

# BRETTON WOODS observer

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

INFRASTRUCTURE analysis

## Behind the fumes: the dirty truth behind the World Bank's commitments on climate change



### IFC investments in FIs supported at least 41 coal power plants since 2013

Investments contravene 2013 Bank policy on coal, contribute to climate change and deforestation

Lack of disclosure on FI sub-projects continues to deprive communities access to grievance mechanism

The negative development impact of the International Finance Corporation's (IFC, the World Bank's private sector arm) investments in financial intermediaries (FIs) has once again been brought to light (see *Observer* Spring 2014). An October 2016 report, *Disaster for us and the planet*, by US-based NGO Inclusive Development International (IDI) and partners, provided evidence that "IFC-supported financial institutions have funded at least 41 new coal projects ... since the World Bank announced its coal ban in 2013". While the IFC has claimed that the concerns of civil society organisations have largely been addressed through its response to previously highlighted harmful projects that

it funds, the report demonstrates that the IFC remains exposed to highly damaging projects.

The report highlighted the IFC's involvement in the Mahan plant in India, where it provided millions of dollars in funding to two banks, IDFC and ICICI, which are "major players in India's infrastructure and industrial sectors". It noted that "in total, these two IFC-supported banks helped provide approximately \$1.9 billion in financing to build the Mahan coal plant". The report also disclosed that "the IFC's support for the project did not end there" as it enabled the development of a nearby mine which Greenpeace found "would displace or otherwise harm 50,000 people who lived in the forest or depended on it for their livelihoods".

The report also detailed IFC's involvement in Rampal in Bangladesh, which it calls "one of the most potentially destructive coal plants in the world". The plant sits very close to the world's largest mangrove, which supports the lives of two million people in India and Bangladesh, is a UNESCO World Heritage site and home to numerous endangered and threatened species. The report stressed that

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"the World Bank was initially approached to fund Rampal. However, the Bank declined ... Three French banks, Credit Agricole, BNP Paribas and Societe Generale, were also approached but refused to get involved". In April 2016, Norway's sovereign wealth fund placed the company charged with building the plant, the National Thermal Power Corporation, on its exclusion list. The report emphasised that while "these institutions distanced themselves from the projects, six IFC-funded commercial banks arranged billions of dollars in financing for the National Thermal Power Corporation", noting that "between 2005 and 2014, the IFC provided \$520 million in funding to the six banks". Considering the impact of IFC's involvement in these and other similar projects, the report stressed that "these projects have also decimated the world's forests. Coal plants, and the mines that feed them, are a leading cause of deforestation globally, further contributing to climate change."

### Behind the fumes – the hidden story of IFC's investment in coal

IFC's involvement in coal power generation lies in stark contrast to the World Bank

Group's (WBG) position on coal, as outlined in its 2013 *Energy sector directions paper*, which states that "the WBG will provide financial support for greenfield [new] coal power generation projects only in rare circumstances" (see *Bulletin* December 2013). The Bank's position was reiterated by World Bank president Jim Yong Kim in November 2016 when, in celebration of the entry into force of the Paris Climate Change Agreement, he stressed that "without climate action at scale, more than 100 million people could fall back into extreme poverty by 2030", and that "we need to focus special attention and action on Asia, where energy demand is growing and some countries continue to look to coal as the solution."

IDI's report forms part of a four-part series titled *Outsourcing development: Lifting the veil on the World Bank Group's lending through financial intermediaries* and contributes to evolving evidence of the negative development impacts of IFC investments in FIs. During a months-long investigation following the trail of IFC money, IDI uncovered 121 harmful projects that the IFC is funding through FIs. Despite some positive initiatives taken by the IFC,

such as the disclosure of its private equity investments and a stated commitment to "strengthen and deepen the quality and coverage of IFC's E&S [environmental and social] risk management of FIs", the report demonstrated that the opaque nature of IFC investments in FIs and its inability or unwillingness to adequately screen and monitor FI sub-projects persist to the detriment of communities and the environment (see *Observer* Summer 2015).

The report's reliance on expensive proprietary market information, unavailable to often marginalised communities affected by IFC-funded projects or their supporters, demonstrates that concerns about the lack of disclosure of sub-projects funded by IFC FI clients remain unaddressed (see *Bulletin* Nov 2014). The lack of disclosure prevents communities and CSOs from holding the IFC to account by bringing cases to light and accessing the IFC's grievance mechanism, the Compliance Advisor Ombudsman (CAO). This contravenes the IFC's performance standards which oblige the IFC to ensure that communities are aware of the existence of the CAO.

An October letter to the IFC's CEO Philippe H. Le Houérou, sent by six organisations,

including the Philippines Movement for Climate Justice, a coalition of 130 environmental groups in the Philippines, and Machimar Adhikar Sangharsh Samiti (MASS), pleaded with him to respond to the call of those working to avoid a "climate catastrophe by ensuring that the IFC's new FI investments are coal-free".

Meanwhile, *Owning the outcomes*, a joint briefing by Oxfam and IDI also released in October 2016, challenged five arguments that the IFC has put forward to repudiate responsibility for harms caused by its financial-sector investments. David Pred, Managing Director of IDI commented "While the IFC has tried to distance itself from the projects funded by its intermediaries, the fact is that these banks are brazenly disregarding the IFC's environmental and social requirements. As a result, the World Bank Group has ended up fuelling and profiting from business activities responsible for enormous human suffering, environmental devastation and in some cases serious crimes".

[tinyurl.com/IFC-FIs-and-coal](https://www.tinyurl.com/IFC-FIs-and-coal)

FINANCE

news

## Ghana: political costs of structural adjustment

In December 2016 Nana Akufo-Addo succeeded John Mahama as president-elect of Ghana. Peter Suaka, of news site *Modern Ghana*, argued that the election was a "vote of rejection of the IMF's direct control of Ghana". In April 2015 Mahama's administration accepted a near \$1 billion loan programme from the IMF (see *Observer* Autumn 2016), which Akufo-Addo pledged to review, promising to cut taxes and increase spending. According to Suaka, Ghana's programme included policy conditions commonly prescribed by the IMF that disproportionately impact the most vulnerable, including subsidy cuts for utilities, public wage bill freezes and tax increases.

The IMF's insistence that the Ghanaian government not finance its budget from the Bank of Ghana, also referred to as "zero financing", has also been criticised. Newman Kusi of the Institute of Fiscal Studies of Ghana told news site *B&FT online* in December that the measure was premature, "not in the interest of the country" and does not make any sense in the Ghanaian context. In September, ahead of the election, the Ghanaian government issued a fifth Eurobond which Peter Quartey of the University of Ghana argued was a response to this restriction and aimed to "raise money to close the resulting revenue gap". News agency *Bloomberg* similarly described the Eurobond as an effort by the Ghanaian

government to "loosen the IMF's straitjacket ahead of the elections", explaining that the bond issuance means Ghana can delay calling on the next tranche of the IMF programme.

In January, Yaw Osafo Marfo of the new Akufo-Addo administration said that "the IMF programme will certainly be reviewed" because "the current programme literally squeezes all the fiscal spaces" the president needs to implement his political programme, according to news site *Africa Daily Report*.

[tinyurl.com/Ghanaelection](https://www.tinyurl.com/Ghanaelection)



## World Bank continues colonial legacy on Assam's tea plantations

By Simran Sachdev and Jayshree Satpute of Nazdeek

An Adivasi woman working in Assam's tea plantations will carry her baby on her back as she has nowhere to leave her children, and she'll bring another child along to help her pick tea leaves. She will spend eight to nine hours picking leaves and gather a total of 24 kilograms a day, with few or no breaks. In breach of the state's legal minimum wage of 250 Indian rupees per day, she will receive only 126 rupees (about £1.52). Failure to meet her daily target will further reduce her wage. Aggravating her poor working conditions, there is no toilet accessible in her workplace, and the housing and sanitation facilities provided for her in the plantation are in disrepair.

Nazdeek's online exhibition shows that despite an investment by the International Finance Corporation (IFC), the World Bank Group's private sector arm, very little has changed in Assam's tea gardens since colonial times. Tea plantations in Assam act as pseudo-states – plantation workers live and work there, requiring all basic services at the site. In order to truly improve working and living conditions for tea laborers through this investment, the IFC must ensure that the long-standing colonial structure in tea plantations is dismantled, and use its leverage with plantation owners to ensure workers can live a life of dignity, rather than that of a slave.

The IFC joined forces with Tata Global Beverages in 2009, investing \$7.8 million for a 19.9 per cent stake in Amalgamated Plantations Private Limited – the second largest producer and supplier of tea in India. Tata retained a 49.6 per cent stake. The project implemented an employee-share-ownership programme, which claimed to offer 30,000 workers the opportunity to make decisions in the company and share in its profits. The investment was supposed to help lift workers out of poverty and improve their working and living conditions. However, in a 2013 complaint with the IFC's accountability mechanism, the Compliance Advisor Ombudsman (CAO), three Indian non-governmental organisations cited poor living and working conditions for tea laborers in Assam, noting that “the living and working conditions on the tea estates do not comply with IFC social safeguard policies.

The conditions are also not in compliance with Indian domestic law, and particularly the Plantation Labour Act.” (see *Bulletin* Februari 2014).

The CAO conducted an investigation and published its findings in a report made public in November 2016, validating the complainants' claims. The report confirmed numerous allegations made in the complaint, including lack of compliance with requirements on housing and other basic services; insufficient consideration of workers' health; lack of due diligence in assessing the risk of child labour; exposure of workers to extremely hazardous chemicals; and lack of an effective grievance mechanism for workers.

In response to the claim that “Workers are impoverished and suffer from malnutrition due to inadequate compensation”, the CAO report found “that IFC has not assured itself that the wages paid by the client are consistent with IFC's commitment to support jobs which offer a ‘way out of poverty’ or ‘protect and promote the health’ of workers...” At a minimum the IFC should ensure that workers are paid the legal minimum wage. While even that is below a living wage, abiding by Indian labour laws is essential, and it is the bare minimum that the IFC can do to improve living and working conditions for tea laborers.

In response to the CAO report, the IFC released an action plan that should have directly, and in a timely fashion, addressed the CAO's findings. The implementation of the plan is to be monitored by the CAO. The IFC's action plan, however, is very limited in scope. Rather than addressing the root causes of workers' poverty as highlighted in the CAO report, the plan only envisages few interventions increasing the provision of basic health and sanitation services over the next two years. The quality of these services, as well as the plan's overall potential to truly tackle labour exploitation and appalling living conditions, are highly questionable. The IFC should see the CAO report as an occasion to ensure it meets its development mandate by creating structural change on Assam's tea plantations, as it is terribly overdue.

Photo: Rajan Zaveri



Assam tea worker

The 2013 complaint is key to the struggle of tea plantation workers, but it is only one step towards fair working conditions. Nazdeek and partner organisations are working alongside tea plantation workers to run advocacy campaigns, conduct legal empowerment and education initiatives, and use strategic litigation to ensure just wages, improved health services, and better housing conditions – all to challenge the colonial structure still embedded in Assam. Given the IFC's claim of working to “help create opportunity for all,” it should fully support these efforts, and it should ensure that workers are in a position to break the cycle of poverty and to make decisions about their own futures.

[tinyurl.com/AssamTata](http://tinyurl.com/AssamTata)



## IFC investment in Stora Enso: the need for a responsible IFC tax policy

Guest analysis by Matti Ylönen, of University of Helsinki and Aalto University Business School

**IFC praises Stora Enso while ignoring its tax arrangements**

**IFC investments in Stora Enso support practices that deprive Brazilian government of essential tax revenue**

The negative development impact of aggressive tax avoidance by multinational corporations has become an increasing cause for concern, with a 2015 UN Conference on Trade and Development paper noting that developing countries lose \$100 million annually in tax revenue due to related tax practices. Meanwhile, according to World Bank 2016 figures, the International Finance Corporation (IFC, the World Bank's private sector arm) has comprised nearly 20 per cent of World Bank commitments for the past five years. This calls for more attention to be paid to the tax impacts of IFC's investments, as highlighted in the April 2016 Oxfam report *The IFC and tax havens*.

### Stora Enso: Brazilian pulp paper trail via the Netherlands

The IFC has a long history of financing Stora Enso — one of the world's largest pulp and paper companies. Supporting Stora Enso activities in China and Laos, the IFC has stressed the company's commitment to "sustainable forestry management". One issue that has not received equal coverage is Stora Enso's tax practices.

In 2005, Stora Enso started joint venture Veracel in Brazil with Brazilian pulp company Fibria. The two companies had equal stakes in Veracel, and Stora Enso was entitled to half of its pulp output. According to financial statements and harbour and customs data, Stora Enso first shipped the pulp to its paper mills in Europe through Belgian ports. However, the paper trail of the trade is more interesting than its logistics.

In 2012 I co-authored a study published in Finnish business magazine *Talouselämä* which demonstrated that the paper trail of this arrangement went through Amsterdam. The operations did not require this arrangement, but it generated major tax savings. When Veracel's pulp trade to Europe



began, Stora Enso made its Dutch holding company Stora Enso Amsterdam (SEA) the hub of its trade. The 2012 study showed that Stora Enso sold the Veracel pulp to SEA significantly below market prices, which then sold the pulp at market-based prices to its paper mills in Europe. The average tax rate that Stora Enso paid from these profits in the Netherlands was only 1.5 per cent, contrary to the Dutch corporate income tax rates of 20–34.5 per cent. This arrangement amassed over €300 million (approximately \$324 million) of profits to the SEA in 2005–2010, representing half of the profits of Stora Enso in this period.

In response to our findings, Stora Enso highlighted "logistical reasons" for its arrangement. However, in a subsequent academic article we argued that the arrangement was artificial and that it violated Stora Enso's principles on transparency and corporate responsibility, which state: "we reflect our business transactions openly, accurately and fairly in the accounts of the company, including 'how the monetary flows [and] ... business operations are formed'."

Whilst our study covered 2005–2010, more recent annual reports indicate that the practice has continued. In 2013, SEA was discussed for the first time in Stora Enso's Corporate Responsibility Report which stated that "pulp from our joint venture Veracel in Brazil is traded via a pulp sourcing and marketing company based in

Amsterdam". The tax policy sections in its 2014 and 2015 annual reports reproduced similar statements, noting that the pulp is traded via Amsterdam for "logistical and operational reasons". At the time of writing, the financial statements of Stora Enso Amsterdam were only available until 2013.

### Misguided praise by the IFC

While Stora Enso has regularly been cast in a positive light by inclusion in indices such as the Dow Jones Sustainability Index and FTSE4Good, which the IFC even promoted in 2015, our research demonstrated that Stora Enso's tax arrangements were depriving the government of Brazil of essential tax revenues. Stora Enso's use of opaque transfer pricing arrangements implied that it failed to abide by IFC standards requiring that companies demonstrate "commitment to transparency and good governance on [their] operations." As a development institution, the IFC failed in its due diligence to ensure that Stora Enso's business practices, including its tax arrangements, support the IFC's sustainable development objectives (see *Observer* Autumn 2016).

The Stora Enso case therefore substantiates the argument in Oxfam's briefing that "the existing policies of the IFC need significant revision to include responsible corporate tax considerations – beyond legal compliance – to be included in sustainability considerations and development impacts".

[@tinyurl.com/IFC-tax-policy-required](http://tinyurl.com/IFC-tax-policy-required)

## World Bank IDA18 to introduce increased reliance on capital markets

**IDA 18 to receive increased funding through capital markets, questions about debt risk**

**IDA18 launched new \$2.5 billion private sector window, including IFC and MIGA**

**Concerns raised about social risks, IFC's poor track record**

After the final meeting of the International Development Association's (IDA, the World Bank's low income country arm) 18th replenishment round in December, the World Bank announced a likely funding envelope of \$75 billion for IDA through 2020. Every three years, donors meet to replenish IDA resources and review its policy framework (see *Update* 69). IDA18's \$75 billion, however, does not quite compare with IDA17's \$52 billion (see *Observer* Winter 2014), because IDA18 is expected to use its strong credit rating to leverage its equity and raise about a third of the \$75 billion through the capital debt markets, subject to eventual repayments. Another third of the IDA18 funds will come from the Bank's own resources, such as the International Bank for Reconstruction and Development (IBRD, the Bank's middle income country arm), the International Finance Corporation's contribution (IFC, the Bank's private sector arm) and from borrowers' repayments of earlier IDA credits.

Paddy Carter of UK-based think-tank Overseas Development Institute commented that "comparing headline numbers from IDA17 to IDA18 can be misleading, in the sense that borrowing cannot really be considered 'replenishment' and the decision by donor countries not to put more money into IDA is hard to square with their rhetoric about the need to scale up efforts for sustainable development." Tim Jones from UK-based NGO the Jubilee Debt Campaign cautioned: "Raising money from capital markets ties IDA funding more closely into the interest rates the World Bank can borrow at. In the future this could mean higher interest rates for IDA recipients; increasing risk of future debt crises."

According to the Bank's December press release, to date, a total of 48 countries have pledged resources to IDA18, also accounting for a third of the funds, and additional countries are expected to pledge in the near-term. Details of the contributions made



IDA18 fourth replenishment meeting in Indonesia

by individual countries are to be announced in spring. As with IDA17, the UK is likely to remain the largest donor, followed by the US. According to news site *Nikkei Asian Review*, Japan is the third largest donor with a \$5.23 billion contribution, an increase of about 20 per cent from three years ago.

A total of 75 low-income countries are eligible to benefit from the IDA18 financing of grants and low- to zero-interest loans. The Bank said in its December press release IDA18 will double the resources to address fragility, conflict and violence to more than \$14 billion and provide an additional \$2 billion for refugees and countries that host them. Caroline Heider director general of the Bank's Independent Evaluation Group (IEG), told *Devex* in October that a key finding of a 2016 evaluation of the World Bank's engagement in situations of fragility, conflict and violence "is that the causes of conflict, the shape of the political economy and the identity of key stakeholders are often either not understood [by the Bank]... or are understood but not translated into a strategy or operational programme." Korinna Horta of German NGO *Urgewald* commented "this substantial rise in IDA resources will increase the pressure of the World Bank to accelerate lending at a time when it has greatly weakened its environmental and social standards (see *Observer* Autumn 2016, Summer 2016). The number of problem projects is likely to rise significantly with untold risks to affected people and their environment. The Bank needs to ensure project implementation benefits the poor."

### Private sector window

IDA18 includes a controversial plan to create a \$2.5 billion private sector window (PSW) to complement existing investments into private sector development in IDA countries. The PSW will be introduced together with the IFC and Multilateral Investment Guarantee Agency (MIGA, the Bank's political risk insurance arm). A September IDA report on PSW set out the proposed governance arrangements with details still to be worked out, noting that strategic direction and monitoring will be provided by an oversight committee composed of the Boards of the three institutions. According to the Bank, the PSW "will help mobilise private capital and scale up private sector development in the poorest countries, particularly in fragile situations". NGO *Oxfam* raised concerns about the PSW in a September briefing, urging the Bank to ensure private sector investments are pro-poor: "Social risk is especially important to consider in the context of fragile states where there is a real possibility for fuelling social conflict, particularly those related to land and natural resources." Nick Galasso of *Oxfam International* expressed further concerns in December, arguing that the IFC "has a poor record of protecting the communities they're supposed to be helping from the impacts of their clients' projects (see *Observer* Spring 2016). We urge the Bank to significantly reform and ramp up their oversight and protections before a single dollar is invested."

[tinyurl.com/IDA18PSW](http://tinyurl.com/IDA18PSW)

## The rise and fall of World Bank funded megaprojects

**World Bank confirms support for controversial Southern Gas Corridor**

**Bank pulls out of DRC Inga hydropower project**

**IFC to sell stake in Guinea Simandou mining project**

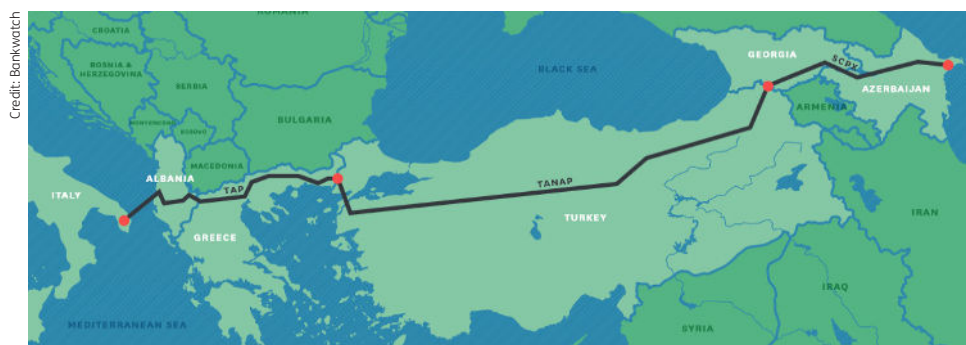
**New complaint regarding Uganda Bujagali hydropower project lodged**

The World Bank concluded 2016 by adding a controversial megaproject to its portfolio, while beyond the main spotlight it withdrew support from other high-profile megaprojects. In late December, the Bank approved \$800 million towards the Trans-Anatolian Natural Gas Pipeline (TANAP) project, with half of the funding going to Azerbaijan and half to Turkey (see *Observer Summer 2016*). Originating in Azerbaijan, TANAP stretches for 1,820 km from Georgia to Greece, crossing Turkey. It forms part of the high-risk and controversial 3,500 km long Southern Gas Corridor, connecting gas pipelines from Azerbaijan to Europe. TANAP will link with the western section of the corridor, running to Italy through Greece and Albania.

Civil society has repeatedly criticised the Southern Gas Corridor due to the wide range of risks associated with the project, including geopolitical concerns, such as the human rights situation in Azerbaijan and the increasingly repressive regime in Turkey (see *Observer Summer 2016*). According to Xavier Sol of NGO Counter Balance, local opposition to the project has prompted affected communities in Albania, Greece and Italy to submit complaints to the European Investment Bank and the European Bank for Reconstruction and Development, two of the other funders of the project. Alleged corrupt practices linked to the main company responsible for the Turkish section of the pipeline were revealed in a mid-December report by NGO coalition Bankwatch. Moreover, questions have been raised about the World Bank funding what is in essence a fossil fuel project, despite its alleged support for the UN's 2015 Paris Agreement on climate change, including an August 2016 statement that it "has ramped up its support for climate work post Paris", including "more investments in renewable energy."

### Exit through the backdoor

Also in 2016, the World Bank retreated



Map of Southern Gas Corridor

from two high-profile megaprojects, Inga 3 and Simandou. In 2014, the Bank approved a \$73 million grant for the Democratic Republic of Congo (DRC) Inga 3 hydropower project, despite the US abstaining due to "governance and environmental risks" and the board noting "significant implementation risks" (see *Bulletin May 2014*). Inga 3 is part of the \$100 billion Grand Inga hydropower project with potential capacity to generate 40,000 megawatts, which would make it the largest hydropower facility in the world. In 2013, Rachel Kyte, then World Bank vice president for sustainable development, argued that Inga was high on the Bank's agenda: "People have been looking at the Inga dam for as long as I have been in the development business ... The stars are aligned now" (see *Update 86*). The project has received long standing criticism from civil society, including that only about a fifth of Inga 3's expected energy output would go to the national utility company, with the rest being exported to South Africa or going to DRC-based mining companies (see *Observer Spring 2015*). Two years in, the Bank first suspended the project in July 2016, and then cancelled its financing in September, citing "the government of DRC's decision to take the project in a different strategic direction to that agreed" (see *Observer Autumn 2016*).

Moreover, according to early October 2016 media reports, the Bank's private sector arm, the International Finance Corporation (IFC), is seeking to limit its involvement in the controversial Guinea Simandou mine, Africa's largest iron ore project, by selling its five per cent stake in the joint venture behind the mine (see *Observer Summer 2014, Bulletin Dec 2013, Update 82*). As late as February 2016, the IFC called Simandou "a world-class, low cost iron ore deposit

with significant economic potential for Guinea". However, the project has come under strong civil society criticism, including for lack of clear poverty reduction impacts and questionable plans to 'offset' the mine's environmental impact (see *Observer Summer 2014*). It has also been beset by other problems, such as the slump in iron ore prices and corruption allegations. Moreover, in late October the largest stakeholder in the venture, mining giant Rio Tinto, announced that it will sell its 47 per cent stake to China's Chinalco. Shortly after, in mid-November, fresh allegations of bribery were revealed, resulting in the dismissal of two high-level Rio Tinto executives.

### Bujagali: a troubled megaproject

The Bujagali hydropower project in Uganda, another high-profile megaproject which has received funding from both the World Bank, the IFC and the Multilateral Investment Guarantee Agency (MIGA, the Bank's political risk insurance arm), continues to attract criticism (see *Update 86, 80, 62*). The IFC called Bujagali "a model and an inspiration for launching other large-scale infrastructure projects in highly challenging environments" in 2012, however, civil society and local communities have deemed the project controversial from its conception (see *Update 16*). In June 2016, the Bank's accountability mechanism, the Inspection Panel (IPN), received its third complaint that involved Bujagali, regarding likely negative environmental and social impacts of the filling of a related reservoir. Bujagali is also subject to seven complaints to the IFC's accountability mechanism, the Compliance Advisor Ombudsman, most recently in 2015 regarding lack of compensation for damaged crops (see *Update 86, 80, 62*). Moreover, the Bank's performance in Uganda has come under further scrutiny

due to “multiple failures” identified in relation to a road project, leading to the Bank in September announcing its intention to withhold new lending to the country (see *Observer* Autumn 2016).

Josh Klemm of US-based NGO International Rivers commented: “The World Bank has been slow to learn the hard-won lessons of the past that mega-projects rarely produce tangible benefits, and more often result in mega harms. The Bank would do well to acknowledge that better, smaller-scale solutions are readily available and much better suited to meet the needs of the world’s poorest.”

📄 [tinyurl.com/WBmegaprojects](http://tinyurl.com/WBmegaprojects)

## G20 and the MDB infrastructure consensus

The World Bank has continued to work with other multilateral development banks (MDBs) to create a consensus around infrastructure, which could pave the way for more large-scale infrastructure projects (see *Observer* Spring 2016). In mid-August, the MDBs published a “joint declaration of aspirations on actions to support infrastructure investment” for the G20, in order to “identify bottlenecks that hinder greater levels of private and public sector infrastructure investment”. The declaration noted the MDBs’ “unique opportunity to build on past and current work to catalyse

higher levels of private investment into developing country infrastructure”, including “to lower transaction costs, risk and risk perception”. Moreover, MDBs form a key part of the new Global Infrastructure Connectivity Alliance, launched by the G20 in September 2016, with the World Bank serving as the secretariat. The alliance’s objective is “to enhance cooperation and synergies of existing and future global infrastructure and trade facilitation programs seeking to improve connectivity within, between and among countries.”

FINANCE

news

## Doubts persist over IMF participation in new Greek programme

**Disagreements within Troika made public as IMF blames European Stability Mechanism for unsustainable proposals**

**IMF claims it is not pushing austerity**

**Greece refuses to implement proposed IMF labour and pensions reforms**

As negotiations proceed between the Troika (the European Commission, the European Central Bank and the IMF) and Greece on a third loan package of \$92 million by 2018 (see *Observer* Summer 2016), the participation and role of the Fund remain uncertain. While Germany has stood firm against debt relief for Greece, the Fund has called for “upfront” and “unconditional” debt relief and stressed that its participation in the third loan package will depend on its evaluation of the sustainability of Greece’s €330 billion (\$353 billion) debt. While Greece has recently suggested that it is happy to proceed without the Fund, its participation in the new package is considered politically important to Germany, which has threatened to block a new agreement without the IMF.

**IMF claims it’s not demanding more austerity**

In mid-December senior IMF officials published a blog disputing Greek government assertion: that it is pushing for additional austerity measures, arguing that “the IMF is not demanding more



German chancellor Merkel and IMF managing director Lagarde

austerity” and that “Greece’s debt is highly unsustainable and no amount of structural reforms will make it sustainable again without significant debt relief.” The blog concludes “if Greece agrees with its European partners on ambitious fiscal targets, don’t criticise the IMF for being the ones insisting on austerity”.

According to *The Guardian* newspaper, the Greek finance minister in December stated that “the IMF is economising with

the truth when it says it is not asking for more austerity”, stressing that “the IMF was advocating policies that were bound to increase inequality and social exclusion – contradicting its own self-avowed goal of inclusive growth”. Commenting on the continued push for additional pension and labour reforms, the finance minister stressed that “Greek expenditure on both pensions and other subsidies is about 70 per cent of the EU average and 52 per cent of that of Germany.”

In mid-December, news service *Reuters* quoted European Commission spokeswoman Annika Breidhardt “the European institutions consider that the policies of the ESM [European Stability Mechanism] program are sound and if fully implemented can return Greece to sustainable growth and can allow Greece to regain market access”. The IMF and ESM disagree on the size of budget surplus required of Greece, with the IMF arguing that European demands for a surplus of 3.5 per cent of GDP in 2018 is unachievable without additional

counterproductive and likely unsustainable measures. The IMF has proposed that Greece aims at a 1.5 per cent surplus.

#### Trade union brings case on human rights violations linked to austerity

In October 2016 news agency *AP* reported that Greece’s largest trade union had brought a case to the Council of Europe alleging that the last six years of austerity resulted in human rights violations, stating that “successive measures ... have eroded protection offered by collective wage

agreements, cut the minimum wage, and imposed repeated and arbitrary cuts on salaries and pensions.” The arguments used by the trade unions are consistent with the findings of Cephias Lumina, UN special rapporteur on foreign debt and human rights, who after a visit to Greece in 2013 warned that the “Troika bailout conditions are undermining human rights” (see *Update 86*).

[tinyurl.com/doubts-persist-Greece-IMF](http://tinyurl.com/doubts-persist-Greece-IMF)

HUMOUR

commentary

### Bankspeak of the year 2016

Every year the Bretton Woods Project highlights some of the most farcical remarks of Fund and World Bank staff. After two-years of focusing on IMF managing director Christine Lagarde (see *Observer Winter 2016, Winter 2015*) this year’s light is shone on World Bank president Jim Yong Kim, in recognition of his stellar performance throughout the year. If only the detrimental impact of his performances were limited to the sleepless nights it caused his PR and Civil Society Liaison colleagues.

As has been widely publicised throughout Kim’s first term, staff have expressed grave concerns about Kim’s leadership style (see *Observer Autumn 2016*). Perhaps emboldened by his renewed coronation in September, president Kim allowed what many staff would claim are his true colours to shine through during the October World Bank annual meeting CSO town hall. The meeting affords members of communities affected by Bank projects and civil society

organisations, many of whom have serious concerns and travelled thousands of miles, the rare privilege of an audience with the head of the Bank and Fund.

Things got off to a bad start with the audience being ‘treated’ to a 20 minute monologue by Kim and Lagarde. Once the audience was finally allowed to speak, Kim continued by dismissing concerns raised by community members. He even addressed the concerns of one particular activist with: “you’re welcome”. When asked to respond to concerns raised by US Congresswoman Gwen Moore’s letter concerning the potential conflicts of interest arising from the Bank’s involvement in water privatisation, Kim quickly brushed off the speaker and simultaneously insulted Ms. Moore by questioning her autonomy: “Look, I know Gwen Moore very well... I know that she didn’t actually write the letter herself.” Addressing a question on the much publicised failures of the Bank’s resettlement policy, Kim, ever empathetic

and understanding of the plight of the population the Bank purports to support, proceeded to demean people forced to occupy land without formal tenure. He said “unlike any government... we resettle even squatters. So guess what happens when we announce that a project is going to happen in an area? People move in.” It seems Kim has concluded that his former civil society self, of whom he seems to be quite fond as featured in *The Guardian’s* ‘hard-hitting’ journalism *How the World Bank’s biggest critic became its president*, was clearly mistaken in questioning the wisdom of Bank policies. Apparently his enlightened leadership changes everything, including the nature of the Bank’s already problematic attitude toward consultation. Perhaps Kim should consider writing the sequel to “How to make friends and influence people”?

[tinyurl.com/bankspeak-2016](http://tinyurl.com/bankspeak-2016)

IFI GOVERNANCE

news

## World Bank appoints new General Counsel

In November 2016, the World Bank appointed Sandie Okoro as World Bank Group Senior Vice President and General Counsel. Okoro was formerly with HSBC, one of the largest banking and financial services organisations in the world. The General Counsel is the World Bank Group’s principal adviser and spokesperson on all legal matters, and also serves as legal adviser to the Bank’s board, management and its

accountability mechanism, the Inspection Panel.

In his 2015 report, Philip Alston, the former UN special rapporteur on extreme poverty, noted that in practice, legal opinions by the General Counsel provide the basis for the Bank’s executive directors’ interpretations of the Bank’s Articles of Agreement, including of its mandate. Jessica Evans of NGO Human

Rights Watch, commented: “Human rights defenders will judge Okoro’s performance by her willingness to fill what former World Bank Legal Counsel Roberto Danino called ‘a gaping hole in the dynamic interpretation of the Bank’s statutes’ and develop a human rights policy suitable to the institution’s role.”

[tinyurl.com/WBgenccounsel](http://tinyurl.com/WBgenccounsel)

## IMF managing director found guilty of “negligence”, remains at IMF

**IMF managing director found guilty by French court of negligence**

**No fine or sentence was imposed**

**Lagarde remains in place at IMF**

In mid-December 2016, IMF managing director Christine Lagarde was found guilty of “negligence” by a French court on charges relating to her time as French finance minister in 2008. Lagarde waived her right to immunity to stand trial but lost an appeal in July to avoid the trial altogether (see *Observer* Autumn 2016). A special tribunal ruled Lagarde was guilty of criminal charges linked to “negligence in dealing with public funds” when she was finance minister, as she sent a dispute to an arbitration authority that awarded €400 million (\$418 million) in damages and interest of public funds to a French business tycoon. The tribunal opted not to impose a fine or a sentence; Lagarde could have faced a €15,000 fine and up to a year in jail. Lagarde will not appeal the decision. Speaking at a news conference in Washington DC on the day of the verdict Lagarde said “I’m not satisfied with it, but there’s a point in time when one has to just stop, turn the page, and move on”.

The lack of punishment caused a wave of criticism by politicians and civil society. A petition on the website change.org, signed by more than 250,000 people, argues that there seems to be a separate justice system for the powerful, who are dispensed from ordinary justice and sanctions. The petition demands that the law should be applied to Lagarde, in the same way as the law applies to ordinary citizens, and that the former minister must answer for her acts before an ordinary correctional court and face the consequences.

The same day as the conviction, the IMF executive board issued a statement reaffirming “its full confidence in the managing director’s ability to continue to effectively carry out her duties”. In an article in the *New York Times* (NYT), the board’s view is characterised as a desire to maintain continuity at the Fund during a period of political changes taking place in Europe and the US, and that there was consensus that “Lagarde’s transgressions occurred when she was not at the Fund – in contrast to those of her predecessor, Dominique Strauss-Kahn”, who stepped down in June

2011 after allegations of sexual assault and attempted rape against a New York hotel worker (see *Update* 76). Nicolas Véron, of the Belgian Bruegel Institute, told the NYT that “It would be complacent if not delusional to say there will be no impact on the institution, .... the only question is how big is the impact – and how does it compare with the need for stability.”

Bhumika Muchhala of NGO the Third World Network commented “Given the current political pandemonium, the IMF board doesn’t want to ruffle any feathers. And importantly, Lagarde is loyal to the European Central Bank’s austerity agenda giving her the trust of the European financial and political elite establishment, and in real politik that is much more precious to the Fund than making amends for past foils, no matter how corrupt or scandalous.”

A December Devex article cited unnamed experts saying that “the scandal

emphasised ongoing issues within the institution”, which “could bolster calls for leadership reform at the institution”, calling into “question the existing governance arrangement that has seen a European lead the IMF and an American lead the World Bank since the Bretton Woods institutions were forged more than 70 years ago.” Lagarde’s initial appointment contradicted promises for “an open, transparent and merit-based selection process, irrespective of nationality and gender” (see *Update* 76). According to James Boughton, former historian of the IMF and senior fellow at the Center for International Governance Innovation; “When Lagarde finishes her term, the IMF is going to have to cast its net a lot wider to find its next managing director.”

[tinyurl.com/IMFLagardetrial](http://tinyurl.com/IMFLagardetrial)



IMF managing director Christine Lagarde found guilty by French court under mitigating circumstances

## Will IMF's response to UN report on women's economic empowerment change its policies?

**UN High Level Panel on women's economic empowerment publishes flagship report**

**Civil society concerned macroeconomic perspectives are lacking**

**IMF pledges to conduct gender impact analysis of macro policy**

In September 2016, the UN High Level Panel on Women's Economic Empowerment published its flagship report, *Leave no one behind: A call to action for gender equality and women's economic empowerment*. Launched in March 2016 (see *Observer* Spring 2016), the Panel was established by Ban-Ki Moon, then UN Secretary General, in an effort to catalyse progress towards closing gender gaps in economic opportunities and outcomes, and the achievement of the Sustainable Development Goals by 2030. Members of the Panel include Christine Lagarde, managing director of the IMF, and Jim Yong Kim, president of the World Bank, among other government, private sector and civil society representatives.

The report identified seven primary drivers of women's economic empowerment (WEE), leading to the establishment of seven working groups corresponding to each driver. The working groups will make recommendations for action to be published at the March session of the Commission on the Status of Women in New York. While the drivers included recognising, reducing and redistributing unpaid care work, which carries significant macroeconomic dimensions in particular, the report did not explicitly recognise an enabling macroeconomic environment as a major driver of WEE.

In response, the UK-based Gender and Development Network (GADN) urged the co-chairs of the Panel in an open letter in November to consider enabling macroeconomic environments as a driver of WEE and for the creation of an eighth working group to explore this "pivotal" area, emphasising the importance of a discussion on how to create the necessary fiscal space to fund WEE measures. GADN also highlighted that the IMF and World Bank's presence on the Panel provides a unique opportunity to further this agenda.



Launch of UN High Level Panel on Women's Economic Empowerment, September 2016.

In December, the Panel's Secretariat responded that UN Women, another Panel member, will convene the proposed working group on "the broader economic environment, including macroeconomic issues and decent work". Jessica Woodroffe of GADN, a contributor to the eighth working group, expressed "hope that the working group can demonstrate the value – and feasibility – of policies that promote gender equality, and that the rest of the Panel will support these findings." She added: "It will not be possible to achieve women's economic empowerment without major changes in the way that macroeconomic policy is designed and implemented", citing the 2015-2016 UN Women report as an important resource on macroeconomic policies that enhance women's economic empowerment that should be used by the Panel.

### IMF commits to gender impact analysis

In September, Christine Lagarde made five commitments on behalf of the IMF in

response to the report. Four of these involve continuing work it is already pursuing. As its fifth pledge, the Fund committed to "undertaking further research on the links between gender inequality and growth, and the impact of [macroeconomic] policies on gender inequality". Francesca Rhodes of Oxfam GB commented that this commitment is "particularly welcome, given criticisms that macroeconomic policies commonly prescribed by the IMF undermine gender equality", and expressed hope to "see the IMF, as key shaper of global macroeconomic policy, engage meaningfully with the recommendations of the panel on this topic". Jim Yong Kim did not make any new commitments on behalf of the World Bank, instead citing the 2016-2023 Gender Strategy already in place and other existing gender work, which has recently been the subject of criticism by the Independent Evaluation Group (see *Observer* Summer 2016).

[tinyurl.com/HLPIMF](http://tinyurl.com/HLPIMF)

## IMF reconsiders new loan as Mozambique defaults

In mid-January, the government of Mozambique announced it will default on a \$60 million interest payment, Africa's first sovereign debt default since Cote d'Ivoire's in 2011. The balance of payments crisis came after the IMF halted its loan programme with Mozambique in April 2016 in response to the government admitting to holding about \$1.4 billion in undisclosed loans. The Fund's reaction prompted other donors to freeze disbursements and stop budget support.

In a December 2016 report a Mozambican parliamentary commission found that the government guarantee to repay the

undisclosed loans was illegal, in particular because the loans were not approved by parliament. The report supported calls in June from a group of 26 civil society organisations in Mozambique for the government not to pay the loans. Sarah Jayne-Clifton of UK-based NGO Jubilee Debt Campaign (JDC) argued in January that "the hidden loans to Mozambique have been devastating for the people of this southern African country".

Despite these concerns, the IMF announced in early December that "discussions on a new IMF-supported programme will continue in the first part of 2017",

after insisting the country agrees to an independent, international audit of its foreign debt, which is now taking place. Tim Jones of JDC stressed that "a new IMF programme should only be agreed when all those responsible for the undisclosed debts are held to account, including criminally, meaning both officials in Mozambique who signed-off on the loans as well as the banks which facilitated the irresponsible lending". He continued: "the burden of payment must not fall on the Mozambican people".

[tinyurl.com/IMFMozambique](http://tinyurl.com/IMFMozambique)

## IMF approves new Jordan loan

In August 2016 the IMF board approved a three-year \$723 million Extended Fund Facility arrangement for Jordan, with about \$72.3 million available for immediate disbursement. The loan programme was agreed in the context of what IMF staff described as the "substantial strain on Jordan's public finance" resulting in part from the country's Syrian refugee population. A November editorial in the Jordan Times expressed concerns that the IMF's loan conditionalities, in particular subsidy cuts and VAT increases, seemed to be "disregarding Jordan's commitments under various international human rights conventions", citing expected price increases in basic goods, such as heating fuel and

food, that disproportionately impact the poor. Despite these criticisms Jordan's King Abdullah reshuffled his cabinet in January to "press ahead with unpopular IMF-mandated reforms", according to the news agency Reuters.

From 2013 the IMF has begun researching the relationship between growth and increased female labour force participation. The Jordan loan programme is the first to draw from that research and contain explicit gendered conditionalities, specifically calling on Jordan to increase female labour force participation, including by publicly subsidised nurseries. Salma Nimms of the Jordanian National Commission for Women

commented on the process that "there is no transparency by the government regarding its negotiations with the IMF and the resulting agreement. Thus, there is no public knowledge until now about the specific commitments within the agreement or how women could benefit from it." In January, the IMF announced that the \$12 billion loan programme with Egypt will also contain gendered conditionalities, including spending EGP 250 million (\$13 million) to improve the availability of public nurseries to increase female labour force participation as a structural benchmark.

[tinyurl.com/IMFJordan](http://tinyurl.com/IMFJordan)

## World Bank's agriculture initiative criticised

In mid-January, 157 organisations and individuals sent a letter to World Bank president Jim Yong Kim calling for the termination of the Bank's Enabling the Business of Agriculture initiative (EBA, see *Bulletin* May 2014, *Observer* Autumn 2013). The initiative was launched in 2013 as Benchmarking the Business in Agriculture, inspired by the Bank's much criticised Doing Business model (see *Bulletin* Sep 2014, *Observer* Summer 2014). According to the Bank, EBA "examines and monitors regulations that impact

how markets function in the agriculture and agribusiness sectors", however, the letter argued that "this is a dangerously misguided effort, as national policymaking should prioritise locally adapted solutions based on the experiences and demands of farmers, pastoralists, fisherfolks, and rural communities." Rather than benefitting farmers, the letter concluded that the reforms promoted by EBA will instead "increase the profits of a handful of private companies." A letter was also sent to the EBA project donors, including the UK's

Department for International Development. Moreover, US-based think-tank the Oakland Institute launched a report further outlining problems with the EBA. Frederic Mousseau of the Oakland Institute commented: "The EBA has become the latest tool to push pro-corporate agricultural policies, notably in the seed sector where it promotes industrial seeds that benefit a handful of agrochemical companies."

[tinyurl.com/WB-EBA](http://tinyurl.com/WB-EBA)

## World Bank arbitration mechanism ICSID rules in favour of El Salvador

In October 2016, the International Centre for Settlement of Investment Disputes

(ICSID), a World Bank arm for investor-state dispute arbitration, announced that the 2009 case brought by Pac Rim Cayman against El Salvador was without merit (see Observer Autumn 2015, Summer 2014).

It ruled that El Salvador would not have to pay the company the \$250 million it sought and ordered the company to pay the country \$8 million to cover most of its legal costs. In 2009, the company, now a wholly-owned subsidiary of the Canadian-Australian company OceanaGold, sued El

Salvador for the loss of potential profits after El Salvador decided not to issue it a mining permit because the company failed to meet regulatory requirements. The role of ICSID and other investor-state dispute settlements, which allow foreign investors to sue states in international tribunals if they feel unfairly treated, have been heavily criticised, particularly in Latin America where Bolivia, Ecuador and Venezuela have withdrawn from ICSID (see Bulletin Dec 2013). In an October 2016 interview with The Guardian newspaper Manuel Pérez-Rocha of the Institute for Policy Studies in Washington noted that “the fact that it

took more than seven years to release the ruling, and that a country with so many economic difficulties like El Salvador has had to pay millions for its defence, is immoral and shows the complete discretion with which these tribunals, sponsored by the World Bank and its infamous ICSID arm, operate.” Reacting to the news in a press release, the Salvadoran Roundtable against Metallic Mining, La Mesa, lamented that “Irrevocable damage has already been done to communities in El Salvador”.

[tinyurl.com/El-Salvador-ICSID-win](http://tinyurl.com/El-Salvador-ICSID-win)

### The World Bank's Independent Evaluation Group

This Inside the Institutions looks at the World Bank's Independent Evaluation Group (IEG), including how it is structured and the different elements of the evaluation process. The IEG is one of four branches tasked with ensuring the accountability of the World Bank Group (WBG). As an independent arm of the Bank, the IEG's overriding goal is to help the WBG build on its successes and avoid unnecessarily repeating past mistakes. To achieve its goals the IEG undertakes a diverse set of evaluations, which enables it to provide the World Bank's shareholders, Bank management and operational staff with insights and feedback to allow crucial mid-way adjustments to policies, processes, projects and programmes.

[tinyurl.com/WB-IEG](http://tinyurl.com/WB-IEG)

### Recommended resources on the World Bank and IMF 2016

A selection of the best books, reports, papers and electronic resources written about the work of the World Bank and IMF from 2016 can be found online.

[tinyurl.com/WBIMFresources2016](http://tinyurl.com/WBIMFresources2016)



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