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BRETTON WOODS project

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

PRIVATE SECTOR analysis

Throwing evidence to the wind? The World Bank continues pushing PPPs

Bank continues to push PPPs despite concerns

IMF tool, Bank research and documents acknowledge PPPs' limitations

In the aftermath of the 2008 financial crisis and the resulting pressure on public resources, public-private partnerships (PPPs) have become a key pillar of development strategies, including those of the World Bank (see *Observer* Autumn 2014). As argued by Nancy Alexander of German political foundation Heinrich Böll, mega infrastructure projects financed through PPPs are now considered the recovery's silver bullet, including among developed countries (see *Observer* Winter 2015). These trends are evidenced by the threefold increase in World Bank support to PPPs from 2002 to 2012 and its establishment of the Global Infrastructure Facility in 2014 (see *Bulletin* Nov 2014), which has as its objective to facilitate the "preparation and structuring of complex infrastructure PPPs to enable mobilisation of private sector and institutional investor capital."

'Solutions Bank' ignores evidence

Given that one of the explicit objectives of the World Bank's strategy is to "promote public-private partnerships" and that PPPs would comprise a cross-cutting solutions area (see page 6), the World Bank's Independent Evaluation Group (IEG) in 2014 published an evaluation of the Bank's effectiveness in "supporting countries to use PPPs" (see *Observer* Autumn 2014). The report warned that "contingent liabilities for governments that emerge from PPPs are rarely fully quantified at the project level" and highlighted that despite the Bank's poverty eradication objective "it cannot … be assessed how far PPPs benefited the poor as large data gaps exist."

Concerns about the risks associated with PPPs have also been acknowledged by the IMF, which in 2014 developed a PPP Fiscal Risk Assessment Model (P-FRAM). In its summary brochure on the P-FRAM, the Fund notes that the tool was developed "to assess the potential fiscal costs and risks arising from PPP projects", noting that "in many countries, investment projects have been procured as PPPs not for efficiency reasons, but to circumvent budget constraints" thus resulting in the procurement of "projects that either could not be funded within [governments'] budgetary envelope, or that exposed public finances to excessive fiscal risks."

In March the World Bank's Public Private Partnership in Infrastructure Resource Centre (PPPIRC) identified 10 important risks associated with PPPs, including that "development, bidding and ongoing costs in PPP projects are likely to be greater than for traditional government procurement processes" and that the "private sector will do what it is paid to do and no more than that", thus putting into question the extent to which governments should count on the willingness of the private sector to go beyond its profit motive and to act in support of sustainable development outcomes. Yet, in the online introduction to its '*PPP reference guide 2.0*' developed jointly with the Asian Development Bank, the Bank

In this issue

notes: "… PPPs, are increasingly recognised as a valuable development tool by governments, firms, donors, civil society, and the public. The reason is straightforward: all over the world, well-designed PPP transactions have delivered quality infrastructure and services, often at lower cost, by harnessing private sector financing, technical know-how, and management expertise."

Civil society organisations remain sceptical of the willingness of the Bank, in the words of Nancy Alexander, to "relinquish their bias in favour of PPPs in favour of an even-handed assessment of PPPs versus public works". The current unease over the apparent contradiction between the Bank's research findings and its investments and policy advocacy mirrors concerns raised nearly a decade ago by the Bank-commissioned 2006 independent evaluation of Bank research. The evaluation criticised the Bank for giving internal research favourable to Bank positions "great prominence" while ignoring "unfavourable" research. It also identified "a serious failure of the checks and balances that should separate advocacy and research." Considering the incentive structures that impede learning at the Bank, the 2014 IEG report on learning at the Bank noted that "about 70 per cent of respondents to IEG's survey of Bank staff feel that the pressure to lend has crowded out learning" (see *Observer* Summer 2015).

Despite these concerns, the Bank and other multilateral development banks (MDBs) continue to push PPPs through a variety of channels, including a "PPP knowledge lab" and dedicated "PPP Days". An August report titled *Partnering to build a better world*, internally produced by MDBs for the G20, focused on MDB cooperation in encouraging private sector investment in infrastructure. The report details the depth of MDB cooperation on PPPs and provides additional evidence of the extent to which views critical of PPPs are ignored.

The International Finance Corporation (IFC), the World Bank's private sector arm, runs an online course on PPPs and publishes the *Handshake* magazine, the World Bank's journal on PPPs that "explores how the public and private sectors can together address complex global challenges." Despite the fact that PPPs in health and education have been severely criticised (see *Observer* Summer 2015) and water privatisation schemes have been reversed in many cities (see page 7), the IFC continues to identify these sectors as priority areas for their PPP investments and technical support.

In its 2015 report on the poverty focus of World Bank country programmes, the IEG referenced its 2011 evaluation of IFC's poverty impact, which found that its measurement and evaluation framework "did not quantify benefits to the poor and there were no indicators for measuring a project's effect on poverty" and that "the majority of investment projects generated economic returns but did not provide evidence of identifiable benefits to the poor."

Aldo Caliari of US-based NGO Center of Concern said: "We see this pattern again and again, Bank evaluations and analyses question the way it does things with no perceivable changes on the ground. Now the Bank is in the business of producing myriad tools to 'help countries do better PPPs' and we wonder: how can it truly help countries when it so clearly fails to incorporate internal learning and the incentives remain so skewed in favour of lending?"

tinyurl.com/MDB-G20-report

tinyurl.com/Eurodad-PPP-report

ACCOUNTABILITY news

IMF updates CSO guidelines

In mid-September the IMF concluded a consultation on its *2015 guidelines on the IMF staff engagement with civil society organisations* (CSOs). The resulting document will be an update of the 2003 guidelines.

The new guidelines will be discussed in the CSO policy forum at the 2015 IMF and World Bank annual meetings in Lima (see page 8).

Submitting to the consultation, Carolin Vollmann of the International Trade Union Confederation wrote: "the guidelines fall short of the hoped improvements and remain … window dressing with no intention to increase the IMF's accountability". Vollmann criticised the online-only consultation process as "halfhearted to say the least."

ENVIRONMENT news

World Bank to release forest action plan

The World Bank's delayed forest action plan is expected to open for stakeholder comments for two weeks during the autumn. The plan was originally due to be signed off in early 2014 (see *Observer* Winter 2014). According to the Bank, no public consultation will be held. Rachel Baker of US-based NGO the Bank Information Center said: "The forest action plan is a critical moment for CSOs to advocate for the Bank to set strong goals and commit to progressive engagement in the forest sector and sectors that impact forests."

RIGHTS news

World Bank back to Cambodia?

Concerns have been growing that the World Bank may resume lending to Cambodia despite the lack of resolution for families evicted due to a Bank-financed project. The Inspection Panel, the World Bank's accountability mechanism, found in 2010 that the Bank breached its operational policies in Cambodia and contributed to "grave harm" to affected families (see *Update* 75). In 2011 the Bank suspended all new lending to Cambodia until a resolution was found for families forcibly evicted in 2007 from the Boeung Kak area (see *Bulletin* Nov 2014).

In September 2014 the *Phnom Phenh Post* reported that the Bank was considering "granting $25 million in fresh loans to Cambodia to fund social land concessions." In August a group of 15 Cambodian NGOs, including the NGO Forum of Cambodia, supported by 28 international NGOs, submitted a letter to the World Bank country director seeking "assurances … that the ISN [Interim Strategy Note] will [deal] with outstanding grievances of the Boeung Kak families, as per the Bank's public commitment." The letter demanded that the Bank establish "a programme that will provide livelihood and other development support for the evicted … families".

tinyurl.com/CSO-letter-to-WB-Cambodia

ENVIRONMENT commentary


World Bank support for Haitian mining: far from a gold standard

by Peterson Derolus, with additional input from Nixon Boumba, Justice in Mining Collective, Haiti, and Caitlin Daniel, Accountability Counsel, US

If you ask the average Haitian, they probably do not know of their government's plan to develop the country's gold deposits through a formal mining sector. For over two years the government has been advancing a strategy to bring foreign mining companies into Haiti, yet hardly any information has been made public about a decision that will likely have sweeping implications for people throughout the country.

The World Bank has supported a key element of this effort by providing assistance to draft a new national mining law. In early 2013, the Haitian parliament placed a moratorium on mining amid accusations of corruption in the granting of mining permits under the current mining law. Investors and mining companies are now waiting for the updated law before resuming operations.

The social and environmental implications of the Bank's assistance are staggering, as the draft law, if passed, will determine the rules and regulations for all mineral mining in Haiti. Nonetheless, the Bank's involvement has utterly failed to produce a fair and transparent consultation process. While private mining companies have been invited to provide input on the draft law, Haitians have been largely excluded from the conversation.

Proponents of developing Haiti's gold reserves stress that economic growth and job creation will naturally flow from the establishment of large, open-pit gold mines. Haitians who have felt the impacts of mining exploration, however, are sceptical. Earlier interactions have led them to associate mining companies with false promises. Now they demand a stronger mining law that will protect communities and their environment.

A flawed plan

A "final draft" of the law, leaked last November, deepened fears that the government's plans will do little to protect local communities. The draft law leaves most environmental protections to future regulation, sidestepping serious questions on managing limited water resources and protecting fragile and degraded ecosystems. It also seriously limits the government's ability to regulate mining by allowing projects to bypass the environmental approval process if the environment ministry fails to finish its review in a specified timeframe.

Many in and outside of Haiti worry that the World Bank's assistance has failed to address the hurdles to developing such a high-risk industry in a country with a notoriously weak regulatory system. While one of the Bank's stated goals was to improve the government's ability to manage the mining sector, it has made no identifiable contributions to increase regulatory capacity.

Despite concerns with the draft law and government capacity, the World Bank's assistance in developing Haiti's mining sector is intended to instil confidence in would-be investors. The World Bank Group itself also stands to benefit. In 2010, the Bank's private-sector arm, the International Finance Corporation, made an equity investment in Eurasian Minerals, one of the companies that have conducted exploration in Haiti. With this investment still in place, the Bank has an interest in speeding the passage of a new law to ensure the mining sector is reopened, raising conflict of interest concerns surrounding their role in developing the draft law.

Seeking remedy and accountability

A January 2015 complaint by affected communities and the Justice in Mining Collective raising these issues to the World Bank's accountability mechanism, the Inspection Panel (IPN), did not get far because the Bank's assistance was channelled through a Bank-executed trust fund (see *Observer* Spring 2015). This loophole blocked communities from holding the World Bank to account and prevented Haitians from obtaining remedy, even though the IPN itself acknowledged the severity of the issues raised.

With the IPN process closed to them, communities are faced with dwindling options. Haiti's parliament dissolved in early 2015 after the government failed to hold elections, calling into question whether the draft law will be approved through a democratic process. Elections are underway for a new president and parliament which may determine the future of the draft law. Until then, the only constant is confusion: about the status of the draft law within Haiti's bureaucracy; when and how it may be advanced; and where communities can turn to voice their concerns.

Apart from its investment in Eurasian Minerals, the Bank's future role in the Haitian mining sector remains unclear. The Bank is still working to finalise its next country strategy for Haiti, which may reveal whether it will continue to add legitimacy to a flawed mining agenda. Will the Bank renounce responsibility despite its role in drafting a dangerous law? Or, will it use its influence to fix the problem – to assist the Haitian government to develop the mining sector responsibly and inclusively or not at all?

Photo: Peterson Derolus

Haiti mining protest May 2015

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FINANCE news

UN vote supports calls for independent debt crisis response mechanism outside the IMF

CSO report warns of new debt crises risks

Report recommends systemic changes to lending and crisis response

UN resolution advocating principles for sovereign debt restructuring passed

Rising debt combined with a volatile global economy is putting a growing number of countries at risk of debt crises, argued a July report by UK NGO Jubilee Debt Campaign. The report, "*The new debt trap: How the response to the last global financial crisis has laid the ground for the next*", found that the level of public and private sector debt globally rose from $11.3 trillion in 2012 to $13.8 trillion in 2014. It predicted that total debt will reach $14.7 trillion by 2015. It attributed the rise in indebtedness to low interest rates stimulating private lending, especially to low income countries, and the increased use of concessional loans through multilateral lenders, such as the World Bank, often categorised as aid.

The report identified nine countries as heavily dependent on foreign aid, with a significant component granted as loans offered at concessionary rates.

It criticised current responses to debt crises whereby "the IMF and other institutions … lend more money to countries in crisis so that they can service their old debts." It made seven recommendations for lending, including "monitoring and regulating finance as it moves between countries to prevent speculation, asset stripping, illicit capital flight and tax avoidance, and to encourage genuinely useful long-term investment."

The report recommended "a fair and transparent international debt workout process" to reduce the risk and frequency of crises, adding that debt arbitration mechanisms need to be independent and based "in an institution which is neither a lender nor a borrower – for example, the UN rather than the IMF."

In September the UN General Assembly voted overwhelmingly in favour of accepting new principles to guide sovereign debt restructurings. The nine principles adopted by the GA include sovereignty, transparency and sustainability.

Six states voted against: Canada, Germany, Israel, Japan, UK and the US. Bhumika Muchhala of NGO Third World Network commented: "The votes reflect the geo-political pattern in the UN where developing countries vote in favour of measures to increase the stability and fairness of the international financial system, while the most powerful developed countries often block such measures, arguing that such discussions must only take place within international financial institutions and not the UN."

tinyurl.com/nh5x8jy

GOVERNANCE news

Developing countries seek to bypass stalled IMF and World Bank US reform, risking US veto

Developing countries looking to bypass stalled IMF reform process

US veto on major IMF decisions stumbling block to interim reforms

Developing countries have signaled increasing frustration with the failure of the US Congress to ratify an agreement made in 2010 to reform the quota of members' shares in the IMF (see *Update* 79), which would increase the voice of developing countries in the governance of the Fund. European nations still retain over 30 per cent of the Fund's overall shareholding, despite collectively representing less than 20 per cent of the global economy.

US Congressional approval is required to ratify the 2010 IMF quota reforms. These would create an all-elected executive board with increased representation of developing countries, as well as double member countries' quotas. This would double the Fund's financial resources, enabling it to respond to growing financial crisis risks. Speaking to news agency Reuters in September India-appointed IMF executive director Rakesh Mohan said that there was more openness to "ad hoc changes like we did in 2008" to "increase the shares of … countries that are most under-represented."

A deadline of mid-December was recommended to its own governors by the IMF board in January for full resolution of the overdue quota reform processes. The board accepted the need for "interim steps", however it noted these "should not in any way be seen as a substitute for the 2010 reforms". Ad hoc changes to increase individual states' quota would automatically reduce the relative shareholding of all other states, including the US whose 16.74 per cent quota provides it with an effective veto on all major IMF decisions, which require 85 per cent of total votes.

Bank's shareholding review going in circles?

In 2010 the Bank's shareholders agreed to five-yearly shareholding reviews. This followed a 2008 agreement to ensure, without a specific deadline, that 50 per cent of the Bank's voting power would be held by developing countries. As not all states have taken up their option to increase their capital in the Bank, the voting share of low-income countries has consequently declined by 0.1 per cent since 2008 to 2.9 per cent.

The 2015 review was intended to be completed by the October annual meetings. The G24 grouping of developing nations stated in April that "any future shareholding realignment formula must meaningfully increase the voting power of developing and transition countries and move towards equitable voting power, while protecting the voting power of the smallest poor countries."

Professor Susanna Cafaro of the Italy-based think-tank, Group of Lecce, said "the US veto itself damages the legitimacy and credibility of the IMF and Bank. A meaningful and potentially decisive reform would be the separation of membership from quotas."

tinyurl.com/G24communiqueApr15

CONDITIONALITY analysis

Greece: IMF fails to learn its own "lesson on the economic impact of austerity"

IMF admits Greek debt is unsustainable but insists on same policies

IMF disputes that Greece can repay its debt, but invites third loan package

In August, Greece and its European creditors, the European Central Bank and European Commission, came to a third agreement in five years to provide an emergency financial package to Greece, worth up to €85 billion ($94 billion), with significant IMF input, the third member of the so called Troika. The role of the IMF has provoked significant criticism from civil society and its own member states for undermining the negotiations between Greece and its European creditors.

IMF's contradictory conditions

The IMF, despite its 'junior status' in the Troika since the outset of the Greek programme (see *Observer* Autumn 2013), has intervened in crucial moments of the negotiation between the Greek government and its European partners. In late June it responded to reports that there would be a softening of austerity conditions with a statement from managing director Christine Lagarde reiterating that "I continue to believe that a balanced approach is required … with appropriate structural and fiscal reforms supported by appropriate financing and debt sustainability measures."

In June, the Greek government, which had been elected in January on a platform of renegotiating the conditions of the existing Troika agreement, announced that it had exhausted attempts to renegotiate the conditions of the package. In late June, the Greek government required all banks to close due to its financial predicament. The government also indicated that it had insufficient financing to repay €2 billion to the IMF due in July and that it would be holding a June referendum to seek public backing to reject the bailout conditions on offer. Despite an overwhelming rejection of austerity in the referendum, the IMF and its Troika partners insisted on even greater spending cuts and reforms.

In July the IMF further complicated the negotiations between Greece and its creditors by releasing a preliminary Debt Sustainability Assessment (DSA) stating that Greece's debt dynamics were indeed "unsustainable". It argued that "if the package of reforms under consideration is weakened further – in particular, through a further lowering of primary surplus targets and even weaker structural reforms – haircuts on debt will become necessary", where 'haircuts' implies that creditors would have to forgive a portion of the money owed to them. Less than two weeks later the IMF updated its DSA to conclude definitively that "Greece's debt can now only be made sustainable through debt relief measures that go far beyond what Europe has been willing to consider so far". The IMF attributed this change to the "easing of policies during the last year" and to "the recent deterioration in the domestic macroeconomic and financial environment because of the closure of the banking system adding significantly to the adverse dynamics." It failed to blame its own policies for Greece's predicament, saying "if programme policies had been implemented as agreed, no further debt relief would have been needed to reach the targets under the November 2012 framework." Christine Lagarde stated in August that if Greece implemented the agreed reforms, including spending cuts, and was granted "significant debt relief" this "will provide the basis … for me to recommend … further financial support for Greece."

Photo: Adolfo Lujan

Madrid march in solidarity with Greece for the No vote in the referendum, July

IMF-backed reforms: no lessons learned

Though the Greek government succeeded, with support of opposition parties, to receive parliamentary approval for the new loan agreement in August, it then resigned and announced a general election, which it won in September. The loan conditions included significant increases to value-added tax (VAT), a privatisation fund to be provided €50 billion worth of national assets, a reversal of the government's restoration of collective bargaining rights and commitment to raise minimum wages, plus vetting of any new legislation by the Troika. The Memorandum of Understanding between its creditors and Greece states that "No changes to the current collective bargaining framework will be made before the review has been completed." Ben Chu, a journalist writing in UK newspaper the *Independent,* in July interpreted this to mean that "the IMF has also clearly not learned its lesson on the economic impact of austerity either. The Greek economy is back in recession again but the Fund is still demanding public pension cuts and VAT increases."

Nick Dearden of UK NGO Global Justice Now! argued in an August blog that the terms of Greece's privatisations showed that "privatisations aren't to do with helping Greece … it makes no sense to sell off valuable assets in the middle of Europe's worst depression in 70 years … the vast majority of the funds raised will go back to the creditors in debt repayments, and to the recapitalisation of Greek banks". Indeed, of the €85 billion loan, €54 billion or over 60 per cent was earmarked to refinance existing debts, with €25 billion committed to recapitalising failing Greek banks.

tinyurl.com/IMFGreeceAugust

RIGHTS news

Conflicting views on direction of World Bank's safeguards review

Bank launches third consultation phase of new environmental and social framework

Bank shareholders critique errosion of sovereign rights, implementation processes

CSOs criticise weakening of protection for communities and the environment

In early August the World Bank launched the third consultation phase of its proposed new environmental and social framework (ESF, see *Observer* Summer 2015), following the release of the second draft by the Bank board's Committee on Development Effectiveness (CODE). The consultation will visit government departments and stakeholders in 30 countries. No end date has been provided. The outcomes will inform the third and potentially final draft of the framework.

The draft was met with a letter signed by 19 NGOs, including Earthlife Africa and Human Rights Watch, claiming the proposals "will vastly weaken protections for affected communities and the environment at the same time as the Bank intends to finance more high-risk projects". The letter added that the current draft leaves substantial areas of the Bank's portfolio, such as policy-based lending, uncovered by the safeguards. A June comment on the draft standards by the Bank's accountability mechanism, the Inspection Panel (IPN), also raised this concern, with reference to a January request for inspection in Haiti. The IPN was forced to reject the request, despite considering the concerns "serious and legitimate", because the project fell under a Bank-executed trust fund and is therefore not covered by the Bank's operational policies (see page 3). The IPN called on the Bank to "harmonise the safeguards coverage" to more instruments in its lending portfolio.

A first consultation meeting took place in late August in Angola with African governors of the Bank, largely focussing on environmental and social standard 7 on indigenous peoples (ESS7). According to the Kenyan delegate, the African caucus had made a strong case not to apply ESS7 in the African context. This so called "alternative approach" was heavily criticised during the previous phase of the consultation. A July 2014 statement by Soyata Maiga of the African Commission's Working Group on Indigenous Populations/Communities in Africa argued that: "The 'alternative approach' would … be in stark contradiction with the various policies, decisions and rulings of the Commission and that of the African Union."

Statements made by groupings of World Bank executive directors (EDs) exposed further tensions within the institution. The Indian ED, on behalf of five countries, called the draft a "disappointment" and bound to "make doing business with the Bank more and more difficult and costly for the borrowers". Instead he argued that "the national system should be preferred as long as they are substantially in accordance with the ESS." However, Rayyan Hassan of NGO Forum on ADB cautioned about pushing responsibility to "potentially weak and inadequate borrower systems while eliminating the Bank's mandatory due diligence requirements to ensure that borrower environmental and social protections are at least as strong as, and equivalent to, those of the Bank."

tinyurl.com/NGOletter

KNOWLEDGE background

World Bank global practices and crossing-cutting solution areas

With the adoption of the World Bank's 2013 strategy, a new operational model was developed for the Bank. 14 global practices (GPs) and five cross-cutting solutions areas (CCSAs) were established to improve how staff share knowledge internally and externally. The GPs intend to improve the Bank's expertise in topics by pooling resources at a global level, while CCSAs aim for teams expert in a specific area to directly address those aspects of a project.

For the full article, see: **tinyurl.com/GPandCCSA**

RIGHTS news

Gender progress? The Bank's approach to new gender strategy criticised

Bank's proposed gender strategy critised by NGOs, member countries

New strategy to be published December

Major problems with the World Bank approach to its new gender strategy have been identified by shareholders and NGOs in its public consultation which closed end July (see *Observer* Summer 2015).

According to the Bank's concept note, which formed the basis for consultation, the new gender strategy will "place particular emphasis" on "the creation of more and better jobs … and … access to productive assets". The Women's Economic Justice (WEJ) working group of NGO Gender and Development Network, which includes UK-based NGOs, raised concerns in a July consultation response that it "neglects core social determinants of gender equality, such as health, education, autonomy and freedom from violence that are not only women's human rights … but impact on the economic opportunities of women worldwide." WEJ co-chair, Chiara Capraro of Christian Aid, said "it is critical that the strategy recognises the need to tackle the structural barriers of gender injustice that women face. The macroeconomic policies that the Bank promotes have a direct impact on women's time and wellbeing".

The WEJ submission also criticised "the weight given within the gender strategy to engage the IFC [International Finance Corporation, the Bank's private sector arm] in advancing gender equality", in light of an April NGO report led by Oxfam which highlighted the negative impact of IFC investments via financial intermediaries (see *Observer* Summer 2015).

At a July consultation event in Brussels World Bank staffer Ana Maria Munoz Boudet emphasised that the strategy would be implemented across the Bank Group, with gender included "in every possible aspect". However, the WEJ submission noted that the restructure of the Bank into 14 global practices risks creating "a disconnect between different global practices, and in particular, of the [gender] cross-cutting solutions area."

The Bank's approach to its new gender strategy has also been criticised by its shareholders. The Nordic-Baltic Constituency, which represents eight countries commented: "The human rights perspective is weak in the concept note. [We] emphasise the need of a strong link to the international human rights framework in the strategy." The Bank has confirmed that the strategy will be submitted to the board in the final quarter of 2015, and is expected to be published by December.

tinyurl.com/WEJsubmission

SOCIAL SERVICES analysis

Lagos public water advocates call for democracy, not World Bank-supported "enlightenment"

Guest analysis by Shayda Edwards Naficy, Corporate Accountability International

Bank-backed privatisation criticised for lack of water access, neglecting citizen voices

Nigeria water summit calls for "strong, democratically controlled water systems"

Bank pushing PPPs, criticised for costly infrastructure investments paid by public

In Lagos and around the world, members of civil society and institutions like the World Bank disagree about whether water infrastructure and distribution should be financed and managed by public entities or for-profit concerns, but what lies at the heart of the water privatisation debate is two sharply contrasting approaches to water governance. In essence, democracy itself is being contested.

Lagos, Nigeria – where 90 per cent of 21 million residents lack daily access to clean, safe water – is at the center of a global struggle over the future of municipal water (see *Observer* Summer 2015). A broad swathe of civil society, including environmental, labour, women's, and human rights advocates, points to the World Bank and its four decades of pro-privatisation policies as the source of Lagos' water problems. In contrast, the World Bank and the corporatised Lagos State Water Corporation (LSWC) have called for increased privatisation in the form of public-private partnerships (PPPs, see cover article).

The World Bank Group's 2013 strategy, and its resulting *Strategic framework for mainstreaming citizen engagement*, recognise that "integrating citizen voice in development programmes" is necessary to fulfil its goals to end poverty and build shared prosperity – but World Bank-backed water privatisation projects have not lived up to this standard. For example, in the Philippines, Manila Water Corporation – an International Finance Corporation (the World Bank's private sector arm) investee – has ignored activists' calls for lower water rates and better coverage.

In Lagos, the World Bank has supported LSWC's creation of a so-called stakeholder engagement policy, but the resulting programme falls far short of fostering true citizen participation, instead its stated aim is to "enlighten" Nigerians to build support for privatisation. The policy states that "water supply is still widely considered more of a social good than as an economic good," which is characterised as "a challenge that must be faced with *a persistent enlightenment campaign* [emphasis in original]." For LSWC, the ultimate goal is "raising the price of water or charging for it where it has been historically free," which it hopes to achieve with the help of billboards, adverts and "customer care" services.

Public water advocates at the August Lagos water summit rejected such "citizen engagement processes that … neglect input from independent citizen advocates." The summit was hosted by Environmental Rights Action/Friends of the Earth Nigeria and Amalgamated Union of Public Corporations, Civil Service Technical and Recreational Services Employees, and convened more than 150 attendees who demanded a collective voice in the city's water policy. They called water privatisation "a new form of colonialism aggressively marketed by the World Bank and its corporate partners, that defines success in terms of profit rather than universal affordable water access" and called for "strong, democratically controlled water systems across Africa and the world." With international partners, including Public Services International and Freedom from Debt Coalition, the summit connected with a growing global movement for democratic public water governance. Since the beginning of the century, 235 cities worldwide have rejected privatised systems. For example, in Indonesia, the Constitutional Court found that a 2004 World Bank-backed water law violated the human right to water, and a Jakarta court ordered the city to remunicipalise its water system.

The current debates over water and democracy show that the World Bank is still dogged by the tensions of the 2000 'water wars' in Cochabamba, Bolivia, in which an undemocratic privatisation led to months of mass protests until the utility was remunicipalised (see *Update* 27). Since Cochabamba, the Bank has increasingly promoted PPPs rather than sales or leases of water systems. These new 'partnerships' leave costly infrastructure investment responsibilities with the public, while corporations profit from operation and management contracts. Civil society from Lagos, Manila, Jakarta and beyond argue that the World Bank privatisation model continues to prioritise private sector needs over democratic decision-making. While the World Bank's policies support robust citizen engagement in theory, there is little evidence the Bank has respected these policies in spirit or in practice. "For more than a year, we've been shouting that we don't want a privatisation scheme in Lagos," said Auwal Ibrahim Musa Rafsanjani of the Civil Society Legislative Advocacy Centre, "What is the point of a citizen engagement process that disregards the voices of the people?"

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Photo: Babawale Obayanju

Lagos water summit in August 2015

Climate of controversy: World Bank continues supporting fossil fuels

Increase in MDB climate finance commitments, majority loans

Bank cautions on carbon pricing, warns of "carbon-intensive lock-ins"

Bank fossil fuel support continues, including funding for oil exploration

As the 21st conference of parties (COP) of the UN Framework Convention on Climate Change (UNFCCC) in Paris approaches in December, the World Bank has continued its efforts to boost its influence within climate finance circles. Meanwhile the Bank's continued support for fossil fuels remains controversial (see *Observer* Spring 2014).

In June the six largest multilateral development banks (MDBs), including the World Bank Group, released their latest joint report on their climate finance commitments. According to the report, the MDBs jointly committed $28 billion toward climate change mitigation and adaptation initiatives in 2014, an increase of 19 per cent on the previous year. The Bank increased its climate finance commitments by 37 per cent to $9.2 billion, while those of the Bank's private sector arm, the International Finance Corporation (IFC), dropped by four per cent to $2.5 billion. The majority of MDB funding went to climate change mitigation finance, with only 18 per cent going to climate change adaptation, often considered particularly important for developing countries to reduce their vulnerability to the impacts of climate change (see *Update* 83). Furthermore, the report noted that 83 per cent of total funding was made through loans, while only nine per cent represented grants. The remainder included equity, guarantees and other forms of financing. For the Bank 76 per cent were loans and 16 per cent grants.

Mitigation finance is the subject of the Bank's May report *Decarbonising development*. According to the report 'decarbonisation' does not mean zero emissions: "positive emissions in some sectors and some countries can be offset, to some extent." Despite the Bank's push for a price on carbon (see *Observer* Winter 2015), the report cautioned that carbon pricing "alone cannot solve the climate change problem given the many market failures and behavioural biases that distort economies". The report called on "all countries to avoid creating carbon-intensive lock-ins that will be costly to reverse later".

Fossil fuel investments continue

Despite the Bank's climate change focus it increased its fossil fuel investments in the past year. An April report by US-based NGO Oil Change International revealed that over a third of the Bank's finance for energy in 2014 went to fossil fuels, an increase on the previous year, while finance for clean energy received less than a fifth (see *Bulletin* May 2014). In January, Bank president Jim Yong Kim called for long-term investors to "recognise their fiduciary responsibility" and screen for climate risk, however, in May news agency *Reuters* revealed that around 40 per cent of the equity holdings in the Bank's $18.8 billion pension fund are invested in equity index funds, which include companies in industries associated with environmental and health problems, such as coal and tobacco.

In July the Bank board approved a $50 million IFC equity investment in Africa Oil for oil and gas exploration and appraisal activities in Kenya, despite the US having voted "no" to the investment. The US stated that it was "troubled by the IFC's lack of disclosure to the board of key documentation … which is all the more troubling given the project's potential … for significant impacts on critical habitats and marginalised communities." Furthermore, the US questioned the financial additionality of the investment given that Africa Oil "is publicly listed on two separate stock exchanges, with a market capitalisation of nearly $800 million".

Srinivas Krishnaswamy of Indian NGO Vasudha Foundation commented: "It is high time the World Bank, shift its fossil fuel investments to renewable energy and renewable energy infrastructure, which could potentially boost the confidence of developing countries and emerging economies to take on more ambitious targets."

Oil Change International report
tinyurl.com/WBfossilfuel2014

Annual Meetings coverage

From 9 to 11 October Peru is hosting this year's World Bank and IMF annual meetings, where their governors will gather in Lima. To coincide, a coalition of almost twenty Peruvian CSOs has organised an alternative summit (from 7 to 9 October), titled *¿Trabajando por un mundo libre pobreza?*, inviting participants from around the world to discuss the role of international financial institutions and alternative approaches. A dedicated page on our website will provide analysis of the communiqués, notes from CSO meetings – including seminars held at the alternative summit – background information on the annual meetings, the summit and CSO mobilisation.

tinyurl.com/Lima2015BWP
plataformaalternativa.com

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