Development to the rescue of finance – the Bank’s ‘cascade’ approach

The March World Bank Group (WBG) document Forward Look: a vision for the World Bank Group in 2030 – progress and challenges prepared for discussion at the Bank’s Development Committee sets out the Bank’s long-term vision, focusing on ‘crowding in’ private sector investment and ‘creating markets’. It introduced the Bank’s new ‘cascade’ principles for infrastructure finance, which emphasise the use of private sector finance whenever possible, stipulating that it is needed to meet the purported trillions of dollars of infrastructure finance required to achieve the Sustainable Development Goals (SDGs). This echoes the strategy outlined in the 2015 From Billions to Trillions document produced by six multilateral development banks (MDBs) and the IMF detailing how billions in official development assistance could be used to leverage trillions from private investors, particularly long-term institutional investors, which have been unwilling to invest to date. The call to scale up private finance was reiterated by the UN as well as the larger official financiers the 2017 Global Infrastructure Forum (GIF) outcome document.

The Forward Look explained that “to maximise the impact of scarce public resources, the cascade first seeks to mobilise commercial finance, enabled by upstream reforms where necessary to address market failures and other constraints to private sector investment at the country and sector level. Where risks remain high, the priority will be to apply guarantees and risk-sharing instruments. Only where market solutions are not possible through sector reform and risk mitigation would official and public resources be applied [emphasis added].” The Forward Look added that “the WBG is taking the lead in harmonising approaches to applying the cascade principles across MDBs”. The International Development Association’s (IDA, the World Bank’s low income country arm) turn to the capital market for resources and its newly created private sector window are examples of the deepening of the approach within and outside the Bank (see Observer Winter 2017).

Underscoring the Bank’s expansive vision for the cascade principles, the document stressed that “the approach is currently focused on infrastructure but will be expanded to finance, education, health and agribusiness”. As outlined in a 2002 NGO Social Watch article by the former UN Special Rapporteur on adequate housing titled Privatising human rights, CSOs and the human rights community have grave and long-standing concerns about the increased reliance on the private sector in the above-mentioned sectors (see Observer Summer 2016).

According to Nancy Alexander of the German political foundation Heinrich Böll: “The G20 sees massive infrastructure
investment as one of the ‘silver bullets’ that can ... add $2 trillion to the global economy and create millions of jobs’ (see Observer Spring 2016). A January article in finance magazine World Finance noted that “following the global financial crisis, a downward trend in interest rates set in across most developed countries, a situation that persists to this day. Given the duration of such low rates, even naturally risk-averse investors, such as pension funds and insurance companies, have become increasingly interested in diversifying a portion of their portfolios into higher-yielding investments in emerging markets,” adding that “investors have woken up to emerging market infrastructure as a type of investment where they would like to increase their share”.

**Undermining democratic governance and equity for private gain**

The equity and democratic governance consequences of presuming that private and public interests are necessarily aligned and the implications of the push to develop infrastructure as an asset class are fundamental civil society concerns. As noted by Nick Hildyard from UK-based group the Corner House in an August 2016 blog, CSOs fear that “far from the private sector coming to the rescue of the public, the reverse is the case”. Focusing on guarantees used to attract a private sector that refuses to invest, Hildyard stressed that “key to such re-engineering is the provision of publicly guaranteed income streams (through mechanisms that) provide private companies with contract-based rights to flows of public money for many years, if not decades.” Hildyard highlighted that the governance impact of the cascade is undemocratic and elitist: “undemocratic because a handful of fund managers and rich investors increasingly determine what gets financed and what does not” and “elitist because the facilities that would most benefit the poor do not get built”. As an example he referenced a 2009 report for a New Partnership for Africa’s Development and OECD ministerial meeting, which admitted that it is “futile” to seek private investors for rural electrification projects “due to the low returns on investment”. Alexander stressed the need for high and guaranteed returns results in investors “cherry picking affluent clients, leaving the government to serve poorer clients without the benefit of cross-subsidies.”

A 2015 article Antonio Tricarico of Italian NGO Re:Common and Xavier Sol of Belgian NGO Counter Balance argued that the income streams derived from public-private partnerships (PPPs), which are only financially viable for large projects, are needed to establish infrastructure as an asset class. They noted that these can then be bundled and traded, highlighting that the creation of infrastructure as an asset class and the shift of the risk profile of investments are required to open the way for investment by long-term institutional investors such as pension funds. They maintained that the cascade principles support a third wave of privatisation stressing that “each guarantee further locks in the trajectory of privatisation: taking privatised public services back into public ownership incurs stiff financial penalties that act as a deterrent to renationalisation. Each guarantee also restricts government’s own ability to invest itself: PPP payments eat up health, transport and energy budgets.”

In a May Just Governance blog, Alexander cautioned that the cascade does not seek to determine “whether such financing would adequately serve the public interest, including sustainable development goals”, adding that “the cascade approach assumes that there will never be trade-offs between commercial goals and the public interest when de-risking reaches a point at which regulatory and policy reforms or risk mitigation become too costly, or too risky for stakeholders other than the private investor.”

A 2016 report by the Heinrich Böll Foundation on the recommended PPP contractual provisions produced by the World Bank for the G20 stressed that efforts to de-risk private sector investments result in a “favour[ing of] private interests to the prejudice of the public entities that are ostensibly the beneficiaries of the projects and services being contracted for.” Alexander commenting on the report alerted to “insufficient provisions for transparency and restriction of the state’s right to regulate in the public interest (for environmental, human rights or other aims)”.**

**Mega human rights impacts**

Civil society fears that the mass displacement resulting from proposed projects such as the Delhi-Mumbai Industrial Corridor, which may affect up to 180 million people, combined with the Bank’s chequered record on meeting its obligations to displaced communities, will have catastrophic human rights consequences for millions of people (see Observer Spring 2015). In a March op-ed for the US Miami Herald newspaper ahead of the Hamburg G20 summit, Zeid Ra’ad Al Hussein, the UN High Commissioner for Human Rights, lamented that while “Infrastructure, if well-conceived and implemented, is vital for the realisation of many human rights ... human rights are rarely given more than lip service [in] the macho world of mega-infrastructure.”

[CSO letter raises concerns about Bank safeguards on use of security personnel](https://tinyurl.com/Bank-cascade)

In March the International Corporate Accountability Roundtable (ICAR), a project of the San Francisco-based Tides Center, submitted a letter to the World Bank Safeguards Team about safeguarding provisions on the use of public and private security personnel in its projects. The letter expressed concern that the World Bank’s new Environmental and Social Framework’s ES54 is “unnecessarily vague about the prevailing standard of care associated with such activities” and in particular that, without greater clarification, it “could lead to inappropriate use of force in the context of Bank-financed activities”. The Bank recently faced a law suit on behalf of several Honduran farmers over the actions by private security forces working for Dinant, an agribusiness corporation the Bank financed (see Observer Autumn 2013, Spring 2016 and Spring 2017).

In the letter ICAR recommended that any Guidance Note the Bank produces on this issue reference existing international consensus on applicable norms, such as the 2008 Montreux Document on state international legal obligations in relation to private military and security companies operating in armed conflict, the International Code of Conduct for Private Security Providers Association, and the Voluntary Principles on Security and Human Rights. The Bank was also “encouraged to ... require additional assurances in high-risk situations, defined as those where loan-related activities are being conducted in countries that are not participating ... [in] initiatives to manage public and private security risk.”

[CSO letter raises concerns about Bank safeguards on use of security personnel](https://tinyurl.com/CSO-Banksafeguards)
Protecting the victories of the ‘IMF Spring’
By Max Lawson of Oxfam International

The vocal recognition by the IMF that inequality represents a major problem to human progress is under threat. Research staff are being moved onto other work and a very conservative Executive Board is keen to distance itself from earlier research findings. It is feared the election of President Trump is increasing this chilling effect and that the ‘IMF Spring’ may be coming to an end.

Faced with the shock of the 2008 financial crisis and its challenge to economic orthodoxy, the IMF has become a global leader in starting to ask questions about what went wrong and what the implications of that might be. In recent years, the IMF has released a series of man bites dog conclusions that have broken with previous thinking to make headlines around the world: Inequality is bad for growth, redistribution is not. Trade Union decline has fuelled incomes at the top. Inequality is in part a result of neoliberalism.

This final 2016 paper, which highlighted the fact that neoliberalism may well have contributed to rising inequality, is in many ways the most revolutionary, by critiquing not just the individual policies, but the actual economic approach that knits them together. Just seeing an institution as central as the IMF use the word neoliberalism was dramatic. Milton Friedman last used the word in the 1951. Since then it has only been used by its opponents, its supporters preferring to see it simply as the universally accepted way to best run an economy.

The Financial Times ran a vicious and uncharacteristically polemic editorial in response. This showed what a nerve had been touched. The editorial strengthened the hand of opponents in IMF management and on the board who felt this new inequality work was just one step too far. Since then, some research has stopped and some staff moved on to other less public-facing work. For example, despite the fascinating insight that we need more trade unions to ensure the returns to growth are more evenly distributed, this research is no longer being pursued. Any chance of the IMF sponsoring a sensible debate of the pros and cons of neoliberalism now seems extremely unlikely despite their initial foray.

There was also a definite concern expressed privately by many gathered at the recent World Bank and IMF spring meetings in Washington that the election of president Trump will further accelerate this trend. It was certainly clearly expressed in the hallways by many high-level IMF government representatives that there was minimal support for this new direction to include inequality as a policy consideration being taken by the IMF. Instead, the views expressed were little changed from twenty-five years ago: growth benefits everyone and it matters little if some benefit significantly more than others. There are no losers, only ‘big winners and little winners’. If the IMF were wine these were vintage 1994 opinions.

Reversal in rhetoric vs. acceleration in operations
At the same time steps to take this work beyond research and into actual IMF operations are moving forward, and relatively rapidly. In a first wave nine countries have had inequality analysis brought into their Article IV consultations (the IMFs regular assessment of the economy of each country). A further nineteen are now in the process of including inequality analysis. In some countries, this has resulted in positive new policy directions, such as advising that income tax thresholds should be more progressive in Ethiopia.

There is still a long way to go to fully operationalise this analysis and its implications. Too often the conclusion is not ‘we should not do this’ but ‘let’s better design our safety nets’ to mitigate harmful impacts. And many other actions at country level completely belie this new research. One Egyptian researcher said that when investigating the evidence that the new IMF loan to Egypt will increase inequality and poverty, her main source of critical studies came from the IMF itself (see Bretton Woods Project Spring Meetings 2017).

There is little doubt though that there are serious and growing headwinds and very little support amongst the powerful governments to continue this inequality work, especially with the spectre of the far right populists being defeated in Europe. Countering these headwinds makes public pressure from civil society ever more important. We must keep the pressure on Christine Lagarde and her staff to ensure both that the ground-breaking research continues, and at the same time the work accelerates to apply these findings to the activities and policy recommendations of the IMF.

@tinyurl.com/victories-IMFSpring
Landmark community dialogue in Nepal: Is the World Bank learning?

By Siddharth Akali, Accountability Counsel, and Shankar Limbu of Lawyers Association of Human Rights of Nepalese Indigenous Peoples (LAHURNIP)

Communities in Sindhuli, Nepal, affected by the World Bank-funded Khimti Dhalkebar Transmission Line (KDTL) have cause to celebrate. Since 2009, they have been raising their concerns about the health, safety and economic impacts of the project, and asking for adequate consultation, information disclosure, and mitigation of impacts. After a decade-long struggle, an independent facilitator was recently hired to moderate a dialogue between the affected communities and the government-owned project implementing agency, the Nepal Electricity Authority (NEA). The communities – consisting of indigenous peoples, Dalits, women and other marginalised groups – are hoping this process will help bring an amicable resolution to their concerns and some much-needed closure.

This is a landmark moment both for the communities and for the Nepalese authorities. If the dialogue occurs, it will be one of the first times the government of Nepal engages in a collaborative dispute resolution process with communities affected by its development efforts. If conducted fairly and transparently, the facilitated dialogue can set a positive benchmark for community participation in Nepal’s growing power sector and help meet the government’s goal for just and sustainable development.

Background and timeline

The World Bank approved the project in 2003 and construction started in 2008. Soon after, in 2009, communities began asking for information about the project. They held peaceful protests, wrote letters to local authorities including the prime minister, and filed a case with Nepal’s Supreme Court. They also organised together as a ‘Struggle Committee’ and in 2013, filed a complaint with the World Bank’s accountability mechanism, the Inspection Panel (see Observer Autumn 2016). These efforts resulted in a halt to project construction.

Two years later, the Inspection Panel’s investigation report found that a number of the World Bank’s social and environmental safeguards had been violated, including crucial requirements to consult with local communities in good faith. The World Bank board responded by encouraging Bank management to amicably resolve outstanding issues.

To put the board’s call into action, and address safeguards violations, communities asked World Bank management to help set up a fair and transparent dialogue process with the NEA (see Observer Autumn 2016, Spring 2016). However, despite community resistance and advocacy, construction moved ahead – through misinformation, police violence, and intimidation and coercion by local authorities. The project was completed in January 2017.

During the 2017 Spring Meetings of the World Bank Group, Inspection Panel member Dr. El Bakri recounted there had been widespread misinformation about the project from the beginning, and “for a very long time, the people in that area thought that what the Bank was doing was putting up telephone lines”. There was no requisite buy-in from local communities and “quite a lot of violence”, she explained. The misinformation also caused serious delays and jeopardized the project.

Goals and concerns of affected communities

Now, with live high-voltage transmission wires operating over their homes, schools and crops, community members are, more than ever, concerned about the project’s health, safety and economic impacts. While several families refused to accept compensation as a sign of protest, even those who have accepted compensation remain concerned about the project’s unaddressed impacts. For example, some community members fear that children attending the Swiss Sindhuli school, which is disturbingly near a transmission tower and its looming wires above, will suffer health effects from electromagnetic radiation. Other community members have concerns about the safety of the transmission line after hearing reports of two children being electrocuted to death, struck by a different transmission line in another part of the country. Community members have repeatedly asked for the Swiss Sindhuli school to be relocated but this request is yet to be addressed.

This facilitated dialogue presents the communities in Sindhuli with a chance to be heard, and have their questions answered in a respectful manner. Surendraswor Moktan, who is affected by the KDTL project said, “We are hopeful about the hiring of the facilitator. We want to participate in the government’s development activities and work together to achieve inclusive, sustainable, and human rights-friendly development by resolving our issues amicably.” Mr. Moktan is also chairperson of Human Rights of Nepalese Indigenous Peoples (LAHURNIP).
The truth behind IMF’s claims to promote social protection in low-income countries

Guest analysis by Thomas Stubbs of University of Cambridge and Alexander Kentikelenis of University of Oxford

In June, the IMF published its much-touted policy paper, Social Safeguards and Program Design in [Poverty Reduction and Growth Trust] PRGT and [Policy Support Instrument] PSI-Supported Programs, discussing how its loan programmes have affected social protection policies in developing countries over the period of 2010-2016. In a recent IMF blog, Managing director Christine Lagarde summarised the findings succinctly: “health and education spending have typically been protected in low-income country programs.” If true, this would be welcome news for the developing world. The IMF paper suggested that nearly 90 percent of IMF programmes in low-income countries since 2010 included policy reforms stipulating minimum expenditures for social policy—typically health and education—and other priority areas. At the same time, fiscal deficit reductions were purportedly mandated by only half of all low-income programmes during the same period. The paper also claimed that, over the past two decades, IMF programmes had no effect on public health spending and actually increased public education spending.

Alas, the IMF’s assessment is methodologically flawed, and the organisation remains disconnected from the global political zeitgeist on universal social protection.

Flawed analysis

The IMF’s assertion that low-income country programmes promote social protection is underpinned by analyses showing that nearly all include social spending floors, only half call for fiscal deficit reductions, and that public health and education spending remains unchanged or has increased. However, this analysis is misleading.

Available evidence on priority social spending floors shows that while they are included in most programmes, governments only implement them half the time. At the same time, conditions that aim to balance the budget, i.e. cuts to spending, are met almost all the time in years where priority spending floors go unmet, strongly suggestive of the IMF’s true priorities.

A further indication of the IMF’s priorities is the stringency of these targets. Budget balance ceilings typically appear as binding conditions, which means they...
directly determine whether or not an IMF programme will continue. Social spending floors are most often non-binding conditions that serve as markers for broader progress assessment, but do not automatically suspend a programme if unmet.

The IMF’s account in the paper of fiscal deficit reductions offered an incomplete picture by examining only the initial year of their programmes, which typically run for three to four years. What may have been fiscally expansionary or neutral in the initial year of the programme can become contractionary in subsequent years.

Finally, the IMF’s analysis on public health and education spending does not hold after methodological scrutiny. This new research demonstrates that, contrary to IMF findings, its programmes have no effect on education spending and a negative effect on health spending. Its results show that entering into an IMF programme decreases public health spending, on average, by 1.7 percentage points as a share of GDP.

**Neglecting sustainable development**

The recently agreed Sustainable Development Goals (SDGs) provide a vision of a “world with equitable and universal access to quality education at all levels, to health care and social protection”. Remarkably, acknowledgement of the SDGs was entirely absent from the IMF paper, despite being adopted unanimously by the United Nations General Assembly.

To the contrary, in this paper and many others, the IMF explicitly endorsed the development of targeted social assistance. In acknowledging the challenges of limited financial resources to fund social protection, the IMF advocates better targeting of the poor, rather than appealing to options consistent with the SDG agenda, such as financing universal social protection systems through greater international partnership (i.e. Goal 17).

Despite the current objectives of the international community on social protection, the IMF continues to maintain and pursue an opposing policy position. The IMF appears to operate within a self-referential dialogue that is cut-off from the international policy consensus. A look at the paper’s reference list strongly supports this idea: out of the 22 studies cited in the paper, only one is not conducted by its own staff.

Consequently, it is no surprise that the paper’s recommendations require no changes to IMF policies on social protection. The paper’s conclusion would be difficult to sustain on the basis of the ample available evidence that exists outside of the IMF’s self-congratulatory ideational silo. In this universe, the picture painted of the IMF is less rosy: programmes are linked to an array of detrimental social outcomes, ranging from failing health systems to civil wars (see Observer Winter 2015).

**Looking forward**

Meeting internationally agreed-upon standards for universal social protection will require the collaboration and coordination of a diverse range of global actors, including UN entities like the IMF. The SDGs offer not only a template to structure these policy debates, but an opportunity for the IMF and other international organisations to fundamentally transform their policies and practices.

In doing so, the objective of social protection needs to be put in appropriate context. Rather than a minimalist agenda encompassing primarily health and education interventions for the most vulnerable, it is a comprehensive framework towards the highest attainable standard of economic, social and cultural rights, as codified by the international community. Indeed, a recent report by the UN Human Rights Council draws attention to the devastating impact of structural adjustment programmes on labour rights – a key contributor to human well-being (see Observer Spring 2017, Spring 2016).

Minimalist policy agendas offering limited services to the most vulnerable did not work in the past, and there is little reason to believe that they will work now. As Richard Titmuss, a key architect of the British welfare state, explained half a century ago: “Services for the poor are poor services.” The international community has an obligation to avoid mistakes of the past, and ensure that universally agreed goals – like the SDGs – are an integral part of all policy efforts.

![tinyurl.com/IMFSocial](http://tinyurl.com/IMFSocial)

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**Suriname walks away from IMF conditionality**

In May, the government of Suriname announced in parliament that it had cancelled its two-year Stand-By Arrangement with the IMF. At the time of the announcement, the first 80 million euro tranche of the 425 million euro loan programme agreed in April 2016 had already been disbursed. According to Suriname newspaper *The Parbode*, the relationship between the South American country and the IMF had “worsened” in the last year due to the IMF programme’s conditionalities, which included introducing VAT and cutting subsidies for fuel, electricity and water.

Surinamese president Desi Bouterse said to Belgian news site *De Redactie* that “the burden of these costs would be too much to bear for its citizens”. The same news site reported that, to make up for the resource short-fall, the government raised funds through international capital markets, the Inter-American Development Bank and the Islamic Development Bank before cancelling the IMF loan.

While the IMF has confirmed this development to inquiring press, no official statement has been published. The last official document it published specific to Suriname was the January Article IV consultation, in which IMF directors agreed that “decisive reforms” are required for Suriname and called for “redoubled efforts” by the Surinamese government that put “fiscal consolidation ... at the center of the policy effort”. In a February press conference President Bouterse responded to the Article IV report by calling the IMF “cold”.

![tinyurl.com/SurinameIMF](http://tinyurl.com/SurinameIMF)
IFC investments implicated in land grabs in Africa

IFC financial intermediary investments linked to land grabs and displacement in Africa

CSOs critique proposed changes to IFC lending policies

An April report by US human rights NGO Inclusive Development International (IDI) exposed the International Finance Corporation’s (IFC, the World Bank’s private sector lending arm) complicity in land grabbing across Africa through its investments in financial intermediaries (FIs), as well as negative environmental and social impacts. The report covered land grab cases of 11 projects backed by IFC FI clients to the sum of 700,000 hectares, and showed that “the IFC is indirectly funding some of the most harmful investment projects in the world.” The report is part four of a series following the trail of IFC money and its environmental and human rights impacts.

Between 2010 and 2015 the IFC invested or leveraged over $50 billion in the financial sector with no public disclosure of the final destination of the funds, meaning, as IDI claimed, “the World Bank Group can frame the deals in terms of job creation and poverty reduction – when in fact the funds often flow to projects that undermine these goals.” At the same time, the report noted that investments in FIs that support ‘high-risk’ projects have increased 300 per cent between 2013 and 2015, from $450 million to $1.3 billion. As previous CSO reports and findings from the Compliance Advisor Ombudsman (CAO, the IFC’s accountability mechanism) demonstrate, IFC investments in high-risk FI projects have had disastrous consequences for affected communities (see Observer Spring 2017 and Spring 2016).

Displacement in Guinea by IFC funded FI

One case concerns the AngloGold Ashanti gold mine in Kintinian, Guinea which the IFC financed via a $140 million loan in 2007 for a minimum of 10 years to South African bank Nedbank for cross-border lending and capital-intensive projects, including for resource extraction. The IDI report found that in 2015 Nedbank supplied two-thirds of a $105 million general purpose loan to AngloGold Ashanti, the world’s third biggest mining company. The study reported that 380 families were forcibly evicted in 2015-2016 with a further 150,000 people under threat of eviction whilst facing health risks from cyanide pollution of the local water sources. A community member interviewed by IDI said “I signed over my land with a soldier pointing a gun at me. I had no choice”. Others told of being forcibly removed from their home, beaten and shot at by security and defence forces working at the behest of the mining company.

Data from a paper by research initiative Global Land Project (GLP) based on media reports showed that from 2008 to 2010 between 53 million and 61 million hectares of land were assigned in land deals or were under negation in 27 African countries. The GLP paper found that the majority were acquired for biofuel production by private businesses and by Gulf and East Asian countries for food and fuel production, though noting that “consistent information about the purpose of the investment in the different recipient countries is lacking”. CSOs have expressed concern about the role of international financial institutions in promoting an “enabling environment” through national policies for capital investment, including the IFC through its advisory services, and the Bank’s ‘cascade’ principles (see Observer Summer 2017).

The IDI report stated it refuted the IFC’s claim to no longer bear responsibility in some of the cases where loans have been repaid: “in none of these cases does the reported divestment relieve the IFC and its clients of their responsibility for contributing to the alleged harms during the period in which they were exposed to the projects.”

IFC vs CSO and CAO

In an April article published on news site Medium, IFC CEO Philippe Le Houérou conceded that the “IFC cannot have the same level of oversight of the sub-projects supported by our FI clients as with our direct investments”. He argued that critics of IFC investments are “not focused on the financing itself – buts its indirect impact”. He went on to outline changes the institution will make in its lending and policy to “create a more responsible banking system.” The four proposals concern the relationship between the IFC and financial sector regulators. In addition a working group will be established with financial stakeholder to explore a voluntary disclosure framework for sub-clients and projects.

In response, while CSOs welcomed some of the changed emphasis in the article, a letter signed by 20 European and US CSOs demanded full and comprehensive disclosure of project information and corresponding environmental and social assessments. Specifically, it asked for a “clear stipulation of how the funds must be used in the legal agreement”; a “separation of funds in a separate account at the FI”; and for “reporting on the use of funds, subject to external audit”. It demanded that “disclosure should be a mandatory requirement for accessing IFC funds” as, without this, “neither the IFC nor stakeholders have any way to assess whether financial intermediaries are living up to their environmental and social obligations.” The letter ended by demanding that the IFC fully support the mandate of the CAO, “respecting its independence and ensuring it has adequate resources to carry out its task.” It called for a change in the “defensive and unconstructive positions” of the IFC in relation to the CAO which remains a vital recourse mechanism for communities affected by the Banks policy, projects and investments.

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IMF conditions weaken labour rights, World Bank labour policy inconsistent

A March IMF policy paper on Labour and product market reforms in advanced economies: fiscal costs, gains, and support postulated that, “persistently sluggish growth has led to growing policy emphasis on the need for structural reforms that improve the functioning of labour and product markets in advanced economies”. Amongst the reforms considered are “lower entry barriers for firms” and “reducing the level or duration of unemployment benefits where particularly high” during weak cyclical conditions.

Its main findings included that such reforms can raise output and thus strengthen public finances, for example, “unemployment benefit reforms improve fiscal outcomes both indirectly and directly through lower spending.” In line with IMF policy, the report makes a case for temporary fiscal stimulus but only where there is “available fiscal space” (see Update 55), although “a strong commitment to reforms is an essential prerequisite.”

Commenting on the paper, Cambridge University political scientist Bernhard Reinsberg found that “it is laudable that the IMF acknowledged that fiscal stimuli may be necessary not only to stimulate the economy after a financial crisis but also to facilitate structural reform.” However, he questioned the study’s assumption that labour market reforms are necessary to unleash growth. He cautioned that “labour regulations are vital to the protection of worker interests in marginalised places of the global economy. The results presented in the IMF staff note thus cannot be applied to the majority of countries around the globe.”

The consequences of the policies proposed by the Fund are inconsistent with findings of UN independent expert on the effects of foreign debt, Juan Pablo Bohoslavsky. In reviewing the impact of international financial institution-supported austerity measures, he found little evidence that labour deregulation results in increased employment, referencing a 2012 International Labour Organisation study that noted that “from low levels of employment protection regulation to an average level of regulation, employment levels tend to be positively associated with more stringent regulations” (see Observer Spring 2017).

World Bank lagging on labour rights

The World Bank Group’s (WBG) approach to labour rights came under recent scrutiny by the International Trade Union Confederation (ITUC). In April’s issue of International Union Rights Magazine, the lead article by Peter Bakvis, Orthodoxy, evidence and action: Labour rights at the World Bank, charted developments in WBG theory and practice in its approach to labour markets, including it’s controversial Doing Business Indicator (see Observer Summer 2014 and Summer 2017), finding that “rhetorical advances have not always been matched by the Bank’s operations and country-level policy advice”. Bakvis wrote that although the Bank places itself at the vanguard amongst development institutions “in the area of ensuring respect for workers’ rights it has actually been a laggard.”

The article also criticised the lengthy phasing-in and implementation processes of a new labour safeguard as well as inherent weaknesses that will limit its efficacy, such as requiring respect for bargaining rights and freedom of association only “in a manner consistent with national law”. Additionally, the World Bank’s analysis of the links between weakened labour market institutions and growing inequality lags behind the evolution of IMF research on the issue (see Observer Summer 2016 and Summer 2017).

IMF U-turn on German minimum wage

In May, the IMF issued its concluding statement of the 2017 Article IV mission to Germany. The Fund recommended spending on infrastructure, childcare, refugee integration and relieving the tax burden on labour to encourage growth. It further suggested that “pension reforms that make it attractive to work longer would increase old-age income, boost potential output, improve the fiscal outlook, and reduce the need to save for retirement.”

The mission also called on the government to encourage “robust wage growth” so as to contribute to but not reverse earlier labour reforms that helped foster lower wages and to be “prudent” in setting the level of the minimum wage. Bakvis noted that the IMF has only recently, and very cautiously, begun to reverse its anti-wage growth advice for Germany: “From the creation of the euro in 1999 until 2011, the IMF counselled Germany to practice wage moderation, thus contributing to the intra-Eurozone trade imbalance that the Fund is now expressing concern about.” Bakvis highlighted the inconsistency of the IMF’s advice by noting that “in 2006 the Fund told the government that ‘minimum wages would be a serious policy error’, even though Germany was among only a few developed countries not to have one. In 2014 the government finally adopted a minimum wage despite IMF opposition predicting that it would exacerbate unemployment. After the minimum wage entered into effect in 2015, the Fund admitted it found no evidence of that; Germany’s unemployment rate had actually fallen.”

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Sub-Saharan Africa IMFC statement warns against protectionist trends

In April Malusi Gigaba, South Africa’s finance minister, made an International Monetary and Financial Committee (IMFC, the direction-setting body of finance ministers for the IMF) statement, on behalf of 23 sub-Saharan African countries. His statement warned about the risks of “emerging protectionist trends” to an “already fragile global economy”, in which “the multilateral framework is being questioned by some groups and financial sector regulatory reforms risk being rolled back”. This contrasted with April’s IMFC communiqué, in which the IMFC set out the consensus position about the direction of the Fund. The communiqué presented an optimistic view of economic growth in developing countries, revealing the contrast between the two documents (Bretton Woods Project Spring meetings IMFC communiqué analysis 2017).

Gigaba’s statement highlighted that “for sub-Saharan Africa, growth continues to be hampered by adverse cyclical and supply-side factors” worsened by the “devastating impact on agricultural production” and “high inflation” following a “severe drought experienced mostly in Eastern and Southern Africa”. In order to support growth in sub-Saharan Africa, the statement highlighted the importance of adopting “the right policy mix in this environment”, including “through rebuilding buffers to adequately cushion economies against shocks”, and that a “stronger emphasis on structural reforms and diversification is warranted”.

Illicit financial flows and capital controls

Gigaba’s statement cautioned that despite current stable capital flows the threat of outflows “looms large”, warning that US “monetary normalisation (ie – higher interest rates)” and “price pressures” in larger economies may result in a reversal of flows away from developing economies. The statement further noted that while “maintaining free-floating exchange rates and liberalisation is an important policy goal” the “significant short-term balance sheet effects, amplified by the current supply-side inflation pressures, and are a threat to welfare gains and stability”. While the statement stressed that sub-Saharan African countries “support the Fund’s work on the institutional view on the management of capital flows” it stressed that “the Fund should ensure that measures adopted are tailored to meet country specifics” (see Observer Summer 2016, Spring 2016).

In February 2016 the IMF published a policy paper re-opening the discussion of the potential merits of the use of capital controls (see Observer Spring 2016). A June 2016 IMF article questioned the policy related to “removing restrictions on the movement of capital”, with the authors arguing 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” (see Observer Summer 2016).

Gigaba’s statement reiterated its support “for developing strong mechanisms to help deal with illicit financial flows that have drained the region of much needed resources to finance development.” The statement further advised that “tighter financial sector regulation is an important tool to lower macro-economic risks” and also that “having effective taxation systems in place are essential to achieving stability”.

The group called “on the Fund to provide more long-term capacity-building support and advice to strengthen domestic resource mobilization”, a point repeatedly raised by CSOs.

The statement took “positive note that the conceptual framework for macro-structural analysis includes issues of inequality and gender” and supported “the integration of macro-critical issues into the Fund’s work, including the impact of climate change, gender and various spillovers” (see Observer Summer 2017). Crystal Simeoni of African Women’s Development and Communication Network FEMNET highlighted “on illicit financial flows, the women’s rights movement is strongly pushing for progressive rather than just effective tax systems that ensure that taxes are collected fairly and distributed equitably in ways that ensure inclusivity for the women and girls of Africa.” She continued “it is not just about having tighter financial sector regulation, but it is a question of inclusion. Currently, the OECD is setting global rules for all of us even though we are not all at the table. We are pushing for a global tax body that is inclusive and ensures that all our voices are at the table.”

Governance, inclusion and diversity

The finance minister said that sub-Saharan countries “look forward to the completion of the ongoing work on strengthening the
Civil society calls for greater independence of Inspection Panel

In April, Civil Society Organisations (CSOs) wrote a letter to the World Bank executive directors calling for the inclusion of “independent external stakeholders on the selection committee” of the Inspection Panel (IPN, the Bank’s independent complaint mechanism). This was in response to a vacancy on the Panel created by the departure of Zeinab Elbakrin, which is yet to be filled.

In the letter CSO’s argued that “to properly perform its work and be recognised as legitimate, it is vital that the Inspection Panel be independent”. The report Glass Half Full? The State of Accountability in Development Finance, presented the inclusion of external stakeholders on the selection committee such as academics and NGOs as best practice. Currently, the selection committee is composed of two board members and two members of Bank management. As outlined in the letter, CSOs consider the current composition of the Panel problematic and have requested the inclusion of an independent external stakeholder in the selection committee.

Lori Udall, of Montpelier Consulting, claimed that “since management is the party under investigation in Inspection Panel cases, they should not have seats on the Panel selection committee.” Erika Lennon, of Center for International Environmental Law (CIEL), outlined that “once again, the Board has failed to respond to calls from civil society to change its procedures within the selection committee so as to ensure the independence of the Inspection Panel. Despite the good example set at the IFC’s [the International Finance Corporation, the World Bank’s private sector lending arm], Compliance Advisor Ombudsman [CAO, the IFC’s accountability mechanism], the World Bank board has yet to recognise the value of inclusion and the legitimacy that comes with a more open selection process.” Previously, the Panel was criticised by CSOs for creating a new pilot scheme, in 2013, which they argued had weakened the accountability of the Bank (see Update 68 and Update 64).

IPN calls for improved supervision of environmental assessments

At the April IMF and World Bank spring meetings in Washington DC, the third Emerging Lessons Series report was launched by the World Bank’s Inspection Panel (IPN, the World Bank’s accountability mechanism). This report, preceded by reports on involuntary resettlement and indigenous peoples, discussed the need to improve the Bank’s environmental assessment procedures. Drawing on complaints registered since the Inspection Panel’s conception in 1993, the report provided an overview of lessons that should be integrated within future projects to allow for greater transparency and equitable project outcomes.

The report stressed the need for the Bank to conduct continuous environmental assessments of its projects and acknowledge the potential for all projects to present environmental risks regardless of their initial environmental categorisation. The report’s call for the strengthening of on-the-ground supervision through utilising “multidisciplinary expertise that goes beyond engineering to environmental and social issues” was reiterated by civil society in the discussion at the Civil Society Policy Forum meeting on the report’s launch (Bretton Woods Project Spring coverage 2017). This included Professor Richard Fuggle’s suggestion that Bank staff “prefer looking at problems on their screens in Bank offices than going out and actually coming to grips with what is happening on the ground.”

In addition to critiquing the report’s focus on a small percentage of complaints, Medha Patkar of the Indian coalition Narmada Dam Movement cautioned that while important, a focus on environmental issues cannot come at the cost of a comprehensive analysis of the social and equity consequences of projects.
Deepening World Bank and AIIB cooperation: Locking in a failed development model?

In April, at the closing of the World Bank and IMF spring meetings in Washington DC, the World Bank Group (WBG) and the Asian Infrastructure Investment Bank (AIIB) signed a memorandum of understanding “to strengthen cooperation and knowledge sharing between the institutions.” The agreement was signed a year after both institutions signed a co-financing agreement outlining “the co-financing parameters of World Bank-AIIB investment projects” (see Observer Summer 2016). The Bank and AIIB have co-financed five projects together since.

Co-financing and cooperation between the Bank and AIIB reflect the trend toward increased coordination and joint financing by multilateral development banks (MDBs) to meet what is claimed to be a yearly $1 trillion to $1.5 trillion infrastructure financing gap in developing countries by 2020. The MDB focus on leveraging private sector investments for mega-infrastructure projects was evident in the 2017 Global Infrastructure Forum (GIF) outcome document.

The World Bank-AIIB trajectory is at odds with principles for better MDBs outlined in the Eurodad, Afrodad and Latinadd April concept paper Public Development Banks: towards a better model, which argued that MDBs must prioritise development outcomes over profit and stressed that, historically, infrastructure development has been primarily publicly financed.

Maria José Romero from Brussels-based network Eurodad noted that, “MDBs must support infrastructure development that benefits communities and helps countries transition to a new development model.”

In light of the evolving relationship among MDBs as reflected in the 2017 GIF outcome document, civil society fears that the AIIB, far from providing developing countries a different development and financing paradigm, is on its way to supporting existing development models that do nothing to assist developing countries transition from commodity-dependent economies (see Observer Summer 2017).

As noted by Professor Bill Laurence on the blog site Alert, civil society is also concerned that increased cooperation and norm-sharing among MDBs is leading to a race to the bottom in terms of environmental and social protections. Civil society was highly critical of the newly adopted World Bank Environment and Social Framework (see Observer Autumn 2016). Many within civil society echoed concerns raised by Professor Hongying Wang in her September 2016 paper for the Council on Foreign Relations that “the leniency of the new MDBs toward infrastructure projects that may have negative social and environmental consequences could make them more attractive to some borrowers, who prioritise faster and lower-cost financing. This could undermine the ability of other MDBs, including the World Bank, to uphold their standards.”

**WB-AIIB cooperation tested in Tarbela 5**

The Tarbela 5 dam in Pakistan provides an opportunity to assess how co-financing is affecting the AIIB and World Bank’s approach to environmental and social safeguards. The AIIB and World Bank are co-financing the dam together with the government of Pakistan. While the AIIB had committed that its $300m loan would not only finance the new construction but also address ‘social legacy issues’ from previous projects, closer scrutiny by NGO Bank Information Center (BIC) Europe and Pakistani researcher Naeem Iqbal cast doubt on that assertion. BIC Europe argued that the AIIB’s legalistic approach seems likely to leave many people displaced by the previous construction without remedy. The study also asserted that “though clearly part of the Tarbela 5 project, the World Bank removed the grid station from the project to avoid the AIIB having to address land acquisition and resettlement issues, according to the WB’s representative.” Finally, BIC and Iqbal noted that important access to information procedures did not follow best practice.

In a June article on news site Chinadialogue, Kate Geary, of BIC Europe, noted that while the AIIB “explicitly commits to the Paris Climate Agreement and the United Nations’ Sustainable Development Goals”, its energy strategy does not specifically stop the AIIB from financing coal. Geary noted that 31 Indian CSOs have written to the AIIB to express their concern that “the supposedly ‘green’ bank still may end up

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**World Bank and AIIB sign memorandum of understanding deepening cooperation**

**World Bank-AIIB cooperation and co-financing of infrastructure reflects global trend**

**MDB subsidies for private investment in mega-infrastructure threatens sustainable development**
In May the Geneva-based Women’s International League for Peace and Freedom (WILPF) submitted a written statement to the UN Human Rights Council addressing the impacts of IMF macro-economic reform programmes on women’s rights in Ukraine. The statement outlined various ways in which the recent IMF-demanded Ukrainian economic reforms (see Observer Spring 2015 and Winter 2016), have “violated women’s economic and social rights and contributed to the feminisation of poverty and deepening of gender inequalities”. WILPF pin-pointed three specific IMF policy conditions, fuel subsidy cuts, cuts to the public sector and tax policies, as having significant gendered impacts.

While the IMF has repeatedly argued that fuel subsidies “are a costly approach to protecting the poor due to substantial benefit leakage to higher income groups”, WILPF’s statement pointed out that cutting fuel subsidies without adequately considering impacts on the poor and women can have disastrous consequences for these vulnerable groups. Since the implementation of the loan programme in Ukraine, the state statistics committee reported that energy consumption decreased by 30 per cent, which WILPF asserts has significantly diminished living standards across the country. As women make up the majority of the poor and unemployed in Ukraine and rural women face particularly harsh living conditions, these fuel subsidy cuts can disproportionately hurt women.
In terms of women’s participation in the labour force, the statement noted that the IMF programme entailed overall plans of a 20 per cent reduction in the civil service workforce, including 12,000 social workers in 2014 and 25,000 healthcare professionals in 2015. The statement stressed that these policies directly disadvantage women in particular as “women comprise more than 75 per cent of the civil service, predominately in [more vulnerable] non-managerial positions”. In addition to the loss in employment opportunities, unpaid elderly, health and child care burdens shift disproportionately to women, straining their time and access to the labour market (see Bretton Woods Project briefing October 2016). The sharp decline in state spending since 2013 has caused the numbers of hospital beds to be reduced, schools to be closed and childcare assistance to be cut.

Under the IMF programme Ukraine reduced tax rates for large corporations, while increasing tax on consumption, labour and medium and small businesses. The statement argued that women are disproportionately impacted by these changes because “there are more women among small entrepreneurs as compared with men (53% in 2011, according to the World Bank) and, due to a number of constraints, female-headed enterprises are less profitable regardless of the sector of economic activity.” The IMF’s encouragement of corporate tax competition in a so-called ‘race to the bottom’ has been the subject of ongoing civil society concern, as expressed in a recent Oxfam paper.

**Macroeconomic reform programmes at Human Rights Council**

The obligations of states to respect, protect and fulfill economic and social rights in the context of macroeconomic reform programmes under IMF guidance has only recently become the subject of discussion in UN human rights spaces. So far the Human Rights Council, the UN’s principal intergovernmental body responsible for promoting and protecting human rights around the world, has largely overlooked such programmes in its regular triennial sessions. Notable exceptions have been the recent work of some special procedure mandate holders, such as the upcoming report of the independent expert on international order on human rights impacts of the economic policies of the IMF and World Bank. The independent expert on foreign debt is also in the process of producing guidance on human rights impact assessments of economic reform programmes, which is still open for consultation.

WLPF’s recommendations echo calls by these and previous special procedure mandate holders to design macro-economic reform programmes from a human rights perspective and to address their negative impacts on women and the marginalised. Madeleine Rees of WLPF commented that “until the IMF fully recognises how its policy recommendations often disproportionately hurt women and changes its orthodox approach, it will continue to undermine gender equality and women’s rights”.

🔗[tinyurl.com/WILPF-Ukraine](http://tinyurl.com/WILPF-Ukraine)

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**IFI GOVERNANCE**

**news**

**World Bank appoints Georgieva as CEO of IBRD and IDA**

In October last year, World Bank President Jim Yong Kim announced the appointment of Kristalina Georgieva as chief executive officer of the International Bank for Reconstruction and Development (IBRD, the Banks middle income country arm) and the International Development Association (IDA, the World Banks low income country arm). Georgieva started working for the World Bank in 1993 after working as vice president of the European Commission (EC) and losing her bid to become UN Secretary General. Since starting in January Georgieva mentioned to Devex that her “first priority is to build the strength of the IBRD and IDA” and to encourage greater collaboration with the private sector, providing loan packages focusing on regulatory reforms, where “the private sector will do the rest” (see Observer Summer 2017 and Update 86).

The appointment has not been without controversy. In November last year Politico magazine reported on fears over conflicts of interest in Georgieva’s role. It noted concern that she had overseen a new payment structure from the EC to the Bank, while still working at the EC, which would lead to “projects directly carried out by the World Bank... [being] subject to a 17 per cent charge on the cost of personnel and consultants.” Amidst anti-globalisation sentiment, Georgieva’s appointment has been seen to appease western donors amid fears that low interest rates threaten World Bank revenues and that, as noted by the Financial Times, some think that the Bank is ‘sliding into irrelevance’.

Previously, the Bank suffered from widespread discontent by staff (see Observer Winter 2015), as management restructuring resulted in greater ‘centralisation’ (see Update 85). In this light, Paul Cadario, of the University of Toronto’s Munk School of Global Affairs and retired Bank senior manager, said that “Georgieva has helped stabilise Kim’s botched reorganisation, but the organisational silos will be difficult – if not impossible – to fix. Georgieva has, unfortunately, not shown courage or leadership on Kim’s Ivanka Fund or his Pandemic Facility, either. She seems to be micromanaging practice leader appointments, missing an opportunity to break down barriers and reform obsolete processes that are ill-suited to the new context of competition and financial constraint the Bank now finds itself in.”

🔗[tinyurl.com/CEO-IBRD-IDA](http://tinyurl.com/CEO-IBRD-IDA)
CAO opens case in Chile on World Bank project Alto Maipo

In March the Compliance Advisor Ombudsman (CAO), the accountability mechanism of the International Finance Corporation (IFC, the World Bank’s private sector arm), found a complaint on behalf of communities affected by IFC’s investment in the Alto Maipo hydroelectric project in Chile eligible for further assessment (see Observer Autumn 2013). The complaint was filed in January by Chilean environmental NGO Coordinadora Cuidadana No Alto Maipo, Ecosistemas and several international organisations. Groups also filed a similar complaint to the Independent Mechanism for Consultation and Investigation (MICI) of the Inter-American Development Bank (IDB), which was found eligible in May.

According to the CAO, the complainants argued that “the project will lead to diversions of the Maipo river resulting in impacts on water access and quality, farming, tourism and the environment. Further, the complaint raises concerns with regards to the Project’s impact assessment”. The complainants highlighted that the IFC’s and IDB’s financing lacks compliance with the Banks’ own access to information, environmental and social policies. They called for the banks to review if the project complies with their policies and asked the banks not to fund the unexpected cost increases of the project, but instead to divest completely from Alto Maipo.

“This project implies severe and long-term impacts on the Maipo River and the water supply for the Santiago’s metropolitan region,” highlighted Marcela Mella, spokesperson for the Coordinadora, which coordinates hundreds of activists and dozens of organisations against the project. Both the CAO and MICI visited the region in April and heard directly from those affected.

“The policies of IFC and IDB are meant to ensure that projects are designed and implemented after environmental and social issues have been properly assessed to avoid causing harm, this was not the case in this complex project”, added Carla Garcia Zendejas of the Center for International Environmental Law (CIEL). “Now the CAO and the MICI’s investigations can determine if these banks fulfilled their own rules and obligations.”

[Link to CAO-Chile]