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

ACCOUNTABILITY analysis

IFC and MIGA must 'walk the accountability walk' on the road mapped by independent review

World Bank releases independent review of IFC, MIGA and CAO

"Path breaking" review addresses many long-standing concerns

Full implementation of review imperative to close persistent accountability and remedy gaps

The World Bank released the results of a much-anticipated external review of the environmental and social accountability framework of the International Finance Corporation (IFC), the World Bank's private sector lending arm, the Multilateral Investment Guarantee Agency (MIGA), its private sector guarantee arm, and their independent accountability mechanism, the Compliance Advisor Ombudsman (CAO).

The review followed widespread concerns about IFC and MIGA's accountability in recent years. It was made public in part because strengthened safeguards and accountability at the IFC were a precondition of approval of the IFC's capital increase by the US House Financial Services Committee, which has oversight over US participation in multilateral development banks (see *Observer* Winter 2019).

The results of the review have been eagerly anticipated by communities affected by IFC and MIGA activities and civil society groups. The detrimental impact of IFC and MIGA investments on the human rights of the most vulnerable, such as in Guatemala (see *Observer* Summer 2020), have been widely documented. The 2015 Oxfam *Suffering of others* report and Inclusive Development International's 2016 publication *Outsourcing development* provide clear examples of the negative social and environmental impacts of IFC investments, and demonstrate what is at stake as implementation of the review is considered. These concerns have been exacerbated by the Covid-19 pandemic, as noted by a May open letter to the IFC CEO, Philippe Le Houérou, signed by over 40 global civil society organisations, including labour and women's rights organisation Maquila Solidarity Network and Cambodian human rights organisation Equitable Cambodia, demanding that public interest be prioritised over the private sector.

According to the October 2019 announcement, it was agreed a review should take place, "As IFC and MIGA seek to scale up private investment and create markets in the most challenging environments." The review and its recommendations will be considered by the World Bank executive board.

US Congress and civil society warn against dilution of recommendations

US Congresswoman Maxine Waters, chairwoman of the House Financial Services Committee, earlier this year conditioned her committee's support for the IFC's capital increase on a number of reforms aimed at strengthening the IFC's environmental and social performance, as well as its accountability system (see *Observer* Summer 2019). One of these commitments was the timely disclosure of the final report of the independent review team, which is essential to a well-informed public consultation process. Responding to the external review, Congresswoman Waters

In this issue

noted, "I am pleased to see that IFC has followed through on its commitment to disclose the Review Panel Report. The Review was conducted by leading experts in private-sector development, compliance functions, dispute resolution and governance, and it includes a thorough analysis of the gaps in the IFC's current systems as well as thoughtful recommendations to address them. I urge the Board to fully implement these recommendations, which will lead to a stronger system that will solidify the IFC's role as a global leader among development finance institutions and secure critical policy reforms for vulnerable communities."

In addition to separate thematic submissions, on 12 September, 46 civil society organisations, including the Nepalese National Federation of Indigenous Nationalities and the Yemeni Observatory for Human Rights, submitted a letter to the IFC and MIGA executive boards calling the report, "path-breaking in the field of development finance accountability both in its thoroughness and its systems-level analysis." The letter urged the boards to, "endorse the report as the minimum required for implementation," and, echoing Congresswoman Waters, cautioned against a dilution of the report and its recommendations, stressing that, "any deviations from the recommendations proposed by IFC/MIGA or CAO should only be considered if they further strengthen the accountability framework."

The letter to the executive directors underscored strong support for the review's conclusion that the CAO is "fit for purpose" and that it should maintain its independence – one critical aspect of which is maintaining its authority to determine whether there is sufficient evidence to warrant a compliance investigation. The review's support for the CAO was particularly welcome as there has been some concern, particularly in light of the ongoing legal suit against the IFC in the Tata Mundra coal power plant case (see *Observer* Autumn 2020), that its independence and capacities may be weakened. The letter also endorsed the recommendation that the CAO should report to the executive board, rather than management, as is currently the case.

Considering the implementation of the review and its recommendations, the letter noted that the CAO, IFC and MIGA should be tasked with developing proposals to implement the recommendations that apply to them and that these should be open to consultation. As recommended in the review, the CAO should take the lead in drafting the framework policy for the CAO, to be adopted by the executive board.

An opportunity to remedy long-standing concerns

Signatories to the letter enthusiastically supported the recommendation that IFC and MIGA should adopt the "contribute to harm, contribute to remedy" principle, as this has been a long-standing civil society demand. As the letter stressed, "[currently] even complainants who successfully navigate the CAO process are not provided sufficient remedy for harms suffered," adding "IFC/MIGA should prioritize the implementation of a remedial environment that includes funds to contribute when harm occurs." The focus on remedy is substantiated by the review, which stressed, "According to CAO monitoring reports, only 13 percent of monitored projects demonstrate satisfactory actions by IFC/MIGA to remedy non-compliance and related harm." Highlighting the need for urgent action on the remedy issue, a joint submission by CSOs, including Indian organisations Nazdeek and Peoples Action for Development, urged the executive board to address long-standing complaints about the "abysmal" living and working conditions of indigenous communities working in India's Assam tea plantations operated by Amalgamated Plantations Private Limited, in which the IFC is the second largest shareholder (see *Observer* Winter 2017). The submission called for IFC to implement the remedy recommendation "without delay." Jolie Schwarz of US-based Bank Information Center (BIC) stressed that, "The recommendation that IFC should support remedy is the lynchpin of the review that gives meaning and effect to many of the other recommendations. Failing to address the clear need for remedial actions risks maintaining a critical weakness in the system that could undermine any further reform efforts."

Also addressing a challenge identified by communities and partners who support them, the review proposed that the IFC and MIGA actively engage with communities on the ground and attributed to them the responsibility for ensuring clients disclose the availability of the CAO to the communities and verify this has happened by surveying affected communities. To help ensure improved community engagement, the review recommended that the IFC should consult with complainants on the draft management action plan, following the CAO compliance report.

Challenging context requires bold action

The review is taking place as the World Bank redoubles its efforts to "scale up private investment and create markets," despite long-standing civil society concerns about the Bank's Maximizing Finance for Development (MFD) approach, which seeks to leverage private sector investment for development, thus raising the prominence of IFC and MIGA in the Bank's lending portfolio (see *Observer* Spring 2020, Summer 2017). The increased importance afforded to IFC and MIGA within MFD and in response to the Covid-19 crisis (see *Observer* Summer 2020) makes a review of the CAO's "role and effectiveness" extremely important.

The review is also taking place in the context of the IFC's continued unwillingness to accept responsibility for harms caused by its lending to the Tata Mundra coal power plant in India (see *Observer* Autumn 2020) and other concerns that continue to be raised by people negatively affected by IFC investments.

There are fears from civil society that the review will fall victim to a fate similar to the review of the Inspection Panel toolkit completed in March, where the adoption and implementation of the initial report (which lacked consultation) was the subject of extensive deliberations behind closed doors within the World Bank. According to a March joint CSO statement, the Inspection Panel review missed an opportunity to adopt "innovative changes that would have set the bar for public accountability in development finance," but instead achieved "mixed results."

Underscoring the need to avoid a fate similar to that of the Inspection Panel toolkit review, Schwarz emphasised that, "The credibility and expertise brought to this review has resulted in a serious package of reforms that should be endorsed by the Board as a whole. The systems-level recommendations will not achieve the intended result of strengthening the whole system if taken piecemeal, based on what is politically expedient."

In addition to demanding the adoption of the review's recommendations in full, expert CSO submissions on the review identified the need for public disclosure of and consultation on documents developed to support its implementation as imperative for the fulfillment of its promise.

The current context and challenges faced by the IFC, MIGA and, indeed, the communities impacted by their actions, require bold leadership and swift action.

http://bit.ly/IFC_MIGA_Review

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

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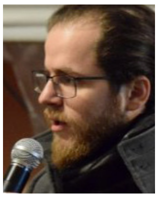
CONDITIONALITY commentary



An IMF bailout for Lebanon can make things worse

by Zahra Bazzi & Nizar Hassan, Arab NGO Network for Development

Protesters and civil society groups warn IMF against bailing out Lebanon's ruling class

Classic austerity-based IMF programme risks further social deterioration

On 9 March 2020, Lebanon's government announced that it would not be paying $1.2 billion in Eurobond payments, thus declaring the first sovereign default in the country's history. The decision to default was supported by a number of progressive activists and experts, given the shortage of foreign currency at Lebanon's central bank and the need to use this reserve for more pressing purposes.

The default came at a point of multiple financial and economic crises, caused by decades of corruption and an economic model based on extracting income from rent-based sectors (such as remittances, banking, real estate and foreign aid) to fund imports and consumption, at the expense of productive sectors. In parallel, the financial sector (both the central bank and commercial banks) provided the necessary funding for politicians to distribute public resources to their cronies and sectarian clients. Unsurprisingly, this model also led to an extreme concentration of wealth and income, with a quarter of all new income going in the pockets of the top 1 per cent, and with 0.1 per cent of bank accounts containing 20 per cent of all deposits.

The economic model failed as the country's trade deficit grew, and with it public debt resulting from borrowing at high interest rates. The central bank's approach was to postpone the meltdown through financial engineering measures that accumulated further debt in US dollars, thus worsening the vicious cycle.

Until the beginning of the financial meltdown last October, international financial institutions (IFIs) seemed accepting of this economic model and the policies maintaining it. The IMF repeatedly praised the central bank's policies in its Article IV reports, especially in terms of maintaining a large foreign exchange (FX) reserve and attracting deposits. In turn, the World Bank has provided, and recently newly pledged, sizable loans conditioned on complementary 'structural reforms'. Both institutions had little concern for reorienting economic growth toward productive sectors, and a disregard of extreme wealth and income concentration.

In the summer of 2019, after 22 years of a fixed exchange rate, the crisis manifested in the quick depreciation of the Lebanese Lira, which has lost over 80 per cent of its value against the dollar in the last 12 months. Along with the measures imposed by the government to combat the Covid-19 pandemic, and the tragic explosion at Beirut's sea port in August, this has made Lebanon's economic and financial recovery impossible without drastic solutions.

A lifeline for a corrupt elite

Despite the uprising of October 2019, when hundreds of thousands from across the small country's districts took to the streets in rage against the political establishment demanding fundamental change to the system, the ruling class in Lebanon, including politicians and their partners in the private sector, has not only failed to respond to these emergencies, but has opposed any fair policies that might harm its own interests. These include a capital control law, a forensic audit of the central bank, a default and haircut on internal debt owed to private banks, and a restructuring of the financial sector based on the real existing losses.

The fear of such restructuring, rather than any concerns about the neoliberal paradigm, was what prompted the oligarchs to sabotage negotiations with the IMF. Eventually, the financiers and the government's technocrats are expected to agree on the diagnosis and prescriptions due to their desperation for a bailout.

Protesters and civil society groups have warned that any funding of the Lebanese state before political change occurs would be a bailout of its ruling class, which has lost popular legitimacy. In this light, Emmanuel Macron's initiative of conditional support, as well as a potential IMF programme, would secure an opportunity for the continuation of politics as usual and make any real change less likely.

Austerity and the social crisis

Ordinary citizens and residents of Lebanon have been paying the cost of the crisis, with large numbers of businesses shutting or cutting staff costs, resulting in an increase in unemployment. The depreciation of the national currency, and a monthly inflation rate that has reached a record of 57 per cent, have led to a major decrease of purchasing power and increased poverty levels. Government and UN estimates have revealed that over 50 per cent of Lebanon's population is now under the poverty line, with one study finding that 23 per cent are in extreme poverty, a three-fold increase from 2019.

In this context, a classic IMF intervention involving fiscal consolidation, devaluation of the local currency, shrinking the public sector and removing subsidies on energy, gasoline and wheat, could worsen the social crisis, cause more poverty and potentially lead to destructive social tensions. An obsession with fiscal consolidation as a response to the fiscal deficit will also have harmful impacts on economic development in the medium and long term (see *Observer* Autumn 2020).

Neither the IMF's record, nor that of the Lebanese officials negotiating with them, is encouraging when it comes to rethinking neoliberal policies and advancing social justice. As such, civil society has a key role in pressuring both parties in this direction, and the IMF has a responsibility to include progressive civil society groups in a systematic dialogue concerning the conditions for a potential programme.

Such a programme, if it happens, should be based on an approach of prioritising human rights and dignity. Further economic pressure on ordinary residents is not an option today. Instead, plans for further austerity should be replaced with fair policies of revenue generation, including a new progressive tax system and a series of measures that encourage productive investment, protect the poor from the burdens of the crisis, and the establishment of a universal social protection system.

http://bit.ly/IMF_loan_Lebanon

SOCIAL SERVICES analysis

World Bank funded $17.3 million Uganda reproductive health voucher PPP fails to reach the poorest women

Guest analysis by Allana Kembabazi, Initiative for Social and Economic Rights (ISER) Uganda

Exclusion of poor women and undermining of public health system through World Bank funded PPP voucher scheme

World Bank continues to promote private sector in health as a way to reach the poor despite evidence it does not

It should focus on strengthening the public health sector to support the poor

In Uganda, the World Bank and the Swedish International Development Agency (SIDA) funded a $17.3 million public-private partnership (PPP) project called the Uganda Reproductive Health Voucher Project (URHVP) from 2015-2019. The project purported to increase access to maternal reproductive health for poor women by aiding them in "accessing safe delivery services." In this PPP arrangement, health facilities, the majority of which were private, provided delivery services through vouchers sold to the community in a project funded by the public sector with donor assistance. In its results report, the World Bank claimed the project "provides good lessons on how the government can contract with the private providers to deliver reproductive health services to poor women living in underserved areas."

Despite the World Bank's claims, research by the Initiative for Social and Economic Rights' (ISER), based on a random selection of districts in eastern and western Uganda that implemented the project, found that it failed to reach the poorest women. The first red flag was the project design. It required mothers to pay what the funders considered a 'nominal fee' of 4,000 Ugandan shillings (UGX, slightly over $1) to receive a voucher to access services. The mothers bought the vouchers from a community village health team (VHT) member who was supposed to conduct a poverty assessment. VHTs bought the vouchers from Marie Stopes, the implementing agent at 2,700UGX each.

This model incentivised the commercialisation of healthcare. ISER's research found that VHTs often sold the vouchers for more than the prescribed price to maximise profit. The Office of the Auditor General's Audit confirmed this, noting vouchers were sold for as much as 100,000UGX, 25 times the prescribed price. One private provider candidly admitted, "There are many mothers who could not afford the UGX 4,000 for the voucher cards…it is those with the means that come to the private facilities. Those poorest cannot come here." In the areas of project implementation, VHTs noted they would not travel to the more remote parts or seek out the poorest since they would incur another transport expense that would reduce their profit margin. Others made the pregnant women work for them in their plantations in exchange for vouchers.

Islands and hard to reach districts are often ranked among the lowest performing districts in health by the Ministry of Health. However, all but one of the districts in the project were not considered hard to reach. Indigenous minority groups and areas where they are based face higher levels of poverty and multiple levels of vulnerability and should have been a target area. World Bank project documents note they could not focus on indigenous peoples since they resided in areas without facilities. Ultimately, the Office of the Auditor General found 68 per cent of project beneficiaries were either middle class or rich. Only 32 per cent were poor.

Who do these projects ultimately serve if the poorest and those living in remote areas are excluded and yet they face insurmountable barriers to accessing healthcare? Is this the best use of money given the underfinanced public health system on which poor women depend? By imposing user fees through a publicly-funded programme to reach poor women, the World Bank ironically perpetuated the exclusion of the poorest. Voucher programmes must be understood against the broader backdrop of the World Bank's policies. Historically, the World Bank and IMF through their structural adjustment programmes promoted user fees in health. In Uganda, the president abolished them in 2001 following a national participatory poverty assessment that found they excluded the poor from accessing healthcare. This resulted in a surge in demand for healthcare. In fact, the World Bank's research found the poor benefitted when user fees were abolished. The insistence that mothers pay 4,000UGX for a voucher ignores the reality that the poorest cannot afford it. Health workers recounted having to cut up old curtains and bed sheets because poor mothers in the community had nothing with which to wrap their newborn babies in. The World Bank's own data found 1 in 5 Ugandans is extremely poor and a third live below the poverty line. It estimates that in light of the Covid-19, an additional 3 million will become poor.

Such piecemeal approaches are therefore an unnecessary distraction from fixing the public health sector, divert scarce funds towards the private sector and heighten inequality in access to healthcare. Uganda's health sector has been underfinanced, ranging from 6-9 per cent of the national budget. Moreover, the project's high operational costs make it unsustainable for governments in the long run. During the first year of implementation, 75.4 per cent of funds disbursed went to administration. Between 2015-2018, it was 48.5 per cent.

Covid-19 reveals that a failure to prioritise access to health care for the poor will wipe out gains made in advancing health outcomes and affect the economy. Combatting Covid-19 and future pandemics requires resilient public health systems. They are the first point of call for the poor.

This lesson hasn't sunk in. The World Bank is supporting the formulation of a Medical Credit Fund in Uganda to provide credit at affordable rates for private health facilities. This ignores evidence that the private sector does not reach the poorest and as often engages in unethical practices to secure profit e.g., by delaying referrals and an unduly preference for C-sections. A Medical Credit Fund to support the private sector will reenact these failures.

The World Bank should desist from its ideological support of private sector solutions and finance public health systems.

http://bit.ly/Uganda_health_PPP

FINANCE analysis

Over optimistic IMF forecasts risk dire consequences for Covid-19 response

Analysts warn of rosy IMF growth projections for emerging countries

Consequences of inaccuracy dire as G20 considers critical pandemic response

Governments discuss debt restructuring mechanism at UN FfD Forum

As the IMF prepares the *World Economic Outlook* report ahead of its October annual meetings, concerns have been raised that its overly optimistic forecasts conflict with its Covid-19 recovery narrative. As noted by Washington DC-based think-tank the Center for Global Development (CGD), in April, the IMF forecast that growth will decline by 8.4 percentage points for advanced economies from 2019 to 2020, while only by 5.3 percentage points for emerging markets and developing economies (EMDEs) (see *Inside the Institutions* IMF Forecasting Models). This relative optimism in relation to EMDEs was maintained in a June update, when the IMF revised growth down by 2 percentage points across the board. For many EMDEs, IMF debt sustainability analyses project economic contractions in 2020, followed by a quick return to strong growth in 2021, projecting a so-called 'v-shaped recovery'.

The accuracy of these relatively rosy forecasts has been called into question and commentators were quick to point out that they do not match the Fund's broader Covid-19 narrative, which has warned of, "the worst recession since the Great Depression, and far worse than the [2008] global financial crisis," that could be more severe for developing countries because of additional vulnerabilities. CGD published a working paper in May warning that the Fund's optimism could not be easily explained. This was followed by a June article where it referred to the revised IMF forecast as "puzzling", arguing "post-April developments should make the growth outlook worse for EMDEs than for advanced economies, perhaps even substantially." Economists Bauer and Mihalyi similarly described the IMF's April growth forecasts as "vastly over optimistic," in an April post in news outlet *The Africa Report*, citing projected "miraculous" recoveries for oil-dependent countries like Algeria and Chad. Kristina Rehbein with civil society organisation Jubilee Germany, co-author of a forthcoming report on IMF growth projections in the context of Covid-19, remarked, "It is striking to see in individual country analyses, how quickly the IMF expects over-compensating growth in developing countries to materialise, while senior IMF leadership is simultaneously warning of the risk of a protracted crisis, wide-spread debt defaults and a 'lost decade' for developing countries."

A vast body of evidence demonstrates that the IMF systematically over-estimates growth. As cited in *The Economist* in August, "[IMF] forecasts for developing countries in 1990-2016 were, on average, 0.42 percentage points above subsequently published GDP figures." Research by Cust and Mihalyi published in 2017 by the IMF's magazine, *Finance & Development*, demonstrated that the Fund particularly over-estimates the impact of oil and gas discoveries on economic growth, consistently wrongly predicting that oil and mineral discoveries will boost growth immediately. The internal IMF *Review of Program Design and Conditionality* conducted in 2018, covering 2011 to 2017, also concluded that growth assumptions were often too optimistic, a view that was shared by IMF executive directors responding to the report (see *Observer* Summer 2019).

Consequences of inaccuracy dire during Covid-19 pandemic

The dangerous consequences of these trends are well-e stablished, from facilitating unwarranted complacency to fuelling future crises, with a 2018 IMF working paper demonstrating that "recessions, fiscal problems, as well as Balance of Payment difficulties are more likely to arise in economies for which past growth forecasts have been overly optimistic." Reflecting on these figures, *The Economist's* August article surmised that economic forecasters are a "sunny bunch" and cited Maurice Obstfeld, former IMF chief economist, suggesting that, "perhaps people should simply expect less of forecasts." Yet, with an unprecedented global pandemic wreaking havoc on the poorest communities, the prospect of inaccurate forecasts informing critical decision-making is no laughing matter.

With IMF debt sustainability analyses commonly projecting EDMEs will simply outgrow the crisis, governments may feel compelled to borrow in the face of inaction from the Fund and others, while they could actually see U-shaped, W-shaped, or even L-shaped recoveries, the latter of which is associated with a long-term decline in GDP. Bauer and Mihalyi pointed out that oil-rich countries are particularly vulnerable and that their IMF growth forecasts do not match Fund projections for the 2021 oil price (see *Observer* Winter 2019). CGD's May analysis warned that the current numbers could, "legitimize an ungenerous, conditionality-addled response on the part of the international community." Ahead of a G20 finance ministers meeting in October, the debt justice community has implored them to consider offering debt cancellations and restructurings, rather than temporary debt relief measures premised on the capacity of participants to eventually meet their obligations – presumably on the back of robust growth. Rehbein further commented, "The IMF's systematic ignoring of their own warnings at the individual country level could have dire consequences for critically indebted countries and political decisions on debt relief needs for those countries."

UN debt workout mechanism: A critical part of the solution

While the myriad reasons behind these trends include complex issues to tackle, such as an over-reliance on modelling prone to manipulation and political influence, as well as unrealistic fiscal consolidation targets, a critical issue is the Fund's role in the global debt architecture. The IMF's designation as 'lender of last resort' implies its analysis is particularly influential with other creditors, meaning a downward growth projection could become self-fulfilling, putting pressure on the IMF to lend in less-than-ideal and politicised circumstances, rather than insist on debt restructuring, as in the case of Greece (see *Observer* Spring 2015). Furthermore, while the Fund acts as the principal expert advisor in determining the degree of relief that may be available to a debtor through its debt sustainability analysis, it is also a major creditor, meaning it, "has direct influence on the recoverability of its own claims," as explained in 2013 by Jürgen Kaiser, also with Jubilee Germany.

To help address these difficulties, as part of the UN Financing for Development Forum, a number of governments are discussing fundamental reforms to the international financial architecture, including "[the need for] a formalised debt restructuring mechanism." Such a mechanism could offer a critical voice on sovereign debt that is independent from creditors and free from pressures to justify lending packages (see *Observer* Spring 2020).

http://bit.ly/IMF_forecasts

ENVIRONMENT news

World Bank and IMF lend support to mega-gas project in Mozambique, undeterred by growing risks

World Bank provides technical assistance, while IMF offers high-level endorsement

CSOs highly sceptical of over-optimistic 'gas-as-development' narrative

Despite the World Bank's commitment to align its activities with the Paris Agreement, and the vocal public rhetoric from IMF managing director Kristalina Georgieva on the need for a "green recovery" to the Covid-19 pandemic, both institutions have provided important support to a controversial new gas mega-project in northern Mozambique. A consortium led by French oil major Total signed a $14.9 billion debt financing agreement in July to extract and export gas as part of the Mozambique liquefied natural gas (LNG) project – in a deal which amounts to one of the continent's largest-ever project investments.

The World Bank has provided technical assistance for the Mozambique LNG project under the Mining and Gas Technical Assistance Project (MAGTAP). As noted by online news site *Africa Intelligence*, MAGTAP – which has recently been extended through the end of 2021 – is financed by $50 million from the World Bank and $8.15 million from the UK's Department for International Development. MAGTAP has played, "an important role in the negotiating of large-scale mining and hydrocarbon contracts," according to *Africa Intelligence*, including "transactions on the coveted gas block 1, operated by Total, and block 4, jointly operated by ExxonMobil and ENI." A final investment decision on block 4 has been delayed by the Covid-19 pandemic, according to *Reuters*.

Although the Bank has announced it will no longer provide project finance to 'upstream' oil and gas projects beginning this year (see *Observer* Spring 2018), the policy excludes the institution's technical assistance work.

The IMF has also voiced high-profile support for the project, with Abebe Aemro Selassie, IMF director of the African department, commenting on Mozambique's economic prospects in November that, "LNG can be a game changer for economic transformation, development and inclusive growth, potentially lifting millions out of poverty if the right policies are put in place."

Overselling the benefits and overlooking the risks?

However, civil society groups remain highly sceptical of the 'gas-as-development' narrative. A June report co-published by Friends of the Earth (FoE) International, FoE France and FoE Mozambique argued that the discovery of gas in northern Mozambique a decade ago has already resulted in worsening conditions for Mozambicans: "The gas boom has come with increased conflict, violence, corruption and social inequality... The major gas companies are in a position of power and can set the rules and grab the profits."

Tax laws promoted by the Bank itself may limit the government's windfall from the project. June research from German civil society organisation Urgewald noted that, "in 2014 the World Bank's $110 million budget support to Mozambique required the government to approve a new petroleum tax law... [that] includes.... VAT exemptions and accelerated rates of depreciation for oil and gas exploration. These measures may significantly reduce the effective tax rates for companies involved in developing [the project]."

A debt sustainability analysis for Mozambique conducted by the World Bank and IMF in April highlighted several new risks that the Mozambique LNG development faces, including the potentially severe impacts of Covid-19 in the country, project delays, and protracted disruptions to the global economy and trade. It added, "Previously identified risks remain, including... a deterioration in the security situation in the North... and... extreme climate events."

Indeed, in the wake of Total's July announcement, Islamist insurgents captured a key strategic port just 60 km south of the project's location on 12 August, raising the possibility of civil conflict disrupting the project.

Additionally, LNG export contracts are typically pegged to the global oil price index. Analysts at Carbon Tracker have predicted that Covid-19 has brought, "forward the timing of [global] peak fossil fuel demand," which is "likely to slash the value of oil, gas and coal reserves by nearly two thirds, increasing the risk and likelihood of stranded assets," in the coming decades.

Even if such forecasts prove a premature obituary for the fossil fuels industry, in the end, the confident revenue projections for the project will only materialise if global climate action stalls: As put by online news site *Climate Home*, "The bet can only pay off on a dangerously overheated planet."

http://bit.ly/Moz_LNG

Photo: World Bank

World Bank President David Malpass on a visit to Mozambique in May 2019, following Cyclone Idai. Tropical storms are one threat among many to the new Mozambique LNG project.

KNOWLEDGE news

As World Bank pauses *Doing Business Report*, pressure mounts for it to be permanently scrapped

World Bank suspends much-criticised *Doing Business Report* due to data irregularities

Civil society, trade unions and academics call for a permanent end of its publication

On 17 August, the World Bank announced that it would suspend the publication of its much-criticised *Doing Business Report* (DBR). According to the Bank, the decision resulted from reports of, "A number of irregularities… regarding changes to the data in the Doing Business 2018 and Doing Business 2020 reports, …[that] were inconsistent with the Doing Business methodology." The announcement noted that the Bank would undertake "a systematic review and assessment of data changes" and that its independent Internal Audit function would perform an audit of related data and safeguards to data integrity. US newspaper *The Wall Street Journal* reported in August that the data for Azerbaijan, China, Saudi Arabia and the United Arab Emirates appeared to have been "inappropriately altered."

As outlined in a September article in news agency *Inter Press Service* by Isabel Ortiz of the US-based Global Social Justice Program and Leo Baunach of the US-based International Trade Union Confederation, the decision to halt the report's publication was "welcomed by trade unions, academics and human rights groups." As they underscored, the report has faced numerous criticisms, including a call by a 2013 World Bank independent panel for the Bank to cease its use of the global rankings (see *Observer* Autumn 2013).

The report has also suffered more recent criticism, including from the Bank's senior ranks. While he eventually retracted his statement and resigned, former World Bank Chief Economist Paul Romer expressed a lack of "confidence in the integrity" of the report's data in 2018 and suggested that they could have been skewed to favour some countries over others, citing Chile as an example. Civil society groups have also stressed that the DBR continues to favour deregulation and lower taxes in apparent contradiction with the World Bank's own stated concerns about rising inequality (see *Observer* Winter 2018).

Highlighting methodology concerns, a 2018 report by US-based Center for Global Development noted that India's Prime Minister Narenda Modi has, as is the case with many leaders, touted the country's rise in the rankings as evidence of the international community's support for his reformist agenda. Indian civil society has stressed however that the reforms made under the 'guidance' of the DBR have caused significant harm to vulnerable communities (see *Observer* Winter 2019). The DBR's analogous agriculture-centred publication, the *Ease of Doing Business in Agriculture*, has been similarly criticised by a group of over 280 organisations comprising the Our Land Our Business campaign for its pro-corporate bias. The campaign has called for an end to both reports and their rankings (see *Observer* Spring 2018).

Considering long-standing concerns about the report's anti-tax, anti-labour and deregulatory biases, Sreedhar Ramamurthi, with Indian research and advocacy group Environics Trust commented, "the Doing Business report must be completely abandoned. It has done more than its share of harm. In its name, land grab is happening on an unprecedented scale and environmental and labour laws are almost completely suspended. The World Bank needs to realise that we need 'ease of living' as we all need to live and not all of us do business." Mr Ramamurthi's call was reiterated by Esteban Silva from Chile's Fundación Constituyente XXI, who stressed that, given the efforts for justice in the country, "the publication of the DBR should cease…as we have no doubt that it will again only be used to the benefit of those who seek to maintain and reproduce the country's current neoliberal model and to halt the changes demanded by the vast majority of its citizens." Their pleas were echoed by that of prominent Indian economist Jayati Ghosh, whose September blog in online publication *Project Syndicate* called for a permanent end to the report and for an apology from the World Bank to the developing world for "all the harm this misleading and problematic tool has already caused."

http://bit.ly/Scrap_DBR

Photo: Pixabay

CONDITIONALITY news

Civil society raises alarm about IMF's continued backing of austerity amidst pandemic

IMF programmes impose rigid fiscal consolidation on Egypt, Ukraine, South Africa and Ecuador

CSOs call on IMF to permanently end austerity and support a just recovery for the most vulnerable

Civil society organisations (CSOs) are increasingly concerned that the IMF continues to include strict fiscal consolidation targets in its loan programmes, despite the deepening global health and economic crisis triggered by the Covid-19 pandemic.

In an October letter, more than 500 CSOs and academics, including the Brazilian Campaign for the Right to Education and prominent feminist economist Stephanie Seguino, questioned the Fund's continued adherence to such targets, as the economic fallout of the pandemic continues to worsen. According to the letter, "Time and time again, rigid and rapid fiscal consolidation conditioned in IMF programs has meant devastating cuts in health and education investments, losses of hard-earned pensions and social protections, public wage freezes, layoffs, and exacerbated unpaid care work burdens. In all cases, it is the most vulnerable people in societies who bear the brunt of these reforms, while the elite, large corporations and creditors enjoy the benefits."

Despite IMF Managing Director Kristalina Georgieva publicly calling for a "greener, smarter and fairer" recovery to the Covid-19 pandemic, a number of recent IMF loan programmes, as well as IMF language in emergency financing agreements and analysis, continue to call for a "swift" return to fiscal consolidation as soon as the peak of the crisis has passed. Egypt, Ukraine (see *Observer* Summer 2020), South Africa (see *At Issue* Summer 2020) and Ecuador have now agreed new programmes with the Fund that involve severe austerity measures. CSOs are also concerned that a forthcoming IMF programme for Lebanon is likely to include significant austerity measures (see *Observer* Autumn 2020). Bosnia and Herzegovina (BiH) and Costa Rica have both made new requests for non-emergency IMF programmes over the last two months, and news reports already indicate the latter will be committing to severe fiscal consolidation measures.

Commenting on the request by BiH, Nela Porobić Isaković with the Women's International League for Peace and Freedom said, "IMF loans have for a long time come with austerity measures targeting the public sector, and now new negotiations lack any transparency. It is a true source of worry for the Bosnia and Herzegovinian citizens – where does the money go, how will the money be repaid, and how do we ensure that we do not return to business as usual? Because for 25 years that has gotten us nowhere. We need to start investing in what this country urgently needs: healthcare, education, and a clean environment."

The Fund's continued dedication to fiscal consolidation amid growing economic and debt crises across the Global South has put the potential negative social consequences of IMF loan conditions – long a cardinal sin of the Fund in the eyes of its critics – back in the spotlight. With the IMF slated to continue to play a central role in the Covid-19 response in many crisis-stricken countries, the CSO letter called on it to finally close the dark chapter on IMF-conditioned austerity for good. It went on to say that this means "systematically assessing the impacts of fiscal policy reforms on gender and economic inequality and rejecting those that have negative social impacts", and recommended a number of other policy measures.

http://bit.ly/IMF_Austerity

CONDITIONALITY news

World Bank power sector loan in Nigeria raises energy costs as economic crisis bites

As Nigeria enters a deepening economic recession following a 6.1 per cent contraction in the second quarter of 2020, a $750 million World Bank Group (WBG) Program for Results (P4R) loan (see *Update 79*) for the power sector approved in June has resulted in increased electricity rates.

The Power Sector Recovery Operation seeks to reform Nigeria's power sector, including by establishing "sustainable and appropriate electricity tariffs." Although it incorporates limited measures to mitigate the impact on the poorest consumers, including capping rates for unmetered customers and maintaining an affordable tariff for those consuming less than 50kWh of energy per month, according to Nigerian news site *Nairametrics*, the new tariffs mean "most Nigerians will now have to pay more for electricity."

As noted in a 2019 report by UN Women and the International Labour Organization, "Higher energy prices... tend to slow down economic activity and thus generate unemployment. The sudden removal of fuel subsidies and consequent increases in prices have sparked protests and violent riots in many countries."

The P4R, meanwhile, does little to advance Nigeria's green energy transition. A June report from Netherlands-based civil society organisation Recourse and partners found the World Bank's recent energy lending to Nigeria to be heavily biased towards fossil fuels, noting, "From 2014 to 2019, the WBG provided $1.8 billion or 69 percent of total energy sector finance to oil and gas projects, including for...one of the world's largest oil refineries."

Following the approval of the P4R, news reports surfaced in August that negotiations between the Bank and the Nigerian government had broken down over reforms required to obtain an additional $1.5 billion development policy loan, raising further questions about whether the Bank's Covid-19 response is fit for purpose (see *Observer* Summer 2020).

http://bit.ly/Nigeria_P4R

SOCIAL SERVICES news

World Bank loan to India pushes private sector into education as millions of children out of school

World Bank Indian education loan contains provisions for private sector partnerships

Civil society groups, teachers' unions and academics call on Bank to postpone the loan

On 24 June the World Bank approved the $500 million Strengthening Teaching-Learning and Results for States (STARS) loan programme across six states in India. The programme expands private initiatives and partnerships in the education system, as well as implementing sweeping reforms to learning assessments.

The loan contains provisions to facilitate a national framework for partnerships with non-state actors, including from the private sector, a strategy increasingly championed by the World Bank as part of its Maximizing Finance for Development approach (see *Observer* Spring 2020, Winter 2018, Autumn 2017). A June report from Oxfam India, however, concluded that the project, "risks significant diversion of Indian taxpayers' funds to an array of private actors, introduces the privatisation of education in six of India's states, and changes the framing for the private sector's engagement with education in India as a whole."

The programme coincided with the Government of India's implementation of its first new National Education Policy in 34 years. The policy has prompted concerns that increased private sector involvement will undermine state capacity to deliver education in India, especially equitable education for girls, as the Covid-19 crisis has prevented millions of children from accessing school during the nation-wide lockdown.

Kiran Bhatty from the Centre for Policy Research wrote in Indian Newspaper *The Hindu* in June that the World Bank, "has the mistaken understanding that state capability should be built by giving a larger role to non-state actors and by increasing the use of technology. Both these premises are misguided as they do not contribute to the capability of the state to deliver better education."

In June, a letter signed by 1,400 groups and individuals, including the National Coalition for Education and the National Youth Equity Forum in India, stressed that the loan undermined India's Right to Education Act, and called on the World Bank to postpone the loan until it addressed their concerns. It highlighted that, "systemic inequities in India's education, as underscored by the pandemic, are not being addressed in the STARS Project." The letter, addressed to Hartwig Schafer, the vice president of the South Asia Region at the World Bank, urged him to reconsider the partnerships with non-state actors, to develop concrete plans for promoting equity and prioritise expanding state capacity.

Covid-19 exacerbates concerns about privatisation of education

Covid-19 has pushed 1.5 billion children out of school globally, while education systems across the world face crises in public financing, with the World Bank predicting further cuts of 10 per cent to education budgets globally for 2021 due to the pandemic. Despite this, concerns have been raised that the World Bank is taking "two steps back" by voicing its support for the private sector in education during the Covid-19 crisis (see *Observer* Summer 2020).

According to a 2019 report from Oxfam International, over a fifth of World Bank education projects between 2013 and 2018 included support for private provision of education, which has been criticised for deepening inequity and violating the Abidjan Principles on the right to education.

In September, 190 civil society groups signed a 'Ten point call to action for financing for education post-Covid'. The call to action stated, "Aid from bilaterals and multilaterals needs to better harmonise and align behind strengthening government systems,...seeing private provision as a symptom of failure rather than a sustainable or equitable solution." The call to action followed an August letter by 275 world leaders, including former UK Prime Minister Gordon Brown, urging the IMF and World Bank, among others, to prioritise education in the Covid-19 recovery, including through more significant debt relief.

http://bit.ly/WBG_STARS

Photo: DFID, Pippa Ranger

Indian summer classroom in Chennai.

IFI GOVERNANCE news

Changes at the top for IFC and its accountability mechanism

The World Bank's private finance arm, the International Finance Corporation (IFC), and its independent accountability mechanism, the Compliance Advisor Ombudsman (CAO), will both undergo changes in leadership at a time when the World Bank's approach to crowding in the private sector in development has become ever more contentious in light of multiple crises triggered by the Covid-19 pandemic (see *Observer* Spring 2020).

The IFC's Chief Executive Officer, Philippe Le Houérou, announced via Twitter on 7 June that he will be stepping down from his position, effective 1 October (see *Observer* Summer 2020). As reported in *Africa Intelligence* on 18 August, Mari Pangestu, the World Bank's new managing director of development policy and partnerships, will chair the recruitment panel for his replacement.

A call for the selection of the first-ever woman for the position was made in an August article in US political publication *The Hill*, where former senior World Bank officials called for the US administration to use its significant influence on the process to nominate an African woman to the post. A 21 July blog by US-based think-tank Center for Global Development also called for the inclusion of a woman on the shortlist of candidates. The blog stressed that, "this is a time for [World Bank] President David Malpass and the shareholders to put qualifications, experience, and demonstrated track record first."

Le Houérou's departure coincides with the replacement of the CAO's Vice President, Osvaldo L. Gratacós, who concludes his term at the end of December 2020.

In addition to taking the helm under the testing environment of the Covid-19 pandemic, the new IFC CEO and CAO vice president will be responsible for the oversight of the implementation of the recommendations of a review of the IFC's environmental and social accountability and the CAO's effectiveness (see *Observer* Autumn 2020).

http://bit.ly/IFC_CEO_search

ACCOUNTABILITY news

Struggle for IFC accountability in Tata Mundra case continues despite landmark immunity ruling

A US federal court ruled on 24 August that the World Bank Group cannot be sued for damages caused by its lending to the Indian Tata Mundra coal power plant. The court examined the merits of the Tata Mundra case following the February ruling by the US Supreme Court that international financial institutions such as the World Bank can be sued for their "commercial activities" in the United States, and do not have absolute immunity from suit (see *Observer* Spring 2019).

According to a summary of the case by US-based NGO *EarthRights International*, which represents the plaintiffs of affected fisherfolk communities who have been seeking justice since 2011, the federal court found that, "the IFC is immune under the facts of this case", finding that the suit is not "based upon a commercial activity carried out in the U.S." *Earthrights International* announced on 25 August that the affected communities will appeal the decision, noting that it will do so, "on grounds that IFC's tortious acts were committed in the United States."

Richard Herz, senior litigation attorney at *EarthRights*, noted in its announcement of the decision that, "the court ruled that a lawsuit against IFC, for harms caused by IFC's lending, is not based upon IFC's lending," adding, "that is not right. The same law applies to foreign governments and their corporations, so this would mean that a Chinese state-owned bank that profits from causing harm to Americans in the United States cannot be sued here either."

Civil society groups have long claimed that IFC's attempts to seek immunity from prosecution amount to an effort to escape responsibility for the harms caused by its lending (see *Observer* Spring 2016, Summer 2014).

http://bit.ly/Tata_Mundra_IFC

SOCIAL SERVICES news

World Bank abandons pandemic bond instrument after disastrous Covid-19 response

The World Bank has scrapped plans to launch a second sale of its Pandemic Emergency Financing Facility (PEF) bond, according to a July article in UK newspaper *The Financial Times* (FT).

After facing significant criticism for PEF's delayed pay-out to developing countries during the Covid-19 pandemic, a spokesperson for the World Bank told the *FT* that there are "no plans for a PEF 2.0" (see *Observer* Spring 2020). While PEF investors had already received almost $100 million in interest payments by the end of February and some sought to quickly sell-off their bonds as the pandemic worsened, developing countries had to wait until mid-April for pay-outs to be issued. In a February piece in UK newspaper *The Guardian*, former World Bank economist Olga Jonas from the Harvard Global Health Institute argued that PEF's design, "waits for people to die."

PEF, launched in 2017, was designed to help developing nations facing a serious outbreak of infectious disease. But the World Bank has faced accusations that instead of preventing the escalation of infections, the instrument fails to pay out until outbreaks reach a 'trigger', when taking preventative action is no longer possible, as illustrated by both the Covid-19 pandemic and the 2014-16 Ebola outbreak. A 2019 paper by Clare Wenham of the London School of Economics concluded that PEF does more to serve private investor interests than contribute to global health security, an accusation often levelled at the Bank (see *Observer* Spring 2020).

In an October 2019 article by development news site *Devex*, Lawrence Summers, the World Bank's former chief economist, was quoted as describing the PEF as, "an embarrassing mistake." With its quiet termination of the scheme, it appears the World Bank agrees.

http://bit.ly/PEF_abandoned

LAND news

MIGA considering support for Guinea's Nimba mining project in UNESCO heritage site

The Multilateral Investment Guarantee Agency (MIGA), the World Bank's insurance arm, is considering support for the Nimba iron-ore mine in Guinea, according to an August report by the *Africa Intelligence* news site.

The site reported that MIGA will, "hold talks with [Canada-based mining firm] High Power Exploration (HPX), the majority shareholder in the site operator Société des mines de fer de Guinée (SMFG)", to discuss MIGA's potential involvement. It noted, "UNESCO is concerned about the environmental repercussions of operations at Nimba, which has been listed as a World Heritage site since 1981 but classified as "in danger" since 1992," in part due to the threat of iron-ore mining. The Mount Nimba nature reserve is a biodiversity hotspot located in eastern Guinea and Cote d'Ivoire.

The report adds to existing concerns about the World Bank's support for mining in the country. A July op-ed in development news site *Devex* by David Pred from US-based civil society organisation Inclusive Development International detailed the stark social and environmental impacts of bauxite mining in Guinea supported by the International Finance Corporation (IFC), the Bank's private sector arm. Pred noted, "in March, a hundred families [from the village of Hamdallaye] were uprooted... and relocated to a barren hilltop to make way for a sprawling bauxite mine, backed by the International Finance Corporation."

The displacement occurred after a 2019 complaint filed by 13 villages (including Hamdallaye) to the Compliance Advisor Ombudsman (CAO), the IFC's accountability mechanism, alleging land grabbing (see *Observer* Autumn 2019).

http://bit.ly/Guinea_mining

BRETTON WOODS project
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