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BRETTON WOODS project

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

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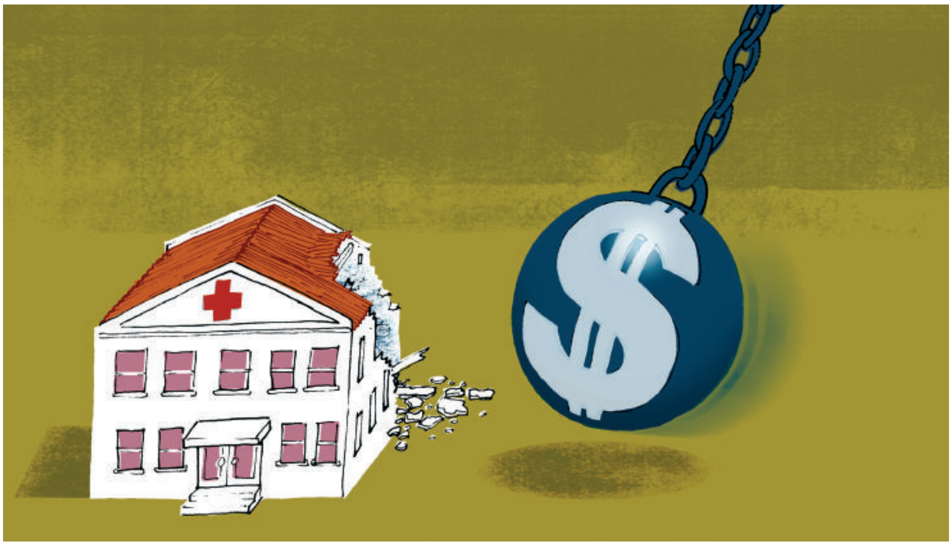

 

Guest analysis by Julia Robinson and James Pfeiffer, Health Alliance International

Decades of IMF lending to Ebola-affected countries led countries to prioritise debt payments over public services

Health services have been starved of investment, including vital public health infrastructure

Mounting pressure on the IMF, including from the G20, to relax spending restrictions and forgive debts

As 2015 began, the world received a sobering message. Not only have the number of Ebola cases exceeded 20,000, but in some affected countries, especially Sierra Leone, the virus is still spreading. The death toll now tops 8,000 and the usual answers to how this outbreak got so huge so quickly – poverty, bad governance, cultural practices, endemic disease in Guinea, Liberia and Sierra Leone – are giving way to a deeper questioning of the poor public health response. Critics are turning to the structural causes of weak health systems and increasingly showing that international lending policies, including and especially those employed by the IMF, should carry much of the blame.

The IMF has been active in West Africa for many years; the first IMF loan to Liberia was in 1963. And for almost as long, public health activists have pointed to the detrimental effects of the strings the IMF attaches to its loans, known as conditionalities, which more often than not constrain investment in public sector health services. All three countries were engaged in IMF programmes when the Ebola crisis began. As a December 2014 comment in medical journal, the *Lancet* explained, the IMF has provided support to Guinea and Sierra Leone for nearly two decades, and to Liberia for seven years. IMF conditionalities meant countries have had to prioritise repaying debt and interest payments over funding critical social and health services. Countries such as Guinea, Sierra Leone and Liberia have had to limit not only the number of health workers they were able to hire (Liberia had only 60 doctors before the Ebola outbreak, Sierra Leone had 136), they've also had to cap wages to a pitifully low level to meet broader IMF policy directives. The *Lancet* comment also points out that in Sierra Leone, IMF-mandated policies explicitly sought to reduce public sector employment. In 1995 -1996, the IMF required the retrenchment of 28 per cent of public employees. The World Health Organisation reported a reduction of community health workers from 0.11 per 1,000 population in 2004 to 0.02 in 2008. Caps on wage spending continued into the 2000s. The *Lancet* authors state, "By 2004, [Sierra Leone] spent about 1.2 per cent of GDP less on civil service wages than the sub-Saharan African mean."

The problem is, the IMF requires cuts to the same public systems that could respond to a health crisis before it sweeps across the country. When countries sacrifice budget allocations to meet macroeconomic policy prescriptions, as per the IMF's decree, it is at the expense of social spending. Without money to fund basic infrastructure, health facilities are left crumbling, sometimes without access to water or electricity, and completely unprepared for complex emergencies. Few health workers are trained in infectious disease control, and those that have received training lack protective equipment and materials due to non-functioning supply systems. It is no wonder that when a truly serious epidemic such as Ebola entered the scene, the West African countries, which have had to deal with IMF conditions for decades, found themselves struggling to respond.

A considerable amount of money has poured in to fight Ebola, about $1billion so far, some of it from the IMF itself. Just how much of this money will go to build health systems, though, is under debate. In the past, IMF austerity conditionalities included directives to put aid money away in national reserves for a rainy day. Indeed, research has shown that increased funding for health, while under the influence of IMF programmes, actually reduces governments' spending on health – because if they did, they would be violating the conditions of IMF loans. So the $1billion of Ebola aid that could help to build the very same health systems that had deteriorated from decades of IMF constraints is constrained once again and is diverted to fund one-off NGO projects or short-term UN programmes.

There is a growing chorus calling for reform to IMF policies, and the slow response to Ebola has shone a light on just how weakened the health systems have become after decades of restrictions in the name of economic reform. First among this chorus are the presidents of affected countries. At an October 2014 press conference with the IMF, World Bank, and presidents from Guinea, Sierra Leone, and Liberia, Guinean president Alpha Condé remarked, "I'm extremely pleased to hear the IMF managing director [say] that we need help and we can increase our deficit, which is quite a change from the usual narrative."

Pressure has come from all sides for the IMF to loosen its restrictions on deficit spending as well as to forgive billions of dollars in debt and to rechannel those debt servicing payments to fund lifesaving health services, supplies, and desperately needed personnel to respond to what has been an overwhelming patient load. Even the G20 issued a statement in November 2014 urging the IMF to "ease pressures on Guinea, Liberia and Sierra Leone, through a combination of concessional loans, debt relief, and grants". The US, the largest shareholder of the IMF, is also pushing to erase about 20 per cent of the three countries' total IMF debt. Had these measures been taken a decade earlier, and the resources invested in public sector health systems, it is likely the Ebola outbreak could have been quickly contained and thousands of lives saved. The US Congress has pledged $5.4 billion in its 2015 budget, $2.5 billion of it going straight to African countries in their efforts to fight or prevent the virus from entering their country.

That's all a good start, but we've got to learn the true lesson from the Ebola crisis to prevent the next public health crisis in Africa. IMF conditionalities must end, debt cancelled, and health systems built – no strings attached.

Julia Robinson and James Pfeiffer, Health Alliance International
juliarob@uw.edu jamespf@uw.edu
healthallianceinternational.org

Kentikelenis et al, Lancet Global Health
tinyurl.com/EbolaIMF

Debt relief for Ebola-affected states delayed

In December 2014, the IMF announced that its approach to debt relief for Ebola-hit countries, and new loans to assist these states, would not be clarified until January. Reported to be preparing an additional $150 million, the Fund provided $130 million in emergency debt relief in September 2014. In November 2014, G20 leaders had urged the Bank and Fund "to continue their strong support for the affected countries", welcoming "the IMF's initiative to make available a further $300 million to stem the Ebola outbreak ... through a combination of concessional loans, debt relief, and grants". They also asked them "to explore new, flexible mechanisms to address the economic effects of future comparable crises."

In January, Guinean president Alpha Conde demanded that the IMF cancel the nation's debts to help in its recovery. Conde argued that "the cancellation must concern bilateral and multilateral debt." UK NGO Jubilee Debt Campaign and the Budget Advocacy Network (BAN) in Sierra Leone have called on the IMF and World Bank to cancel all debts to Ebola-affected countries. Abu Bakarr Kamara of BAN said in December that "between now and the 31 December 2014 we have to pay $6.2 million to just the IMF and World Bank", despite needing "over $400 million in coming years to provide adequate health services."

RIGHTS news

Bank failed indigenous peoples in Ethiopia

A November 2014 report by the World Bank's accountability mechanism, the Inspection Panel, found the Bank to be non-compliant with its own policies, including on indigenous peoples rights, on a project to increase access to basic services in Ethiopia. The report responded to a 2012 complaint by indigenous people from the Gambella region. They claimed to have been severely harmed by the project, due to its alleged links to a government 'villagisation' programme that has led to "forced evictions" (see *Update* 86, 82).The report found "an operational link" between the programmes.

KNOWLEDGE news

WDR 2015: Mind over matter

The World Bank's 2015 annual *World Development Report*, published in December 2014, uses behavioural economics to scrutinise "how humans think ... [to ...] improve the design and implementation of development policies ... that target human choice and action" in areas such as health and climate change. However, Duncan Green of NGO Oxfam blogged about the report's limitations, including a lack of consideration of "the importance of power and politics in (mis) shaping mind, society and behaviour".

SOCIAL SERVICES news

Nigeria water privatisation questioned

Civil society in Nigeria has criticised and called for full disclosure of a water privatisation scheme in Lagos involving the World Bank. In late October 2014 the Bank claimed the advisory role of its private sector arm, the International Finance Corporation (IFC), was cancelled. However, according to January media reports the privatisation plans are still going ahead. Akinbode Oluwafemi of NGO Environmental Rights Action and Friends of the Earth said: "For decades, the World Bank has driven the privatisation of water worldwide ... with devastating consequences for people's ability to access safe, clean water."

CONDITIONALITY commentary

The Arab world's subsidy nightmare: pondering alternatives

by Hassan Sherry, Arab NGO Network for Development, Lebanon

For decades, policies maintaining tight control of domestic energy prices have shaped the political and economic environment in most Arab countries. According to the IMF, expenditures on energy subsidies by governments of the region have accounted for about half of global energy subsidies, amounting to almost $240 billion in 2011, nearly 8.5 per cent of the region's GDP. This is explained by the fact that redistributive commitments of Arab countries, largely through the reallocation of rents, have shaped the social contract since the independence years following World War II.

Many in the Arab world perceive energy subsidies as an important social safety net for the poor in a region where poverty is widespread. According to a 2012 UN Development Programme report poverty levels range from 11 per cent in Jordan to 30 per cent in Morocco, 40 per cent in Egypt, and close to 60 per cent in Yemen. The report argues that subsidies are a form of public benefit which boosts industrial growth. Crucially they also enhance access to energy, an underlying condition for achieving the Millenium Development Goals, in a region where 65 million people had no access to electricity in 2002.

Photo: Arab NGO Network for Development

Worker in petrol station, Egypt

For the past three decades, however, the Arab region has embarked on a series of externally driven and designed structural adjustment programmes prescribed by the IMF, in which the unwinding of general subsidies, in particular energy subsidies, has been a core ingredient. Although these programmes have failed to prevent rising poverty and unemployment in the region, and induced further wage cuts and a shift from the productive manufacturing sector to the service sector, the reform of energy subsidies remains among the core components of IMF policy advice to Arab countries. Civil society has argued that such reforms, which at no point were part of a comprehensive economic and social development plan, required fiscal retrenchment that betrayed the social contract, thereby triggering the recent uprisings and socio-political transformations.

The IMF has treated energy subsidies as a policy tool that is expensive, inefficient and regressive over the long-run, which reduces incentives for investment in renewable energy and diverts public spending away from key social programmes, such as health and education. While subsidies create budget pressure, the IMF has overlooked the political context and social implications associated with its approach. It has proposed mitigating measures to accompany the reform process, including expansion of social safety nets; targeted energy subsidies and/or cash transfers; and universal programmes, which involve the elimination of energy subsidies in favour of a system of universal and untargeted cash transfers intended to benefit a wide spectrum of society.

The measures may sound practical, but face major constraints when considering under-developed social protection schemes in Arab countries, corruption and the absence of transparency mechanisms. Moreover, in a region where administrative capacities are inadequate and informal economies are large, targeted subsidies are infeasible. Evidence from Egypt suggests that safety nets are ineffective in cushioning the poor against price fluctuations and that the cash transfers measure implemented in 2012 has been inadequate and underfunded. Iran's 2010 subsidy reform and the adoption of universal cash programmes was applauded by the IMF, but resulted in a slowdown in economic activity, raised the inflation rate, and undermined political support for such a strategy.

While subsidy reform in the Arab region may be seen as a step with macroeconomic benefits, the determinants of the weak economic performance of Arab countries are rooted in their political economy, as much as the productive structures and go beyond the reach of the IMF's traditional austerity proposals. By calling for short- to medium-term phasing out of energy subsidies, the IMF is targeting the symptoms rather than the causes of the deep-rooted social and economic injustices that sparked the region's uprisings. Reversing the underperformance of Arab countries will not be achieved without profound changes in the productive structures of their economies – by moving towards developmental states and building effective institutions that make economic and social development a priority objective.

Arab authorities must rethink their policy choices towards promoting manufacturing and the acquisition of industrial capabilities. This would generate decent employment, stimulate productivity and create linkages with other sectors, thereby easing the need for subsidies in a region highly dependent on them. Still, any choice of reform strategy, which should be a medium- to long-term endeavour, must be accompanied by an inclusive rights-based protection framework. It must also depend on the specific country context, taking into consideration the extent of existing levels of poverty within the reforming country, the status of social and economic development of the country, and its administrative capacity to implement social protection measures. Taking these factors into consideration, appropriate reforms to energy subsidies should be developed, in consultation with stakeholders including civil society organisations, which are more gradual and legitimate. As a result a more efficient and progressive fiscal framework, protecting vulnerable poorer people, can emerge.

Hassan Sherry, Arab NGO Network for Development, Lebanon
e **hassan.sherry@annd.org**
w **annd.org/english**

CONDITIONALITY analysis

IMF loans and conditions increasing

IMF borrowers concerned about IMF-sanctioned reforms

Bangladesh forced to sustain higher VAT rate despite "stifling growth"

Serbia announces precautionary agreement with major job losses, cuts, privatisation

Kenya commits to precautionary access to IMF funds as Ghana awaits new loan approval

The number of IMF loans and agreements continues to increase despite IMF managing director Christine Lagarde remarking in April 2014 that "structural adjustment was before my time" (see *Observer* Autumn 2014). The IMF persists in advocating familiar reforms focused on the increased use of indirect taxes, public sector layoffs and reductions in subsidies to publicly-backed companies. There has also been an increase in the use of precautionary agreements, whereby states agree to an IMF-monitored programme of reforms, or conditionalities, in exchange for the availability of funds. These funds are not necessarily drawn unless the country faces further financial difficulty.

Bangladesh loan suspended to force VAT reforms

In November 2014, the IMF suspended disbursement of a $140 million payment for its $954 million Extended Credit Facility (ECF) to Bangladesh. According to media reports, the IMF had made its disbursement conditional upon the government announcing a new value added taxation (VAT) law within an explicit timeframe, which would commit the government to maintaining a 15 per cent rate while reducing exemptions.

Government ministers resisted the IMF's recommendation and established a committee to examine the VAT question, which advocated reduced VAT rates and more, not less, exemptions. It warned that the IMF-recommended higher rate would stifle small businesses and growth, while penalising domestic producers against international competitors.

Nevertheless, the government later accepted the IMF's requirement for a uniform 15 per cent VAT level. Finance minister Abul Muhith confirmed in January that "we are not going to reduce the existing VAT rate. IMF feared that the rate would be cut. They set [a] condition not to reduce it for releasing two tranches of ECF". VAT had originally been introduced to Bangladesh in 1991 under an IMF- and World Bank-supported liberalisation programme.

Precautionary loans in Serbia, Kenya

In late December 2014 Serbia's parliament passed a budget designed to secure a precautionary loan agreement with the IMF, targeting a reduction in the budget deficit of between €1.3 and €1.4 billion ($1.5 – $1.6 billion). Finance minister Dusan Vujovic told parliament that the three-year loan agreement worth €1.3 billion "will not be drawn, but is there just in case". In May 2014 Serbia suffered floods which caused damage estimated at €1.5 billion, larger than the total value of its loan agreement with the Fund.

According to reports from news agency Reuters, apart from privatising a number of state-held entities, the agreement will entail cutting up to 27,000 jobs in the public sector, in order to make savings of €600-650 million. The government has additionally committed to cut most existing financial support to publicly-backed companies. Economy minister Zeljko Sertic said in January that "under the IMF deal, half of privatisation revenues can be directly invested in important infrastructure projects ... while the rest can be used for the repayment of expensive loans", but warned that there is "little hope for revenues from sales of such companies".

The IMF will discuss approval of the loan agreement with Serbia in February. The IMF's resident representative in Belgrade welcomed the budget decision, saying that "the adopted budget is in keeping with the agreement reached by the Serbian government and IMF in November concerning the economic programme that could be backed by a 36-month stand-by precautionary arrangement".

Despite having only received the final instalment of a $750 million loan package in December 2013, in November 2014 Kenya also agreed a precautionary loan with the IMF. A Fund press release stated that board agreement will be sought for a stand-by arrangement and stand-by credit facility in late January.

The IMF Kenya representative, Armando Morales, said in November that "about 70 per cent of the funds will be provided on non-concessional terms". The credit facility will initially be available for one year, with provision for extension. Despite optimism surrounding significant Chinese infrastructure investments and the benefit of recent lower oil prices, Kenya's recourse to the Fund appears to vindicate concerns expressed last year regarding economic vulnerability in a number of sub-Saharan Africa states (see *Observer* Autumn 2014).

New lending to Ghana

This vulnerability is also reflected in a long-awaited announcement from Ghana that it too is expecting approval of an IMF agreement (see *Observer* Autumn 2014). In January, deputy finance minister Cassel Ato Forson, said "we've reached an agreement as long as the policy objective is concerned; we've reached an agreement as long as memorandum of economic and financial policy is concerned. The IMF is only working with us to finalise [an agreement] and go to the board next month".

"we are ready to work with the government to implement ... policies but not IMF-sponsored policies."
Ghana TUC

In November 2014, in a statement responding to the government's budget statement to parliament, the Ghana Trades Union Congress argued that Ghana does not need the IMF. "We need ... appropriate made-in-Ghana policies" it stated, adding that "we are ready to work with the government to implement such home-grown policies but not IMF-sponsored policies."

TUC Ghana rejects IMF, CitiFIM
tinyurl.com/TUCGhanaIMF

A regressive tax, Bangladesh
tinyurl.com/VATBangladesh

IMF and its discontents, Bretton Woods Project
tinyurl.com/IMFdiscontents

FINANCE news

Eye on the prize: the Greek debt sustainability question

Post-election question of debt sustainability remains central to Greece's economic future

IMF unwilling to consider debt forgiveness despite its historic concerns over Greek debt

In the wake of an election that has brought to power a government that demands debt forgiveness, the question of the sustainability of Greece's debt remains central. This comes after five years of lending from the Troika (the International Monetary Fund, the European Union and the European Central Bank), amounting to €245 billion, to which the IMF has contributed €48 billion.

Despite the Troika's adjustment programme (see *Bulletin* Feb 2014), the country's debt to GDP ratio rose from 129 per cent in 2009 to 170 per cent in advance of the 2015 elections.

IMF executive directors have questioned the sustainability of the IMF's programme since its inception in 2010. In leaked minutes from the May 2010 IMF board meeting in advance of the approval of its first programme, the Brazil executive director Paulo Nogueira Batista noted that "[t]he risks of the program are immense … Greece … will have to undergo a wrenching adjustment …"

In June 2013 the IMF Forth Review of Greece underscored that debt relief may be required "to keep debt on the programmed path". The need for debt relief has long been a source of tension among the Troika partners (see *Observer* Autumn 2013). The IMF's most recent review, in June 2014, again raised the potential need for European partners to agree a degree of debt relief. The Fund announced end December 2014 that it would not proceed with Greece's latest review until after a new government is formed, delaying any decision on debt relief.

The IMF's programme target of a debt to GDP ratio of 124 per cent by 2020 implies a relatively small decrease of 5.7 per cent from the country's 2009 debt burden and would require annual growth in the region of four per cent. Questions about the growth projections and the sustainability of Greece's debt were brought to light by the 2013 admission by the IMF of its mistakes in Greece (see *Update* 86), and the IMF's Independent Evaluation Office (IEO) February 2014 report on IMF forecasts of medium-term growth. Writing in the New York Times in late January, Nobel laureate economist Paul Krugman criticised the Troika's "wildly optimistic projections" and noted that the IMF had "grossly underestimated the damage austerity would do".

tinyurl.com/Krugman-Jan-NYT

ACCOUNTABILITY background

Guide to the IMF's IEO

The Independent Evaluation Office (IEO) was established in 2001 to evaluate the work of the IMF. Dating from its 2004 report into the IMF's response to the 2001-2 Argentina financial crisis up to its most recent publication; *IMF response to the financial and economic crisis*, IEO evaluations have had a significant impact on Fund policy and perceptions of its role.

This *Inside the institutions* explains how the IEO conducts evaluations, how it is structured and governed and outlines opportunities for civil society and other stakeholders to influence its work.

For the full online article see ***brettonwoodsproject.org/InsideIEO***

PRIVATE SECTOR news

IFC ignores concerns about investments in financial intermediaries

IFC disagrees with CAO that it lacks capacity to determine impact of its investments in financial intermediaries

US passes bill supporting IFC disclosure of beneficial ownership of financial intermediaries

In November 2014 the International Finance Corporation (IFC), the World Bank's private sector arm, released its official response to the Compliance Advisor Ombudsman's (CAO) 2014 monitoring report of its 2013 audit of IFC investments through financial intermediaries (FIs, see *Bulletin* Nov 2014). The IFC's response focused on the report's positive findings while "differing" with the CAO's, the IFC's accountability mechanism, assessment of the "adequacy" of the IFC's approach to its investments in financial intermediaries.

The CAO report acknowledged positive steps taken by the IFC but questioned the development impact of its investments, concluding that the "IFC has no quantitative or qualitative basis on which to assert that its financial intermediation investments achieve … outcomes, which are … central to IFC's Sustainability Framework."

In response to the report the IFC stressed that it "invests in FIs as the most effective way of achieving the [World Bank Group's] twin goals of ending extreme poverty and boosting shared prosperity, and not as an end in itself". While not responding specifically to the IFC, in a letter submitted to World Bank Group president Jim Yong Kim in December 2014 (see page 6), 28 UN rights experts stressed that "the pursuit of [the twin] goals does not automatically ensure that the resulting programs and projects will promote and respect human rights."

US demands increased transparency

In December 2014 the US Congress passed the 2015 Omnibus Appropriations Act, calling on US executive directors of the IFC and other international financial institutions to "seek to require" that those institutions publish the identities of "beneficial owners" of corporations or limited liability companies that receive public funds. This supports a long-standing demand by civil society for increased transparency about the IFC's financing of offshore-structured investments. Speaking to the Environmental News Service in January, Stephanie Fried of US-based NGO 'Ulu Foundation noted that "[b]y insisting on the publication of the names of … owners of offshore funds supported by the IFC … Congress is taking important steps to lift the veil of secrecy that has enabled international criminal activity to flourish".

tinyurl.com/US-appropriations-act

IFI GOVERNANCE news

Out with the new, in with the old? World Bank restructure reveals "colonial mindset"

World Bank to recruit 290 technical staff, together with $20 million for "country engagement", in contrast with earlier announcement of 500 job cuts

Internal and external criticism of the Bank's restructure mounts

The World Bank has embarked on a staffing reorganisation to the displeasure of many of its employees. The changes follow Bank president Jim Yong Kim's 2013-2014 restructure of the Bank into 14 global practices (GPs) and five cross-cutting areas and have added ammunition to widespread staff discontent over the fallout from Kim's strategy (see *Bulletin* Nov 2014, May 2014).

In October 2014 a recruitment freeze was announced, accompanied by $400 million administrative cuts, requiring 500 operational job losses over three years. The first round of staff departures, from 'back office' functions, started late January, according to Paul Cadario, retired Bank senior manager, now at the University of Toronto.

Following the announced staffing cuts, World Bank managing director Sri Mulyani Indrawati revealed in a leaked October 2014 email that the Bank will recruit 290 technical staff and allocate $20 million "to increase resources for country engagement". In an anonymous October 2014 email to news site Devex, one employee said Indrawati's job announcement showed "a complete lack of professionalism and coherence", viewing the new jobs announcement as "a reaction to staff complaints regarding the institution's hiring freeze".

Cadario commented to Devex in October that the amount isn't "very much" when spread across the Bank's new GPs and cross-cutting areas. He said it remained to be seen "who gets [the $20 million funding] and how long it will take to get to the hands of people doing the work".

"Washington will decide what your problems are"

Kim insisted in an October 2014 press release that his reforms will enable the Bank to "be the best in the world at collecting and sharing development knowledge for the benefit of all our clients". To this end, the Bank launched a new website in September – 'the president's delivery unit' – to "track progress on 12 targets aimed at increasing the Bank Group's development impact". However, in November 2014 the *Financial Times* concluded that "the result [of the restructure] so far is more centralisation," and that the Bank risked "sliding into irrelevance". Indian newspaper, the *Economic Times* quoted a Bank country expert in early December as saying: "Earlier, our programmes came from the bottom up and channelled to Washington. It's been flipped over. Now, Washington will decide what your problems are. It is a colonial mindset."

Commentators have questioned whether Kim can achieve his vision given the decline in the Bank's income and therefore lending capacity relative to newer investors, such as China. Nancy Birdsall of US think tank Centre for Global Development wrote in a November blog of "the growing gap between what the world needs from the Bank and what the Bank has the remit to do."

tinyurl.com/cgd-birdsall-blog

tinyurl.com/restructure-FT

RIGHTS news

UN experts critique World Bank draft safeguards

UN experts raise concerns about Bank's draft safeguards, weak human rights protection

US to vote against weak safeguards, according to new legislation

CSO letter highlights weak consultation process

In a December 2014 letter to the World Bank's president Jim Yong Kim, 28 UN rights experts raised "a number of concerns" about the Bank's proposed new draft social and environmental framework. The draft, which aims to update the existing safeguards framework, is currently under consultation (see *Bulletin* Nov 2014, *Observer* Autumn 2014). The experts particularly criticised the Bank's approach to human rights, calling it "a race to the bottom". They noted that the draft framework "seems to go out of its way to avoid any meaningful references to human rights and international human rights law" despite the fact that "human rights are … [a] legal obligation" for the Bank.

Earlier, in November 2014, Philip Alston, one of the letter's signatories and UN special rapporteur on extreme poverty and human rights, wrote an article on human rights titled "two words that scare the World Bank", in which he noted: "Today, every country, and thus every Bank member state, has ratified human rights treaties imposing binding legal obligations to respect rights. … Even most large corporations have human rights policies that put the Bank to shame."

The US 2015 Omnibus Appropriations Act was passed by Congress in December 2014 (see page 5). In a move welcomed by civil society organisations, the Act included an instruction for the US "to vote against any loan, grant, policy or strategy if [the Bank] has adopted and is implementing any social or environmental safeguard … that provides less protection than World Bank safeguards in effect on September 30, 2014".

Meanwhile, the ongoing consultation process on the safeguards framework continues to provoke controversy. A November letter, coordinated by NGO coalition Bank on Human Rights and signed by 50 NGOs, listed several obstacles to participation, including that in the majority of consultations participants had been "hand-picked … with no transparency as to how invitation lists are compiled". Following a further extension, the consultation period has been confirmed to end on 1 March. A revised draft framework is expected to be released by the Bank in mid 2015.

tinyurl.com/UNletter

tinyurl.com/BHRletter

ENVIRONMENT analysis

World Bank pricing carbon: real solution to climate change?

World Bank continues to promote putting a price on carbon as a key policy to tackle climate change

Bank's carbon pricing definition includes carbon markets and carbon taxes

Critics say carbon pricing is new way of promoting failed carbon markets

The World Bank continues to promote putting a price on carbon as a key policy to tackle climate change. To coincide with the United Nations (UN) climate summit in September 2014 the Bank played a leading role in coordinating a nonbinding statement on pricing carbon signed by 74 countries, 23 subnational jurisdictions and over 1,000 businesses. According to the Bank this covers around half of global greenhouse gas emissions.

The Bank followed up on this work by effectively calling for the inclusion of carbon pricing in the draft negotiating text at the most recent round of UN climate change talks held in December in Lima, Peru. The draft text contains a range of options, with one describing carbon pricing as "a key approach for cost-effectiveness of the cuts in global greenhouse gas emissions". One of the Bank's key objectives this year will be to ensure this language on pricing carbon stays in the negotiation texts so that it is included in the final agreement expected to be signed by the world's governments in Paris in December (see *Observer* Spring 2014).

Photo: Hemantha Withanage

2010 climate protest, Thailand

Defining 'pricing carbon'

The Bank's website explains that there are two main types of carbon pricing. First, cap-and-trade systems which cap the "total level of greenhouse gas emissions but then allow those industries with low emissions to sell their extra allowances to larger emitters". As industries buy and sell allowances between each other a market (an emissions trading scheme, ETS) is created which "establishes a market price for greenhouse gas emissions". Second, a carbon tax "directly sets a price on carbon by defining a tax rate on greenhouse gas emissions". The Bank states other ways to price carbon include fuel taxes, removing fossil fuel subsidies and making payments based on emissions reductions (carbon offsets). The Bank points out that putting a price on carbon is not new as it is already happening in around 40 countries.

However, there is a debate about whether carbon markets or carbon taxes are more effective at reducing emissions because they operate differently (although some argue they are not necessarily mutually exclusive). This centres on which stakeholders will be required to reduce their pollution, and also the estimated impact the policy will have on reducing aggregate emissions. Under a cap-and-trade system a maximum cap is applied, whereas with carbon taxes there is only certainty about the costs of pollution, meaning there might not be enough emissions reductions.

Deliberate ambiguity?

The Bank's messaging on carbon pricing is becoming increasingly opaque because it references a wide range of policies under one banner. In a speech prior to the Lima climate summit Bank president Jim Yong Kim said "effective prices on carbon can be discovered by taxes, market mechanisms or regulation".

In practice the Bank has placed a much bigger emphasis on carbon markets and this is no surprise given the Bank's long track record of backing nascent carbon markets (see *Observer* Spring 2014). However, it is now increasingly mentioning carbon taxes in its communications work on carbon pricing. In his speech ahead of the Lima climate talks Kim repeatedly mentioned carbon taxes, saying that "carbon pricing can raise revenues and these added resources can be used to generate more economic and social benefits. We can do this by, for example, moving from 'taxing the goods' to 'taxing the bads' ".

Pablo Solón of Thailand-based NGO Focus on the Global South argued in a September 2014 article that the Bank is deliberately fudging what carbon pricing means "to promote carbon markets in a new, clever way: by combining candy and poison". He criticised carbon markets because instead of requiring reductions in pollution they "give stakeholders permits to pollute".

A range of civil society groups, including Carbon Trade Watch, have repeatedly criticised carbon markets because they do not reduce emissions at their source, thus allowing the countries and companies that have caused climate change to transfer their historic responsibility to others (see *Observer* Spring 2014, *Update* 85). During the Lima climate change talks a civil society statement noted that the negotiations had left the possibility open "for the further expansion of the failed experiment of carbon markets". These include potential "carbon credits from forests and soil, which undermines communities' land rights and would be devastating to farmers and forest communities across the world".

World Bank on pricing carbon
tinyurl.com/puttingapriceoncarbon

Lima agreement fails humanity and the earth
tinyurl.com/climate-capitalism

Recommended resources on 2014

PAPERS

Follow the money: *The World Bank Group and the use of financial intermediaries; Bretton Woods Project*
Report reveals that the World Bank Group is channelling crucial development resources to banks instead of directly investing in pro-poor projects.
tinyurl.com/Follow-the-money-BWP

Multilateral Development Banks' unburnable carbon; *Bretton Woods Project*
Briefing on MDBs' fossil fuel investments and exposure to the 'carbon bubble'.
tinyurl.com/Unburnable-Carbon-BWP

A dangerous diversion: *Will the IFC's flagship health PPP bankrupt Lesotho's Ministry of Health?; Oxfam*
Highlights the damaging impacts of an IFC-supported Lesotho health public-private partnership scheme.
tinyurl.com/Dangerous-Diversion

A private affair: *Shining a light on the shadowy institutions giving public support to private companies and taking over the development agenda; Eurodad*
Analyses development financial institutions and the lack of involvement of recipient countries in development policies.
tinyurl.com/Eurodad

Greece's health crisis: *From austerity to denialism; Alexander Kentikelenis et. al*
Illustrates the aggravating effects of austerity measures on Greece's health system.
tinyurl.com/Greece-Health-Austerity

The great land heist; *ActionAid*
Shows how land grabs are facilitated by both 'host' and 'home' country governments and analyses the devastating consequences for smallholders.
tinyurl.com/Action-Aid-Land

"The more things change…" *The World Bank, Tata and enduring abuses on India's tea plantations; Columbia Law School*
Highlights abusive conditions on tea plantations part-owned by the IFC and Indian Tata corporation.
tinyurl.com/India-Tea-Plantations

"There are no investigations here": *Impunity for killings and other abuses in Bajo Aguán, Honduras; Human Rights Watch*
Examines a series of homicides and abductions in Honduras, as well as human rights violations by soldiers and police.
tinyurl.com/HRW-Honduras

At the mercy of the government: *Violation of the right to an effective remedy in Badia East, Lagos State, Nigeria; Amnesty International*
Report on the communities of Badia East affected by Nigeria government demolitions, part of a Bank-funded project violating international human rights laws.
tinyurl.com/Amnesty-Nigeria

BOOKS

Forgotten foundations of Bretton Woods: *International development and the making of the postwar order, Eric Helleiner*
Challenges the assumptions that architects of Bretton Woods institutions devoted little attention to international development issues or the concerns of poorer countries. Cornell University Press, ISBN-13 978-0-8014-5275-8

The battle of Bretton Woods: *John Maynard Keynes, Harry Dexter White, and the making of a new world order, Benn Steil*
Describes the Bretton Woods negotiations and shows how Bretton Woods was part of an ambitious geopolitical agenda of the US. Brilliance Audio, ISBN: 978-1491531006

ELECTRONIC RESOURCES

www.ourlandourbusiness.org
Campaign exposing links between the World Bank's Doing Business rankings and land grabs.

www.safeguardcomments.org
Civil society monitoring on the World Bank safeguards review.

Bankspeak of the year 2014

Every year the Bretton Woods Project highlights some of the most ridiculous remarks of Fund and Bank staff. This year we recognise Rachel Kyte's mission to tackle climate change and Christine Lagarde's 'more-is-less' approach to speech-making.

In a *Financial Times* feature profile in January, Rachel Kyte, the World Bank Group vice president and special envoy for climate change, just happened to mention in passing that Bank President Jim Kim "has asked me to take on climate change". This was as she prepared for "another gruelling trip across the globe, culminating in back-to-back meetings in Davos". Meanwhile, in a video in March on the importance of limiting temperature increases Kyte revealed that she "grew up in a warm family" and that the number she thought about all of the time was the number 2, which is a "small number with very big problems". She managed to keep a straight face ending the video: "the most powerful part of the number 2 is that it's about us, it's about me and you".

Another winner is IMF managing director, Christine Lagarde, who once again demonstrated her infamous gift for local idioms. At a London speech about empowerment she found solutions to capacity-building in the most obvious of places – Charlotte Brontë – quoting: "Liberty lends us her wings, and Hope guides us by her star". Let's hope that this guiding star will help Lagarde fly the Fund to some better ideas in 2015.

For longer versions of *Observer* articles with additional links, see brettonwoodsproject.org/observer

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BRETTON WOODS project
CRITICAL VOICES ON THE WORLD BANK AND IMF

Bretton Woods Project
33-39 Bowling Green Lane
London EC1R 0BJ
United Kingdom

+44 (0)20 3122 0610
info@brettonwoodsproject.org
www.brettonwoodsproject.org
@brettonwoodspr
facebook.com/BrettonWoodsProject

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