Bank scales remain unbalanced: Rich countries retain almost 60%

Small shifts in voting power at the World Bank are expected to be formally agreed at April’s spring meetings, leaving high-income countries holding almost 60 per cent of the vote, with further reform put off until 2015. Meanwhile the Bank is expected to receive a smaller capital increase than it sought, which could push lending back to pre-crisis levels.

The World Bank’s spring meetings are expected to ratify a shift of voting share from developed countries to “developing and transition countries” of around 3 per cent. This will implement last September’s G20 agreement. Bank claims that this would give developing countries around 47 per cent of the vote are not true, an analysis reveals.

The Bank has employed a slippery way of classifying countries to reach its figure. For IBRD, the Bank’s middle-income country lending arm, the Bank has slipped 16 countries into the “developing and transition country” group which do not belong there by using the classification in the IMF’s World Economic Outlook. These 16 countries, which include Saudi Arabia, Hungary and Kuwait, are all classified by the Bank as high-income economies and together hold over 5 per cent of the vote. This means developing countries will in fact end up with around 42 per cent of the vote.

At IDA, the Bank’s low-income country lending arm, the Bank came up with another way of fiddling the figures. By using its own IDA classifications, a number of high-income countries are included in the developing country category, including OECD members such as the Czech Republic and South Korea, as well as Israel and Saudi Arabia. These high-income countries hold around seven per cent of IDA votes, meaning the real IDA developing country voting share will also be in the low 40 per cent range. This outcome leaves rich countries with close to 60 per cent of the vote, a long way short of the parity the G24 group of developing countries had demanded, and which the G20 agreed to work towards (see Update 62).

The difficulty in getting rich countries to budge on governance issues was highlighted in a March report by a US Senate committee. The committee called on the Obama administration to “maintain United States voting shares and veto rights at the international financial institutions”, and questioned existing reforms to the selection of the World Bank president (see Update 68). Voting reform at the International Finance Corporation (IFC), the Bank’s private sector lending arm, where the developing country vote share is even smaller, is yet to be agreed.

Discussions on a new formula to determine future voting reform have also been inconclusive. Current proposals emphasise economic weight and donations to IDA, both factors that favour rich countries. Overall, these piecemeal changes have ignored the more comprehensive approach advocated by the Zedillo commission (see Update 68). Voting reform at the International Finance Corporation (IFC), the Bank’s private sector lending arm, where the developing country vote share is even smaller, is yet to be agreed.

The IFC also asked for an increase, but this is expected to be rebuffed, in part due to US opposition.

In a March paper, US NGO Bank Information Center (BIC) argued that significant reforms should be a precondition for any capital increase. The paper also called for “a transparent and meaningful public discussion prior to any capital increase decision.” Instead, the debate has largely taken place behind closed doors, with papers detailing the final proposal only released days before the spring meetings.

Eskom loan blackens the World Bank’s name — comment, page 3
Secret Bank shake-up? Significant reforms underway — page 4
IFC’s mining investments: a black hole for human rights? — page 7
Rethinking the IMF mandate: will it do any good? — page 8

Roberto Bissio of NGO Social Watch said: “Once again grand rhetoric has masked tiny change. The Bank remains miles away from being a truly representative and accountable institution.”

Capital increase

In autumn last year, a paper for G20 finance ministers suggested the Bank would substantially increase its total lending, from a pre-crisis level of around $15 billion per year to as high as $100 billion (see Update 67). This would have required shareholders to put their hands in their pockets for a large boost to the capital the Bank holds as insurance against its loans. The idea, however, was rebuffed at the time, largely by developed country shareholders (see Update 68). At the spring meetings, negotiations are expected to agree a more modest increase of around $60 billion for the IBRD, about a third of existing capital, which could force the Bank to return to pre-crisis levels of lending.

Offers by middle-income countries to pay the majority of the capital increase in return for increased votes were snubbed. Instead, almost all of the cash will come in the form of a general capital increase, meaning that all countries will contribute in proportion to their voting shares. This will be the first general capital increase since 1988.

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Bank energy lending causes uproar

Debate about the World Bank energy portfolio and its impacts on climate change has reached the boiling point with hundreds of civil society organisations campaigning against the Bank’s $3.75 billion loan, most of which will finance a new coal power plant, to South Africa.

In early April the Bank’s board met and approved a loan for Eskom (see Update 65, 64), the South African energy utility, with $3.05 billion allocated to finishing construction of the Medupi coal plant, one of the largest of its kind in the world. In addition, $440 million will go to a rail project to carry coal from associated coal mines with a mere $260 million for wind and solar power.

The US proved to be the most vociferous shareholder opposing the project, postponing a vote earlier in the year and abstaining in April. It cited concerns about climate change, lack of plans to offset the project’s large emissions and incompatibility with the Bank’s strategy to help countries pursue economic growth and poverty reduction in ways that are environmentally sustainable.

During intense debate sparked by the loan in South Africa, concerns were also raised about procurement procedures being inconsistent with Bank guidelines, deficiencies in environmental impact assessment and inadequate efforts to mitigate local pollution. The US further highlighted that the project is inconsistent with its 2009 coal lending guidelines (see Update 69).

The UK also abstained from voting, hiding behind restrictions on major government decisions in the run up to elections. “The UK government’s last minute abstinence is too little, too late. They have allowed UK aid money to be used to support one of the world’s most polluting power stations. Abstaining merely allows them to avoid political responsibility for this damaging decision during an election campaign,” says Ruth Davis of Greenpeace UK. The UK has set three-year targets to clean up the Bank’s energy lending portfolio, but these were not cited as a reason for the abstention.

The Dutch, who also abstained, released a policy paper in March laying out targets for reform of the Bank’s energy lending and calling for significant change at the institution. The paper also highlights inconsistencies in the way the Bank reports its investment in renewable energy, finding that more than half of the Bank’s renewable and energy efficiency lending relates to efficiency in fossil fuel energy projects. “The greater part of the Bank’s renewable energy programmes are funded by specific donor funds and are not a structural part of [Bank] energy lending,” states the report.

Huge carbon emissions

The Medupi plant will release an estimated 25 million metric tons of carbon dioxide annually, more than the emissions of 115 other countries including Kenya, Luxembourg, Burma and Croatia, according to The Guardian newspaper.

The plant will, for the most part, produce energy for large-scale industrial users that have low cost energy guaranteed. As a result, there are likely to be price increases for South African households in order to repay the loan.

Tristen Taylor of Earthlife Africa said that, “With massive disconnections looming due to a doubling of electricity tariffs, a million jobs lost last year, and an effective 40 per cent unemployment rate, one would think that poverty eradication would be foremost in the World Bank and the South African government’s minds. None of Medupi’s output will be for the poor, but will be used to service multinational firms.”

The Bank has defended its support for coal, arguing that scarce publically backed resources are needed to finance the Medupi coal plant in the wake of the financial crisis.

However, South Africa’s finance minister seemed unconcerned in advance of the vote: “South Africa, in 16 years of democracy, never has had to take any loans from the World Bank ... If [the loan] doesn’t come through we will cope. This is an opportunity for the World Bank to build a relationship with South Africa.”

Eskom’s draft resource plan has been referenced heavily by World Bank experts evaluating the loan, but it has not been made public, raising concerns about transparency and participation.

Residents complain

Residents located near the site for the Medupi coal plant in South Africa’s Limpopo province have filed a complaint with the Bank’s independent complaint body, the Inspection Panel, highlighting the hidden costs of the project and the burden they will bear in terms of air and water pollution, land degradation and impacts on their livelihoods.

Bank track record

The Eskom controversy casts a shadow over the World Bank’s ongoing energy strategy review (see Update 69, 68, 67). Despite claims of thoroughness and openness, from the start of the consultation process, the Bank has been protective of its coal investments. In Paris in February, at the first energy strategy consultation, Bank energy director Jamal Saghir, stated that the Bank’s controversial approach to coal (see Update 69) was not likely to change.

As part of the consultations, a coalition of UK NGOs published a paper in April, proposing a limited role for the Bank focussed on supporting energy access for the poor and demanding a phasing out of fossil fuel lending.

Furthermore, Bank lending to renewable energy is still dwarfed by its fossil fuel investments, according to new research. A paper by NGOs CRBB, Urgewald and the Bretton Woods Project also shows an increase in lending to energy through private financial intermediaries, which is not accounted for in the Bank’s energy lending reporting unless it is specifically for renewable energy.

David Wheeler, a former Bank economist, argues that the Bank is lagging far behind. “Bank management beware: your institution’s status as a 21st century player is clearly in jeopardy. Your major clients are now investing in clean energy at levels that dwarf your own resources, while you continue to subsidise coal-fired power projects.”

Eskom project information document, World Bank

tinyurl.com/EskomPID

Ad hoc approach to transparency at ICSID

The International Centre for Settlement of Investment Disputes (ICSID), a World Bank arm for investor-state dispute arbitration, ruled in March that “unless there is agreement of the parties on the issue of confidentiality and transparency, the Tribunal shall decide on the questions of confidentiality and transparency on a case-by-case basis, instead of lending towards imposing a general rule in favour or against confidentiality.” This decision expressly rejects the new Bank transparency policy, which includes a presumption of disclosure for documents (see Update 68).

Bank hinders Southern Sudan’s reconstruction

Officials and development groups have criticised the failure of the World Bank and developed countries to deliver financial aid promised to Southern Sudan. Of $2 billion pledged in 2005, only $500 million has been disbursed. The director of the regional planning ministry appealed to the donor countries, stating, “We are very frustrated. We feel we are trying to build a country from scratch, but we are being kept at arm’s length.”

He argues that the development process has been undermined by the complexity of rules imposed by the Bank which stem from a fundamental lack of understanding of the local context.

Bank’s Congo hydro project derailed

The ongoing rehabilitation of the Inga dams in the Democratic Republic of the Congo, which receives financial assistance from the World Bank, will be delayed for three years. The Bank’s specialist says, “It was supposed to be completed by 2013 so now the World Bank is going to its board to request an extension and additional finance.”

The delay is a result of poor background studies, implementation problems and the impacts of the global financial crisis, the Bank has acknowledged. This leaves greater doubts about the soundness of the plans for the controversial Grand Inga dam (see Update 67).

DFID report on Bank scrutinises weaknesses

In March, the UK Department for International Development (DFID) released its annual report reviewing its work with the Bank and setting priorities for 2010. The report offers strong support for the Bank, and often repeats the Bank’s self-evaluations uncritically. However, it is critical on gender, and says that the Bank still has “something to go” on fragile states and demonstrated an “inadequate speed of response” to the financial crisis. DFID’s 2010 priorities focus on institutional reform, including less power for the Bank president, strategic direction set by governors, and “independent chairing” of the board.

The UK and the World Bank 2009, DFID

tinyurl.com/DFIDBank

BRETTON WOODS UPDATE

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T he World Bank, Business Unity South Africa and the African National Congress (ANC) got their way with a major loan for Eskom, the national power authority, despite broad based opposition from local people, the poor, community organisations, the churches, unions, and environmental and social justice NGOs locally and globally. Why was business in bed with the ANC on this? It is because the likes of mining company BHP Billiton receive more than five per cent of South Africa’s electricity at below cost through apartheid-era special pricing agreements.

Not only did progressive civil society organisations oppose this loan, but opposition political parties as well. The governments of Norway, Italy, the United Kingdom, the Netherlands and the United States also did not vote in favour. But still the World Bank prevailed.

By making this decision, the Bank has shown, that it has no regard for the state of the world’s climate and environment, the future of South Africa, and economic principles of transparency and corruption.

While the project was pitched as addressing poverty reduction, the reality is that it was seen through the eyes of the market and increasing ‘economic’ production. However, 20 per cent of South Africa’s population is still not on the grid which is not addressed by the loan. Already more than 10 million people have been cut off from electricity because of lack of affordability. These people and others will suffer the same fate when prices escalate, as a result of this loan.

The World Bank granting this loan was not unexpected, but challenging the Bank and the government was a critical first step to developing a base of mobilisation in South Africa and globally to start questioning the hypocrisy and public spin of the South African government and big business in relation to energy. It was also vital to start supporting the local resistance in the Waterberg area, which Eskom and Sasol, (a South African energy multinational) – who is planning to build coal-to-liquid facilities – intend to make South Africa’s new ‘sacrifice zone’. Alarming, but not unexpectedly, the Department of Environmental Affairs in South Africa has acknowledged that this is going to be a ‘non-attainment’ area, in other words, heavily polluted.

Local people are already concerned about illegal sand mining for Medupi’s coal plant development which is altering water courses. Multinational companies are opening mines adjacent to farms. Acid mine drainage, which contaminates groundwater by exposing it to mined minerals, is the bleak future in this water scarce part of South Africa. There is an environmental justice crisis of national proportion already in South Africa. What does the future hold for South Africa, when water for these developments is going to be taken from South Africa’s three major sources, the Vaal, Limpopo and Orange rivers? The impact of these developments will be felt by people thousands of kilometres from the Waterberg. Air pollution standards on sulphur dioxide and particulate matter have already been exceeded in the neighbourhoods adjacent to Eskom’s present coal-fired power station, Matimba, in the Lephalale area. Mercury pollution from coal burning is given scant regard, as there is no mercury abatement equipment in existing Eskom plants. This is even before Medupi.

Internationally, no matter how the World Bank spins its lending figures trying to make it seem a climate-friendly bank, the reality is that it is not. This loan will increase South Africa’s carbon intensity and not service the poor. Eskom is now on the path to tripling its CO2 emissions in the next eight years.

Pravin Gordhan, the minister of finance, said that the government would not accept ‘conditionalities’, yet most of the loan must be repaid in US dollars. This will mean opening our markets and increasing exports to get foreign reserves. The only way to increase exports is by making them cheap, and one of the ways of making them cheap is making the rand weak. I thought South Africa said no to conditionalities and that structural adjustment programmes were a thing of the past.

The World Bank could not save Africa from poverty in the 70s and 80s and it will most certainly not save the world from climate change in the second decade of the 21st century. We have a local and global struggle on our hands, of which the base has been built.

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**IEG: World Bank neglects most water-deprived countries**

A recent report by the World Bank’s Independent Evaluation Group (IEG) finds the Bank’s water lending to be overlooking the most water-stressed countries.

According to the IEG, “31 per cent of all Bank projects approved since 1997 are related to water,” with a total of $54 billion of lending being directed to water between 1997 and 2007. The report finds that although the Bank’s water lending has increased by 50 per cent over the last decade, there “is no statistical relationship between the amount of Bank water lending to a country and that country’s water stress.”

Ethiopia, Haiti and Niger, for example, are all ranked at the bottom of an index measuring the availability of water in a country against demand, however all three had received only about $20 per capita in Bank funding for water projects between 1997 and 2007, compared with the largest per capita lending of almost $180 to ‘water-rich’ Belize.

The report states that the “Bank has lent heavily for irrigation and water supply, and dams and hydro-power have become more important in the last few years” (see Update 69). Although the IEG notes that the Bank’s “water projects in the aggregate have good success rates when measured against objectives,” it recommends that it should “seek ways to support countries that face the greatest water stress.”

**Tariffs and user fees**

The IEG also calls for more clarity from the Bank on “how to cover the cost of water service delivery in the absence of full cost recovery.” The Bank management response said “low tariffs (that is, below full cost-recovery levels) ensure that water services are affordable to the population. While raising tariffs to recover a greater share of costs ... may be economically sound, political constituencies have often prevented tariffs from being increased.”

However, the IEG also worries about equity in the application of user fees. In Tanzania, the report notes that “the poor seemed to be subject to a plethora of water-related fees,” which “came on top of fees for education and health services.” According to Richard Mahapatra from the NGO WaterAid in India, “the principle of cost recovery will never allow the World Bank to spend on basic water provisioning, because the poorest in the South are also usually the people who don’t have access to water.” He adds, “the Bank treats water as an economic good on a par with any other service even though it is a non-negotiable condition for survival.”

The report makes recommendations on achieving more effective demand management and strengthening the supply and use of data on water. It also urges better monitoring of water quality and health outcomes. On private sector involvement the IEG generally approves of the outcome in urban areas, but suggests that Bank-financed projects in rural areas need more effective regulatory mechanisms.
Secret Bank shake-up?

**Internal reforms with potentially far reaching consequences for how the World Bank is run are underway. The proposals were developed without public consultation, and over a timeframe that allowed limited discussion with shareholder governments and stakeholders.**

In the run up to the spring meetings, the Bank produced two papers headlined *New world, new World Bank Group* detailing its strategy and plans for internal reform of its business model. The World Bank’s private sector lending arm, the International Finance Corporation (IFC) is also undergoing a “major strategic and operational reform initiative” called IFC 2013, though no information is publically available yet.

**Strategy or sales pitch?**
The Bank’s strategy paper does not set out new thinking, but reinforces existing Bank approaches, particularly a focus on infrastructure, the private sector, and an expanding role in the global public goods arena, including climate finance. It also emphasises the Bank’s knowledge edge role. There is no reflection on potential weaknesses, past errors or areas where the Bank does not have any comparative advantage.

The question, “what would it mean the Bank would not do?” yields the answer: virtually nothing.

The paper identifies five priorities, which are said to “build on and integrate the six broad strategic directions that president Zoellick presented in 2007” – though careful observers will note that the strategic direction on ‘the Arab world’ has fallen off the list (see Update 60). The priorities are: targeting the poor and vulnerable; creating opportunities for growth; providing cooperative models; strengthening governance; and preparing for crises.

Despite being an institution always headed by an American, in which developed countries hold a majority of votes and board seats (see page 1), the Bank repeats its claim that it can “communicate the perspective and interests of developing countries in international fora.”

**Enclosing public goods**
The Bank states clearly its controversial desire to take a “leadership role in the growing public goods agenda”, including climate finance. The strategy paper emphasises the Bank’s role in leveraging other resources, including from the private sector.

The Bank’s controversial tendency to view trust fund money and climate investment fund money as its own is to be cemented with “full integration of external resources across the results chain.”

There are sections on working more effectively with the IMF and other multilateral development banks, but little mention of other key international players such as UN agencies.

**“Global thought leadership”**

Both papers and a companion knowledge strategy released in April set out a controversial plan to expand the institution’s role as the self-styled ‘knowledge Bank’. The Bank cannot be accused of lacking ambition – the IFC’s reforms in this area aim to “establish global thought leadership for greater development impact.”

However, the Bank’s theory of how knowledge contributes to development is unclear. On one hand it recognises that the utilisation of knowledge is essentially a bottom-up activity, emphasising the importance of policy makers in different countries working with each other and connecting “directly to the many sources and centres of knowledge and innovation now dispersed around the world.” However the Bank’s role is sometimes described in a more traditional top-down fashion, emphasising the importance of the Bank’s “global presence, wide-ranging research and operational activities”.

Ignoring stinging criticism from leading academics and an expert review (see Update 66, 54), the Bank continues to claim that “Bank knowledge products are well regarded for their technical quality.”

A study of knowledge creation by the Bank and other IFFs during the recent food price crisis from José Cuesta of the Inter-American Development Bank found that “despite [a] protracted escalation in the level of prices, neither the IFFs nor other authorised voices had given any unambiguous warning about the dire consequences of the simmering crisis before 2008.”

The paper concludes that although the IFFs rapidly expanded their research and analysis once the crisis became severe, “policy advice [was] too often not fully consistent with the analysis conducted.” Cuesta also found that, “the IFFs’ mantra of national and local ownership does not seem to have dominated much of the knowledge generation process, either.”

In March, Sanjay Reddy, of the New School for Economic Research argued that the tendency of the Bank and rich country institutions to dominate debate and ideas about development is damaging to development itself. He pushed instead for the creation of “independent regional research funds with permanent endowments or with financing tied to transparent formulae which are independent of donor whims.”

**Radical restructuring?**

While the Bank strategy paper presents a modification of existing approaches, the companion paper covering the internal reform agenda is potentially more ambitious and far-reaching. Purportedly “the reform agenda emerges from a growing consensus of staff, management, member states and civil society” – though there have been no public consultations, and the documents setting out the future direction of the Bank have not yet been publically released.

A suite of reforms are already underway, including to development policy lending (see Update 66) and emergency lending. However, perhaps the most controversial element is changes to specific projects and programmes, known by the Bank as investment lending. These reforms were first discussed at the board in February 2009, with additional proposals for a new “risk framework” released at the end of last year. They entail a potentially radical shake up of how investment projects, which have for a long time constituted the majority of Bank loans, are selected, and the amount of scrutiny they will receive during implementation. Again there was no external consultation in developing this framework, though one is promised in the future.

The new framework has 38 types of risk, only two of which are social and environmental. Projects are to be categorised by the Bank task team and reviewed by an “independent” advisory risk team made up of Bank staff.

Under the new framework “low-risk projects will follow an expedited process” and making significant changes to projects that have already started would become simpler. The board will only be required to approve changes to overall project objectives or if there are major changes to safeguards. All other changes, including for example, major restructuring that does not change the overall objectives, could be approved by the Bank’s country director.

The potential for projects to be wrongly classified, as some have argued is already the case on many occasions (see Update 67, 65), is barely covered in the document. It is noted only as a potential “cost” for the executive board, but interestingly not for the Bank itself.

A shift in the Bank’s approach is proposed from a more hands-off ‘supervision’ model towards ‘implementation support’ which would seem to entail the Bank becoming far more engaged, and potentially influential, with client governments at the implementation stage, from advising them on technical matters to helping shape the policy and institutional environment.

London School of Economics academic Robert Wade said that when considered with the increase in direct lending to governments through development policy loans, “the worry is that more and more of the Bank’s lending is being removed from the purview of the Bank’s safeguards on environmental and social sustainability.”

Roll out will begin in two regions in July this year, with all new investment projects following the new approach by mid 2011. At this late stage, public consultations have been promised by the Bank, but details are not yet available.

New world, new World Bank (I) Post crisis directions

New world, new World Bank (II) Internal reform agenda

Knowledge in development: Sanjay Reddy
tinyurl.com/devknow

Investment lending reform, World Bank
www.worldbank.org/investmentlendingreform

For a free subscription to this publication see: bretonwoodsproject.org/subs
The country assistance strategy (CAS) is the most important World Bank country-level document: it sets out the level and type of assistance the World Bank Group will provide to a country, usually for a four-year period. The CAS highlights a country’s development priorities to selected World Bank Group support. It is also intended to promote coordination with other development partners.

CASs were introduced in 1990 for countries borrowing from the World Bank’s International Development Association, which provides finance to the poorest countries and those that are non-eligible in 1994. A CAS is supposed to be prepared after consultation with country authorities, civil society and other stakeholders. While the World Bank Group describes the process as participatory, the CAS is not a negotiated document; differences between the country’s and World Bank Group’s agendas should be highlighted.

**Identifying needs:** A CAS involves a far reaching ‘diagnosis’ of a country’s development challenges, particularly the incidence, trends and causes of poverty. It considers a country’s governance, institutional development and implementation capacity. This assessment draws on information from the government and other sources, but is heavily based on analytical work by the World Bank Group (see Update 39).

Responding to critiques of its top-down approach, the Bank has in recent years shifted the starting point away from what it can offer, and towards the country’s own development vision. For low-income countries, CASs are supposed to be based on priorities identified in their poverty reduction strategy papers. However, these did not always match the thematic activities to be financed by the Bank’s trust funds (see Update 47). Since 2008, therefore, all CASs have been required to fully reflect trust-funded activities.

In countries lacking a medium-term development strategy, or where the World Bank Group has insufficient country knowledge – often post-conflict states – an ‘Interim strategy note’ is prepared instead of a CAS.

**Deciding the World Bank Group’s role:** Proceeding from this analysis, the CAS sets out a selective programme of World Bank Group support for the country, though this is only indicative and does not make commitments.

**Evaluation: PSIA contribution to country capacity ‘negligible’**

A recent report by the World Bank’s Independent Evaluation Group (IEG) on poverty and social impact analysis (PSIA) finds implementation problems and a “negligible” impact on developing country capacity, echoing long-standing civil society critiques.

PSIAs were introduced in 2002 following civil society demands for analysis of the impacts of structural adjustment policies (see Update 30, 28). They are supposed to be carried out prior to the implementation of any project or reform programme that is likely to have “significant distributional impact.” The analysis should then inform policy advice and design.

The IEG report follows papers released by the Bank in mid-2009 on the effectiveness of PSIAs at country level and the links between PSIAs and development policy loans (see Update 66).

**Objectives not met**

The IEG evaluated three stated objectives of PSIAs: to influence country policies; to aid the development of country capacity for policy analysis; and to influence Bank operations.

Almost half of the 156 Bank-supported PSIAs from fiscal years 2002-07 were reviewed. Of these, a fifth did not explicitly identify for which objective they intended to pursue. Although a third claimed to have addressed all three objectives, the report cautioned that “the pursuit of the multiple operational objectives of PSIAs can create tension and raise unrealistic expectations of what a PSIA can achieve.”

The evaluation acknowledged the difficulty in measuring the extent to which PSIAs contribute to country policy making given the many factors that may influence it. Yet it does not comment on whether the inability to quantify this objective raises questions as to PSIA’s validity.

Critically, the report concluded that many PSIAs made a negligible contribution to developing country analytical capacity and that they were “devoid of policy recommendations and did not feed into a policy debate or decision in the country.” According to the IEG, inadequate time-frames made it impossible to sufficiently build government capacity for policy analysis and Bank staff approached PSIAs without a strategy to achieve this aim. They also lacked a common understanding of PSIA objectives and processes, resulting in wide variations and frequent departures from good practice guidance.

Such failings peper the evaluation’s country case studies. For example the energy pricing and subsidies programme in Ghana neglected pro-poor approaches suggested by the PSIA, and it was hindered by differences in opinion between staff responsible for the PSIA and those responsible for energy interventions.

**Recommendations weak**

Despite the serious nature of some of their critiques, the IEG evaluation makes limited proposals for change. They recommend that:

- Bank staff need to better understand the PSIA approach;
- PSIA objectives need to be identified and linked to intended outcomes;
- PSIA is better integrated into the Bank’s country assistance programmes; and
- better quality is assured through reviews and regional level monitoring and evaluation.

Nora Honkanieni of Brussels-based NGO Eurodad states that these recommendations do little to address long-standing critiques of the process’ current ineffectiveness. Drawing on critiques raised in a 2007 paper by a coalition of NGOs (see Update 58), she argues that country-led PSIAs be conducted before decisions are made on policy reform, that the results inform a public debate, that a genuine attempt is made to survey a range of policy options, and that PSIA is made a requirement of development policy loans.

A Eurodad critique of the IEG’s report urges governments considering contributions to the IDA replenishment (see page 7) to insist that “country-led PSIA be used in all IDA-supported lending with a major distributional impact, and pressure the World Bank to ensure that proper PSIA is conducted in a way which enhances country ownership.”

IEG report

**World Bank country assistance strategies**

Support can comprise finance, advisory services and technical assistance. From June, however, the Bank’s board will conditionally approve individual operations alongside CASs. In deciding the programme, the performance of the World Bank Group’s existing portfolio in the country is taken into account, as are the Bank’s ‘comparative advantage’ over other development actors and the country’s preferences.

Most CASs are prepared jointly with the International Financial Corporation (IFC), the private-sector arm of the Bank. However, a recent Bank paper states that there are few examples of successful strategic collaboration. Lessons are now being drawn from a pilot of joint World Bank-IFC CASs, which could lead to a more formal IFC country strategy process, which would inform the joint CAS.

Since 2005, CASs have been organised around specific development results, with a framework of targets and indicators to enable monitoring of Bank and country performance. However, targeting results is not entirely consistent with the flexible nature of the CAS.

**Next steps in the CAS cycle**

Reflecting the drive for better coordinated aid, some CASs have been fully developed and implemented with other development partners, such as other donors. However, a recent Bank retrospective states that joint implementation has proven difficult and plans a new good practice note on collaborative CASs. A mid-term progress report is required for each CAS. Reflecting changes in country demand and priorities, the strategy and results framework can be adjusted. Countries need for additional support during the financial crisis led to significant departures from CASs, but uncertainly over how the crisis would develop delayed the preparation of new strategies.

The CAS cycle concludes with a completion report, a self-assessment – validated by the Bank’s Independent Evaluation Group – that informs the preparation of the following CAS. Forthcoming guidance for Bank staff is intended to make the completion report more useful in terms of learning and accountability.
IFIs enter debate on sources of climate finance

As experts in the United Nations Advisory Group on Finance (AGF) start to scope innovative sources of climate finance, the IMF issued its own proposal, while questions loom over the governance of climate funds. Meanwhile, the Climate Investment Funds’ (CIFs) Partnership Forum exposed the limitations of the Bank’s engagement with civil society.

The AGF, set up by UN Secretary General Ban Ki Moon in February to jumpstart the process of securing the funds committed in the Copenhagen Accord (see Update 69), met in London at the end of March. The group is co-chaired by UK prime minister Gordon Brown and Ethiopian prime minister Meles Zenawu.

The Copenhagen Accord pledged $30 billion in “new and additional” resources for poor countries up to 2012 (see Update 69), and $100 billion in public and private finance annually by 2020. The lack of a definition or baseline to measure whether climate finance is additional to existing aid has so far allowed donors to fudge this commitment and repackage funds pledged to the CIFs before the Copenhagen summit (see Update 66) as part of their fast-start funds.

IMF green fund: dead on arrival?

At end March, the IMF released a proposal for a financing mechanism for climate change, undermining hopes for more ambitious use of special drawing rights (SDRs, see Update 65), and again raising concerns about governance of climate funds. The staff proposal, which according to media reports has caused controversy among IMF board directors, would involve rich countries contributing the SDRs they received during the financial crisis to a “green fund” in exchange for an equity stake. The green fund would use these SDRs as collateral for issuing bonds on international financial markets to borrow money, and then lend the money to developing countries as climate finance. This is similar to the way the Bank conducts its normal operations.

NGOs such as ActionAid International had been interested in more regular issuance of SDRs to be directly channelled into climate finance, arguing that this would also begin to transform the international monetary system by making SDRs more available and important as a reserve currency (see page 9). The IMF proposal however envisaged that donors would continue to contribute large sums of money annually, as much as 60 per cent of the green fund’s disbursement, in order to cover the grant element of the green fund.

IMF staff made it clear that they were “not proposing that the IMF itself would create, finance, or manage the green fund”, but aimed to “make a contribution to the global debate” before the first meeting of the AGF. Although the paper does not discuss whether the disbursing agency would be governed by those contributing the money, the suggestion that equity stakes would be based on IMF quotas implies strong donor influence.

Antonio Tricarico of Italian NGO CRBB warns that “the IMF proposal would basically set up another donor driven fund, possibly heavy conditional, and far away from a true concept of climate finance that is easily accessible by beneﬁciaries and serves to repay the rich world’s carbon debt to the South.”

Partnership Forum debates

Meanwhile, the second Partnership Forum was held in Manila in mid-March. The forum was designed to bring together all stakeholders of the CIFs, including civil society and the private sector, to discuss and learn lessons from the design and early implementation of the climate funds. NGOs found that while the meetings were more participatory than previously (see Update 61), there were still considerable obstacles to constructive and open discussion. A major problem was that the forum was held after the meetings of the CIF committees – the governing bodies of the different funds that are responsible for operational decisions. This means that civil society comments and recommendations at the forum will not influence decisions until the next committee meetings in six months, if at all.

The committee meetings announced new funding plans by the various CIFs. The Clean Technology Fund (CTF) endorsed country investment plans for Colombia, Indonesia, Kazakhstan and Ukraine, bringing the total number of endorsed plans to 13.

The Pilot Programme for Climate Resilience (PPCR) approved adaptation grants for Zambia and Nepal, and the Forest Investment Program (FIP) selected its first pilot countries: Burkina Faso, Ghana, Indonesia, Laos PDR and Peru.

One set of concerns raised in the CTF session was the lack of engagement with stakeholders beyond government in developing country investment plans. These plans highlight the opportunities for mitigation in the particular country and propose priority areas for CTF support. Red Constantino, of the Philippine NGO Institute for Climate and Sustainable Cities argues that, “the quality of the investment plans is dependent on a robust conversation between government and broad sections of society in each CTF country, including civil society and local communities. This simply has not happened in the majority of cases.” The same problem may apply to the other funds as they approach implementation.

In the PPCR session there was criticism of the use of loans for adaptation in vulnerable countries such as the small island states, where finance should be compensatory. In an indictment of the process’ transparency and engagement, government delegates from Niger and Zambia also said that they wanted to see their countries’ PPCR agreements because they were unaware of the nature of the funds they received and whether these were loans or grants.

IMF green fund proposal


Partnership Forum website

www.lisd.ca/ymb/climate/cif2010/

Haiti gets Bank support, debt relief

In late March the World Bank announced a three-year programme of financial support for Haiti totalling $479 million, which includes total cancellation of its $39 million debt to the Bank. At an April conference donors set up a reconstruction fund which is to be financed jointly by the Bank, despite NGOs stressing the need to coordinate reconstruction through Haiti’s government. Kam kes of newspaper Haïti Libérte argues that the proposed multi-donor trust fund means that the Haitian government will be “under the complete supervision of foreign donors. The World Bank distributes the reconstruction funds to projects it deems worthy.”

Haïti Libérte (French), Haïti Libérte

Guyanese oppose REDD without consultation

Participants reviewing proposed low-carbon development strategies and Reduced Emissions from Deforestation and Degradation policies of the World Bank (see Update 68, 69, 66, 65) at a workshop on indigenous peoples’ rights in Guyana expressed dissatisfaction with the consultation process. Participants cited the repeated lack of fire, prior and informed consent (PIC), inadequate consultation periods and insufficient dissemination of information on how proposals will impact their lives. They called on governments and IFIs to refrain from implementing any of the proposals until community-drafted policies on PIC are in place.

Statement by workshop participants

tinyurl.com/guyanawb

Bank health insurance not delivering in Ghana

In a forthcoming paper NGO Oxfam will criticise the national health insurance scheme in Ghana, which has received technical assistance from the World Bank, for failing to deliver equitable health care. Oxfam’s Anna Marriott said: “while substantial progress has been made in health financing in the country over the last decade, the current system remains seriously inequitable and punishes the poorest. Only 28 per cent of the poorest Ghanaians are enrolled compared to 64 per cent of the richest.” Oxfam points out that the system basically receives its funding from a value-added tax; hence every Ghanaian contributes financially, but in reality less than half of the population benefits.

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IMF green fund proposal


Partnership Forum website

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US pledges to Bank agriculture fund

The US administration has earmarked $408 million for the global agriculture and food security programme (GAFSP), a new multi-donor trust fund, to be managed by the World Bank. The GAFSP “will provide financial assistance to poor countries that make policy and financial commitments to address their internal food security needs.” It has been criticised for failing to address the root problems of food security (see Update 69). Eleven US NGOs wrote that, with improved accountability and civil society engagement, and no role for the IFC, the GAFSP “could do much more to reduce both hunger and poverty.”

tinyurl.com/GAFSP
IFC’s mining investments: a black hole for human rights?

A spate of human rights violations and environmental abuses by mining ventures backed by the International Finance Corporation (IFC), the private sector arm of the World Bank, is raising alarm over the inadequacy of its social and environmental standards.

US corporation Newmont has agreed to pay $5 million in compensation for negligently spilling cyanide at its Ahafo gold mine in Ghana, which received a $125 million loan and social and environmental guidance from the IFC (see Update 65). The spill occurred at a processing plant in October 2009, causing water contamination and damaging fisheries on which local livelihoods depend. The company failed to prevent or properly investigate the spill, and delayed notifying downstream communities and regulatory authorities, according to a ministerial panel report.

Daniel Owusu-Koranteng, director of Wacam, a Ghanaian civil society association of communities affected by mining, says this incident is the latest of a long series of human rights and environmental abuses relating to the mine. “A petition signed by over 1,200 community people from Ahafo that raised social, economic and environmental concerns about the mine was presented to the board of directors of the IFC at the time when the loan application was being considered. However, the IFC board completely ignored the issues raised by the petitioners and now we are suffering the consequences.”

In India, a subsidiary of French company Lafarge has admitted mortgaging ecologically sensitive tribal land to secure a loan from international banks, including the IFC. Though approval had previously been given for the mortgage, in February the Supreme Court halted mining operations in the area after the Shella Action Committee, a community group, protested against the land transfer and lack of mandatory environmental clearance. In an early March letter, the IFC reiterated its commitment to funding the project. The company was ordered to produce a new environmental impact assessment, seek approval from relevant agencies and fund welfare projects for tribal peoples before resuming mining.

Indigenous peoples in the Peruvian Amazon have also been adversely affected by the IFC’s activities in extractive industries. In early April, Shipibo-Konibo communities filed a complaint with the IFC’s ombudsman against Irish corporate Maple Energy for polluting their ancestral land and rivers with repeated oil spills.

In Yemen, community interests look to be excluded from a mining law developed with IFC assistance that is now passing through the parliament (see Update 65). “Nobody representing potentially affected communities was invited to participate in the drafting of Yemen’s mining policy,” says Nadia Daar of the Washington-based Institute for Policy Studies, this “reflect[s] the growing practice among global corporations of bypassing countries’ domestic legal systems and bringing cases over sensitive resource issues before unaccountable international tribunals.”

IDA: Bank fundraising drive begins

As discussions opened on donor contributions to the sixteenth replenishment of the International Development Association (IDA, the World Bank arm for low-income countries), civil society groups urged major reforms to the Bank’s structure and approach.

In early March, the first meeting took place for the IDA replenishment – a three-yearly fundraising drive to top up IDA’s resources for future lending (see Update 69). In opening presentations, representatives of selected IDA-recipient countries argued for stronger country ownership of aid and reduced complexity in the aid system. Recent events had also demonstrated the need for the World Bank to respond more quickly and effectively to financial crises, they said.

Beyond representatives’ contributions to meetings, there is no formal mechanism for systematic and sustained dialogue between donors and client countries or civil society within IDA. Officials from South Africa, the UK and Australia are considering how to remedy this, but any improvements will come only after this replenishment.

Over the two day meeting, it was agreed that aid effectiveness and results would form the overarching theme for IDA-16. Despite a similar emphasis in the last replenishment, a 2009 report by the Bank’s Independent Evaluation Group (IEG) found that there was only a “mixed record on ... the results agenda”, and initiatives to strengthen monitoring and evaluation were “yet to demonstrate a clear impact on outcomes.”

Four special themes for IDA-16 were also selected: the Bank’s capacity to respond to crises, IDA’s role in responding to climate change, mainstreaming gender issues, and IDA support for fragile states.

Civil society organisations were concerned that rich country donors plan to renew their support for IDA without addressing fundamental problems with Bank governance (see page 1), conditionality (see Update 69), and poor performance in key sectors such as health and education. A joint paper by over 20 European NGOs said, “Unless the World Bank implements the urgent reforms required to become a credible development bank, European governments should not replenish IDA beyond IDA 15 levels and instead seriously consider alternative, more effective channels of disbursing international development funds.”

Rose Wanjiru of Kenyan NGO Centre for Economic Governance and AIDS in Africa expressed particular concern about the Country Policy and Institutional Assessment (CPIA) that largely determines countries’ IDA allocations (see Update 69), saying, “CPIA is based on erroneous assumptions which have led to inappropriate policy and economic prescriptions by the World Bank. It should be overhauled, and criteria that recognise countries’ development trajectories and ownership adopted.

Bank to lead in future crises?

Following the pilot since November 2009 of an IDA crisis response ‘window’, intended to provide rapid support to countries’ core spending when crises hit, the Bank was given a mandate to design a permanent mechanism. Various financing options will be considered, but funding is unlikely to be additional to general IDA resources. In February, the Bank published a paper setting out the case for such a window and how it might work in practice. However, some rich countries oppose the Bank leading on crisis response, preferring the IMF to set the agenda, even where crises do not generate problems with countries’ balance of payments (see page 8).

Another Bank proposal, to establish a dedicated funding mechanism for climate change issues, was rejected out of hand (see page 6). The way forward on gender – where an IEG report suggests the Bank’s performance has been deteriorating in some respects (see Update 69) – remains unclear.

The next replenishment meeting will be held in an IDA country in June, and will focus on countries’ needs and the special themes. A civil society consultation may be held simultaneously. IDA deputies will meet again at the time of the annual meetings in the autumn and at the end of the year, when countries will finalise their funding commitments.

IDR issue 65
Rethinking the IMF again: But will it do any good?

The IMF's ongoing mandate review — with a focus on better serving large emerging markets in the areas of surveillance, crisis prevention and the international monetary system — is ignoring most developing countries and may result in few changes.

In October 2009, the G20 group of countries asked the IMF to conduct a review of its mandate. The IMF officially launched the process by publishing a "chapeau" paper which was discussed by the board in late February. Throughout this spring and summer the IMF board will debate more in-depth papers on the size of the IMF, its future financing role (crisis prevention and alternatives to self-insurance), the international monetary system, surveillance, and the IMF linkage to the Financial Stability Board (FSB). In mid March the IMF created an online platform for a consultation on the mandate, which will be open until mid May.

It is unclear how willing the IMF's major shareholders are for a radical rethink of any of the Fund's roles. The last such review, launched in late 2005 by then managing director Dominique Strauss-Kahn, was accused of ignoring IMF advice. As if on cue, in March, Germany raised questions as to the role the Fund is to play in global surveillance in Europe.

In the review, the Fund will consider expanding access to its new crisis prevention facility, the Flexible Credit Line (FCL, see Update 65). Alternatively, it could create another new facility, which would fall between the FCL and the standard stand-by arrangement in terms of level of access and conditionality. This promises to spark strong debate.

The FCL is proving to be of limited but continuing popularity. In March, Mexico, the first and biggest country to agree such a programme, renewed its FCL, and the Colombian finance minister said he was also considering renewing. Meanwhile in Poland, the only other country to use the FCL, renewal of the facility has caused a rift between the finance minister and the governor of the central bank.

However other countries that could have made use of the liquidity provided by the FCL either chose not to or were prevented from doing so. Most notably, Turkey has been in constant disagreement with the IMF about a new loan since its last programme concluded in May 2008 (see Update 61). It needed funds but the IMF wanted to impose conditions that Turkey found unacceptable. In mid March, Turkey instead borrowed $1.3 billion from the World Bank for "crisis response and [the] transition back to sustainable growth." Such a loan would normally be agreed with the IMF, highlighting two debates around the IFIs: the desire to avoid IMF conditionality (see page 11), and where countries should go to when they have fiscal, but not balance of payments, problems (see page 7).

Rebuffs to reserves plan

The question of stigma will have to be addressed as well. Countries prefer to build reserves rather than turn to the IMF. The Fund paper gives multiple reasons for reserve building: "concerns about the availability of international liquidity in times of crisis", "no automatic adjustment of current account imbalances", and that the dollar is a good store of value. The Fund believes that if it had more capital, countries would not accumulate such large reserves. However the $500 billion capital injection in 2009 (see Update 65), a trebling of the Fund’s size, does not seem to have had any impact on countries' reserve levels.

The Fund’s explanation ignores the problems of stigma and anger at IMF conditionality. Mexico indicated in its renewal of the FCL that over time it would prefer to build up its own reserves rather than rely on the Fund. In mid-March, the Brazilian central bank governor Henrique Meirelles said, "it is better to self-insure even if there is a cost" and indicated the IMF’s proposals would have no impact on Brazilian policies for reserve management. There are significant social costs to holding reserves (see Update 62), but developing countries seem to judge these as preferable to turning to the IMF and facing its conditionality.

Ignoring its users

Despite all the discussion on the mandate, low-income countries, the most numerous users of the IMF, merit just a single paragraph in the Fund paper on the basis that the IMF’s concessional facilities were revamped last year (see Update 67). Even though they are affected by many of the same issues as large emerging markets, the mandate review will not focus on them.

Collins Magalasi, executive director of NGO Afrodad, says: "Given what we have seen in the past two years, it is clear that small and low-income countries have just as much to fear from bad policies in the rich world as the large emerging markets. If the IMF really wants to serve its members, it needs to focus on addressing the spillovers from rich country policies that hurt the poorest."

UNCTAD secretary general, and former WTO director general, Supachai Panitchpakdi, agreed that the IMF needed to "get back to what it was originally asked to do … macroeconomic surveillance and management. If it is to have a stronger role in reserve currency management, it should remove itself from other areas, such as development finance and poverty reduction, which only clutter and confuse its mandate."

For longer versions of Update articles with additional links, see: brettonwoodsproject.org/update

Para la versión en español, visite: brettonwoodsproject.org/es/boletín
Rewriting the rules on exchange rates: Is monetary system reform on the cards?

The financial crisis has prompted renewed interest in reform of the international monetary system, with the role of the IMF squarely up for debate. As countries are starting to take sides for or against a comprehensive overhaul, regional initiatives may offer greater hope of change.

London-based think tank Chatham House published the latest raft of proposals in March in a multi-authored report, Beyond the dollar: Rethinking the international monetary system. It examined the history of reserve currencies, IMF surveillance on exchange rate policies and the role of the international reserve asset housed at the IMF – the special drawing right (SDR, see Update 65).

The report’s most eye-catching recommendation, from a chapter authored by former member of the Bank of England’s monetary policy committee DeAnne Julius, was for the establishment of “a new committee (the ‘International Monetary Policy Committee’) to produce regular recommendations to the IMF board for new SDR allocations.” It would be modelled on the governing boards of central banks, and would include the heads of the central banks of currencies that make up the SDR (currently the US dollar, UK pound, Japanese yen and euro) as well as “four other term-limited individuals chosen on the basis of their economic expertise.”

Professors Gregory Chin and Wang Yong’s contribution concludes that in China the consensus on the monetary system is that “a fundamental shift is not only needed but also now imminent.” While the Chinese commentators that Chin and Yong review do not agree on a single solution, “Beijing does not appear to favour institutional alternatives to a global monetary system that is anchored in the IMF and the Bank for International Settlements.” This echoes the call from the Chinese central bank in 2009 for the SDR to be at the centre of reform (see Update 67, 66).

Jim O’Neill, head of global economics for investment bank Goldman Sachs, who has publicly questioned the continued assumption that the Chinese yuan is undervalued against the US dollar, writes in his chapter of two possible extreme scenarios. Either the yuan ends up as one of three freely floating currencies that serve as the lynchpins of a multicurrency reserve asset basket, or the SDR becomes the global reserve currency in a system characterised by restricted capital flows and closely controlled currency valuations against the SDR.

Overall the report editors opt for the former of O’Neill’s scenarios, recommending in the executive summary “a multicurrency reserve system for a multipolar world economy.” The UN Conference on Trade and Development (UNCTAD) prefers the latter solution. In a March policy brief titled Global monetary chaos, UNCTAD calls for a multilateral response rather than “to leave currencies to the vagaries of the market” and allow currency speculation. It proposes a “constant real exchange rate rule”, implying globally fixed exchange rates.

Despite the debate, some countries are still counting on the dollar. In February, Muhammed Al-Jasser, governor of the Saudi Arabian Monetary Agency, said the dollar remained pre-eminent and called for a “natural evolution of reserve currencies for a multi-polar reserve system rather than an imposed solution.” Likewise, Reserve Bank of India governor Duvvuri Subbarao said that he “cannot see the $380 billion of SDRon becoming a reserve currency for global trade.”

Changing exchange rate ideas

A recent IMF review of exchange rate systems marks another blow to IMF orthodoxy (see page 10). The study was carried out to “review the stability of the overall system of exchange rates” and will be published as an occasional paper, meaning it has not received board or management endorsement. Using a “more nuanced” methodology, it concludes “in contrast to the earlier studies … that a thorough analysis of the cross-country data does not support any single ‘prescription.’”

In particular it seeks to distance the IMF from its former insistence on either freely floating exchange rates or commitment to a hard currency peg, known as corner solutions (see Update 66). The paper instead finds that “intermediate regimes” – currencies that are pegged to baskets or within bands, or float but with significant government intervention – offer advantages of higher economic growth because they “represent a happy balance between pegs and free floats.” This IMF advice on its head. If incorporated into official IMF policy, countries would have more policy space to decide which exchange rate regime best suits their circumstances.

Others argue that the IMF has not been tough enough on developing countries. Arvind Subramaniam, a former Fund official and now senior fellow at Washington think tank the Peterson Institute, argued that “undervalued exchange rates are de facto protectionist trade policies” so that “what is needed is a new rule in the [World Trade Organisation] proscribing undervalued exchange rates.” The proposal, targeted specifically at China, would have “the IMF continuing to play a technical role in assessing when a country’s exchange rate was undervalued, and the WTO assuming the enforcement role.” He is admitting that the IMF is not up to the job of overseeing the exchange rate system.

Regional arrangements

Amid the diverse thinking about the monetary system and how to manage exchange rates, regional initiatives are going ahead. The fears of a Greek debt crisis prompted Daniel Gros, of Brussels-based think-tank Centre for European Policy Studies, and Thomas Mayer, of German private bank Deutsche Bank Group, to propose a European Monetary Fund (EMF) in early February. Amid European opposition to eurozone countries going to the IMF, the proposed EMF was to be discussed at a European Union summit scheduled for mid-April.

Before the Asean+3 summit of East and Southeast Asian countries in early April, the Chiang Mai Initiative Multilateralisation entered into force. This is a regional financing arrangement created to “provide financial support to countries with short-term liquidity needs and to supplement existing international financing arrangements” (see Update 67, 66). In Latin America, some trade between the ALBA grouping of eight countries began to be invoiced in their newly created unit of account, the unified regional compensation system (SURC), in early February.

The main point of difference between the regional arrangements is the role of the IMF. In the end, eurozone countries begrudgingly agreed to the German demand that any lending to Greece would have to be done in concert with the IMF, but the proponents of the EMF have not suggested a formal link to the IMF. However, IMF involvement is explicitly required for certain levels of lending under the Chiang Mai arrangement, while ALBA explicitly rules out any linkage to the IMF. The IMF mandate review (see page 8) will look at the options for cooperation between the Fund and regional arrangements, as well as the reform of the international monetary system. Given the lack of global consensus on financial and monetary reforms, change to any of these systems is likely to be slow indeed, unless a further crisis galvanises political will.

Beyond the dollar Chatham House

www.chathamhouse.org.uk/publications/papers/view/-/id/844

Global monetary chaos, UNCTAD


Controversy over IMF’s likely dismissal of financial transaction taxes

Newspaper reports have indicated that the IMF will argue that a financial transaction tax (FTT) would be too difficult to implement, and instead will recommend a levy on banks based on either their liabilities or cash flow.

The IMF will deliver its study on ways that the banks can pay for the crisis (see Update 65) to the G20 finance ministers in mid-April, just before the World Bank and IMF spring meetings. The study is expected to argue that an FTT, dubbed a Robin Hood tax by campaigners across the world, would be too easy to evade and that some derivatives contracts are too complex to be taxed in such a way.

In contrast, researchers Rodney Schmidt, Stephan Schulmeister and Bruno Jetin, all experts in transaction taxes, note “it is technically easy to collect a financial tax from exchanges. Transactions taxes can be collected by the central counterparty at the point of the trade, or automatically in the clearing or settlement process.” A February paper from the Trade Union Advisory Committee to the IMF argues that “an FTT, unlike the insurance proposal, would provide governments with a powerful regulatory tool” and “is thus the most appropriate ‘low-cost’ instrument for tackling volatility in asset prices and for downgrading the global banking industry.”

Notes on the feasibility and impact of a FTT, Rodney Schmidt et al


The parameters of a FTT and the OECD global public good resource gap, TUAC

tinyurl.com/TUAC-FTT

The financial crisis has prompted renewed interest in reform of the international monetary system, with the role of the IMF squarely up for debate. As countries are starting to take sides for or against a comprehensive overhaul, regional initiatives may offer greater hope of change.
A February IMF staff position note Rethinking macroeconomic policy, lead-authored by IMF chief economist Olivier Blanchard, admits that “the behaviour of inflation is much more complex than is assumed in our simple models.” Days later, another staff position note stated that “capital controls are a legitimate part of the toolkit to manage capital inflows in certain circumstances.”

These admissions are a significant reversal of the Fund’s historic approach to macroeconomic policy. In the late 1990s rich countries pushed for an amendment to the IMF articles of agreement, which define the purpose of the institution, to explicitly promote unrestricted capital flows (see Update 46, 9). As recently as last November, IMF managing director Dominique Strauss-Kahn criticised Brazil’s efforts to regulate capital inflows, stating that he would not recommend such controls “as a standard prescription” (see Update 68). However the financial crisis, which hit developed and developing countries alike, has demanded a rethink of traditional IMF economics.

**Moving targets for central banks**

Blanchard questioned the focus of modern macroeconomic policy on keeping inflation very low, suggesting that central banks in advanced economies should aim at an inflation rate of 2 per cent, rather than the conventional goal of 2 per cent. A higher inflation rate would enable interest rates to be higher. “Had governments had more room to cut interest rates and to adopt a more expansionary fiscal stance, they would have been better able to fight the crisis,” Blanchard said.

Contrary to traditional IMF thinking, which promotes inflation targeting as the sole objective of central banks, the study argues that “central banks in small open economies should openly recognise that exchange rate stability is part of their objective function.”

Acknowledging that low interest rates may have contributed to the financial crisis by leading “to excessive leverage or excessive risk taking,” Blanchard notes the importance of central banks ensuring financial stability and looking at asset prices and credit aggregates. The paper argues that inflated house prices and excessive consumption may be more damaging than core inflation, which was stable in the build up to the financial crisis. It suggests, however, that using regulation would be preferable to central banks using interest rate policy to deal with asset price bubbles.

The IMF has explicitly recognised from rich country central bankers. The head of the European Central Bank, Jean-Claude Trichet, said: “Pandora’s box must remain shut. The weakening of our price stability objective is out of the question.” However at a February conference, the Reserve Bank of India governor, Duvvuri Subbarao, suggested that central banks must look at asset prices to ensure financial stability, because developing countries often face the consequences from global imbalances to which they did not contribute.

Chinese economist Andong Zhu of Tsinghua University says that while “the IMF is moving in the right direction with its shift in attitude towards inflation-targeting, it should have gone further. Maybe we should replace inflation-targeting, or at least combine them.” He adds that “in the past three decades, the Chinese government didn’t adopt inflation-targeting policies from the IMF, and I am really proud of it.”

**Capital controls finally accepted**

The staff paper on capital controls examined the experience of governments that have regulated capital flows, and found “that the use of capital controls was associated with avoiding some of the worst growth outcomes associated with financial fragility.”

Specifically the authors find that GDP fell less sharply during the financial crisis in countries that already had such policies in place. The report cites Brazil’s taxes on speculative inflows, and policies pursued by Chile, Colombia and Thailand which require inflows of short-term capital to be accompanied by a deposit with the central bank. The study accepts the view, long held by NGOs and academic critics, that “large capital inflows may lead to excessive foreign borrowing and foreign currency exposure, possibly fuelling domestic credit booms (especially foreign-exchange denominated lending) and asset bubbles (with significant adverse effects in the case of a sudden reversal)” (see Update 67, 66). The note however, cautions against “excessive” use of controls and argues that the capital controls should be “temporary”, warning that their “widespread” use may have “distortionary” effects and that, in the longer term, the controls would “lose their effectiveness”. Additionally, the paper has little to say on what an effective system of controls on capital inflows would look like, nor does it offer any advice on how countries may design them.

Kavaljit Singh from the Indian NGO Public Interest Research Group says that “the renewed interest in capital controls by the IMF is a positive development.” However he warns that “any wisdom, which perceives capital controls as a temporary, short-term, isolationist and quick-fix solution to deal with volatile capital flows is unlikely to succeed. Rather capital controls should be seen as one of the policy instruments in the hands of governments to pursue independent economic policy making, growth and financial stability.”

Whether the ideas presented in these staff notes become part of IMF official policy, will depend on whether the board decides to endorse them. The issue of capital controls will be discussed in the context of the IMF mandate review, promising a controversial board discussion (see page 8). To date, the board does not have plans to review the issue of inflation targeting.

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**IMF restores votes for Zimbabwe**

The IMF board announced in mid February that the voting rights of Zimbabwe would be restored after seven years of suspension for unpaid debt, meaning that Zimbabwe can now participate in Fund decision making. However, Zimbabwe still had $140 million of outstanding debt at the end of 2009 and its access to IMF funds remains curtailed. The IMF decision represents a vote of confidence in the coalition government of prime minister Morgan Tsvangirai and president Robert Mugabe. Conversely, the European Union has now renewed its sanctions against Zimbabwe on the grounds of poor governance.

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**IMF changing its mantra? Control capital, not inflation**

_After four decades of promoting policies of targeting very low inflation rates and unfettered capital flows, the global financial crisis has prompted new debate over IMF ideology._

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**Nordic contributions to IMF trust fund**

The Norwegian government has taken to parliament a proposal for a $150 million contribution to the IMF’s poverty reduction and growth trust (PRGT). The trust fund holds resources for subsidising IMF lending facilities for low-income countries (see Update 67). The funds, if approved, could only be used for the Stand-by Credit Facility and Rapid Credit Facility but not the Extended Credit Facility, which is widely seen as a continuation of structural adjustment era lending. Jostein Hole Kobbeveld of NGO Norwegian Church Aid said the government should be more cautious and “the potentially fungible nature of the trust fund remains a cause for concern.” In January, Denmark agreed to provide $305 million to the PRGT.

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**IFIs restore relations with Honduras**

The Bank has decided to restore development aid to Honduras, after almost eight months of suspension. A planned loan of $270 million and additional $130 million in new credit will be provided, following the inauguration of the new president Porfirio Lobo despite controversy over his election. In early March, the IMF recognised the new administration, but without indicating how the decision had been made. Honduras is still outside the Organization of American States, a regional multilateral body. Regional powers Brazil, Mexico, Ecuador, and Chile are among the many Latin American countries refusing to recognise the Lobo administration.

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**IMF appoints Chinese senior advisor**

In February, Zhu Min, former vice president of the People’s Bank of China was appointed as a special advisor to IMF managing director, Dominique Strauss-Kahn. Speculation that Strauss-Kahn is to leave in order to stand for the French presidency is rife. No procedures are yet in place for an open, merit-based selection process for IMF senior management despite being promised by the G20 last year (see Update 68). A comment piece by journalist Wei Gu suggests China may have expected a more senior slot, ideally unseating Japan to take the deputy managing director chair. She concludes, Zhu’s appointment may help speed up the process. But China is still some way from taking its place at the IMF’s top table.
IMF loans: still pinching vulnerable countries where it hurts most
By Bhumika Muchhala, Third World Network, and Nuria Molina, Eurodad

Recent papers by academics and civil society reveal that the IMF’s claims of reform on conditionality do not stand up to close scrutiny.

New research released by NGOs Third World Network and Eurodad in April, which analyses the Fund’s conditions in low-income country (LIC) loans over the course of the global financial crisis, finds that the greater flexibility granted to LICs is merely short-term. The paper, authored by researchers at the School of Oriental and African Studies (SOAS), finds that the marginal shifts away from conditionality were already reversed in 2009 or 2010. The Fund is returning to the business-as-usual of short-term and deflationary economic policies that constrain countercyclical and development policies led by long-term public investments.

Although the IMF claims that it has allowed borrowers greater policy space (see Update 69, 68, 67), in reality fiscal deficit targets were increased by less than 25 per cent of GDP in 7 of the 13 country cases covered in depth in the study. The majority of countries in the sample are facing tighter fiscal constraints in 2010. While this increase does entail greater policy space compared to the Fund’s previous targets, these are only marginal adjustments to initially restrictive recommendations, while the underlying ideology and its attendant biases remain intact. The authors state that to “refer to this approach as evidence of an expansion of ‘policy space,’ as claimed by the IMF, indicates a lack of imagination, or misconstruing (if not hijacking) of the meaning and practice of policy space – a term traditionally associated with those advocates of a policy regime prioritising a longer term and more development-oriented perspective.”

The authors argue that the Fund’s programmes are still premised on an “excessive preoccupation with monetary and financial indicators” such as fiscal balances, price stability and inflation, low interest rates, and high international reserve levels. This focus is to the detriment of the performance of real variables, (real levels of output, income and employment). IMF programmes still insist that the scope for boosting domestic demand through public spending depends on the “availability of financing from external sources on concessional terms,” the use of “domestic resources in a non-inflationary manner,” the preservation of international reserves, and the need for domestic budget spending to avoid “crowding out the domestic private sector.”

This focus reveals that the capacity to service external debt still takes precedence over the urgent need for debt relief and public spending. It also shows that the IMF believes in the superiority of domestic private sector over the public sector in stimulating domestic economic recovery. This seriously limits the ability of LICs to undertake policies. It also constrains their capacity to create employment, invest in public services, or adopt broader social policies, support growth and development strategies to diversify the economy and enhance its resilience to external shocks.

According to the report, the Fund also insists that public expenditure on subsidies, large public employment and transfers to the industrial sector should be reduced. Monetary policy was tightened across most LIC countries with IMF programmes, exchange rate flexibility and price liberalisation were encouraged, while “protectionist” measures such as tariffs and quantitative restrictions on imports were discouraged. Ironically, the stimulus programmes of developed countries have entailed many of the exact policies the Fund has discouraged – such as significant investments in large public employment, protectionist trade policies, conscious management of the exchange rate, and subsidies for local industries.

The Fund could play a role in “supporting concerted counter-cyclical policy interventions and pro-actively laying the foundations for sustained growth and poverty reduction.” However it is only prepared to entertain important but limited changes, such as social protection for the poor and the strengthening of automatic fiscal stabilisers. An alternative approach would be to start with the premise that all macroeconomic policies entail distributive relations and institutional structures that result in a variety of social outcomes, which need to be made explicit before implementing any economic measures. This would require an explicit departure from the IMF’s shackles of short-sighted budget tightening and inflation targeting.

Another new report by civil society organisations including the Center of Concern and ESCRnet, Bringing human rights to bear in times of crisis, concurs with the SOAS report on the importance of counter-cyclical policies for development and highlights the impact of government responses to the economic crisis on human rights. It states that, “the lack of counter cyclical policies in times of crisis often risks jeopardising hard-fought gains in housing, education, health, water and employment.” The report stresses the need to pay detailed attention to how the economically disadvantaged will benefit from national stimulus packages, asserting that “economic stimulus packages which fail to measure, involve and target the economically disadvantaged will likely only reinforce their exclusion.”

Differing advice
While the Fund continues to dole out contractionary policies for poor countries, for the rich countries, a February IMF report on exit strategies notes that the “bold, extraordinary measures taken in response to the crisis have helped lessen the severity of the global recession and stabilised financial markets, allowing normalcy to return in many countries.” In fact, the Fund’s board recommended rich countries maintain fiscal and monetary stimulus policies well into 2010 and begin their withdrawal in 2011 if “developments proceed as expected.” The Fund’s advice is that loose monetary policy is strategic for advanced economies where unemployment is high, but in cases where signs of inflation are rising, such as in some emerging market economies experiencing growing credit booms, “monetary policy may have to be tightened relatively soon.”

However, an analysis by intergovernmental organisation the South Centre on economic recovery reaches a different conclusion. A March report by their chief economist Yilmaz Akyüz argues that economic recovery requires the US to solve its over-consumption problem while Germany, Japan and China need to boost their domestic consumption through wage growth. Akyüz suggests a combination of policies promoting higher wages, eliminating the gap between productivity and wage growth, increased budgetary transfers especially to rural households, and increased public spending on health, education and housing in order to reduce precautionary savings by households.

Need for coherence
In a reflective and analytical view of the diverse ways in which countries have responded to the crisis, Ilene Grabel of the University of Denver argues that the chaotic response to the current global crisis by the IMF and national governments represents a historical moment of “productive incoherence.” She is optimistic because this incoherence has displaced the “neoliberal coherence” of the past several decades.

Grabel observes that change at the Fund has been uneven, “taking one step back for every two steps forward.” While the IMF has indeed made several fundamental changes in its policies (see page 10), it still has a long way to go to demonstrate that its orthodox market-fixed ideology can make way for more development-oriented economic policies and theories. Until then, the incremental changes in the Fund’s views and policies should be duly recognised, while premature applause should be avoided. ☼

Standing in the way of development? Eurodad and TWN
◼️ https://www.eurodad.org/whatsnew/reports.aspx?id=4083
▼ Bringing human rights to bear in times of crisis, ESCRnet
◼️ ecr-ae.org/usr_doc/HRResponsesToEconCrisis_Final.pdf
▼ Productive incoherence in an uncertain world, Ilene Grabel
◼️ networkideas.org/featart/jan2010/Ilene_Grabel.pdf
The World Bank launched a review of its education strategy in January with a concept note setting out key challenges and principles for a sector in which its activities have come under sustained criticism.

The strategy will guide the role of the Bank in education for the next ten years, including setting results for which it should be accountable. A draft strategy for comment will be published in June following the first phase of consultations, which will run through May. The final version is scheduled for Board discussion in November. Reviews of the Bank’s past strategies and performance will be published, as well as background papers on issues such as the political economy of education reforms, and education finance.

Among the major challenges facing the sector that the Bank identifies are a need for continued expansion of primary, secondary and tertiary education, while ensuring quality and inclusion, and strategic partnerships. Emerging themes of the strategy include a focus on ensuring that students achieve the knowledge and skills needed for the labour market, and a desire to exploit the Bank’s ‘comparative advantage’ as a global institution. Key among the operating principles set out are a multisectoral and whole-sector approach, and better use of evidence and impact assessments.

However, critics argue that the concept note fails to properly address the limitations of the existing strategy. Tanvir Muntasim of the World Bank, vice president of the Education for All – Fast-Track Initiative (FTI), a platform for collaboration between donors and developing countries (see Update 52, 49), says: “In the overall perspective on education, one is reminded repeatedly that World Bank is a financial institution and not a development agency. Economic returns are prioritised whereas most development agencies see education as a basic human right, with social and political returns as important as economic ones, if not more so.”

Fast track or slow lane?
The Bank will review its partnerships in the sector, including its much-criticised role as host and trustee of the Education for All Fast Track Initiative (FTI), a platform for collaboration between donors and developing countries (see Update 52, 49). Oxfam’s Katie Lars Thunell unabashedly endorsed the labour market, and a desire to exploit the Bank’s ‘comparative advantage’ as a global institution. Key among the operating principles set out are a multisectoral and whole-sector approach, and better use of evidence and impact assessments.

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example a $20 million grant for Yemen, agreed to in 2006, has still not been released.” The NGO’s January report calls for the Bank to give up control of the FTI. In March, the FTI board announced that countries would for the first time be able to choose agencies other than the World Bank to channel the funds. A forthcoming report by international NGO Results suggests that FTI funding is displacing the Bank’s support for education in the poorest countries, though FTI funding should only be used as a last resort for short-term gaps in financing.

The Bank has also attracted criticism for confining support for basic education to primary schooling. Though the concept note argues for a whole-sector approach, it fails to specify whether this will involve addressing the full Education for All goals, including early childhood education and adult literacy.

In addition, the concept note envisages more multisectoral programmes, which have grown dramatically in recent years. Campaigners are concerned that monitoring and evaluation of educational outcomes from such programmes has been weak.

The Bank proposes a sharper focus on the quality of learning but does not address the debate around its promotion of non-professional ‘para-teachers’ with little training as a solution to teacher shortages. Campaigners and teacher unions in countries such as India have condemned the policy for undermining the quality of education.

In general, the Bank claims it will give greater attention to evidence-based policy, but David Archer of NGO ActionAid International says that “its recent track record on this is poor, notably in having pushed for public-private partnerships in education with very limited supporting research.” Yet at an early April conference on private education and development convened by the International Finance Corporation, the private sector arm of the World Bank, vice president Lars Thunell unabashedly endorsed private education as a means to increase access.

Education strategy review, World Bank

Education for All How reform of the Fast Track Initiative should lead to a Global Fund for Education, Oxfam

Rescuing Education for All How reform of the Fast Track Initiative should lead to a Global Fund for Education, Oxfam

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