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BRETTON WOODS project

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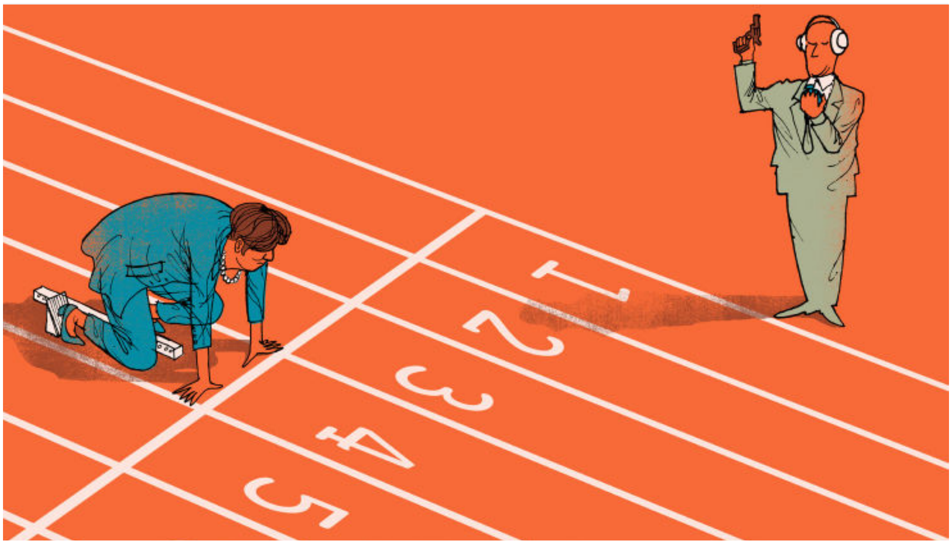
A quarterly critical review of developments at the World Bank and IMF

IFI GOVERNANCE analysis

Tout change et rien change pas: Global power and IMF leadership



In this issue

Guest comment by Oscar Ugarteche – Universidad Nacional Autónoma de México

IMF leadership 'contest' far from fair, transparent and merit-based

Process sheds light on persistent imbalances in governance structures of Fund and Bank

Since their creation in 1944, dominant global powers at the World Bank and IMF, also known as the Bretton Woods Institutions (BWIs), have established a 'gentleman's agreement', which stipulates that a European citizen leads the IMF and a US-citizen heads the World Bank (see Inside the Institutions).

After Christine Lagarde submitted her resignation as IMF Managing Director on 16 July (see *Observer* Summer 2019), that 'agreement' seems to have been upheld yet again with Bulgarian national Kristalina Georgieva, formerly the World Bank chief executive, nominated as the sole candidate for the position. This is despite over 100 civil society organisations (CSOs) submitting an open letter to the executive directors and governors at the Fund, calling for a fair, open and democratic selection process.

The Fund and Bank continue to undermine their legitimacy by adhering to this arrangement. While the world's economic balance of power has shifted dramatically since the inception of the BWIs, their internal voting mechanisms and power structures nevertheless remain largely intact (see *Observer* Spring 2019).

The struggle for Western dominance

In 1990, when the Berlin Wall fell and the Soviet Union imploded, the economic weight of Western Europe was roughly similar to that of Asian countries, as well as the block comprised of the United States (US), Canada, Australia and New Zealand. The US, Australia and Canada had a joint output of $6.6 billion, while Asia, including China, added $6.3 billion, and Western Europe $6.0 billion to the world economy.

At the start of the 21st century, however, economic power changed swiftly from West to East and the economies of Australia, Canada, New Zealand and the US were 40 per cent smaller than Asian countries in terms of total GDP by 2015. The world had changed for good. Considering that the G7 states today contribute to less than 50 per cent of global GDP and current quota shares of non-G7 states comprise over 50 per cent of the Fund's quota-based resources, it is clear that under the current system, a minority of countries with a minority of economic weight choose what is best for the majority, making the institution a parody of itself and a neocolonial policy weapon. What remains is the struggle for leadership between the West and the East, as aptly illustrated by the recent so-called trade war between China and the United States.

In spite of these developments, imbalanced IMF vote shares remain intact, the veto power of the United States is still in place, and the influence of the US Congress on IMF policies remains a cornerstone.

The choice of leadership candidate is made by European countries with support of other

G7 countries and ignores the rest of the world. In 2009, after the London Summit of the G20, the IMF agreed to "adopt an open, merit-based and transparent process for the selection of IMF management." Clearly, they did not mean it, nor did the Northern governments, as is evident from the IMF's leadership selection process.

Is it impossible to adopt an open, merit-based and transparent process for the selection of IMF management, even if the voting rights are skewed in favour of the few and rich? Must Europe be over-represented? Must the selection process remain undemocratic, opaque and illegitimate in the name of supposedly pro-democracy, 'non-interventionist' economic policies? Or is the clearly flawed process maintained as an economic foreign policy tool by the Global North and, as such, an instrument of international economic domination?

One way in which the IMF could try to claw back legitimacy is by radically redistributing the vote shares of member states. Regrettably – adding weight behind demands to reform the governance structures and challenge US dominance – a recent US Treasury proposal quashed the scheduled 15th Review of Quotas (see *Observer* Summer 2019). The IMF could have a leadership selection process to redeem itself somewhat by encouraging all member states to put forth candidates or by opening the process to self or non-state nominations. The 'argument' that other candidates might challenge the Fund's free market economics underlines the ideologically-driven nature of the current system.

G7 countries are struggling to grow as other Southern countries are growing at a fast pace. Meanwhile others face mounting debt problems yet again as a result of declining commodity prices (see *Dispatch* Spring 2019) and concerns about an impending global recession. The current dominant powers have no moral ground to lead the IMF if it is to fufill its original, intended purpose: Keep a stable world economy and prevent a crisis like that of the 1930s. It did not do so in 2008 and it is not doing so now.

bit.ly/OscarIMF

RIGHTS news

Tunisia Commission seeks reparations for human rights violations from IMF and World Bank

Tunisia loan programmes found to be at the root of serious rights violations

UN report makes legal case for IFI "complicity" in violating human rights

On 16 July, Tunisia's Truth and Dignity Commission sent memoranda to the World Bank and the IMF, as well as to France, seeking reparations for Tunisian victims of human rights violations. The Commission claimed that the IMF and World Bank bear "a share of responsibility" for social unrest linked to structural adjustment policies. The Commission was established in 2013 by then-President Moncef Marzouki following the Tunisian Revolution of 2011, with the purpose of investigating gross human rights violations committed by the Tunisian State since 1955 and to provide compensation and rehabilitation to victims.

The memorandum to the IMF and World Bank referred to the period from the 1970s to 2011, and claimed both institutions pushed the Tunisian government to freeze wages and recruitment in the civil service, and reduce subsidies on basic consumer goods, which, it maintained, led to various social crises and conflicts (see BWP briefing, *Lessons unlearnt*). This included the 1983 bread riots, which were a series of violent demonstrations triggered by a rise in the price of bread that occurred due to subsidy cuts that were conditions of an IMF loan programme. In relation to the riots, the Commission received 1,230 individual complaints, relating to 85 murders, 213 gunshot wounds, 932 arrests and imprisonments with systematic use of torture, as well as several rapes of minors, including in prison.

The Commission found that, not only was the Tunisian state responsible for these serious human rights violations, but also the World Bank and IMF, which, "through loan conditions and structural adjustment plans imposed inappropriate policies that were at the root of the serious violations that followed the popular uprisings."
The Commission called for three acts of reparation: apology, financial compensation to victims, and cancellation of Tunisia's multilateral debt to these institutions.
Tunisia is currently close to closing its four-year $2.8 billion IMF loan programme agreed in 2016, which once again has been accused of imposing generic recommendations, "without considering the consequences on social stability and cohesion" (see *Observer* Spring 2019, Spring 2018).

The Commission's attempts to hold the IMF and World Bank accountable were strengthened by a September report of the UN independent expert on foreign debt and human rights, Juan Pablo Bohoslavsky, which argued that international financial institutions can be held responsible in international law for complicity with economic reforms that violate human rights. Focusing on IMF-mandated austerity, the report argued that there is a solid legal basis on which to say that, "in principle, austerity policies during times of recession are incompatible with obligations to guarantee the enjoyment of human rights."

bit.ly/TunisiaTruth

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

World Bank and IMF governors will meet during the 2019 Annuals Meetings in Washington DC from 17-20 October. The Civil Society Policy Forum (CSPF) will take place from 15-18 October. The Bretton Woods Project will provide analysis of the meetings' communiqués, notes from CSPF seminars and more on BWP's dedicated *Dispatch* page. Key themes to be discussed include IMF leadership and quota reform, International Development Association replenishment, fears of a looming global recession amidst continued trade tensions, and the state of multilateral cooperation after 75 years of the Bretton Woods Institutions.

For longer versions of *Observer* articles with additional links, see brettonwoodsproject.org/observer

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CONDITIONALITY analysis

IMF Ecuador agreement undermines workers' rights

Guest analysis by David Suárez – Centro de Derechos Económicos y Sociales

IMF programme sidesteps Ecuador National Assembly

Conditionality includes wage bill cuts and labour deregulation

Human rights organisations take legal action

On 1 March, Ecuador's economy and finance minister, together with the central bank manager, submitted a letter of intent to the IMF requesting $4.2 billion support via a three-year Extended Fund Facility agreement. The resulting IMF loan agreement not only structurally undermines labour protections for the most vulnerable workers in Ecuador (see *Observer* Spring 2017), but also side-lines our democratic and participatory institutions constitutionally mandated to deal with these crises.

In July, the IMF completed its first compliance review of Ecuador's finance and development policies with the Extended Facility agreement, making previously confidential elements public for the first time. This included details made public by the release of the Article IV review of the commitments made by Ecuador relating to the loan agreement with the Fund, which was first developed in 2016 and updated in March 2019. The conditions of the loan involve commitments that constitute international obligations by Ecuador, which, according to Article 2.1 of the Vienna Convention, gives the agreement the status of an international treaty. My organisation's and others' reading of Article 84 of Ecuador's Constitution gives rise to the conclusion that the agreement should have been considered and approved by the National Assembly, in order to ratify its validity and bring it into force. Despite this, the government has kept secret the fundamental details of the agreement, resulting in legal action by human rights organisations in Ecuador to request deferment of the agreement and that the question of its legality be referred to the Constitutional Court.

A first element to be considered are the commitments adopted under the theme of "adjustment of the public wage bill", in which Ecuador is advised to address a public wage restriction through dismissal of public sector employees with temporary contracts and to "harmonize the wages of newly hired public employees with those in the private sector, which are currently generally lower than public sector wages." The Article IV details the way in which the reduction would be made with the aim of "moderating the increase in labour costs in the private sector", reducing the public wage bill and through the reduction of the minimum wage in the private sector. Annex IV stipulates that the reduction could be made by revising the payment of contingency funds – a benefit to which all salaried workers are entitled – or by reducing the percentage of profit-sharing that Ecuadorian law provides to workers in the private sector.

A second element that demonstrates the regressive character of the labour policies adopted by the state as a result of its commitments under the agreement is the inclusion of references to flexibilisation of the labour market, or, as mentioned in the letter of intent, of "adapting to market and social conditions, carefully rolling back the current constraints that result in less opportunities for the unemployed." The Article IV report describes the proposed labour market reforms as "essential", despite them including methods that are presently prohibited by Ecuador's labour laws, as a result of labour becoming extremely precarious in the 1990s and 2000s. The Article IV also notes that Ecuador should change its legislation relating to labour market stability, seeking to reduce the costs of redundancies, supposedly to enable the free contracting and promotion of workers. Subsequently, the government revealed that it is preparing an adjustment to the law to promote productivity, the contents of which adhere to IMF conditionality relating to the changes in contracting arrangements.

Within less than 15 days from the announcement of the reforms, the National Wage Council was tasked with implementing the changes to the labour contracts – an act that would require the reform of secondary legislation – in at least three substantive areas; first, the flexibilisation of the work day, after allowing work days exceeding 12 hours, if agreed with by employee and employer, without changing the 40-hour work week; second, approval of contracts that extend the probation period from three months to three years for new contracts; and third, modification of Article 17 of the Employment Code by removing the clause that stipulates that labourers contracted as casual labour would receive a wage increase of up to 35 per cent of the value of the hourly minimum wage.

All these changes amount to a retrogression in the present labour standards provided for in the constitution and labour legislation, which are being applied without any oversight from the National Assembly and excludes the participation of civil society and unions in the implementation of the agreement with the IMF.

bit.ly/EcuadorIMF

Photo: Ecuador National Assembly

National Assembly session of the Commission on Labour Rights, Quito 2019.

ENVIRONMENT news

Guinean communities' CAO complaint enters dispute resolution

Thirteen Guinean communities have entered a dispute resolution process to try to agree settlement in relation to alleged land grabbing resulting from a bauxite mine supported by the International Finance Corporation (IFC), the World Bank's private sector arm. The dispute resolution process will be convened by the IFC's Compliance Advisor Ombudsman (CAO), its independent accountability mechanism.

In February, the communities filed a complaint with the CAO related to the mine run by Compagnie des Bauxites de Guinée (CBG), which, according to a March article by US-based civil society organisation Inclusive Development International (IDI), received a "$200 million loan to expand the venture's mining operations" in 2016. In its August assessment report, the CAO noted that complainants raised, "concerns about land grabbing, land rehabilitation and land return, and the environment that have had major consequences on the Complainants' livelihoods."

"The lands on which we and our ancestors have lived and farmed for centuries have been almost totally consumed by CBG," said Mamadou Lamarana Bah, one of the complainants, in IDI's article.

bit.ly/GuineaIFC

RIGHTS news

World Bank China project raises 'crimes against humanity' concerns

In August, the World Bank issued a statement that it had received a number of inquiries regarding its 2015 $50 million education project in Xinjian, China, announcing that it is "actively looking into the questions raised". The investigation was prompted by a letter from US lawmakers in August alleging that the Chinese government is interning over a million Uyghurs, Kazakhs, and other Turkic Muslims in mass internment camps. The letter raised concerns about whether funds from the project loan could have been used "in the mass internment system or for the involuntary internment of ethnic minorities for 'vocational education'."

Following the letter, *Foreign Policy* magazine reported that schools benefiting from the Bank project had bought $30,000 worth of "barbed wire, gas launchers, and body armor", noting it was unclear on the source of that funding, and that in July, a Bank employee raised numerous red flags that "went unheeded". James Millward of Georgetown University commented to UK newspaper *The Independent* that, "The likelihood of any World Bank-funded project being associated with the concentration camps, or entities directly running the camps, is high."

bit.ly/Chinaletter

ACCOUNTABILITY news

Board decision could signal "vote of no confidence" in Inspection Panel

The World Bank's executive board is expected to make a decision on proposed reforms to the Inspection Panel (IPN), the Bank's independent accountability mechanism (IAM), ahead of the World Bank and IMF Annual Meetings in Washington DC in October. In 2017, a working group of the World Bank board's Committee on Development Effectiveness (CODE) was tasked with updating and modernising the IPN in light of the Bank's new Environmental and Social Framework (see *Observer* Winter 2018).

However, the review, due to be completed in October 2018, has been long-delayed. In an article on development news site *Devex*, German executive director to the Bank, Jürgen Zattler, hinted that disagreement between Board members is behind the slow progress, commenting that, "Finding a solution is very difficult...There is some willingness to move forward but it needs... compromise from all sides."

Stephanie Amoako of US-based civil society organisation (CSO) Accountability Counsel commented that the board must make a decision "in a way that results in an improved process that delivers accountability and meaningful remedy to affected communities. We are concerned that some of the options being considered by the board right now do not meet this threshold."

Responsibility for oversight of the implementation of action plans developed in response to IPN recommendations is led by Bank management. CSOs have argued that this creates a conflict of interest in which management is responsible for oversight of its own adherence to the action plan. The IPN is the only IAM of a major international financial institution that does not have an independent monitoring function (see *Observer* Summer 2017). In January, 67 CSOs issued a statement to the Bank's board, calling for, at a minimum, measures around the IPN's role in monitoring Bank management action plans, implementing an independent dispute resolution function, and extending the time limit on eligibility for communities to file complaints to at least two years after project completion.

Kristen Genovese, from Netherlands-based CSO SOMO reflected, "The board seems to be going out of its way to give monitoring and dispute resolution to anyone except the IPN, considering proposals that defy logic and efficiency. Any decision that does not grant the IPN the authority to monitor its findings or offer dispute resolution services will be tantamount to a vote of no confidence in the IPN."

bit.ly/IPNreview

FINANCE analysis

Shut out of IDA19, civil society organisations disappointed with proposals

Bank's IDA19 replenishment criticised for excluding civil society

Policy commitments deemed unambitious

Concerns raised over continuation of Private Sector Window

During the October World Bank and IMF Annual Meetings, donors and borrowers will meet to continue negotiations around the 19th replenishment of the International Development Association (IDA19), the World Bank's low-income country arm. Every three years, donors replenish IDA resources and review its policy framework in 'deputy meetings' with borrowers and Bank management. The IDA19 replenishment, set to conclude this December, will cover the fiscal package from 2021-2023. During the IDA18 replenishment, $75 billion of funding was agreed for 2017 to 2020 (see *Observer* Winter 2017).

In a summary of the second replenishment deputies meeting in Addis Ababa in June, donors and borrowers stated that, although $86 billion was needed for IDA19 to maintain the level of per capita support achieved in IDA18, several donors felt this target was "unrealistic". Instead, a "base" target of $80 billion was touted as "appropriate" by some, with others raising concerns over low levels of non-concessional financing in this scenario.

Lacking ambition on 'Special Themes'

The proposed policy commitments from the June deputies meeting maintained the five 'Special Themes' established in IDA18: Jobs and Economic Transformation (JET); Fragility, Conflict and Violence (FCV); Gender; Governance and Institutions; and Climate Change.

However, many civil society organisations (CSOs) were unconvinced by the proposed policy commitments. For instance, Jolie Schwarz, of US-based CSO Bank Information Center expressed disappointment "with the lack of ambition in the policy commitments presented in Addis", adding "[we] hope that the draft IDA agreement discussed at the next meeting…in October reflects the feedback the Bank has received from civil society, and that it sets more ambitious targets in these priority areas."

Responding to commitments in the JET 'Special Theme', Leo Baunach of the International Trade Union Confederation suggested that IDA19 should track the contribution of lending to quality jobs and shared prosperity to ensure "coherence with international labour standards."

In a letter to the UK's Department for International Development, UK-based CSOs working on climate and environmental issues called for more robust policy commitments to "assist IDA countries to pursue development pathways that are both low carbon, pro-poor and responsive to a rapidly changing climate," including an increased focus on energy access via off-grid and mini-grid investments in IDA countries where electricity access rates are low.

Meanwhile, the proposed IDA19 policy package around the gender 'Special Theme' focused on implementing the World Bank's *2016-2023 Gender Strategy*, an approach that has been much-criticised by feminist academics and women's rights organisations (see *Observer* Spring 2016, Autumn 2018).

Private Sector Window causes concerns

Donors at the Addis Ababa meeting emphasised the role of IDA financing to "facilitate leveraging of resources from others, including the private sector," through the Private Sector Window (PSW), which uses IDA resources to finance the International Finance Corporation (IFC), the Bank's private sector arm, and the Multilateral Investment Guarantee Agency (MIGA), the Bank's guarantee arm, in IDA countries. This renewed commitment comes after US Rep. Maxine Waters, chair of the House Financial Services Committee, stated in April that, "The PSW is likely to prioritize financial returns over positive development impacts, which will be difficult to monitor" (see *Observer* Summer 2019, Summer 2017).

This year's reports by UK-based think tank the Overseas Development Institute in April and CSO Stamp Out Poverty in March challenged the Bank's assertion that blended finance will catalyse trillions of dollars in low-income countries, echoing long-standing concerns over the IFC's track record on development outcomes, particularly in FCV states (see *Observer* Autumn 2019, Autumn 2018).

Nadia Daar, with Oxfam International's Washington DC office, commented, "We remain deeply concerned about the IFC's increased support for commercial for-profit schools and hope IDA's private sector window will exclude such options."

Ad-hoc civil society engagement

The IDA19 replenishment process has also been heavily criticised for not including a formal consultation in the review of its policy framework, leaving CSOs to rely on providing ad hoc input.

"There is definitely scope for the Bank and its donors to make the IDA replenishment process more transparent and participatory," Daar reflected. She added, "While…the IDA Forum is a good step forward, IDA documents are not released in a timely way, and civil society has always been shut out of the formal IDA Deputy meetings."

Schwarz emphasised that, "Civil society in IDA countries in particular should be sought out and included in the replenishment process – both to provide feedback on the progress made as a result of policy commitments and targets set during past replenishment negotiations, as well as to guide IDA's agenda for the future."

bit.ly/IDA19

Photo: Simone D. McCourtie/World Bank

IDA mural, 2016 IMF/World Bank Group Annual Meetings.

LAND news

Links between Amazon deforestation and World Bank exposed

IFC equity investment linked to accelerated deforestation in Brazilian Amazon

Deforestation caused by Bank projects a long-standing civil society concern

In late August, with forest fires raging on a historic scale in the Brazilian Amazon, the gap between the rhetoric and reality of the World Bank Group's (WBG) approach to forests was exposed in little over 24 hours.

Tweeting from the Group of Seven (G7) Summit in Biarritz, France, on 26 August, WBG President David Malpass noted, "I was...glad to see that the Amazon fires are a key priority for @G7 attendees & I share in their concerns. The @WorldBank Group is ready to work with our partner governments at all levels to scale up activities to protect forests & support sustainable development."

Then, on 27 August, online news site *The Intercept* published a story linking major donors to US President Donald Trump to accelerated deforestation in the Amazon and exposing the role that the International Finance Corporation (IFC), the World Bank's private sector investment arm, is playing in this process.

In 2015, IFC made a $30 million equity investment in Hidrovias do Brasil, a company which – *The Intercept* article noted – operates a "shipping terminal at Miritituba, deep in... the Brazilian state of Pará". This port is a critical cog of a wider transport corridor in the Brazilian Amazon that has been recently developed to export soybeans. The article added that the IFC's own Environment and Social Review had identified deforestation as a risk of the investment: "the construction of the Miritituba port, close to still-intact areas of the Amazon forest, is likely to... accelerate conversion of natural habitats into agricultural areas, particularly for soy production."

The Amazon fires – many of which were set by farmers to clear land for farming and ranching – unfolded in the wake of the publication of the Intergovernmental Panel on Climate Change's (IPCC) Special Report on Climate Change and Land on 8 August. The report laid bare the importance of the Amazon and other forests in the fight against climate change – and in preserving vital natural ecosystems more generally. As noted by online news site *Carbon Brief*'s summary of the IPCC report's findings, "The largest source of CO_2 losses [associated with land] from 2007-16 was tropical deforestation."

World Bank lending: A history of forest failures

IFC's investment in Hidrovias do Brasil is not an outlier. As lawyer and writer Bruce Rich pointed out in his 2013 critique, *Foreclosing the Future: The World Bank and the Politics of Environmental Destruction*, despite the continued evolution of the Bank's environmental and social standards, the net impact of many Bank projects continues to be the destruction of biodiversity hotpots.

Rich highlighted a 2011 report from the Bank's Independent Evaluation Group, which was commissioned to investigate the impact of 20 World Bank projects between 1994-2004 on tiger habitats in Asian countries, following the Bank's support for a high-profile 'tiger summit' in St Petersburg in 2010. Rich writes, "The... study found that three-quarters of the projects...directly threatened tiger habitats; and two-thirds also created, or were exposed to, indirect threats."

A recent op-ed by Ladd Connell from US-based civil society organisation (CSO) Bank Information Center in development news site *Devex* showed that little has changed: Despite the creation of the Bank's *Forest Action Plan*, which covers 2016-2020, "Current projects in Indonesia, Democratic Republic of the Congo, Liberia, and Brazil seem poised to drive deforestation."

A letter signed by 77 CSOs in November 2017 called for the Bank to take steps to better prioritise forests and the rights of forest peoples in its lending, and to make its country Forest Notes – which are supposed to articulate the nexus between Bank lending and borrower countries' forest resources – open to consultation (see *Observer* Winter 2017-2018).

bit.ly/IFCAmazon

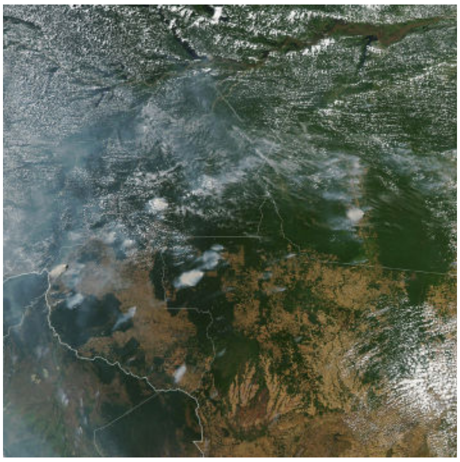

Photo: NASA Goddard Space Flight Center

Image of fires burning in the Brazilian states of Rondônia, Amazonas, Pará, and Mato Grosso.

CONDITIONALITY news

Civil unrest in Zimbabwe amid IMF Staff Monitored Programme

In August, amid an IMF Staff Monitored Programme (SMP) – an informal agreement between country authorities and IMF staff to monitor the implementation of an economic programme – the opposition party in Zimbabwe called for strikes, as the government imposed austerity measures and tried to launch a new currency.

Union leader Obert Masaraure told UK newspaper *The Guardian* in August, "They are celebrating budget surpluses but they are not paying workers." The SMP May report stressed that "spending pressures" on wages and social support could "jeopardize fiscal goals."

In July, online news site *ZimLive* quoted the deputy minister of defence Victor Matemadanda as saying that the constitution allowed the government to deploy the army to confront protesters and warned that soldiers are trained to kill. Grave concerns have been raised about the current administration's human rights record. The developments are the latest in a long line of concerns around the potentially destabilising role of IMF programmes (see *Observer* Summer 2018, Autumn 2019).

bit.ly/ZimIMF

ACCOUNTABILITY analysis

Critical reflections on World Bank's draft Fragility, Conflict and Violence Strategy

by Erin McCandless – University of Witwatersrand, South Africa

World Bank launches FCV strategy for consultation

Strategy fails to reflect on negative impact of neoliberal policies on drivers of conflict and fragility

By 2030, more than half of the world's poor will live in fragile and conflict-affected settings (FCAS). Recognising this worsening fragility, conflict and violence (FCV) landscape, the World Bank has doubled its lending and grants to FCAS to $14 billion from 2014 to 2018. As the World Bank is now eliciting feedback on its 2020-2025 Strategy for Fragility, Conflict and Violence, this piece critically appraises the proposed FCV agenda.

In its strategy, the Bank proposes a diversified approach to address "the drivers, or underlying causes, of FCV and the dynamics that keep countries or sub-regions trapped in fragility." Adopting analysis from the 2018 United Nations-World Bank *Pathways for Peace* report, drivers involve (problematic) structures, (weak) institutions, and (bad) behaviours of a variety of actors who breed and fuel fragility through "mutually reinforcing incentive structures and vested interests." The challenge then, involves positively changing incentives and influencing behaviours.

Amidst wide ranging proposals, the Bank suggests this requires careful prioritisation and sequencing of initiatives with multi-stakeholder commitment, transformational methodologies and coordinated public and private sector-driven development solutions. It involves building state institutions, promoting private enterprise, and mitigating FCV impacts on the most vulnerable. All levels – community, sub-national, state, regional – must be engaged.

Is the analysis solid?

The Bank's analysis of FCV trends, drawing on expansive evidence-based research from many reputable institutions, is hard to dispute. The conclusions of what drives fragility, that development in FCV contexts requires different approaches, and that FCV context analysis must inform strategy, are profoundly important, but not new insights. The global policy dialogue with its *New Deal for Engagement in Fragile States* promulgated similar messages over the last decade.

A key problem running across the Bank's FCV analysis – and even that of the United Nations – is the continuing absence of reflection upon the impacts and implications of neoliberal economic policies on these very drivers of conflict and fragility. Well-documented adverse impacts include increased inequality and poverty, lowering of human development indicators and even growth – the Bank's principal objective – all of which are now increasingly reasons for uprisings in many parts of the world.

While this is consistent with analyses and proposals of scholars, practitioners and activists, critical issues are left wanting. Promoting conflict sensitivity and requiring corporate social responsibility are vital. But to what extent will such efforts genuinely transform power asymmetries that multinational companies wield in relation to vulnerable communities and weak governments? How will the economic drivers of fragility, such as macro-economic shocks, inequalities and unemployment, be tackled? This will require engaging the deep structures of underdevelopment. While the Bank's increased financing suggests a system-wide, embracing of FCV, how will it transform its own orthodox development theory and economic policy directives rooted in financially driven incentives to bring needed changes to structures, institutions and behaviours in FCV countries? How consistent is the Maximizing Finance for Development flagship programme with such goals (see *Observer* Autumn 2018)? How will it address the fact that it is remains an important financier of fossil fuels (see *Observer* Spring 2018)?

Critically, the concept note is silent on what the *Pathways for Peace* report recognised as a core driver of conflict and its developmental results in FCV contexts – horizontal inequalities (actual and perceived) between groups. This is a deeply political issue, and the Bank's mandate disallows its engagement in politics. Yet, we know that development, and therefore the Bank's programmes and activities, cannot be separated from politics.

Is the Bank best suited to play these proposed roles?

The strategy "requires an expanded [Bank] footprint, one that ensures the right skills are in the right place at the right time." This is concerning firstly because we need international community commitments to national ownership in peacebuilding, state-building and development honoured. Rather than creating new international structures and capacities in and through the Bank to work on FCV, why not 1) invest resources in promoting inclusive, democratic national leadership to tackle the issues, and 2) acknowledge the strong UN and international non-governmental organisation presence in most FCV settings, step back and support these? A critical role that is appropriate for the Bank is in ensuring conflict- and fragility-sensitive economic policy is delivered through its loans and grants.

In closing, the Bank's strategy proposals offer important avenues to address elements of FCV. Analysis suggests that they do not go far enough however, to address systemic challenges within the global development system itself. Critically, more innovation is needed to address the interconnected challenges of FCV, and it is likely to lie in efforts that foster transformation, engage endogenous diversities in societies, and forge inclusive, resilient social contracts.

bit.ly/FCASreview

Photo: World Bank Group

World Bank President Malpass, Spring Meetings 2019.

FINANCE news

Why did the IMF fail to take pre-emptive measures in Argentina?

Argentina deemed to be in technical default

Questions raised about why IMF did not take steps to avoid crisis

In August, Standard and Poor's Global Ratings and Fitch Ratings issued a "selective default" rating to Argentina, after the government began restructuring $101 billion of its debts, including plans to delay repayment of $44 billion of IMF loans. As noted by UK-based civil society organisation Jubilee Debt Campaign UK (JDC), Argentina's borrowing was triggered by vulture fund debts and a subsequent flood of foreign lending.

After having agreed a $50 billion loan in June 2018 following lender speculation that they would not be repaid, the IMF increased this to $57 billion three months later, making it its largest ever loan (see *Observer* Winter 2018). The programme's design and scale has come under scrutiny (see *Observer* Summer 2018), and questions are being raised about why Argentina has been locked in a cyclical debt trap with the IMF.

Since the IMF programme began, turbulence has increased as a currency crisis unfolded, bond yields spiked, inflation remained elevated, protests erupted and poverty levels soared to more than 30 per cent of the population.

According to its own rules, the Fund may only lend if debt is assessed to be sustainable in the medium term. Should this not be the case, it should support debt restructuring or concessional lending. However, as noted by JDC, the IMF does not define what sustainable debt is for upper-middle and high-income countries like Argentina, and its debt indicators for Argentina were well above limits the IMF sets for sustainability for low- and lower-middle income countries. The IMF's own programme review in October 2018 assessed Argentina's debt as sustainable, "but not with a high probability", reigniting demand for the creation of an independent debt workout mechanism (see *Observer* Summer 2018).

In a surprising turn, President Macri restored capital controls on 1 September, after the Argentine peso dropped by more than 30 per cent against the US dollar in August.

The IMF *Articles of Agreement* states, "the Fund may request a member to exercise controls" to prevent its general resources being used to meet a large or sustained outflow. Moreover, the Fund's 2012 'institutional view' on capital controls, which was presented as a shift from its historically rigid opposition, stated that "there is no presumption that full liberalisation is an appropriate goal for all countries at all times", thus begging questions as to why this was not considered as a pre-emptive option for Argentina (see *Observer* Spring 2016). Civil society has argued that the 'institutional view' fails to mitigate the wider bias towards capital liberalisation (see *Update* 83). The IMF's reaction to Argentina's decision remains to be seen.

Opposition presidential candidate Alberto Fernández, who is on track to beat Macri in the October election, issued a statement blaming the IMF programme for driving capital flight, noting that since the IMF disbursed $44.5 billion, some $36.6 billion has left through capital flight by both local and foreign investors. Claudio Loser, who worked for the IMF during the 2001 debt crisis, told the *Financial Times* in May that a failed programme would lead to a "loss of credibility" for the Fund.

bit.ly/CCsArg

ENVIRONMENT news

New director of Bank's climate work

Juergen Voegele was appointed Global Director of the World Bank's Climate Change Group on 1 July, replacing John Roome. Voegele was previously the Bank's Senior Director of Food and Agriculture Global Practice. He will oversee the implementation of the Bank's 2025 climate targets as well as its ongoing participation in the Multilateral Development Banks' joint approach to the Paris Agreement (see *Observer* Spring 2019).

"At a time of climate emergency, challenges are manifold for the incoming Climate Director," said Nezir Sinani of Belgium-based civil society organisation Bank Information Center Europe. "The most obvious one is laying out a comprehensive and transparent process to align the World Bank Group's overall portfolio with the Paris Agreement."

bit.ly/VoegeleWB

Bretton Woods Project publishes critical essay series on 75 years of Bank and Fund

This year marks the 75th anniversary of the founding of the World Bank and the IMF, which were established at the Bretton Woods Conference in 1944. To mark the diamond jubilee, the Bretton Woods Project will publish a series of collected contributions from academics and activists, exploring the legacy of the Bank and Fund. The series aims to stimulate fresh debate about the role the Bretton Woods Institutions have played in creating the current 'crisis of multilateralism' and highlight the movements and voices that have resisted their influence throughout their history.

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