BRETTON WOODS project

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

CONDITIONALITY analysis

IMF and World Bank complicit in 'austerity as new normal', despite availability of alternatives

Austerity projected to affect 5.8 billion people by 2021

UN offers handbook on alternative financing options

IMF and World Bank continue to cling to unnecessary and harmful fiscal orthodoxy

In October, a report by Matthew Cummins and Isabel Ortiz, entitled *Austerity: The New Normal; A Renewed Washington Consensus 2010-24,* established that most governments are on track to reduce public spending, as a percentage of GDP and nominally adjusted by inflation, at least until 2024. The report concluded that the world is moving from "a decade of adjustment", as the last report in this series documented in 2015, to an institutionalisation of austerity as "the new norm."

The report detailed that an initial phase of fiscal stimulus in response to the 2008 financial crisis was followed by a distinct second phase starting in 2010, in which governments started to reduce spending. This fiscal contraction phase is projected to continue at least until 2024 and is "characterised by shocks [in total spending] in which adjustment deepens, the first occurring in 2010-11, the second taking hold during 2016-17, and a third expected to initiate in 2020." According to the report, this "forthcoming adjustment shock is expected to impact 130 countries in 2021 in terms of GDP," adding that "the developing world will be the most severely affected," and that "projections indicate that austerity will affect approximately 5.8 billion persons by 2021 – about 75 per cent of the global population."

The projected austerity measures include pension and social security reforms; cutting or capping the public sector wage bill; labour flexibilisation reforms; reducing or eliminating subsidies; increasing regressive consumption taxes; strengthening public-private partnerships (PPPs); and privatising public assets, all of which exacerbate inequalities. Arguing that, "public expenditure adjustment is being used as a trojan horse to introduce Washington Consensus policies to cut back on public policies and the welfare state," the report concluded that this does not need to be the case and that there are alternatives, even in the poorest countries.

Austerity alternatives remain widely underutilised

Multiple options for expanding fiscal space are indeed available, according to a November report by the International Labour Organization (ILO) and the United Nations Entity for Gender Equality and the Empowerment of Women (UN Women), entitled *Fiscal Space for Social Protection; A Handbook for Assessing Financing Options* (hereafter 'the handbook'). The handbook detailed eight financing options governments should be aggressively exploring to promote national socio-economic development that remain underutilised: Expanding social security coverage and contributory revenues; increasing tax revenues; eliminating illicit financial flows; improving efficiency and reallocating public expenditures (emphasising this requires going beyond a simple financial cost-benefit analysis);

In this issue

tapping into fiscal and foreign exchange reserves; managing debt (meaning borrowing or restructuring sovereign debt); adopting a more accommodative macroeconomic framework; and increasing aid and transfers.

For example, on managing debt, the handbook prescribed that, in the absence of a sovereign debt workout mechanism, countries should seek to restructure existing high levels of debt. This could take place through various means, such as re-negotiation, and including debt repudiation or default, "especially when the legitimacy of the debt is questionable and/or the opportunity cost in terms of worsening social outcomes is high." In relation to assessing optimal debt levels, the authors questioned the IMF's 40 per cent long-term debt-to-GDP ratio as the ceiling for developing countries and emerging economies. It called instead for a focus on the quality of the spending being financed with debt, echoing with the *10 civil society principles for sovereign debt resolution* published in September by Belgium-based civil society organisation Eurodad.

In relation to tapping into fiscal and foreign exchange reserves, the IMF's continued reluctance towards governments using capital controls, despite its recent more accepting 'institutional view' on the matter (see *Observer* Autumn 2019), contrasted with other UN organisations favouring them "as integral to the macroeconomic policy toolkit." The World Bank's Country Policy and Institutional Assessments were also criticised for reinforcing contractionary policies, while being so influential as to cause harmful herd-like behaviour amongst other donors as part of the discussion on increasing aid and transfers (see *Inside the Institutions*, Country Policy and Institutional Assessments).

More broadly, in arguing for a more accommodating macroeconomic framework, the handbook set-out that fiscal and monetary policies were consistently used counter-cyclically until the late 1960s, making social protection measures fiscally sustainable. This has changed markedly however since the early 1980s, "when the agenda of privatisation, liberalisation and globalisation reforms…was advanced by the IMF and World Bank," shrinking policy and fiscal space via the establishment of a new macroeconomic orthodoxy (see *Inside the Institutions*, Common Criticisms of the Bank and Fund). While the Bank and Fund have tacitly begun to acknowledge the limitations of the approach of their structural adjustment programmes of the 1980s and 90s, the bulk of their macroeconomic policy advice continues to ignore this lesson, with "23 out of 26 [IMF loan] programmes continuing to be conditional on fiscal consolidation," as reported by Eurodad (see *Observer* Summer 2019).

Bank- and IMF-backed austerity continues to cause misery

The IMF's November working paper, *Doing more with less: How can Brazil foster development while pursuing fiscal consolidation?*, is the latest example of the IMF seemingly taking the opposite approach to the guidance laid-out in the handbook. It argues that Brazil has "room for public savings of about 3 per cent of GDP per year in the health and education sectors," which, it estimated, is what would be "required… to reach satisfactory progress in the Sustainable Development Goals [SDGs]… given Brazil's current fiscal consolidation needs." As pointed out on online news platform *openDemocracy* in April, data indicates that three years of deepening austerity policies in Brazil have already led to a further lowering of GDP and an increase in public debt, while exacerbating social inequalities to detrimental effects, undermining Brazil's ability to achieve its SDG targets. Criticism that the IMF's 2018 social spending framework continues to be "out of step with international standards" (see *Observer* Summer 2019), even after prolonged evidence-based advocacy to the contrary (see *Observer* Summer 2018, Winter 2017-18), further reinforces the notion that the view at the IMF is, in its staff's own words, "in terms of austerity… you cannot defy gravity" (see *Dispatch* Annuals 2017).

Meanwhile, a September white paper by the World Bank on rethinking social protection systems was premised on the idea that governments can only finance a minimum safety net of last resort if, "they scale back widescale public social insurance schemes, lower the size of social insurance contributions and put greater emphasis on privately-managed mandatory and voluntary individuals savings and insurance schemes," according to an October blog, published by UK-based consultancy organisation Development Pathways. In doing so, it argued, the World Bank proposed "a rollback of existing rights and protections for workers, both in terms of social security and labour market protections."

Meanwhile, civil society around the world continues to push back and count the human costs these policies entail, especially for those most vulnerable to human rights abuses. Recent examples include the reported reduced specialised services to combat violence against women as part of Brazil's IMF-backed austerity measures; the rising death rate in Greece following the IMF-imposed austerity measures; the severely diminished living standards in Ukraine as part of Bank and Fund programmes; and IMF-sponsored austerity undermining the provision of essential, gender-responsive public services in Ghana (see *Observer* Autumn 2018, Spring 2018, Summer 2017; Briefing, *The IMF, Gender and Expenditure Policy*).

BWIs move further away from the UN consensus

While the handbook made clear that the eight alternative financing options are endorsed by various individual policy statements and research papers of international finance institutions, it simultaneously underscored the continued disparities between the bread-and-butter policies of the IMF and World Bank and that of many other UN agencies. As the handbook pointed out, it is merely the latest iteration of a long line of UN and civil society research that supports expansionary macroeconomic policies and argues "against mainstream macroeconomic policy advice, as advised by the IMF [and others]."

This includes the *2019 Trade and Development Report* by the UN Conference on Trade and Development, which argued that, in an effort to establish a Global Green New Deal, a serious discussion of public financing options is first required for governments to reclaim policy space and collectively act to boost demand, to enable the massive new wave of investments required to tackle climate change. Poignantly, the report frames this as an effort aligned with the original spirit of the Bretton Woods conference of 1944, to restore the faith in multilateralism lost by the scars of austerity, stagnant real wages, sluggish productivity growth, rising debt levels and unprecedented levels of inequality (see BWP Briefing *Bretton Woods at 75: A series of critical essays*).

bit.ly/Austeritypolicies

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

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

GENDER analysis

IMF's recognition of unpaid care work undermined by its own harmful policy advice

Guest analysis by Rachel Noble, ActionAid

IMF publishes first paper on unpaid care and domestic work

Fails to acknowledge how Fund policies exacerbate unpaid care work burdens

In October, the IMF published its first working paper dedicated to unpaid care and domestic work (UCDW). Globally, women perform 76.2 per cent of the total hours of unpaid care work. While recognition of UCDW by the IMF is welcome and can be seen as a response to decades of wider advocacy by feminist activists, the working paper is merely aimed at eliciting debate and does not constitute or officially inform IMF policy.

Disappointingly, the authors have chosen not to adopt the internationally agreed UN language of "unpaid care and domestic work", instead referring more broadly to "unpaid work". However, the definition of unpaid work the IMF gives in the paper largely corresponds with what is commonly understood as UCDW.

The paper clearly asserts that, "Reducing and redistributing unpaid work is a macro-critical issue," meaning, in the IMF's terminology, that unpaid care is essential to economic stability and growth. By implication, as the paper is framed under "stronger policies to support gender equality", it could be understood to argue that gender inequality is also a macro-critical issue, given that an overarching impediment to achieving this is women's unfair share of UCDW. This is possibly a slight advancement from the Fund's 2018 paper on *How to Operationalize Gender Issues in Country Programme Work*, which noted, "the macro-criticality of gender issues in a broad set of circumstances," but stopped short of affirming it is always the case, in every country. It instead recommended that, "Staff should point to macroeconomic significance where it exists." ActionAid and other social justice organisations have been calling for the IMF to take a systematic approach to how it considers and addresses gender in its work, not least by recognising and addressing the impacts of its policies on the rights of women and girls in the Global South – regardless of whether gender is deemed macro-critical by any particular government or not.

As one would expect from the IMF, the argument for addressing women's unequal share of unpaid care work is made from an entirely instrumentalist perspective, meaning it is justified in order to increase women's labour force participation and thus to contribute to economic growth, rather than as an intrinsic human rights imperative. Astonishingly, the paper also seems to instrumentalise having children, asserting that, "no one can dispute the importance of raising and rearing a child for future economic growth."

On public services, the authors recognise that appropriate public services and infrastructure play an important role in redressing women's UCDW, recommending that governments invest in these areas. However, health and education are only considered as important in relation to building women's 'human capital' (see *Observer* Autumn 2018), rather than recognising women's agency in caring for the sick and for children who are not in school. Provision of child and elderly care is also recommended, although it is unclear whether the paper is calling for childcare to be provided universally by the state, which would enable the countless women and men working in the informal sector to access such services.

By far the biggest problem with the paper is that it provides zero acknowledgement of how IMF policy recommendations and loan conditionalities themselves compel countries to implement austerity measures and cut and privatise the very same public services, thereby shifting the care burden back onto women (see BWP Briefing, *The IMF, Gender Equality and Expenditure Policy*). For example, in Ghana, following a loan agreement with the IMF which required drastic cuts to the public sector wage bill, the number of doctors halved and the number of nurses and midwifes fell by 26 per cent between 2004 and 2007. ActionAid's analysis found that, under Ghana's most recent IMF loan programme, public investment levels were expected to be cut again, from 5.4 per cent of GDP in 2014 to around 2.8 per cent of GDP by 2018. Nor is there any recognition of the possible need for alternative policy mixes to be considered to avoid harmful gendered impacts, as per the guidance on operationalising gender in IMF country-level work (see BWP Briefing, *The IMF and Gender Equality: Operationalising Change*).

On labour market policies, while there is an implicit nod to aspects of the ILO's Decent Work agenda, such as its social protection pillar, it is again unclear whether the IMF is advocating that such social protection be provided universally by the state, as advocated for by many women's rights groups and wider civil society organisations, including ActionAid. Nor does it mention the importance of living wages or collective bargaining rights as being critical to securing decent pay and conditions. There is no mention of the informal sector and of the particular measures women need to balance their unpaid care work and paid work that is decent (see BWP Briefing, *The IMF, Gender Equality and Labour*).

While the paper acknowledges that tax policies can have gendered impacts in relation to tax filing systems, it makes no mention of financing public services and infrastructure through progressive taxation. It also neglects clamping down on corporate tax avoidance and illicit financial flows, as ways to finance gender equality measures, as ActionAid has recently argued alongside many other feminist advocates.

Unpaid care and domestic work is vital to the social reproduction of the human race. That the IMF has produced a paper on this is a notable step in advancing the feminist struggle for UCDW to be recognised and valued by policymakers and wider society. However, any positive impact it may hope to have will be severely compromised until it recognises and addresses how the majority of its policy prescriptions often directly undermine women's rights, including by exacerbating their UCDW burden.

bit.ly/IMFunpaidcare

IFI GOVERNANCE commentary

Reviews of World Bank Group's accountability mechanisms too important to be done in secret

Guest analysis by Kris Genovese, Centre for Research on Multinational Corporations (SOMO)

Reviews of World Bank's accountability mechanisms lack proper civil society engagement and transparency

Civil society calls for reviews to result in establishment of remedy funds

You would be forgiven if you didn't know that the International Finance Corporation (IFC), the World Bank's private sector lending arm, was reviewing its accountability framework, including the effectiveness of its independent accountability mechanism (IAM), the Compliance Advisor Ombudsman (CAO) (see *Observer* Winter 2018). Despite the importance of the process, in particular given the numerous documented cases in which IFC financing has resulted in harms to communities (see *Observer* Spring 2015), the only publicly available information about the review is a brief announcement made in October by the IFC and the Multilateral Investment Guarantee Agency board of directors. Within the scope of the review, the board should be commended for going beyond the CAO and its role and examining how the IFC responds to CAO processes. Yet, the limited information about the process, combined with the precedent set by the protracted and similarly clandestine review of the Inspection Panel, the independent accountability mechanism for the World Bank's public-lending side, raises doubts about its outcome (see *Observer* Autumn 2019). This view was detailed in an October letter to the IFC's board of directors signed by 75 civil society organisations. Excluding the Bank's stakeholders and the people who helped to create and are the beneficiaries of these accountability systems from these discussions is not only ironic, but deeply problematic.

The announcement reveals that the review will be led by a team of external experts, who will "seek input from a multi-stakeholder group." The composition of the review team, chaired by Peter Woicke, former Executive Vice President of the IFC and member of the CAO's Strategic Advisors Group, inspires some confidence, but it might be the only thing that does.

The team's terms of reference, which presumably contain a timeline for the review, have not been disclosed, nor has the board committed to disclose the team's final recommendations. Moreover, there will be no public consultation on the recommendations, departing from standard practice for IAM reviews. Instead, the team will seek input from a multi-stakeholder group, whose composition has not been disclosed and who have not been given any information about the consultation process. There is an email address though, in case you want to submit your comments, in the hope that they correspond to the issues that are actually on the table, which have also not been shared.

There is a lot at stake with this review. One priority is to maintain the CAO's independence and structure. The head of the CAO is currently selected by an external committee of representatives from the private sector, civil society, and academia, who make a recommendation to the president of the World Bank Group. This, and provisions that prevent a revolving door with IFC, give affected communities confidence that the CAO will handle their complaints in a way that does not favour the institution that they believe caused them harm.

Broadening accountability and remedy

The structure of the CAO, which houses compliance, dispute resolution and advisory functions under one roof, ensures a streamlined process for complainants and helps them decide whether dispute resolution or compliance review (i.e. the extent to which the IFC complied with its own regulations) best suits their needs. This reflects the notion that regardless of the function, the outcome of a complaint process should be: To prevent harms, provide effective remedy to project-affected people and the environment, and to ensure institutional accountability as well as continuous improvement in preventing and addressing social and environmental risks and impacts of development finance institution-supported projects.

That does not mean the CAO's processes could not be strengthened. For example, complainants should have the same opportunity to review and comment on the draft compliance report as the IFC – which is consistent with best practice at other IAMs. The CAO should also be transparent about the eligibility criteria applied to financial intermediary complaints.

But the biggest priority is for the IFC to assume responsibility for the harms caused to complainants. To its credit, the IFC has taken some important steps recently to enhance its focus on environmental and social risk, and has adopted structural changes that – if implemented well – could better prevent harm to communities (see *Observer* Summer 2019). But these changes are not enough. The IFC's homepage claims credit for outcomes that would not have occurred without IFC involvement. Yet, when something goes wrong in an IFC-financed project, it points the finger at its client and cries "not our fault". We will see if the courts buy that argument (see *Observer* Spring 2019). In the meantime, the IFC must engage in dispute resolution processes, when invited by the parties, and ensure that its response to compliance investigations result in meaningful changes for complainants. It can do both by establishing a remedy fund that could be used to supplement what the client has offered (see *Observer* Winter 2019). One small but important step the IFC could take is to require its clients to disclose the availability of the CAO. The CAO and the Inspection Panel are too important to communities and the credibility of the World Bank Group to be reviewed in secret.

bit.ly/CAOReview19

Photo: oto_photos

"Opportunity Street".

ACCOUNTABILITY news

Civil society urges US Congress to hold IFC accountable before approving capital increase

In November, civil society organisations (CSOs) participated in hearings held by the US House Committee on Financial Services in Washington DC, which included scrutinising the International Finance Corporation's (IFC), the World Bank's private sector arm, $5.5 billion proposed capital increase (see *Observer* Summer 2018).

The US Congress has yet to authorise the US contribution to the IFC's capital increase, approved by the Bank's Governors in 2018. Committee chair, Maxine Waters, previously expressed concerns about accountability and transparency of IFC activities, including the International Development Association's (IDA), the Bank's low-income arm, Private Sector Window (PSW) (see *Observer* Summer 2019). Waters made her position clear again at November's hearing, stating that, unless structural reforms are made, including regarding the PSW and financial intermediaries investments, she "is just not interested" in supporting the IFC's capital increase.

CSOs reiterated concerns raised during discussions around the World Bank's general capital increase last year about the need for substantial reforms to address longstanding accountability, environmental and human rights concerns, without which a capital increase could exacerbate existing problems within the institution (see *Dispatch* Spring 2018).

Jolie Schwarz, of US-based CSO Bank Information Center, highlighted the need for Congress to push for specific structural reforms, such as the creation of a remedy fund at the IFC. Nadia Daar, of Oxfam International's Washington DC office, urged the committee to "use its congressional oversight role to hold the IFC accountable to those [the IFC's] standards and promote a clear path towards required disclosure in IFC's financial intermediary portfolio" (see *Observer* Summer 2016), in addition to calling for an end to IFC's support for for-profit education providers.

bit.ly/IFCcapitalincrease

Photo: Center for International Environmental Law

Jolie Schwarz, Bank Information Center (right), at US Congress hearings, November 2019.

ACCOUNTABILITY news

IFC accountability mechanism investigates World Bank-funded for-profit schools

The Compliance Advisor Ombudsman (CAO), the independent accountability mechanism for the International Finance Corporation (IFC), the World Bank's private sector lending arm, published a report in October raising "substantial concerns" about IFC's $13.5m investment in controversial for-profit multinational school chain Bridge International Academies (BIA), announcing that it will conduct a compliance investigation (see *Observer* Spring 2018). The decision takes place in the context of ongoing campaigns to end World Bank support for private education and instead ensure it contributes to the expansion of public education.

The report comes after a complaint was submitted to the CAO in April 2018 by Kenyan civil society organisation (CSO) East African Centre for Human Rights (EACHRights), outlining alleged BIA violations of IFC's social and environmental performance standards and breaches of human rights law. The CAO raised alarm about BIA's "adherence to relevant health and safety requirements" and the potential "adverse impacts to teachers, parents and students raised in the complaints." The CAO also identified concerns about the IFC's monitoring of its own client performance.

CSOs welcomed the investigation as another step forward in the long-running fight against the commercialisation of education in low-income countries, following recent triumphs such as the recognition of the Abidjan Principles in a UN Human Rights Council resolution (see *Observer* Summer 2019) and the Global Partnership for Education's decision in June to prohibit its funds from supporting for-profit education.

In a press release, Dr Judith Oloo of EACHRights commented: "...We look forward to a rigorous and thorough investigation, and call on all investors to start taking action to avoid further harm."

bit.ly/BIAinvestigations

INFRASTRUCTURE analysis

Local communities oppose planned dam construction supported by World Bank in Manipur

by Jiten Yumnam, Center for Research and Advocacy, Manipur (India)

IFIs support hydropower building spree in Manipur

Projects threaten local communities' rights and livelihoods

Bank finances transmission line linked to hydropower expansion in region

Manipur, a region in India's North East (NE), announced plans in 2012 to generate more than 2,000 MW of power under its hydropower Policy, prompting concerns among indigenous communities. Previous large hydropower projects in the region, including the 105 MW Loktak hydroelectric project, the Mapithel dam and the Khuga dam, came with adverse impacts for local populations.

As part of its policy, in August the Government of Manipur identified 32 potential hydropower development sites on rivers in Manipur, which is flanked by the Eastern Himalayas and the Indo-Burma biodiversity hot spot. Hydropower projects are classified as 'renewable energy' by the Government of India – a measure designed to help achieve India's goal of 40 per cent of total power generation from non-fossil fuel sources by 2030, as part of its Nationally Determined Contribution to the Paris Agreement (NDC).

However, hydropower is no longer the least-cost energy option in India, as the unit price from hydroelectric projects stood at around 4 India Rupees (Rs.) in June 2019, while the solar tariffs decreased in India from Rs. 18 per unit in 2010 to Rs. 2.44 in May 2019. Despite this, national authorities and international finance institutions (IFIs) are pushing ahead with Manipur's hydropower boom and risking local communities' livelihoods.

IFIs financing dams in Manipur

IFIs are increasingly financing dam projects and related infrastructure in Manipur. For instance, the Asian Development Bank (ADB) supported the North East Power Development Project, which complemented the Government of India's *Power for All* initiative through power sector reform. Additionally, the International Financial Corporation (IFC), the World Bank's private sector investment arm, has provided finance to a number of Indian financial intermediaries (FIs), which have in turn provided $3.19 billion to the National Hydroelectric Power Corporation Limited (NHPC), the largest public dam-building company in India. Between 2005 and 2014, IFC invested $520 million in Indian infrastructure bank IDFC, as well as other banks, including ICICI, HDFC, Axis Bank, according to a 2016 report by US-based civil society organisation Inclusive Development International. The NHPC was involved in building the 105 MW Loktak hydroelectric project, commissioned in 1983, and more recently signed an agreement with the Government of Manipur to build the 1,500 MW Tipaimukh Hydroelectric Project in April 2010. It is preparing to build the 66 MW Loktak Downstream Hydroelectric Project over the Leimatak River in Manipur, in addition to other proposed projects.

The Singapore-based Asian Genco Private Limited company invested $1.4 billion in the 1,200 MW Teesta-III project in Sikkim near Manipur; the IFC also held investments in private equity funds that financed Teesta III dam, which had adverse impacts on the rights of the indigenous Lepcha People in Sikkim. However, it is difficult to trace financing involving the IFC in hydropower projects, as sub-projects supported by its investments in FIs are not typically disclosed, depriving impacted communities of access to IFC's Compliance Advisor Ombudsman, its independent accountability mechanism (see *Observer* Winter 2018).

Additionally, in June 2016, the World Bank approved a $470m loan for high voltage transmission and distribution lines in Manipur and five other states in India's NE. The World Bank-financed transmission lines criss-cross the Barak, Irang and other rivers of Manipur, and will be one of several key infrastructure projects, along with road construction financed by ADB, to facilitate the construction of over 200 dams across India's NE over the Brahmaputra–Barak River system, including the 32 dams proposed in Manipur.

Dam impacts & peoples' resistance

The NHPC's 105 MW Loktak hydroelectric project caused displacement and loss of livelihoods of indigenous communities, submerging more than 50,000 acres of agricultural land in the Loktak wetlands. NHPC's proposed 1,500 MW Tipaimukh dam has been opposed by local communities, as it will submerge 27,000 hectares of forest and agricultural land along the Barak River basin. In the case of the high voltage transmission and distribution lines in Manipur, the World Bank's environmental assessment failed to consider the physical and health impacts for the local populations. The planned dams and related infrastructure projects will also destroy the floral and faunal diversity of Manipur.

The deployment of Indian security forces at several dam sites, under the 1958 Armed Forces Special Powers Act, has also led to human rights violations: Three villagers were killed by border security forces guarding the Khuga dam in December 2005, for instance, for demanding just rehabilitation and for resisting the dam (see *Observer* Summer 2019). Indigenous communities of Manipur called for decommissioning of 105 MW Loktak dam and a halt to construction of new dams in Manipur like the 1,500 MW Tipaimukh dam and the 190 MW Pabram dam. Villagers affected by Mapithel dam protested its planned commissioning in 2016.

IFIs like the World Bank should stop financing financial intermediaries that support NHPC, and providing other support for hydropower projects in NE India, which are not sustainable nor cost effective. An accountability standard to hold financial intermediaries, equity funds and financial institutions accountable needs to be established for Manipur's potential hydroelectric projects. Protecting Indigenous Peoples' rights, supporting their call for sustainable development, and ensuring their informed consent should be paramount in all energy projects in Manipur – including those supported by the World Bank.

bit.ly/ManipurHydro

IFI GOVERNANCE news

New IMF head applauds Trumps tax reforms

IMF managing director Kristalina Georgieva backs Trump's tax reforms

Campaigners call for reform of international corporate tax rules

In an October interview with US-based media channel *HBO*, Kristalina Georgieva, the newly appointed IMF managing director, made comments that could signal a different approach from the Fund on tax.

When asked by the interviewer about the US president's approach to decision-making, Georgieva replied, "To give credit to the leadership here, the United States is one of the better performing economies and it is because it had the bravery to use a tax reform to spur more growth." When pressed directly as to whether she is in favour of President Trump's 2017 tax reforms, which include a $1.5 trillion tax cut that slashes corporate tax rates, Georgieva responded, "I'm in favour of countries using their policy space to make the economy more vibrant and to make the lives of people better."

The managing director's inference that reforms have improved people's lives sits at odds with the 2017 report by the UN Special Rapporteur on extreme poverty and human rights, which described the tax changes as "a bid to make the US the world champion of extreme inequality." Doubts have also been cast as to whether the reforms made the economy more vibrant, as the Congressional Budget Office estimates that the total cost of the Tax Cuts and Jobs Act is $1.9 trillion.

Notably, Georgieva's comments also run in contrast to those expressed by the previous managing director Christine Lagarde, who, at the 2018 World Economic Forum, identified Trump's tax reforms as a hazard that "could destabilise the current economic recovery," and "lead to serious risks" around financial vulnerability. In fact, the Fund's 2017 Article IV on the US specifically noted that the tax reforms are "likely to generate a fall in the revenue-GDP ratio over the medium-term and that tax relief is likely to disproportionately benefit the wealthy."

The IMF and corporation tax – Where does it stand?

In January, the IMF released a flagship policy paper on corporation tax, which emphasised the "damage from continued harmful tax competition, including the risk of a race to the bottom." While civil society organisations (CSOs) generally welcomed this acknowledgment, the paper fell short of including broader civil society recommendations set out in their consultation responses. One example is the establishment of a UN intergovernmental tax body, which has been repeatedly rejected by the Organisation for Economic Co-operation and Development (OECD), a group of mostly rich nations, who, as Belgium-based CSO Eurodad noted, insist on keeping standard-setting for taxation reform under the auspices of the OECD and G20.

While the supposed programmatic focus on sustainable development and tax of the Platform for Collaboration on Tax – a partnership between the IMF, World Bank, OECD and UN aiming to intensify their tax work – has been cautiously welcomed by some, it has also been accused thus far of continuing to promote the OECD's agenda over the interests of developing countries (see *Observer* Winter 2017-18, Autumn 2016). Moreover, in October 2019, doubts were once again cast around the OECD's willingness to meaningfully reform international tax rules, as an October analysis commissioned by the Independent Commission for the Reform of International Corporate Taxation demonstrated that its latest proposal for corporate tax reform will likely "further intensify global inequalities and fail to curb rampant tax abuse."

Meanwhile, civil society research continues to show that in practice, the bulk of the IMF's tax policy advice remains focused on pushing regressive consumption taxes, rather than a meaningful shift towards ending the-race-to-the-bottom on corporate taxes and eliminating illicit financial flows (see *Dispatch* Annuals 2019, Springs 2018; Briefing The IMF, Gender and VAT).

bit.ly/IMFTaxReforms

Photo: IMF

AM19 – Press Briefing.

CONDITIONALITY news

Uprising and discontent: Global protests erupt against IMF-backed policies

Protests against Fund loan programmes continue in Argentina and Ecuador

MENA region shaken by uprisings in response to IMF policy recommendations

Recent months have proven particularly tumultuous for the IMF, with thousands taking to the streets around the globe to demand change. Against a turbulent backdrop in Latin America, IMF-backed policies have triggered civil unrest across the region, resulting in civil society organisation (CSO) Latindadd spearheading a joint statement to the IMF in October condemning the "familiar austerity policies" that have led to "devastating economic and social impacts." In Ecuador, nation-wide protests, led by indigenous leaders, broke out against IMF-backed austerity as part of a $4.2 billion loan, resulting in fuel subsidy cuts being reversed in October 2019 (see *Dispatch* October 2019). In Argentina, the Fund's largest-ever loan was met with extensive protests in 2018 and 2019 and, in October, Mauricio Macri lost the presidential vote to IMF-critic Alberto Fernández (see *Observer* Autumn 2019, Summer 2018).

While developments in Latin America have dominated headlines, protests linked to IMF policy recommendations have also erupted once again across the Middle East and North Africa (MENA) region (see *Observer* Summer 2018).

Egypt, which received a $12 billion IMF loan in 2016, has seen a wave of protests in response to Fund policy recommendations, despite threats of force by Egyptian authorities. In October, authorities were forced to lower fuel prices following demonstrations, despite the Fund's deputy managing director in July backing the "elimination of most fuel subsidies." While the loan was hailed a success, with the country's fast-growing economy being favoured by international investors, the poverty ratio jumped from 27.8 per cent in 2015 – prior to the IMF loan – to almost one-third today.

In Lebanon, widespread protests, strikes and roadblocks took place in October, culminating in Prime Minister Saad Hariri's resignation on 29 October, with demonstrators demanding changes such as poverty reduction and an end to corruption. While the IMF does not have a loan programme in Lebanon, its 2018 Article IV called for austerity measures such as "restraining public wages." Its 2019 Article IV, released on the first day of the uprisings on 17 October, called for, "front-loaded and sustained fiscal consolidation," with news-agency *Reuters* reporting in the same month that the Fund insists on, "tough austerity measures," that politicians have, "publicly vowed not to take." This 'business as usual' approach to economic crises management is unlikely to appease protesters. CSO Arab NGO Network on Development noted in its October/November bulletin that the Lebanon protests arose from, "a structurally flawed economic system," and that today's situation can be attributed to, "the direct consequences of the rentier economy and liberal macroeconomic policies the country has openly adopted since the 1990s, and will definitely constitute the fuel to the revolution that shall not stop before changing the entire economic and political systems."

Strikes in Tunisia overturned an IMF-backed wage bill in February, which was followed by Tunisia's Truth and Dignity Commission seeking reparations from the IMF and World Bank for human rights violations linked to the legacy of structural adjustment programmes (see *Observer* Autumn 2019, Spring 2019). Further, in Jordan, Prime Minister Hani al-Mulki resigned in June 2018, amid the biggest protests in Jordan since the 2011 Arab Spring, after pushing through unpopular IMF-supported reforms (see *Observer* Summer 2018).

A report on IMF programmes in Egypt, Jordan and Tunisia by CSO Oxfam International, presented to the Fund in October, found that, "The austerity policies supported by the IMF contributed to a decrease in social spending and an increase in poverty, leaving women the most affected" (see *Observer* Winter 2019).

bit.ly/IMFGlobalProtests

Photo: ITUC

General strike in Tunisia.

ENVIRONMENT news

EIB rules out most fossil fuel funding from 2021, setting benchmark for MDBs

European Investment Bank ends support for unabated coal, oil and gas from 2021

Policy surpasses ambition of World Bank's attempts to align with Paris Agreement

In November, the European Investment Bank (EIB) board of directors approved a revamped energy policy that will see it cease finance for unabated coal, oil and gas from 2021.

The policy provides a new benchmark, as the EIB, the World Bank Group (WBG) and other multilateral development banks (MDBs) work to define their joint approach to aligning with the Paris Climate Agreement.

The approval of EIB's energy policy followed a compromise, which saw its start date pushed back a year from 2020, after initial opposition from the European Commission, Germany and select Eastern European EU member states to a draft policy proposed by EIB management in August (see *Observer* Autumn 2019).

Despite this, the EIB's policy sets a new standard among MDBs in terms of their alignment with the Paris Agreement: Under the policy, the EIB will seek to unlock €1 trillion of "climate action and sustainable investment" by 2030 and will "align all financing activities with the goals of the Paris Agreement for the end of 2020." It will also end the vast majority of EIB's finance for fossil fuels.

The EIB, the World Bank, and seven other MDBs announced in December 2018 that they would work to develop a joint MDBs' approach to Paris Agreement alignment (see *Observer* Spring 2019), with MDBs providing a progress update on this process at COP25 in Madrid this December, and continuing to work on the process through COP26 in Glasgow in December 2020.

"Today's landmark decision should… prompt other international financial institutions – multilateral development banks in particular – to immediately halt all support to the fossil fuels industry," said Belgium-based civil society organisation (CSO) Counter Balance, in its reaction to EIB's announcement.

The approval of the EIB's new energy policy follows a letter signed by over 110 CSOs in October calling for the World Bank to, "Phase out lending for all fossil fuels after 2020, including lending for 'associated facilities' for fossil fuel projects," and a civil society protest outside October's World Bank Annual Meetings, calling for a 'Fossil Free WBG' (see *Dispatch* Annuals 2019).

Key supporter of fossil fuels takes leap towards becoming EU's 'climate bank' but loopholes remain

As noted by coverage in UK newspaper the *Guardian*, estimates compiled by European CSO network Bankwatch suggest, "the EIB handed out €6.2m every day to fossil fuel companies between 2013 and 2018." This includes $2.8 billion in support for the controversial Southern Gas Corridor, according to Bankwatch, a project designed to bring natural gas from Azerbaijan to European markets, which has also been supported by the World Bank and other MDBs (see *Observer* Summer 2018).

Under EIB's new policy, energy projects applying for EIB funding will have to show they can produce one kilowatt hour (kw/hr) of energy while emitting less than 250 grammes of carbon dioxide, according to online media outlet *Euractiv*, replacing the previous threshold of 550g kw/hr. This will exclude unabated fossil fuels but means the EIB could potentially still invest in so-called "low-carbon gases such as biogas and hydrogen," according to *Euractiv*. Additionally, the *Guardian* noted, "The EIB will continue to support any project added to the EU's 'projects of common interest' list before 2022. At present, more than 50 gas projects could be eligible."

Alex Doukas, from US-based CSO Oil Change International responded to the EIB's new policy by stating, "Gas lobbyists were able to convince many parties — most significantly Germany and the European Commission — to override public support for a fossil free EIB, and write significant concessions into this policy. However, with people-powered movements for climate action stronger than ever, the gas industry will face an uphill battle in using these EIB loopholes to get new projects funded by 2021."

bit.ly/EIBclimatepolicy

Civil society groups call for the World Bank to stop financing fossil fuels outside its 2019 Annual Meetings in October.

ENVIRONMENT news

IMF joins discussion on greening financial sector, as climate risks threaten macro-stability

Fund and central banks ponder macroeconomic policy responses to climate risks

Report commissioned by UK Labour Party highlights importance of public green taxonomy

Shortly after being appointed as the IMF's new managing director in late September, Kristalina Georgieva made clear that tackling climate risk would be a key part of the Fund's mandate during her tenure (see *Dispatch* Annuals 2019; *Observer* Autumn 2019).

At a 2019 IMF Annual Meetings panel in October on how central banks can combat climate change, Georgieva said, according to US-based news outlet *Bloomberg*, that the Fund, "is gearing up very rapidly to integrate climate risks in our surveillance work." Georgieva, however, was more tentative about exactly what the Fund's role will be: She noted that while conducting climate 'stress tests' to try to gauge risks in countries or sectors is a less contentious step the Fund could take, other measures, such as developing a taxonomy of sustainable financial assets, could be seen as more divisive. Earlier this year, efforts by the European Union to create a taxonomy of 'green' financial products were side-tracked after some EU member states objected that these changes would damage their national industries, and the completion of the taxonomy has now been delayed until 2022.

The Fund has also made several calls in the past year for countries to adopt more ambitious carbon taxes, most recently in its *Fiscal Monitor* published in October, arguing that this is the most 'efficient' way for countries to implement the Paris Climate Agreement, despite skepticism from climate justice advocates about whether focusing on this particular policy is politically viable (see *Observer* Summer 2019).

Commenting at a Civil Society Policy Forum event during the 2019 Annual Meetings that explored the IMF's role in helping countries tackle climate risks, Signe Krogstrup of Denmark's central bank remarked, "I think that there is still a discussion about what should the IMF be doing on climate change. … Macro-stability is the clear focus of IMF. So, the question is: Is climate macro-critical for the Fund, and should it be doing more? Climate is potentially macro-critical in at least two ways: disaster risks, where countries' macroeconomic prospects are negatively affected by climate impacts; and transition risks, where the shift to a low-carbon economy may cause a change in asset valuations."

As the IMF and central banks test waters on greening finance, creating monetary policy in the public interest is vital

The IMF's shift to analysis of climate risks comes as central banks are increasingly seeking to tackle the issue. In 2018, Bank of England governor Mark Carney warned that an unmanaged transition to a low-carbon economy could result in the sudden collapse of assets linked to the fossil fuels, which he dubbed "a climate Minsky moment" (see *Observer* Summer 2019). The Network for Greening the Financial System now includes over 51 members, the majority of whom are central banks, which are working on joint analysis of climate risks. The US's imminent withdrawal from the Paris Agreement under the Trump Administration notwithstanding, US Federal Reserve governor Lael Brainard noted in November that, "To fulfil our core responsibilities, it will be important… to study the implications of climate change for the economy and the financial system and to adapt our work accordingly."

A recent paper commissioned by the UK's Labour Party, entitled *Finance and Climate Change: A progressive green finance approach for the UK*, and published in November, highlighted the need for the creation of robust macroeconomic policies, rather than relying on private finance-led approaches. It noted, "an ambitious transition to low-carbon [sic] will not take place via the market because of a series of market failures that include incompatible time horizons between private finance and climate crisis, incomplete capital markets, corporate market power, and subjective private classifications of green assets." In addition to the creation of a robust green public taxonomy – which identifies assets well-aligned with a low-carbon transition – the paper called for mandatory disclosure of climate risks, and the greening of the Bank of England's macroeconomic policies, including how this applies to its commitment to quantitative easing through investing in corporate debt.

Civil society will be watching closely to see whether the Fund recommends that countries develop such robust policies, or whether it continues to support more 'market-driven' approaches to tackling climate risks.

bit.ly/IMFgreening

Photo: IMF

The IMF's managing director Kristalina Georgieva, centre, at a seminar entitled, 'Can Central Banks Fight Climate Change' during the 2019 IMF Annual Meetings.

IFI GOVERNANCE news

US blocks IMF voting rights redistribution

Efforts to use the IMF's 15th Review of Quotas to redistribute voting rights on its board have been unilaterally thwarted by the US, despite being supported by the majority of IMF member states. Confronted with US opposition, shareholders agreed instead with the US proposal to extend New Borrowing Arrangements (NAB) – designed as a "backstop to the Fund's quota-based financing mechanism" – as a way to ensure, at least in the short-term, that the Fund maintains its lending capacity (see *Inside the Institutions,* IMF resources: quota, NAB and GAB; *Observer* Summer 2019).

The 15th review was scheduled for completion no later than the 2019 World Bank and IMF Annual Meetings – after the US Congress failed to authorise the 14th quota review, concluded in 2010, until 2016. The International Monetary and Finance Committee's October 2019 communiqué called "on the executive board to complete its work on the 15th Review and on a package of IMF resources and governance reforms" (see *Dispatch* Annuals 2019; *Observer* Winter 2018, Winter 2016).

In response to an April 2019 statement by US Treasury Secretary, Steven Mnuchin, who noted, "...we do not see a need for a quota increase at this time," Mark Sobel of UK-based think-tank OMFIF, speculated that Washington was blocking the reform because it did not want to increase China's voting power at the IMF. The US move not only leaves the voting shares unchanged, but also potentially undermines the notion of the IMF being a quota-based institution (see *Observer* Summer 2019). Following the decision to uphold the 'gentleman's agreement' with the appointment of European-backed candidate Kristalina Georgieva as IMF managing director, the blocking of the quota review also raises broader questions around the IMF's undemocratic governance structures.

bit.ly/IMFvotes

LAND news

World Bank, IMF and EBRD push for controversial land reform in Ukraine

A November article on news site *Common Dreams* analysed a bill that became a draft land reform law in Ukraine's parliament. The draft law, which lacks measures to ensure that land is not concentrated in the hands of wealthy landowners, or to prevent land purchases being backed by foreign corporations, passed its first reading in November despite protests outside parliament and the opposition of 73 per cent of the population.

The article highlighted that Ukraine has come under sustained pressure, including from the World Bank and the European Bank for Reconstruction and Development (EBRD), to end its 18-year moratorium on land sales, noting that, "In August 2019, the World Bank approved a US$200 million loan for the restructuring of the agricultural market and the auctioning of state lands." The Bank's privatisation agenda for Ukraine was outlined by its president David Malpass in a *Financial Times* article during his visit to the country in August. The reforms were also supported by a 2018 IMF loan to Ukraine, which the UN independent expert on foreign debt and human rights criticised for its privatisation agenda (see *Observer* Autumn 2018).

The Bank's role in Ukraine clearly demonstrates that much remains to be done to ensure it supports democratic and equitable land structures on the ground.

bit.ly/UkraineLandReform

Accountability Counsel launches key tool for accountability community

In November, US-based civil society organisation Accountability Counsel launched the Accountability Console, a new tool to provide communities, investors, policy-makers and researchers with comprehensive data on all Independent Accountability Mechanism (IAM) complaints to date. The tool includes cases from 24 IAMs of multilateral and regional development banks and other international finance institutions. Resulting from community-driven demand, the Accountability Console provides a body of rare community-level feedback about human rights and environmental grievances tied to internationally financed projects, including deep levels of information and comparative views about policies governing every aspect of the complaint process at each IAM.

The tool comes at a particularly crucial time as civil society organisations and human rights defenders are increasingly being threatened in development contexts (see *Observer* Summer 2019), amidst fears of a race to the bottom of environmental and social safeguards between competing public finance institutions (see *Observer* Winter 2018). The potential that the current reviews of the Inspection Panel and the Compliance Advisor Ombudsman, the World Bank and International Finance Corporation IAMs respectively, may result in the erosion of their mandates and capacities (see *Observer* Winter 2019), highlights the importance of efforts like the Accountability Console, which strengthen community campaigns for justice (see *Observer* Winter 2018).

bit.ly/AccountabiltyConsole

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

The *Observer* is available in print, on the web, and by email.

Subscriptions
www.brettonwoodsproject.org/subs

Spanish
www.brettonwoodsproject.org/es/observador

No permission needed to reproduce
ISSN 2053-7522

Design by Base Eleven and printed by RAP Spiderweb on recycled paper.

The Bretton Woods Project is an ActionAid hosted project, UK registered charity no. 274467, England and Wales charity no. 274467, Scottish charity no. SC045476. This publication is supported by a network of UK NGOs, the C.S. Mott Foundation, and the William and Flora Hewlett Foundation.

The views expressed in this publication by guest authors do not necessarily represent those of the Bretton Woods Project.