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

CONDITIONALITY analysis

Debt bubbles "popping" in emerging economies

In this issue

Fears of new debt crises in developing countries

IMF downgrades growth forecasts again

Low-income African states vulnerable

Global economic instability has highlighted the vulnerability of developing countries to renewed economic turbulence and even the potential for new debt crises, in particular in sub-Saharan Africa. During the summer of 2015 China's stock market began to falter; in January these problems recurred. Adding to the challenges for developing economies, the US began to raise its interest rates in December, triggering capital flows out of emerging markets at record rates. According to economist Martin Wolf writing in the *Financial Times* newspaper in January, "another set of credit bubbles ... in emerging economies is loudly popping".

Gloomy forecasts, fears of "domino effect"

The IMF and World Bank issued January economic analyses which significantly downgraded their previous expectations. The World Bank's *Global Economic Prospects* report found that growth in developing countries reached a post-crisis low of 4.2 per cent in 2015, and that in sub-Saharan Africa it slowed to 3.4 per cent in 2015. It found that over $52 billion was removed from developing countries' financial markets in the third quarter of 2015, the largest quarterly outflow on record. The IMF released its January update to the *World Economic Outlook* (WEO), downgrading its own previous forecasts for economic growth. IMF managing director Christine Lagarde told German business daily *Handelsblatt* in December that growth prospects were "disappointing and uneven". Lagarde cautioned that the US' interest rate rise would also lead to higher debt costs for many developing countries. The update advocated that "policymakers in emerging market and developing economies need to press on with structural reforms ". The Fund concluded that for "a number of commodity exporters, reducing public expenditures" is necessary, also advocating for "exchange rate flexibility" to cushion the impact of further shocks.

However, the International Labour Organization (ILO) had warned in an October policy brief that the "new adjustment shock" to come in 2016 was not simply driven by inevitable global economic dynamics, but by policy choices to cut budgets and spending "excessively". They warned that such policies in this climate would mean that developing countries would be "most severely affected", with Sub-Saharan Africa and the Middle East and North Africa regions to be "hardest hit". This vulnerability would come from premature reductions in subsidies on "fuel, electricity, food and agriculture" that were going to impact predominantly the poorest and most vulnerable. The IMF addresses such concerns by advocating pro-poorest social interventions, however the ILO cautioned that targeting the very poorest "risks excluding large segments of the vulnerable and low income households".

A December IMF policy paper acknowledged that developing countries "faced increasing debt vulnerability in the last two years". The report examined the public debt of 74 low-income countries (LICs). Despite the concerns set out by the ILO over excessively cautious policies, two of the paper's authors advocated in a January blog for "fiscal prudence [and] improved debt management." They argued that countries should still focus upon the "need to strengthen their fiscal frameworks … and reduce their debt".

The Trade Union Advisory Committee to the OECD (TUAC) published a briefing to coincide with the January World Economic Forum questioning whether global policymakers appreciated the risk of global stagnation, despite their own studies' findings. The briefing warned of a potential "domino effect" in developing countries in 2016.

"Boom in lending to most impoverished"

UK NGO Jubilee Debt Campaign (JDC) had warned in a July report that global debt levels were rising and that 22 LICs were "already in debt crisis" and a further 71 were at risk due to a "boom in lending to the most impoverished countries" (see *Observer* Autumn 2015). As the Chinese economy slows, the period of high commodity prices has ended, driving growing debt risks of many commodity exporting countries, such as Ghana which turned to the IMF for a loan in late 2015. Crude oil fell from a price of $100 per barrel in September 2014 to below $30 in January. A follow-up blog by JDC in December pointed out that developing countries' increased borrowing was primarily from new loans. 60 per cent of the increase had come from multilateral institutions, half of that from the World Bank alone.

UK daily *The Guardian* reported in January that Africa's oil-producing and metal-rich giants now find themselves facing a dangerous mix of lower export revenues, depreciating currencies, declining financial flows from China, falling domestic demand and higher debt costs following last month's US interest rate rise. Kenya-based commodity trader, Aly Khan Satchu, told *The Guardian* that "in Zambia, the currency has pretty much collapsed", adding that many commodity producing states in Africa "have tipped over the edge because they are going to find it very expensive to borrow international money".

Financial newspaper the *Wall Street Journal* highlighted the risks to African commodity exporting countries in a January report. It pointed out that South Africa's rand had lost 26 per cent of its value against the US dollar in six months from June 2015, and reached a new record low in January. Though Nigeria had "ratcheted up efforts" to sustain a currency peg, Lagarde – visiting the country at the time – advised against this, saying "exchange rate flexibility … can help soften the impact of external shocks". However, the article revealed that "accelerating currency declines across Africa are starting to feed through to the real economy" and found that "mining companies in Zambia have laid off thousands of workers".

tinyurl.com/IMFwarning
tinyurl.com/IMFdebtLICs

INFRASTRUCTURE news

World Bank Uganda road project cancelled

In September a complaint from 58 community members concerning the World Bank-funded Uganda Transport Sector Development project for a 66 km section of road in Kamwenge was registered by the Inspection Panel (IPN), the World Bank's accountability mechanism. The complaint includes allegations of "underage sex and teenage pregnancy caused by road workers … sexual harassment of female employees … child labour [and] inadequate resettlement practices." An earlier complaint to IPN in December 2014 was not registered to allow the Bank to address the complaints. In December 2015, the Bank cancelled the funding for the project due to "the serious nature of the allegations."

tinyurl.com/IPNUganda

INFRASTRUCTURE news

World Bank call for hydropower to combat climate change challenged

World Bank report promotes hydropower to strengthen climate resilience in Africa

Academic research identifies hydropower as major threat to biodiversity

CSOs call hydropower false solution to climate change

A November Bank report outlined the Bank's strategy for contributing to climate change adaptation efforts in Africa. This included promoting hydropower as "a clean, large-scale, and affordable source of renewable energy". However, the report also acknowledged that hydropower indirectly contributes to greenhouse gas emissions during the construction phase and through the flooding of reservoirs.

The report raised concerns about revenue losses and increased energy costs for consumers if climate change impacts are not integrated into project planning and design. These concerns were previously explored in an April 2015 Bank report examining how to enhance the climate resilience of Africa's infrastructure, which cautioned that dams under construction in Africa are being designed based on historical climate trends, rather than future projections where "the range of uncertainty … has tended to increase over time".

The April report singled out the Congo river basin as being less sensitive to climate change than other major river basins in Africa, implicitly endorsing the much-criticised current and planned Inga hydropower plants located in the basin (see *Observer* Spring 2015). However, academic research presented in a January article in *Science* magazine identified hydropower as a major threat to biodiversity and listed the Congo river as one of three river basins in the world that "contain a disproportionate amount of the world's freshwater biodiversity". The article noted that hydropower plants can damage fish populations and threaten food security for local population, but that economic projections "frequently exclude or underestimate the costs of environmental mitigation".

An early December civil society organisation (CSO) statement criticised the Bank and other institutions' support for large hydropower, calling them "a false solution to climate change". The statement, signed by 500 CSOs from 85 countries, including Togo-based Jeunes Volontaires pour l'Environnement International, listed ten reasons why climate initiatives should not include hydropower projects, including disruptions of river flows. Astrid Puentes of the Interamerican Association for Environmental Defense (AIDA) said: "The countries of the global South should leapfrog obsolete dam projects and promote energy solutions that are gentle to our climate, our environment and the people that depend on it."

tinyurl.com/CSOHydroClimateStatement

ENVIRONMENT commentary

A critical juncture for forests:
Will the World Bank rise to meet the global challenge?

by Beatriz Zavariz and Paulina Deschamps, Mexico, and Rachel Baker, Bank Information Center, US

2015 was a landmark year for forests. The importance of forests was formally recognised in the December 2015 Paris Agreement of the UN Framework Convention on Climate Change Conference of the Parties (COP) 21, as nearly all tropical forest countries included forests in their national climate change commitments. Moreover, new research validated the critical role forests play in climate change.

The World Bank is faced with a watershed moment. Will the Bank step up and take a leadership role in reducing deforestation and enhancing the livelihoods of forest dependent peoples? Or will it continue to primarily promote an agenda of deforestation as a byproduct of development finance in other sectors? Investing in sustainable forest management by local communities is a powerful tool to reduce poverty and enhance local livelihoods. Challenges must still be overcome in order to ensure and maximise the significant social and economic potential of forests.

The World Bank's engagement in the forest sector has made positive contributions to the promotion of community forest management in some countries, most notably in Mexico, where the Bank promotes community forest management and the establishment of community-led enterprises in forested regions. Over half of the Mexico's forests are owned and controlled by rural communities, which has resulted in significant lessons regarding social organisation and collective action on resource management. During the 1990s and 2000s, federal policies supported and financed by a World Bank project recognised the importance of the forest sector and the role of communities as partners of sustainable development. The Bank's financing has played a major role in strengthening community forest management and triggering local development based on tailored approaches. Three decades later, the Bank's engagement in Mexico's forest sector continues through the Forests and Climate Change Project, which promotes community forest management and the establishment of community-led enterprises in Mexican forested regions.

Although Bank investment in the forest sector has by no means been as positive or successful in other countries, such as the Bank's highly problematic policy lending in the Democratic Republic of Congo's forest sector (see *Observer* Spring 2015), the case of Mexico demonstrates the Bank's potential to be a positive force in national conservation and poverty alleviation through strategic, long-term engagement in the forest sector, focused on community forestry.

Currently the Bank's work in the forest sector is highly marginalised. With insufficient staffing and budget, lack of forest expertise on most project teams, and insufficient recognition of the link between forests and poverty, the Bank is ill-prepared to attract and provide much needed national investment in forests. The World Bank's Forest Action Plan (FAP), currently under internal review, could be a timely vehicle for the introduction of a progressive agenda and ambitious goals for the Bank's forest portfolio. The structure of the FAP, as presented by the Bank to civil society organisations in November, appears to be on the right track. However, in light of the lack of details of the FAP's content, it remains impossible to assess the document's merit and potential impact.

To truly play a leading role in addressing the global forest loss crisis the Bank must take strong action in two areas: firstly by supporting investments which create an enabling environment for forest conservation and management, such as community forestry, land tenure reform, and forest governance; and secondly, halting deforestation and degradation resulting from operations in sectors that drive deforestation, such as energy and mining, transportation and agriculture. A June review by the Bank Information Center of the World Bank's portfolio in 13 key tropical forest countries demonstrated that the International Bank of Reconstruction and Development (IBRD, the Bank's middle income lending arm) and the International Development Association (IDA, the Bank's low income lending arm) invested $106 billion in transportation, energy & mining, and agriculture from 2008 to 2014, compared to only $2.9 billion in forests.

The World Bank and other international financial institutions are rapidly falling behind the many private sector and government actors which have made commitments to zero deforestation and deforestation-free supply chains. In a December letter to the Bank, a coalition of 17 NGOs and five individual, academic, and private sector signatories urged the World Bank Group to commit to zero finance of deforestation and to the provision of finance for community forest management and forest conservation.

We call upon the Bank to commit to forest conservation and management and to the enhancement of forest peoples' rights to their forests. Through such efforts, the Bank could replicate its positive role in Mexico's successful experience with community-based forest management globally.

Photo: Verónica Vásquez Ibañez

Community members of an *ejido* (communal land) in the state of Oaxaca, Mexico, explaining conservation and management practices in their communal forest.

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CONDITIONALITY news

IMF rule-change sustains lending to Ukraine

IMF changes rule on lending to states in arrears to official creditors

Russia to file court proceedings over $3 billion Ukraine debt

In late 2015, the IMF's $17.5 billion loan programme with Ukraine came under threat as it appeared the IMF's "non-toleration of arrears to official creditors" was about to be triggered. The long-standing rule forbade the IMF from lending to countries in default for their debts to 'official' or sovereign creditors. In mid-December, Ukraine failed to meet its final payment of a $3 billion debt to Russia's Gazprom, causing Ukraine to be in default. Though Ukraine had contested the debt's status as official, in December the IMF executive board recognised Russia as an 'official creditor'. As a result, the entire loan package to Ukraine, approved in March 2014 (see *Observer*, Spring 2014), could have been under threat.

However, this situation was pre-empted as the IMF executive board revised its policy in early December by allowing lending to countries in default under certain circumstances, including when the IMF loan is considered "essential" and the debtor is making "good faith efforts" to reach agreement with the creditor. Relaxation of this rule permitted the Fund to continue lending to Ukraine despite Ukraine's non-payment to Russia.

Bodo Ellmers of Belgium-based NGO Eurodad called the reform "an overdue change" and said "countries must have the chance to stop debt service to safeguard scarce public resources and still get support from the IMF. It is worrying however that no clear criteria have been defined. The fact that the reform was hastily approved because Russia's holdout strategy threatened the IMF's Ukraine programme proves how political the game is."

The IMF announced in early December that the allocation of the third tranche of its loan agreement depended on Ukraine's parliament approving the 2016 national budget and tax reform measures, including higher taxes on alcohol, tobacco and agricultural products. The conditionalities of the loan package include redundancies in the public sector, deregulation, taxation of natural resources, freezing and reducing of pensions, privatisation, and education reforms that require closure of 5 per cent of Ukraine's schools, according to Eurodad.

Vasyl Shilov of the Federation of Trade Unions of Ukraine (PFU) wrote in October that the IMF loan has "supported the new government to devalue the hryvnia by 200 per cent, achieve 50 per cent inflation rate, decline GDP by almost 50 per cent in comparison with 2013, increase unemployment, reduce the standard of living by a quarter, impoverish 80 per cent of population, and bring the minimum wage and pension to a record low – $50-60 per month."

tinyurl.com/IMF-announces-rule-change
tinyurl.com/IMF-decision-debt-status

CONDITIONALITY news

IMF to add China's currency to SDR basket

IMF confirms inclusion of China's currency in SDR basket

Questions remain over China's economic reforms and the use of capital controls

In late November, the IMF confirmed that China's currency, the remnimbi or yuan, will be included in the IMF's calculation (the 'basket') of the value of its international reserve asset, the Special Drawing Right (SDR), from October 2016. Created in 1969, the SDR is a form of internal asset used by the IMF to allocate countries' financial obligations within the Fund (see *Update* 65). The SDR is not a currency itself, it is used by the IMF as a system of account. Member countries are allocated an amount of SDRs according to the financial quota contributed to the Fund. SDRs can be used to make payments toward quota increases and settle debts owed to the IMF.

The Chinese currency will be treated as a reserve currency alongside the other SDR currencies (the US dollar, euro, pound sterling and yen). It will be easier for any country's central bank to use the yuan as a reserve or store of value, to exchange with its own currency or pay international debts. The yuan will represent a 10.92 per cent share, or weighting, of the SDR's value. China has long advocated that its economic weight and global importance should be reflected by the inclusion of the yuan in the SDR basket. To achieve this, the yuan had to be considered by the IMF to be 'freely usable', e.g. easily convertible.

In November, IMF managing director Christine Lagarde called the inclusion a "clear indication of the reforms that have been implemented and will continue to be implemented". Following the announcement, the People's Bank of China confirmed that it will "deepen and accelerate economic reforms and financial opening up". News agency *Reuters* interpreted the IMF's announcement as "largely symbolic, with few immediate implications for financial markets". Chinese national news agency, *Xinhua*, disputed this view in a late November article arguing that the IMF's decision is "more than symbolic". Uncertain as to whether the IMF would indeed endorse the yuan's inclusion, China implemented a "flurry" of reforms designed to ensure successful inclusion, according to *Reuters*. The article also predicted that financial markets would, "remain cautious as long as China did not fully liberalise capital controls or allow the currency to float freely".

Paola Subacchi, of UK research institute Chatham House, wrote in the *Nikkei Asian Review* in December that the "five years to push the yuan's transformation into an international currency … has been remarkable". However, she cautioned that "there is no guarantee that progress will continue" due to the controls China continues to maintain on capital flows into and out of China. In contrast, Kevin Gallagher of Boston University argued that "China will continue to need to regulate capital flows in order to ensure financial stability and balanced growth. China should be rewarded for this approach, not ridiculed."

tinyurl.com/bwpSDRs

IFI GOVERNANCE analysis

IMF governance: one step forward, one step back

IMF quota reform pending since 2010 finally approved by US Congres

Lagarde nominated for another five-year term by European states

In mid-December the US Congress authorised the IMF quota and governance reform initially agreed by the G20 in Seoul, Korea in 2010 (see *Update* 85). Reform of the IMF's quota and governance arrangements had been hostage to US Congressional ratification, as the US' voting share gives it an effective veto over the proposed changes (see *Observer* Spring 2015). At the time of the agreement, in 2010 then-IMF managing director, Dominique Strauss-Kahn was quoted in an IMF press release stating: "what we did today puts an end to a discussion on legitimacy that had lasted for years, almost decades."

The prolonged inaction had caused increasing frustration among developing countries. Paulo Nogueira Batista, current deputy president of the New Development Bank (NDB) and former IMF executive director of 10 Latin American countries, including Brazil, revealed to *Euromoney* magazine in September that "[o]ne reason for the creation of the NDB is undoubtedly the slowness of the reform process in the Washington-based institutions." The establishment by China in 2015 of the Asian Infrastructure Investment Bank (see *Observer* Summer 2014), which now has a membership of 57 states, is also widely considered to have been a response to the lack of governance reform at the World Bank and Fund.

One step forward: IMF quota reform a reality five years after initial agreement

Once in force, the reform will substantially increase the Fund's financial resources from about US$330 billion to US$660 billion through a doubling of the IMF's Special Drawing Rights (see *Update* 65). The reform will shift more than six per cent of quota shares to emerging market and developing countries. Brazil, Russia, India, China and South Africa benefit from an increase of 4.5 per cent of voting shares which now amount to 14.3 per cent of total IMF voting power. China will become the third largest member country in the Fund. While the reform reduces the US' current share of 16.7 per cent to 16.5 per cent, the US maintains its ability to veto Fund decisions. The governance reforms do away with the category of appointed executive directors (EDs), which currently benefits the members with the five largest quotas in favour of elected EDs. Finally, the advanced European countries will reduce their combined Board representation by two chairs from the current eight or nine chairs, depending on the rotation of European chairs with non-European members.

Less than a month after Congress' approval of the quota reform, the quid pro quo demanded by Congress was approved: that the IMF's exceptional access lending rules, which had been brought in to enable the IMF to lend to Greece, be eliminated. Members of Congress opposed the rule on the grounds it gave the Fund too much flexibility and put the Fund's money at risk. Prior to the Greek crisis, countries in distress and with unsustainable debt burdens were required to restructure and reduce their debt burden before the Fund could lend. In response to the situation in Greece, in 2010 the IMF's Executive Board passed a systemic exemption clause bypassing the requirement for debt restructuring and enabling the Fund to lend to Greece (see *Observer* Summer 2015). The systemic exemption, which allowed lending to Greece, Portugal and Ireland, has been criticised by developing states as biased to the developed countries and as an example of a double standard by the Fund (see *Update* 86). US Congress' approval of the quota reform was essential to ensure that a potential confrontation between the US and emerging and developing members was avoided during the IMF and World Bank spring meetings in April 2016.

One step back: IMF leadership 'selection' process remains unchanged

Christine Lagarde's five-year term as IMF managing director ends in July of this year. The IMF's board announced in mid-January that it has opened a "process for the selection of the Managing Director, similar to the one used in the previous round" and that "individuals may be nominated by a Fund Governor or Executive Director." The nomination process closes on 10 February and a decision "by consensus" is expected by 3 March.

The continued leadership of the Fund by a European in the absence of a competitive, merit-based, open and transparent selection process would demonstrate that concerns raised by civil society and highlighted by the IMF's Independent Evaluation Office's 2008 background paper remain unaddressed.

While the *Financial Times* newspaper in January stated that Lagarde "is widely considered a sure bet for a second mandate" it noted that Lagarde "faces a trial in France this year over her role in a 2008 payment to businessman Bernard Tapie ... Ms Lagarde is accused of negligence in public office in relation to misuse of public funds, an offence that carries a maximum sentence of one year in prison and a fine of up to €15,000." The IMF board has expressed confidence in the current managing director.

Despite Lagarde's legal concerns, the governments of Germany, France and the UK immediately expressed their support for the renewal of Lagarde's term, as has the US government.

tinyurl.com/IEO-2008-evaluation

ACCOUNTABILITY background

The World Bank's country engagement model

In July 2014 the World Bank introduced a new model to increase borrower engagement in their projects and programmes. According to the Bank the model is designed to shift policies and programmes towards the individual country's needs and priorities. The four-step model incorporates a Systematic Country Diagnostic (SCD) to outline constraints to development; a "systematic, evidence based" Country Partnership Framework (CPF) to map out Bank support to the country; and Performance and Learning Reviews (PLR) and Completion and Learning Reviews (CLR), to find and incorporate project lessons into future strategies and programmes. The Bank's Independent Evaluation Group (IEG) is currently evaluating the first group of SCDs and CPFs, with a report expected in August 2016.

For the full article, see:
tinyurl.com/WB-CEM

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

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

RIGHTS news

World Bank safeguards: "human rights-free zone"

UN special rapporteur critiques World Bank's approach to human rights

CSOs and donor countries call on Bank to include human rights in safeguards

Consultation process "a failure"

As the third and final consultation phase on the second draft of the World Bank's proposed new environmental and social framework (ESF), replacing the current safeguards, progresses, civil society groups (CSOs), the UN and certain member states continue to demand that the Bank incorporates human rights in all its activities (see *Observer* Autumn 2015).

In an August report, UN special rapporteur on extreme poverty and human rights Philip Alston characterised the World Bank as a "human rights-free zone" and denounced the institution's current approach to human rights as "incoherent, counterproductive and unsustainable". He criticised that despite the Bank mentioning human rights in its research, it "doesn't actually do anything about it in its programmes and projects, where it really matters." Alston called on the Bank to take a new approach to human rights in its legal policy, public relations, policy analysis, operations and safeguards.

Concerns about absence of human rights from draft safeguards

A December joint statement by five African civil society groups called for revisions to the draft ESF: "We fear that, if adopted as is, the draft ESF will significantly increase development-related human rights violations." Bimbo Oshobe, of the Nigerian Slum/Informal Settlement Federation who signed onto the statement, added: "The World Bank must uphold human rights. It cannot hand over its responsibilities to governments like ours that violate human rights every day... We need the World Bank to really ensure that our rights are protected and make sure its projects really benefit the poor." Also in December, in a joint statement 180 Latin American and Caribbean CSOs expressed their concerns about the framework and its consultation process, including that the draft ESF "avoids references to international standards on human rights ... lacks a human rights approach ... lowers the standard for the whole development community" and goes against the "World Banks goals to eradicate extreme poverty and promote shared prosperity".

In addition to public statements by some World Bank executive directors (EDs) representing borrower countries, EDs from six donor countries also expressed concern. In June the EDs of the UK, Italy, Germany, France, the Netherlands and the Nordic and Baltic states wrote a confidential statement to the Bank board's Committee on Development Effectiveness (CODE) on the second draft leaked to the press in November, stating "it is very much the responsibility of the Bank to ensure that its operations do not violate human rights".

Civil society participation in the consultation process has continued to be fraught with difficulty, due to barriers such as limiting attendance to those pre-registered and limited preparation time due to a short notice period (see *Observer* Summer 2015). In Mexican online newspaper *Sin Embargo* a Mexican NGO Fundar called the December Mexico consultation "a failure" that "did not meet the minimum requirements needed to ensure an effective process of participation and consultation". According to Fundar there were only 13 representatives from Mexican civil society, of which most were only present because they approached the Bank to enquire about participation. "Who would have been consulted if no one had sent an email to request attendance?" wrote Mariana González Armijo, of Fundar. The third phase of consultations will close on 15 March 2016.

tinyurl.com/UNReportAlston

RIGHTS news

World Bank releases new gender strategy

World Bank Group releases new gender strategy for 2016-2023

Strategy adopts country-driven approach, focus on evidence and data

In December, the World Bank published its new gender strategy for 2016 to 2023. The strategy was developed after the Bank conducted formal consultations over the course of 2015 (see *Observer* Summer 2015).

The strategy outlined the Bank's objectives related to gender equality and suggested how the objectives are to be operationalised within the institution, noting that gender equality is central to the Bank's stated goals of ending extreme poverty and boosting shared prosperity. The achievement of gender equality and empowerment of all women and girls as articulated in Sustainable Development Goal 5 is at the centre of this strategy.

The strategy outlined three objectives: 1) improving human endowments, such as education, health and social protection; 2) increasing economic opportunities by focusing on removing constraints to more and better jobs and ownership of and control over assets; and 3) enhancing women's voice and agency and engaging men and boys. With these objectives the strategy recognised "structural barriers to women's economic participation", in areas such as sexual and reproductive health, violence against women, women's political participation, and especially the burden of unpaid care work. In terms of implementation, it places emphasis on outcomes and results. This includes strengthening the country-driven approach, especially emphasising the value of collecting sex-disaggregated data, disseminating evidence of what works, and adopting a more strategic approach to gender mainstreaming, including developing a more robust monitoring system. The Bank also identified leveraging of the private sector as key to effective gender equality outcomes.

Members of the UK Gender and Development Network's Women's Economic Justice (WEJ) working group issued a joint response to the draft strategy in July 2015 (see *Observer* Autumn 2015). The submission demanded a more comprehensive approach to achieving substantive gender equality that moves away from a strict economic understanding of women's economic empowerment. It argued that in addition to tackling wage inequality and providing jobs and access to financial services for women directly, the strategy has to confront the structural causes of these inequalities. The submission also highlighted the lack of a coherent human rights framework to serve as a foundation for the entire strategy and the lack of strong systems of accountability to ensure the Bank's work is transparent and accountable.

Preethi Sundaram of the International Planned Parenthood Federation and lead author of the submission responded that "it is encouraging that the World Bank Group's gender strategy goes beyond a focus on women's jobs and assets, and considers sexual and reproductive health and rights and women's care burden. Despite this, the Strategy should have focussed more on the quality and conditions of women's work, to balance what can feel like an instrumentalist approach to women's contribution to economic growth and poverty alleviation".

tinyurl.com/WB-gender-strategy

IFI GOVERNANCE analysis

Where's the remedy? Development banks must do more to remedy harm caused by activities they finance

Guest analysis by Kris Genovese, Centre for Research on Multinational Corporations (SOMO)

Report finds development banks' accountability systems unable to consistently provide remedy

10 out of 11 DFIs impeded accessibility to accountability mechanisms

Calls for strengthening of accountability mechanisms

Over 20 years ago the Inspection Panel (IPN) was established, allowing for the first time those affected by World Bank-financed activities to voice their concerns to the highest reaches of power within the institution. The Bank's accountability mechanisms, including the later addition of the Compliance Advisor Ombudsman (CAO) of the Bank's private sector arm, the International Finance Corporation (IFC), and its Multilateral Investment Guarantee Agency, are still relevant and necessary. They are sometimes the only avenues for communities to seek recourse for harms that may or have occurred as a result of activities financed by the World Bank Group. They also provide civil society and stakeholders with a powerful window into the shortcomings of the Bank's development model.

Since the IPN was established, many other development finance institutions (DFIs) have established their own complaints mechanisms, known collectively as independent accountability mechanisms (IAMs). While the structure and procedures of IAMs vary, they can bring together complainants and a DFI's client to resolve a conflict, conduct an investigation to determine if the DFI's environmental and social policies have been violated, or both. In order for the system to work and provide remedy to those who are harmed, both the IAM and its DFI must meet their individual responsibilities.

A January report by 11 NGOs, *Glass half full? The state of accountability in development finance*, assessed the effectiveness of the accountability systems of 11 DFIs to determine how well they are serving those who they are intended to benefit. The authors concluded that the 'glass of accountability' can be considered 'half full' or 'half empty', depending on your perspective. Complainants are undoubtedly better off having access to an IAM than they would be in its absence. Complaints can generate welcome international attention, occasionally resulting in changes to the projects and improved conditions for complainants. However, the mechanisms are not effective at consistently providing remedy to those harmed — whether that is adequate compensation for resettlement or restoring access to clean water or natural resources — for two reasons: firstly, because the DFIs do not provide IAMs with the mandate they need to be an effective recourse for complainants; and secondly, they do not assume their own responsibility in ensuring that remedy is provided to complainants who have been harmed.

There is more that the IAMs can do to improve their effectiveness, but those efforts will be in vain without a significant shift in approach by the DFIs themselves. The report found that all but one of the 11 DFIs assessed impede access to the IAMs from the very beginning by failing to require their clients to disclose the IAMs' existence to project-affected people. DFIs also limit the time window during which an IAM can accept a complaint, fail to contribute to solutions achieved through problem-solving processes, and do not consistently respond to the findings of non-compliance by their IAMs. When DFIs do develop an action plan to address the findings, they rarely consult adequately with complainants on its contents. Instead of viewing complaints as an opportunity to help the very people whom DFIs are meant to benefit, DFIs seek to defend and justify their own actions, deny and refute the concerns of complainants, and marginalise and undermine the mechanisms that handle complaints.

The Avianca case in Colombia illustrates the failure of a DFI to uphold its responsibility in providing remedy to complainants. A CAO investigation, disclosed in May 2015 following a November 2011 complaint, demonstrated that the IFC failed to address its client's disregard for freedom of association, however, despite these findings the violations continue.

The report provides two sets of recommendations. The first set seeks to perfect the current system by identifying best practices that should be adopted by all IAMs and DFIs. However, simply adopting best practice will not be enough to ensure that complainants receive remedy. The report called for the IAMs to be empowered to make binding decisions to compel action by the the DFIs and their client and, ultimately, that DFIs pursue a development model based on human rights that results in less harm to communities. Until this is achieved, it is imperative that the IAMs are strengthened to ensure that those harmed by DFI-financed projects are provided the remedy they deserve.

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Photo: Centro de Estudios Sindicales y Políticos

Avianca protest, Colombia

FINANCE analysis

IMF contemplates returning to Greece … again

IMF in talks for yet another loan to Greece

IMF calls for debt relief, privatisation and pension reform

IFC invests in Greek banks

In January, the IMF confirmed it has been in negotiations for the third loan since 2010 to the Greek government; the details of the Fund's mission are yet to be confirmed. A third loan programme from the European Central Bank and European Commission was arranged in February 2015 and extended in August (see *Observer* Autumn 2015), however, the IMF was not part of this agreement.

Conditions to IMF lending, outlined in July by newspaper *International Business Times*, includes a deepening of Greece's privatisation programme, higher taxes on farmers and changes to the pension system, such as increasing the retirement age. Greece has a debt of €320 billion ($350 billion) and a debt to GDP ratio approaching 180 per cent. The Fund claimed Greece's current pension system is "unaffordable" and is currently reviewing draft proposals for reform.

Gerry Rice, the Fund's director of communications, said in January that the IMF was "ready to support Greece not only with advice, not only with technical assistance but also with financing." In a January statement made at the World Economic Forum in Davos, Switzerland, IMF managing director Christine Lagarde said that "such a programme would require strong economic policies, not least pension reforms as well as significant debt relief from Greece's European partners to ensure that debt is on a sustainable downward trajectory."

Speaking to the *Wall Street Journal* in January, Greek labour minister Giorgos Katrougalos said "for us it's a red line not to reduce pensions for a 12th consecutive time". Greek pensions have been cut by 40 per cent since the 2010 loan package. He added "We must not burden the economy further with recession-bringing measures".

Unions have announced a general strike in February, following demonstrations and blockades in January with 10,000 mostly self-employed professionals and farmers, who are at risk of losing more than three quarters of their annual earnings.

After a meeting with Lagarde in Davos, Greek prime minister Alexis Tsipras said, "next to balanced budgets, we must also have growth … We need to be more realistic, and show more solidarity too."

The IFC gets involved

In November, the International Finance Corporation (IFC, the World Bank's private sector arm) announced it intended to invest in Greece. In December, the IFC acquired €150 million ($164 million) worth of shares in Greece's four main banks, which, according to a European Central Bank stress test in October, faced a €14.4 billion ($15.7 billion) shortfall. Dimitris Tsitsiragos, IFC vice president, said "the main goal is to re-establish confidence and trust about investing in Greece", reported *Reuters* news agency in November.

The IFC invests primarily in developing countries, making this temporary arrangement unusual rather than unique. It follows, for example, investments in South Korea during the 1999 Asian financial crisis.

tinyurl.com/WSJGreecechallenge
tinyurl.com/IMFpressbriefGreece

CONDITIONALITY news

New report on the IMF in the MENA region

In December, the Bretton Woods Project published the report *The IMF in the Arab world: Lessons unlearnt on IMF policies in Egypt, Jordan, Morocco and Tunisia*, written by Mohammed Mossallem, of SOAS, University of London.

During the 2011 Arab uprisings, domestic economic reforms were demanded by a wide range of civil society groups. In response, the IMF signalled changes to longstanding policies in the region. The report contrasted the policies endorsed by the IMF pre- and post- the 2011 uprisings and found that while IMF rhetoric may have shifted to focus more on inclusive growth and social inclusion, its policies appear little changed in practice.

tinyurl.com/mena-report

Emma Bürgisser & Roosje Saalbrink join Bretton Woods Project

We are delighted to welcome Emma Bürgisser as the Bretton Woods Project's new Research and Project Officer on Gender. Emma will support the implementation of a new Hewlett Foundation-supported women's economic empowerment project. The Project also welcomes Roosje Saalbrink as the new Communications and Research Officer. Roosje will lead the production of all the Project's communication outputs, including the *Observer*.

tinyurl.com/bwpstaff

BRETTON WOODS project
CRITICAL VOICES ON THE WORLD BANK AND IMF

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