BRETTON WOODS project

BRETTON WOODS
observer
A quarterly critical review of developments at the World Bank and IMF

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KNOWLEDGE analysis

Let them eat cake! IMF the equality champion?

IMF staff discussion note finds inequality impedes growth, redistribution does not

Fund refuses to connect findings to its policies or lending programmes

Quasi-official policy paper examines fiscal policy tools to combat inequality, but not approved by board

NGO studies show inequality impacts political, social and democratic dimensions, not just growth

In February and March the IMF published two papers on inequality, addressing its impact upon growth and the implications for government spending. The papers generated international debate and led to suggestions that the IMF is changing its historic approach to macroeconomics, rejecting cuts to public spending with which it has long been associated. However, the Fund has not examined its own policies' role in creating inequality, nor has it sought to explore changes to the conditionalities it currently imposes on borrowing countries.

In a widely reported February speech, Fund managing director Christine Lagarde argued that "rising inequality and economic exclusion can have pernicious effects", adding that no longer can policy "look simply at economic growth" and must instead "ask if this growth is inclusive". Media reports and NGO statements celebrating this stance appear to be contradicted by the IMF reports' small print, which indicated that little will change with the Fund's policies.

Big headlines, little influence

A February IMF staff discussion note (SDN) found that advanced economies reduced inequality by roughly one-third between 1960 and 2010 by combining social transfers with redistributive taxes. The paper found that lower net inequality is "robustly correlated with faster and more durable growth" and that income redistribution appears "generally benign" in terms of its impact on growth. The authors consistently highlighted that in "extreme" cases it "may" have "negative effects on growth". Redistribution has been discouraged in the past by the IMF due to the belief that it would impede growth.

The SDN recommended four considerations in ensuring redistribution could be efficient and effective. These were to ensure redistribution is consistent with macroeconomic stability objectives; that taxes and expenditure policies be evaluated jointly; that policy design balances redistribution and efficiency; and that all policies take into account administrative capacity. It found that "effects of redistribution … are on average pro-growth", warning that "we should be careful not to assume that there is a big trade-off between redistribution and growth. The best available macroeconomic data do not support that conclusion." The authors are "mindful about over-interpreting these results, especially for policy purposes".

Aldo Caliari of US-based NGO Center of Concern pointed out in a February blog post that the Fund's paper was little more than an "instrumental" case for reducing income inequality, justifying redistribution only in terms of what is beneficial for growth and development. International NGO Oxfam concluded in a January study that inequality also poses social and political risks, arguing that "institutions become undermined and governments overwhelmingly serve the interests of economic elites to the detriment of ordinary people", such that inequality "erodes the social contract between citizens and the state" (see *Bulletin* Feb 2014).

Caveats aplenty despite more evidence

The IMF has made no indication that this paper will change its policies. The Fund's first deputy managing director David Lipton commented in a March *IMF Survey* article that for redistribution, "[policy] design matters", otherwise it can be "pushed too far" and is "distortive".

The SDN's caveats were deemed irrelevant by some World Bank staff. A March blog post by Jean-Pierre Chauffour, lead Bank country economist for Morocco and former IMF staffer, questioned whether the IMF paper's view on tackling inequality would be "smart economics". He suggested that policies which directly address inequality should be avoided, despite the SDN's review of the overall evidence. Chauffour dismissed this, arguing that "accelerated economic growth – not redistribution" remains the best way to "eliminate extreme poverty".

"Bringing redistribution to the IMF discourse is welcome" commented Isabel Ortiz, of the International Labour Organisation, "however it needs to be translated into policy advice; currently there is a disconnect between the IMF's progressive research pieces in headquarters and operations and surveillance in countries. IMF country policy advice should not remain 'business as usual'."

It appears doubtful that IMF policy advice will change as a result. SDN lead author Jonathan Ostry stated in a press conference to launch the report that "I want to draw a line between this analytical paper and Fund policy advice and design of programmes … there's no direct implication for Fund policy advice or programme design."

Policy shift?

The February SDN was followed by a policy paper in March examining the role of fiscal tools to reduce inequality. The paper focussed on how to better target social spending and considered alternatives to large cuts in welfare transfers, which have been the primary mechanisms for fiscal management that the IMF has advocated in both historic and current lending programmes.

Lost on most commentators was that the paper and its findings were prevented from being approved by the board. A front page disclaimer declared that "the executive directors met in an informal session, and no decisions were taken". This unusual non-approved status for a policy paper suggests that major member states would not have approved it for publication. The Fund's supposed change of heart favouring redistributive policies is therefore even more questionable.

The policy mix set out by this quasi-official policy paper rarely deviates from long-standing Fund positions, such as championing means-testing, and ignores the political challenges facing governments to ensure redistributive policies are democratically embraced. Peter Bakvis of the International Trade Union Confederation argued in March that the paper "is very guarded in its policy proposals" and that the paper ignored "any underlying causes of inequality", including weakened labour market institutions and financial deregulation.

In a February paper, the Arab NGO Network for Development concluded that rather than seeking to reduce inequality, an economic model based on fiscal consolidation and privatisation has been advocated by the Fund in countries as diverse as Jordan, Tunisia, Morocco, Egypt and Yemen. Examining IMF recommendations since 2007 they found that the IMF "intensified its calls for the reduction of food and, in particular, fuel subsidies" in the region despite polls which show that surveys found populations "overwhelmingly opposed [to] the reduction of food subsidies" and "large majorities favoured … redistributing funds to the poor and to public services, namely education and healthcare services".

Jihen Chandoul, of Tunisian NGO l'Observatoire de l'économie, confirmed that "the IMF's stand-by agreement with Tunisia was conditional on compliance with a harsh package of regressive policies such as elimination or reduction of subsidies, wage bill caps, pension and healthcare reform".

tinyurl.com/IMF-sdn-inequality
tinyurl.com/IMF-fiscalpolicy

Arab uprisings and social justice, ANND
tinyurl.com/ANND-Feb2014

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Para la versión en español, visite: brettonwoodsproject.org/es/observador

CONDITIONALITY news

IMF embroiled in Ukraine crisis

The IMF announced in late March a staff-level agreement with Ukraine for a $14 billion-$18 billion loan. Domestic gas prices were hiked by 50 per cent the day before; the IMF had earlier indicated that it would demand reforms that "cover a wide range of issues". Ukraine's 2011 IMF arrangement was frozen due to Ukraine's failure to implement required reforms. Ultimately, Fund conditionalities may depend on political realities. Brett House of Canadian think tank CIGI argued in March that "the West needs to ensure that IMF money [for Ukraine] carries fewer strings and disburses faster than past loans."

SOCIAL SERVICES news

Troika in Cyprus: privatisation outrage

The Cyprus government resigned in February after legislation to privatise state-owned electricity, telecoms and ports utilities was rejected. The bill was required for an April disbursement of €236 million ($326 million) by the Troika (comprising the IMF, European Central Bank and European Commission). The bill was subsequently passed and the government survived, but without its junior partner. Public protests and strikes followed. Capital controls limiting bank cash withdrawals to €300 per day remain.

RIGHTS news

Bank blamed on 1965 Indonesian massacres

Oscar-nominated film, *The act of killing*, about 1965 mass killings in Indonesia following a coup by general Suharto, was projected on the walls of the World Bank by US NGO East Timor and Indonesia Action Network (ETAN) in February. ETAN is pressing the Bank to "publicly acknowledge [its] complicity in the murders", "The Bank gave $30 billion dollars to a dictator who killed an estimated one million of his own citizens," said director Joshua Oppenheimer. "The murderers spent years profiting off of their heinous crimes with the World Bank … and other global financial institutions footing the bill."

www.etan.org

INFRASTRUCTURE commentary

Disempowered development

Violating rights in Nepal for electricity transmission

by Shankar Limbu, LAHURNIP, and Komala Ramachandra, Accountability Counsel

Nepal's highest capacity electricity transmission line, a 220 kV line extending 75 kilometres between Khimti and Dhalkebar substations, has faced numerous setbacks since the project commenced in 2002. As one component of the World Bank-funded Nepal Power Development Project, the Nepal Electricity Authority (NEA) is building the power line, ostensibly under the supervision of the Bank, though the Bank's role was hardly evident until affected communities began voicing concerns about failures in the planning and implementation of the project and the resulting harm.

The affected residents of Sindhuli District are angered by a lack of project information and consultation about the impacts of the high capacity power line, disregard for the rights of affected indigenous communities, and inadequate compensation for land acquired for the power line's right of way, which extends 15 metres on either side of the wires. They first filed a petition to the Supreme Court of Nepal in February 2013, and then in July to the World Bank's accountability mechanism, the Inspection Panel (IP, see *Observer* Winter 2014). People are concerned that their agriculture-based livelihoods will be curtailed. Residents have requested that the NEA and Bank consider alternatives that would divert the power line away from inhabited areas, particularly homes, schools, and heavily travelled roads, as recommended under the Bank's own environmental, health, and safety guidelines.

The Bank's response has been ineffective in addressing peoples' concerns. Until February, there had been virtually no direct communication from the NEA or the Bank to affected communities, despite the communities' primary demand for clear information and participatory consultation. Bank and NEA officials have repeatedly dismissed concerns about health and long-term economic impacts of the power line, instead redirecting the conversation to monetary compensation and ignoring community requests to find a mutually acceptable alternative. Bank officials have limited "affected people" to those who own land in the 15-metre right of way, attempting to exclude the participation of people who live in the region, including those with children who attend schools near the power lines. The NEA has also attempted to exclude participation of a community based committee that represents affected people fighting against the project, claiming that they are unauthorised to engage in official communication.

In October 2013, the IP recommended a full investigation of the project. However, it first allowed the Bank six months to implement an action plan that Bank management and the NEA had developed to remedy problems, including information dissemination, consultation, updated resettlement and vulnerable peoples action plans and compensation – all elements that should have been in place from the outset. The loan under which the power line is funded closed in December 2013, as did official Bank supervision. Bank management offered to extend their supervisory role during implementation of the action plan, but indicated that rejection of the plan would result in Bank withdrawal from the project and the government of Nepal forcibly acquiring land to complete construction on the power line. Affected people had little choice but to go along, and though they requested a simultaneous investigation by the IP, the Panel delayed its start until after April.

Implementation of the action plan has been woefully delayed, lacking even communication about its existence to the affected people. Affected communities have been protesting the project, not allowing NEA staff to enter the region and commence work, demanding that information be disseminated and consultations be conducted first. Issues came to a head in late January, when an unannounced NEA team escorted by heavily armed security forces entered an affected community. This is the same site where security forces had brutally beaten women protesters in 2012 when they attempted to prevent an NEA team from conducting survey work, leaving two women hospitalised. Despite ongoing intimidation and death threats from local and district officials, affected communities continue their protests, most recently holding a multiday sit-in in after security forces entered the communities. Bank officials have yet to provide communities with a commitment that security forces will not be used during project implementation.

Affected communities have suffered violence and intimidation and have had to wait far too long for clear information and consultation about the project. Prevention of further harm from both this power line and similar future projects requires an immediate IP investigation and action by Bank management.

Photo: Gokul Bhujel, LAHURNIP

Security forces escorting a NEA team for work related to the Khimti-Dhalkebar power line in January

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IFI GOVERNANCE analysis

‘Declining performance’ at World Bank as strategy moves forward

Leaked IEG report reveals declining performance, particularly IFC’s short-term and financial sector lending

Bank staff survey finds lack of trust in institution and management

New country engagement model up for consultation, NGOs tell Bank to get it right

New Bank corporate scorecard due in April

Leaked draft safeguards framework outlines 10 social and environmental standards

As implementation of the World Bank Group’s (WBG) new strategy continues (see *Observer* Winter 2014, Autumn 2013), a leaked January draft report on the Bank Group’s 2013 results and performance by the Bank’s Independent Evaluation Group (IEG) revealed the Bank’s “declining performance trends ... at country and at project levels” at the Bank.

The draft report singled out the Bank’s private sector arm, the International Finance Corporation (IFC), as particularly problematic, with declining development outcome ratings. It highlighted the IFC’s growing portfolio in short-term finance instruments and financial markets (see page 8). It called on the IFC to “carefully monitor its additionality in lower-risk markets where it has been growing fastest, and assess its developmental contribution on a programmatic basis”.

The report called on the Bank’s new strategy and change agenda to “address issues that IEG has flagged for some time”, noting also that “improved results frameworks and Bank Group coordination will do little to improve country programme outcomes if the underlying product quality remains weak.”

Leaked results from a 2013 internal Bank Group staff survey revealed less than half of respondents agreed that the Bank “prioritises development results over the number and volume of transactions.” Less than half felt they “can report unethical behaviour without fear of reprisal.”

Country engagement model consultation

A mid March document outlining the Bank’s new country engagement model was put out for a one month public consultation, finishing on 18 April. The consultation paper outlined further details about the new Systematic Country Diagnostic (SCD) and Country Partnership Framework (CPF), replacing the Country Assistance Strategy (CAS) process (see *Observer* Winter 2014, Autumn 2013). Despite the ongoing consultation, according to the document “teams have already begun preparing SCDs” to support the transition to CPF as of July.

According to the document the SCD will be prepared by “a multi-sector team under the direction of the country management”, “in close consultation with national authorities, the private sector and other stakeholders”, however, it will not capture “the views of all those consulted”, but will “reflect the views of the WBG.”

The CPF process ends the requirement that IDA countries produce Poverty Reduction Strategy Papers (see *Update* 39). Instead the CPF will be underpinned by the SCD, and build on the country’s development goals that are aligned with the Bank’s twin goals. It will also consider the Bank’s comparative advantages. The CPF process will be built around “widespread consultation and engagement with all stakeholders”, including “the voice of citizens and the private sector”.

Commenting on the draft guidelines Jocelyn Medallo of US-based Center for International Environmental Law said: “Despite the Bank’s increased rhetoric on citizen engagement, it appears to be missing key opportunities to put this commitment into practice. The new Bank strategy states that the SCD ‘will explicitly consider the voices of the poor.’ Yet, the interim SCD guidelines do little to ensure that communities and civil society will have a voice in this critical process.”

Prior to the consultation launch a March letter from 33 NGOs, including Egyptian Initiative for Personal Rights and Germany-based Urgewald, to the Bank called on it to make the design of the public consultations right “in the development of the new SCD/CPF policy, as well as in each country’s SCD/CPF”. That would require involving developing country stakeholders in the SCD/CPF policy consultations and that the SCD “explicitly includes a risk assessment of human rights, environmental, corruption and governance conditions.”

New Bank Group corporate scorecard

In mid February, a leaked presentation on the Bank Group’s new corporate scorecard outlined a pyramid structure with the Group scorecard at the “apex”, followed by the Bank scorecard (see *Update* 83), IFC scorecard (see *Observer* Winter 2014) and the Bank’s Multilateral Investment Guarantee Agency (MIGA) key performance indicators. The top indicators are aimed to be “actionable and amenable to targets”; “cascaded and promote desired behaviour”; and “supported by rigorous and reliable data.” Furthermore, the top indicators need to be “relevant for at least two out of three WBG institutions”, indicating a bias towards the private sector arms, IFC and MIGA. The new structure is due to be discussed by the Bank’s board in early April, it will then be available to the Bank’s governors during the spring meetings in mid April.

A leaked mid March internal presentation on the revised safeguards framework (see *Bulletin* Feb 2014) outlined 10 environmental and social standards replacing the current policies, including six new standards: “labour and working conditions”, “community health, safety and security”, “land acquisition and involuntary resettlement”, “biodiversity conservation and sustainable management of living natural resources”, “financial intermediaries” and “stakeholder engagement”. The first draft of the framework is expected to be sent for approval by a subcommittee of the Bank’s board this summer.

Bank’s new “margins for manoeuvre”

In line with the Bank strategy’s aim to cut costs and increase lending, in mid February the Bank approved new measures to enhance the financial capacity of its middle-income country lending arm, the International Bank for Reconstruction and Development (IBRD), by “improving margins for manoeuvre”. The Bank estimates the changes will increase IBRD annual lending capacity from $15 billion to $26-8 billion over 10 years.

World Bank country engagement consultation
tinyurl.com/WBcountryengagement

For links to documents:
brettonwoodsproject.org/?p=13615

RIGHTS news

Bank accused of resettlement "cultural genocide"

NGOs accuse Bank of colluding with Kenyan state to evict Sengwer people

Bank fails to ensure adequate resettlement plan in Lagos Nigeria

Cambodian Boeung Kak Lake community jubilant after US legislation pressures Bank to compensate them

The World Bank's, funding of a forestry project in East Kenya, that has evicted over a thousand Sengwer families from their homes in the Embobut Forest (see *Observer* Winter 2014), continues to receive global attention. By late March almost 950,000 people had signed an Avaaz online petition calling for the Bank to "urgently" halt the "illegal" evictions.

Under the spotlight of international condemnation, the Bank issued a mid February statement saying it was "alarmed by reports of the recent evictions", adding: "The World Bank is not involved in the reported evictions, nor has the Bank financed or supported these actions. Nevertheless, we are not bystanders".

The Bank's accountability mechanism, the Inspection Panel (IP), was expected to produce its report into the case in early 2014, but by late March if had not yet been published.

In a mid March letter to the Kenyan government and the United Nations, over 360 national and international civil society organisations and individuals led by the No to REDD in Africa Network, said the Bank's offer of advice to the Kenyan government, demonstrated it was "admitting its complicity in the forced relocation of the Sengwer people as well as offering to collude with the Kenyan government to cover-up cultural genocide".

The Bank has made slow progress on its commitment to ensure adequate consultation, compensation and support for the resettlement of communities in Badia East, one of nine Lagos settlements intended to benefit from the Bank-funded Lagos Metropolitan Development and Governance Project (LMDGP) in Nigeria (see *Observer* Winter 2014, *Bulletin* Dec 13). The case is being handled by the IP under a new pilot scheme. NGO Amnesty International accused the Bank in February of "dragging its feet" over the compensation package. In a March interim note the IP reported that although an agreement has been reached on compensation "some practical issues remain" over implementation.

There was more hope for the Boeung Kak Lake community in Phnom Penh, Cambodia, battling evictions connected to a Bank land management and administration project, which has contributed to the displacement of over 4,000 families since 2007 (see *Update* 81, 75). In late January new US legislation (see *Observer* Winter 2014), prompted the community to defy a ban on public gatherings to deliver a thank you letter via the US embassy in Phnom Penh. Ee Sarom of NGO Sahmakum Teang Tnaut said: "We hope … that now the Bank will do what it promised four years ago." However, as of early March only 17 of the excluded families had reportedly been given land titles.

ACCOUNTABILITY background

IMF technical assistance

Technical assistance (TA) is one of the IMF's three main pillars of activity, along with surveillance and lending, accounting for about one-quarter of the IMF's operating budget. Approximately two-thirds goes to low and lower-middle income countries. The overarching aim of TA is, according to the Fund, to "help improve the design and implementation of members' economic policies". In June 2013, the Fund released a new policy paper that modified its 2008 strategy.

For the full article, see:
brettonwoodsproject.org/?p=13599

FINANCE news

China: IFIs facilitate rise of the renminbi

China's currency internationalises through IFC issued offshore RMB bond

IMF continues to urge RMB liberalisation

IMF refines reserve adequacy

The World Bank's private sector arm, the International Finance Corporation (IFC), is helping China turn its currency, the renminbi (RMB), into an international reserve. In late February, the IFC announced the first major bond denominated in RMB and traded outside of China. With a 1 billion RMB ($165 million) face value, the bonds provide one of the first mechanisms for nations to hold RMB foreign exchange reserves. IFC treasurer Jingdong Hua told the *Financial Times* newspaper: "This will broadly contribute to the renminbi becoming a liquid currency … ultimately helping the renminbi become a global reserve currency."

This chimes with the IMF's consistent calls to liberalise the RMB. The IMF's late February surveillance note to the G20 finance ministers' meeting said "allowing more flexibility in the exchange rate by reducing intervention over time" would be needed for China to help "avoid a resurgence of global imbalances" (see *Update* 81,70). China has flagged plans to allow limited trading in the RMB offshore, while keeping firewalls up to prevent this from impacting the domestic economy, eventually transitioning into full-fledged liberalisation.

In mid March, the IMF released a November 2013 policy paper on metrics to assess countries' foreign exchange reserve adequacy. The paper moves the Fund further away from income classifications, which said rich countries could have low reserves while emerging markets needed higher levels. The new metric takes into account a country's financial system, trade profile and macroeconomic policies.

Previous complaints about the Fund's lack of evenhandedness (see *Update* 84) resurfaced at the December board meeting to discuss the paper, with "many directors encourag[ing] additional work to assess the drivers of reserve accumulation". This reflects a widespread belief in emerging markets that the Fund pays insufficient attention to the policies of rich countries which contribute to financial instability and episodes of sudden capital outflows in developing countries.

ENVIRONMENT analysis

World Bank's climate change crusade: rhetoric or reality?

Bank promoting itself as an agent for tackling climate change

Still funds dirty energy including a Chinese coal-powered pulp mill

Bank continues to promote carbon markets despite dysfunctional pricing

Photo: Joe Athialy

Fishing under the shadow of coal plants, Mundra, India

Since becoming president of the World Bank in 2012 Jim Yong Kim has pushed climate change to the top of the institution's agenda (see *Update* 83), but critics say the Bank's solutions do not match the new rhetoric.

In September 2013 Kim said: "we know that climate change, left unchecked, threatens the health, homes, and livelihoods of millions of people around the globe, with the poorest and most vulnerable hit the hardest." His warnings are based on a series of Bank reports, including the 2012 landmark report *Turn down the heat* which warned that the planet could warm by 4 degrees by 2100. Towards the end of 2013 the Bank published several reports on short-term climate pollutants from wood cook stoves and methane from solid waste. The reports argued that it is crucial to reduce these emissions because they are melting glaciers in regions such as the Himalayas.

Bank still funding dirty energy

The Bank's heavily publicised July 2013 announcement that it would only fund coal projects in "rare circumstances" reinforced its image as a leader in tackling climate change. In January, Kim said "this is the year to take action on climate change".

However, the Bank Group is still funding new coal projects. In February International Finance Corporation (IFC, the Bank's private sector arm) funding was approved for a pulp mill project in China run by Finnish multinational Stora Enso. The mill will include a 50 MW power boiler which will burn coal as well as biomass. Around 80 per cent of the mill's energy will be derived from coal in the first three years of the project. In line with new national policy (see *Observer* Winter 2014), the US executive director to the Bank voted against the investment, but the project was still approved.

The Bank is still deciding whether to finance a controversial coal plant in Kosovo and continues to fund coal projects in India and Indonesia (see *Bulletin* Dec 2013). In the case of the IFC funded Tata Mundra coal plant in India, local fisherwomen launched a petition in March calling on Kim to withdraw funding for the project which emits coal dust that "affects the health of our children, the elderly and even animals".

The Bank is also strongly backing natural gas projects with its position being that it can play a key role as a "transition fuel" despite criticism of its damaging environmental impact (see *Observer* Autumn 2013).

Putting a price on carbon

One of the Bank's main climate change policies is placing a price on greenhouse gas emissions. On taking up her role as the Bank's new special envoy on climate change in January, Rachel Kyte wrote, "a predictable, robust price on carbon gives companies an incentive to invest in low-carbon energy sources".

The Bank continues to promote carbon markets as one of the best mechanisms to price carbon especially through the Partnership for Market Readiness (PMR, see *Update* 85, 81). In a January blog Kyte noted the PMR is supporting over 30 countries that "have or are planning to launch carbon markets in coming years". The PMR was setup in 2010 to "help developing countries launch carbon markets"; to date around $110 million has been committed.

The Bank did not release it's annual report on the state of carbon markets in 2013 saying "current market conditions invalidate any attempt and interest to undertake such analysis". Instead it worked with Dutch energy consultancy firm Ecofys to map carbon pricing initiatives. The report acknowledges "prices in the major existing carbon markets are at a historic low".

Civil society organisations criticise carbon markets, arguing they are a profit-oriented distraction from reducing emissions at their source (see *Update* 79, 59). In a March briefing US NGO Food and Water Watch said "carbon markets are not about emissions reductions – they are about finding the cheapest way to keep on polluting".

Sunita Dubey of Indian NGO Vasudha Foundation questions if the Bank will match its rhetoric on climate action. "The Bank is known for funding huge projects, and believes in trickle down benefits. So the question is whether the Bank has, or can develop, the institutional, financial and technical expertise to implement the low-cost, low-carbon decentralised energy systems that benefit poor people."

Tata Mundra coal plant petition
tinyurl.com/tatamundra

Costly dams criticised

Despite a history of displacing communities and flooding fragile ecosystems, the Bank believes large hydropower projects are an effective way to increase energy access without carbon emissions. In March the Bank approved funding related to the controversial Inga 3 dam project in the Democratic Republic of Congo (see *Bulletin* Feb 2014). A March academic study has found large dams often are neither cost efficient nor carbon neutral.

tinyurl.com/costlydams

ENVIRONMENT analysis

Global Partnership for Oceans:
World Bank fishing in troubled waters?

Guest analysis by Nathalie Rey, Greenpeace International

Concerns raised over Global Partnership for Oceans in run up to Bank-organised Global Oceans Action Summit in April

Bank outlines vision for increased global food fish production

Bank pushes privatisation of access to fish resources, CSOs argue against concentration of fishing rights

The World Bank has been involved in oceans-related projects for many years, however, in 2012 then Bank president Robert Zoellick upped the ante by announcing the launch of a new Global Partnership for Oceans (GPO, see *Update* 80). Together with a large range of partners, the Bank claims it wants to give a political boost to restoring the health of the oceans by providing finance and knowledge to activate "proven solutions" to deal with three key problems of overfishing, pollution and habitat loss. However, there are concerns that pushing solutions, such as the massive expansion of fish farming and handing over the management of marine life to the private sector could create far more problems than it solves. Will people and marine life really be prioritised over dollar signs?

The Bank has committed $300 million to kick-start initiatives, and hopes to garner $1.2 billion from other partners to achieve sustainable seafood and livelihoods, habitat protection and reduced pollution in 10 key ocean regions by 2022. A group of leading names from academia, government, civil society and the private sector have been appointed as a "blue ribbon" panel to provide recommendations to the GPO on how best to implement sustainable ocean investment.

A key stated goal of the partnership is to significantly increase global food fish production from not only sustainable fisheries but also fish farming known as aquaculture, as part of the solution to food security. The Bank's February report, *Fish to 2030: prospects for fisheries and aquaculture*, outlines this vision, estimating that by 2030 nearly two-thirds of seafood will be farmed. It recognises that the sector will need to address key problems such as pollution, disease and fish meal issues. An expanding aquaculture industry, especially for carnivorous species like salmon and shrimp, is demanding more wild caught fish as feed, putting additional pressure on the ocean. This increased demand is already forcing the industry to replace fish-based feeds with alternative protein sources, as well as increasing the use of fish waste from fish processing. But will this really be enough to meet demand, especially on the scale that the World Bank envisages? And will fisheries for small fish, such as sardines and anchovies, that are a key food source for larger fish be rebuilt before the fishmeal industry has sucked them dry? As Juergen Voegele, World Bank director for agriculture and environmental services, sums up: "it's a huge challenge".

Leaving small-scale fishers behind

Another worrying element has been the emphasis on privatisation of access to fish resources. In some rights-based management systems, individual fishing rights are allocated to fisher people, fishing vessels, businesses, cooperatives or fishing communities, who can in turn trade them. By allowing exclusive usage rights and more direct involvement in fisheries management decisions, it is hoped there is a greater incentive to ensure the long-term sustainability of fisheries. However, in 2013, using examples from Chile, Denmark, Iceland, Namibia and New Zealand, the World Forum of Fisher Peoples, Fish Harvesters and Workers issued a compelling "call on governments" to strongly denounce this push by the GPO to introduce private property rights as a tool to manage the ocean's fish resources, arguing that it "leads to de facto exclusion of small–scale fishers and the concentration of fishing rights with an elite minority". It can also create an incentive for rights owners to protect quotas rather than support conservation and management measures.

Photo: Jiri Rezac, Greenpeace

A small pirogue (wooden outrigger boat) and the day's catch in Madagascar

The Bank-organised Global Oceans Action Summit, taking place in the Netherlands in late April, will address thorny issues, such as balancing growth and conservation, the role of the private sector interests and equitable benefits for communities. The meeting will no doubt also be a platform for GPO members, including the corporate sector, to promote their role in ocean protection. While businesses must be part of the solution to create healthy oceans, how credible is an initiative that includes powerful representatives from the fishing and oil industries, the very industries whose core business threatens the stability of the earth's climate and the health of the ocean?

With sufficient funding and political commitment from its members to change business-as-usual the GPO has the ability to make a real difference. The Bank could play a helpful role in promoting transparency and improving the rights, autonomy and livelihoods of local fisher people, indigenous peoples and local communities. But they can only do that if they put solutions with the greatest ecological and social returns first, such as promoting sustainable small-scale fishing, ensuring trade does not undermine food security, and actively supporting protection of marine life through marine reserves. Will true ocean protection trump the short-term allure of maximising profits?

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w **www.greenpeace.org/oceans**

World Forum of Fisher Peoples GPO statement
w **tinyurl.com/fisherpeopleGPO**

IFC funding to financial intermediaries
unfit for purpose

IFC client ANZ Royal Bank revealed to have prior links to land grabs for sugar

IFC audit body registers case on rubber land grab in Ratnakiri, Cambodia

Report documents impunity for killings in Honduras, where IFC financing linked to land conflict is being investigated

NGOs "do not accept" IFC approach to financial sector, demand new strategy

The International Finance Corporation (IFC), the World Bank's private sector arm, is again in the spotlight over investments in the financial sector, with accusations that these investments are not transparent and have resulted in harm to local communities (see *Update* 84, 81, 79). In a recent example it has been linked to poor due diligence of a financial intermediary (FI) that has been accused by campaigners of financing a "massive land grab" to create sugar plantations in Cambodia.

An IFC investment in ANZ Royal Bank (ANZRB), a Cambodian private bank, and its loans to a 23,000 hectare sugar plantation in Kampong Speu province are at the centre of the allegations. In December 2010 the IFC approved a $15 million credit risk guarantee, partly grant subsidised, to "allow ANZRB to expand its loan portfolio to agriculture sector in Cambodia with reduced risks". The agreement included the provision that "ANZRB will be required to designate individuals to monitor environment and social aspects of its portfolio activities, and will need to submit an annual environmental performance report to IFC."

In late January it became clear that ANZRB, a controlled entity of the Australian bank ANZ, had invested in a plantation run jointly by Phnom Penh Sugar Company and Kampong Speu Sugar Company. According to a September 2013 report by Cambodian NGO Equitable Cambodia and US NGO Inclusive Development International, the plantation "encroaches on more than 2,000 hectares of farmland belonging to approximately 1,100 families". The report also alleged that the plantation had a raft of other violations, including widespread use of child labour.

Given ANZRB's failure to oversee its client, at issue is whether the IFC appropriately enquired about and supervised the bank. Eang Vuthy of Equitable Cambodia, said: "The 2010 environmental and socio-economic assessment that ANZ appears to have relied upon for its due diligence is a whitewash." Natalie Bugalski of Inclusive Development remarked that "this certainly calls into question the rigour of IFC's due diligence on ANZ's social and environmental system before taking them on as an FI client."

IFC facing yet more formal accusations

Three further IFC investments in the financial sector are causing controversy. In early February, the IFC's accountability mechanism, the Compliance Advisor Ombudsman (CAO), registered a case related to Vietnamese rubber companies financed by an IFC-invested private equity fund (see *Update* 86). The complaint details how the Jarai, Tampoun, Kachok and Kroeung peoples in Ratnakiri province of Cambodia, have lost land and suffered devastating impacts to their livelihoods, cultural practices and way of life.

In February Guatemalan NGO Departmental Assembly of Huehuetenango said dams being financed by another IFC private equity client caused "persecution, intimidation, and co-option of community leaders. There have been assassinations, imprisonment; there is fear and terror" (see *Bulletin* Feb 2014).

Doubt is being cast on the IFC's January action plan to address the CAO's findings that it violated policies in a loan to a Honduran palm oil producer (see *Observer* Winter 2014). The action plan called for "collaborat[ion] with proper authorities to investigate any credible allegations of unlawful or abusive acts", but a February report by international NGO Human Rights Watch found that "investigations into these cases had been inadequate or nonexistent." A CAO investigation into IFC financing of commercial bank FICOHSA, that also financed the corporation, is due in June.

Flawed FI action plan

In mid March, 26 NGOs, including Fundación Jubileo Bolivia and Oxfam International wrote to Jin-Yong Cai, head of the IFC about an action plan that was developed in September 2013 in response to a February 2013 CAO audit of the IFC financial intermediary (FI) lending portfolio. The groups urged Cai "to fundamentally rethink the nature, purpose, modalities and limits of" the IFC's investments in the financial sector. The letter also asked for better risk categorisation of FI projects, stronger contractual arrangements with clients, more transparency, enhanced supervision, and third-party verification of outcomes and impact.

Lakshmi Premkumar of Indian NGO Programme for Social Action said: "The IFC has created unaccountable and non-transparent channels of funding. … The FI model is a serious challenge to IFC's supposed commitment to environmental and social sustainability."

NGO letter to IFC
brettonwoodsproject.org/?p=13785

Spring meetings coverage

Governors of the World Bank and IMF gather in Washington DC, from 8 to 13 April 2014. Our coverage of the meetings will include analysis, dissection of the communiqués, notes and more.

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