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IFI GOVERNANCE analysis

The IMF and World Bank: Aiding and abetting inequality in Asia

In this issue

by Jubilee South Asia Pacific Movement on Debt and Development

Despite economic growth, inequality in Asia deepens

Fiscal neoliberalism imposed by IFIs continues to exacerbate inequality

Civil society renews calls to hold World Bank and IMF to account for their actions

Asia continues to draw attention as the "most important engine of global growth," according to IMF Managing Director Christine Lagarde. Yet, as growth on the continent intensifies, countries are also experiencing deepening income and wealth inequality. Income disparities in 11 economies – about four-fifths of the region's population – are widening, and while inequality gaps within countries are closing elsewhere, they have been growing in Asia. By the World Bank's own account, "inequality in Indonesia has reached historically high levels," with the wealthiest 10 per cent consuming as much as the poorest 54 per cent in 2014, which is an increase from 42 per cent in 2002.

Inequality, however, is not a recent phenomenon. In contexts of already sharp inequalities in the 1980s, the World Bank and the IMF extended loan packages with stringent repayment conditions that compelled borrowing countries to align their economic policies with market-based approaches. Deeply encroaching on national economic policy, structural adjustment programmes (SAPs) called for the unfettered cross-border flow of goods, services and capital, privatisation of state facilities, broad-based taxes and social spending cuts as part of austerity measures.

SAPs failed to attain their avowed aims of increasing industrial capacity and competitiveness, among others. Trade and current account deficits swelled as this extractivist model was imposed, aggravating the external debt situation that the international financial institutions (IFIs) sought to solve in the first place with SAPs. In Bangladesh, the rapid removal of tariffs, "opened a floodgate of imports from better-financed transnational corporations." In the Philippines, a formerly booming garments sector contracted as cheaper goods flooded the market, leading to a fall in export demand.

SAPs' promotion of market flexibility and wage caps dealt harsh blows to labour rights. In addition to promoting wage stagnation, they impeded the protection of collective bargaining and freedom of association rights. Labour flexibilisation brought greater job insecurity, especially for women who were already marginalised in insecure, low-paid employment. Thus, even without specific reference to labour conditions, SAPs "[represented] a substantial shift in the political balance of power between organized labour and business in recipient countries, as labour groups [lost] influence to the benefit of capital," according to research in the journal *International Union Rights*. The persistence of the IFIs' support for labour market flexibilisation is most recently evidenced by the World Bank 2019 draft *World Development Report* on the changing nature of work, which has attracted much criticism (see *Observer* Summer 2018).

The biggest winners of these policies are wealthy, politically well-placed elites and multinational corporations. As these issues manifest in more contemporary accounts of inequality, they highlight the persistently adverse outcomes of neoliberal policy on the working poor. A third of the region's workers still remain below the international poverty threshold of $1.90/day in purchasing power parity. For Southeast Asia, growth has been noted by International Labour Organization as even slower than South Asia and East Asia.

Many women in poorly remunerated, insecure employment are among the most adversely affected by regressive taxes such as Value Added Tax (VAT), which are favoured by the Fund (see BWP briefing, *The IMF, Gender Equality and VAT*). Bangladesh, the Philippines and other developing countries enacted VAT laws as part of loan agreements with IFIs. Still commonplace today, tax-related conditionalities in loan agreements, including implementing or raising VAT, rose tenfold globally between 2006 and 2010.

In any crisis, those without the means and support to survive external shocks suffer the harshest consequences. According to the World Bank itself, many Asian developing countries, including recipients of IFI lending, are also marked by inadequately financed, badly equipped and understaffed public health systems. In 2010, Asia had the largest concentration of people with "catastrophic health spending" (i.e. exceeding a household's ability to pay) and the highest rate of "impoverishing health spending" or cutting back on other essentials due to an adverse health event.

The climate crisis also clearly illustrates how risks are multiplied by inequalities of income, access and opportunity. Six of the 10 most climate-threatened countries are in Asia. In these countries and other developing regions, mortality rates from climate disasters are four-to-five times higher than in developed countries. Millions of those supposedly lifted by growth over the last two decades are being pulled back into poverty, yet the IFIs continue to invest in climate-threatening fossil fuels. The International Finance Corporation (the private sector arm of the World Bank) for example, is currently the subject of a complaint submitted by the Philippine Movement for Climate Justice before the IFC Compliance Advisor Ombudsman for allegedly helping to finance 19 active or proposed coal-fired power plants through investment in financial intermediaries in the Philippines (see *Observer* Winter 2017-18).

Privatisation, a key pillar of SAPs, has recently been met with growing rejection, as demonstrated by the success of Indonesian civil society in reclaiming water services from the privatised set-up imposed as a loan condition in the 1990s (see Page 5).

Yet, this policy advice persists, together with social spending cuts, wage ceilings, reduction of employers' social contributions, poverty targeting rather than universal social protection, and regressive instead of sharply progressive taxation. The more unorthodox views of some staff reports, such as increasing public investments, a higher wealth tax and charging a financial transactions tax, do not seem to have made a dent on policy statements, much less actual policy. Without a shift away from fiscal neoliberalism, this "hybridisation" in IFI thinking can be no more than part of the efforts to save their diminishing legitimacy and relevance.

The dismissive remarks of top IFI officials such as those of Lagarde that "we don't do that [conditionality] anymore" only bares what lies behind their pronouncements of change and reform. One is reminded of the emperor insisting he is wearing new clothes, as the IFIs essentially pursue the same neoliberal path that brought us to where we are now – in an inequality trap that stretches across generations, past and present.

A just framing of this narrative is urgently required – one that holds the IFIs, complicit states and elites accountable for their key roles in deepening inequality and is grounded in lived experiences of poverty and deprivation. But more importantly, this alternative narrative should be a hopeful one: a clarion call for transformative actions to end inequality and injustice in all its forms is required. From the waves of opposition by those in the North and the recent protests in the Middle East, to the resistance movements in Asia that will intensify beyond the 2018 Annual Meetings, that narrative is already being written by the peoples of the South.

Jubilee South Asia Pacific Movement on Debt and Development (JSAPMDD) is a regional alliance of peoples' movements, community organisations, coalitions, NGOs and networks striving for transformative change; its current work is focused on climate justice and development finance.

bit.ly/InequalityAsia

For additional online content for this issue of the Observer, see brettonwoodsproject.org/observer

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ENVIRONMENT background

New BWP *Inside the Institutions* on World Bank's role in carbon finance

A newly published article from BWP's *Inside the Institutions* series entitled, "Carbon finance: The role of the World Bank in carbon trading markets," examines the role of the World Bank in carbon finance initiatives, including managing trust funds linked to carbon trading measures under the Kyoto Protocol and assisting emissions trading schemes being adopted by countries and sub-national entities. The article tracks the evolution of the Bank's involvement in carbon finance initiatives over recent decades and highlights criticisms of its approach.

bit.ly/CarbonFinanceWB

ACCOUNTABILITY news

Annual Meetings in Bali: BWP's *Dispatch*, and alternative events

World Bank and IMF officials, and finance and development ministers, will meet during the 2018 Annual Meetings in Bali, Indonesia, from 12-14 October. The Civil Society Policy Forum (CSPF) will take place from 9-12 October.

Civil society and grassroots organisations are organising several parallel events in Bali. A two-day Peoples' Global Conference Against the IMF-WB is being organised under the title "Reclaim our rights and future: Fight corporate takeover of development", closing with the Peoples' March Against the IMF-WB on 14 October. A public mobilisation on inequality will be organised on 10 October, spearheaded by Gerak Lawan (World Beyond Banks), a Peoples' Summit on Alternative Development is taking place from 8-10 October, and a Feminist Carnaval is closing the week on 14 October.

For more coverage of the IMF and World Bank Annual Meetings in Bali, check for updates on BWP's Dispatch, which provides analysis of the meetings' communiqués, notes from CSPF seminars and more: bit.ly/annuals2018

IFI GOVERNANCE analysis

Great Expectations a year on: IMF moving the needle on inequality but not yet the gear

by Chiara Mariotti, Oxfam GB

IMF inequality guidance still vague on 'macrocriticality'

Country advice still backs social protection targeting and labour flexibilisation

Oxfam inequality index launch an opportunity for IMF to tackle inequality

A year ago, Oxfam published *Great Expectations*, a report examining the gap between the IMF's rhetoric and practice on inequality. We reviewed 15 IMF staff reports that piloted the inclusion of inequality analysis in country surveillance – the IMF's work of monitoring national economies. We found that, despite some progress, the Fund was still not assessing the distributional impacts of core macroeconomic targets, nor was it sufficiently exploring alternatives to rapid fiscal and monetary tightening in view of reducing poverty and inequality.

At the 2017 World Bank and IMF Annual Meetings, we questioned the Fund on the future of its inequality agenda (see *Observer* December 2017). A major concern raised was the lack of clarity on what mechanisms would ensure the streamlining of inequality analysis into country surveillance. The Fund responded that country teams should consider inequality when it's 'macrocritical', meaning when it affects economic stability and growth.

New guidance raises more questions than it answers

In June, the IMF published a Staff Note titled, *How to operationalise inequality issues in country work*. The Note sends a clear and welcome message: It confirms that the Fund will continue to integrate inequality analysis in country surveillance, as well as in programmes if assessed to be macrocritical; it acknowledges that some macroeconomic policies may worsen poverty and inequality and that in these circumstances 'alternative policy mixes' might be necessary.

And yet, it leaves unanswered *how* IMF staff should establish when inequality is macrocritical in a country. We identified two main gaps.

First, the Note lacks a framework of surveillance mechanisms that considers the key drivers of the relationship between inequality and macroeconomy. These include tight monetary and fiscal targets, such as very low inflation, high interest rates and rapid reduction of fiscal deficit. As acknowledged by the IMF, the austerity measures can have a dramatic impact on inequality. Other drivers are technological change and premature deindustrialisation, globalisation, and declining workers' organisation. The Fund is well positioned to develop such a framework, thanks to its growing and influential research demonstrating the linkages between inequality, growth and stability. For example, IMF research has shown that high levels of inequality contributed to the global financial crisis, and it linked the downward trend in the labour share of income to declining organised labour and employment deregulation, technological change and global value chains.

Second, the Note is missing a monitoring system based on a dashboard of indicators that can raise the alarm about the macroeconomic significance of inequality, such as indicators of wealth concentration, inter-generational inequality in house ownership, earnings inequality and vulnerable and precarious employment. Such a system should be linked to an alert mechanism and clear criteria that do not rely exclusively on the subjective judgment of staff.

Country policy advice continues to lag behind research

These two instruments would help the IMF recommend alternative policy mixes that are truly effective at reducing inequality. Another instrument useful for this purpose will be launched at the upcoming 2018 Annual Meetings in Bali by Oxfam and Development Finance International: the *Commitment to Reducing Inequality Index*. The Index assesses governments' policy performance in reducing inequality, showing areas where they can take action to reduce it.

A quick survey of recent country reports suggests that the strengths and weaknesses of IMF's policy advice on inequality remain largely the same as the ones we identified in our report last year. Analysis of the incidence of tax reforms are frequent, as are recommendations of safeguarding social spending in the face of fiscal tightening. For example, policy analysis for Benin and Nigeria discussed the poverty and distributional impact of the value-added tax (VAT) increases, as well as the need to increase public spending in health and education, and to scale up safety nets.

However, alternatives to these VAT increases are not explored; mitigating or compensatory measures are suggested instead, usually in the form of targeted cash transfers, as in Nigeria, Benin, Swaziland and Morocco. This approach prevails in most of the IMF's policy advice and prevents it from considering alternative policies which have a smaller distributional impact to start with. Too often, the IMF is pushing for elimination of universal schemes in favour of targeting, as in Mongolia, Kyrgyzstan and Iran, despite evidence that targeting is often inefficient and tends to exclude the poorest (see *Observer* Spring 2018). Advice on labour markets is rare, and usually encompasses further liberalisation, as in Argentina. Cutting public wages and subsidies remain favourite fiscal tightening measures, recently leading to mass popular protests in several countries (see *Observer* Summer 2018).

In July 2019, the High-Level Political Forum will review progress on achieving Sustainable Development Goal No. 10: Reducing inequality between and within countries. This is an opportunity for the Fund to shift the gear up on inequality and make a difference in enabling countries to meet SDG10. For this, the Fund should commit to develop comprehensive inequality surveillance mechanisms, including a system monitoring inequality, and recommend policies designed not to minimise their negative impact on poverty and inequality, but instead to avoid them in the first place.

bit.ly/OxfamInequality

INFRASTRUCTURE news

Warming of Ethiopia-Eritrea relations puts proposed LAPSSET mega-project under microscope

Thawing of relations lessens Ethiopia's potential need for proposed Kenyan port

Concerns about environmental and social impacts of mega-infrastructure project

The rationale for a proposed new East African mega-corridor development, the Lamu Port-South Sudan-Ethiopia Transport (LAPSSET) Corridor, has been thrown into question by the renewing of diplomatic relations between Ethiopia and Eritrea. Local campaigners, civil society organisations and researchers had previously raised serious concerns about the environmental and social impacts of LAPSSET, which is partially funded by the World Bank.

LAPSSET describes itself as, "Eastern Africa's largest and most ambitious infrastructure project, bringing together Kenya, Ethiopia and South Sudan." It consists of seven different infrastructure projects – including a controversial new deep-water port in Lamu, Kenya. Altogether LAPSSET is expected to cost around $25 billion, and, as summarised in a July profile by online media outlet *African Arguments*, "involves building thousands of kilometres worth of highways, railways and oil pipelines," to facilitate regional cross-border trade. The World Bank agreed to provide a $500 million loan to finance part of the proposed LAPSSET highway network through northern Kenya in 2017. However, a July report by Kenyan newspaper *The Standard* pointed out that the recent thawing of relations between Eritrea and land-locked Ethiopia could potentially render LAPSSET "obsolete", as Ethiopia may gain access to Eritrea's port in Asmara as a result of this seismic shift in regional geopolitics, thus lessening its potential demand for Lamu Port.

The Bank-financed highway that is part of LAPSSET runs through Turkana county in northern Kenya. The county is Kenya's largest and poorest, with 79 per cent of people living below the national poverty line. Oil was discovered in Turkana county in 2012, and a planned 820km export pipeline linking Turkana county's oil fields to Lamu Port forms a key aspect of LAPSSET. However, as noted by *African Arguments* in July, "in Lokichar, the epicentre of Turkana's oil industry, the boom has so far brought more frustration and conflict than hope. The British company Tullow Oil – which receives financing from the International Finance Corporation (IFC, the Bank's private investment arm) for its oil operations in Turkana county – had opened the oil fields, but many are frustrated that this has not led to more jobs and benefits for those who have lived on the land for generations. Members of the herding community around the village of Nakukulas have barricaded roads in protest." A 2017 report by Oxfam International found that Tullow Oil had failed to achieve free, prior and informed consent from local communities in Turkana county affected by the oil fields.

Concerns have also surrounded the development of Lamu Port, which could affect the UNESCO World Heritage site at Lamu Old Town. Protests have also erupted against plans to build a coal-fired power plant in the vicinity of Lamu Port, with the African Development Bank considering providing finance for the project. LAPSSET represents just one of many planned 'mega-corridors' in developing regions, supported by the Bank and other international finance institutions (see *Observer* Spring 2018, Winter 2017).

bit.ly/Lapsset

Photo: Michael Edward Walsh

Construction of the new deep water port in Lamu, Kenya

ENVIRONMENT news

World Bank reconsiders support for coal in Kosovo

The World Bank is reportedly considering withdrawing support for a proposed 500MW coal-fired power plant in Kosovo, the last coal project in its project pipeline that is not subject to the institution's 2013 moratorium on coal project finance (see *Bulletin* December 2013). The Kosovar government signed a deal in 2017 with US-based firm ContourGlobal to build the plant at a cost of around €1 billion, according to a June report by *Reuters*. The report stated that the Bank had previously indicated it would back the project, but is now finalising an energy options study that will compare investment in coal to other options before choosing whether to provide finance for the project.

"The next step for the World Bank, after its withdrawal from coal in Kosovo, is to shift its funding to clean energy options in the country," said Nezir Sinani of Netherlands-based civil society organisation Bank Information Center Europe, who is also an anti-coal activist from Kosovo. "The Bank should use its capacity and knowledge to help the Kosovar government green its energy sector to meet the increasing electricity demand."

Despite the Bank's 2013 ban on coal project finance, civil society groups remain concerned that the Bank continues to finance coal through the 'backdoor' via the International Finance Corporation's (IFC, the World Bank's private lending arm) investments in financial intermediaries that are involved in financing new coal plants (see *Observer* Winter 2017, Winter 2017-2018).

bit.ly/WB-KosovoCoal

SOCIAL SERVICES news

Civil society groups fight Jakarta water privatisation during Annual Meetings in Bali

Indonesian Supreme Court rules against Jakarta water privatisation

CSOs gather in Bali to push government to comply with court's decision

Ahead of October's World Bank and IMF Annual Meetings in Bali, Indonesia, a group of more than 5,700 Indonesian women activists are calling for international civil society groups to join them in their efforts to ensure the government's compliance with the Indonesian Supreme Court's decision to ban water privatisation in Jakarta.

Water privatisation in Jakarta started in 1997 when, due to the city-owned company PT PAM Jaya's failure to provide universal access to water, and following advice from the World Bank, then-president Suharto ordered the privatisation of water services. Back in 1991, the World Bank loaned $92 million to improve PT PAM Jaya services, but, five years later, only 45.3 per cent of households had tap water coverage and the company was unable to recover 57 per cent of its costs. In 1997, PT PAM Jaya signed a 25-year contract with French and British companies to manage water supply services for Jakarta.

Last April, the Supreme Court determined that the private water operators failed to protect residents' human right to water. It therefore judged the contracts a violation of the law and ordered the government of Jakarta to restore public water services.

In light of long-standing civil society resistance against privatisation of services, concerns are growing about the Bank's recent shift towards leveraging private sector investment for development through its Maximising Finance for Development initiative, which promotes privatisation through public-private partnerships (PPPs) (see *Observer* Summer 2017, Winter 2017-18).

Public Services International (PSI) released a call to action in 2016 to push the Bank to stop promoting water privatisation through PPPs (see *Observer* Summer 2016). Sandra Vermuyten, with PSI, commented: "We oppose reducing wages and working conditions to increase shareholder dividends and corporate profits. We also see the impact on quality of, and access to services, when profit maximisation becomes the imperative. Universal access to quality public services is one of the key foundations for just and equitable societies. Privatisation only ensures that the rich get richer and that global inequality grows." She noted that, "The Bank should also assess the growing wave of remunicipalisation, where cities of all sizes and political stripes are returning privatised services to public ownership and management. We suggest instead that the World Bank support public-public partnerships. These proposals would help the government of Jakarta rebuild a public utility capable of ensuring that all Jakartans can exercise their human right to water."

bit.ly/WaterJakarta

Photo: Jonathan McIntosh

A boy bathes in a polluted river under a railroad bridge, North Jakarta slums, Indonesia

LAND news

Potential Inspection Panel probe of Amaravati 'land grab' allegations deferred again

A recommendation from the Inspection Panel (IPN, the Bank's independent accountability mechanism), on whether to fully investigate a complaint related to a $300 million proposed loan for the construction of Amaravati – the new capital of the Indian state of Andhra Pradesh – was deferred for a further nine months in July.

In March 2017, the IPN received an investigation request from landowners residing at the proposed site of Amaravati, who claimed alleged harm from the land pooling scheme (LPS) required for the new development. Residents claimed, "that many landowners and farmers were intimidated and economically coerced to participate in the LPS." In September 2017, following an initial site visit, the IPN recommended that the Bank's Board approve a full investigation of the case. In November 2017, however, the Bank's management provided a list of proposed activities that attempted to address the requestors' concerns. The IPN is still evaluating whether to recommend a full investigation in light of these proposed activities.

The Amaravati development – which is also slated to get $200 million in co-financing from the Asian Infrastructure Investment Bank (AIIB) – has become a lightning rod for criticism from Indian civil society organisations. At the People's Convention on Infrastructure Finance in June, which occurred alongside the AIIB's annual general meeting in Mumbai, participating groups issued a resolution, noting that, "India, the largest recipient of AIIB loans, has become a site of corporate land grabs... A prime example of this is Amravati [sic]...which is being developed on the fertile plains of the Krishna river and 50,000 acres of fertile farmland...is being forcibly 'acquired' from farmers and workers."

bit.ly/AmaravatiIndia

ACCOUNTABILITY analysis

Fragile, handle with care: World Bank's approach to FCS questioned

Shareholders push for a 'pivot' to fragile situations

Evaluations highlight need for structural changes in Bank FCS operations

IEG finds Bank lacks coherent strategy for private sector development in FCS

Evidence of the Bank's increased focus on fragile and conflict-affected situations (FCS), as articulated in April's *Sustainable Financing for Sustainable Development* report, can be seen in a variety of initiatives, such as the establishment of the Fragility, Conflict and Violence (FCV) Cross-cutting Solutions Area (CCSA) and the doubling of International Development Association (IDA, the World Bank's low-income lending arm) resources dedicated to FCS from $7 billion in IDA17 to $14 billion in IDA18.

The rationale for the 'pivot to prevention' was outlined in a March World Bank report on maximising the impact of the Bank in FCS, which noted that, "by current projections the share of the world's poorest people living amidst fragility, conflict and violence could reach 60 percent by 2030," and stressed that, "FCV risks are diverse and increasingly linked with global political, economic, and social systems, meaning that the spillover effects of fragility can extend across the world."

Photo: Jonund

Members of the Afghan National Army search a road for improvised explosive device

Despite recent efforts by the Bank, its Independent Evaluations Group's (IEG) 2014 and 2016 evaluations of the Bank's operations in FCS raise significant concerns about the Bank's approach in these contexts.

Better or just bigger in FCS?

Echoing the findings of IEG's 2014 report on learning at the Bank that, "about 70 percent … of [Bank] staff feel that the pressure to lend has crowded out learning," IEG's 2016 evaluation of operations in middle-income countries (MICs) stressed that "The institutional and staff incentives for engagement in conflict situations and risk-taking seem to be lagging behind the spirit of [the Bank's] strategic approach to FCV." The findings on the misalignment of incentives at the Bank to some extent mirror those of the IMF Independent Evaluation Office's (IEO) April report on *The IMF and Fragile States*, which detailed the negative impact of incentive structures at the Fund on its operations in FCS (see *Observer* Summer 2018).

While the evaluation stressed that continuity in staffing policy is needed to ensure the "deep understanding of the political economy" required for success in FCS, it observed it "was not common in cases observed." This is potentially exacerbated by factors identified by the IEG's 2017 report on the Bank's performance, which raised important questions about the extent that Bank staff use IEG and external evaluations to "inform the World Bank's operations as a matter of course" (see *Observer* Summer 2018). The IEG findings again echo those of a July evaluation of the IEO, which found that the Fund does not learn enough from internal evaluations (see *Observer* Autumn 2018 online edition).

Maximising Finance for Development in FCS: Lacking a holistic approach

While the Bank's Maximising Finance for Development strategy has been much criticised by civil society in general (see *Observer* Summer 2017), the IEG reports highlight important constraints to the Bank's private sector work in FCS. The 2014 evaluation concluded that, "the World Bank Group did not adequately address major constraints and did not have a holistic approach to private sector development." Importantly, given the relevance of extractives and agriculture in FCS, the evaluation also noted that, "operations in FCS have not paid much attention to leveraging the investments in extractive industries to create spillovers in the economy", and that the Bank's "support for agriculture has not been commensurate with its potential impact on employment, poverty reduction, and food security in FCS."

Commenting on the conclusions of the 2014 evaluation, its 2016 successor highlighted that little has changed, noting that, "the World Bank Group still lacks a holistic and sequenced approach to private sector development in FCV situations in non-FCS." These findings are particularly concerning in light of the continued poor development outcomes of IFC investments, as documented in IEG's 2017 evaluation of the Bank's performance and the push by shareholders for increased IFC investments in FCS, as reflected in the establishment of the $2 billion IDA18 Private Sector Window and the proposed general capital increase.

Categorisation of fragility remains a problem

The 2014 IEG evaluation also reported challenges associated with the Bank's use of the Country Policy and Institutional Assessment (CPIA) ratings to determine FCS status, as the instrument "is not based on analysis of fragility and conflict" and the "ratings [have] not been consistent with actual fragility and conflict risks in many countries." The 2016 IEG evaluation noted that the CPIA ratings exclude MICs, where a significant number of conflicts take place. It also stressed that although FCV diagnostics were useful when used, their use was not the 'norm'.

Concerns about the effectiveness of the classification used by the Bank (and others) persist outside the IEG. UK-based think-thank Overseas Development Institute's Simon Maxwell noted in an August blog that the wide variety and inconsistency of definitions of fragility 'debase' the value of the categorisation. A 2014 UN background paper also questioned the effectiveness of the country categorisations generally.

bit.ly/FragilityFCS

CONDITIONALITY news

Greece exits loan programme as impacts of Troika-led austerity are revealed

Study highlights catastrophic health impacts of Troika-imposed austerity

Debt network stresses Greek crisis derived from private debt

In August, Greece exited its eight-year programme of loans from the 'Troika' (the IMF, European Commission and European Central Bank) (see *Observer* Winter 2017). Following the approved extension of loans related to the second programme of the European Financial Stability Facility in June – creating interest deferrals and offering €15 billion in fresh loans – European leaders labelled Greece's bailout exit the end of the crisis. Despite the IMF not participating in the latest programme and calling for debt relief, the President of the European Council Donald Tusk ...tweeted, "Congratulations to Greece and its people on ending the programme of financial assistance. With huge efforts and European solidarity you seized the day."

Considering the impact of the Greek loan programmes, former Greek Finance Minister Yanis Varoufakis stated in an August article in *The Guardian*, "In summary, after having bailed out French and German banks at the expense of Europe's poorest citizens, and after having turned Greece into a debtor's prison, last week Greece's creditors decided to declare victory. Having put Greece into a coma, they made it permanent and declared its 'stability'."

Impacts of austerity exposed

Analysing the impacts of the Troika programme on Greek health outcomes, a July study at the University of Washington revealed that, "While the country's overall death rate rose by about 5.6 percent from 2000 to 2010, it jumped by about 17.7 percent in the six years that followed, after austerity measures were imposed. The rate rose three times faster than the rate in Western Europe overall, and came at a time when mortality rates were actually declining worldwide."

Co-author Dr Georgios Kotsakis stressed that, "In Greece, signals of population changes as well as health system and social security system inefficiencies were evident in the years preceding the economic crisis", adding that, "these existing factors led to substantial acceleration of health loss following the implementation of the austerity measures with a 5-fold increase in the annualized rate of change in total mortality from 2010 to 2016 as compared to 2000 to 2010."

On the occasion of the end of the programme, the Committee for the Abolition of Illegitimate Debt published a critique of its wider political, democratic and economic consequences. The report stressed that, "the Greek crisis was actually a crisis of private debt, not a crisis of public debt." In addition it emphasised that the Troika's programme was established under pressure principally from France and Germany to rescue their domestic banks and underscores that IMF participation took place despite the opposition of shareholders from the Global South (see *Observer* Summer 2015). Other civil society organisations have also cast doubt on the success of the deal, arguing instead that the new Eurogroup package is little more than debt re-profiling that will kick the can down the road again (see *Observer* Spring 2018).

bit.ly/EndGreekCrisis

KNOWLEDGE analysis

Banking on human capital: Beware unspecified returns

Bank to release Human Capital Index at October Annual Meetings in Bali

Underlying Human Capital Theory target of long-standing critiques

As announced in an August article, the World Bank will release its new Human Capital Index (HCI) at the October IMF and World Bank Annual Meetings in Indonesia. The HCI purportedly has three objectives: "to build demand for more and better investments in people; to help countries strengthen their human capital strategies and investments for rapid improvements in outcomes; and to improve how we measure human capital."

The Bank's efforts to present the Index as a progressive development tool obscures long-standing critiques of Human Capital Theory (HCT) and its notion of 'capitalisable humans'. As noted in Stephanie Allais' 2012 *Journal of Economic Policy* paper, "Many studies have pointed to serious deficiencies of this notion of human capital conceptually, as well as severe difficulties in actually measuring the 'capital' obtained through education, and the rates of return obtained or obtainable from it." Critiques of HCT can be grouped with broader criticisms of the proliferation of other types of 'capital', such as the social capital critically reflected upon in Ben Fine's 2010 *Theories of Social Capital* book. These theories he argues, "tend to reduce complex conflictual and contextual economic and social phenomena to more or less (im) perfectly working markets."

Longstanding concerns about the HCT's reduction of workers to capital goods remain alarmingly apt in light of the Bank's admission that the Index is partially the result of 'insights' gained through the heavily criticised upcoming 2019 *World Development Report* on the changing nature of work (see *Observer* Summer 2018). In addition to these concerns, the UN Conference on Trade and Development indicated that the challenges faced by developing countries go well beyond a lack of "investment in human capital." Its 2016 *Trade and Development Report* noted that "substantial structural constraints remain for developing states." The report stressed the impacts of 'premature de-industrialization' "owing to a policy strategy centred on unilateral trade opening, financial deregulation and the retreat of the developmental State", precisely the types of policies for which the World Bank is heavily criticised (see page 1).

Fine noted that "it is not an HCI that is needed but different conceptualisations of the nature and role of education and learning in a radically different conceptualisation of development itself."

bit.ly/HumanCapitalTheory

World Bank investment in Paraguayan cattle industry linked to human rights violations and environmental harm

In August, the Brazil-based news outlet *Reporter Brasil*, with support from the International Trade Union Confederation (ITUC), released a report detailing human rights violations and environmental harm resulting from the rapid expansion of the cattle industry in the Paraguayan Chaco. The report highlighted the International Finance Corporation's (IFC, the private sector arm of the World Bank) direct involvement in the alleged violations through a 2013 $85 million investment in Brazilian company Minerva, one of the largest meat companies in South America.

IFC's 2012 *Environmental and Social Review Summary* determined that the project was Category A (i.e. high-risk), identifying specific supply chain risks that included deforestation, child and forced labour, encroachment on indigenous peoples' land and disregard of customary rights by Minerva's primary suppliers. According to the report, cattle production has expanded significantly in the region in recent years, with large portions of land deforested to respond to the needs of the industry. The region is also home to indigenous groups with unresolved claims to land, as well as widespread child and forced labour conditions in agriculture.

Photo: Paraguay's public prosecutor's office

Workers living in tents have been exposed to temperatures of up to 50°C

The IFC responded to the *Reporter Brasil*-ITUC investigation in August by stating that Minerva is required to comply with IFC's Performance Standards and implement an Environmental and Social Action Plan (ESAP), and that the IFC has been working with Minerva since 2012 to monitor the company's efforts to manage the sustainability of its supply chains across South America. It also argued that Minerva is investing significant resources to improve its environmental and social practices in the region and is currently monitoring the risk of child and forced labour in Paraguay. The IFC added that the company will not purchase cattle from ranchers found in violation of labour rights by the authorities.

The IFC recently updated its Environmental and Social Action Plan in relation to Minerva's supply chain in Paraguay for 2018-2020. The new requirements address issues such as traceability of cattle purchase criteria and the prohibition of sourcing from ranches located in protected or indigenous areas officially recognised by the Paraguayan government. However, there are still concerns related to labour, as Minerva is required to incorporate labour issues in the supply chain management system only once an adequate dataset is publicly available. Minerva has therefore attributed the lack of action and monitoring to the lack of official data. Civil society complaints related to IFC's lack of monitoring of labour conditions in its own borrowers' projects are well documented including in Indian tea estates. (see *Observer* Winter 2017).

In response to Minerva's updated ESAP, Leo Baunach, from ITUC, commented that, "Minerva has a 40 per cent market share of beef exports from Paraguay. As a leading company and recipient of IFC financing, Minerva has a responsibility to proactively monitor their Chaco supply chain for forced and child labour. Progress had been made to stop sourcing from indigenous and illegally deforested lands. This should be matched by measures to prevent labour abuse. On a broader scale, the World Bank and IFC should support the expansion of government inspections and third-party monitoring in Paraguay."

http://bit.ly/ParaguayIFC

Isabel Alvarez and Ella Hopkins join the Bretton Woods Project

BWP is pleased to welcome Isabel Alvarez as our new Communications Manager and Ella Hopkins as our Gender Project Officer.

Isabel will lead the Project's communications strategy and will support the team in its monitoring and outreach work. Previously, Isabel worked as Communications and Outreach Specialist for the Global Development Policy Center at Boston University and consulted for Refugees International. Isabel holds a Master's Degree from Boston University in International Relations and International Communication.

As part of its Gender Equality and Macroeconomics (GEM) project, Ella will support BWP in challenging the ways in which macroeconomic policies currently promoted by international financial institutions undermine gender equality. Ella has experience working as a Parliamentary Advocacy Officer at RESULTS UK and as Co-Chair of the Policy and Parliamentary Working Group for the Send My Friend to School coalition. Ella holds a Bachelor of Arts in History from Bristol University, with a focus on social movements and postcolonialism.

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CRITICAL VOICES ON THE WORLD BANK AND IMF

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