some believe that only certain NGOs are being included. Although the decision-making power and right to keep certain information confidential remains

in the hands of the EBRD Board, the EBRD appears to be interested in genuinely promoting local citizen and NGO input.

## ***E. Inter-American Development Bank***

### **1. Background**

The Inter-American Development Bank was chartered in 1959 with the purpose of contributing to the “acceleration of the process of economic development” in Latin American and Caribbean countries. Although the IDB traditionally has used loans to member countries as the means of fulfilling its purpose of economic development, its loan portfolio has recently dropped and the IDB is exploring new ways to assist the economic development of its member countries.

At the Annual Meeting of the Board of Governors in March 2007, IDB President Luis Moreno announced that realignment of the IDB was essential to “become a vital cog in the wheel of progress in the Americas.” The realignment was put into place in July of 2007 and “seeks to enhance the strategic capacity of the Bank” so that it can respond to new demands in Latin America. The new realignment seeks to strengthen the IDB’s strategic capacity, strengthen leadership, increase transparency, and make its monitoring activities more efficient. Importantly for this study, part of the realignment includes a shift toward results-based evaluation and a “results mandate” that will require “performance-based budgeting.” The realignment will also place a greater emphasis on the IDB’s private sector lending by raising the maximum loan amount and permitting private loans to go toward a greater diversity of projects.

A watchdog group, the Bank Information Center (BIC), notes critically that the stated realignment initiatives do not mention strengthening social or environmental safeguards. In addition, increased private sector lending could make it more difficult for the IDB to monitor the environmental and human rights aspects of the projects.

### **2. Governance**

#### **a. Basic Structure of the IDB**

The Board of Governors is the highest authority in the IDB and all powers not delegated remain with the Board of Governors. Each member country appoints one member of the Board of Governors for a five-year term. The Board of Executive Directors is responsible for the day-to-day conduct and operations of the IDB, and the Board of Governors may delegate nearly all powers to the Executive Directors. The President of the IDB, under the guidance of the Executive Directors, conducts the ordinary affairs of the IDB and is the chief of staff of the IDB. The President's term is five years, and the President is elected by the Board of Governors. There are also Vice-Presidents and various Offices that coordinate certain sectors within the IDB.

The IDB currently employs about 2000 staff members including 120 managers, and the IDB estimates that some of those staff members might quit or be fired because of the new realignment strategy, which puts less emphasis on seniority and nationality indicators. The IDB also will be offering buyouts for some veteran managers as the organization seeks to have the proper personnel for its new initiatives. On June 6, 2007, the Employees Association of the IDB called a special Assembly to respond to the IDB's realignment initiative. The Assembly responded with general approval of the realignment, but noted that the process in which the realignment was taking place was "erratic, non-participatory, and obscure" and that the IDB's employees' lack of information did not enable them to make sound judgments about the merits of the realignment. Notwithstanding complaints about the process in which the realignment was taking place, the employees expressed support for the realignment's strengthening of merit, transparency, and competitiveness involved in the processes of selection, promotion and retention of IDB personnel.

The employees' support for the new employment philosophy represents dissatisfaction with the IDB's previous lack of emphasis on merit in the hiring and promotion process. The IDB's 2006 Development Effectiveness Overview states that, as part of the realignment, there will be a focus on performance incentives and accountability and that these changes will be initiated as part of the IDB's greater emphasis on results-based effectiveness.

Therefore, the IDB appears to be moving toward a more transparent as well as competitive process for employee retention and merit-based promotions. Still, a significant portion of IDB employees feels that the IDB realignment process has been proceeding in a

secretive and non-transparent manner. It should be noted that the IDB has an Administrative Tribunal that exists to settle disputes between the IDB and its employees over employment matters.

### **b. Member Country Voting Power and Symmetry in Obligations**

An important facet of governance is the level of control over the IDB exercised by its various member countries. Voting for many important functions of the IDB is determined by the amount of shares a member country possesses. The amount of shares belonging to each country was established by the 1959 Agreement creating the IDB and is based on contributions. Although the precise amounts of capital stock have changed since that time, the overall percentages remain similar.

The borrowing member group of the IDB is made up of the countries of Latin America and the Caribbean. These countries are the targets and recipients of IDB projects and loans, and they hold over 50% of the voting power of the IDB. The borrowing-member majority at the IDB is in contrast to, for example, the EBRD, where non-borrowing members hold a substantial voting majority. At the IDB, in the borrowing member group, Argentina (10.7%), Brazil (10.7%), Mexico (6.9%), and Venezuela (5.7%) hold the largest percentages of voting power. Otherwise, the United States holds roughly 30% of voting power, while Japan holds 5% and Canada 4%. Most of the 21 non-borrowing members are from Europe. Italy's voting power, for example, is around 1.9% of the total. This is greater than borrowing members Paraguay, Panama, Nicaragua, and Honduras combined. Non-regional members have relatively large stakes in the IDB because they are the biggest contributors and therefore provide the IDB with much of its capital.

Although the borrowing members hold over one-half of the voting power, voting rules of the IDB often require more than a simple majority of stock. Therefore, important action within the IDB is often controlled by the U.S. as largest shareholder, or, in any case, cannot be undertaken solely by the borrowing members of the IDB. Many voting rules require an absolute majority of member countries, but require a higher percentage of total voting power. This skews power toward those members holding higher percentages of voting power, principally toward the U.S. as holding 30% of total voting power. For instance, a quorum for a meeting of the Board of

Governors is an absolute majority of the total number of governors, *representing no less than two-thirds of the total voting power*. Amending the IDB's charter requires two-thirds of the total number of governors but also three-fourths of the total voting power.

The United States' influence over the IDB, which is headquartered in Washington, D.C., is evident. The U.S. automatically gets to appoint one member of the Board of Directors (as the largest shareholding member) while the other members are appointed by the Board of Governors. Moreover, although the President is elected by a majority of the voting power as well as a majority of member country approval, current President Moreno was the U.S.-supported candidate when he was elected in 2005. Moreno was Colombia's former ambassador to the U.S. and was a leading proponent of the U.S. free trade agreement with Colombia.

One outgrowth of criticism of the IDB and other financial organizations is the recent establishment of the Bank of the South. The Bank of the South was created to counter the traditional Bretton Woods institutions and the power that Western countries (such as the U.S.) exercise in those institutions. The Bank of the South will lend money for infrastructure projects and social programs. Most countries in South America are planning on participating in the Bank of the South. The Venezuelan finance minister stated that the Bank of the South will be unique because no one member will have disproportionate power. This criticism of the IDB is articulated despite the IDB borrowing members' possession of over 50% of the voting power, a deliberate decision to give borrowing countries more power.

Therefore, there is a potential for inequity within the IDB because those receiving the IDB's funding, and complying with the conditionality attached to that funding, hold a bare majority of overall voting power and on many important decisions need the support of the U.S. or another non-Latin American member for decision-making power. The U.S., Canada, and Japan control a sizable portion of voting power within the IDB, but are not subject to the IDB's conditionality requirements for lending because they are non-borrowing members. Further, the voting power percentages are roughly the same today (with the exception of the entrance of Canada and Japan into the IDB) as they were when the IDB was formed in 1959.

### **c. Transparency and Information Disclosure Policies**

The IDB has recently broadened and liberalized its disclosure of IDB documents. In the IDB's Disclosure of Information Policy, the IDB commits itself to transparency and accountability, recognizing the importance of a liberal information disclosure policy. The Policy states that "[i]nformation concerning the Bank and its activities will be available to the public in the absence of a compelling reason for confidentiality." Much of the IDB's disclosable information can be accessed through the IDB's Public Information Center on its website.

First, the IDB promises to disclose operational and sector policies, which explain the IDB's operational policies within a given operation or economic sector. However, information contained in these policies that is deemed confidential by the IDB or identified as sensitive by the member country will not be released. Project documents prepared for private sector operations will likewise not be disclosed. Other documents will not be disclosed if the borrowing country member objects. Second, the IDB promises to disclose its audited financial statements on an annual or quarterly basis, which include balance sheets, statements of income, cash flows, loan summaries, and capital stock of the various member countries. Finally, the IDB promises to disclose institutional information. This includes information such as summaries of the Board of Governors' annual meetings, agendas of meetings of the Executive Directors, as well as the Annual Report that lists the Board's composition as well as country voting power. General information on the IDB's employment structure, as well as the IDB's legal information (charter, by-laws, and other regulations) will be disclosed. Some documents related to the IDB's Independent Investigation Mechanism (IIM) will be made available if confidentiality issues are not raised (otherwise, a summary version will be released).

Despite the IDB's liberalized disclosure policy and default disclosure rules, a significant number of restrictions on disclosure remain. The IDB claims that these restrictions on disclosure are necessary to allow effective functioning of the IDB as well as protect the privacy interests of the IDB's clients. Some of the basic restrictions include: (1) information which has been identified as confidential or sensitive by a Bank client or the Bank itself, or information to which a concerned Bank member objects; (2) information concerning the Bank's internal processes or dialogue that is essential to the "integrity of the deliberative process," such as proceedings of the Executive Directors and Board of Governors; (3) other information prepared for internal Bank processes; (4) IDB internal financial information that affects the Bank's activity in capital

markets; and (5) information pertaining to disciplinary investigations, except information related to the Independent Inspection Mechanism.

The Bank Information Center (BIC) criticizes the IDB's information disclosure policy for not providing an appeals procedure to adjudicate disputes over disclosure requests. The BIC recommends that any individual should be able to file a complaint alleging lack of compliance with disclosure policies, and that such a complaint process would allow the realization of a true "presumption of disclosure."

Therefore, the IDB's disclosure policy is a broadening of disclosure and opens most of the important IDB documents to public review. In addition, the IDB's new maxim that "information will be made available in the absence of a compelling reason for confidentiality" puts the onus on IDB officials to prevent disclosure. However, the exceptions contained in the Policy give the IDB a substantial amount of discretion to prevent the release of any information deemed private (or objected to by a member country) or interfering with the IDB's deliberative processes. Further, critics allege there is no adequate appeals process to solve disclosure disputes between the IDB and a requesting party.

### **3. Accountability**

#### **a. Internal Accountability and Oversight**

This section includes internal policies that relate to oversight and auditing of IDB projects in order to optimize performance and efficiency as well as policies regarding corruption and fraud within the IDB.

The IDB has several committees and offices in place to oversee project implementation. In the project approval process, the Management Review Committee and the Loan Committee review project information and serve as "checkpoints" in the project approval process. The Review Committee reviews the documents pertaining to a particular project and signs off for review by the Loan Committee. A Procurement Committee is in charge of continually reviewing the IDB's procurement policies, the bidding process, and any possible deviations from a competitive bidding process. The IDB also has in place environmental and social review mechanisms that focus on: (1) the project's protection of the environment and socio-cultural

preservation; (2) the rights of indigenous peoples related to the project; (3) any involuntary settlement issues; and (4) gender and occupational health considerations.

A major part of the IDB's new realignment program emphasizes performance and outcomes. The IDB began publishing a Development Effectiveness Overview in 2006 with the goal of taking a big-picture look at the IDB's developmental goals, assessing whether the desired outcomes are being achieved, and ensuring results-based management. The Office of Evaluation and Oversight (OVE) was created in 1999 and is independent of IDB management. The OVE reports directly to the Executive Directors and claims to be "free from external pressure and conflicts of interest." The OVE is in charge of the Country Program Evaluations, policy and strategy evaluations, and is even involved in the IDB's corporate strategy.

The IDB has been criticized for not including certain factors in its internal assessments of projects, such as environmental and human rights-related effects. In 2002, the IDB provided loans for the Camisea project, an oil pipeline project in the Peruvian rainforest. Critics claim Camisea has caused environmental destruction and threatened the habitat of isolated Amazon tribes. The IDB commissioned an assessment report on Camisea in 2006 that NGOs have characterized as not fully independent. In addition, NGOs criticized the report for only considering IDB "management indicators" and not making concrete findings on the extent of environmental harm caused by Camisea. With regard to human rights indicators, the IDB's Environmental and Social Unit chief admitted that the report did not even examine possible human rights violations. Another IDB project, the Madeira dam, has been criticized for displacing several thousand people in Brazil, accelerating deforestation, and possibly affecting endangered animal species. Critics have argued that the IDB's realignment initiative has pushed out environmental and indigenous peoples concerns, despite a recently convened Blue Ribbon Panel on the environment that recommended greater environmental safeguards within the IDB.

The other important component of internal accountability relates to fraud and corruption within the IDB. Internal mechanisms are necessary for accountability because the IDB's charter establishes that all governors, directors, and other employees of the IDB are immune from legal process if their acts are performed in their official capacity. The IDB has established an Oversight Committee on Fraud and Corruption (OCFC) to investigate suspected acts of fraud or

corruption. The OCFC is composed of several IDB Vice Presidents as well as the General Counsel and Auditor General. Thus, the Committee is composed of internal officers within the IDB, raising questions about the impartiality of the OCFC and its willingness to indict superiors. The OCFC is empowered to: (1) review allegations of fraud and corruption that have been received by the Office of Institutional Integrity (OII), (2) review the results of OII's investigations, (3) decide whether a sanctions proceeding should be started, and (4) make recommendations to the President on the proper action to be taken in the matter. The OII is the group in the IDB responsible for preventing incidents of fraud and corruption. The OII also conducts investigations regarding possible incidents and reports to the OCFC when the allegations are related to fraud or corruption, or to the Ethics Committee or Conduct Review Committee if the allegations relate to harassment or discrimination.

Therefore, the IDB has several mechanisms in place that seek to ensure both operational effectiveness and prevent wrongdoing within the organization. While the OVE is independent of IDB management, and therefore can conceivably objectively evaluate and assess project effectiveness, the OCFC (responsible for determining the outcome of a complaint of fraud or corruption) is made up of IDB management staff and therefore presents the danger of impartial processing of fraud complaints.

#### **b. Independent Inspection Mechanism**

The IDB's Independent Inspection Mechanism (IIM) was developed in 1994 and re-evaluated in 2001 and 2005. In February 2005, the IDB Bank Management began a public consultation process to revise the IIM. As of 2008, the IDB was still considering the draft proposal to change the IIM (which is renamed the Consultation and Compliance Review Policy in the draft) as well as the public comments that were received as a result of the draft proposal's publication.

The IIM allows "affected parties" to make complaints of material harm where the IDB has failed to follow its own operational policies or norms. If the Coordinator of the IIM believes a complaint is substantive, the Coordinator appoints someone from a roster of investigators, who then forwards the complaint to the Executive Board, President, and IDB management. IDB management then either approves the complaint or sends it back to the chosen investigator from

the roster. The investigator then prepares a formal recommendation about whether to conduct an investigation, which is then put to the Executive Board to make a decision. If the Executive Board decides to authorize an investigation, it will appoint a three-person panel from the roster of investigators. The panel then conducts its investigation, with access to all relevant records and staff, and can visit territory of the member state if consent is obtained. At the end of the investigation, the panel submits a report and recommendations to the Executive Board and the President. The Board then makes a decision on what action should be taken with regard to the complaint. Notably, the panel can only include findings of fact in its report and is not allowed to propose solutions or remedies.

The IIM is a limited mechanism, and several features should be noted. First, the investigation panels for the IIM are not composed of full-time workers nor is there a full-time office devoted to the IIM—rather there is a roster of potential panelists who are occasionally chosen to conduct IIM investigations. Second, the IIM requires that the complainant go through the Executive Board and IDB management prior to an investigation being carried out. Third, the IIM only allows the investigators to make fact-findings and recommendations to the Executive Board. The responsibility to take action in response to an investigation—the crucial decision-making point in the IIM—lies with IDB management. Fourth, the mechanism cannot be used after 95% of the loan proceeds have been disbursed.

The 2005 proposals for revision of the IIM address some of these issues. One proposal included a Consultation phase that would encourage greater dialogue between the complainant and the IDB as well as allow strategizing about a wide variety of potential solutions to the complainant's problem. Another proposal is to create a permanent office within the IDB devoted to the IIM process and a permanent three-person roster of investigators rather than the rotating ad-hoc process of investigator selection currently in place. Finally, other proposals seek to put time limits on the specific phases of the IIM process. For instance, presently there is no time frame within which the Executive Board must either authorize or deny a formal investigation under the IIM.

Critics complain that the eligibility determination for an investigation should rest with the IIM Coordinator or panel rather than with the Executive Board. Currently IDB management,

who might be implicated in the complaint, is involved in the complaint process; this presents a conflict of interest problem. Critics also note the lack of mechanisms to monitor implementation of any measures taken after the complaint process. Finally, another critic disagrees with the 95% disbursement cutoff for filing complaints and believes that complaint eligibility should continue after the completion of a project.

The use of the IIM has thus far been limited. In the several years leading up to 2004 the IDB had only received four complaints, involving three different projects. In the 2006 IIM Report, the IDB noted that it “continued to monitor” two complaints received in 2004 and 2005, and reported on two new complaints received in 2006. Although a budget of \$257,252 was allocated to the IIM for 2006, it only expended \$20,036 because of the limited number of complaints.

### **c. Role of Civil Society**

The IDB defines participation as “the set of processes whereby citizens, via their governments or directly, can influence the decision-making process relating to these activities and objectives.” The IDB lists four areas of citizen participation that the IDB has been developing. First, the IDB has encouraged citizen input into development policies. Second, the IDB has encouraged citizen input into sector and country strategy development. The IDB states that it has been “steadily opening up” its strategy development and country strategies in order to consult with civil society and other stakeholders when developing strategies tailored to each country. However, the IDB is clear that new forms of stakeholder input do not mean that the IDB negotiates with these groups when determining its policies, but rather that it listens to their perspectives. Third, the IDB has more actively involved citizens in project preparation and implementation. Although the IDB notes that “[n]egotiating the terms and conditions of loans to the public sector is the exclusive responsibility of the respective government entity,” the IDB commonly solicits opinions from stakeholders for those projects with a significant environmental or social impact. Finally, the IDB states that more groups are involved in the evaluation of IDB activities.

Despite its promotion of public participation, the IDB notes that final responsibility for encouraging public participation lies mainly with the governments and the agencies executing

the projects. The IDB states that the Bank's role is to provide for participatory processes in the project design, while the onus for carrying out the participatory mechanisms lies with the countries themselves. The greatest role for public participation involving the IDB will be in project strategy and development planning.

The IDB's 2007 Civil Society meeting was in Costa Rica. The meeting was criticized by some of those who attended as insufficiently flexible and "focused more on broad aspirations or broad hypothetical claims rather than clear performance indicators." Some also criticized the short (one-day) length of the meeting. Others have claimed that civil society engagement with the IDB has worsened during President Moreno's tenure.

NGO participation is also sometimes conditioned on member country approval. The IDB's 2008 Annual Meeting was held in Miami and NGOs were allowed to participate. However, the IDB stated that NGO participation was by invitation only and that each NGO must be approved by its home country government before an invitation will be issued. This gives member countries an effective veto ability over NGOs that are critical of the government or its handling of an IDB project.

Therefore, the IDB appears to be committed to increasing citizen participation in development of its country policies and plans, as well as increasing dialogue between those civil society stakeholders that the IDB's policies will affect. However, critics say any real engagement with the IDB is very limited. And the IDB limits its responsibilities to policy development—it states that it is the country's responsibility to develop effective participation plans during the implementation of the project. The IDB also conditions participation on the member country's agreement, thus having the potential to greatly limit citizen participation if a member country objects. It is important to note that much of the IDB's policies on participation are policies or recommendations, and that tangible and concrete evidence of extensive citizen participation is undocumented.

## ***F. Conclusion***

The RDBs are an importance source of funding for their regional member countries. The RDBs are uniquely suited to provide assessments of region-specific challenges and to develop

country-specific expertise and strategic plans, in contrast to the larger and more global scope of the World Bank. In addition, RDBs are owned in part by their regional members and therefore are an integral part of the financial infrastructure of each region.

## **1. Governance**

### **a. The basic organizational structure of each RDB, including a comparison of the voting power and obligations of the Banks' member countries.**

The basic structure of each RDB, including its distribution of voting power, is an important part of RDB governance. The AfDB, ADB and IDB actively promote regional borrowing-member ownership and influence. For instance, the IDB ensures that borrowing member countries in Latin America have over 51% of total voting power in the bank. The ADB has routinely selected a Japanese national for Bank President. This tradition ensures that the Asian region will always have oversight and control over the ADB. At the EBRD, however, no comparable policy exists to ensure borrowing members' power. Although European member states of the EBRD are required to hold a majority of the votes, its central and eastern European borrowing members actually have very little voting power.

### **b. Information disclosure policies.**

The RDBs' information disclosure policies are an important element of their governance structures because they inform the civil society of the RDB policies and procedures. All of the RDBs have information disclosure policies that attempt or purport to presume disclosure of all information and documents unless an item is deemed confidential or a member-country government objects to its disclosure. Despite these efforts, the disclosure policies at all four RDBs have been roundly criticized by civil society for not sharing enough information. Against this backdrop, the IDB stands out for having a liberal disclosure policy and a management that has been active in deliberately disclosing a wide variety of documents.

## **2. Accountability**

### **a. Internal accountability and oversight**

Internal accountability and oversight allow RDBs to assess the effectiveness of their projects and prevent and punish wrongdoing by staff. The ADB has been the forerunner in establishing and implementing a comprehensive anti-corruption policy. The EBRD also stands out for its project-evaluation policies and extensive anti-corruption programs.

#### **b. Independent review mechanisms**

Independent review mechanisms can be divided into two types—two-step mechanisms that emphasize both problem-solving and formal grievance procedures (AfDB, ADB and EBRD), and one-step formal grievance procedures (IDB). The procedures involved in the review mechanisms of the RDBs are largely similar, and the mechanisms tend to focus on whether there was compliance with the RDB's internal procedures. Because the RDBs do not consider the validity of the policies and procedures themselves, critics have frequently argued that these mechanisms are very limited and unable to effect fundamental changes within the RDBs.

#### **c. The role of civil society**

Civil society participation is important in promoting RDB policies that allow for greater transparency and disclosure, as well as more expansive accountability and oversight. Also, civil society organizations are often vocal about proposed changes in the independent review mechanisms. Members of civil society often seek to influence RDB behavior by publicizing the adverse environmental and human-rights-related effects of RDB projects. The AfDB has the least amount of contact with NGOs and civil society members, while the EBRD has actively promoted its contacts with member countries' NGOs and included them in its deliberation processes.

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