BRETTON WOODS project

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

SOCIAL SERVICES analysis

The elephant in the classroom: the World Bank and private education providers

In this issue

Bank pledges new financing for education at World Education Forum but sizeable funding gap remains

Bank's support for private education providers criticised by UN Special Rapporteur as breach of human rights

Almost 150 NGOs oppose Bank endorsement of private education provider, question validity of its results

Following May's Korea World Education Forum, co-convened by the World Bank, with targets to widen access and promote states' domestic spending on education, questions have arisen about the Bank's agenda for global education. The focus now moves to the July UN Financing for Development conference (see *At Issue* July 2015). This forum will, among other things, set the financial goalposts for the post 2015 framework: the sustainable development goals (SDGs), including an education goal, which will be agreed at the UN September SDG summit. However, one of the biggest questions remains: not what the education goal will be, or even the size of the financing envelope, but who will deliver the goal. The 'elephant in the room' that is being ignored remains the role of the private sector, given the World Bank and UN's increasingly different visions of how the education goal should be met.

On the eve of the World Education Forum the Bank pledged $5 billion for education. However, no details were revealed about where the funding would go, only that it was for "results based financing", i.e. funds paid upon completion of pre-agreed targets, such as when children complete a certain educational grade level. The funding was immediately welcomed by Pearson, one of the biggest providers of low-fee schools in West Africa (see *Bulletin* May 2014). However, $5 billion appears to be a drop in the ocean; according to the UN Educational, Scientific and Cultural Organization there is an annual financing gap of $22 billion to meet the SDG education goal.

The World Bank has long endorsed and invested in low-fee education providers through its private sector arm, the International Finance Corporation (IFC), to fill this funding gap (see *Observer* Autumn 2014, *Bulletin* May 2014). Its stance has provoked widespread criticism, including from the UN's Special Rapporteur on the right to education, Kishore Singh. Singh condemned the Bank's support on private schools in a June report for the UN Human Rights Council: "Promoting for-profit education, the IFC considers laws as financial hurdles and provides guidance to private providers of education to be 'very profitable and flourishing enterprises'. This is blatantly disrespectful of the human rights obligations of international bodies, including the World Bank". Several UN committees have also recently highlighted the threat that private schools pose to universal education in Ghana, Chile and Uganda.

Doing the math: "Just $6 dollars a month"?

Bank president Jim Yong Kim emphasised the Bank's support for private schools in an early April speech in which he outlined the Bank's "final push" to end extreme poverty. Kim backed the approach taken by private education providers, such as Bridge International Academies (BIA), impressed by their use of "software and tablets in schools that teach over 100,000 students in Kenya and Uganda". He enthused that: "After about two years, students' average scores for reading and math have risen high above their public school peers", and that "The cost per student at Bridge Academies is just $6 dollars a month."

Kim's statement provoked global condemnation from NGOs. Nicolas Mombrial of Oxfam International found Kim's "suggestion that low-cost private schools are the answer to the learning crisis in education … profoundly troubling."

Over 30 Kenyan and Ugandan civil society groups, such as Hakijamii in Kenya, and the Initiative for Social and Economic Rights, Uganda, said Kim's statement "shows such a profound misunderstanding of the reality of poor people's lives". A joint May statement endorsed by over a hundred NGOs, including the Global Campaign for Education, pointed out that with "other costs for textbooks, payment transfers, or other items … the total monthly bill including school meals [for BIA schools] … ranges between $16 and $20" per child. The statement noted that "The poorest families in Kenya today have three times as many children as a wealthy one", therefore sending three children to a Bridge academy "would cost half Kenyan households [earning KES 7,000 ($75) or less] at least 68 per cent of their monthly income".

"Teacher[s]-turned robots"

Kim's statement that BIA achieves superior results to public schools has also been widely disputed. The joint NGO statement emphasised that Kim's claim is based on "data from a study conducted by Bridge itself." In its May response to the NGO statement, the Bank said it is "supporting a rigorous, independent impact evaluation of the Bridge program in Kenya, the first large-scale randomised controlled trial of fee-paying schools in sub-Saharan Africa". BIA, in its own response to the NGO statement, confirmed this study would "commence pupil tracking in January, 2016." BIA also asserted that: "Across Africa, teacher absenteeism and neglect rates are very high. The reality of the problems children face in getting an education need to be faced directly, as these are the problems that Bridge exists to solve." However, in a June post for The Conversation blog, Steven J Klees of the US University of Maryland described the reality of the "new technology" which Kim celebrated: "Teachers in its schools are expected to all read aloud to the students, word-for-word, the content delivered on the tablet [provided to the teacher, not the students] at the same time in each school every day." In Klees's view "this teacher turned-robot barely deserves to be called education".

The NGO statement pointed out that although the World Bank, through the IFC, has invested $10 million in BIA, it "has no active or planned investments in either Kenya or Uganda's public basic education systems." In its response to the statement, the Bank said that "our support for Bridge Academies is complementary to what is offered in local school systems, to ensure that parents who decide to invest in private schooling are also getting the best possible education for their children."

Salima Namusobya of the Ugandan Initiative for Social and Economic Rights said: "If the World Bank is genuine about fulfilling its mission to provide every child with the chance to have a high-quality primary education regardless of their family's income, they should be campaigning for a no-fee system in particular contexts like that of Uganda."

tinyurl.com/NGOs-privatisation

tinyurl.com/Special-Rapporteur-report

Photo: Global Partnership for Education

A school run by Bridge International Academies in Nairobi, Kenya

LAND news

NGOs denounce World Bank land conference

The *Our Land Our Business* coalition of 260 organisations publicly denounced the March World Bank's annual conference on land and poverty, calling it "a sham". They criticised the conference due to the "Bank's role in global land grabs and its deceitful leadership on land issues" (see *Bulletin* Nov 2014). Anuradha Mittal of US-based NGO Oakland Institute called on the Bank to stop "paving the way for what has become the systematic exploitation of land and people." Saeed Baloch of the Pakistan Fisherfolk Forum said: "The conference is simply a distraction and decoy to feign dialogue with civil society."

GENDER news

World Bank gender strategy consultation

The World Bank is conducting a formal consultation on a new gender strategy concluding 15th July. The strategy will focus on increased employment and property ownership for women. The strategy is expected to be published during the final quarter of 2015.

tinyurl.com/WBConsGender

RIGHTS news

Gujarat fishermen sue IFC over Tata Mundra

Fishing and farming communities from Gujarat, India, represented by US-based NGO EarthRights International (ERI), filed a lawsuit against the World Bank's private sector arm, the International Financial Corporation (IFC), in April. The IFC provided a $450 million loan to the Tata Mundra coal plant in 2008 which the plaintiffs claim has caused the loss of their livelihood and environmental destruction. The IFC's accountability mechanism, the Compliance Advisor Ombudsman (CAO), found in 2013 that the IFC had failed to enforce the obligatory provisions of the loan agreement, which the IFC largely rejected (see *Observer* June 2014). Rick Herz from ERI said: "while the IFC purports to support this project in the name of poverty reduction … its impacts fall hardest on the poorest."

SOCIAL SERVICES commentary


Public water: the antidote to failed World Bank water policy in Lagos

by Akinbode Oluwafemi, Environmental Rights Action, Nigeria and Shayda E Naficy, Corporate Accountability, US

Failed World Bank policies promoting the corporatisation and privatisation of our water supplies have long threatened the human right to water. Nowhere is this more evident than in the mega-city of Lagos, Nigeria.

Today in Lagos, 90 per cent of the city's 21 million residents lack daily access to safe water. Millions rely on costly or unsafe water sources, such as poorly regulated wells and boreholes. For many Lagosians, water arrives not through pipes to their homes, but through shared standpipes – or worse, or in jerry cans or cellophane bags from sources unknown to them, at a mark-up charged by those few who have access. For many, this presents an impossible choice between paying for clean water or paying for food, transportation, school fees, or clothing costs.

Water woes result of World Bank failures

The World Bank holds much of the blame for the current state of affairs. For almost three decades, it has promoted the privatisation of water systems in Nigeria, strong-arming water policy and impeding the development of adequate public systems.

In 1988 and 1999, the International Finance Corporation (IFC), the World Bank's private sector arm, advised the Lagos state government to "reform" the water sector and privatise Lagos State Water Corporation (LSWC). Likewise, the Bank's first National Urban Water Sector Reform project, instigated in 2002, drove privatisation which it misleadingly called "public private partnership" (PPP). The Bank's plan failed miserably: it focused on privatisation even though profit-oriented corporations had no interest in building the infrastructure needed for a functioning public water system. After the Bank's plans fell through, its central recommendations were nevertheless folded into a 2004 law. Pushed through in secrecy despite opposition, the legislation corporatised Lagos's water utility, paving the way to privatisation by prioritising bill collection, metering and profitability rather than universal access.

Today, the World Bank's Second National Urban Water Sector Reform project is following the same path, promoting privatisation with little regard for effective public solutions that could truly work. The Bank's Third National Urban Water Sector Reform is pushing the same failed strategies in other parts of Nigeria.

Despite hundreds of millions of dollars, the World Bank's efforts in Nigeria have failed to put anything close to a functioning water system in place. According to a 2006 report by the World Bank's own Independent Evaluation Group, the "failure of the Bank's assistance to the Nigerian water supply sector" was evident in the fact that "seven out of seven projects had been rated as unsatisfactory, with unlikely sustainability and with negligible or modest institutional development impact."

Moving forward with privatisation would pose an even greater danger. In June, 23 members of US Congress wrote to us: "We share your concerns that a move towards privatisation of the water scheme in Lagos, including PPPs, could leave the city vulnerable to the negative impacts historically associated with various forms of water privatisation, including rate hikes, worker layoffs, service interruptions, and failures to adequately invest in infrastructure." The corporatised utility has already demonstrated some of these problems; a move to privatisation would only worsen the situation as seen in other cities in Africa and beyond.

Civil society demands change

Lagosians are fighting for our right to water. In Nigeria, people know firsthand the devastating health toll and environmental damage caused by transnational corporations in the oil and tobacco industries, and refuse to cede our water systems to profit-driven interests.

We took a major step toward public water last October, when a coalition of Nigerians and international allies successfully demanded that the IFC drop a proposal to attempt yet again to privatise Lagos's water supply. But the Bank continues to push for corporatisation and privatisation. Projects prioritise bill collection and cost recovery policies that strain impoverished Lagosians but promise profit to water corporations. In August, civil society leaders and policymakers from around the world will gather in Lagos to share lessons and strategies to move Lagos – and cities around the world – toward universal access and democratic control of water. To do so the World Bank Group must abandon its harmful policies in favour of funding for the development of robust, accountable, and well-functioning public water systems.

Newly elected Lagos state governor Akinwunmi Ambode has promised to work for safe and affordable water, rekindling hopes for a new official policy that will promote public water systems that work. We look forward to collaborating with him in the coming years to stop the failed World Bank policies in Lagos and fulfil the human right to water. Together we can develop a water system that is democratically accountable, publicly managed, and delivers to all Lagosians the clean, affordable water we need to live.

Akinbode Oluwafemi, Environmental Rights Action
bodeolufemi@gmail.com

Shayda E Naficy, Corporate Accountability
snaficy@StopCorporateAbuse.org

eraction.org
stopcorporateabuse.org

Photo: Corporate Accountability

Civil society protest against water privatisation

ACCOUNTABILITY news

World Bank fails to support project critics

Human Right Watch report raises concerns about safety of critics of Bank projects

New Bank project grievance mechanism launched, managed by the Bank

Inspection Panel criticised by academics for procedures, lack of independence

Questions have been raised about the safety of those that publicly criticise Bank projects and the adequacy of its accountability mechanisms. A June report by US-based NGO Human Rights Watch outlined how the World Bank and its private sector arm, the International Finance Corporation (IFC), "failed to take adequate steps to help create a safe environment in which people can express concern or criticism about projects funded by the Bank Group without risk of reprisal." The report found that in 18 out of 34 complaints to the Bank and the IFC's accountability mechanisms, the Inspection Panel (IPN) and the Compliance Advisor Ombudsman (CAO) respectively, the complainants "reported that they had been threatened or faced some form of reprisal that they believed was directly linked to their criticism" of a Bank or IFC project. However, in many cases "Bank and IFC officials failed to respond meaningfully to abuses."

A new Bank accountability mechanism, the Grievance Redress Service (GRS), was launched in April. According to GRS team lead Qays Hamad: "The GRS is about resolving issues right when they happen and aims to provide faster and better resolution of complaints". It commits to respond to the complainants with a proposal on how the issues will be addressed. If the proposal is not accepted the complainant will be referred to other remedy options. In contrast to the IPN, the GRS is not independent of Bank management. It is also not restricted to issues of policy compliance, but can choose to accept complaints related to any problems with Bank-supported projects.

The robustness of the IPN was criticised in an article in the February edition of *The World Bank Legal Review* by Burma-based academic Yvonne Wong and Benoit Mayer of the National University of Singapore. The authors argued: "Fundamentally, the very nature of the Panel … falls short of what many actual or potential requesters expect: a reparation." The authors criticised "the lack of participation by the claimants and the lack of transparency in the recommendations by management to the board", which they believe can lead to a failure to address the claimant's concerns. Moreover, "the Panel process does not include a mechanism for the claimants to appeal the Panel's or the Board's approved action plans." The authors noted: "The very existence of the Panel puts pressure on the Bank's staff [but] … If the Panel does not overcome the image that it works largely for the benefit of the Bank itself, it may be seen as more akin to an internal audit procedure than a legal process."

tinyurl.com/HRWatyourownrisk

tinyurl.com/WBlegalreview

RIGHTS news

Calls for World Bank safeguards without "policy dilutions"

CSOs write to Bank with recommendations for new safeguards draft

May CSO letter calls for "meaningful" safeguards consultation process

CSOs raise concerns about India's position on safeguards

As the World Bank prepares to release the second draft of its proposed new environmental and social framework for consultation, civil society organisations (CSOs) have raised a number of concerns regarding the anticipated draft and the consultation process (see *Observer* Winter 2015). The new draft was discussed by the Bank board's Committee on Development Effectiveness (CODE) in late June and early July, and subsequently approved for the third and final phase of public consultation, due to start in mid July.

Prior to the June CODE meeting a letter signed by 17 NGOs, including Alyansa Tigil Mina in the Philippines and US-based 'Ulu Foundation, urged board members to "be vigilant" when reviewing the draft. The letter called the first safeguards draft "a dangerous weakening for the project-affected communities and the environment … [which] effectively dismantled thirty years of environmental and social protection." The signatories called on CODE to send the new draft back to Bank management if it contains "policy dilutions".

A late May letter to the Bank's safeguards team signed by 48 NGOs, including Ecological Justice in Indonesia and US-based Accountability Counsel, called on the Bank to "develop a consultation plan that secures meaningful input on the second draft of the environmental and social framework". It observed that "the first two phases of consultations were marred by substantial problems". It raised concerns that the Bank "is considering a truncated phase three consultation structure that would rely primarily on web-based consultations, over the course of as little as two months". The letter argued " that an adequate budget, and a minimum of six months' time will be necessary to meaningfully consult stakeholders".

In April a letter with 84 endorsements, including 56 indigenous peoples organisations, was sent to the Indian prime minister, calling India's official response to the safeguards consultation "extremely problematic on a number of fronts". This included a reference to free, prior and informed consent for indigenous peoples, which according to India's response "can lead to legal complications, delays, increase in costs and delay in project execution. [The Bank] has not been able to explain how the new framework is simple, less onerous and burdensome on the borrowers, compared to the present safeguards policy." The letter argued that India's position "puts many of the country's indigenous communities at serious risk of further loss of their lands and resources in the name of development without equity and protection of human rights".

tinyurl.com/safeguardsconsultationletter

tinyurl.com/Indiasafeguardsletter

GOVERNANCE analysis

World Bank results: "a long-term, steady downward trend"

IEG report noted continued decline in Bank's performance, highlighting "poor work quality"

Four IEG reports criticised narrow analysis, 'tick box' consultations, weak institutional learning at the Bank

New Bank staff survey confirms continued staff discontent with leadership

A series of reports by the World Bank's Independent Evaluation Group (IEG) has raised further concerns over the Bank's performance (see *Observer* Spring 2014), while internal staff discontent continues. The April IEG evaluation *Results and performance of the World Bank Group 2014* reported that the Bank Group's commitments have "increased amid significant organisational changes, but development outcomes of its lending portfolio continued to decline". The report argued that this continues "a long-term, steady downward trend" of the performance of Bank-financed operations and International Finance Corporation (IFC, the Bank's private sector arm) investments. According to the report: "For both the Bank and IFC, poor work quality was driven mainly by inadequate quality at entry, underscoring the importance of getting it right from the onset." It concluded that the Bank Group "has to address some long-standing work quality issues to realise its solutions bank ambitions." The report noted that "many of the ongoing reforms are geared toward resolving the underlying problems" as part of the new World Bank strategy, which includes the introduction of 14 "global practices" and five "cross-cutting solution areas" (see *Observer* Winter 2014).

Other IEG reports have also identified weaknesses in the Bank's procedures and results. A two part series, *Learning and results in World Bank operations*, was released in July 2014 and June 2015. According to the 2015 report: "in the majority of cases the outcome of interest, if achieved, could have been due to the Bank supported intervention, unrelated to it, or may have happened in spite of the Bank intervention." A May IEG report on the poverty focus of country programmes identified problems in the Bank's analytical work on poverty, which "often does not adequately address the important social and political factors that contribute to poverty and impede efforts to reduce it." Furthermore, the report concluded that while "most of the Bank's country strategies were developed through some kind of participatory consultations with government and nongovernmental stakeholders … in the majority of cases, there was no clear evidence that such consultations had a meaningful effect on the design or implementation of Bank strategies. In some instances consultations appeared to be more of a 'box ticking' exercise."

Similar issues were identified in a May IEG report on *World Bank support to early childhood development*. According to the report: "Until investment occurs in longer-term monitoring of interventions, the Bank will not fully understand which interventions have sustained impact and greatest potential to stop the intergenerational transmission of poverty". Moreover, the Bank "lacks a strategic framework and an organisational structure to support a coordinated approach across global practices toward the development of children."

Staff discontent continues

The April Bank results and performance report cautioned that "the ambitious, prolonged change process within the Bank Group has yet to produce the desired institutional clarity, streamlined processes, and enabling environment that motivate staff to strive for excellence." It noted that staff feedback indicated that "incentives for improving work quality – if they exist – are not well-communicated. There seems to be relatively low awareness, even disbelief that high work quality by one individual can contribute to better development outcomes."

The IEG's learning and results reports also identified continued internal discontent at the Bank (see *Observer* Winter 2015). According to the 2015 report "Staff indicate … that lending pressure tends to crowd out opportunities for learning." The report acknowledged that the Bank's approach to performance evaluation, rewards and recognition is being overhauled under the reorganisation, but that little impact has been seen so far. The Bank board's Committee on Development Effectiveness in its response to the 2014 report "underscored the essential need for a culture shift in how management and staff learn from lending operations."

A June article by *Devex* confirmed that discontent remains, as the results of the delayed staff survey were revealed (see *Observer* Winter 2015, Spring 2014). Completed by 79 per cent of staff, only a third indicated "a clear understanding of the direction in which [senior management] is leading [the Bank]". The proportion of staff "confiden[t] that the [Bank] will take action on the engagement survey" dropped by 11 per cent compared to the 2013 survey, to 34 per cent. In an internal message to staff the World Bank Group Staff Association called the results "sobering, humbling, embarrassing, humiliating, appalling".

tinyurl.com/IEGresultsreport

tinyurl.com/IEGlearningandresults

Photo: Anonymous

World Bank staff protest to Bank management over reforms

FINANCE analysis

Greece should default on its IMF loans

Guest analysis by Bodo Ellmers, Eurodad

As the *Observer* went to print, it remained unclear whether Greece would repay the €1.5 billion ($1.7 billion) due to the IMF end June and risk exit from the eurozone and even the EU. Based on a May blog, Bodo Ellmers of Eurodad argues in this analysis that the IMF loan should not be repaid, not just for Greece's benefit but for the Fund's own long-term good.

Whoever loses in a debt crisis the IMF is always off the hook. Greece should not just postpone loan repayments to the IMF but default on them (see *Observer* Spring 2015). This would help to finally reform the IMF from political puppet into a real and effective crisis response instrument. It is common practice that borrowers grant preferred creditor status to the IMF, and pay off the Fund loans in full and in a timely manner. Whilst the IMF's preferred creditor status is not written into international law or the IMF's own Articles of Agreements, all countries traditionally stick to this practice.

Repaying the IMF often comes at high cost to borrower countries' development and for their other creditors who often also have to take a haircut. The fact that everyone repays the IMF means that lending is essentially risk-free for the Fund. And as in all other cases when lending is considered risk-free, the lender is encouraged to act irresponsibly.

Political hijacking of the Fund

The IMF's participation in the lending to Greece through the Troika (with the European Central Bank, ECB, and European Commission) since 2010 has been primarily to the benefit of Greece's private creditors. It was clear from the start that Greece was insolvent and that the loans would not put the country back on a debt sustainability track. Ninety per cent of the loans went straight to private creditors. Greece was required to refinance payments to creditors who then left the country. Greece would never be able to repay the loans, as these measures did not even begin to address the insolvency problem, but simply changed the creditor structure from bondholders to the Fund, ECB and European Commission.

Until the Greek crisis, the IMF's own rules required that a country with an unsustainable debt burden restructure and reduce its private debt burden before it could access IMF loans. However, some of the IMF's 'major shareholders' were interested in saving their own banks and investors who had lent recklessly to Greece. In 2010 the IMF executive board quickly passed the 'systemic exemption clause', which legalised the loans to Greece. Among foreign banks, French banks were the primary beneficiary of the lending; German and British banks were second and third.

The coalition of 'major shareholders' in favour of a loan was strong enough to overcome resistance by more prudent voices. Paulo Batista, who represents Brazil and other Latin American countries on the IMF board and was present for the original decision to lend to Greece, confirmed in March that the Fund "gave money to save German and French banks, not Greece ... [and] put too much of a burden on Greece and not enough of a burden on Greece's creditors" (see *Observer* Spring 2015).

This Greek tragedy is just one of many irresponsible lending cases that the IMF has had to conduct due to political pressure by the 'major shareholders', which tend to hijack this international institution with its nearly universal membership of 188 countries for their vested economic and geostrategic interests. A recent example is the generous IMF lending to Ukraine, which is clearly beyond any debt sustainability considerations (see *Bulletin* Nov 2014).

Often it is the smaller IMF members that try to prevent the IMF from engaging in irresponsible lending operations, but the IMF's 'one dollar – one vote' voting system gives small economies little influence (see *Observer* Autumn 2014). Moreover, under the current system, the IMF always gets its money back. No matter how irresponsible the lending, it is all too easy to convince the IMF's board to sign off on politically-motivated loans that make no economic sense.

IMF reform: from political puppet to crisis management tool

The most effective way to prevent irresponsible lending is to make it clear to lenders that they won't get their money back if they lend irresponsibly. This is why Greece should default on the IMF loans and force the IMF to write them off. This would substantially strengthen the more prudent voices in the IMF decision-making processes.

Only by introducing a default-risk can the IMF be turned into a responsible lending institution. Only by including the IMF in sovereign debt restructurings when these are needed can we ensure in future that IMF resources are not used to bail out private creditors. Greece, by defaulting on its IMF loans, could trigger an overdue accountability process that would make the IMF stick to its core business, refrain from political lending on behalf of 'major shareholders' and provide emergency liquidity to countries in situations of exceptional shortages of finance according to clear and just rules.

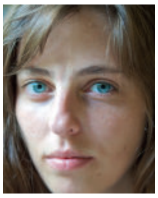
Bodo Ellmers, Eurodad
bellmers@eurodad.org
www.eurodad.org

tinyurl.com/IMFDefault-Eurodad

Photo: Global Justice Greece

June solidarity protest against Greek debt, London

RIGHTS analysis



The IMF's chameleon policies on unions are changing colours

Guest analysis by Carolin Vollmann, International Trade Union Confederation

New IMF research demonstrates the beneficial effect of trade unions on income distribution

Fund continues to advocate anti-union measures in Portugal, Romania and Greece

Austerity measures in Greece have doubled poverty rates amongst older people, imposed healthcare cuts

The March issue of the IMF's *Finance and Development* magazine showcased a forthcoming research paper on the impact of trade unions and minimum wages on inequality. The findings contravene claims by anti-union ideologues and, yes, the IMF itself that unions adversely affect inequality by creating an insider-outsider division.

The new findings show what academic researchers and trade unions have long known: unions reduce inequality in the distribution of income. The IMF found that high unionisation reduces the income advantage of top income groups relative to the bottom and middle incomes. According to its research, the decline in unionisation explains a sizable proportion of the increase in inequality due to the increase of the top income share since 1980.

This research adds to other recent work by Fund researchers related to inequality. In 2011 and 2014 IMF researchers Jonathan D. Ostry and Andrew Berg reported that more egalitarian economies are associated with higher and more durable growth. In 2013 the IMF concluded that "Inequality of wealth and income can lead to wasted productive potential and a misallocation of resources, undermining long-run growth." These findings were reconfirmed in their latest June research paper on inequality which showed that increasing the income share of bottom and middle incomes has had a strong, positive effect on GDP growth. An increase in top incomes was shown to reduce medium-term growth projections "suggesting that the benefits do not trickle down." The IMF paper also reaffirmed that "better access to education and health care and well-targeted social policies ... can help raise the income share for the poor and the middle class."

Photo: Pixaboy

Assessing the relationship between inequality and fiscal policy in January 2014, the IMF found that "Reductions in the generosity of benefits and less progressive taxation have decreased the redistributive impact of fiscal policy since the mid-1990s."

IMF policy ignores its own evidence

Given these findings one might expect the IMF to press countries to adopt policies that encourage unionisation and strengthen collective bargaining, increase the generosity of benefits and make taxes more progressive, with the promise of gains not only for workers but for economic growth overall. Quite the opposite has occured: IMF policies continue to undermine incomes of working class families and trade unions activities. In almost all programme countries, wages and employment in the public sector have been put on the chopping board of austerity. For European countries in particular this was just the start. In Portugal (2011-2014), Romania (from 2009) and Greece (from 2010), IMF lending agreements after the crisis weakened employment protection, abolished or severely limited the scope of national collective bargaining, restricted the use of extensions, shortened the validity of collective agreements, and extended the scope for bargaining by non-union representatives.

The phenomenon of saying one thing and doing another in this context was described as "Gattopardo economics" by researcher Thomas Palley in 2013; i.e. cynically presenting the same old response as if it were a major change in order that everything can stay the same. In other words, the IMF is driving the discussion on inequality to cover up the policies it pursues which seem more geared to securing future foreign investor's profits at the expense of workers than to encourage growth by tackling inequality.

Confronted with the inconsistency between its research and policies, the Fund likes to emphasise its commitment to "protecting the most vulnerable" in country programmes, such as in Greece. It claims that pension cuts target highest pension recipients and supplemental pensions, it supports employment programmes for young people, and enhances health care access by handing out vouchers for the uninsured. The reality in Greece is very different. The share of the population aged 65 and over in or at risk of poverty doubled from 16 per cent in 2010 to 33 per cent in 2013, according to Eurostat. Over 200,000 young and highly educated people left the country in hope of a better future elsewhere. The World Health Organization estimates that roughly 2 million Greeks, one fifth of the total population, have lost health care coverage since 2011. Charity organisations in Greece report that the humanitarian crisis has reached levels not seen before in a developed country context.

If the IMF had paid attention to evidence rather than ideological preconceptions, it would have had a very different policy stance. If it had a serious interest in avoiding future crises it would have seized the opportunity to re-regulate the financial markets instead. The Fund would have looked at the experience of Northern Europe in achieving high levels of quality employment through centralised collective bargaining and comprehensive social protection. Hopefully the Fund will do a better job in the not-too-distant future when the 'great recession' may return to the centre-stage and the continuing flaws in the global (and European) financial system re-emerge.

Carolin Vollman, ITUC
e **cvollmann@globalunions-us.org**
w **itu-csi.org**

w **tinyurl.com/MarF-D**

RIGHTS analysis

Private sector: IFC reluctant to disclose information on high-risk subprojects

IFC responds to NGO report detailing negative human rights consequences of investments in financial intermediaries

NGOs continue to demand disclosure of high-risk subprojects and better management of project risk

A week ahead of the IMF and World Bank April spring meetings in Washington, a group of ten NGOs led by Oxfam released a report titled *The suffering of others*, which provided evidence of the negative human rights impact of the International Finance Corporation's (IFC, the World Bank's private sector lending arm) investments through financial intermediaries (FIs, see BWP April 2015).

While acknowledging some positive steps taken by the IFC, the report argued that the IFC remains unable to meet its commitments to "do no harm" and to undertake due diligence in the process of identifying and managing risks and impacts as required by its 2012 sustainability framework.

The IFC responded with a letter highlighting steps taken to address the report's concerns. Noting that its work "involves taking risks", the IFC stated that its "work through FIs provides much-needed access to finance for millions of individuals, homes, and micro, small, and medium-sized enterprises – far more than we would ever be able to reach on our own".

Reacting to the letter, in an early July response to the IFC, NGOs emphasised that it is imperative to distinguish financial risk from environmental and social risks, which the IFC is obligated to avoid. The NGOs recognised that the IFC's response and its April presentation to the Bank's board include a number of positive steps, but requested clarification on issues, such as the extent to which the risk assessment to inform client selection will move beyond private equity investments and encompass all FI subprojects. The NGOs also proposed that third party input into the risk appraisal be incorporated into the process. Reacting to the IFC's commitment to review "the top exposures of the FI's portfolio to determine its exposure to high-risk sectors", the NGOs requested that this information be made public, thus greatly increasing the accountability of the client selection process.

In its response to the report, the IFC stressed that its ability to be more transparent is constrained by banking regulations that "restrict disclosure of investments within their portfolios" and that it "moved beyond [its] current Access to Information Policy requirements to begin disclosing all private equity fund sub projects." While recognising that the disclosure of private equity fund subprojects is a positive development, the NGO letter referenced the IFC's accountability mechanism, the Compliance Advisory Ombudsman's (CAO) audit of Honduras' largest bank, Ficohsa, in which the IFC has invested (see *Bulletin* Sept 2014). The audit found that "it is unclear to CAO why IFC cannot require regular disclosure in relation to FI sub projects. "The NGOs maintained in their letter that "the presumption of banking client confidentiality can be overturned by regulation or agreement with the client" and that there is no prohibition against disclosure by clients of their relationship with the bank. They noted that in most jurisdictions security regulations require publicly listed companies to disclose their debts.

The NGOs also observed that the IFC requires its direct clients, as a condition of financing, to agree to the disclosure of the investment and that there is therefore no reason why a similar arrangement could not be made with regards to the sub-investments of FI clients. They noted that the IFC's performance standards "contain an implicit requirement for disclosure, as FIs are obliged to establish grievance mechanisms that are known and accessible to people affected by their investments."

The NGOs recommended that the IFC require FIs it invests in to obligate their clients of a certain size, risk profile and sector to disclose their investments. NGOs called on the IFC to collect and help to disseminate this information through a dedicated website.

Speaking in April during the Bank spring meetings, Cecilia Mérida, a leader from a Guatemalan community impacted by an IFC FI investment (see *Bulletin* Feb 2014), asked: "What are the human costs of the loans, given the social and environmental safeguards are not working? The human costs are extremely high and very harmful. They translate into persecution, killings, imprisonment, and criminalisation."

tinyurl.com/Sufferothers

IFI Governance news

IMF's chief economist announces departure

Olivier Blanchard will leave the Fund, effective end of September, after seven years as the director of the research department, a role he assumed just two weeks before the 2008 Lehman Brothers bankruptcy. His successor is yet to be announced.

Blanchard will join the Peterson Institute for International Economics, a Washington-based think tank, in October. Mark Weisbrot of the Washington-based think tank Center for the Economic and Policy Research commented "Blanchard presided over some significant changes in IMF research ... however ... IMF policy is decided by its directors and governors, and so it is not clear how much difference a new research director will make."

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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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