SPRING 2019

BRETTON WOODS project

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

IFI GOVERNANCE analysis

World Bank president selection: 'Gentleman's agreement' alive and well

In this issue

World Bank president selection process once again limited to one US nominee

Board fails to uphold commitment to an open, transparent and merit-based selection process

Process remains undemocratic, opaque and illegitimate

After the unexpected resignation of World Bank President Jim Yong Kim in January, the selection of his successor was subject to considerable scrutiny. Over 150 civil society organisations, academics and other individuals called on the Board to live up to its commitment following Kim's departure to an open, transparent and merit-based process. The call was echoed by the demands outlined in a January letter by the Bank's own staff association. These demands are not new and resonate with long-standing calls to end the so-called 'gentleman's agreement', which ensures that the IMF managing director is a European and the World Bank president a US national. They also reflect the calls made as far back as 2012, not by civil society activists or 'disgruntled' governments from the Global South, but by senior Bank staff. Former Chief Economist Joseph Stiglitz and Senior Vice-Presidents François Bourguignon and Nicholas Stern argued in a 2012 *Financial Times* article that the process is "not only hypocritical, it also destroys the trust and spirit of collaboration needed to manage the profound problems facing the world."

With the nomination process running from 7 February to 14 March, the United States nominated David Malpass, a senior Treasury official highly critical of multilateralism. Critics highlighted his statements that "globalism and multilateralism" had "gone substantially too far, to the point that they are hurting US and global growth." Environmental civil society organisations such as US-based Oil Change International also criticised Malpass' nomination on the basis of his attitude about climate change. Stressing Malpass' time at the now bankrupt Bear Stearns in the lead up to the global financial crisis and his August 2007 *Wall Street Journal* op-ed titled "Don't panic about the credit market", a March 2017 article on news outlet *Vox* on his appointment to the US Treasury, commented on Malpass' "poor judgment about major economic issues over the past decade – cheerleading the economy on the verge of the Great Recession while warning of a collapse just as recovery was getting underway." Concerns about Malpass' nomination were also raised by senior US policy makers. Congresswoman Maxine Waters, Chairwoman of the House Financial Services Committee, and Congressman Emanuel Cleaver, Chairman of the Subcommittee on National Security, International Development, and Monetary Policy stated in a February press release that "It's difficult to believe that any serious effort to find a qualified candidate with a compelling vision for the mission of the World Bank and a belief in the legitimacy of international development finance would lead to the nomination of Treasury Undersecretary for International Affairs David Malpass." The nomination of David Malpass also fell short of the demands of civil society, academics and other signatories to the open letter to the Executive Board, which stressed that "candidates must have proven knowledge of – and experience working on – development issues and a commitment to the public interest. This includes a demonstrated understanding of, and experience in working to address, the challenges to transformational change faced by developing countries."

Lebanon's nominee: here today…

Hope for a selection process comprising more than one candidate received a boost when in February, the Government of Lebanon nominated Ziad Hayek to the post. However, the legitimacy of the process received a harsh blow shortly thereafter, when news site *Devex* detailed on 4 March the withdrawal of the Lebanese nominee, with the candidate suggesting this was due to pressure from "other governments". The process, particularly in light of the allegedly forced withdrawal of the only opponent to the American nominee, represents a radical schism between the Board's stated commitment to an open, transparent and merit-based process and the actual process. The outcome mirrors that of 2016, with an American, in that case Jim Yong Kim, running unopposed (see *Observer* Autumn 2016). This result seems to confirm the fears expressed by Stiglitz and colleagues that, "Developed countries' control of the selection process also discourages developing countries from putting forward a candidate who might have broad support among them," limiting the pool and quality of choices available to the Board.

Convenient governance

The selection process also contrasts with the Bank's discourse on good governance and the need for borrowing states to adequately represent the needs and opinions of all their citizens, particularly those with least influence. To cite one example, in July 2018 the Bank launched the $12 million Open Governance Partnership Multi-donor Trust Fund, which is meant "to increase government transparency, improve accountability, and strengthen citizen engagement as well as government responsiveness." The Bank's 2014 Strategic Framework for Streamlining Citizen Engagement in World Bank Operations also indicates an intention to improve its own accountability to those impacted by its programmes and activities. Yet civil society stresses that much remains to be done, with persistent concerns about the unwillingness of the Bank to provide adequate remedy to communities affected by its projects, its continued lack of a human rights policy, disregard for the adequate resettlement of populations displaced by Bank-financed projects, and erosion of environmental and social safeguards (see *Observer* Winter 2018, Autumn 2016, Spring 2015). The hypocrisy identified by Stiglitz, Bourguignon and Stern in 2012 seems an apt description of the contrast between the above-mentioned initiatives and the process used to select the Bank's new president.

With partnerships like this….

As argued by UK-based Christian Aid's January reaction to President Kim's resignation, the process raises significant "issues about the global economic system and the limited role developing countries play within institutions designed to support them." Christian Aid stressed that the current arrangement, which ensures that developed states with 12 per cent of the world's population hold 50 per cent of the decision-making power is deeply unfair, noting that, "its policy advice may not reflect the needs of developing countries. Instead it risks interests from developed country investors and enterprises creeping into the policy choices it proposes." It also contradicts the accepted norms of aid effectiveness, such as the Paris Declaration, and Accra Agenda for Action and the Busan High Level Forum on Aid Effectiveness, all of which stress that partnerships for development can only succeed if they are led by developing countries.

The process is also contradictory to the Bank's support for the Sustainable Development Goals (SDGs) and SDG 16 in particular, as it aims to "build effective, accountable institutions at all levels" (see page 5). Persistent concerns with the lack of adequate diversity at senior managerial levels at the Bank and Fund were also reflected in the G24's Spring 2018 Communiqué, which called on both to strengthen "efforts toward addressing the severe under-representation of some regions and countries in recruitment and career progression, including at the managerial levels," and highlighted the importance of improving staff diversity (see *Dispatch*, Annual Meetings 2018).

The reforms required of the selection process must now wait at least another five years. Those interested in ending the 'gentleman's agreement' must now turn to the next IMF leadership contest.

bit.ly/WBPresident

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

Para la versión en español, visite: brettonwoodsproject.org/es/observador

INFRASTRUCTURE news

World Bank's toxic Medupi loan leaves South Africans in the dark

Rolling blackouts in South Africa have put the spotlight on the World Bank's investment in the 4800 mega-watt Medupi coal-fired power station – the Bank's last project investment in coal – with some economists calling for it to be shut down.

The Bank approved a $3.75 billion loan to South Africa in 2010, primarily to help cover the construction costs for Medupi (see *Bretton Woods Update* 70), but eye-watering cost overruns have hit the project. The Bank now estimates the cost of co-financed projects associated with the loan at $18.4 billion – an increase from $13.86 billion at appraisal – largely due to Medupi. South African academic Patrick Bond argued in January, "If ever some form of international financial justice is served, the World Bank would be forced to take a haircut on its Medupi loan, and also pay reparations for this exceptional energy disaster."

bit.ly/MedupiWBG

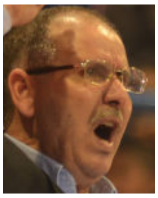
Follow BWP's World Bank and IMF 2019 Spring Meetings *Dispatch*

World Bank and IMF governors will meet during the 2019 Spring Meetings in Washington D.C. from 12-14 April. The Civil Society Policy Forum (CSPF) will take place from 8-12 April. The Bretton Woods Project will provide analysis of the meetings' communiqués, notes from CSPF seminars and more on BWP's Dispatch page.

Key themes to be discussed include fragile states, climate change, the global debt crisis, the implications of automation, the implementation of Bank's Maximising Finance for Development approach and preparations for IDA19. It is expected that the crisis of multilateralism and international cooperation will feature as a cross-cutting topic within nearly all areas. Additional topics include the US Supreme Court decision on IFC's immunity, the implications of PPPs and the selection process for the World Bank president.

bit.ly/Springs2019

CONDITIONALITY analysis



Strikes overturn wage bill, but IMF blindness risks ruining Tunisia

by Noureddine Taboubi, Tunisian General Labour Union

Tunisian trade union strikes overturn IMF-backed wage bill

IMF policies ignore Tunisia's real economic problems

In February, the Tunisian General Labour Union (UGTT) and the Tunisian government signed an agreement that increased public sector wages, following two successful general strikes in 2018. This constitutes a victory for the Tunisian trade union movement against the dictates of the IMF to reduce the public wage bill regardless of the social costs and Tunisia's specific transition context. In fact, under the IMF programme, Tunisian currency has lost more than 90 per cent of its value over the last five years, inflation reached record levels in 2018, while employment has stagnated, and growth has been slow to resume. All of this adds to a social climate that is increasingly tense, as evidenced by the UGTT strikes. Such a victory illustrates the key role that UGTT plays in mobilising workers and citizens to defend economic and social rights.

In a region that lives under the rule of dictatorships and arbitrariness following the Arab Spring, Tunisia is the last serious candidate remaining in the race to achieve an exemplary democratic and economic transition, based on the universal values of human rights and gender equality.

On the political front, the success of the National Dialogue has allowed for a smooth transition with a second successive democratic election in 2014. As for the economic plan, a consensus has been established on the need to break away from the rules of the game that govern the economy, characterised by the proliferation of rentier activities benefiting those close to power, tax fraud, a large informal economy, and corruption that systematically undermines almost all economic transactions.

The expectations of Tunisians amid the National Dialogue were clear: unleash the potential of the Tunisian economy and take advantage of its educated youth, and the natural and cultural wealth of Tunisia's different regions, while responding to the pressing needs of marginalised populations, particularly unemployed youth.

The reforms needed to implement this vision required expansionary economic policies to rapidly improve living conditions and create new economic opportunities, while taking into account a set of binding constraints related to the political context of the transition. These included, in particular, the difficult regional environment – especially for Tunisia's Libyan neighbour – and the terrorist threats hovering over the entire region.

Such a democratic and economic transition would have required significant financial resources and unconventional economic policies supported by its partners and friends. However, the authorities' reliance on the IMF in the hope of gaining access to affordable finance hampered Tunisians' hopes of breaking with the old system and putting the country on a new path of development.

Indeed, in its customary fashion, the IMF has landed in Tunisia with generic recommendations that it tries to impose without considering the Tunisian socio-political context, and without real consultations with social partners. The IMF has imposed new policies based on reducing the wage bill, depreciating the national currency, reducing the regulatory role of the state, encouraging public-private partnerships, and removing food and energy subsidies without considering consequences on social stability and cohesion.

The IMF has supported the government in pursuing the above policies while turning a blind eye to the country's real priorities of: (i) ensuring tax justice by establishing an efficient and fair tax system, (ii) recovering tax debts that represent more than 8 per cent of national GDP, (iii) reforming the banking system to mobilise sustainable resources for investment, (iv) imposing quantitative restrictions on imports and illegal trade to protect consumers and national enterprises, and (v) breaking definitively with inefficient labour market policies and implementing structural policies capable of reducing the unemployment rate, which sits at more than 15 per cent and affects more than 30 per cent of youth.

Unfortunately, the IMF blindly supports policies that ignore the real national problems while hiding behind the mirage of macroeconomic stability, in the absence of a coherent vision for economic development.

The IMF must recall that, in 2010, Tunisia was hailed as the model student of international donors with a budget deficit of 1 per cent, a debt of 40 per cent of GDP and inflation of 3 per cent, while more than 20 per cent of the population was living in poverty and more than half of workers were engaged in informal work. The IMF must break with its current approach and place human rights at the heart of its programmes, in compliance with the *UN Guiding Principles on human rights impact assessments of economic reforms* (see page 6). By pursuing its current policies, the IMF will undoubtedly contribute to breaking the Tunisian dream and will be among those responsible for the return of dictatorship and the clandestine migration of hopeless young people. Tunisia and all the developing countries deserve much better than these blind policies.

bit.ly/TunisiaIMF

Photo: UGTT

Noureddine Taboubi, Secretary-General, Tunisian General Labour Union

ACCOUNTABILITY news

US Supreme Court rules against World Bank's claim of absolute immunity

US Supreme Court rules IFC is not immune from suit in the US

Landmark case sets precedent for more accountable IFIs

In late February, the US Supreme Court ruled against the claim by the International Finance Corporation (IFC), the World Bank's private sector arm, to absolute immunity from suit in the US. The case was brought by a community of Indian fisherfolk, represented by EarthRights International and the Stanford Law School Supreme Court Litigation Clinic, which sued the IFC for harm caused by the $450 million IFC-financed Tata Mundra coal-fired power plant in Gujarat, India (see *Observer* Summer 2018).

The IFC claimed absolute immunity under the 1945 International Organizations Immunities Act (IOIA), which guarantees international organisations the same immunity as is enjoyed by foreign governments in US courts. 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.

The Supreme Court's historic 7-1 decision stated that foreign governments' immunity is restricted by FSIA, and that, "The International Finance Corporation is therefore not absolutely immune from suit." The IFC responded in a statement that it will "work to ensure that this ruling does not affect our ability to deliver for our partner countries and does not hinder our mission."

The Compliance Advisor Ombudsman (CAO), the IFC's independent accountability mechanism, has a limited remit, as it has no power to enforce IFC compliance with its recommendations (see *Observer* Winter 2018). In addition, the IFC lacks resources designated to address harms caused by the projects it finances. Kindra Mohr, of US-based civil society organisation (CSO) Accountability Counsel, noted that, "It would be in the World Bank Group's best interest to ensure that these [accountability] mechanisms are fully effective," which would potentially avoid cases like this being brought to court.

As noted by Joe Athialy, of India-based CSO Centre for Financial Accountability, "For communities who have been at the receiving end of projects...this judgement is an eye opener. Not that each one of them may drag these institutions to Court, but with the empowerment by this judgement the power equation between the two has tilted a little further in favour of people."

Questions remain about whether development finance constitutes "commercial activities" under FSIA, which will be now be tested in a Washington DC court.

bit.ly/IFCimmunity

FINANCE news

Inequality crisis worsens as World Bank and IMF persist with failed policies

New CSO reports document inadequate Bank and Fund response to inequality

Alternative policy mix needed to tackle growing crisis

In January, international civil society organisations Christian Aid and Oxfam published their *Financing Injustice* and *Public Good or Private Wealth?* reports, respectively. The reports stressed that inadequate policy responses from governments and multilateral organisations, including the World Bank and IMF, continue to exacerbate inequality. They documented the failure of policies widely supported by the Bank and IMF, such as the privatisation of essential services, over-reliance on private sector investment and related regressive tax policies and austerity, which hurt the poor, and women and girls in particular (see *Observer* Winter 2018, Summer 2017, Spring 2017) .

The reports documented a worsening inequality crisis that, in addition to its human rights implications, imperils the attainment of the Sustainable Development Goals, to which both the Bank and Fund are committed (see page 5). They followed the *2018 World Inequality Report*, published by France-based World Inequality Lab, which concluded that "policies matter in shaping inequality," and that the world seems to be moving "toward the high-inequality frontier." Additional evidence of the consequences of IMF policies was provided by a January academic paper, which analysed the impact of IMF structural adjustment programmes on inequality between 1980 and 2014 and found that "overall, policy reforms mandated by the IMF increase income inequality in borrowing countries."

More billionaires than ever

Oxfam's report evidenced the growing inequality crisis, noting for example that, ten years after the global financial crisis, the world has more billionaires than ever, and that, "just 1 per cent [of the world's richest man's] fortune is equivalent to the entire health budget of Ethiopia." Countering arguments of rapid poverty eradication, it noted that "extreme poverty is actually increasing in sub-Saharan Africa." The failure of the Bank and Fund's policy mix is also evidenced by studies noting that up to two-thirds of global poverty reduction during the past 25 years can be attributed to China, which has not followed the prevailing policy recommendations of the Bank and Fund (see *Observer* Winter 2017-2018).

Management of capital requires changes

The Christian Aid report underscored that rising inequality, worsening debt distress and related austerity measures, and climate change imply that changes are needed in the way capital is managed and invested. The report called on the IMF to "require debt restructuring or cancellation by previous lenders as part of its bailout programmes, when clear assessments of debt sustainability – that include human rights and debt legitimacy – show that debt restructurings are required" (see page 6).

bit.ly/Inequality2019

FINANCE analysis

Unsustainable? The IMF's approach to the Sustainable Development Goals

by Kate Donald, Center for Economic and Social Rights

IMF SDG branding efforts lack meaningful policy realignment

Business-as-usual will continue to hinder SDG achievement

The IMF is increasingly claiming a role for itself as an important player in the implementation of the Sustainable Development Goals (SDGs). However, when it comes to the SDGs, is the IMF a help or a hindrance?

Even before the adoption of the 2030 Agenda and SDGs in 2015, the IMF declared itself "fully committed" to delivering the new goals. However, in practice this commitment has been patchy at best, with not much evidence of any meaningful realignment. Instead, now we have a colourful new SDGs page on the IMF website that showcases how their work supposedly supports efforts towards achieving the goals (collating several listicle-type blog posts like "5 things you need to know about the IMF and climate change").

Taken at face value, it seems churlish to sneer at a declaration of commitment to sustainable development. However, we have to ask ourselves whether the IMF's actions are indeed conducive to 'Transforming Our World', the official title of the SDG Agenda.

SDG 10, which aims to reduce inequality within and among countries and is up for special review at the UN High-Level Political Forum in July, is a particularly useful case study. The Fund claims it is supporting this goal through "strong, inclusive and sustainable growth with poverty eradication," and, "gender equity and inclusion" (see table). This is, at best, cherry picking. Goal 10 includes a target to reduce inequality through social protection and fiscal and wage policy. The Fund's approaches to all three of these have been subject to robust criticism, precisely for exacerbating inequalities. Indeed, despite a recent pivot towards defining income and gender inequality as 'macro-critical' issues, evidence gathered by Oxfam and the Bretton Woods Project, among others, suggests that the IMF's own policy recommendations and loan conditionality have in fact been – and continue to be – a major contributor to the inequality crisis. For example, in many countries the Fund persists in pushing austerity measures which have taken a heavy human rights toll on the poorest and most disadvantaged groups, including women.

It is also worth highlighting that Goal 10 includes tackling inequalities *between* countries. Conveniently, none of the IMF materials on the SDGs seem to mention that target 10.6 is to, "Ensure enhanced representation and voice for developing countries in decision-making in global international economic and financial institutions in order to deliver more effective, credible, accountable and legitimate institutions." What are the IMF and its 'developed' country members doing to meet this target, on which they could have a very immediate and direct effect? Will it explicitly link its upcoming quota review to this target? Certainly, the power imbalances in global economic decision-making are a profound cause of global inequalities; for example, the stranglehold of rich countries over the rules of the global tax system perpetuates a situation where billions of dollars are drained from poorer countries every year. There are a lot of policy areas where the IMF could be doing much, much more in this regard: preventing the 'race to the bottom' on corporate tax rates rather than advocating for cutting them, and deepening its efforts to prevent cross-border tax abuses. However, the IMF paper on financing the SDGs almost entirely ignores progressive, systemic tax reforms as an option, focusing instead merely on improving tax-to-GDP ratios and spending efficiency.

The 2030 Agenda is supposed to be transformative. It is very clear that business-as-usual policies or band-aid approaches to the worst social problems won't get us there. This is especially so for Goal 10, and the Agenda's overarching commitment to 'Leave No One Behind'. We won't really tackle inequality in any meaningful way if we rely on regressive tax systems, labour market 'flexibilisation' and exploitative, extractivist economic models, and then just compensate the worst losers with pared-back, targeted 'safety nets' that are not even effective in reaching those in need. If we want to really tackle inequality, we need to hone in not just on those left (or pushed) behind, but those who are too far ahead – it is after all the acceleration of the 1 per cent away from the rest that has fueled the inequality crisis.

Ultimately, what is most disappointing is that, rather than seizing a much-needed opportunity to question and realign its practices and priorities based on the SDGs, the IMF is instead merely using the SDGs as a public relations exercise to justify what it is already doing, no matter how incompatible this may be with truly equitable sustainable development.

bit.ly/SDGsKDonald

IMF's work is well aligned with the 2030 agenda	
Domestic and global economic and financial stability	SDG 17
Strong, inclusive, and sustainable growth with poverty eradication	SDGs 1-4, 8, 10
Closing infrastructure gaps in a sustainable way	SDG 9
Gender equity and inclusion	SDG 5, 10
Policies to address climate change	SDGs 7, 12-13
Creating fiscal space for essential public service delivery	SDG 6
Providing capacity building for strengthening institutions	SDG 16
Providing capacity building to strengthen national statistical systems and to develop SDG global indicator framework	Several SDG indicators

SDGs (Sustainable Development Goals) are 17 global targets set by the United Nations to end poverty, protect the planet, and ensure that people enjoy peace and prosperity.

The IMF's colourful yet superficial approach to the Sustainable Development Goals – Source: IMF

RIGHTS news

Will IMF stick its head in the sand on human rights Guiding Principles?

UN releases Guiding Principles on impact assessments of economic reforms

Principles endorsed by several countries subject to IMF programmes

In February, the UN independent expert on foreign debt and human rights, Juan Pablo Bohoslavsky, presented new Guiding Principles (GPs) on human rights impact assessments of economic reform programmes to the 40th session of the UN Human Rights Council (HRC). The GPs, which were welcomed by a range of states, are the result of a two-year drafting process involving a wide consultation process, including with the IMF. They provide practical guidance to assist states, international financial institutions, such as the IMF and World Bank, national human rights institutions and other stakeholders in assessing macroeconomic reform policies against existing human rights law and standards. European civil society organisations have called on their governments and the EU to endorse and make use of the GPs in a February joint letter; the IMF has yet to take a public position on the GPs.

At one of the panel discussions, Greece's representative to the UN, Anna Korka, reflected on Greece's experiences during its recent financial crisis under IMF and EU loan programmes (see *Observer* Autumn 2018). Citing limited policy space as "a great impediment" to the Greek government's ability to alleviate the suffering of the most vulnerable groups, she noted that despite impact assessments becoming "the norm" in an international environment where, "due diligence in matters of human rights is evolving to be a precondition," studying the impacts of the loan conditions in Greece was "simply not amongst the priorities. ... Absolute priority was given to restoring business confidence and international competitiveness."

Despite widespread evidence that the austerity programmes that followed the 2008 financial crisis had and continue to have a corrosive effect on the enjoyment of human rights, this approach remains the *modus operandi* of IMF programmes in particular, as demonstrated by Belgium-based NGO Eurodad in November 2018, finding that the bulk of IMF programmes continue to mandate fiscal consolidation. A January analysis by Timon Forster *et al.*, also demonstrated that IMF loan programmes increase income inequality.

Policymakers will be looking to the World Bank and IMF in particular for their positions on this new tool. This will be particularly pertinent for states who have endorsed the GPs, such as Tunisia, Egypt, Jamaica and Pakistan, that are in ongoing or potential programme negotiations with the IMF. In those instances, the GPs could serve to strengthen the negotiating position of member states committed to protecting their human rights obligations in the face of pressure from international creditors.

bit.ly/IMFGPs

Photo: Eric Bridiers

Human Rights Council

ENVIRONMENT news

As Green Climate Fund and World Bank sign framework agreement, concerns about Bank's role linger

In February, the Green Climate Fund (GCF) and World Bank's new framework agreement – known as its Accreditation Master Agreement (AMA) – came into force. The AMA, which was first announced at the 23rd session of the Conference of the Parties to the United Nations Framework Convention on Climate Change (COP23) in 2017 (see *Observer* Spring 2018), sets the conditions for cooperation between the two organisations. Under the new framework agreement, nine projects co-financed by the Bank and GCF and approved by the latter's Board will now go forward – starting with a co-financed project in the Marshall Islands designed to support coastal resilience.

Liane Schalatek, of US-based civil society organisation (CSO) Heinrich-Böll-Stiftung North America, who is an active CSO observer for developed countries at the GCF, said of the AMA: "[There is a question of] whether the projects that the World Bank has presented so far to the GCF are really all projects that should have been funded by the GCF, or whether in some instances the World Bank is asking GCF to come in with concessional money to fund 'climate proofing' of some Bank projects that they should be doing themselves."

In October, the GCF's Board approved the "continuation of the World Bank as GCF trustee for a multi-year, renewable period of time," according to Heinrich-Böll-Stiftung North America, ending previous speculation about whether the Bank would continue as GCF trustee (see *Observer* Spring 2018).

bit.ly/WBGreenClimateFund

PRIVATE SECTOR analysis

The IMF and PPPs: A master class in double-speak

by Gino Brunswijck and Maria José Romero, Eurodad

IMF warns of the fiscal risks of PPPs

Fund-backed austerity drives countries to use PPPs

IMF surveillance advocates PPPs

While the IMF cautions against the fiscal risks of public-private partnerships (PPPs), the institution is simultaneously backing them at country programme level and advocates austerity measures that push governments towards expanding PPPs through constrained budgets.

The fiscal risks of PPPs

As far back as 2004, the IMF's Fiscal Affairs Department (FAD) published a paper stressing that "one particular concern is that PPPs can be used mainly to bypass spending controls, and to move public investment off budget and debt off the government balance sheet, while the government still bears most of the risk involved and faces potentially large fiscal costs."

Concerns over the fiscal risks of PPPs have also underpinned the work of the IMF to quantify the macro-fiscal impact of PPP projects. It has, for example, designed tools such as the Public Investment Management Assessment (PIMA), and the PPP Fiscal Risk Assessment Model (P-FRAM). However, it is not clear how these tools influence programme design at the IMF.

More recently, in October 2018, the IMF published a note on controlling the fiscal costs of PPPs, which aimed at offering advice to policy makers. Building on a growing body of literature including its own economists, as well as academics and civil society organisations, the note raises concerns over the costs, risks and lack of proven efficiency gains of PPPs. It notes that, "while in the short term, PPPs may appear cheaper than traditional public investment, over time they can turn out to be more expensive and undermine fiscal sustainability." The same note states that "the fiscal risks of PPPs are sizeable" as the average fiscal cost of PPP-related contingent liabilities that materialised during 1990-2014 was about 1.2 per cent of national GDP of countries where PPPs had been contracted, and according to the authors, "with the increasing use of PPPs by countries, the size of associated risks is likely to grow, too."

The note also raises a red flag when it comes to the inflexibility of PPP contracts: "While spending on traditional public investments can be scaled back if needed, spending on PPPs cannot. PPPs thus make it harder for governments to absorb fiscal shocks, in much the same way that government debt does."

Saying one thing, doing another

Despite these concerns, the IMF's preference for fiscal adjustment measures drives countries towards PPPs. Recent Eurodad research found that IMF programmes in 2016-2017 have predominantly pushed for austerity in 23 out of 26 borrowing countries.

Strict budgetary requirements tend to squeeze government budgets, limiting options for public investment. Confronted with a curtailed capacity for public service provision, governments might well be forced to turn to PPPs, because fresh capital can be provided by the private sector. However, risks will be assumed by the public sector. While the IMF recognises the fiscal risks associated with PPPs, its policy advice and conditionality in certain countries do not allow for increasing and improving public financing of economic and social infrastructure and even include calls for advancing the legislative frameworks for PPPs.

For instance, in its 2015 Article IV report for Tunisia, IMF staff "regretted delays in the final approval of the PPP law, currently in parliament, as the framework would mobilise significant private resources for public infrastructure investment." Subsequently, the IMF loan for Tunisia in 2016 attached a specific conditionality calling for the implementation of a comprehensive PPP law together with a package of austerity measures. The law is intended to encourage greater private sector participation in infrastructure investment.

This points to the role of the IMF in the global promotion of PPPs, which is problematic given that there is a lack of evidence that PPPs can deliver in the public interest. All in all, the advice of the IMF seems to lack coherence when it comes to PPPs. On the one hand the IMF recognises the fiscal risks associated with PPPs in its policy advice, while on the other there is a continued push for fiscal austerity measures, which has paved the way for the introduction of PPPs in many countries.

bit.ly/PPPsIMF

Photo: IMF

IMF Managing Director Christine Lagarde

ENVIRONMENT news

Despite new 2025 climate targets, World Bank's Paris Agreement alignment remains work in progress

Bank announces new climate commitments covering 2021-2025

Questions arise about Bank's future climate work amidst leadership change

The World Bank announced its 2025 climate targets in December 2018 at the 24th session of the Conference of the Parties to the United Nations Framework Convention on Climate Change (COP24) in Katowice, Poland, laying the foundations for its 2021-2025 climate strategy.

The Bank committed to provide $133 billion in direct finance for 'climate-related investments' over 2021-2025, including $50 billion for climate change adaption efforts. It will also seek to mobilise an additional $67 billion in climate finance from other investors, through leveraging private sector investment and de-risking. The Bank launched a new Adaptation and Resilience Strategy in January, which is closely related to the new 2025 climate targets' emphasis on adaptation finance. The Bank and eight other multilateral development banks also announced they will be outlining the parameters of their joint approach to Paris Agreement alignment, to be announced at COP25 in November 2019.

Photo: World Bank

John Roome, World Bank Group Senior Director, Climate Change, speaks at a 2017 event

However, despite civil society organisations (CSOs) calling on the Bank to introduce new measures to prevent its finance from going to fossil fuel investments – including an emissions target covering its lending and operations consistent with 1.5°C global temperature rise relative to preindustrial levels – the Bank's 2025 climate targets remained silent on this point.

"While the World Bank's additional finance can help to drive very low carbon and climate-resilient development, overall, [the 2025 climate targets announcement] provides little sense of its anticipated overall climate impact," said Kat Kramer of international CSO Christian Aid.

Kim's departure raises concerns about future of Bank's climate work

The surprise resignation of World Bank President Jim Yong Kim – first announced on 7 January and effective on 1 Feb – raised questions about the future of the Bank's climate work. Kim's successor, US Treasury official David Malpass, is seen as a surrogate of a US administration that has announced its intent to withdraw from the Paris Climate Agreement and has promoted increased export of US fossil fuels as part of its broader 'America First' policy, which in the case of the Bank has manifested itself in the US insisting on less lending to upper-middle income countries, including China (see *Observer* Spring 2019 cover story).

The World Bank introduced a series of commitments at the One Planet Summit in December 2017, including a phaseout of the Bank's project lending for 'upstream' oil and gas after 2019, the introduction of a shadow carbon price in the internal economic analysis of the Bank's projects, and the tracking of greenhouse gas emissions in 'high intensity' sectors (see *Observer* Spring 2018). It remains to be seen whether the next World Bank president will honour these commitments. In response to these concerns, 31 CSOs submitted an open letter to the World Bank's Board of Executive Directors in mid-March, calling for the Bank to ensure that alignment with the Paris Agreement is a core priority of the next World Bank president.

bit.ly/ClimateTargets

World Bank appoints Independent Evaluation Group Director and Inspection Panel member

In October 2018, former World Bank president Jim Yong Kim announced the appointment of Alison Evans as Director General of the World Bank's Independent Evaluation Group (IEG). Before joining the Bank, Evans was Chief Commissioner of the UK's Independent Commission for Aid Impact and Executive Director of the UK-based Overseas Development Institute. Civil society will be looking at whether Evans will ensure the IEG evaluates contentious issues, such as the Bank's Maximizing Finance for Development paradigm (see *Observer* Summer 2017).

In December 2018, Ramanie Kunanayagam joined the World Bank as a member of the Inspection Panel (IPN), the Bank's independent accountability mechanism. Kunanayagam has more than 25 years of experience across diverse environments in private, public and non-profit sectors. As part of the ongoing IPN review process, civil society has called on the Bank to ensure that the Panel is given an independent monitoring function, and that the Board considers the establishment of independent, community-led monitoring arrangements (see *Observer* Winter 2018).

bit.ly/2018Appointments

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