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BRETTON WOODS project

BRETTON WOODS observer

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

IMF GOVERNANCE analysis

IMF and World Bank: another 70 years?

IMF and World Bank reach 70 years but many largely indifferent

Lack of attention paid to Bank and Fund creating opportunity to increase their influence without increasing scrutiny

In July, the IMF and World Bank turned 70. Unlike previous anniversaries of their establishment at the Bretton Woods conference in 1944, this milestone passed with little attention or criticism. This reduced interest is presumed by many commentators, supportive or critical, to reflect the waning leadership and even lost hegemony of the Bretton Woods institutions (BWIs). This perception has been emphasised by Brazil, Russia, India, China and South Africa (BRICS) launch of their own New Development Bank (NDB) in July, widely seen as a rival to the BWIs (see *Bulletin* Feb 2014). The BRICS also announced a Contingent Reserve Arrangement (CRA) explicitly designed to ensure they depend less on the Bank and Fund. The CRA and NDB were announced days before the 70th anniversary of the 1944 Bretton Woods conference.

Financial magazine *Institutional Investor* echoed typical received wisdom in a June article which suggested that the Bank "has taken a backseat to the IMF, which has orchestrated the response to the global financial crisis and Europe's debt crisis ... [the Bank] faces new rivals in the developing world". The shift in economic activity toward 'dynamic emerging economies' and away from industrialised nations (particularly in Europe) has altered the landscape in which the BWIs operate. Nevertheless, the IMF and World Bank appear to be confronting the future reinvigorated and still influential.

New landscape, old governance

The BWI's roles and the economic system they help to underpin have been questioned even within the most orthodox forums. In a May speech Paul Volcker, former chairman of the US Federal Reserve, argued that "the absence of an official, rules-based, cooperatively managed monetary system has not been a great success ... international financial crises seem at least as frequent and more destructive in impeding economic stability and growth".

The IMF and World Bank have emphasised their commitment to governance change which seeks to respond to the long-standing criticism that their policies remain beholden to the political imperatives of their major stakeholders (see *Update* 83) rather than serving their economic and development mandates. Though the Bank has added a third executive director to represent African constituencies and the IMF has urged its members to push through reforms agreed in 2010 (see *Update* 85), significant concerns remain about the extent to which unrepresentative governance structures can enable "effective and legitimate" institutions (see *Bulletin* May 2014).

The BRICS nations eagerly anticipated NDB, widely referred to as the 'BRICS bank' is intended to finance "infrastructure and sustainable development projects". In pointed contrast to the economic policy conditionalities associated with the World Bank's and IMF's lending, officials stressed repeatedly that the $50 billion in capital for the NDB will not fund a "bank of policies". The governance of the NDB was also structured to contrast favourably with the World Bank where BRICS members have long demanded greater voice for themselves and other developing states.

In this issue

No single member will have a veto over the NDB's decisions, unlike the effective veto which the US enjoys thanks to the size of its shareholding in the Fund and Bank. Similarly, the CRA was described as an 'alternative' to the IMF.

Despite the rhetoric, both the NDB and CRA expect involvement from the IMF and World Bank. The NDB is expected to leverage financing from other states and international development finance institutions, including the World Bank. The CRA will require that states needing more than 30 per cent of their borrowing limit submit to an IMF surveillance programme. The IMF's capacity and resources are considered essential to the CRA's functioning and credibility. Adhemar Mineiro, of Brazilian NGO networks REBRIP and DIEES, argues that the NDB and CRA's impact are more balanced: "The new BRICS institutions, although not representing a break with the BWIs, allow greater autonomy for their members. However, it is important to see them in relation to other regional initiatives that progressively point to an effective change in the system established seventy years ago."

Continuing influence

The BWIs continue to impact significantly on people's lives in countries across the world. Both institutions act as 'gateways' to additional funding from other bilateral and multilateral sources. This is evidenced in their engagement in north Africa, where in one example the prospect of a $4.9 billion IMF loan to Egypt last year would have released up to $19 billion of further investment from the World Bank, and other multi- and bi-lateral sources (see *Update* 83). Similarly, the IMF and World Bank have played a significant role in Burma (also known as Myanmar) through direct investment and coordination of others' financing (see page 6, *Bulletin* Feb 2014).

The World Bank retains the ability to set the development agenda by presenting itself as a "solutions bank" (see *Observer* Autumn 2013) and setting a standard which other institutions then copy or adapt. In July, the Bank released the first draft of its environmental and social safeguards policy as part of an ongoing consultation. The draft has alarmed civil society which fears that its reduced scope will reverse progress and have an impact beyond just the countries where Bank investments are made (see *Comment* page 3).

The international financial crisis reinvigorated the IMF's role, leading the G20 to agree in 2010 to create a New Arrangement to Borrow which dramatically increased the IMF's resources and lending firepower (see *Update* 79). The IMF has signed 33 new agreements since 2010. Despite the Fund's response to demands that it reassess its longstanding policy recommendations on capital controls (see Update 86), tax and fiscal policy and even inequality, this 'softening' has so far been more rhetorical than substantial according to an August paper by Matias Vernengo and Kirsten Ford of the University of Utah. The diminished IMF of 2007 remains a familiar and influential actor in many poorer states via its role as a lender of last resort and its ongoing willingness to impose economic policy conditionalities (see page 4).

IFIs for the future

In the strategy set out by Bank president Jim Kim, the Bank's central role pioneering models of public-private partnerships (PPPs) and development financing via financial intermediaries has been championed by the G20 and taken up globally (see page 2). This is despite concerns from civil society that over-reliance on financial intermediaries reduces development impact and accountability. Civil society groups also argue that PPPs have often been high risk, costly and failed to have the intended impact (see page 7).

While the G20 has increasingly become the forum for determining the BWIs' mandate and strategy, their influence remains significant in important multilateral forums, including UN-led processes, such as the establishment of Sustainable Development Goals and the Financing for Development conference. The G77 group of developing nations' July declaration urged that "the reform process of the governance structure of the Bretton Woods institutions be finalised … and be much more ambitious." The G77 called the IMF's legitimacy "questionable" and called for "comprehensive reform" of the BWIs, including enhanced voting powers to enable "greater equity … and to eliminate all types of conditionalities tied to aid".

The Bank remains at the heart of discussions over how models of development should evolve, while the increase in IMF financing and proliferation of its lending programmes show that it is far from sunk. Rather than becoming irrelevant, the Fund and Bank occupy new terrain where BRICS and G77 states are competing with advanced economies to shape BWIs' roles. Consequently, the BWIs are regaining influence despite governance and accountability reform stalling.

RIGHTS news

CAO to assess two new Dinant complaints

The International Finance Corporation's (IFC, the Bank's private sector arm) controversial investment in the Dinant palm oil company in Honduras is again in the spotlight (see *Observer* Winter 2014). The Compliance Advisor Ombudsman (CAO), the accountability mechanism of the IFC, decided in August to assess two complaints presented by grassroots groups in Honduras.

In making the complaint, NGO Movimiento Campesino Refundación Gregorio Chávez and the Movimiento Unificado Campesino del Aguan, accused Dinant's security guards of committing human rights abuses as well as polluting the environment. Both organisations say that by funding Dinant the World Bank is not complying with its mission to reduce poverty. "Instead in our region it has only contributed to displacing communities, persecution and the murder of peasant leaders, which has deepened the agrarian and food crises which we face."

tinyurl.com/CAOdinantcases

LAND news

Call on World Bank to stop Uzbekistan loans

A May letter from the Cotton Campaign, a global coalition of trade unions, business associations, investors and NGOs, called on the World Bank president and its board to postpone two proposed loans to the agricultural sector in Uzbekistan "given the real possibility that funding under the new projects could support the Uzbek government's forced labour system of cotton production". Despite the concerns, the loans were approved in mid June.

The letter follows a November 2013 complaint to the Bank's accountability mechanism, the Inspection Panel, regarding a previous investment in Uzbekistan's agriculture sector, due to concerns over forced and child labour (see *Bulletin* Feb 2014, *Update* 74).

tinyurl.com/UzbekCotton

RIGHTS commentary

Dangers of dilution: World Bank's new weak environmental and social framework

by Mariana González Armijo, Fundar, Center for Analysis and Research, Mexico

About two years ago the World Bank launched a review and update process of its environmental and social safeguards policies. These policies are the result of decades of struggle by civil society organisations (CSOs) and grassroots movements around the globe to establish clear rules to ensure that Bank and government investments, made in the name of development, avoid environmental and social disasters. CSOs welcomed the opportunity to strengthen and expand the safeguards framework, to ensure that finance for development respects and fulfills human rights.

The Bank released the first draft of the new environmental and social framework at the end of July and even though it contains some improvements, overall it represents a step backwards that could lower the standards for the entire international development community. The list of criticisms is long. Particularly worrying issues for the Latin American and the Caribbean (LAC) region are highlighted here.

To begin with, the proposed framework adopts open-ended compliance. This means that basic World Bank requirements to assess and manage environmental risks and impacts before approval are now relaxed. This removes the strict requirements in the current safeguards framework that require full disclosure of environmental impact assessments for high-risk projects prior to appraisal. Despite the introduction of a stakeholder engagement plan, the framework lacks clear minimum disclosure requirements, which undermines the consultation process. How can there be consultations on a project without adequate information?

Moreover, the draft includes no binding language on international human rights standards and allows governments to 'opt out' of compliance with the Indigenous Peoples Policy to protect indigenous peoples' rights. This omission unequivocally undermines the fundamental rights of indigenous peoples over their lands, resources and their own development path. This is critical in a region where states recognise over 650 indigenous peoples.

Additionally, the framework significantly shifts responsibility for the implementation of safeguards to borrowers, but without providing clarity on when and how the use of borrower systems would be preferable and acceptable. The safeguards will be weakened when reliance on borrower systems occurs where major dilutions of national social and environmental frameworks are taking place. For example, in Peru, new laws significantly diminish the authority and capacity for sanctioning and assessment of the Environmental Control Agency. In Mexico, the Congress recently approved energy reform regulations that prioritise oil, gas, and energy over other uses of the land. Similarly, in Bolivia, the new mining law allows mining activities in protected areas, such as national parks, and it excludes the right to free, prior and informed consent for indigenous peoples on exploration activities.

Another downside of the proposed framework is the scope of the safeguards, which only apply to the Bank's investment lending. However, there are many other instruments, such as development policy loans (DPLs), which are quite common in the LAC region. These loans are low accountability vehicles that can provide quick disbursements of large sums to middle income clients. For example, in Mexico from July 2010 to April 2013, 46 per cent of the total Bank lending to the country was channeled through DPLs. These loans were excluded from the application of safeguards policies, even though some of them funded projects in the forest, environment and climate change sectors. By only applying safeguards to investment lending the proposed framework would exclude as much as half of annual Bank lending.

This situation is critical where there are competing sources for development finance. The framework could lower the standards for other multilateral banks, international financial institutions and national development banks, such as Brazil's National Development Bank (BNDES), Chinese banks, the Latin-American Development Bank, Inter-American Development Bank and the recently launched Brazil, Russia, India, China and South Africa (BRICS) New Development Bank. In a region with high rates of inequality, poverty and lack of access to justice, we need strong social and environmental frameworks that respects human rights. All World Bank policies should be consistent with its goals of eradicating extreme poverty and promoting shared prosperity by strengthening its environmental and social safeguards framework, rather than promoting a race to the bottom.

Photo: Lou Gold

Indigenous peoples protesting a government bill on water resources in Ecuador in 2010

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FINANCE analysis

Ghana and the IMF – a window into Africa's future?

Ghana turns to the IMF despite having been considered 'star' performer

IMF concerned about debt levels and more cautious over Africa's economic performance

Lack of economic transformation in Sub-Saharan Africa leaves region exposed to external threats, may result in more significant role for IMF

In early August Min Zhu, deputy managing director of the IMF, announced that Ghana, one of the emblems of the much-touted 'Africa rising' phenomenon, had approached the Fund for support (see *Observer* Summer 2014). Ghana's previous exalted status was based on its record as Africa's fastest growing economy in 2011 and GDP growth of eight per cent for the past five years.

Ghana's request for IMF support comes after months of acrimonious discussions between the government, the opposition and trade unions, and was initially hotly denied by the government. Concerns were raised by Ghana's Trades Union Congress (TUC), which feared the potential for conditionalities inherent in IMF support, including likely reductions in subsidies and cuts in civil service numbers and benefits.

In August the government eventually conceded that it had begun discussions with the Fund, but stressed that these were founded on its own policy framework. President John Mahama emphasised that the support Ghana sought from the IMF "is more along a discussion ... If it comes with money, that is fine."

Local opposition to the IMF deal highlighted the lack of consultation on the proposed policies. Opposition MPs suggested that the package should be presented to parliament for approval. Responding to concerns raised, particularly about the potential for conditionalities, the government stressed that IMF support was not required because of a failure of the government's 'home grown' solutions. Mahama justified IMF assistance on "the need for policy credibility and confidence from the international financial institutions, capital markets and investors for the measures being implemented to restore economic stability and growth."

Speaking at a press briefing at the IMF and World Bank spring meetings in April, IMF managing director, Christine Lagarde, reportedly joked that "structural adjustments were before my time." She emphasised that relationships with clients are now founded on the "basis of a partnership." However, in April Belgium-based NGO network Eurodad reported that "the number of policy conditions per [IMF] loan has risen in recent years." Eurodad also highlighted the "increasing use of controversial conditions in politically sensitive economic policy areas, particularly those that affect tax and spending policies" (see *Observer* Summer 2014).

Africa rising?

Ghana's turn to the IMF coincides with recent less optimistic economic forecasts of Africa's performance by the Fund, which has expressed concern about potential external threats, such as a slowdown in the US Federal Reserve tapering programme, a decrease in Chinese economic growth and weaker commodity prices. In March the Fund raised concerns about the situation in Zimbabwe, where growth decreased from 10.5 per cent in 2012 to just above three per cent in 2013. In April the IMF also highlighted the dangers of foreign denominated debt, particularly given its projection that "Sub-Saharan Africa fiscal deficit, on average, will hit 3.3 per cent of the gross domestic product in 2014, a massive shift from a surplus of 2.5 per cent a decade ago." It further noted that budget shortfalls in Sub-Saharan Africa are "elevated", despite high commodity prices. The Fund also underscored that debt as a percentage of GDP "climbed eight percentage points between 2012 and 2013, while it rose 15 points in Malawi."

A July 2014 United Nations Conference on Trade and Development (UNCTAD) report also cast doubt on the 'Africa rising' rhetoric and highlighted a trend toward deindustrialisation in the continent during the past two decades. The report noted that "the share of manufacturing in total value added fell from 13 per cent in 1990 to 12 per cent in 2000 and 10 per cent in 2011." The report expressed concerns about Africa's continued reliance on natural resources and its negative impact on the continent's ability to undertake a much needed economic transformation.

In assessing the outlook for Africa, UNCTAD underscored that Africa's growth rate has been impressive, with annual growth rate of real output increasing from 2.6 per cent from 1990 to 2000 to 5.3 per cent in the period 2000–2010. The report noted however that many countries continue to face significant challenges, ranging from "food insecurity, high unemployment, poverty and inequality, to commodity dependence, lack of economic transformation, [and] environmental degradation."

Deindustrialisation and a fall in Africa's share of labour-intensive manufacturing have been coupled with an expansion in private bank credit as a percentage of GDP, from 14.3 per cent in 2002 to 19 per cent by 2008. These phenomena and the increasing reliance on financial markets, including foreign currency bonds, such as those recently issued by Ghana and Zambia, led former World Bank chief economist and Nobel laureate Joseph Stiglitz in June to question whether these conditions could lay "the groundwork for the world's next debt crisis."

tinyurl.com/UNCTAD-Africa14

Photo: Marie-Lan Nguyen

Christine Lagarde

Photo: January

John Dramani Mahama

SOCIAL SERVICES news

A poor diagnosis: the World Bank's health record

World Bank "less serious about health financing" according to IEG review. Highlights lack of pro-poor investment, especially by IFC

Bank's response to IEG evaluation reveals its priority is private healthcare

Oxfam analysis finds IFC's Health in Africa investments benefit wealthy elite via financial intermediaries, avoiding public scrutiny

The World Bank has come under increasing fire over its healthcare financing. In its September evaluation of the Bank's health support, the Independent Evaluation Group (IEG, the Bank's arms-length evaluation body) highlighted "a perception that [the Bank] has become less serious about health financing." It found that because of the Bank's "shifting area of focus" towards purchasing care from providers and "results-based payment reform [it] is perceived as not properly linking health financing to poverty reduction."

The report exposed that the International Finance Corporation's (IFC, the Bank's private sector arm) investments have failed to target the poorest (see Update 86). Evaluating the IFC's $3 million loan to a Nigerian private health provider in 2007, the report found "no evidence to suggest the 1.2 million HMO [health maintenance organisation] enrollees in Nigeria and 613,000 patients … were poor". Sidua Hor of the Universal Access to Healthcare Campaign, a Ghanaian NGO network, said: "the IFC health interventions are pro-rich, inequitable, and have very little for poor and vulnerable rural dwellers … Universal health coverage (UHC) is the answer to the health needs of the poor, and the best way to deliver UHC is through public financing".

A mid-September report from international NGO Oxfam also exposed major flaws in the IFC's health financing. The report analysed the IFC's $1 billion Health in Africa (HIA) initiative, aimed at improving healthcare access and health-related financial protection.

Oxfam found that contrary to HIA's self-proclaimed "emphasis on the underserved", its investments "have, in practice, predominantly been in expensive, high-end, urban hospitals offering tertiary care to African countries' wealthiest citizens and expatriates". Investments include a 2010 $2.66 million loan via its Africa Health Fund financial intermediary (FI) to the private Nairobi Women's Hospital, which charges $463 for the most basic maternity package, the equivalent to three to six months' wages for the average Kenyan woman.

Nicolas Mombrial of Oxfam International said: "The IFC cannot demonstrate that this scheme is reaching poor people … [It] must not use Africa as a laboratory in which to run risky experiments."

tinyurl.com/IEG-health

tinyurl.com/Oxfam-IFC-health

PRIVATE SECTOR news

"Affordable hotels": IFC's luxury development projects

IFC claims $21 million Indian luxury hotel investment will provide "affordable hotels"

IFC Burma investments in hotels and offices criticised for not focusing on poverty reduction and for limited development impact

In July the International Finance Corporation (IFC, the Bank's private sector arm), approved a $21 million equity investment in SAMHI Hotels Private Limited for its hotel operations in India. The company has seven hotels throughout the country. SAMHI's properties are operated by international hotel operators, such as Hyatt, Marriott, Accor and Starwood.

In a press release Vipul Prakash, IFC director for manufacturing, agribusiness and services for the Asia Pacific region, said the investment would provide "affordable hotels in countries with increasing domestic travel and rapidly growing middle classes". The IFC also claimed the investment will generate around 2,600 jobs (nearly 800 for women), increase investment in low income parts of India and create local supply chain linkages.

However, a 2012 report, *IFIs and tourism*, published by Indian NGO Equitable Tourism, highlighted longstanding concerns about the Bank's investments in tourism projects around the world and strongly questioned claims that its investments in tourism are pro-poor: "they dress their support for tourism and associated infrastructure projects in the language of sustainable development, environmental and cultural preservation, job creation and local economic development", however,"they have a history of supporting large-scale, mass models of tourism development in the developing world which has led to visible negative impacts".

The IFC has long attracted criticism for investing in luxury hotels in some of the world's poorest countries (see *Bulletin* May 2014, Feb 2014, *Update* 86, 84). In August the IFC said it has invested $2 billion in over 270 hotel projects worldwide.

Reducing poverty in Burma?

In Burma (also known as Myanmar) the IFC has been criticised for investing in luxury hotels that will not directly benefit the poorest, and for failing to adhere to its own environmental and social safeguards. The IFC's investments include an $80 million loan for the Traders Hotel and Shangri-La service apartments (see *Bulletin* Feb 2014); a $8.5 million loan for the Bagan Lodge, Sanctum Inle Resort and Yangon Building; and $75 million in debt and equity for a 10-acre site with hotels, offices, residential and retail space. Rachel Wagley of NGO US Campaign for Burma commented: "The IFC's lending proposals are raising serious questions regarding [its] mission to alleviate poverty in Burma. Upscale hotel construction [is a] peculiar way to empower impoverished people in a country where over one-fourth of the population lives under the national poverty line."

tinyurl.com/IFIsTourism

PRIVATE SECTOR analysis

Conflict-affected states: IFC's final frontier

IFC plans to expand operations in fragile and conflict-affected states (FCS)

Doubts raised about suitability of IFC's approach to investments in FCS such as Burma

Structural issues identified by CAO investigation of IFC investment in Honduras remain unaddressed

In July, the International Financial Corporation's (IFC, the World Bank's private sector arm) executive vice president Jin-Yong Cai asserted in a World Bank blog that the "extraordinary" progress made during the past two decades in poverty reduction requires that similar results be achieved in "the world's most difficult corners." This is in line with the World Bank Group's new approach to fragile and conflict-affected states (FCS, see *Bulletin* Dec 2013).

Cai expressed confidence in the IFC's ability to deal with the risks associated with these environments and to quickly rectify mistakes. He used the IFC's 2009 investment in Dinant, a palm oil company with alleged links to murders and other human rights abuses in Honduras (see *Observer* Winter 2014), to show that the IFC now recognises that it must consider a variety of risks such as "political instability and the prospect of conflict and violence over land rights." He committed the IFC to measuring its success by "the development impact of projects – not by the dollar volume of investments." This commitment follows a 2013 World Bank Group staff survey which revealed that less than half of staff consider development their priority.

A December 2013 Compliance Advisor Ombudsman (CAO, the IFC's accountability mechanism) audit on Dinant criticised the IFC's incentive structure, noting that failures arose, in part, from staff incentives "to overlook, fail to articulate, or even conceal potential environmental, social and conflict risk", and that staff felt pressured to "get money out the door" (see *Observer* Winter 2014).

Cai's remarks indicate a continued unwillingness to acknowledge that Dinant and other well-documented cases such as the Tata Mundra coal plant (see *Observer* Summer 2014), reflect structural problems at the IFC. Concerns have also been raised about the lack of accountability in the IFC's investments in financial intermediaries (FIs), such as the Honduran bank Ficohsa (see *Bulletin* Sept 2014). Civil society organisations (CSOs) have repeatedly attempted to engage with the IFC on the need for systemic changes in IFC investment, including through four letters specific to Dinant co-signed by over 50 local and international organisations.

Cai did admit that "highly charged" environments, such as Honduras, require a different approach and that investment decisions contrary to the IFC's vision to 'do no harm' cannot be justified. His admission is particularly significant given his call for the IFC to "ramp up" its work in FCS.

The World Bank's Independent Evaluation Group's (IEG) 2013 report on assistance to low-income FCS noted that World Bank Group country assistance strategies "have lacked tailoring to fragility and conflict drivers and realism, and do not currently have contingencies based on political economy and conflict risks" and that "IFC performance incentives are not well aligned with supporting its strategy of increasing engagement in FCS" (see *Bulletin* Dec 2013). While the IFC has made some efforts to adapt its programming in FCS, such as through its pilot Conflict Affected States in Africa project, the case of Burma, also known as Myanmar, suggests that the IFC's approach remains problematic.

Burma's fragile environment

The World Bank has recently stepped up its activities in Burma, pledging $2 billion to the country in January (see *Bulletin* Feb 2014). In late June a group of 23 Burmese CSOs sent a letter to the executive directors of the World Bank Group demanding that environment and social safeguards are in place to ensure that "investment through Small and Medium Enterprises (SMEs) will not involve illegal land acquisition, violate core labour standards, avoid the basic occupational health and safety standards, and violate the IFC investment exclusion list." In May, the NGO US Campaign for Burma criticised the IFC's contentious $30 million investment in Yoma Bank, as the banks's designation as a financial intermediary would exempt it from due diligence standards and safeguards. The IFC's resident representative justified the exemption by stating that "SME [lending] is considered to have very little social and environmental impact." While the majority of the country's population lives in rural areas and 70 per cent rely on agriculture for livelihoods, three of the IFC's five investments in Burma involve the construction of hotels, which have been criticised for their dubious developmental value (see page 5).

CSOs have also raised concerns about the potential impact of investments on the country's fragile peace process. Global NGO the International Crisis Group noted in February that "[t]he peace process with ethnic armed groups is in a delicate phase, with all sides engaged in a concerted effort to bridge gaps and build trust."

In September, 39 Burmese organisations issued a joint submission to the Bank expressing concerns that its investments "could easily become focal points of public opposition and conflict if they aggravate the root causes of conflict – such as racial inequity, land and resource grab and forced displacement from traditional livelihood resources". The organisations also criticised the "lack of systematic approach to analysing the risks of conflict that surround the projects" and the fact that project loans were approved "despite legitimate civil society concerns and calls for meaningful consultations with concerned communities."

Reflecting on the criteria for IFC investment decisions in Burma, its resident representative said companies had been selected because "these are companies with good growth potential…and can return the investment."

tinyurl.com/IEG-FCS-evaluation

uscampaignforburma.org

ENVIRONMENT background

World Bank Green Bonds

The World Bank has been issuing bonds in the international capital markets to fund its activities for over 60 years. Since 2008 it has raised over $6.7 billion in green bonds to finance environment or climate-related projects. Although projects financed by the Bank's green bonds are "designed to reduce poverty and improve local economies," the majority are carried out in middle-income countries.

For the full online article see ***www.brettonwoodsproject.org/?p=15901***

FINANCE analysis

Where is the public in PPPs?

Analysing the World Bank's support for public-private partnerships

María José Romero, Eurodad

IEG review reveals lack of proven poverty impact from PPPs

Bank support to PPPs increased threefold from 2002 to 2012

Hidden debts run up by PPPs "rarely" considered

The World Bank Group's recent strategy promotes public-private partnerships (PPPs) and suggests intensifying support to them in the future. However, a July report from the Bank's Independent Evaluation Group (IEG) has revealed a worrying lack of proven poverty impact from Bank Group interventions involving PPPs.

According to the IEG, from 2002 to 2012 Bank Group support to PPPs increased about three fold. In 2012, it accounted for $2.9 billion through lending, investments and guarantees. Investments from the Bank's private sector arm, the International Finance Corporation (IFC), and guarantees from its political risk insurance arm, the Multilateral Investment Guarantee Agency (MIGA), mostly benefit PPP projects in middle-income and upper-middle-income countries (65 per cent and 72 per cent). This is not a surprise. Eurodad's July report *A private affair* found that the IFC favours economically-developed countries and concluded that its financial additionality remains questionable.

The IEG states that "PPPs need to be reviewed in relation to their contribution to the institution's main goals", namely fighting poverty and promoting shared prosperity. Although the IEG concluded that Bank Group-supported PPPs are largely successful in achieving their development outcomes, there are some worrying signs in specific sectors. The poorest performing sector for the IFC was the railway sector (50 per cent successful), while Bank success in energy distribution was even more problematic (only 33 per cent). Any successes are relative, however, as they are based on a highly questionable set of indicators.

Evidence on poverty impacts is lacking

The IEG review showed that development outcome ratings are currently insufficient to evaluate PPP projects properly. It raised a significant red flag: "data are scarce on the effects on the poor". Out of 173 PPPs supported by the Bank Group, just nine projects included data on the impact on the poor. One clear conclusion from the evaluation is that the underlying rationale for supporting PPPs rests on a highly questionable trickle-down effect assumption, articulated by the IEG as: "PPPs can help improve infrastructure, spurring economic growth that eventually reaches the poor."

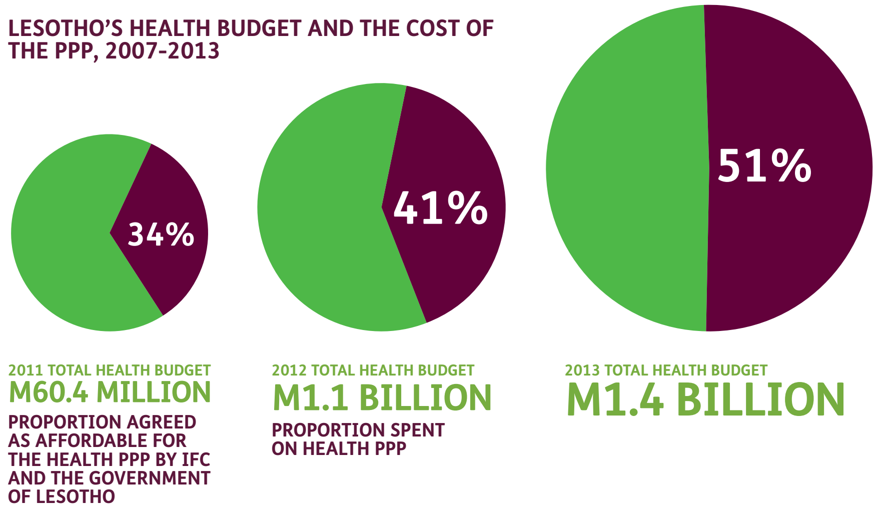
On the basis of the inadequate data available, the IEG concluded that "for WB projects, there was evidence of broader benefits to the poor in 42 per cent of cases; for IFC investments in 39 per cent and MIGA in 20 per cent of its projects". The Committee on Development Effectiveness of the Bank Group board responded that "IFC should apply a pro-poor lens to measure PPP impact".

One important question is whether PPPs are better than public sector procurement. The IEG concluded that its analysis of 45 countries "did not reveal much evidence that the Bank Group had provided advice on whether private sector involvement was the best option". This is problematic as the benefits of engaging with the private sector have to be considered in relation to other options for financing. An April Eurodad report for the European Parliament showed that "PPPs are by far the most expensive way to fund projects".

Another surprising finding is that the Bank Group has not paid attention to hidden debts run up by PPPs. According to the IEG, these are "rarely fully quantified" at the project level and "advice on how to manage fiscal implications from PPPs is rarely given". The IEG acknowledges that the public sector liabilities triggered by PPPs can be "substantial", which has been the case for many PPPs. April research by international NGO Oxfam showed that a PPP hospital in Lesotho advised by the IFC, ended up consuming more than half of the total government health budget and at least three times what the old public hospital would have cost today (see *Bulletin* May 2014).

Overall, the IEG evaluation raises critical points that should prompt deep reflection, including a lessons learned exercise questioning the rationale for supporting PPPs to reduce poverty and fight inequality. Without this, the-soon-to-be-launched Global Infrastructure Facility (GIF, see page 8), which will focus on facilitating complex infrastructure PPPs, will run the risk of repeating past failings instead of placing the needs of the world's poorest first.

Graphic: Oxfam



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tinyurl.com/IEG-PPPs

INFRASTRUCTURE analysis

Risking the bottom line? World Bank infrastructure initiatives criticised

Launch of World Bank-housed Global Infrastructure Facility expected in October, focussing on PPPs

Bank president justifies funding for fossil fuels in Africa

Mine related to Kosovo coal power plant could displace over 7,000 people

The World Bank is expected to formally launch the Global Infrastructure Facility (GIF, see *Bulletin* May 2014) at the October annual meetings. Further details emerged in a leaked August briefing note for the G20 written by the Bank. The note describes GIF as "a global, open platform that will facilitate preparation and structuring of complex infrastructure PPPs [public-private partnerships], to enable mobilisation of private sector and institutional capital." In the long term it is also expected to help develop infrastructure "as an asset class" (see *Observer* Winter 2014).

The draft note proposed that GIF should be established as a World Bank partnership programme "involving a wide range of stakeholders", however, borrowing countries are not represented. The note outlines four draft "core principles" for GIF, including "leveraging the private sector" and "promoting sustainability and inclusiveness". The latter should adhere to "best practice standards for social and environmental responsibility", however, in an overview of GIF activities social and environmental assessments are only mentioned in the project feasibility phase. According to Nancy Alexander of German political foundation Heinrich Boell, this could present a significant risk: "When engaging in mega-projects, as envisioned, the consequences of failing to take environmental and social concerns into account throughout all stages of a project would significantly affect the economic and financial bottom line of projects in an adverse way."

GIF operations are expected to start in December with a three-year pilot focussing on "upstream" project preparation, with anticipated seed funding of $80 million.

Infrastructure for fossil fuels

The Bank's position on fossil fuels infrastructure remains ambiguous, following a loophole in the Bank's 2013 energy directions paper which limited coal financing but allowed the Bank to support coal power in "rare circumstances" (see *Bulletin* Dec 2013). In August, Bank president Jim Yong Kim called the energy situation in Africa "almost energy apartheid", saying that the Bank has to "respect Africans' demand for access to power."

The Bank's prospective funding of a proposed coal power plant in Kosovo continues to attract criticism (see *Update* 86) due to the associated expansion of an open pit lignite mine. A February report by the International Network on Displacement and Resettlement estimated that over 7,000 people will be involuntary resettled because of the mine. According to the report "due diligence steps specified in the involuntary resettlement safeguards have been misread, avoided, ignored and abandoned" which will "cause delays and added costs". Visar Azemi of Kosovo Civil Society Forum for Sustainable Development (KOSID) said that the World Bank and the Kosovo government should instead "help Kosovars through energy efficiency programmes ... to reduce greenhouse gas emissions, which are responsible for economic damages of up to 100 million euros annually".

Kosovo displacement report
tinyurl.com/KosovoDisplacement

FINANCE news

UN backs sovereign debt mechanism

In September, a resolution on a legal regulatory framework for a sovereign debt restructuring mechanism was overwhelmingly endorsed by the UN general assembly, with 124 countries voting in favour. Only 11 countries voted against the non-binding motion, including the US and the UK. Developing countries have long advocated that an international resolution mechanism should operate independently from debtors and creditors, including the IMF.

tinyurl.com/JDC-statement

MDBs' unburnable carbon

A September briefing by the Bretton Woods Project examined the fossil fuel investments of multilateral development banks (MDBs), including the International Finance Corporation. It found that despite calling for urgent action to tackle climate change, they have invested $20 billion in fossil fuel companies over the last 10-15 years. The majority of investments reviewed risk losing money if fossil fuel investments become 'unburnable'.

tinyurl.com/MDBsUnburnableCarbon

Annual Meetings coverage

Board members of the World Bank and IMF and government ministers will gather in Washington DC, from 10 to 12 October 2014. A dedicated page on our website will include analysis of the communiques, notes from meetings, background information and more.

tinyurl.com/WBIMF2014

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