The political cost of IMF programmes

In June, King Abdullah II of Jordan accepted the resignation of Prime Minister Hani al-Mulki, amid the biggest protests in Jordan since the 2011 Arab Spring, after spending two years pushing through a series of unpopular government initiatives and IMF-mandated reforms.

Widespread protests broke out throughout Jordan in February in response to the rising cost of living and government initiated tax hikes on basic goods such as bread, alongside a series of controversial decisions made by the government, in part to meet the budget deficit target in line with Jordan’s IMF agreement, which began in 2016.

Unrest erupted again in June over austerity measures, income tax reforms and price hikes, which were the latest in a long line of controversial reforms adopted by the government since the IMF loan programme began.

Amid the chaos, Prime Minister Mulki met with trade unions, who demanded that the highly controversial income tax law be scrapped. Ali Obus of Jordan’s Federation of Unions was quoted in the Guardian asking the state to “maintain its independence and not bow to IMF demands.” However, no agreement was reached. Two days later, Mulki offered his resignation.

The Jordanian IMF loan – what was on the table?

In August 2016, the IMF approved a three-year loan arrangement with Jordan of $723 million under the Extended Fund Facility (EFF), which is a comparatively long type of IMF loan programme designed to address deep structural concerns. The accompanying press release highlighted key challenges for the Jordanian economy, such as the impact of the Syrian refugee crisis and high unemployment.

In the first review under the EFF in June 2017, the IMF was “encouraged by Jordan’s commitment to continue removing exemptions on the general sales, income tax, and custom duties.” Mitsuhiro Furusawa, IMF Deputy Managing Director, further signalled Fund support for the government reforms, stating, “The authorities are committed to continue with a gradual and steady fiscal consolidation to bring public debt toward more sustainable levels. To help public finances rest on a sounder foundation, the removal of exemptions on the general sales tax and custom duties will continue over the program period.” In the following 2017 surveillance review, IMF staff also assessed that the disputed “income tax threshold for individuals and families” would help to “balance efficiency and distributional objectives.”

A June 2017 statement accompanying the latest Jordanian surveillance review by Hazem Beblawi, IMF Executive Director for Jordan and Sami Geadah, its Alternate Executive Director, seemingly aware of evidence on the potentially harmful impacts of such tax reforms on the most vulnerable, noted, “Most of the remaining exemptions were difficult to remove because of their importance for low income households. Nevertheless, further removal of exemptions is planned for 2018, together with better targeting of...
support to the most vulnerable.” However, targeted social protection programmes have come under mounting scrutiny, as recent research has demonstrated vast exclusion rates – particularly for people who are the most vulnerable – as well as weakened social cohesion (see Observer Spring 2018). Likewise, a recent report by Philip Alston, UN Special Rapporteur on human rights and extreme poverty, on the IMF and social protection critiqued the IMF’s position and recommended a human rights-based approach founded on the principle of universalism in line with internationally agreed definitions (see Observer Summer 2018).

The review also noted a “critical need to advance reforms to lower the formal cost of labor”, potentially implying the need for further labour flexibilisation policies widely considered to undermine labour rights, at a time when the relationship between the government and trade unions is already tense. An attached government memorandum in the surveillance review also stated, “in cooperation with the World Bank, we have implemented a number of pilot projects to explore the potential benefits of active labor-market measures”, triggering further concern in particular in light of the Bank’s draft 2019 World Development Report, which endorsed decreased minimum wages, zero-hour contracts and almost ignored fundamental workers’ rights like collective bargaining (see Observer Summer 2018).

On IMF conditionality in Jordan, Gino Brunswick with Brussel-based civil society network Eurodad said, “Since 2012 repeated IMF-programmes have not managed to bring Jordanian debt down, however, they did lock the country’s citizens into a perpetual cycle of austerity with ever more drastic measures and major implications for political stability.”

When asked about the Jordanian reforms squeezing the middle classes, IMF Director of Communications Gerry Rice noted in a March 2017 press briefing, “in order to end the rapid increase in public debt, the program emphasized the need to broaden the tax base as part of the revenue reform, while alleviating the impact on the most vulnerable.” He continued, “The IMF has not made any specific recommendations on which products should be subject to higher taxes. The IMF has also emphasized not raising the prices of goods that are consumed by the poor.”

The IMF and instability trends
Jordan’s relationship with the Fund is filled with memories of political upheaval. In 1989, five people were killed when it was reported by a resident that, “The riots...were ignited by price increases ordered as part of a debt rescheduling deal between Jordan and the International Monetary Fund.” Nearly a decade later, in 1996, with a fresh IMF deal signed, riots once again broke out, as did calls for the administration to resign.

As critics have noted for some time, political upheaval and public outrage due to hardship during IMF agreements are not an uncommon phenomenon (see Update 38). In the last year alone, mass demonstrations specifically targeting IMF programmes have taken place in, among others, Argentina, Egypt, Haiti, Sri Lanka and Tunisia. In Haiti, an IMF monitoring agreement secured in February 2018 resulted in drastic fuel price hikes of up to 51 per cent, triggering widespread violent civil unrest, resulting in the death of several people. In early July, Jack Guy Lafontant, the Haitian prime minister, resigned.

In response to the implications of IMF involvement in Haiti, Alston asserted in a July statement, “The fund has consistently underestimated the importance of calibrating their recommendations to the specific political context, not taking into account the extent to which recommendations are politically viable and socially sustainable.” He stated that such drastic fuel price increases were, “guaranteed to lead to a backlash and bizarrely, undermine the very programs the Fund is trying to implement.” Alston added, “The social and economic and political consequences of cuts of that size are very large.”

The remarks give further weight to the recent Independent Evaluation Office report on fragile states, like Haiti, which found that the IMF’s financial toolkit is “not inherently well suited to the circumstances of fragile states”, due to its relatively short-term focus and that within the Fund “less attention [is] paid to the ability to make a difference to countries’ policy making on the ground” (see Observer Summer 2018).

In Tunisia, IMF-backed austerity measures, as well as hikes in VAT and other taxes including on fuel and electricity resulted in widespread discontent on the streets of Tunisia in January (see Observer Spring 2018).

In Argentina, despite thousands repeatedly protesting an IMF deal, the government, led by President Mauricio Macri, reached an agreement on a 36-month Stand-By Arrangement of $50 billion in June – the largest credit line in the history of the Fund. Mass protests erupted in response, with demonstrators demanding jobs and calling for an emergency budget for the poor. One protestor said to the news outlet Al Jazeera, “We’ve seen the situation deteriorate since Macri took office. We see it in the soup kitchens, we walk the slums, and there is need.” In July, an alliance of Argentine trade unions and civil society sent a letter to IMF Managing Director, Christine Lagarde, once again stressing the opposition of civil society to the IMF deal (see Observer Summer 2018).

In Sri Lanka, protests broke out last year against a new Inland Revenue Bill, which protestors charged “was drafted by the IMF to slap higher taxes on people,” according to the Sri Lanka Daily Mirror, while last year also witnessed immense protests in Egypt over cuts, which the UK-based Guardian newspaper attributed to being intended to “overhaul Egypt’s moribund economy in order to receive a $12bn IMF loan.”

These examples provide new evidence that, as civil society and academics have long maintained, far from being neutral, the fiscal decisions relating to IMF programmes – either as a direct or indirect consequence of loan conditionality – are inherently political and potentially destabilising.

Yet, there appears to be an unwillingness within the institution to accept the impact of IMF policies on instability. In 2016, on the subject of the political economy of structural reforms in Spain, in the face of the widespread protests that took place in Spain that year, Zhu Min, then IMF Deputy Managing Director stated, “I think they [the Spanish government] are doing fantastic jobs”, noting the ‘maturity’ of European societies in understanding “that structural reform is a must.”

Conditions apply
A radical change in the way the IMF deals with the political implications of its programming has been demanded by civil society since the days of the Structural Adjustment Programmes. Only last month, over 50 civil society organisations sent a letter calling on the IMF to drastically rethink its conditionality. The letter stated that, “restrictive fiscal and monetary policies prescribed in IMF loan conditionality squeeze the fiscal space needed for public investment and too often result in devastating consequences – particularly for marginalised groups – at high political cost.”

For additional online content for this issue of the Observer, see brettonwoodsproject.org/observer
The IMF’s approach to social protection and the crisis of multilateralism

Guest analysis by Philip Alston

In May, Christine Lagarde, the IMF’s Managing Director, told an audience in St Petersburg that “we live in times of heightened anxiety” stemming from the aftermath of the last global financial crisis, the unfair sharing of the rewards of globalisation, severe worker displacement from automation and artificial intelligence, and the concentration of immense power in the hands of corporate giants. The solutions she proposed were to rebuild trust in institutions and to reinvigorate the ethos of multilateralism.

Lagarde is right on all counts, but the starting point is to rebuild trust in her own institution and to acknowledge the contributions it made to the problems she identified. The Fund claims to have changed dramatically since its critics demanded in the mid-1980s that it pursue “adjustment programmes, or will be in the near future. Finally, many observers now accept that there are strong links between populism, disillusionment with government, and the exacerbation of economic insecurity caused by the sorts of neoliberal policies with which the Fund has long been synonymous.

The good news is that the Fund has indeed changed many of its positions, some quite radically. They now recognise that significant inequality can undermine growth, that austerity policies can have very negative consequences, and that issues that they once shunned, such as gender equality, governance, climate change, and social protection, can be ‘macro-critical’ and thus warrant being factored into macroeconomic policy (see Observer Summer 2017).

However, the reality is that the Fund’s engagement with social protection remains deeply ambivalent. It includes indicative targets for ‘social spending floors’ in many loan agreements, but these remain largely cosmetic. The Fund does too little in practice to ensure that the most vulnerable members of society are protected from the otherwise potentially devastating effects of the sudden fiscal consolidation it regularly prescribes.

In general, many IMF officials continue to see social protection as a temporary, stop-gap measure rather than a set of long-term policies that can stimulate growth, provide a better workforce, avoid the drain on emergency services, improve economic security, and undermine populist demands. They fetishise the narrow targeting of benefits, despite compelling evidence that the proxy means tests used are deeply flawed, resulting in major leakages to the truly needy (see Observer Winter 2016).

The findings of the report demonstrate that the IMF’s position on social protection matters a great deal in practice. First, it is the single most influential actor in relation to fiscal policy and in determining whether fiscal space is created for social protection. Second, the majority of the world’s low-income countries – in which fewer than one person in five is covered by any form of social protection – are part of IMF programmes, or will be in the near future.

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The good news is that the Fund has indeed changed many of its positions, some quite radically. They now recognise that significant inequality can undermine growth, that austerity policies can have very negative consequences, and that issues that they once shunned, such as gender equality, governance, climate change, and social protection, can be ‘macro-critical’ and thus warrant being factored into macroeconomic policy (see Observer Summer 2017).

However, the reality is that the Fund’s engagement with social protection remains deeply ambivalent. It includes indicative targets for ‘social spending floors’ in many loan agreements, but these remain largely cosmetic. The Fund does too little in practice to ensure that the most vulnerable members of society are protected from the otherwise potentially devastating effects of the sudden fiscal consolidation it regularly prescribes. Strikingly, given the Fund’s admirable predilection for evidence-based policies, it does not evaluate either the impact of its own interventions on the welfare of vulnerable groups or whether social protection has increased or decreased as a result of its programmes. Admittedly, such evaluations are complex, but so too are the calculations on which they base many of their other policies.

In general, many IMF officials continue to see social protection as a temporary, stop-gap measure rather than a set of long-term policies that can stimulate growth, provide a better workforce, avoid the drain on emergency services, improve economic security, and undermine populist demands. They fetishise the narrow targeting of benefits, despite compelling evidence that the proxy means tests used are deeply flawed, resulting in major leakages to the truly needy (see Observer Winter 2016).

Moreover, excessive targeting means social protection programmes have fewer beneficiaries, thus eliminating political support for such programmes.

The IMF is currently re-evaluating its social protection programmes, but its real priorities are unlikely to change unless there is a serious policy commitment from the top to make social protection an integral part of its fiscal policies (see Observer Winter 2017). The Fund needs to move beyond seeing engagement with civil society as essentially a public relations exercise, acknowledging that gender and other forms of diversity need to apply to its own staff as well as its clients, and adopt an ethical framework that values the protection of the poor rather than treating social protection as an occasional afterthought. In the past, the IMF has been an organisation with a large brain, an unhealthy ego, and a tiny conscience. If Christine Lagarde really wants to restore faith in institutions and multilateralism, and wants to undermine the appeal of populist forces, this is the place to start.
The future of work has become a popular theme for research in international organisations and institutes. The UN’s International Labour Organization has created a commission on the topic and will devote its 100th anniversary conference in 2019 to it.

The main themes of almost all the research have been the prediction of massive job dislocation, increased precarious work, downward pressure on wages and exacerbated inequality unless robust policies are put in place to protect workers’ interests. Even a recent IMF working paper modelling the impact of new technologies cautioned that without vigorous policy responses, “the labour share [of national income] declines substantially and overall inequality rises”.

The World Bank’s upcoming World Development Report 2019: The Changing Nature of Work, scheduled for publication in October, presents a vivid contrast to this understanding. The WDR seeks to debunk what it considers misapprehensions about the impact of the ‘gig economy’ and claims that, contrary to popular perceptions and substantial evidence, inequality is decreasing. High rates of job informality in developing economies may be a legitimate issue but, says the report, they have always been with us and can be resolved if regulations on business operations, such as minimum wages, are substantially weakened.

Social security systems financed through contributions from employers and employees to provide pensions and other benefits are, according to the report, another legacy of bygone days that cannot play a meaningful role in developing countries. The draft WDR 2019 suggests no longer obliging firms to assume costs of social protection.

Instead, basic income support would be provided by the State, financed through general taxation. While the draft report suggests that some under-taxed sectors or activities could provide revenue for this kind of basic support, these ideas are conjectural at best. Without extensively enhanced and highly unlikely (in the foreseeable future) international tax cooperation, developing countries will instead have to rely on the other major pillar for financing social protection: labor market deregulation.

The changing nature of work theme may be new, but the proposed policy refrain sounds disarmingly familiar to those acquainted with early editions of the Bank’s flagship Doing Business Report (see Observer Spring 2018). For years that report has advocated large-scale labour market deregulation and still supports reducing firms’ obligations to pay taxes and contribute to workers’ pensions or occupational health and safety plans.

Transferring costs away from business and onto workers and the State is not therefore a new doctrine in Bank publications, and it is not surprising to find it in the draft WDR 2019.

More surprising is the lengths to which the WDR 2019 authors go to concoct a reality that justifies shifting the burden of adjustment from business owners to everyone else. First is their assertion that inequality is decreasing, which they ‘prove’ by presenting a data set of Gini coefficients for a limited number of countries that begins in 2008, the year of the global economic crisis. This ignores a clear trend of increasing income and wealth inequality in most countries since the 1980s and is contradicted by declining wage-share data to which the WDR briefly refers.

Another is the repeated claim that burdensome labour market and other regulations are the reason that informality remains high, even though the report concedes there is limited evidence of this and shows a steady decrease in business creation costs over the past 15 years without perceptible impacts on informality.

The Bank’s earlier WDR 2013: Jobs carried out an extensive review of research on the impacts of labour regulations on employment and found that they “tend to be insignificant or modest.” The draft WDR 2019 not only ignores this assessment but departs from WDR 2013, which advocated a level of regulation that is neither “excessive or insufficient”, by encouraging across-the-board labour market deregulation in all countries.

Given the future of work theme, in March the International Trade Union Confederation (ITUC) organised a 38-member delegation of labour economists to meet with the WDR team. The latter cancelled the meeting hours before it was due to take place. Only after the International Trade Union Confederation’s general secretary appealed to Bank President Jim Yong Kim and concerns about the report got press attention did a consultation finally occur.

The ITUC followed up by submitting 27 pages of concerns and suggestions to the WDR authors. Later, international union bodies and civil society organisations sent a joint letter to the Bank calling for a major redrafting. As of this writing, the report continues to espouse a starkly pro-business agenda which contradicts the Bank’s own objective to reduce global inequality.
World Bank DPL paves way for offshore drilling in Guyana, despite CSO concerns

Bank approves $35 million development policy loan to support offshore drilling

CSO group challenging legality of offshore drilling permits

CSOs concerned DPLs are promoting fossil fuels

The World Bank Group’s board approved a $35 million development policy loan (DPL) to support offshore drilling in Guyana in late June, even as Guyanese civil society is challenging the legality of the petroleum production licences issued by their government to three oil companies.

The Bank’s DPL is paving the way for offshore drilling that will tap into major recently-discovered oil reserves off Guyana’s coast. According to Guyanese news source Stabroek News, the DPL will “support Guyana’s efforts to bolster financial sector development and fiscal management to better prepare the country to tap its newly discovered oil and gas reserves.”

Separate reports have suggested that, in addition to the recent DPL, the Bank is slated to fund a new government unit to help support offshore drilling in Guyana. According to a May article published in Guyanese media outlet Demerara Waves, “A World Bank-funded energy sector unit in the Ministry of Finance is expected to lay the groundwork for a number of major projects including piping natural gas from an offshore ExxonMobil oil well ... for electricity generation.” The energy sector unit was established, according to Guyana’s Natural Resources Minister Raphael Trotman, “to allow Guyana to get an advance of US$1.7 million of the US$20 million loan” from the World Bank.

The World Bank’s DPL comes at a time when a civil society-led campaign, ‘A Fair Deal for Guyana, A Fair Deal for the Planet’, is challenging the legality of the petroleum production licences the government has issued to private firms. They note, “The Government has granted a petroleum production licence to three oil companies. Only one company has been issued with a permit by the Environmental Protection Agency. We believe this puts Guyana at risk.” In late June, Guyana’s Appeals Court ruled that the case must be heard for a second time by the country’s High Court, to decide on the legality of the petroleum production licences.

The campaign has also raised concerns about the details of the deal signed between Guyana’s government and the three companies, with oil companies paying Guyana’s government ministers a signing bonus of $20 million, according to a report in news outlet the Guyana Times. It added that “The oil deal itself is scandalously low – the oil companies will pay no tax and the royalty is set at a derisory 2%.”

There are also serious concerns about the environmental risks for Guyana and the wider Caribbean posed by deep-water oil production: According to the campaign, “Even without any accidents, the planned oil production will produce thousands of tonnes of gas, liquid and solid emissions including pouring 4,000 barrels of sewage every day into the sea and nearly 13,000 tonnes of solid waste to be deposited in land fill sites in Guyana.” On a more global scale, the campaign points out that offshore drilling would transform Guyana from a carbon sink to a source of carbon emissions, undermining the fight against climate change.

Although the Bank announced in December that it will phase out project lending for ‘upstream’ oil and gas after 2019 (see Observer Spring 2018), civil society groups have previously documented that it is supporting fossil fuels through its other lending instruments, including DPLs, which are fungible budget support given to countries. These often include ‘prior actions’ (i.e. specific conditions) required to release the funds; a 2017 report by Amsterdam-based civil society organisation Bank Information Centre Europe found that in Egypt, Indonesia, Peru and Mozambique, prior actions in DPLs aided the fossil fuel and extractive industries, serving as de facto fossil fuel subsidies. Civil society groups have called on the Bank to design appropriate environmental and social safeguards for DPLs, as the instrument is not covered by the Bank’s newly adopted Environmental and Social Framework (see Observer Summer 2018).
Privatised profits, socialised losses: European reports call World Bank’s PPP push in to question

NAO and ECA reports highlight negative impact of PPPs
Civil society calls for World Bank to initiate PPP moratorium

Two damning reports were released in January and March, exposing the scale of damage caused by public-private partnerships (PPPs) in the UK and Europe. These reports add more weight to broader concerns around PPPs, not least in relation to the World Bank’s consistent promotion of them (see Observer Winter 2017).

Fears around the harmful consequences of PPPs substantially pre-date the new reports. Global civil society groups and coalitions have previously highlighted the risks posed by PPPs to public finances and human rights and detailed concerns at their tendency to erode democratic accountability.

During a Civil Society Policy Forum session at the World Bank and IMF’s Spring Meetings in April exploring the Bank’s promotion of PPPs, alarm was raised around the continued prominence of troubled PPPs projects. The event, entitled, ‘Promotion of public-private partnerships - exporting a failed model?’ used the negative experiences of PPPs in the Global North outlined by the two reports, and the fact that these had taken place in countries with relatively strong administrative capacity and resources, to call for a halt to the World Bank’s strategy of aggressively pushing PPPs in the Global South in a bid to compensate for the alleged development finance shortfall.

This event followed an open letter published in April with 84 signatories from three continents calling on World Bank executive directors to order a moratorium on World Bank support for PPPs, pending independent research on their costs and benefits. This follows an October 2017 PPP Manifesto signed by 152 civil society organisations (CSOs), which highlighted a series of concerns about PPPs, including the macroeconomic dangers posed by hidden debts and contingent liabilities often found in PPP contracts.

NAO report and the missing billions
In January, the UK’s National Audit Office (NAO) launched a report on the rationale, costs and benefits of private finance initiatives, the UK’s PPP model, which totals over 700 operational contracts. The report found that the cost of the PPP financing model in the UK could be up to 40 per cent greater than relying solely on public funds and that even if no new deals were entered in to, future charges will continue in to 2040s amounting to around £199 billion, equivalent to UK health expenditure for the entirety of 2017. This follows a 2014 World Bank Independent Evaluation Group report finding that the public sector liabilities of PPPs are substantial and that while the World Bank has “supported countries to create an enabling environment for PPPs … advice on how to manage fiscal implications from PPPs is rarely given.”

Days before the report was launched, Carillion, a major UK company heavily involved in UK PPPs, declared insolvency. This reignited the debate on the future of PPPs and the UK’s role in exporting this failed model, and led to a report investigating the government’s handling of Carillion, revealing that the liquidation will cost the UK taxpayer around £148 million.

The negative impact of failed PPPs, as outlined in the NAO report, on an economy the size and diversity of the UK added weight to CSO concerns about the potential negative impact of the World Bank’s PPP agenda in low-income countries.

European Court of Auditors report – where is our value for money?

In March, the European Court of Auditors (ECA) published a highly critical report entitled Public Private Partnerships in the EU: Widespread shortcomings and limited benefits. In line with the NAO’s findings, the ECA found that the audited PPPs “cannot be regarded as an economically viable option for delivering public infrastructure” highlighting widespread shortcomings and limited benefits.

Areas such as a lack of value for money and decreased transparency were also exposed as risks of PPP arrangements.Opaque strategies, inadequate analyses and off-balance-sheet recordings were identified as creating uneven risk-sharing arrangements. In line with demands from civil society, the report recommended that the European Commission and the member states “do not promote a more intensive and widespread use of PPPs until the issues identified are addressed and [its] recommendations successfully implemented.”
IEO fragility report: IMF less concerned with “making a real difference on the ground”

IEO report questions credibility of Fund’s commitment to fragility
IMF board recommends to FCS in line with World Bank

In April, the IMF’s Independent Evaluation Office (IEO, see Observer Winter 2015) published its latest report, The IMF and Fragile States, assessing the IMF’s engagement with countries in fragile and conflict-affected situations (FCS). The report found the IMF’s approach conflicted with and was not well adapted to the distinct needs of FCS, “leaving questions about the credibility of the Fund’s commitment in this area.”

The report outlined a number of areas of concern, including that the IMF’s financial toolkit is “not inherently well suited to the circumstances of fragile states”, due to its relatively short-term focus, and that staff guidance has “often treated fragile states like any other country, rather than as requiring distinctive treatment.”

Fragility not “intellectually interesting” to IMF economists

In addition to structural concerns, the report highlighted the management of human resources as problematic, noting a widespread perception of stigma attached to working on FCS within the institution and calling for a fundamental change in staff incentives to encourage work in these settings. The report observed that, “IMF economists have advanced degrees in macroeconomics or finance, with comparatively less interest in development issues,” and that “many of them do not find it intellectually interesting or challenging to work on FCS.” It noted that, “there is a tendency within the IMF to consider that the mark of a good economist is an ability to do analytical work on complex economies, with less attention paid to the ability to make a difference to countries’ policy making on the ground.” Comparing the IMF to development banks and aid agencies, the IEO cited one interviewee as saying that the latter place much greater value on development work and “making a real difference on the ground.”

Rebecca Engel of the University of York responded, “It is remarkable that the IEO report confirms that the IMF continues to neglect its responsibilities in conflict-affected states. The failure to integrate conflict and political economy analyses into their policy-making in FCS and the lack of concern for overall development outcomes has proven to undermine the fragile political settlement of states seeking IMF support. Timor-Leste serves as just one example where IMF policies, after independence in 2002, contributed to a distancing of the state from its citizenry and impeded the state’s ability to manage expectations within a divided society. It is surprising that in 2018 the institution is seemingly unformed.”

Echoing calls by Marcus Manuel from UK-based development think-tank Overseas Development Institute (see Observer Spring 2018), the report identified the IMF’s security policies, which restrict staff’s ability to be physically present in many FCS, as significantly impeding the Fund’s impact and called for pragmatic ways of increasing the Fund’s field presence in high-risk locations.

In her response to the report, the IMF’s Managing Director Christine Lagarde provided only ‘qualified support’ to the recommendations pertaining to staff incentives and field presence, in contrast to ‘support’ for all other recommendations. She reiterated that the ‘paramount objective’ must be that of ensuring staff safety, signalling that no significant changes are likely to be made in the IMF’s security policies.

IMF board reaffirms support for fragility work

While executive directors expressed diverging views on adopting the IMF lending toolkit for FCS in a March board meeting, with some cautioning against reducing the strength of programme conditionality and others suggesting lengthening programme duration in FCS, the board broadly agreed with most of the report’s recommendations. This included making a high-level commitment to reinforcing work on FCS as a top priority for the IMF.

The IMF’s commitment goes hand-in-hand with the push for greater World Bank Group focus on FCS, as it announced in December that IDA18 will double its resources to FCS. The Bank’s general capital increase endorsed by the board in April also has an explicit focus on concentrating more WBG resources in FCS (see Dispatch Spring 2018). Given that the Bank continues to face substantial challenges in its programming in FCS despite its concerted efforts to improve in this area, the IMF will be hard-pressed to significantly improve its performance in FCS without urgently instituting the changes the IEO has called for in its report.
Global Fight Inequality Alliance prepares for BWIs’ Annual Meetings in Bali

In June, the Fight Inequality Alliance held its fourth global gathering in Brazil, a country that has recently been subjected to Bank (see Observer Spring 2018) and Fund (see Observer Spring 2018) policies likely to exacerbate already extreme levels of wealth concentration. Alliance partners met in São Paulo to exchange ideas and strategies from partners involved in local, regional and international struggles against the global inequality crisis.

The Alliance brings together social movements, trade unions and NGOs, such as the Asian People’s Movement on Debt & Development and the Movimento dos Trabalhadores Rurais Sem Terra, Brazil, to take action against the “current shocking levels of inequality” and to “build a more equal and sustainable world” through a variety of means. For example, the Alliance held a Fight Inequality Week of Action, which took place under the theme “End the Age of Greed” in parallel to the World Economic Forum held in Davos in January.

The meeting in Brazil followed the launch in April of a Declaration from the first Pan-African Alliance gathering in Arusha, Tanzania, in which signatories expressed outrage at the current level of inequality between and within countries and pledged to work in solidarity with African peoples everywhere.

Reducing inequality comprises one of the Bank’s twin goals adopted in 2013, via fostering “income growth of the bottom 40 percent of the population in each country.” The IMF has recently, if less formally, also acknowledged the potentially negative impacts of inequality, in a so-called ‘IMF Spring’ (see Observer Summer 2017).

While much has been said about the change in the Fund’s rhetoric and some of its practices, as the UN Special Rapporteur on extreme poverty and human rights Philip Aston highlighted, “the Fund does too little in practice to ensure that the most vulnerable members of society are protected from the otherwise potentially devastating effects of the sudden fiscal consolidation it regularly prescribes” (see Observer Summer 2018). The Special Rapporteur’s criticism adds to critiques that highlight the negative impact of the Fund’s policies on gender equality (see BWP briefing ‘The IMF and Gender Equality’) and underscore the deleterious impact of the IMF’s policies on social protection in low-income countries (see Observer Summer 2017).

Concerns about the impact of Bank policies on inequality are wide-ranging. Civil society remains highly critical of the Bank’s approach to tax and regulations, as seen in its opposition to the Bank’s Doing Business Report (see Observer Winter 2017) and the Bank’s negative impact on inequality, given its continued push for public-private partnerships (see Observer Spring 2018; CSPF meeting minutes Spring 2018), its contribution to the privatisation of essential social services such as health and education, and its increasing reliance on the leveraging of private sector investment, as evidenced in its Maximising Finance for Development approach (see Observer Summer 2017). The Bank’s draft 2019 World Development Report on The Changing Nature of Work gives members of the Alliance and others concerned with the global inequality crisis additional cause for concern, as it advocates policies known to increase inequality, such as the weakening of labour unions and flexibilisation of labour markets (see Observer Summer 2018).

Following recent Alliance events, participants in Brazil turned their attention to the upcoming World Bank and IMF Annual Meetings to be held in Bali, Indonesia, from 8–14 October, where regional groups are preparing a series of activities. Jenny Ricks, of the Fight Inequality Alliance, noted that “at the annual meetings this year, people living on the frontlines of inequality will be making their voices heard. From Argentina to Tunisia and Haiti, and beyond, people are saying enough to IFI policies and programmes that fuel the inequality crisis. But Bali will also be a space where movements define the alternatives we need to create a just, equal and sustainable world – the solutions start with us.”

The planned actions in Bali follow the Alliance’s activities at the 2017 IMF and World Bank Annual Meetings in Washington, where it conducted a protest and released a statement representing 133 organisations demanding that the World Bank and IMF “stop fuelling the global inequality crisis” (see Dispatch Autumn 2017).
IFC takes its first steps to address Bujagali dam complaints

After Uganda’s Bujagali hydroelectric dam received a refinancing boost from the World Bank Group’s (WBG) board in March, the International Finance Corporation (IFC, the Bank’s private investment arm) announced steps in May to address issues raised in previous Compliance Advisor Ombudsman (CAO, the IFC’s independent accountability mechanism) complaints.

The IFC outlined the initial activities it has committed to, in order to address issues stemming from the project found by CAO. These refer to cases 04, 06 and 07 of the CAO’s investigation of a complaint against Bujagali Energy Ltd and World Power Holdings, Uganda. Whilst no timeline has been provided by IFC for the proposed activities, they have stated that they are committed to providing an update on any progress made by March 2019. Josh Klemm of US-based NGO International Rivers remarked that whilst, “it’s too early to prejudge the outcome, what is most important is for IFC to undertake meaningful consultation with the aggrieved parties, and to set aside funds to compensate them.”

Prior to the Bank’s decision to approve refinancing, 23 civil society organisations, including the Uganda-based National Association of Professional Environmentalists and the National Union of Disabled Persons of Uganda, wrote a letter to IFC CEO Philippe Le Houérou and World Bank Group CEO Kristalina Georgieva, voicing their concerns about unresolved environmental and social issues related to the dam, including land compensation and compensation for workers stemming from the dam’s construction between 2007 and 2012 (see Update 59, 56, 55).

More recently, a complaint made in 2016 concerning Bujagali’s environmental offset area – Kalagala falls – has resurfaced. As summarised in an article published by US-based CSO Bank Information Center, “The complaint alleges that [Bank] Management failed to take appropriate actions to protect an offset area it agreed...through a written agreement with the government of Uganda, in violation of its operational policies.” The Bank’s board is expected to make a decision in August about whether this complaint warrants an investigation by the Bank’s accountability mechanism, the Inspection Panel.

World Bank general capital increase to be formalised in October

The World Bank announced during its Spring Meetings in April that shareholders had agreed a substantial $13 billion capital increase for the institution. The increase, agreed after what news site Devex described as “tense negotiations” is comprised of a $7.5 billion injection for the International Bank for Reconstruction and Development (IBRD), the World Bank’s middle-income lending arm; and $5.5 billion for the International Finance Corporation (IFC, the Bank’s private sector arm).

As news agency Reuters reported, “the agreement will lift China’s shareholding in IBRD to 6.01 percent from 4.68 percent, while the U.S. share would dip slightly to 16.77 percent from 16.89 percent. Washington will still keep its veto power over IBRD and IFC decisions.” Giving in to a key US demand aimed at decreasing lending to China, shareholders agreed to change IBRD’s lending rules to charge higher rates for developing countries with higher incomes, to discourage them from excessive borrowing. As noted in April by the UK’s secretary of state for international development, the increase is also premised on a greater focus on fragile states and increased climate-related investments.

Throughout the negotiation process, in order to gain support from civil society, management and the board stressed that the capital increase and other reforms, as outlined in its Report to Governors, would result in a ‘bigger and better’ Bank in line with civil society demands.

European civil society organisations (CSOs) have, however, on several occasions stressed that challenges to the Bank’s ability to meet its development objectives are not primarily a question of resources. They instead underlined the need for substantial reforms to the Bank’s governance structure, the development and implementation of a human rights policy, a focus on developmental additionality and transformational impact of Bank activities, and a realignment of staff incentives (see Dispatch, Spring 2018). CSOs feared that in the absence of these and other changes, the capital increase could work against the Bank’s support for and adherence to international human rights standards.
World Bank announces new chief economist, IP chairperson

In April, World Bank Group (WBG) president Jim Yong Kim announced the appointment of Pinelopi Koujianou (Penny) Goldberg, of Yale University, as chief economist. Goldberg was one of only three tenured female professors at Yale and the first female editor in chief of the American Economic Review. Her current research interests include the effects of trade liberalisation on growth and income distribution.

Her appointment follows the controversial departure of Paul Romer in January, after he questioned the integrity and validity of the Bank’s research in an interview with the Wall Street Journal. He suggested that the World Bank’s research may have political motivations, and highlighted inconsistencies in the methodology of the much-criticised Doing Business Report’s rankings (see Observer Spring 2018). Romer later recanted the claims in a personal blog post following his resignation.

Imrana Jalal became the newest member of the Inspection Panel, the Bank’s independent complaints mechanism. Beginning in December, she will succeed Gonzalo Castro de la Mata as the next chairperson. Prior to joining the panel, Jalal was a principal social development specialist in gender and development at the Asian Development Bank. She also served on the executive board of the International Commission of Jurists and was a commissioner on the Fiji Human Rights Commission.

The World Bank has previously faced criticism from civil society organisations (CSOs) about the hiring process for members of the Inspection Panel. Kindra Mohr of US-based CSO Accountability Counsel noted that, “The legitimacy and independence of the Panel are closely tied to this hiring process. Given that the Bank’s Board is currently considering how to expand the Panel’s ‘toolkit’ and enhance its ability to address community concerns, the Bank’s leadership should also update this hiring practice to ensure that the Panel is independent in both perception and reality, reflecting best practice at other international financial institutions.”

Development banks pump more money into Southern Gas Corridor, despite fresh concerns

Questions have been raised about the future of the Trans-Adriatic Pipeline (TAP), after Italy’s new coalition government announced in June that it will review its support for the project. Italy’s new environment minister, Sergio Costa of the 5-Star movement, said in a written response to reporters, “given falling gas demand [in Italy], that project [TAP] today looks pointless.”

TAP is the final leg of the Southern Gas Corridor (SGC), a mega-project that has received funding from the World Bank and other multilateral development banks (MDBs) to bring Azeri gas to Europe via Turkey and other transit countries (see Observer Spring 2018, Autumn 2017).

According to recent reports, “The TAP consortium, which includes British oil group BP, Italy’s Snam and Spain’s Enagas, has said re-routing the pipeline away from Italy is not an option … [and] redirecting it inside Italy could delay the project by four to five years.”

Despite these concerns, the European Bank for Reconstruction and Development (EBRD) approved a €500 million loan for TAP on 4 July. This brings MDBs’ total funding for the SGC to over €6 billion, with the World Bank approving $500 million loans to Turkey and Azerbaijan, respectively, in 2016 (see Observer Autumn 2017).

Fidanka McGrath of the European civil society network Bankwatch commented, “The massive injection of public money in the Southern Gas Corridor, that TAP is part of, has not been enough to make right everything that is wrong with the pipeline: from fuelling corrupt and oppressive regimes, the project tramples on the rights of farmers and communities, and ends by locking in Europe to fossil fuels.”
US Supreme Court to hear case challenging IFC’s claim to absolute immunity

The US Supreme Court agreed in May to hear the *Jam versus IFC* case and to decide on whether the International Finance Corporation (IFC, the private sector arm of the World Bank) should enjoy immunity in cases in which its actions resulted in harm. US NGO EarthRights International (ERI) noted that the lawsuit, filed by a group of Indian fishermen harmed by the IFC funded *Tata Mundra coal-fired power plant*, is a landmark case, since the Supreme Court has never before addressed the question of “whether international organizations [like the IFC] can be sued – or whether, as the IFC claims, they are entitled to special immunity from suit in U.S. courts” (see Observer Spring 2018).

The IFC claims it has ‘absolute’ immunity under the International Organizations Immunities Act (*IOIA*), which grants international organisations “the same immunity from suit and every form of judicial process as is enjoyed by foreign governments.” The plaintiffs, however, note that foreign governments’ immunity is now determined by the 1976 Foreign Sovereign Immunities Act (*FSIA*), under which states’ immunity cannot be granted in cases arising from their commercial activities and therefore argue that the IFC’s immunity is similarly restricted.

According to Michelle Harrison of ERI, one of the plaintiffs’ attorneys, “This case highlights what should be an obvious point: Institutions that believe they are above the law, act like it. By choosing to hide behind immunity in cases where even its own grievance mechanism has called for remedial action, IFC undermines its credibility as a poverty fighting institution. Our clients believe no one is above the law, and we believe the law is on their side. Accountability is in their interest, but it’s also in IFC’s interest to ensure the costs of its reckless lending aren’t borne by the poorest – the very people IFC was created to help.”

The IFC’s stated mission is “to promote sustainable private sector investment in developing countries, helping to reduce poverty and improve people’s lives,” and its investments are aimed at ending extreme poverty, “with the intent to ‘do no harm’ to people and the environment.” The IFC must *supervise, monitor and ensure* its clients’ compliance with these goals (see Observer Spring 2016). However, when companies fail to do so, the IFC has no enforcement authority. The Compliance Advisor Ombudsman’s (*CAO*, the IFC’s accountability mechanism) powers are limited to reviewing IFC compliance with its own *Performance Standards* and issuing recommendations but, unlike a court, it has *no power or resources* to enforce its findings. In addition, even when the CAO documents damages caused, the IFC does not have resources set aside to provide compensation.

The significance of recent positive steps taken by the IFC, such as the establishment of a new development outcome framework, *Anticipated Impact Measurement and Monitoring (AIMM)* (see Observer Spring 2018), and the *reduction* of the number of high risk financial intermediary investments, is eroded by its insistence on avoiding accountability by hiding behind immunity.

If the Supreme Court rules in the plaintiff’s favour, this case may pave the way for communities harmed by the actions of IFC and other international organisations to seek legal redress currently denied to them.
IEG findings cast doubt on Bank’s ability to deliver on general capital increase

IEG report critical of Bank’s capacity to use evaluations to inform policies

In June the World Bank’s Independent Evaluation Group (IEG, see Observer Winter 2017) published its annual evaluation of the “development effectiveness” of five of the World Bank Group (WBG) institutions: the International Bank for Reconstruction and Development (IBRD), the World Bank’s middle income lending arm; the International Development Association (IDA) – its low income lending arm; the International Finance Corporation (IFC), the Bank’s private sector lending arm; and the Multilateral Investment Guarantee Agency (MIGA).

This year’s report included a thematic focus on environmental sustainability. The report, Results and Performance of the World Bank Group 2017, outlined concerns about the specific development effectiveness of the Bank’s institutions and raised serious questions about whether the World Bank’s organisational environment encourages it to use “findings from evaluation[s] – whether from IEG or others – [to] inform the World Bank’s operations as a matter of course.” This finding raises important issues ahead of the formalisation of the World Bank’s general capital increase at this year’s Annual Meetings in Indonesia. The report provides additional evidence in support of civil society’s analysis that the key challenges faced by the Bank in meeting its development objectives are structural rather than financial (see Observer Summer 2018).

The IEG used two parameters to evaluate the Group’s development effectiveness: development outcome and World Bank performance. The IEG’s analysis of the former was based on the extent to which project results at completion met the development outcome objectives predicted at the design phase. According to the IEG, “the World Bank performance rating relies on factors within the control of the Bank – for example, whether the project design is suited to the needs of its beneficiaries.”

The environment: Despite progress, significant shortcomings remain

On a positive note, the report found that, compared with the last report, the Bank’s “share of project components with potential environmental benefits increased from 33 percent to 37 percent” with the IFC witnessing an increase from 31 per cent to 35 per cent in “potential environmental benefits from financed activities.” For MIGA, “the share of political risk guarantee projects with potential environmental benefits increased from a low base of 8 percent to 36 percent.” In noting the positive trend, however, the IEG, echoing longstanding CSO concerns (see Observer Spring 2018), asked whether “these increases are sufficient, given the scale of pollution, environmental degradation, and climate change.”

The report also echoed persistent civil society concerns that the WBG lacks adequate information and data on the environmental impacts of its entire portfolio, such as its aggregate greenhouse gas emissions, impact of development policy lending and supervision of financial intermediary clients (see Observer Winter 2017). It stressed that “existing systems are limited by what can be observed at the point of evaluation and are often not able to capture longer-term results.” Further aligning itself with persistent critiques of the IFC in particular (see CSPF meeting notes Spring 2018), the IEG stressed that “for IFC, disclosure of project-level environmental and social information from monitoring and supervision reports during implementation is still inadequate, and third-party monitoring could be used more widely.”

The report, in considering management’s implementation of its past environment-related recommendations, found that, “Environmental recommendations to generate knowledge, enhance use of metrics, or measure the impact of Bank Group interventions... were the least likely to be fully implemented.” The IEG noted the need for better evidence on the impact of WBG interventions and improved reporting of environmental impacts, especially outside of core environmental interventions. It also identified several weaknesses in the Bank’s monitoring and evaluation capacity, including “secondary prioritization of knowledge and learning behind operational delivery.”

Further doubts raised about Bank’s MFD strategy

The report’s findings provide further evidence in support of civil society’s critique of the Bank’s “Maximising Finance for Development” (MFD) strategy – which some within civil society have taken to calling “Minimising Finance for Development” (see Observer Summer 2017). It raises important questions about the development logic and consequences of the Bank’s increasing reliance on the IFC to effectively ‘leverage private sector’ investment to support its development mandate.

The IEG noted that, “Development outcome ratings for IFC investment projects continued a downward trend” started in 2008, stressing that “only half the projects evaluated” for the current report “were rated mostly successful or better.” The report was particularly damning for the MFD agenda, which relies on IFC work ‘upstream’ through its Advisory Services, where “the decline in development effectiveness rating was even sharper than for IFC Investment Services projects,” with projects rated mostly successful or better for development effectiveness falling “to 49 percent in FY14–16.” The IEG stressed that “this is the lowest positive development effectiveness rating registered since IEG first started reviewing IFC Advisory Services projects in 2008.”

Equally concerning, the report noted that, the “IFC typically engages in projects at the stage leading up to the transaction rather than the early design stage; this means that IFC is less able than the World Bank to influence the design of projects it finances.” This contradicts IFC’s often-repeated justification that, whatever the challenges faced in terms of project implementation, it continues to play an important role in changing private sector behaviour so that it is more closely in line with development objectives.

Inside the ‘Solutions’ Bank’s echo chamber

Perhaps the most troublesome of the IEG’s findings relates to the unwillingness of the ‘Solutions Bank’, as the WBG markets
itself, to engage with, learn from and adapt the implementation of its activities to robust critique. The report noted that while management is only required to report on the IEG recommendations to which it has agreed, after four years “Only 52 per cent of the recommendations have been implemented to a high or complete degree.” Considering management action plans that respond to IEG recommendations, the report also noted that, “action plans are not discussed by CODE [the Bank’s Development Committee] or Board members, and IEG acceptance of action plans is not required”, continuing that “the risk exists that IEG recommendations remain underaddressed even when action plans are fully implemented.”

It seems from the IEG report that trends highlighted in the 2006 *Evaluation of World Bank Research, 1998 – 2005* led by Angus Deaton about the nature of the Bank’s self-referential approach to research and learning remain sadly apt. The IEG’s conclusion that the Bank’s organisational environment may not make the institution well-suited to engaging with outside critique echoes that of the Deaton report, which noted that “a high proportion” of the citations in a significant number of Bank papers “are to other Bank papers, many of them unpublished. In some cases ... the degree of self-reference rises almost to the level of parody.”

While the IEG report did not assess the degree to which Bank policy recommendations are based on robust analysis and data, it raised questions about evidence, data and monitoring and evaluation that are sadly consistent with the thrust of the Deaton report findings, which underscored that in many cases policy conclusions in Bank papers “are rarely well based on the preceding analysis.” The unwillingness of Bank management to change its position when faced with the lack of robust evidence in support of its policy recommendations can also be seen in its continued use of the country ratings in its Doing Business Report, despite the recommendations of a 2008 internal evaluation and extensive civil society and academic criticism (see Observer *Winter 2017-2018*). The substance of the Bank’s upcoming World Development Report on the *Changing Nature of Work* and reluctance to consult with critics further highlight the relevance of the IEG’s findings (see Observer *Summer 2018*).

The findings should raise alarms among the Bank’s shareholders, who have just recently agreed a significant capital increase to support a “bigger and better” Bank.

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### World Bank releases revised ESF Guidance Notes for Borrowers

The World Bank released its revised *Guidance Notes for Borrowers* in late June, after receiving more than 3,000 total comments from civil society organisations (CSOs) and others on the draft versions of the notes during a comment period that ended in December (see Observer *Spring 2018*).

The notes are designed to provide governments and other borrowers with guidance on implementing the ten standards that form the World Bank’s new Environmental and Social Framework (ESF) safeguards, which will be operationalised from October. Despite repeated assurances from the Bank during the four-year-long consultation period on the ESF from 2012-2016 that the notes would help to address concerns CSOs expressed about potential dilution of the Bank’s safeguards (see Observer *Autumn 2016*), the notes still fail to address key issues raised by CSOs.

For example, in response to comments received on the guidance note on Indigenous Peoples (ESS7), which suggested making explicit reference to international human rights mechanisms, the Bank noted in its response matrix (where it detailed how it dealt with all comments), “A human rights-based approach is outside the scope of the ESF.” This seems to validate the criticism leveled at the Bank in 2015 by the UN Special Rapporteur on extreme poverty and human rights, Philip Alston, that, “the World Bank is currently a human rights-free zone” (see Observer *Winter 2016*).

Similarly, in response to comments that the ESF should do more to bring the notes in line with countries’ commitments to the Paris Climate Agreement, the response matrix noted, “The World Bank is not engaged in the enforcement nor the monitoring of the Paris Accord.”

Meanwhile, a statement from the US-based International Trade Union Confederation (ITUC) asserted that, “The World Bank faced criticism for failing to include the universal core labour standards of the International Labour Organization in the safeguard. The guidance note partially fills this gap, but the safeguard still does not fully protect trade union rights in many countries.”