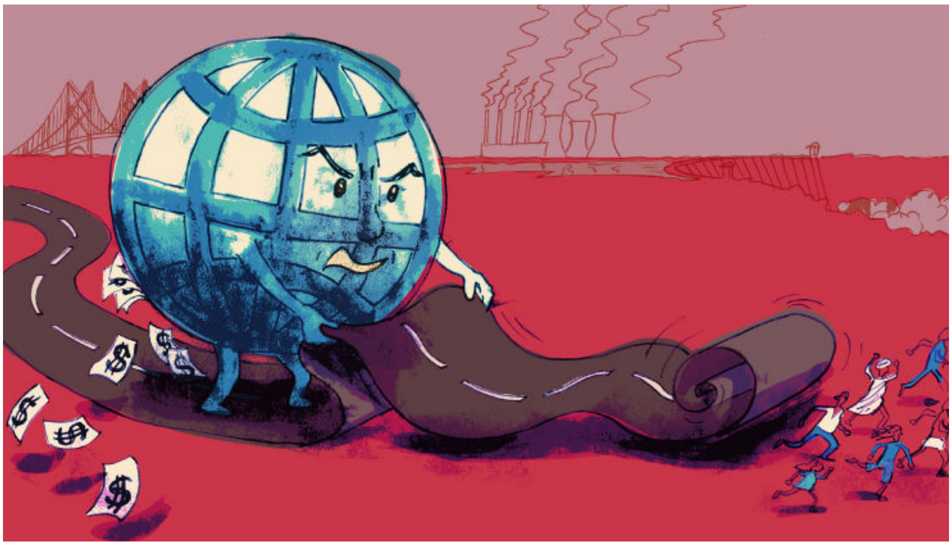
SPRING 2016

BRETTON WOODS project

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

INFRASTRUCTURE analysis

World Bank rolls out the carpet for "troubled megaprojects" and PPPs



World Bank to host new Global Infrastructure Forum

MDBs cooperating on infrastructure under G20, focus on leveraging private finance

PPPs pushed despite concerns on contingent liabilities, lack of transparency

In the July 2015 UN Financing for Development (FfD) conference the multilateral development banks (MDBs) were asked to lead the establishment of a Global Infrastructure Forum "as a key pillar to meet the sustainable development goals". According to the FfD outcome document, the forum should meet periodically "to improve alignment and coordination among established and new infrastructure initiatives", with a particular focus on allowing developing country voices to be heard. Furthermore, the forum "will highlight opportunities for investment and cooperation, and work to ensure that investments are environmentally, socially and economically sustainable." The first forum is scheduled to take place during the World Bank and IMF spring meetings in mid-April in Washington DC.

The MDB's commitment to the forum follows longstanding work on scaling up infrastructure through the G20 (see *Observer* Autumn 2014). This commitment was further reinforced in a September joint document, *Partnering to build a better world: MDBs' common approaches to supporting infrastructure development*, which responded to a request by the G20 for the MDBs to strengthen project preparation facilities "to leverage greater private sector investment in infrastructure." According to Nancy Alexander of the German political foundation Heinrich Böll: "The G20 sees massive infrastructure investment as one of the 'silver bullets' that can ... add $2 trillion to the global economy and create millions of jobs" (see *Observer* Winter 2015). Besides hosting the new forum, the World Bank continues to play a leading role in the preparation of key documents on infrastructure for the G20, including on infrastructure project prioritisation and on support of the implementation of public-private partnership (PPP) projects.

PPPs continue to concern

The decision by the World Bank, together with the G20 and other MDBs, to push PPPs for infrastructure projects as a *fait accompli* runs counter to continued concerns (see *Observer* Autumn 2015). A February working paper from the UN's Department of Economic and Social Affairs, titled *Public-private partnerships and the 2030 Agenda for Sustainable Development: Fit for purpose?*, argued that "while greater private sector responsibility will reduce public sector risk exposure by default, a badly designed PPP of any type can carry significant risks for the public in terms of reduced coverage, poor quality of service, or contingent fiscal liabilities." Moreover, the paper noted that evaluations done by the World Bank, IMF and the European Investment Bank "have found a number of cases where PPPs did not yield the expected outcome and resulted in a significant rise in government fiscal liabilities." According to the paper "analyses by both the IMF and World Bank have expressed concerns regarding perverse incentives on the part of governments to treat PPP contingent liabilities as 'off

In this issue

balance sheet', which in turn undermines sound fiscal management." A January IMF working paper mapping contingent liability realisations in advanced and emerging markets warned that "the number of PPPs has only recently started to increase significantly globally. We might thus expect more and larger fiscal costs from PPPs in the future."

A late February NGO submission to the World Bank consultation on a proposed framework for PPP disclosure, drafted at the request of the G20, raised concerns that the consultation happened after, rather than before, the draft document was submitted to the G20. The submission, signed by over 50 organisations, argued that this "may project the impression that consultations with other stakeholders are a mere formality devoid of a real chance of impact." The organisations, including the Kenya Debt Relief Network and Debt Justice Norway, emphasised that "a robust framework for disclosure is a primary and necessary – even if insufficient – safeguard against some of the risks raised by PPPs... The need for such safeguards is particularly acute in the light of the G20's recent policy decisions to encourage so-called 'transformational' projects, which we understand as increased support for megaprojects." Risks identified related to "social and environmental impacts, respect for human rights, democratic accountability and macroeconomic problems, including hidden public indebtedness arising from PPPs."

Aldo Caliari of US-based NGO Center of Concern commented: "The G20 is putting the cart of ideology on PPPs ahead of the horse of available evidence on their performance. Nothing good can come out of that." Nancy Alexander added: "Troubled megaprojects are colliding with environmental and social realities around the world. It is crucial that citizens' groups analyse the infrastructure master plans for their country or region to determine whether the plans will advance sustainable development and climate goals, and what risks are being absorbed by the public sector."

tinyurl.com/UN-PPP-paper

tinyurl.com/NGO-PPP-submission

ACCOUNTABILITY news

IFC investments through financial intermediaries linked to human rights abuses in Honduras, again

New complaint lodged against IFC financial intermediary project in Honduras

Global trend of killings of environmental activists on the rise

In October 2015 a Honduran indigenous Garifuna community, with support of local NGO the Black Fraternal Organisation of Honduras (OFRANEH), lodged a complaint with the Compliance Advisor Ombudsman (CAO), the accountability mechanism of the International Finance Corporation (IFC, the World Bank's private sector arm). The complaint alleged a number of breaches stemming from the Tela Bay Tourism development project, including "land grabbing, community displacement, lack of economic benefits and environmental degradation". One of the project's financiers is Banco Ficohsa, Honduras' third largest bank, in which the IFC has made several investments since 2008. The IFC's investments through financial intermediaries (FIs) have been repeatedly criticised by the CAO and NGOs claiming that the IFC is unable to determine the development impact of the investments and to ensure they do no harm (see *Observer* Winter 2015).

In the complaint OFRANEH sets out the deleterious impact of World Bank involvement in promoting the "restructuring of land registration systems and cadastre through [development] programs that affect the rights of Garifuna communities". They requested that the CAO investigate the IFC investment in Ficohsa and undertake a "broader review of the World Bank policies and practices that have contributed to the dispossession of large-scale land in Honduras and in particular the Garifunas communities".

This is not the first time that IFC's investments in Ficohsa have come under scrutiny by the CAO. In August 2013 the CAO initiated a compliance appraisal, triggered by Ficohsa's significant exposure to Corporación Dinant, a controversial palm oil producer in Honduras (see *Observer* Winter 2014). In January 2016 the CAO released its monitoring report of this investigation, citing repeated concerns about IFC's management of environmental and social risk in relation to Ficohsa's lending to Dinant.

Honduran activists murdered

In early March Berta Cáceres, leader of Honduran NGO the National Council of Popular and Indigenous Organisations of Honduras (COPINH), was murdered. Cáceres had led the peaceful opposition to the construction of the Agua Zarca dam, arguing it would destroy local indigenous Lenca communities' farmland and limit their access to drinking water. In October 2013 COPINH registered a complaint with the CAO concerning the Agua Zarca hydropower project, carried out by the company DESA, following the killing of an indigenous protestor, allegedly by the army and the building company, and intimidation of activists and local communities opposing the project (see *Bulletin* Dec 2013, *Observer* Autumn 2013). However, the case did not come to conclusion, as CAMIF, IFC's client, pulled out its investment in DESA and the Agua Zarca project.

Following Cáceres' murder numerous CSOs, including COPINH and International Rivers, called on all investors to pull out of the Agua Zarca project and do everything in their power to stop the violence and intimidation against activists. The Netherlands Development Finance Company (FMO) and the Finnish Finnfund suspended their support for the project one day after Nelson García of COPINH was also shot and killed in late March. On the website '*Justice for Berta*', her children and COPINH demand "immediate cancellation of the Agua Zarca project, justice for projects that threaten the environment and the lives of indigenous communities in Honduras".

An April 2015 report *How many more?* by Global Witness, a UK based NGO, noted that at least 116 environmental activists were killed in 2014, 40 per cent of which were from indigenous communities, with most working against hydropower, mining and agribusiness projects. Victoria Tauli-Corpuz, UN special rapporteur on the rights of indigenous peoples, told *Climate Home*, a global news agency, in March: "The pattern of killings in many countries is becoming an epidemic." Tauli-Corpuz called for recognition of land rights and a robust legal system to prosecute perpetrators.

tinyurl.com/CAOFicTela

tinyurl.com/reportGWApril15

INFRASTRUCTURE commentary


Powerless: a call for World Bank community engagement in Nepal

by Shankar Limbu, Lawyers' Association for Human Rights of Nepalese Indigenous Peoples (LAHURNIP), Nepal, and Komala Ramachandra, Accountability Counsel, USA

In mid-February the government of Nepal declared an energy crisis and began importing electricity from India in the hope of ending the daily power cuts of twelve hours or more in the capital of Kathmandu. In an accompanying policy, the "Electricity development decade", the government announced ambitious plans to bring over 900 MW of new hydropower online in the next two years and ultimately export excess production to India.

Power production and transmission projects in Nepal have historically experienced long delays. The World Bank-funded Nepal Power Development Project, which included the controversial Khimti-Dhalkebar 220 kV transmission line (KD line), was approved in 2003, however, construction did not begin until 2008. Affected communities in Sindhuli District began to voice concerns in 2009 (see *Observer* Spring 2014). In the long-standing conflict over the KD line, affected communities have prevented the completion of eight electricity towers in Sindhuli District due to concerns about lack of information and consultation, inadequate due diligence, problematic rehabilitation measures, and the potential impacts of the transmission line on health, agriculture, and livelihoods. A history of violent repression against these communities contributes to an atmosphere of fear.

In 2013 a group of affected families filed a complaint to the World Bank's accountability mechanism, the Inspection Panel (IPN). The IPN conducted an investigation and found that the World Bank had failed to follow a number of its social and environmental safeguards with respect to affected communities and supervision of the project. World Bank management conceded that communities were neither adequately informed nor consulted about the KD line, but they failed to explain why a project was carried out when it became clear that compliance with safeguard policies could not be ensured.

According to the IPN's report, the Bank further failed to properly assess whether the implementing agency, the Nepal Electricity Authority (NEA), had the capacity to carry out the environmental and social assessments required for project implementation under Bank policy. The NEA is currently managing various hydropower projects across the country, with support from the World Bank and other development finance institutions, as a critical part of the Nepal government's initiative to make the country a net exporter of energy. The NEA's and the World Bank's capacity to engage communities as partners in development, rather than impediments to it, will define the success of Nepal's energy policy.

By the time the IPN concluded the KD line investigation in February 2015, the World Bank had completed the Nepal Power Development Project. In response to the IPN's findings, Bank management presented an action plan in March 2015 meant to address the non-compliance findings. The World Bank board reviewed the IPN's findings and the Bank's action plan, and "welcomed the Bank's intention to continue engaging with the Nepalese authorities to support implementation of the management action plan, with a view to amicably resolving the outstanding issues."

The communities welcomed the board's encouragement to find a peaceful resolution to the issues, which they have been seeking since they first raised their concerns about the KD line. However, they contend that the action plan falls short on many counts. For example, the plan does not offer solutions for meaningful consultation with affected communities nor an assessment of alternative routes for the transmission line, even though the lack of these was found to be in violation of the Bank's safeguards.

Putting into action the request of the board to amicably resolve the conflict will require the Bank to bring together its client, the NEA, and affected communities in a fair dispute resolution process. Such a dialogue process entails freedom from unreasonable conditions and intimidation, and the assurance that resources will be available to both support an unbiased process and also the agreed upon outcome. The World Bank has a unique opportunity to remedy its part in numerous safeguard breaches, to prevent future and potentially grave human rights violations in its projects, and to take a leadership role in building positive and inclusive development outcomes in Nepal.

To overcome the current energy crisis in a timely manner while respecting the rights of affected communities, the government of Nepal and supporting institutions like the World Bank must ensure positive community engagement, both in past and future projects. In its quest to develop Nepal's vast hydropower potential, the government continues to place a heavy burden on rural and indigenous communities. Conflict over energy projects threatens to derail economic development efforts. Therefore, resolving past conflicts over energy projects and creating a positive example of community engagement will be vital in setting the tone for development projects moving forward.

Shankar Limbu, Lawyers' Association for Human Rights of Nepalese Indigenous Peoples (LAHURNIP), Nepal
shankar193q@gmail.com
www.lahurnip.org

Komala Ramachandra, Accountability Counsel, USA
komala@accountabilitycounsel.org
www.accountabilitycounsel.org

Photo: Komala Ramachandra

Communities meet with the Inspection Panel during the investigation

FINANCE analysis


What is left of the rise of the South?

Sceptical prospects for multipolarity

Guest analysis by Daniela Magalhães Prates, University of Campinas, Brazil, and Luiza Peruffo, University of Cambridge, UK

Prospects for multipolar global architecture diminished as EMEs suffer setbacks

New institutions reflect rise of China, not global South

Reforms at IMF and World Bank symbolically important but not a rupture with status quo

The prominence of emerging market economies (EMEs) during the 2008 financial crisis improved prospects for more multipolar global financial governance. The recent setbacks experienced by EMEs, however, raise the question as to whether global financial governance is still becoming more multipolar.

There are some signs indicating permanent advances towards a more multipolar architecture, at least in comparison to the very outdated pre-financial crisis arrangements. First the governance reforms in the Bretton Woods Institutions (BWIs), although limited, are symbolically significant, since the increased prominence of EMEs in the institutions was mostly achieved at the expense of European countries (see *Observer* Winter 2016). Second, the landscape of global governance has become more multipolar with the establishment of new international financial institutions (IFIs) by EMEs – the New Development Bank (NDB) and the Contingent Reserve Arrangement (CRA) under the BRICS (Brazil, Russia, India, China and South Africa), and the Asian Infrastructure Investment Bank (AIIB), led by China. Third, the Chinese yuan was included in the IMF's Special Drawing Rights (SDR) basket in late 2015, joining the US dollar, the euro, the British pound and the Japanese yen in the world's VIP currency club (see *Observer* Winter 2016).

Although welcomed, the impact of these developments on the nature of the global financial architecture must be taken with a pinch of salt. To begin with, the new IFIs have so far broken little ground in challenging the existing US-shaped architecture. For example, all start-up funding for the NDB was in dollars and big CRA loans are contingent on IMF approval. Therefore, the new IFIs may end up providing a fresh impetus for the prevailing architecture – particularly regarding the central role the US dollar enjoys – to the extent they represent a continuation rather than a rupture with the core structure of the system.

The thesis of continuation rather than rupture is reinforced by the conclusion of the reforms in the BWIs, particularly in the case of the IMF. The five-year delay of US Congress approval of the 2010 Quota and Governance Reform fuelled the debate about the disproportionate power of the US in their governance structures, and the necessity of reforming the whole modern financial architecture designed around the arguably outdated Bretton Woods models. With the US approval of IMF governance reforms in late 2015, one of the central causes for indignation among EMEs was resolved, but problems persist. While it constituted the most important IMF reform since its establishment, its achievements in terms of a rupture with the pre-crisis status quo are limited, given the US retains its veto power. EMEs now also have less firepower to press for further reforms, not least because of their poorer economic performance. As a result, the 2015 reform somewhat re-legitimated the IMF and, consequently, decreased the prospects for substantial changes in the short and medium term in global financial governance.

Finally, the inclusion of the yuan in the SDR's basket symbolises the most significant modification in the post-crisis international monetary landscape: the acknowledgment of China's monetary power. During the height of the financial crisis, Chinese power was often viewed as intertwined with that of the EMEs, however, it has become increasingly evident that most of the new IFIs are actually dependent on China and mostly reflect China's power alone, rather than the diversified power of EMEs as a bloc.

Such differentiation is now crystal clear with the formal ascension of the Chinese currency into the SDR basket. While the biggest EMEs did not resort to formal multilateral or regional institutions to deal with the 2008 crisis, they leaned on ad hoc bilateral swap agreements with the US Federal Reserve (Fed) to reduce financial volatility; i.e. coverage under the umbrella of the swaps with the Fed signalled that these EMEs were part of the core of the system. Therefore, instead of exerting its influence indirectly through the BWIs, the US acted directly by deciding which countries would have access to the swaps. Additionally, the US dollar has further increased its leverage since the euro crisis, which has harmed the hitherto most likely contender to challenge its position in the international monetary system.

While there have been some incremental advances towards a more multipolar global financial architecture in the post-2008 crisis period, the system has been largely reorganised from a US perspective. In this reorganisation, the main novelty is the structural rise of China – and not EMEs, as it may have seemed in the immediate aftermath of the crisis. Despite the current economic shortcomings faced by China and other EMEs, the new position of China in the global financial architecture may pull up other big EMEs, particularly the BRICS countries, through the new IFIs. If the new IFIs succeed in becoming strong alternatives to the traditional BWIs – which is largely linked to EMEs' economic firepower in the long run – then it will be possible to envisage a more multipolar global financial architecture.

Daniela Magalhães Prates, University of Campinas, Brazil
prates@unicamp.br

Luiza Peruffo, University of Cambridge, UK
lp394@cam.ac.uk

For more on this topic, read the online briefing ***Rise of the global South and descent of the North?*** *Exploration of the rise of the global South and its impact on international financial architecture* by Daniela Magalhães Prates and Luiza Peruffo.

tinyurl.com/Rise-of-South

KNOWLEDGE analysis

The Bank's updated international poverty line, a case of poor measurement?

World Bank updates its international poverty line threshold

Questions about methodology and the appropriateness of the instrument remain

In October 2015, the World Bank announced that it had updated its international poverty line (IPL) and its estimate of the number of people living in extreme poverty globally. The IPL, which came to prominence with the dollar-a-day figure devised by the Bank in 1990, is revised periodically in line with new data from the independent International Comparison Program (ICP), which is hosted by the World Bank. The new IPL of $1.90 is based on ICP purchasing power parity (PPP) calculations and represent the international equivalent of what $1.90 could buy in the US in 2011. The new IPL replaces the $1.25 per day figure, which used 2005 data.

According to the Bank "global poverty will have fallen from 902 million people or 12.8 per cent of the global population in 2012 to 702 million people, or 9.6 per cent of the global population [in 2015]". The Bank's announcement highlighted a change in the composition of poverty, noting that "in 1990, East Asia accounted for half of the global poor, whereas some 15 per cent lived in Sub-Saharan Africa; by 2015 forecasts, this is almost exactly reversed: Sub-Saharan Africa accounts for half of the global poor, with some 12 per cent living in East Asia."

The Bank's reliance on the IPL has, however, been widely challenged by critics who question the methodology used and highlight the shortcomings of an econocentric approach generally (see *Update* 80). In the 2013 OECD *Development Cooperation report*, Stephan Klasen, professor of development economics at the University of Göttingen, wrote a chapter titled: *Is it time for a new international poverty measurement?,* outlining several questions about the appropriateness of the IPL, citing "the multiple dimensions of poverty, the disconnect between national and international poverty lines, comparability over time, [and] the need to measure not only absolute, but also relative poverty." He also stressed that the methodology excludes the extreme poor living in middle-income countries.

New School for Social Research economists Sanjay Reddy and Rahul Lahoti wrote a detailed critique of the methodology used by the Bank's latest update in a March article in the magazine *New Left Review*. The authors stressed, among other things, that in order for the approach to be internally coherent, the $1.90 per day must be sufficient to meet basic needs in "the base country for which the price indices are defined—that is, the US." However, they highlighted that this is not the case, as according to the US Department of Agriculture, the minimum cost of achieving 'recommended dietary allowances' in 2011 was $5.04, excluding non-food items. The authors noted that if a general consumption PPP at the $5.04 threshold is used, "more than 80 per cent of people in South Asia and Sub-Saharan Africa are found to live below the line" and that "even if only half the US level is used, the poverty headcount ratio nearly doubles in East Asia and South Asia" when compared with the numbers resulting from the $1.90 figure used by the Bank. Anthropologist Jason Hickel, writing for UK newspaper *The Guardian* in November, noted that "in India, children living at $1.90 still have a 60 per cent chance of being malnourished. In Niger, infants living at $1.90 have a mortality rate three times higher the global average."

Reddy remarked that the results of pursuing a coherent approach, i.e., a higher US figure, would lead the Bank to conclusions it seems unwilling to accept, that "the poverty level and trend are much less favourable globally" or that their method requires revision, or both. Considering issues beyond the IPL's methodological shortcomings outlined in the *New Left Review* article, Reddy voiced concerns about "the Bank's de facto monopoly over such estimates, in light of the deference it receives from international institutions, governments and even academics". He stressed that "what is needed is a much more robust process of pluralisation and contestation of ideas … bringing participants expressing more diverse and distinct views into supposedly technical processes that are effectively monopolised by Bank staff protecting or promoting a particular way of thinking." Reddy emphasised that, given that policy and funding decisions are based on the widely-cited IPL figures, these limitations have real consequences in the way development activities are conceived and implemented.

At an equally fundamental level, economist Jayati Gosh, writing in 2014 on the *Triple Crisis* blog, criticised the focus on poverty alleviation generally, contrasting it with previous efforts by development economists to understand the transformational changes required to support developing countries to make the transition to development. She was particularly critical of the simplifications made by proponents of a focus on poverty alleviation, noting that "patterns of trade and economic activity that determine levels of employment and its distribution" are widely ignored. Gosh also underscored "the neglect of the international dimension in such analyses, and of the way in which global economic processes and rules impinge on the ability of states in less developed countries to even attempt economic diversification and fulfilment of the social and economic rights of their citizens."

tinyurl.com/2013-OECD-global-dev-report

Photo: Jay Black

Homeless man sleeping in the streets of Vancouver, Canada

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

UN independent expert: "IMF programmes worsen income distribution"

UN expert report links inequality, financial crises and human rights concerns

Calls for human rights-based responses to financial crises

In early March the UN independent expert on the effects of foreign debt on human rights, Juan Pablo Bohoslavsky, presented his latest report to the 31st session of the Human Rights Council in Geneva. The report focused on the linkages between income and wealth inequality, financial crises, and their implications on the enjoyment of human rights. According to Bohoslavsky, not only have financial adjustment programmes without consistent debt relief proved detrimental to human development and human rights, but inequality may also substantially contribute to and exacerbate the emergence and course of financial crises. Bohoslavsky used Latin America as an example, where the IMF ran loan programmes in 16 countries in the 1980s, and "where the costs of the financial crises were not borne equally and most adjustment programmes resulted in 'overkill' leading to increases in poverty and inequality beyond what was necessary". The report concluded, "what seems clear is that IMF programmes are associated with a worsening of income distribution and a reduction in the incomes of the poorest citizens when external imbalances were high prior to the programme. These programmes may only decrease income inequality when external imbalances are less severe".

To support policymakers to meet their international human rights obligations, the report recommended a range of measures for tackling financial crises and inequality in an integrated manner. For instance, instruments for improving pre-tax income equality should be employed; sufficient bargaining power of the workforce should be safeguarded; and reform aimed at enhanced progressive taxation should be implemented. The report stressed that any response to financial crises must fully comply with human rights law; that fiscal stability and GDP growth may not overrule, suspend or dilute existing human rights obligations and responsibilities; and that the protection of vulnerable groups must have the highest priority, ensuring that social spending is affected last and the least. The report also recommended that debt sustainability analyses should incorporate inequality as a crucial consideration, ensuring that debtor states are able to fulfil their human rights obligations. While the report makes no recommendations specific to financial institutions, the World Bank and IMF's Debt Sustainability Framework currently does not include inequality as an indicator for its analyses (see *Update* 54).

Reacting to the report, Rasha Rashid Jarhum, founder of Yemeni Youth for Humanitarian Relief and the Aden Initiative, stated that "the harmful impacts of IMF conditionalities on human rights highlighted in the report are especially acute in Yemen as they exacerbate the endemic corruption and political instability my country suffers from. In such a context, proposed reforms are subject to political abuse and manipulation, which, in Yemen, ultimately led to the violent turbulence we are witnessing today."

tinyurl.com/unreportdebt

tinyurl.com/DSFfactsheet

FINANCE news

IMF reopening case for capital controls?

IMF publishes policy paper on international monetary system, capital controls

IMF 'institutional view' on capital controls to be reviewed

A February IMF policy paper on the international monetary system (IMS), although not endorsed by the Fund's board, considered its policy on capital controls and suggested a possible review of the IMF's 'institutional view' on the liberalisation and management of capital flows, the document on which the Fund's advice on the issue is based (see *Update* 83).

The policy paper, *Strengthening the international monetary system*, examines the challenges facing the IMS and presents "a possible roadmap for further work on reform areas." The authors highlighted a shift in "the centre of economic gravity" to emerging markets and developing countries; increased financial interconnectedness and volatility; slowing growth in China; and falling commodity prices. They emphasised that non-economic risks pose new and unknown threats. The paper asserted that "possible reform avenues could aim at strengthening crisis prevention and global mechanisms for adjustment, cooperation, and liquidity provision."

The paper did not suggest a new policy on the use of capital controls but noted that "some countries have responded by introducing capital flow management measures [CFMs], although not all have been successful". It went on to claim "there is still limited knowledge of which types of CFMs are most effective, when their benefits could outweigh their costs". At the press release launching the paper, Siddharth Tiwari, IMF director of strategy, policy and review, gave an overview of the process going forward. It will involve an assessment of the current state of global capital flows; countries' performance with regards to applying the institutional view; followed by a review of the institutional view towards the tail end of 2016.

Following the inclusion of China's yuan in the IMF's currency basket in 2015 (see *Observer* Winter 2016), managing director Christine Lagarde called in February for "clarity and certainty" regarding China's ongoing use of capital controls. However, instead of phasing these out, in March China's central bank announced the introduction of a 'Tobin' tax on foreign exchange transactions in order to combat currency speculation. China has also announced that as the current chair of the G20 it will resurrect discussions on CFMs and structural changes to the global financial architecture.

The IMF's 'institutional view' on capital controls is that they can serve to protect economies when capital inflows bear a systemic risk. Civil society has long criticised the IMF's stance for placing the greater regulatory burden on the shoulders of emerging economies who are taking action in response to speculative finance from advanced economies (see *Update* 81, 83). Adopted in 2012, the 'institutional view' concedes that "there is no presumption that full liberalisation is an appropriate goal for all countries at all times", but nevertheless concludes that "countries with extensive and long-standing measures to limit capital flows are likely to benefit from further liberalisation in an orderly manner." The Fund favours macroeconomic adjustment methods to bolster currencies, such as exchange rate and interest rate changes or the use of reserves, but it maintains that their use should be temporary, targeted and transparent.

tinyurl.com/IMFpolicypaperIMS

PRIVATISATION analysis

PPPs as a model for development:
An analysis of the African context

Guest analysis by Fanwell Bokosi, African Forum and Network on Debt and Development (AFRODAD), Zimbabwe

IMF and World Bank push PPPs in Africa

Private sector profit motive means poor people likely to lose out

Risks need to be minimised for PPPs to have positive impacts in Africa

Public-private partnerships (PPPs) are generally defined as a marriage between the public and private sector to deliver specific functions, with end users often paying for the services. For a private company to sign up, a PPP has to be commercially profitable. It is therefore important for governments to fully understand risks and costs associated with entering into PPP arrangements.

PPPs in Africa can ameliorate the infrastructure financing gap, estimated by the African Development Bank (AfDB) in 2014 at $50 billion annually. There has been a slowdown in the financial markets, especially investments from China, which have not been offset by additional development assistance. As a result development organisations have increasingly pushed PPPs to 'leverage' private sector investment. The IMF and World Bank are spearheading PPP projects and providing capacity building for governments, however, it remains unclear if this approach is best for Africa. According to the World Bank's Independent Evaluation Group, PPPs are now used in more than 134 developing countries, contributing about 15–20 per cent of total infrastructure investment between 2002 and 2012.

PPP challenges in Africa

Critics of PPPs among development practitioners quickly point out that the profit motive, the main driver of the private sector, is in conflict with the social contract governments have with its citizenry to provide affordable and universal services. A case in point is Brussels-based NGO Eurodad's July 2015 report *What lies beneath* that argues that PPPs are expensive and risky; have mixed development outcomes; are difficult to negotiate; suffer from poor planning and project selection; and generally lack transparency and accountability. The report concludes that PPPs should be cautiously implemented, as their results are mixed.

In Zimbabwe's metropolitan town of Chitungwiza, the local hospital established a PPP in 2012 with Baines Imaging Group, a private entity. Through this PPP the hospital now has access to ultrasound, CT scans and MRI services in return for fees paid by patients. In August 2015, a member of parliament complained in parliament that the privatisation of some of the departments within the hospital made the facility expensive and inaccessible to the poor.

A 2014 Oxfam study of PPPs in growth corridor initiatives in the agriculture sector in Ghana, Tanzania, Mozambique and Malawi noted that "the poorest people are all too often likely to lose out or be bypassed". The study also noted that mega PPPs are inherently risky in sub-Saharan African countries, where governments have low levels of government effectiveness, challenges in regulating markets, and difficulties in including the voices of the poor in policy-making.

The AfDB noted in a 2016 report that there are inadequate legal and regulatory frameworks for PPPs in Africa and that most countries lack the technical skills to manage PPPs. The report argued that since PPPs rely on the private sector, Africa needs to improve its business environment first, as African countries bear the cost of unfavourable investor perceptions. Limited local financial markets and infrastructure makes PPPs expensive for states which lack well-developed networks and easy sharing of experiences among regulatory agencies, pre-requisites for making PPPs a good way for the state to meet its citizens' needs.

Making PPPs work for Africa

For PPPs to work in Africa, the risks need to be minimised. Risks often include the lack of skills transfer when the final product is handed over to the government, exchange rate fluctuations if project returns are in local currencies only, and for long term projects, unanticipated costs risking the viability of the project.

African countries should adopt integrated policies that ensure that the debt accrued from PPPs is sustainable and transparent. They should consider the full fiscal implications of public borrowing and ascertain the true costs and benefits of PPPs over the lifetime of the project. Governments need to disclose information on performance and completion of public contracts and risk assessments, including environmental and social impact assessments. Governments should allow informed consultations, broad civil society participation and monitoring by other stakeholders. Moreover, the IMF and World Bank should include the local private sector in the value chain of mega PPPs and not crowd out local businesses. Finally, in deciding on PPPs' development outcomes, the needs of the marginalised and poor should be put ahead of the private sector's profit motives.

Fanwell Bokosi, AFRODAD, Zimbabwe
fanwell@afrodad.co.zw
www.afrodad.org

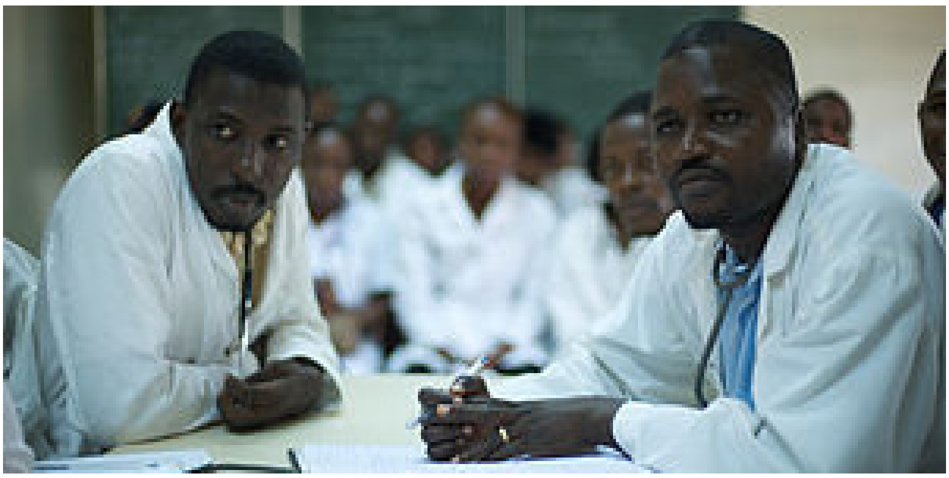


Photo: Julien Harneis

Pediatric doctors at Donka hospital, Conakry, Guinea

GENDER analysis

Gender equality at the IFIs: progress or PR?

High level panel on women's economic empowerment announced at Davos

Concerns remain on IFIs' impact on gender equality in practice

In January the UN announced a first ever high level panel (HLP) on women's economic empowerment at the World Economic Forum in Davos. Members of the panel include the leaders of the IMF and World Bank, Christine Lagarde and Jim Yong Kim respectively. The panel's role is to propose recommendations on how the Sustainable Development Goals should be implemented to achieve women's economic empowerment.

In a March article in UK newspaper *The Guardian*, civil society called on the panel to recognise structural barriers facing women, such as unpaid care and lack of decent work. The article quoted Ann Kargbo, head of Rehabilitation and Development Agency, a Sierra Leonean NGO working on gender equality, who highlighted the importance of women taking control of what they earn: "We need to know who owns the resources, who controls the resources and who makes decisions on the utilisation of resources."

The involvement in the HLP is one example of the Bank and the Fund's enhanced rhetoric in recent years on the importance of gender equality. On international women's day in March, the Bank website featured more than 73 posts showcasing its work on gender. These included Kim's twitter feed naming Lagarde as a woman that inspires him, and the International Finance Corporation (the Bank's private sector lending arm) led an initiative for trading floors around the world to ring their bells for gender equality.

The IMF celebrated international women's day by launching three new studies. Under the heading "doing it all – women boost the bottom line for home, firm and country", Lagarde explained that women need to work more "to improve the bottom line", while calling on women "not [to] be submissive" at Dubai's Global Women's Conference in February.

In February, the Bank's headquarters received an Economic Dividends for Gender Equality (EDGE) certification, a standard for gender diversity at the work place. However, the Bank attained the lowest of three possible certifications EDGE provides, meaning the Bank "makes a public commitment to a strong gender balance [at the workplace]" and "identifies the parameters of a concrete action plan to further its progress". The second level of certification requires that "the company has already implemented a framework for change and achieved significant milestones". The certification the Bank attained is not based on Bank project impacts on gender equality nor the new 2016-2023 gender strategy released late last year (see *Observer* Winter 2016).

Figures from the US-based think tank the Center for Global Development's March paper *Do the results match the rhetoric? An examination of World Bank gender projects*, raises doubts about the rhetoric. It demonstrated that out of the 1,666 Bank projects funded between 2009 and 2014, only 27, or 1.6 per cent of total projects, focused specifically on gender and contained measurable gender indicators and targets.

According to Francesca Rhodes of NGO Oxfam GB, the IMF has so far limited its gender work mostly to research, with almost no impact on institutional policy (see *Observer* Winter 2016). Rhodes concluded that women's true economic equality "will only be achieved within a broader transformation in the way economic resources are governed".

tinyurl.com/GuardianHLP

tinyurl.com/CGDpaper

IFI GOVERNANCE background

World Bank and IMF governance and decision-making

The IMF and World Bank periodically undertake reforms of the institutions' governance and decision-making arrangements. The December 2015 US Congressional approval of the IMF's proposed quota reform enabled a process that had been stalled since 2010 to proceed. The World Bank is undergoing a 'voice reform' intended to increase representation of developing countries in its decision-making structures.

This *Inside the institutions* looks at the recent and ongoing reforms, and places them in context of existing structures and processes.

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

Spring meetings coverage

Governors of the World Bank and IMF will meet in Washington DC from 15 to 17 April for the spring meetings. Key themes to be discussed include forced displacement, the migration crisis, and the World Bank shareholding review. The civil society policy forum will take place from 11 to 15 April.

A dedicated page on our website will include analysis of the communiqués, notes from meetings, background information and more.

tinyurl.com/BWPSpring2016

tinyurl.com/2016-Spring-CSO-events

BRETTON WOODS project
CRITICAL VOICES ON THE WORLD BANK AND IMF

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

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

The *Observer* is available in print, on the web, and by email.

Subscriptions
www.brettonwoodsproject.org/subs

Spanish:
www.brettonwoodsproject.org/es/observador

ISSN 2053-7522

Design by Base Eleven and printed by RAP Spiderweb on recycled paper

The Bretton Woods Project is an ActionAid-hosted project, UK registered charity no. 274467, England and Wales charity no. 274467, Scottish charity no. SC045476. This publication is supported by a network of UK NGOs, the C.S. Mott Foundation, the William and Flora Hewlett Foundation and Rockefeller Brothers Fund.