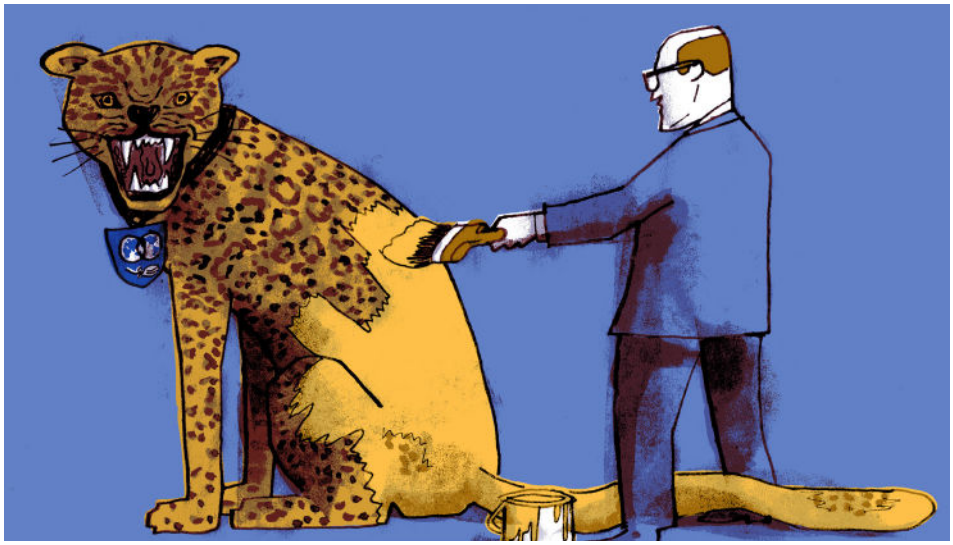
SUMMER 2016

BRETTON WOODS project

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

CONDITIONALITY analysis

Can the IMF leopard change its spots?



IMF magazine article by Fund staff questions neoliberalism, sceptical of austerity policies and financial liberalisation

CSOs cautiously welcome acknowledgement of damage neoliberal policies do to equality and development

Following mainstream media backlash, Fund cautions policy changes are 'evolution not revolution'

An article, provocatively titled *Neoliberalism: Oversold?*, written by IMF staff in June's edition of the IMF's in-house magazine, *Finance & Development's (F&D)* appeared to question orthodox macroeconomic policies long associated with the IMF. Though the authors, including Jonathan Ostry, a deputy director off the research department, argued that "there is much to cheer in the neoliberal agenda", highlighting the benefits to developing countries in particular of global trade expansion, foreign direct investment and privatisation of state-owned enterprises, they conceded that in "some" aspects neoliberalism "has not delivered". Policies questioned related to "removing restrictions on the movement of capital" across borders and "fiscal consolidation, sometimes called austerity". Focusing on these two 'neoliberal' policy areas, the authors argued that (i) growth benefits of these policies are not proven, (ii) these policies have "prominent" costs in terms of inequality and (iii) increasing inequality in turn diminishes the "level and sustainability of [economic] growth".

The article "caused a considerable stir around the world" according to a June blog by Max Lawson of international NGO Oxfam. Lawson greeted the conclusions as "very welcome" noting that activists have "consistently identified" that neoliberalism is a "leading factor behind the growing gap between rich and poor across the world" and that this has "opened the door to corruption and political capture by elites".

Neoliberalism's problem policies: austerity and liberalising financial flows

In February the IMF published a policy paper re-opening the discussion of the potential merits of the use of restrictions on the flow of finance, or capital controls (see *Observer* Spring 2016). This followed from the IMF's 2012 "institutional view" paper that conceded that in some cases the use of controls was merited (see *Update* 83). The F&D article went further still, arguing that the expected benefit of removing capital restrictions has not necessarily materialised while "costs in terms of increased economic volatility and crisis frequency seem more evident", an argument previously made by civil society (see *Update* 79). The G20 finance ministers meeting held at the IMF's spring meetings in April had encouraged the Fund to review further its "policies in dealing with capital flows", adding specifically that they "welcome plans to ... work on capital flow management".

The authors found that removing capital controls contributes to "raising the odds of a [financial] crash", concluding that the use of capital controls should be considered both "viable" and sometimes the "only" tool to use. They noted, however, that countries should only use capital controls when faced with "an unsustainable credit boom" driven

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by direct borrowing from abroad. Kevin Gallagher of Boston University remarked that this means that "on the capital account the IMF has started to put economics over ideology, which is a big step in the right direction."

The authors also examined the efficacy of encouraging countries to cut spending to reduce debt, often termed austerity, through policies such as privatisation of state-owned enterprises, shrinking the size of the state and reducing public spending. While these reforms are aimed at reducing risks from too much public debt, the authors noted there is little "guidance" from economic theory to determine the "optimal public debt" level. In fact the authors found that "austerity policies ... generate substantial welfare costs ... [and] hurt demand", thus undermining overall growth. They questioned the assumption that advocating spending cuts during a crisis could stimulate economic growth and be "expansionary" given the evidence that this leads to "drops rather than ... expansions in output" though the authors reserved their criticism of austerity for developed countries only.

No change in Fund's approach to developing countries?

The authors of an academic study titled *IMF conditionality and development policy space, 1985-2014*, summarised their findings in a June article in the *Washington Post*. They found that since 2008 "structural conditions have been a growing component of IMF programs" and concluded that "there is a mismatch between what the IMF says and what the IMF actually does" when it comes to the conditions attached to IMF lending. These are particularly evident in labour and pensions reforms in countries such as the Ivory Coast, Honduras and Moldova, where the IMF required "ceilings on the government wage bill." A June letter from health experts in the UK and Malawi, published in medical science journal *The Lancet*, condemned the IMF's imposition of a salary cap in Malawi. They demanded that the IMF "reverse its public sector wage cap edicts" so that the government can "fund salaries for newly trained doctors and other health workers" and meet the "health-related Sustainable Development Goal targets".

The self-criticism of IMF policy orthodoxy triggered a backlash, including a late May editorial by the *Financial Times* (FT) that condemned the *F&D* article's authors for indulging in "childish rhetoric". The editorial admitted to agreeing with their conclusions regarding "competition, global free trade, privatisation, foreign direct investment and sound public finances" but nevertheless considered the article to be an "insult ... to our intelligence", deriding the use of the term neoliberalism as a criticism used by "unthinking radicals who lack the skills of empirical argument".

Professor Robert Wade, of the London School of Economics, challenged the FT's conclusion in a June letter responding that "we should cheer the evidence that parts of the IMF are doing some rethinking about how best to help real countries in terrible circumstances", but cautioned that "these papers ... may have little effect in the [IMF's] operational parts." Matthew Martin, of non-profit research group Development Finance International, said that the IMF "needs to make sure that this change of policy is implemented at country level – especially by fighting inequality through social sector spending, progressive taxation and increased labour rights." A June *F&D* interview with the head of the IMF's Research Department, Maurice Obstfeld, clarified that the original article's discussion of policy represented "evolution not revolution", affirming that the IMF has "not fundamentally changed the core of our approach" and that the article's criticism of austerity policies had "been widely misinterpreted".

tinyurl.com/IMF-leopard

ENVIRONMENT news

World Bank's new Forest Action Plan questioned

Bank releases Forest Action Plan, responding to 2013 IEG review

Concerns raised about lack of impact in light of outcomes of safeguards review and new biodiversity standard

Links to Forest Carbon Partnership Facility, despite renewed civil society concerns

After several years' delay and with few opportunities for public input, the World Bank released its new Forest Action Plan (FAP) in April (see *Observer* Winter 2016, Autumn 2015). The five-year plan builds on the Bank's 2002 forest strategy, and was proposed by the Bank following a highly critical 2013 evaluation by the Bank's Independent Evaluation Group (see *Observer* Winter 2014, *Update* 84). The FAP identifies two focus areas for the Bank: sustainable forest management and forest-smart interventions in other areas. These are supported by three themes to strengthen forest-related outcomes: climate change and resilience; rights and participation; and institutions and governance.

In an April blog, Frances Seymour of US-based think tank Center for Global Development welcomed the plan, but called on the Bank to dedicate adequate funding to it: "Allocating regular budgets toward implementation of the FAP will signal that forests are central to the Bank's core agenda rather than an optional add-on." Ane Schjolden, from NGO Rainforest Foundation Norway, questioned the plan's impact: "It's hard to see how the Forest Action Plan will actually change how the World Bank relates to both forests and deforestation. Moreover, it is lagging behind commitments countries and business have made to halt deforestation, for example in the Sustainable Development Goals."

Korinna Horta of German NGO Urgewald commented that any possible progress which could result from the FAP could be "largely meaningless" in the context of the Bank's proposed new Environmental and Social Framework (ESF), intended to replace the current safeguards (see *Observer* Summer 2016). Under the draft framework the current operational policy on forests is replaced by a standard focused exclusively on biodiversity. This will remove a number of features, such as key sustainable forest management criteria, and introduce ambiguous language around issues, such as forest certification and logging (see *Observer* Winter 2016). According to Horta, the proposed biodiversity standard "will allow activities even in critical natural habitat if certain conditions are met – which they inevitably will. Only a strong mandatory standard would help provide protection to forests and people."

According to the Bank a key objective of the FAP is "to streamline interventions across the [World Bank Group] and forest-related funds", such as the Forest Carbon

Photo: Australian Government Department of Foreign Affairs and Trade

Partnership Facility (FCPF), a World Bank trust fund set up in 2008 which supports developing countries' national Reduced Emissions from Deforestation and Forest Degradation (REDD+) plans. FCPF has repeatedly been criticised by civil society for issues, such as inadequate consultation with indigenous peoples and for focusing on facilitating the sale of carbon credits instead of addressing the drivers of deforestation (see *Observer* Summer 2014, Winter 2014).

A June report by international NGO Environmental Investigation Agency analysed FCPF's Carbon Fund, set up to facilitate carbon payments for emissions reductions through REDD+ programmes. The report found "significant shortcomings in the approach and rules of the FCPF, as well as serious constraints in the ability of the FCPF to influence business as usual lending by the World Bank, or overall development strategies in client countries", adding that "opportunities to advance forest governance have been missed." It noted outstanding problems with the FCPF's approach to REDD+ which increase "the risks its programmes will not protect forests, will hurt indigenous and forest dependent people and create 'hot air' credits that do not represent sequestered carbon."

Also in June, a report by civil society coalition Rights and Resources Initiative reviewed 13 national submissions in the Carbon Fund pipeline and found that all "fell short in terms of developing concrete action plans that protect or enhance the rights of the indigenous peoples and local communities." The report noted that "the importance of secure tenure rights for effective REDD+ implementation is largely unrecognised."

tinyurl.com/Bank-Forest

GOVERNANCE news

World Bank accountability mechanisms look to improve complainant protection

In March the Inspection Panel (IPN, the World Bank's accountability mechanism) released its new *Guidelines to reduce retaliation risks and respond to retaliation during the Panel process*. In its guidelines the IPN notes that it has "experienced cases in which affected people have felt pressured during the Panel process" and that "people who come to the Inspection Panel are often poor and/or vulnerable and lack voice or influence." The guidelines focus on risk assessment, mitigation measures, such as suspending contact with complainants, and on the Panel's response to retaliation. A June 2015 report by human rights NGO Human Rights Watch documented a number of such cases, including in Uzbekistan and in India (see *Observer* Summer 2015).

In April, following the release of the IPN guidelines, the Compliance Advisor Ombudsman (CAO), the accountability mechanism for the International Finance Corporation and Multilateral Investment Guarantee Agency (the World Bank's private sector arms), initiated a process of consultation on their approach to complainant protection. As part of its consultation process, the CAO released a draft document for stakeholder feedback. The public consultation period has been extended to 15 July.

The release of both documents takes place within the context of the shrinking of civil society space globally and increased violence against human rights defenders (see *Observer* Spring 2016), a trend that has been recognised by the UN High Commissioner for Human Rights. Writing for UK newspaper the *Guardian* in June, in the wake of recent assassinations of environmental defenders, three UN special rapporteurs on human rights called on international financial institutions to "explicitly tie their continuing support for development projects to the implementation of safeguards for human rights, including rights of freedom of expression and association."

In June, echoing concerns about the safety of human and environmental rights defenders, over 130 international civil society organisations, including Khpal Kore Organization (KKO) from Pakistan and Proyecto Tarahumara Sustentable from Mexico, called "on all international financial institutions to ensure that the activities they finance respect human rights and that there are spaces for people to participate in the development of IFI projects and hold IFIs to account without risking their security."

tinyurl.com/Bank-complainant

GENDER background

The IMF and gender equality: A critical analysis

The Bretton Woods Project has published a new briefing providing a critical analysis of the IMF's latest work on gender equality. The briefing questions the sustainability of the Fund's new approach to gender equality and reveals that the Fund's analysis so far is limited and inconsistent with the full achievement of women's economic empowerment.

For full article, see:
tinyurl.com/IMF-Gender

SOCIAL SERVICES news

IFC pushed private education investment model criticised by UN

UN criticises development funding for private schools for increasing inequality, decreasing access to education

UN rights body criticism of UK aid model also applies to IFC's investment in private education

Liberia outsourcing education to IFC-financed Bridge Academy International

Photo: Frederic Courbet for NPR

Students run across the yard of the Bridge International Academy in the Nairobi slum of Mukuru kwa Njenga

A mid-June UN Committee on Economic, Social and Cultural Rights (CESCR) report criticised the UK's use of development finance for "the privatisation of education in some developing countries", and asserted that this has undermined "the equality of education [in those countries] because [private schools] promoted segregation and undermined the power of local governments" as well as having "a negative effect on access to primary education". The UN criticism has implications for investments made by the International Financial Corporation (IFC, the World Bank's private sector arm) and the UK's Department for International Development (DfID), who have invested in the commercial and much criticised chain of low-cost schools, Bridge International Academies (BIA), a US-based for-profit chain of schools which sells standardised education to people in Kenya, Nigeria, and Uganda (see *Observer* Summer 2015). The IFC has a $10 million equity investment in BIA for activities in Kenya and to support its expansion to more countries in Africa and in India.

In April last year Bank president Jim Yong Kim backed the approach taken by private education providers, such as BIA, provoking considerable civil society criticism (see *Observer* Summer 2015). According to the IFC's private education brief, it holds "an active portfolio of education projects worth about $720 million, in over 25 countries, including some of the world's poorest." The brief added that the "IFC's engagement in private education is part of the World Bank Group's effort to promote effective education systems in emerging markets". David Archer from UK NGO ActionAid commented on IFC's funding model for private education: "This financing structure helps the World Bank and UK government deny their direct involvement." He continued "when we challenge the Bank about their involvement in low-fee private schools, they say 'it's not us, it's IFC' – but how can we meaningfully hold IFC to account? By this mechanism Jim Kim can have his cake and eat it (pretend to agree to the importance of public education whilst financing privatisation) and we should challenge that."

In an early June report, the UN Committee on the Rights of the Child (CRC) criticised the impact of development finance investments into private education, indirectly critiquing the World Bank's role in pushing this model of financing, expressing concerns about the UK's funding of "low-fee, private and informal schools run by for-profit business enterprises in recipient states." The report stated that a "rapid increase in the number of such schools may contribute to sub-standard education, less investment in free and quality public schools, and deepened inequalities ... leaving behind children who cannot afford even low-fee schools". The CRC recommended that "international development cooperation [should] support the recipient states in guaranteeing the right to free compulsory primary education for all, by prioritising free and quality primary education in public schools" and "refraining from funding for-profit private schools".

Despite concerns, BIA has been expanding in Africa and is the main contender for an education public-private partnership (PPP) in Liberia. Announced in January, the "Partnership schools for Liberia" programme aims to entirely outsource the pre-primary and primary school system and design of curriculum material to private for-profit commercial companies, with BIA piloting the programme in 50 public schools in 2016 expected to cost between $10-13 million. According to a March article in *Mail & Guardian Africa*, phase two of the programme could have the company contracted to roll out implementation over five years with the estimated at $65 million.

In March the UN Special Rapporteur on the right to education, Kishore Singh, called the proposal "completely unacceptable" and stressed that the "provision of public education of good quality is a core function of the state. Abandoning this to the commercial benefit of a private company constitutes a gross violation of the right to education." He further noted that "it is ironic that Liberia does not have resources to meet its core obligations to provide a free primary education to every child, but it can find huge sums of money to subcontract a private company to do so on its behalf" and concluded that "these sums could be much better spent on improving the existing system of public education and supporting the educational needs of the poor and marginalised."

tinyurl.com/IFC-UN

RIGHTS commentary

Lessons from Kenya: Why the World Bank must apply the Indigenous Peoples Policy consistently

by Jackson Shaa, member of Narasha Community Development Group, Kenya, and Annabel Perreras, International Accountability Project

In 2010, the World Bank approved a $330 million loan for the *Kenya Electricity Expansion Program*, to increase the capacity of electricity supply and access to electricity in Kenya. The programme, co-financed by the European Investment Bank (EIB), included expansion of existing geothermal production as well as new construction of a 140 megawatt power station—Olkaria IV. In a January statement during the Powering Africa Summit, the Narasha Community Development Group expressed concerns that over 1,000, mostly indigenous Maasai people, were directly affected and an estimated 2,000 people indirectly affected by the programme in the Greater Olkaria Geothermal Area.

The resettlement process associated with the programme's geothermal power generating component, implemented by the Kenya Electricity Generating Company Ltd. (KenGen), has been beset by problems. In 2014 members and representatives of a Maasai community filed a complaint with the World Bank's accountability mechanism, the Inspection Panel (IPN). It included concerns that the project affected persons had only agreed to relocate provided they receive the collective title to the land before resettling, however, this has not happened. In addition, the community's land was reduced from 4,200 to 1,700 hectares in the resettlement, and 14 families have still not received housing. Moreover, despite that keeping of livestock serves as an integral component not only of the Maasai economy but also of their identity, the land chosen is not suitable for grazing and no viable alternatives for the resettlement site have been offered.

In its July 2015 investigation report, the IPN found that despite the fact that the Maasai communities fit the requirements necessary to trigger the World Bank's Indigenous Peoples Policy, the Bank did not apply the policy because the Maasai are pastoralists. When indigenous peoples are present in or have collective attachment to a World Bank project area, the policy must be applied and certain protections put in place, including the development of an Indigenous Peoples Plan, recognition of traditional land tenure and provisions for benefit sharing. The policy provides that projects must not proceed without first securing "broad community support" from the indigenous peoples.

The IPN concluded that the Bank's failure to apply the policy "was the root cause of the ensuing shortcomings in the protections and benefits afforded to the [project affected persons] community." These included the fact that consultations did not engage the Maasai elders or utilise the Maa language. As a result, the resettlement was culturally incompatible and there was no arrangement for the community to share in the benefits of the development of their resources. Furthermore, incomes and livelihoods of the resettled persons were not restored, as required by the Bank's policy on involuntary resettlement. In response to the IPN report, the World Bank argued that it had been "focused on identifying hunter/gatherer groups as indigenous people", rather than pastoralists, such as the Maasai, however, it conceded that the Indigenous Peoples Policy should have been applied.

Where is the World Bank's responsibility?

In October 2015 a mediation process was initiated by the European Investment Bank's Complaints Mechanism (EIB – CM) between the requesters and KenGen. The World Bank is participating as a co-facilitator in the process through its Grievance Redress Service (GRS), with the aim to agree on actions that are not only limited to the findings of the IPN report. The demands of the community now rest on the outcome of the mediation process and the World Bank and EIB's ongoing supervision of the project. The World Bank management is required to return to the Board by October 2016 to present the results of the mediation process and an Action Plan for board approval. The Maasai community now waits for the outcomes of these proceedings, particularly as regards their recourse on their right of land ownership as evidenced by a communal title.

Worryingly, pending the mediation, in mid-June 2016 the World Bank approved additional financing of $68 million to cover cost overruns for the project and to finance a feasibility study for a new geothermal operation, Olkaria VII. According to project documents, the Bank is not triggering the Indigenous Peoples Policy to this financing.

The implications of this case are not only relevant to Kenya. As the World Bank is finalising its new Environmental and Social Framework (ESF, see *Observer* Summer 2016), replacing the current safeguards, it needs to ensure that it has the strongest indigenous peoples and resettlement safeguards possible, that uphold the rights of indigenous communities like the Maasai. Since the World Bank opted not to consider

Photo: American Jewish World Service

Broken water pipes at resettlement area

the Maasai as indigenous peoples, there was no meaningful consultation, their rights were not respected and free, prior, and informed consent (FPIC) was not obtained. The Narasha Community Development Group therefore urges that FPIC should be required as part of the new ESF so that the affected community can understand the impacts of the projects, participate in the addressing of these impacts or be allowed to refuse to consent to it.

A resolution must be found to the community's concerns, and the Indigenous Peoples Policy must be applied in this project and in any future financing. The Maasai face the denial of individual human rights from the right of representation, to decision—making and ownership of our own land. Without recognition of the Maasai's existence as indigenous peoples, their rights and way of life will continue to be undermined.

tinyurl.com/Bank-Kenya

FINANCE news

Third time a charm? Fund pressured into possible return to Greece

Eurozone countries agree to a $11.4 billion loan package to Greece in May

IMF reiterates concerns about sustainability of Greek debt and insists on significant debt relief before joining any programme

Under pressure Fund accepts major concessions; final decision is pending a renewed debt sustainability analysis

Photo: Yorgos Karahalis/AP

The EU flag flies in front of the Parthenon in Athens

In May Greece reached an agreement with its Eurozone creditors on a new $11.4 billion loan package that will enable it to meet its debt payment obligations in July. While the IMF participated in the meetings that led to the agreement, it has not yet committed its resources to the package and its participation remains contingent on its analysis of the sustainability of Greece's debt (see *Observer*, Winter 2016).

The relationship between Eurozone countries, and Germany in particular, with the IMF has been difficult (see *Observer*, Autumn 2013). Germany, which requires the Fund's continued involvement in the Greek programme in order to avoid having to return to its parliament for approval of the latest loan, has strongly opposed any debt forgiveness for Greece. The Fund on the other hand has argued that Greek debt levels are unsustainable, and that future Fund involvement would require, in the words of the IMF managing director Christine Lagarde, "significant debt relief from Greece's European partners to ensure that debt is on a sustainable downward trajectory".

Ahead of the May eurozone finance ministers meeting, in which the package of loans was agreed, a leaked IMF debt sustainability summary note of Greece's debt position forecasted that, in the absence of debt relief, the country's debt to GDP ratio would hit 294 per cent by 2060. Greece's debt burden would in that case be unsustainable and the IMF would not be in a position to lend.

Founder of the *Eurointelligence* website Wolfgang Münchau, writing for the *Financial Times* in May, commented that the IMF "wants to come clean now" and that an official told him that the Fund "wants to regain its lost virginity". However, he also acknowledged that while "IMF staff are steadfast in their opposition to being involved in a bailout without an agreement on debt relief ... the policies are not determined by the staff but by the IMF shareholders [member countries]."

The pressure from the Fund's principal shareholders (see *Observer*, Summer 2015 and Winter 2016) is not new. According to a February 2015 Project Syndicate blog by Alberto Bagnai, University of Sapienza, Italy, "Initially, the IMF took the official position that Greek debt was sustainable. But IMF staff knew otherwise. In 2013, the Fund admitted that its analysts knew that Greece's debt was not sustainable, but decided to go ahead with the programme 'because of the fear that spillovers from Greece would threaten the euro area and the global economy.'"

In May, IMF's European Department Director Poul Thomsen told news agency Bloomberg: "the IMF have made a major concession — and I might as well be open about that – we had argued that these debt-relief measures should be approved up front and we have agreed that they will be approved at the end of the programme". In June the *Financial Times* reported that Lagarde, commenting on the new loan package, stressed that the IMF does "not have a programme with Greece. The IMF is engaged and was very well represented at the May meeting during which lots of discussions took place". The Fund has yet to commit any of its resources to the programme and will only do so after concluding its own debt sustainability analysis, which is expected by the end of the year.

The details of, and rationale for, the Fund's participation in the current package will be closely watched, particularly by shareholders from emerging markets, which have been opposed to continued IMF involvement in the Greece in the absence of a credible debt sustainability analysis (see *Observer*, Winter 2016).

tinyurl.com/IMF-Greece

RIGHTS news

Renewed warnings over World Bank safeguards "dilution"

Proposed new Bank safeguards framework criticised by Inspection Panel, US senators

CSOs call for early disclosure of final draft

Indigenous peoples safeguards policy waiver for Tanzania project causes concerns

The World Bank's safeguards review and the proposed new Environmental and Social Framework (ESF) continue to cause concern, after the public consultation period closed in March (see *Observer* Spring 2016, Winter 2016). In mid-April the Bank's accountability mechanism, the Inspection Panel (IPN), reiterated calls for "no dilution of the safeguards", stressing that "Panel cases have shown over and again that the protections afforded by the safeguard policies are not only real but also necessary to avoid or mitigate harm to people and the environment." Moreover, it emphasised that the root cause of many IPN cases was "not with the policy provisions themselves, but rather with their implementation". The IPN further sought clarification on how it could meaningfully investigate the Bank under the proposed framework given "the special nature of the risks that will emerge with the more extensive use of borrower frameworks that might lead to keeping the Bank at arm's length in supervising projects", noting that the IPN "does not investigate client countries."

Moreover, a mid-May letter to the US Treasury from four US senators highlighted "several concerning provisions" in the second draft of the ESF, including "the reversal of the current ban on the destruction of critical habitats, protected areas and nature reserves". The senators linked the "dilutions" of the safeguards to "the elimination of clear and mandatory time-bound requirements, vagueness about what safeguards will be applied to each project and when, and unclear requirements for projects classified at a level of 'substantial risk'." Furthermore, while the senators welcomed the mention of human rights in the ESF vision statement, they raised concerns that "the statement is non-binding, unenforceable, and falls short of a commitment to respect human rights."

A late May letter to the Bank, signed by almost 70 civil society organisations including the Uganda Land Alliance and Birdlife International, emphasised that "the new safeguard policy will have enormous implications for human rights and environmental integrity in Bank-sponsored development." They requested that the final draft of the ESF be made public at the same time that it goes to the Board for review, stating: "The World Bank would be remiss in making this final process closed when it has repeatedly committed to open engagement during the review."

Further controversy arose after the World Bank board in March approved a waiver to the indigenous peoples safeguards policy (OP 4.10) for a project in Tanzania, despite the US abstaining from the decision. In its statement to the Board, the US argued that it has repeatedly requested that any waiver of the policy "should demonstrate how the World Bank and the borrower would provide affected communities with the same level of protection", but noted that "the justification for the waiver is limited to a few sentences in the project appraisal document that assert that application of OP 4.10 is inconsistent with the Tanzanian constitution. The United States finds this argument unconvincing".

The approval raised concerns that the decision represents a *de facto* reversal of the Bank's decision to abandon the much disputed 'opt-out' clause for the Indigenous Peoples Policy, which was introduced in an earlier version of the ESF (see *Observer* Winter 2015, Autumn 2014). Commenting in June to the International Consortium of Investigative Journalists, Nadia Daar of NGO Oxfam International cautioned: "It seems like a back door opt-out clause. There needs to be much greater clarity on when the waiver policy can be applied." Edward Porokwa, a human rights advocate in Tanzania, added: "It feels like they are giving a go-ahead for Tanzania to continue violating the rights of the people".

tinyurl.com/Bank-dilution

Photo: International Accountability Project

Protest during the World Bank spring meetings, April 2016

FINANCE analysis

Public-private partnerships: The global debt iceberg?

Guest analysis by Tim Jones, Jubilee Debt Campaign

Research suggests PPPs are the most expensive way for governments to invest in infrastructure

PPPs are more expensive because private sector borrowing costs more, private contractors demand a significant profit

PPP contracts often do not allow the public to see the full terms, including contracted costs and liabilities

According to the World Bank public-private partnerships (PPPs), a catch-all term used widely to indicate investments involving both the public and private sectors, are now responsible for 15-20 per cent of infrastructure investment in developing countries.

PPPs are usually contracts where the public sector provides guarantees to the private sector, often meaning that the private sector can make profits whilst risk remains with the public. Many of these guarantees create real costs for the public sector from the start of the contract, such as agreeing to pay a certain annual amount for a hospital. Other costs will be contingent liabilities, where the government guarantees payments if revenues do not meet a certain level, for instance by a government topping up payments to an electricity producer if revenues have not met the contracted amount or if a debt is defaulted on.

The UK government was one of the trailblazers for a form of PPP where the private sector undertakes an investment in major infrastructure, such as schools or hospitals, and the government guarantees payments for its use for several decades. These forms of PPPs have the same financial impact as a government borrowing directly, but the payment obligations are not included in the state's debt figures. This enables debt payments to be hidden from the public view.

The cost to a government of using PPPs to invest is usually higher than if it had simply borrowed the money itself. This is because private sector borrowing costs more, private contractors demand a significant profit, and negotiations are normally weighted in the private sector's favour, particularly when government familiarity with and capacity to develop favourable PPP contracts are weak, as is often the case in developing countries. A 2015 study by the World Bank's Independent Evaluation Group found that of 442 World Bank-supported PPPs, no more than three per cent were assessed for their fiscal impact on the country involved.

Research commissioned by the European Parliament in 2014 suggests that PPPs are the most expensive way for governments to invest in infrastructure, ultimately costing more than double financing made through bank loans or bond issuance. According to research by Maximilien Queyranne from the IMF Fiscal Affairs Department, the fiscal risks of PPPs are "potentially large" because they can be used to "move spending off budget and bypass spending controls" and "move debt off balance sheet and create contingent and future liabilities".

This is the case even in a high-capacity country such as the UK where between 1990 and 2013, $78 billion of capital investment took place. Based on average interest rates over the time period, it would have cost the UK government $140 billion to borrow the $78 billion, but instead it committed to re-paying $420 billion over the lifetime of the PPP contracts, an additional $280 billion. In addition to the hidden debt liabilities, PPPs in developing countries usually suffer from lack of transparency. There is no public release of information of the terms imposed by PPP contracts. Governments, private companies and multilateral institutions can hide behind the vagueness of the term 'PPP', pretending that an investment is somehow cheaper because the private sector is involved, hiding the actual cost to the government. Moreover, the IMF and World Bank's current Debt Sustainability Framework takes no account of the cost of PPPs. This makes use of PPPs more favourable as it allows the debt assessments to be bypassed, even though a PPP is likely to be more expensive. It also leaves the public unaware of the true financial risks facing governments.

Regardless of who invests, infrastructure has to be paid for whether through user charges or government spending. PPPs should only go ahead if they have been publicly shown to be the cheapest and most efficient way of providing infrastructure or services of the required quality, in line with meeting basic needs of the population and human rights obligations of the state. They should never be pushed through as part of explicit or implicit conditions, for instance through funding mechanisms which require that the money must be solely used for PPPs. And there should be the same transparency of all costs and liabilities as would be expected if a project were funded by direct government borrowing.

tinyurl.com/debt-iceberg

Campaigners warn of 'debt iceberg' at Africa private finance summit, London, November 2015

GOVERNANCE analysis

World Bank results: "box-ticking" on gender, weak monitoring and evaluation

IEG report finds that Bank's monitoring and evaluation systems face significant problems that cannot be quickly resolved

Report finds that Bank's tick-box approach to gender integration did not lead to meaningful and substantial integration

IDA 18 documents highlight effective monitoring and evaluation systems, gender is one of the key themes

In April the World Bank Group's Independent Evaluation Group (IEG) released its 2015 *Results and performance of the World Bank Group* (RAP) report, highlighting significant concerns about the effectiveness of the Bank's approach to gender and other aspects of its operations, including the persistent inadequacies of its monitoring and evaluations (M&E) systems. The findings are of particular significance as they coincide with the rise in Bank lending resulting from slow global growth (see *Observer* Winter 2016). As noted by the World Bank in April, due to "strong economic headwinds, demand for lending from the World Bank has risen to levels never seen outside a financial crisis".

While "management generally agreed with IEG's M&E recommendations", the reasons most often cited by management for their "sluggish" implementation referred to challenges that are unlikely to be easily resolved such as "issues with data collection, the methodologies for assessing project impacts and developing outcomes, and the time taken for outcomes to materialise."

The report's concerns about the Bank's inability to accurately evaluate the results of its projects and programmes echo the findings of the IEG's 2015 *Learning and results in World Bank operations* report, which stressed the difficulty in determining that Bank activities had led to the results it claims, stating that "in the majority of cases [reviewed] the outcome … could have been due to the Bank supported intervention, unrelated to it, or may have happened in spite of the Bank intervention."

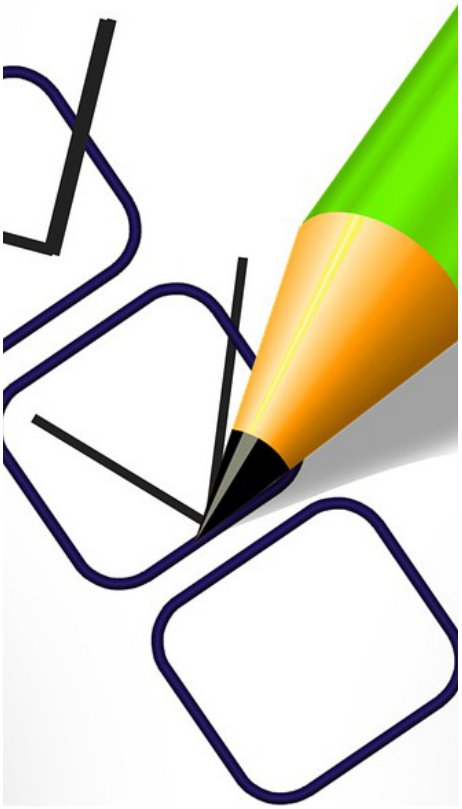
The launch of the RAP 2015 report took place within the context of the on-going 18th replenishment round for the International Development Association (IDA), the World Bank's fund for the poorest countries (see *Observer* Winter 2014). As the Bank seeks support from member states to replenish IDA resources, questions about the efficacy of its M&E systems are particularly pertinent given claims in IDA 18 documents that "IDA's long-standing focus on monitoring, measuring and achieving results is now embedded systematically into IDA operations and applies even in the most complex circumstances." The latest RAP report findings on the Bank's capacity to effectively integrate gender into its operations also has implications for the IDA replenishment process, as gender is one of IDA 18's themes. The report's findings on the integration of gender into Bank operations also follow the recent release of the World Bank's new gender strategy (see *Observer*, Autumn 2015).

Gender – meaningful integration or box-ticking?

While the 2015 RAP credited the World Bank Group with significant and steady progress since the launch of its gender strategy in 2001, noting the increased number of projects "addressing gender issues at entry", it nonetheless raised significant concerns about the effectiveness of the Bank's integration of gender within its operations and, in line with the findings of its 2015 *Learning and results* report, questioned whether the Bank is able to "effectively document results achieved in addressing gender issues in client countries."

The RAP noted that: "progress on gender integration at entry was not matched by similar attention to quality and depth, both in solidity of the approach and measurement of results" and that "results frameworks in country strategies mostly focus on outputs instead of outcomes; weak links exist between designed interventions and outcomes; and monitoring indicators to track outcomes are often missing." The report's finding on the integration of gender issues echoes concerns raised in the 2014 RAP, which found that "weak results chains make it difficult to assess whether the proposed Bank Group programme could actually deliver on the proposed objectives."

The 2015 RAP concluded that the mixed results achieved in the integration of gender were due in part to a "mechanical approach (box-ticking)" that did not result in "meaningful and substantial integration." The report noted that similar problems where found in its evaluation of



the implementation of the 2010 gender strategy, in which staff cited "an excessively process-oriented approach that often translates into lipservice and a bean-counting rather than substantial integration; lack of resources … [and] the risk that gender may be a 'passing phase' in the institution" as key obstacles.

The report also criticised the Bank for its selection of indicators noting that"almost half of the gender indicators in the 58 country strategies reviewed where either education or reproductive and maternal health indicators … indicators often measured access or coverage, and quality more rarely." The report further noted that missing in the consistently measured indicators are "gender dimensions of employment and entrepreneurship, or of agricultural and rural development" and that "indicators of voice and agency" were essentially absent.

tinyurl.com/Bank-box-ticking

SOCIAL SERVICES news

US Congresswoman criticises World Bank investments in water privatisation

In April US Congresswoman Gwen Moore, ranking member of a subcommittee overseeing World Bank activities, wrote a letter to the Bank's president Jim Yong Kim voicing concerns about "water resource privatisation in developing countries". In the letter Moore raised doubts over whether "the current ring-fencing policies separating the investment and advising functions of the IFC [International Finance Corporation, the World Bank's private sector lending arm] are adequate". She criticised a potential conflict of interests between the Bank's promotion of water privatisation policies in the Philippines, and the IFC's lending to a private company that benefitted from this process (see *Bulletin* Dec 13). Moore urged that the Bank Group "cease promoting and funding privatisation of water resources, including so-called 'public-private partnerships' (PPPs) in the water sector, until there has been a robust outside evaluation of the IFC's conflicts policy and practices and an opportunity for additional congressional hearings on the subject."

Moore reported that in response to her letter, the IFC sent a letter and Bank officials met with members of her team. Commenting to news agency Associated Press an IFC spokesperson declared that the World Bank Group "takes real or perceived conflicts of interests very seriously", and argued that the IFC's role in advising the privatisation deal in the Philippines was completed several years before it invested in the private water company .

Commenting on Moore's letter in the *Huffington Post*, Shayda Naficy of US-based NGO Corporate Accountability International, said: "The World Bank is stacking the deck, dealing the cards and placing all the bets, putting profits above human need. For years it has ignored the concerns of those most affected by this blind pursuit, but with Congress asking questions, it can no longer pursue this path with impunity."

tinyurl.com/Bank-Congress-Water

FINANCE news

CSOs call on World Bank and Fund to transform Debt Sustainability Framework

In June a group of 35 NGOs from around the world submitted a joint position to the World Bank and IMF as they review their Debt Sustainability Framework (DSF). The DSF establishes the process for how Debt Sustainability Assessments (DSAs) are conducted for countries which are permitted to borrow at concessional terms from the Bank or Fund. This includes all low income countries as well as some middle income countries.

The submission, with signatories including international networks such as the African Forum and Network on Debt and Development (AFRODAD), and national groups such as Caritas Honduras, sets out 10 recommendations for the DSF review. Demands include that future assessments are carried out independently and that the sustainability of debts be assessed by considering basic needs of states as set out by the Sustainable Development Goals, rather than just by the ability to pay. Furthermore, the submission calls for the DSF to support productive investment in states even if it incurs more debt in the short term, as long as the investment will feasibly "be shown [to] improve the debt situation through the government revenue it generates, with positive impacts on reducing poverty and inequality", in contrast to the current DSF approach which makes no such distinction.

An additional recommendation of the submission is that the DSF "include currently hidden liabilities", in particular because of the prevalence of public-private partnerships (PPPs), frequently backed by the Bank and Fund, which governments can use to hide PPP-related debt costs that are more expensive than direct borrowing (see *Observer* Summer 2016, Spring 2016). The submission further calls for the DSF to make the ratio of debt service obligations to government revenue the most important indicator it use; to include domestic debt but maintain distinction with external debt; to conduct more work on external private debt; review existing stress test approaches; and to include all countries in the DSF because "debt crises can arise in any country, no matter what their income level."

Tirivangani Mutazu of AFRODAD commented that "DSAs must tackle over-indebtedness of all deserving countries ... including middle income countries in Africa, such as Kenya, Nigeria, South Africa. Debt sustainability calculations should be done with serious consideration for the costs of meeting the new Sustainable Development Goals. Debt sustainability must also be based on the welfare and development needs of a country."

tinyurl.com/Bank-Fund-CSO

INFRASTRUCTURE analysis

World Bank set to finance criticised mega gas pipeline from Azerbaijan to Europe

Guest analysis by Xavier Sol, Counter Balance

World Bank set to fund Azerbaijan and Turkey part of Southern Gas Corridor to Europe

Concerns raised over significant risks due to geopolitical context, fossil fuel dependency

Defined as "the biggest infrastructure project of our times" by the European Commission and a priority for the European Union, the Southern Gas Corridor was always going to attract the attention of the World Bank. As part of Turkey's Country Partnership Strategy (CPS), the Bank has announced its intention to finance the project through a double loan to Azerbaijan and Turkey. In addition, in June the World Bank's Azerbaijan office announced possible loan guarantees for the construction of the Trans-Anatolian section of the corridor (TANAP) through the Bank's Multilateral Investment Guarantee Agency.

Tapping gas from the Shaz Deniz II field in Azerbaijan, TANAP stretches for 1,820 km from Georgia to Greece and will cross Turkey. TANAP is expected to bring 16 billion cubic metres of gas per year to Turkey by 2018, subsequently increasing capacity with the construction of the western section of the Southern Gas Corridor, running to Italy through Greece and Albania.

The Southern Gas Corridor is a priority for the European institutions as part of their Energy Union strategy to secure alternatives to gas imports from Russia. According to press reports by Reuters, the World Bank loans – scheduled for approval in 2017 – would amount to $500 million for Azerbaijan and $1 billion for Turkey and would help cover the overall $45 billion project cost. Other funders include the European Investment Bank. The World Bank's principal proposed development objective is the enhancement of Azerbaijan's gas exports up to three times the current volumes and the improvement of "the security and diversity of Turkey's and Europe's energy supply."

The wide range of risks and consequences associated with the construction of this megapipeline has provoked a heated debate. Concerned about the support that such a controversial project has received from public international financial institutions, civil society across Europe has mobilised to raise awareness among citizens and decision makers about the project's environmental and geopolitical implications and to prevent its funding, arguing that the project contradicts with the climate goals that the World Bank and the European public banks committed to in Paris last December. By considering financing the Southern Gas Corridor, yet another mega fossil fuel project, the World Bank is contradicting its commitment to integrate climate risks and opportunities into all of its development work and is disregarding the agreed upon urgency to shift to a different energy model based on renewables and energy efficiency. Furthermore, it means that the Bank is ignoring calls by the scientific community to leave the majority of remaining fossil fuels reserves in the ground. As the world's leading development finance institution and self-professed advocate of environmental sustainability, it should set an example and stop supporting such emblematic fossil fuel projects.

The geopolitical context surrounding the Southern Gas Corridor is just as worrisome. Neither the autocratic regime of Ilham Aliyev in Azerbaijan nor the increasingly repressive rule of Recep Tayyip Erdoan in Turkey are ideal partners for such an enormous project. Ilham Aliyev, who has ruled the country for decades, has attracted international attention following a severe crackdown on dissent in 2014 that resulted in mass jailings of journalists, intellectuals, human rights activists and lawyers. The unacceptable human rights situation in Azerbaijan has been repeatedly denounced by governments and media worldwide. This led to offical warnings by the European Parliament, the Organisation for Cooperation and Security in Europe and the Council of Europe throughout autumn 2015, all overtly discouraging Europe from directly financing the regime, let alone sealing a historic business deal worth billions of dollars.

Moreover, this project would not bring major development improvements to Azerbaijan. Heavily dependent on fossil fuel exports, the Azeri economy has recently faced a deep crisis due to the fall in oil prices which led to the devaluation of the national currency. Instead of diversifying the sources of revenue in Azerbaijan and promoting its sustainable development, the Southern Gas Corridor would exacerbate this dependence, consolidating the hold of the existing ruling elite while bringing little or no benefit to the Azeri people.

The World Bank can also not turn a blind eye to the current situation in Turkey. While Erdoan's control of the press increasingly limits citizens' freedom of speech and opinion, the pipeline would cross Kurdish regions that are currently affected by an escalation of violence following the breakdown of peace talks in July 2015.

Civil society organisations have highlighted these concerns and challenged the public financing of the Southern Gas Corridor. It is concerning that the World Bank risks ruining its reputation for a project that will contravene the Bank's safeguard standards, while harming the environment and supporting controversial regimes. If the Bank does not want to bear this responsibility, it should not be part of the Southern Gas Corridor deal.

tinyurl.com/Bank-Azerbaijan

RIGHTS news

Calls for the World Bank to suspend funding to Honduras amid continued human rights concerns

In an April speech addressing the issue of environmental and human rights abuses and displacements resulting from large dam projects, World Bank president Jim Yong Kim stated "[y]ou cannot do the kind of work we are trying to do and not have some of these incidents happen".

Over 300 civil society organisations (CSOs) and individuals responded with a letter to Bank President Kim in mid-May, rejecting his statement and calling for an apology. They criticised Kim's statements regarding the situation in Honduras and the recent killing of Berta Caceres, an indigenous rights leader of the Civic Council of Popular and Indigenous Organizations of Honduras (COPINH) (see *Observer* Spring 2016). The World Bank published a "fact sheet" to "set the record straight" regarding Kim's intervention, however five of the CSO signatories responded in a public letter that his statement is "subject to different interpretations" and noted that several other issues raised in the letter were not addressed.

In a separate late-May letter to Kim, Honduran social movements and indigenous peoples organisations, including COPINH, argued that his statements "justify serious violations and demonstrate a fundamental contradiction with the World Bank mandate … it is not possible to do the work you are mandated to do when crimes like this happen." They called on the Bank to "suspend financing to Honduras", arguing that; "While the government of Honduras every day commits injustices … the World Bank continues to finance investments that lead to the militarization of the country, destruction the environment, disenfranchisement, displacement, violence, poverty and death in the most vulnerable communities.'

In a May blog on Business & Human Rights Resource Centre Natalie Bridgeman Fields and Siddharth Mohansingh Akali, from Accountability Counsel noted that "Rights abuses are often a choice to contravene the Bank's own environmental and social safeguard policies and accountability frameworks. President Kim's statements appear to condone this false choice between rights and development".

tinyurl.com/Bank-Honduras

FINANCE news

World Bank and AIIB sign joint co-financing agreement

In mid-April, during the World Bank and IMF spring meetings, the Asian Infrastructure Investment Bank (AIIB, see *Observer* Summer 2014, Spring 2016) and the Bank signed a joint co-financing framework agreement. According to the World Bank, the agreement "paves the way for the two institutions to jointly develop projects this year." The Bank is expected to prepare and supervise all projects in accordance with its policies and procedures, while the AIIB is expected to approve $1.2 billion in financing. Nearly a dozen co-financed projects are under discussion, including in the water, transport and energy sectors in Central, East and South Asia. The first project, a national slum upgrading project in Indonesia, was approved by the AIIB board in late June with the AIIB and the World Bank each contributing $216.50 million towards the total project costs.

During an April event at the Asia Society Policy Institute in Washington DC, AIIB president Jin Liqun commented that there is "vast room for cooperation" between the AIIB and the World Bank. Moreover, he emphasised that the AIIB "is the product of so many experts with years of experience working at other institutions", including at the World Bank. This includes former Bank staffer Joachim von Amsberg, who was appointed as one of five AIIB vice presidents in February. Amsberg worked at the Bank from 1993, including as country economist for poverty strategies in Brazil, country director for the Philippines and Indonesia, and most recently vice president of development finance.

tinyurl.com/Bank-AIIB

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