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BRETTON WOODS project

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

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Here we go again: Surprise IMF leadership change litmus test for its legitimacy

Lagarde resigns IMF leadership effective 12 September

Will historic gentleman's agreement finally be challenged?

Race comes at crucial time for legitimacy of multilateral system

On 16 July, Christine Lagarde announced she had submitted her resignation from the IMF as managing director, effective 12 September, in light of her nomination for the presidency of the European Central Bank. In the interim, IMF first deputy managing director, David Lipton, was appointed acting managing director by the executive board. The board intends to complete the selection process by 4 October.

Handy yardstick for health of neocolonial and neoliberal system

The surprise announcement kicked off the customary speculation of potential candidates to fill the IMF leadership position and the time-honoured tradition by civil society and others of calling for the abolition of the historic 'gentleman's agreement' on World Bank and IMF leadership.

The unofficial agreement, in place since the founding of the institutions 75 years ago, has ensured that the IMF has always been led by a European, and the World Bank by a US citizen (see *Inside the Institutions,* What is the 'gentleman's agreement?'). Civil society organisations around the world have for decades pointed out that the Fund and Bank continue to undermine their legitimacy by adhering to this arrangement. They have demanded an end to the European stranglehold on the top IMF post and for it to live up to its commitment to "adopt an open, merit-based and transparent process for the selection of IMF management" (see *Update* 76).

The selection of yet another European managing director immediately after this year's appointment of US-nominee David Malpass as World Bank president (see *Observer* Spring 2019) would unambiguously demonstrate that the leadership succession processes at the Bretton Woods Institutions remain undemocratic, opaque and illegitimate. The expected quashing of the 15th IMF quota review – which was an opportunity to more fairly distribute voting powers at the IMF executive board (see *Observer* Summer 2019) – further exacerbates the Fund's crisis of legitimacy, at a time when the adequacy of the current multilateral system is increasingly being questioned. In the words of Ambrose Evans-Pritchard of UK newspaper the *Daily Telegraph*, "If the Europeans persist in treating the International Monetary Fund as a hereditary fiefdom, they will destroy the institution. Global credibility will wither away."

This year's carousel of candidates

The *Financial Times* reported on 29 July that European governments put forward three candidates they are considering for the position; Jeroen Dijsselbloem, former Dutch finance minister and former head of euro zone finance ministers; Olli Rehn, central bank governor of Finland; and Kristalina Georgieva, the chief executive officer of the World Bank Group. Other names mentioned as potential candidates in various news sources include Tharman Shanmugaratnam, chairman of the International Monetary and

Financial Committee, the direction-setting body of finance ministers for the IMF and Raghuram Rajan, economist and former chief economist and director of research at the IMF.

According to news outlet *Bloomberg,* European ministers have already made clear that it is a "priority" for them to put another European in place, jointly presented by the EU and, in the words of French politician Bruno Le Maire, "without useless rivalries". In response, Wolfgang Münchau with the *Financial Times* commented: "For them [Eurozone finance ministers], it is all about whether someone is from the eurozone or not, from the left or the right, the north or the south. The world needs a first-rate person to run the IMF. It should not allow Europe to treat the fund as a dumping ground for washed-up officials."

Whether non-European governments will feel they are in a position to actually nominate candidates before the 6 September deadline remains a question. The unopposed nomination of David Malpass after the withdrawal of Lebanese candidate, Ziad Hayek, in March due to alleged pressure from "other governments", as reported by news-outlet *Devex*, does not bode well for those interested in seeing a competitive race take place at the Fund. According to Mark Sobel, former US representative to the IMF executive board, "If the emerging markets don't like it [Europe keeping the Fund job], they have to put up a credible candidate and a fight – win or lose. The US and Europe will not hand over the duopoly to them on a silver platter."

Fourth time's a charm?

Lagarde was appointed in 2011 when then-managing director, Dominique Strauss-Kahn, unexpectedly resigned after allegations of a brutal sexual assault against a New York hotel worker, which he settled out of court. The race came at a critical point in the Eurozone crisis talks and two weeks before the G8 Summit, creating a sense of urgency that European governments used to rush forward Lagarde as their candidate (see *Update* 57*)*. That process was considered the third successive leadership race with nominal opposition to the European candidate, with Mexican Central Bank governor Agustín Carstens running against Lagarde. However, Carstens lacked the required endorsements of fellow emerging market economies to pose a serious challenge to her candidacy (see *Update* 76).

In a briefing prepared for the 2011 race that continues to be relevant today, civil society demanded a fair selection process and reiterated longstanding demands for IMF governance reforms, such as double majority decision-making to strengthen representation of developing countries. It argued that the right candidate "must be, and must be seen to be, wholly independent of any national or regional interest," must have "a rigorous focus on poverty", and be "well versed in the particular problems of low-income and middle-income countries" (see *Update* 75).

Long and bumpy road ahead towards transformative change

Looking forward, challenges the new IMF head will need to traverse include another looming debt crisis (see *Observer* Winter 2017-2018), for which it may behove international financial stability, and the credibility of the institution, to have a managing director in place who can act as an 'even-handed' arbiter between debtor and creditor states. The perception that Lagarde "unfailingly" opted in the Greek crisis to choose "Berlin's favouritism over the interests of the institution she led… whose staff was adamant Greece needed an outright debt reduction," according to former Greek finance minister Yanis Varoufakis' July opinion piece in the *Guardian,* is proof of that. A January blog from the Committee for the Abolition of Illegitimate Debt that exposed secret executive board documents demonstrating that Dutch, German and French executive directors misled the board on the Greek programme, provided further evidence of the corrosive effect of the current arrangement. The leadership's ability to handle the challenges posed to the current multilateral system, as evidenced, for example, by ongoing US-China trade tensions, will have long-lasting impacts.

In the face of the largest IMF programme in history seeming ever-more unsustainable in Argentina and potentially headed towards another insolvency crisis (see *Observer* Winter 2018), the new managing director will have to confront increasing calls for the IMF to change its tack on debt restructuring and forgiveness. Paired with the growing discontent by shareholders from the Global South at the lack of progress on quota reform, the new IMF head will face critical challenges for which perceptions of the institution's legitimacy will be key. As a 2018 International Center for Monetary and Banking Studies report noted, the inability or unwillingness of a new leader to address the imbalances in the Fund's governance structures and to enhance the institution's legitimacy could result in a "downgrade" of the IMF's influence as it faces the threat of a "diminishing global role" and the fragmentation of the financial system into dollar, Euro and renminbi zones.

In relation to the Fund's work under Lagarde aimed at demonstrating the 'softer face' of the institution, Nadia Daar of Oxfam's Washington Office said in a statement responding to her departure: "there is still a long way to go to turn high-level discourse into action at the country level, with many staffers still pushing policies that risk further widening the gap between rich and poor. The task for Lagarde's successor is to take the torch and dig deeper to transform the IMF into an institution that supports stability and sustainable growth using strategies that truly and consistently help to reduce inequalities." Whether the new managing director will take up this challenge to deliver transformative change, which is the mantra of the Sustainable Development Goals (SDGs), and seize the opportunity to truly question and realign its practices and policies (see *Observer* Spring 2019), in particular in relation to climate change (SDG 13), gender inequality (SDG 5), economic inequalities (SDG 10), and decent work (SDG 8), remains to be seen. Civil society will be closely watching.

bit.ly/IMFLeadership

Follow and join the debate at IMFBoss.com

For ongoing press coverage, insider information and civil society and official reactions to the IMF leadership process, follow the blogsite IMFBoss.com, a hub for discussion and debate on IMF governance, the selection process and the potential candidates.

The blog offers an open space for civil society, researchers, academics, officials, insiders and anonymous contributors to share and exchange their ideas and criticisms about the IMF's leadership process, and is now open to new contributions and content.

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

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

CONDITIONALITY analysis

Structural adjustment is dead, long live structural adjustment

IMF publishes review of programme design and conditionality

Findings demonstrate key failings of Fund programmes

Debt sustainability remains concern as structural conditions rise

In May, the IMF published its *2018 Review of Program Design and Conditionality*, covering September 2011 to the end of 2017. The review marks the first comprehensive stocktaking of Fund programme design and performance since the global financial crisis, following the *2011 Review of Conditionality*, the *2015 Crisis Program Review*, and various reports by the IMF's *Independent Evaluation Office* (IEO) studies. The review analysed the Fund's macroeconomic and structural policies, as well as the specific methods used in Fund arrangements to achieve programme goals, where programme success is largely defined by its capacity to resolve balance of payment problems, achieve external viability, and foster economic growth.

Some of the core findings include that the number of structural conditions has risen, that programme projections were often overly-optimistic, and that programme involving debt restructuring tended to be more successful than those without. The review shone a fresh spotlight on the IMF's treatment of indebted countries in the aftermath of the financial crisis. Countries such as Greece made headlines, as structural conditions were cited as a reason for the Greek death rate rising three times faster than the rate in Western Europe overall (see *Observer* Autumn 2018).

A 2018 IEO update on structural conditionality in IMF-supported programmes concluded that many of the issues raised in its 2007 evaluation remain salient, for example, that, "there are still concerns about lack of country ownership and possible stigma effects" and that, "The volume of structural conditions has shown some signs of rising in recent years, while impact remains a question."

From concerns around austerity and debt sustainability to democratic ownership, IMF conditionality and programme design have faced long-standing criticism from civil society and trade unions. During the review's consultation period in June last year, over 50 trade unions, church groups, civil society organisations (CSOs), economists and academics signed a joint letter to the IMF. The letter called on the Fund to reconsider its current approach in favour of one that protects universal human rights and supports the achievement of the Sustainable Development Goals (see *Observer* Summer 2018).

Loan conditions are on the rise again

One of the central findings of the review was that the number of conditions had increased. The finding is in stark contrast to the *2011 Review of Conditionality*, which praised the Fund's effort to reduce the number of structural conditions. The findings echo research carried out in 2018 by Belgium-based CSO Eurodad, which investigated the conditions attached to the IMF loans for 26 country programmes approved in 2016 and 2017. The results – which were derived using a different methodology to the IMF's research – revealed that the average number of structural policy conditions per loan was 26.8, while programmes approved between 2011 and 2013, only carried an average of 19.5 conditions per loan.

Not only is there an upward trend in the number of structural conditions, but the IMF's conditionality review found that "lower program completion rates suggest increasing ownership issues, as politically complex structural challenges intensified." Indeed, political turbulence and social unrest have accompanied several controversial IMF-supported programmes in recent years. In Tunisia, IMF-backed wage cuts were overturned following general strikes this year (see *Observer* Spring 2019, Spring 2018). In Jordan, Prime Minister Hani Mulki resigned last year following the country's biggest protests since the Arab Spring, amid unpopular government initiatives and IMF-mandated reforms. In Pakistan, workers protested the privatisation of public enterprises associated with the IMF programme in May, following recent protests over contentious IMF-backed conditions in Sri Lanka, Egypt and Argentina (see *Observer* Winter 2018, Spring 2018).

The need for debt restructuring and credible forecasting

Echoing the voices of civil society, the review noted that programmes involving debt restructuring tended to be more successful than those without. This is not the first time the IMF has acknowledged the benefits of debt restructuring. In a 2017 blog, the IMF acknowledged that partial cancellation of debts could be justified when debt reaches unsustainable levels. Yet, as UK-based CSO Jubilee Debt Campaign pointed out, "this realism is contradicted by the IMF's own actions", noting that the IMF overwhelmingly opts to bail out lenders rather than restructuring debt upfront (see *Observer* Spring 2017).

The case for debt restructuring has been linked to the cyclical nature of debt following IMF programmes. A former senior IMF official told the *Financial Times* in November, "Assessing debt sustainability is at the heart of IMF competence. If you get it wrong or go about it without the information, it hurts your credibility." These issues have come to the forefront with the IMF's $57 billion loan programme to Argentina – its largest ever (see *Observer* Winter 2018). By its own reckoning, the IMF assessed Argentina's debt as sustainable, "but not with a high probability" last October. Dan Ozarow, from campaign group Action for Argentina UK, noted in January that "the time is ripe for a public debt audit to be conducted, and the proportion of the debt found to have illegitimate origins to be cancelled."

The IMF's fondness of unrealistic economic predictions extends beyond Argentina. The 2018 review concluded that "program growth assumptions were often too optimistic." Likening this to the aftermath of the financial crisis, the review noted the Fund's underestimation of fiscal multipliers and the overestimation of structural reform payoffs, suggesting increased scrutiny of macroeconomic baselines and improved contingency planning (see *Update* 62).

Despite highlighting problems – from rising loan conditions to debt sustainability and financial forecasting – the recommendations fall short of embracing civil society-backed solutions to these issues, such as the creation of an independent debt workout mechanism, the use of human rights impact assessments in times of economic reforms, or the alignment of IMF conditionality with the Sustainable Development Goals and human rights obligations (see *Observer* Spring 2019, Spring 2017).

bit.ly/CondiReview

CONDITIONALITY analysis

IMF framework on social spending out of step with international standards

by Lara Merling – International Trade Union Confederation

IMF publishes its long-awaited social spending strategy

Civil society accuses the Fund of diluting social protection standards

Christine Lagarde, the outgoing IMF managing director, launched the much-anticipated *Strategy for IMF Engagement on Social Spending* at the June International Labour Organisation (ILO) conference, in a speech reiterating the IMF's obligation to help countries achieve the UN Sustainable Development Goals (SDGs). However, after two years of development and despite extensive civil society consultation, and demands for the Fund to adopt "an approach that is consistent with and supportive of the scope and objectives of social protection as defined by the international community, notably in the SDGs", the IMF strategy does very little to align its approach on social spending with either the ILO or the SDGs (see *Observer* Spring 2019).

The social spending 'framework' was developed in response to a 2017 report from the Fund's Independent Evaluation Office (IEO), which noted that the IMF's focus on targeting social benefits does not align with the international rights-based approach. Lagarde's speech at the ILO, entitled *Forging a New Social Contract*, reiterated the IMF's "obligation to help countries achieve the SDGs by 2030." As the IMF is a specialised agency of the UN system, one might think this was a signal of the IMF aligning its institutional position with the internationally-agreed approach. The published strategy however makes it clear this is not the case (see *Observer* Spring 2019).

While the ILO and SDGs endorse universal social protection – meaning that while schemes may only reach specific groups such as children, this is not determined by income or wealth – and social protection floors, the IMF continues to favour an approach of narrowly targeting benefits in its programmes, based on proxy means testing.

Rather than adhering to the social protection definition in the IEO report, the IMF created a new definition of 'social spending', which it expands to include health and education, making it difficult to address the concerns raised by the IEO. Moreover, the IMF's focus is on whether this spending is "macro-critical" – a phrase used to determine whether it falls within its mandate – and assesses it in terms of its fiscal sustainability, adequacy, and efficiency. The framework does not acknowledge the negative social effects of austerity policies that include social spending cuts promoted by the IMF (see *Observer* Summer 2017). In practice, "efficiency" for the Fund often means cutting existing social assistance programmes and replacing them with narrowly targeted ones. This only aims to mitigate the damage of IMF-backed austerity on the "most vulnerable", rather than working towards developing a system that supports all citizens at different stages of their lives as a collective social contract. Especially in developing countries, research has shown that these types of targeted programmes also exclude a very large number of intended beneficiaries, something the IMF continues to disregard.

For example, in Mongolia the IMF pushed the government to scrap a universal child allowance programme that benefitted all households with children. Research by Development Pathways subsequently estimated that as a result of targeting, 400,000 children were denied income support (see *Observer* Spring 2018).

In terms of spending on healthcare and education, the strategy suggests that the IMF will also focus on efficiency. In practice that likely means the IMF will continue to push countries to cut their public wage bills, despite the necessity of well-trained public-sector employees to provide quality healthcare and education services. For example, the IMF has recently advised Honduras to "enhance the efficiency of health and education spending," by which it means further cuts in wage bill spending in those sectors. This advice was given despite the fact that there have been sharp cuts to these services in the last few years that have already created a deep crisis in both the education and healthcare systems, and caused massive protests and social unrest.

The IMF strategy points to the implementation of social spending floors in loan programmes as proof that it is operationalising its research on inequality. While the floors are a welcome step to protect social spending from cuts, they have not been set at adequate levels and still involve the promotion of targeted programmes. A 2018 review of IMF programmes by Belgium-based CSO Eurodad found that in most cases, the spending floors set in IMF programmes would be too low to provide basic healthcare services. This unconvincing attempt at ameliorating the worst damage done by its own programmes was thus recently called "largely cosmetic" by UN Special Rapporteur on extreme Poverty and Human Rights, Philip Alston (see *Observer* Summer 2018).

The Fund's recognition of the importance of social spending is welcome. However, this acknowledgement is not enough, at a time when the world is off-track on meeting the SDGs and inequality levels are rising. If the IMF is truly serious about supporting 'a new social contract' it needs to do a lot more.

bit.ly/IMFSocialSpending

Lara Merling is an economics researcher at the International Trade Union Confederation. Lara's research focuses on highlighting the devastating effects of austerity.

Photo: Joao Araujo Pinto

Flags of member nations flying at United Nations headquarters.

ENVIRONMENT analysis

Confronted with climate emergency, IMF belatedly attempts to "get real"

Fund's focus on carbon pricing ignores long-standing critiques

Climate damages already contributing to rising debt among climate vulnerable countries

Fund's policies on climate not yet commensurate to scale of challenge

After largely staying on the fringes of climate discussions in recent years – apart from its forays into energy pricing reforms and estimates of global fossil fuel subsidies – the IMF released a high profile staff paper in May on fiscal tools for Paris Agreement alignment, where it outlined the Fund's potential role in engaging with climate change as an issue of 'macro-criticality' (i.e. what the Fund considers critical to the achievement of macroeconomic stability).

The IMF's flagship publication heavily focused on the role of carbon pricing schemes in achieving the Paris Agreement. As argued in an accompanying blog, entitled *Getting Real on Meeting Paris Climate Change Commitments*, by outgoing IMF Managing Director Christine Lagarde and Vitor Gaspar, the director of the Fund's Fiscal Affairs Department, "There is a growing consensus that carbon pricing—charging for the carbon content of fossil fuels or their emissions—is the single most effective [climate change] mitigation instrument." Yet despite the establishment of regional, national and sub-national carbon pricing mechanisms, the policy tool has faced a long and difficult history, from the 1992 Kyoto Protocol's Clean Development Mechanism up to the present day (see, for example, *Inside the Institutions*, Carbon finance). Lagarde and Gaspar's blog even acknowledged this, noting, "It is also clear that carbon pricing can be politically very difficult. Events from all latitudes remind us of this."

Indeed, the Fund's favoured policy prescription seems relatively tone-deaf, given the long-standing critique of carbon pricing schemes, including from Pope Francis, who in 2015 noted, "The strategy of buying and selling carbon credits can lead to a new form of speculation which would not help reduce the emission of polluting gases worldwide. …[I]n no way does it allow for the radical change which present circumstances require."

The Fund's approach to climate change and resilience – too little, too late?

Since climate was identified as an emerging structural issue at the Fund in 2015 – along with gender and inequality – the IMF has been slowly taking steps to elaborate its approach to when and how it sees climate as a macro-critical issue. For example, a June paper on the Fund's contribution to the achievement of the Sustainable Development Goals (SDGs) noted that climate issues have increasingly been integrated into the Fund's annual Article IV surveillance (see *Inside the Institutions*, IMF surveillance) in some member countries: "A pilot initiative included climate mitigation (beyond energy price reforms) in Article IV consultations with 16 countries in 2015-16; going forward, periodic coverage in Article IV consultations of climate issues will be conducted in countries where these issues are macro-critical."

In June, the Fund also released a policy paper on approaches to resilience in countries that are vulnerable to large natural disasters, outlining the scope for using conventional IMF policy tools and instruments to assist countries in *ex ante* planning for disaster risk management as well as post-disaster recovery. Relatedly, a review of the IMF's lending to low-income countries (LICs), also released in June, proposed an increase in available disbursement amounts from the Fund's Rapid Credit Facility, which provides concessional loans for LICs affected by natural disasters. The IMF has also partnered with the World Bank to conduct climate change policy diagnostics for a handful of countries, including Belize, the Seychelles and Saint Lucia. The Fund's forthcoming *Fiscal Monitor*, to be published before October's Annual Meetings of the IMF and World Bank, "will analyze fiscal policies for climate change mitigation."

However, the already existing impact of climate change on countries' debt levels and the potential future impact of climate change on global macro-economic stability means more action is needed on the Fund's behalf. A report commissioned by the V20 group of countries – a bloc of 48 states established in 2015 that are systematically vulnerable to climate change – and released in April (see *Dispatch* Spring 2019) found that climate change is already affecting the cost of capital in many V20 countries, resulting in $40 billion in additional interest payments on government debt alone over the past decade. The fiscal damages caused by cyclones Idai and Kenneth on Mozambique and neighbouring countries are another example of the emerging macro-criticality of climate change in many developing states, and the rising debt levels associated with climate change impacts in these cases – which the Fund has been loathe to forgive or restructure (see *Observer* Summer 2019). Ulrich Volz, of the UK-based School of Oriental and African Studies, who is one of the co-authors of the V20 report, commented that, "There are clearly important impacts of climate change on public finances and sovereign risk. These cause the cost of capital to rise, which will further limit investment in climate vulnerable countries, and lead to even further fiscal constraints – this creates a sort of vicious cycle. The Fund could play an important role in addressing the problem and working with central banks and finance ministries to develop responses that enhance climate vulnerable countries' macro-financial resilience."

Accounting for climate risk: Can Fund help global economy avoid "climate Minsky moment"?

As argued by Bank of England governor Mark Carney at a gathering of central bank heads in 2018, failure to grapple with the financial risks associated with climate change could lead to a climate "Minsky moment" (i.e. a sudden collapse of asset prices after a long period of growth): "too rapid a movement towards a low-carbon economy could materially damage financial stability. A wholesale reassessment of prospects, as climate-related risks are re-evaluated, could destabilise markets, spark a pro-cyclical crystallisation of losses and lead to a persistent tightening of financial conditions." A managed transition, aided by the disclosure of climate risks to countries and companies, is required to avoid such a chaotic 'correction'.

As noted in the aforementioned IMF SDGs paper, "IMF staff have been working with relevant international agencies, central banks, and other partners on financial sector policy issues related to climate risks." However, the World Resources Institute suggested in a May blog that the IMF should do more, "The IMF should integrate climate risk assessment into all Article IV Consultations, for every country and for every year." Civil society will be watching the forthcoming IMF surveillance review (*Observer* Summer 2019) to see if the Fund really is "getting real" on climate change.

bit.ly/IMFClimate

ACCOUNTABILITY news

Quota reform impasse likely as IMF faces legitimacy crisis

IMF expected to publish 15th General Review of Quotas by Annual Meetings

US indicates it will quash redistribution of quotas in favour of New Borrowing Arrangements

As the IMF is set to publish its 15th General Review of Quotas by the October World Bank and IMF Annual Meetings, the US has suggested that it will block reforms of quotas in favour of extending the portion of 'New Arrangements to Borrow' (NAB), which are designed as a backstop to the Fund's quota-based financing mechanism (see *Update* 79, *Observer* Spring 2019).

IMF quotas are defined as "the building blocks of the IMF's financial and governance structure" where a "member country's quota broadly reflects its relative position in the world economy" and determines its voting share on the IMF executive board. The current formula used to guide the distribution of quotas is calculated in accordance to GDP (50 per cent), economic openness (30 per cent), economic variability (15 per cent) and international reserves (5 per cent).

Quota reviews are supposed to take place every five years. While member states had originally committed to completing the 15th review in January 2014, the US used its veto to delay the approval of the 2010 14th review until 2016 (see *Observer* Winter 2016, Autumn 2015). Moreover, the delayed 2010 reforms resulted in many low-and middle-income countries losing substantial shares of their voting power – such as Nigeria by 41 per cent, Venezuela by 41 per cent, Libya by 39 per cent and Sri Lanka by 34 per cent (see *Observer* Winter 2016).

This review corresponds with a crisis of multilateralism engulfing international institutions, which could intensify should the IMF uphold the 'gentleman's agreement' to appoint another European its new managing director (see *Observer* Summer 2019).

Trump quashing quota reform

The US Treasury proposal to quash the scheduled reform would not only leave the amount of IMF quotas – and thus the distribution of country voting powers – unchanged, but could undermine the notion that the IMF is a quota-based institution where countries pay their fair share determined by an agreed formula.

An April 2019 International Monetary and Financial Committee (IMFC) statement by US Treasury Secretary Steven Mnuchin noted that the immediate concern is ensuring the IMF has sufficient financial resources to respond to potential crises. He stated, "… we do not see a need for a quota increase at this time and support closure of the 15th General Quota Review as soon as possible." Responding to Mnuchin's comments, Mark Sobel of the US-based Official Monetary and Financial Institutions Forum speculated that Washington is blocking quota reform because it does not want Beijing to have more voting power on the board.

Fault lines exposed as voting rights exacerbate power imbalances

The G24 October 2018 communiqué called on the Bank and Fund to "strengthen their efforts toward addressing the severe under-representation of some regions and countries" (see *Dispatch* Annuals 2018). Their April communiqué, which echoed long-standing demands from civil society, stated, "We further reiterate our longstanding call for a third Chair for Sub-Saharan Africa to enhance the voice and representation of the region" (see *Dispatch* Annuals 2018).

An IMFC statement on behalf of Bangladesh, Bhutan, India and Sri Lanka in October 2018 noted that the latest data update based on the current formula revealed that while the actual share of emerging markets and developing economies in the GDP blend remained at 50.4 per cent, their calculated quota share has fallen to 42.4 per cent, "indicating the inability of the current formula to capture actual position of EMDCs in the global economy." China added to the growing demand for quota reform, noting in its April IMFC statement that, "The gap between the actual and calculated quotas should be narrowed in a constructive manner and the structural distortion of quotas should be reduced."

bit.ly/QuotaReform

ACCOUNTABILITY news

IFC capital increase not a priority for US Congress

In October, the World Bank Group proposed a $60.1 billion capital increase for the International Bank for Reconstruction and Development (IBRD), the World Bank's middle-income lending arm, and a $5.5 billion increase for the International Finance Corporation (IFC), its private sector arm (see *Observer* Summer 2018). The increase, which would triple IFC's capital base from $2.57 billion to $8.2 billion, is still to be approved by US Congress.

In return for the capital increase, the IFC has agreed to increase the proportion of its investments in International Development Association (IDA) – the Bank's low-income lending arm – countries and fragile and conflict-affected states to 40 per cent of its portfolio by FY30. However, there are concerns about IFC's ability to comply with these requirements. In 2016, only about 2.6 per cent of IFC investments were in IDA countries and it is not clear whether there are enough viable investment opportunities in these countries. The increased IFC presence in these settings could lead to further erosion of its ability to ensure the development impact of its investments (see *Observer* Summer 2018).

In an April statement, US Representative Maxine Waters, chair of the US House Financial Services Committee, also noted concerns about the IFC's engagement in IDA countries: "The PSW [IDA's Private Sector Window] is likely to prioritize financial returns over positive development impacts, which will be difficult to monitor…unless these transfers stop, or at a minimum are competitively based and fully transparent down to the amounts and purpose of aid going to which firms and projects, the Administration's request for Congress to authorize the IFC's general capital increase will not be a Committee priority."

bit.ly/CapitalIncrease

GENDER news

World Bank's women entrepreneur initiatives just "smoke and mirrors"

World Bank-hosted We-Fi launches West Africa regional summit

Feminists criticise rise of women entrepreneur funds and narrow scope

In April, the Women Entrepreneurs Finance Initiative (We-Fi), the financial intermediary brainchild of Ivanka Trump housed and managed by the World Bank, hosted its West Africa regional summit. In conversation with World Bank CEO Kristalina Georgieva, Ivanka Trump introduced We-Fi commenting, "women are the greatest underleveraged resource in the developing world," encouraging women to "just go for it". Georgieva praised Trump for giving the audience "the best advice from the best there is."

Launched at the G20 Leaders' Summit in 2017, We-Fi has since allocated its first round of funding, the bulk of which ($75.1 million) has gone to the World Bank Group, mostly to the International Finance Corporation (IFC), the private sector arm of the Bank. We-Fi has been criticised by civil society organisations (CSOs) questioning its contribution to achieving the Bank's goal of ending extreme poverty, as its loans target so-called "high-growth women" entrepreneurs through financial intermediary lending, and are thus unlikely to reach the poorest women (see *Observer* Autumn 2017).

We-Fi is part of a larger shift at the Bank prioritising women's entrepreneurship and skills development as "smart economics", a key component of its Gender Strategy – 2016 to 2023 (see *Observer* Spring 2016). The new World Bank president, David Malpass has stated that "creating job opportunities for women" is a priority, emphasising his support for We-Fi. The Bank is currently supporting women entrepreneurs through several projects in borrowing countries and houses the Female Entrepreneurship Resource Point. The IFC also runs several initiatives on women's entrepreneurship, including a joint partnership with Goldman Sachs' 10,000 Women initiative, and We-Connect International, a partnership with "big-name, global companies".

At the same time, the Bank remains committed to promoting business deregulation and low corporation taxes through its *Doing Business* rankings and its *World Development Report 2019* (see *Observer* Winter 2018). Women's rights organisations WIEGO and Womankind Worldwide have continually argued that this undermines women's access to 'decent work', criticising the Bank for failing to address structural constraints for women in low-paid, informal and precarious work. Sarah Gammage, from US-based think-tank the International Center for Research on Women, emphasised the importance of expanding the scope of these initiatives "to improve the terms and conditions of employment and trade. Including initiatives that enable women entrepreneurs to overcome obstacles to childcare, obtain proper identification documents, access social protection and health care and formalise their businesses and their workers´ employment status, can transform drudgery and low productivity work into decent work."

The Bank's focus on women entrepreneurs is part of a global trend of similar financing initiatives, including the US's Women's Global Development and Prosperity Initiative and several other high-profile corporate projects, such as the Coco-Cola 5×20 Program, Wal-Mart's Women's Economic Empowerment Program and ExxonMobil's Women's Economic Opportunity Initiative, as well as multi-million dollar initiatives by tech giants Microsoft and Bumble.

Hakima Abbas, of the Association for Women's Rights in Development warned, "The enormous injection of finance for women entrepreneurship programs comes amidst a global funding crisis for women's rights and feminist movements, which receive only 1 per cent of funds promising to support women and girls, and the decline in funding for UN treaty bodies like the Convention on the Elimination of all Forms of Discrimination Against Women (CEDAW). The same corporations that claim to support women's empowerment often undermine gender equality through privatisation, tax avoidance, human rights abuses and the pillaging of natural resources. These initiatives are smoke and mirrors for unfettered corporate power, which divert resources away from feminist movements that create real and lasting change. The real struggle for women's power in the economy is a struggle for a just economy."

bit.ly/WE-FI

Photo: The White House

President Trump signs the National Security Presidential Memorandum to launch the "Women's Global Development and Prosperity Initiative" in February 2019.

ENVIRONMENT news

IFC's Green Equity Strategy faces set-back at Board

Board discussions on draft policy results in another round of consultations

Civil society calls for IFC to commit to strong final version of the policy

The Green Equity Strategy (GES), the flagship climate policy of the International Finance Corporation's (IFC), the World Bank's private investment arm, faced a temporary set-back after discussions by IFC's Board in May resulting in another round of consultations on the draft version of the strategy, according to civil society campaigners.

The GES was announced by IFC CEO Philippe Le Houérou in the lead-up to the World Bank and IMF Annual Meetings in Bali, Indonesia, in October 2018 (see *Observer* Winter 2018). The policy would require the IFC's new financial intermediary (FI) clients (i.e. commercial banks, private equity firms and insurance companies) to commit to reducing or exiting their coal investments over a defined period of time. The policy proposal was in part a response to sustained advocacy from civil society organisations (CSOs) in recent years, which has documented links between the IFC's FI investments and the construction of new coal-fired power plants (see *Observer* Winter 2017, Winter 2017-2018).

According to a July blog published in news site *Devex* by David Pred from US-based CSO Inclusive Development International (IDI) and Nezir Sinani from Netherlands-based CSO Bank Information Center Europe, "The World Bank Group's board met in May to consider IFC's proposal. Observers say it got mixed reviews, with some chairs expressing enthusiasm and others scepticism that the proposed 2030 deadline for clients to bring their coal exposure to zero was too onerous," with further consultations on the policy with FI clients now forthcoming.

They added, "There is simply no excuse for the World Bank to be invested in banks that aren't ready to immediately stop financing new coal projects. And it's a scandal that, after the Intergovernmental Panel on Climate Change warned us that we need to halve global CO emissions within the next twelve years or our planet will barrel towards a climate catastrophe, any governments would oppose an effort by IFC to lead the commercial financial sector away from the world's dirtiest energy."

Financial intermediaries: Growing IFC interest, and CSO concern

Despite the World Bank Group's *de facto* moratorium on project finance for new coal projects – introduced in 2013 following the controversial World Bank loan for the Medupi coal-fired power plant in South Africa (see *Observer* Spring 2019) – civil society activists widely view the IFC's FI portfolio as a 'loophole' through which the World Bank Group continues to provide finance for new coal projects.

In 2018 alone, the IFC's FI portfolio amounted to $6.4 billion. According to Pred and Sinani's blog, a CSO investigation led by IDI, which began in 2016, "has uncovered hidden financial flows to more than 150 companies and projects around the world that have violated human rights, damaged the environment and accelerated climate change, in violation of the IFC's social and environmental Performance Standards," with over half of these 150 projects being new coal projects.

A draft version of the GES was released for public consultation earlier this year. In a joint submission to the consultation, 10 CSOs, including the Philippine Movement for Climate Justice and Oxfam International, put forward suggestions to improve the draft version of the GES. These included applying the GES to all fossil fuel investments – not just coal; further clarifying what type of IFC financial instruments will be included in the policy; and improving overall transparency of the IFC's FI investments in order to allow CSOs to monitor implementation of the strategy.

As Pred and Sinani note, "A recent report by Oil Change International found that even if coal mining was immediately phased out, the emissions from oil and gas fields already in operation would result in more than 1.5°C of warming. If the IFC is serious, as it says, about helping banks to eliminate climate related risks by 2030, then the new rules must also include oil and gas."

bit.ly/GreenEquityStrategy

Photo: Joe Athialy

A fisherman in front of the construction site for the Rampal coal plant in Bangladesh.

RIGHTS news

Landmark report finds attacks on human rights defenders in name of 'development' on the rise

World Bank and IFC identified as key funders of problematic projects

CSOs call for human rights to be placed at centre of development projects

In June, the Coalition for Human Rights in Development (CHRD) (see *Observer* Winter 2018), launched a landmark report with the Defenders in Development Campaign, exposing the risks of mega-infrastructure and other ill-planned development projects on human rights defenders (HRDs). The report laid out 25 case studies demonstrating that HRDs are facing increasing threats and attacks in the context of their resistance to activities undertaken in the name of development, including harassment, physical violence, criminalisation, arbitrary detention and murder.

In examining the role of development finance institutions (DFIs) in exacerbating or mitigating risks to HRDs, the report found that, "DFIs often remain silent in the face of threats and attacks, or responses come too little, too late, and defenders and communities are left without protection or remedy for harm." As a result, too often, DFIs, "exacerbate risks for defenders due to lack of adequate attention to the rights and interests of local communities and marginalized populations, and to the contextual risks and power imbalances that may cause them to bear negative impacts or to be made vulnerable." The report pointed out that, at the very minimum, "DFIs have the responsibility to respect human rights and to prevent, mitigate, and help provide access to remedy for any threats and attacks against defenders in the context of their investments," yet, "hardly any DFIs systematically examine the enabling environment for public participation and human rights defense." Mark Fodor with CHRD commented, "As public institutions, DFIs' obligation to ensure a safe space for any member of the public, especially impacted people, to raise their voice about a project that the banks finance, could not be clearer. Threats, reprisals and attacks against defenders are probably the most flagrant illustration of their failure to meet this fundamental obligation."

Bank projects take centre stage in attacks on human rights defenders

Among 25 cases studied, 11 were financed by the International Finance Corporation (IFC), the World Bank's private lending arm, while other arms of the World Bank Group financed six of the highlighted projects.

Some of the case studies involving Bank investments included: the 2012 police suppression of a strike in South Africa against an IFC-financed mining company, known as the Marikana Massacre, which killed 34 people and is considered the bloodiest use of force by South African governments since 1960 (see *Observer* Autumn 2015); the 2016 murder of Gloria Capitan, who was opposing the intense air pollution caused by IFC-funded coal projects in the Philippines (see *Observer* Winter 2017-2018); and the arrest and imprisonment of Pastor Omot Agwa, who was helping the Anuak Indigenous group with displacement complaints against the World Bank in Ethiopia (see *Observer* Winter 2015).

The report concluded with a range of policy recommendations for DFIs to better protect HRDs, such as adopting robust human rights diligence requirements, and expanding sanctions lists for clients and agencies who have engaged in and repeatedly commit human rights abuses. While the IFC recently announced it is restructuring to better address environmental and social risks (see *Observer* Summer 2019), the report stressed that there is still much more to be done to protect HRDs: "Effectively addressing the shrinking space for participation in development processes and the growing threats to defenders will require not only a change in policy and practice, but a fundamental shift to place human rights and local communities at the center of how development is conceived and implemented."

bit.ly/HRDattacks

Photo: Daniel Arauz

Oakland march in solidarity with South Africa miners, August 2012.

ENVIRONMENT news

Climate Investment Funds quietly postpone decision on how to implement 'sunset clause'

In early June, the World Bank-hosted Climate Investment Funds (CIFs) opted to indefinitely postpone discussions about how to implement their sunset clause, a provision which would require the CIFs to close. The decision was taken at June's joint meeting of the CIFs' Clean Technology Fund and Strategic Climate Fund Trust Fund Committees, with representatives from France and Sweden abstaining, according to the co-chairs' summary. The CIFs will now undertake recapitalisation as early as January 2019.

The CIFs, which were established in 2008, were initially envisaged as temporary funds to be replaced by a larger UN climate fund – hence the existence of the sunset clause. However, a decision about how to implement the clause was previously postponed in 2016, with June 2019 being set as the new deadline to address the issue (see *CIFs Monitor* 14).

The decision potentially undermines the replenishment efforts of the Green Climate Fund (GCF), which are now underway. Unlike the CIFs, the GCF has a mandate under the UN Framework Convention on Climate Change (UNFCCC). "The CIFs' indefinite postponement of its mandated sunset flies counter to what was a clear prioritisation by the international community of the GCF as the main multilateral climate fund in support of the implementation of the Paris Agreement," said Liane Schalatek, an elected civil society observer of the GCF. "The potential re-capitalisation of the CIFs threatens the needed ambitious replenishment of the GCF at a time when developing countries are being asked to upgrade their climate commitments under the UNFCCC, as it is unlikely that any funding provided to the CIFs would be additional to significant contributions to the GCF."

bit.ly/CIFsWBG

SOCIAL SERVICES news

Human Rights Council resolution challenges World Bank approach to education

In July, the United Nations Human Rights Council (UN HRC) unanimously adopted a resolution recognising the Abidjan Principles on the right to education. The Abidjan Principles were adopted in Côte d'Ivoire in February and were conceived as a landmark text that lays out existing international legal obligations of states to provide public education and to regulate private sector involvement in education.

Among civil society organisations (CSOs), concerns are rising about private sector involvement in education, and World Bank support for it (see *Observer* Winter 2017). In an April report, Oxfam analysed the Bank's primary and secondary education portfolio between 2013-2018 and found that more than one-fifth of projects included support to governments for private education. A separate 2017 study by US-based CSO RESULTS found that the International Finance Corporation (IFC), the Bank's private sector arm, has quadrupled its funding to for-profit private schools since 2006.

At the UN HRC presentation of her last report on privatisation in June, Dr Koumbou Boly Barry, UN Special Rapporteur on Education, noted that, "All too often, seeking to maximize profits, these actors [the private sector] do so through the recruitment of unqualified teachers, exclusion of students who cannot pay school fees, inadequate infrastructure, and overcrowded classes," therefore challenging the right to education, and the realisation of Sustainable Development Goal 4 (SDG 4). CSOs showed their support in a statement urging states to consider the use of the Abidjan Principles to inform their efforts to implement SDG 4 and their national education programmes.

Additionally, the Global Partnership on Education (GPE), which supports education reform in low-income countries, unanimously adopted a draft private sector strategy in June, agreeing that, "no GPE funds can be used to support for-profit provision of core education services."

In light of States' recognition of the principles at the UN HRC, in a July press release Sylvain Aubry, of international CSO Global Initiative for Economic, Social and Cultural Rights, noted, "After years of failed attempts to improve education delivery by privatising or commercialising education systems, States and education stakeholders are realising that creating an anarchical education market is failing to deliver on the right to education and that norms, and standards are needed if we are serious about developing fair education systems."

bit.ly/AbidjanPrinciples

Photo: abidjanprinciples.org

Professor Ann Skelton, chair of the Drafting Committee, and UNESCO Chair of Education Law in Africa, with Madame Kombou Boly Barry, UN Special Rapporteur on the right to education, present a drawing by artist Yannick Ackatchy to the Minister of Education, Cote d'Ivoire to celebrate the adoption of Abidjan Principles.

ACCOUNTABILITY news

IFC announces changes to environmental and social framework after loss of immunity in the US

On 13 June, Philippe Le Houérou, the CEO of the International Finance Corporation (IFC), the World Bank's private sector lending arm, announced significant changes to how the organisation manages environmental and social (E&S) issues, beginning 1 July. The announcement highlighted the move of the IFC's Environment, Social and Governance Advice and Solutions department out of the Legal Vice Presidency and into the Operations Vice Presidency, and the creation of a new Environment and Social Policy and Risk department, managed by a senior director reporting directly to the CEO.

Pointing out the need to "improve E&S risk management and accountability [and] close any existing gap in IFC's responsiveness to complaints from affected communities," Le Houérou announced a 20 per cent increase in staff working on E&S issues.

As reported in June by news site *Devex*, the changes come after a historic United States Supreme Court ruling in February, which found that the IFC does not benefit from absolute immunity from prosecution in the US. The ruling opens the door to the possibility that the IFC may be held liable for the harms from projects it finances and may have to compensate the group of Indian fisher folk who brought the case against it in US courts (see *Observer* Spring 2019). *Devex* reported that, "Honduran farmers are also attempting to sue the IFC in US courts over its financing of palm oil projects that have been linked to death squads" (see *Observer* Winter 2014).

Organisations working with affected communities to hold the IFC accountable for the negative consequences of its investments cautiously welcomed the changes and reiterated their willingness to work with the IFC to improve its management of E&S risks and ensure the perspectives of communities are adequately considered. The need for immediate action was highlighted in a July report by the Coalition for Human Rights in Development and the Defenders in Development Campaign, which detailed the continued risk to human rights defenders who attempt to oppose projects financed by the IFC and other development finance institutions (see *Observer* Summer 2019).

bit.ly/ESIFC

FINANCE news

IMF and World Bank complicit in "climate debt trap" following Mozambique cyclones

In April, the IMF approved a $118 million loan to Mozambique in the wake of Cyclone Idai. The rapid loan was designed to address Mozambique's "financing gaps arising from reconstruction needs". At the time, Mozambique, the world's sixth poorest country, was already experiencing an "illegitimate" debt crisis (see *Observer* Summer 2018), which has led to public spending per person falling by 30 per cent, according to UK-based civil society organisation (CSO) Jubilee Debt Campaign (JDC).

The IMF specified that, "reconstruction needs will have to be covered by the international community mostly in the form of grants". Under the Paris Climate Agreement, governments have recognised this climate change-related financing need as 'loss and damage', as separate from finance for adaptation and mitigation. Yet, so far, the international community has failed to provide adequate finance for 'loss and damage', even as major natural disasters aggravated by climate change have materialised. This was evident with Dominica's 2017 Hurricane Maria and Fiji's 2016 Cyclone Winston, which left 77 and 87 per cent of their loss and damage unfunded respectively.

Instead, the IMF and World Bank are trying to plug this gap through loans, as was suggested in a June IMF discussion paper on resilience. The rising trend of financing climate change-related loss and damage through further indebting countries that have contributed least to climate change, is "a shocking indictment of the international community" according to Sarah-Jayne Clifton, of JDC , which is urging the IMF to write off debt to countries hit by Cyclone Idai.

To finance the estimated $300 billion per year that climate-related 'loss and damage' will cost developing countries within the next decade, UK-based CSO Stamp out Poverty and partners have proposed a "climate damages tax", designed to make those most responsible pay, in order to provide new and additional finance for loss and damage.

bit.ly/MozambiqueCyclone

Photo: USAFRICOM

Local women help humanitarian aid following Cyclone Idai, Bebedo, Mozambique.

GENDER news

Civil society left unconvinced as World Bank promotes PPPs as tool for gender equality

The World Bank has launched a new primer on Gender Equality, Infrastructure and PPPs (public-private partnerships) in May, which it describes as an "important first step toward gender equality in PPP projects."

This includes instructions on the incorporation of gender equality considerations into the delivery and design of PPPs, such as holding gender-sensitive stakeholder consultations and conducting *ex-ante* gender impact assessments. The primer also focuses on managing the harmful risks of projects, like gender-based violence (GBV), following the sexual exploitation of women and girls by construction workers in the Bank's 2014 Uganda Transport Sector Development Project and the subsequent launch of the Bank's GBV Action Plan (see *Observer* Spring 2018).

This comes as the G20, emphasised links between infrastructure and gender for the first time in its June communiqué, highlighting the importance of "women's economic empowerment" in "maximizing the positive impact of infrastructure." However, others, like the Germany-based think tank Heinrich Boll Foundation have highlighted concerns with the G20's promotion of infrastructure as an asset class and the associated risks for sustainable development.

Moreover, civil society groups like Belgium-based Eurodad have pointed to the broader harmful social impacts of PPPs in recent years. This has been particularly damaging for women, as the Gender and Development Network demonstrated in its joint briefing in March with Eurodad and Femnet, *Can public-private partnerships deliver gender equality?* The briefing highlighted that PPPs are often more expensive and carry more risk than public service provision, which has a disproportionate impact on women, and argued that private providers are not suitable for promoting social goals such as gender equality, as they are ultimately accountable to shareholders, not citizens. This runs counter to the World Bank's assertion in its primer that PPPs have a positive impact on gender equality, which includes advice to ensure that the private partner bears the risks associated with any of the project's gender equality-related goals.

The Bretton Woods Project's *Gender-Just Macroeconomics: the World Bank's privatisation push* highlights that the Bank's overarching Maximising Finance for Development (MFD) approach deepens existing gender inequalities, arguing that the Bank should shift towards a human rights based approach to gender equality.

bit.ly/WomenPPP

IFI GOVERNANCE news

New IMF surveillance tool launched

In July, the Bretton Woods Project launched a new online tool, the *Article IV Scanner*, designed to enable civil society, researchers and officials to more easily search for keywords and phrases in all IMF country-level surveillance reports published since 2000. The tool was developed to make IMF surveillance, one of its three main activities, more transparent, accessible and open to critical perspectives (see *Inside the Institutions,* IMF Surveillance).

The Scanner was launched ahead of the IMF opening its Comprehensive Surveillance Review for consultation with civil society, expected to take place in Autumn. The Review is a 5-yearly exercise aimed at enhancing the Fund's efforts to detect financial and economic risks and spillovers, and to improve the IMF's analysis at country-level. The 2019 Review is expected to build on the findings of the 2018 Interim Surveillance Review and is considered to be a key indicator in measuring the degree to which the Fund's more recent work on gender and economic inequality, social spending and climate change will be integrated into country-level policy advice.

The tool is kindly hosted on the website IMF Monitor, which also houses the first freely available, comprehensive and transparent database of IMF conditionality (see *Observer* Winter 2017-2018).

bit.ly/ArticleIVScanner

BRETTON WOODS project
CRITICAL VOICES ON THE WORLD BANK AND IMF

Bretton Woods Project
33-39 Bowling Green Lane
London EC1R 0BJ
United Kingdom

+44 (0)20 3122 0610
info@brettonwoodsproject.org
www.brettonwoodsproject.org
@brettonwoodspr
facebook.com/BrettonWoodsProject

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