IMF boardroom crisis: Europeans stubbornly cling to chairs

IMF governance reform was thrown into disarray in August by a fight between the US and Europe over reducing European board seats. Other promised reforms, including to voting shares and leadership selection, appear to be going backwards.

Maintaining the IMF board size at 24 requires an 85 per cent majority vote every two years, meaning the US, with nearly 17 per cent of the vote, can block this. The US finally made good on previous threats and vetoed the decision in August, meaning that unless it changes its position, the IMF board will shrink to 20 seats by the end of October.

The move could hurt developing countries since the four chairs with the smallest voting shares are held by Brazil, India, Argentina, and Rwanda. In reality, however, it puts significant pressure on the Europeans to finally consolidate the nine seats they currently hold. Independent experts who put together the ‘fourth pillar’ report on IMF reform (see Update 66) have previously recommended a reduction of European seats to three or four, and IMF managing director Dominique Strauss-Kahn said in June that he supports a single seat for eurozone countries.

In the past, as Germany, France and the UK have had single-country permanent seats, they have been obstacles to European consolidation. However, it is expected that the current quota negotiations may push China into the top five shareholders for the first time, meaning France would probably fall out and have to give up its permanent seat. Smaller European countries with board seats, including Belgium and the Netherlands, are also fighting to protect their positions.

In mid-September, the German finance minister aimed at the US weak spot by demanding that it abandon its veto in return for Europe giving up seats. Continued resistance to change by rich countries has led to increasing frustration on the part of developing countries. Trevor Manuel, head of South Africa’s National Planning Commission, and author of a 2009 expert committee report on governance (see Update 65) said in September that IMF and World Bank governance reform has “proceeded at a snail’s pace”. In August, African finance ministers increased the pressure on the Europeans by demanding a third seat for Africa.

Cronyism still rife

Meanwhile, in September the Bank appointed Egyptian investment minister Mahmoud Mohieldin as its new managing director without an open, transparent process for his selection. News agency Reuters reported a German official as saying that Europe is still planning to use its antiquated privilege of appointing the head of the IMF as a bargaining chip in negotiations. This together with reports that the US still wants to nominate the head of the Bank, has left observers wondering if public commitments made in 2009 and repeated regularly since, to select all senior management positions in the IFIs through an open, merit-based and transparent process will ever be honoured (see Update 71).

Other reform stalled

The public spat over board seats has overshadowed continuing negotiations over voting rights. These continue to back away from existing commitments to a shift of “at least” 5 per cent to developing countries and a reform of the quota formula (see Update 71). Current proposals in a July IMF paper, and an August paper for a G20 working group would result in shifts to developing countries of less than 3 per cent. It is also not clear if the commitment to “protect the shares of low-income countries” will be upheld.

In July, Strauss-Kahn said he hoped to boost the Fund’s lending resources by $250 billion from $750 billion to $1 trillion. This would represent a doubling of total quotas, the position previously backed the G24 group of developing countries. This would allow more space for shifting voting shares to developing countries, give countries greater access to IMF resources, and also make the Fund less reliant on ad hoc lending from rich countries through the New Arrangements to Borrow (NAB, see Update 65).

Civil society groups expressed concern about the slow pace of reform and called for more radical options to remain on the table. Pamela Gomez, of NGO Oxfam International, said “governance reform at the IMF is long overdue.” In the UK, nine NGOs, including Christian Aid and ActionAid wrote to the UK finance minister calling for more substantive reform on voting and board seats, and supporting the introduction of a double majority voting system (see Update 55).

A leading group of academics and experts wrote an open letter to IMF governors urging that reform be extended to encompass a “comprehensive package” including improved transparency and an end to the US veto. One leading expert, David Woodward in an article in Development went further, arguing that “economically-weighted voting in the IMF and World Bank should be abolished, and replaced with a system based on democratic principles – somewhere between one-country-one-vote and one-person-one-vote.”

UK NGO letter on IMF governance reform

http://brettonwoodsproject.org/chancellorletter2010sept
Undermining development?

Ongoing mining projects’ impacts on rights, gender and the environment suggest a new approach to the sector is needed, as the IMF and World Bank dole out contradictory advice on mining revenues.

In June, human rights violations prompted the Guatemalan government to announce that operations would cease at a mine backed by the International Finance Corporation (IFC), the Bank’s private sector arm. Canadian firm Goldcorp received a $45 million loan from the IFC in 2004 for the Marlin open pit gold and silver mine, despite civil society concerns that consultations and social and environmental impact assessments had been inadequate (see Update 45). A May report commissioned by Goldcorp claimed that the mine offered social benefits, but found that human rights were being violated, due diligence on social and cultural impacts had not been carried out, and the mine lacked a proper plan for closure.

The government’s decision followed a protest by 12,000 people in the neighbouring city of Huetesueta and calls for the suspension by the Inter-American Commission on Human Rights and the UN Special Rapporteur on Human Rights. Local activists have reportedly been subject to intimidation and violence. “The communities affected by the Marlin mine applaud the government’s decision. Nevertheless, we are worried about the threats that we have received. We have been told that there will be consequences for defending our rights,” said Javier de Leon of local organisation, the Association for the Integral Development of San Miguel.

Also in defiance of outcry from civil society groups, the Bank’s Multilateral Investment Guarantee Agency (MIGA, see page 5) in August issued a $207 million guarantee to Japanese-French company Strand Minerals for its Weda Bay mineral mine in Indonesia. The US executive director abstained from endorsing the guarantee at the Bank’s board as Indonesian and international NGOs warned that the project would displace indigenous peoples, destroy tropical forest, and risk polluting water. Berry Nahdian Furqon of Indonesian NGO WALHI said that “major social, environmental and political risks are not fully reflected in the environmental impact assessment, plans to mitigate such risks do not exist, and safeguards requirements are violated.” MIGA’s accountability mechanism, the Compliance Advisor Ombudsman, is assessing a complaint about the environmental impacts of the project.

There are also concerns about the sector’s impacts on gender. The Bank’s Gender and Extractive Industries programme warned in a briefing last year that women can be adversely affected by the loss of traditional jobs and access to resources, pressure on public services, and exposure to pollution during pregnancy, among other effects. Yet a June Bank internal report found that only 9 per cent of its energy and mining operations were gender-informed (see page 8).

Dispute delays DRC debt relief

Debt relief worth over $12 billion for the Democratic Republic of Congo (DRC) was delayed as the Canadian government sought to apply pressure in a dispute over mining rights. At June G8 and G20 meetings, the Canadian prime minister raised the issue of Canadian corporation First Quantum Minerals’ contract, which was cancelled by the DRC government (see Update 70), while the Canadian World Bank executive director caused a delay to the board vote on debt relief. The debt relief package was eventually agreed in July, including $1.8 billion owed to the Bank’s International Development Association and $491 million to the IMF.

Mining tax contradictions

In what could be seen as an attack on the policies promoted by the Bank in the 1990s, a May IMF working paper on Malian mining taxation recommended that the government eliminate tax holidays granted to mining companies, which have meant the state “has not been able to collect its full share of revenues.” These incentives were traced to Bank influence over the country’s mining codes in 2007 research by civil society network the International Federation for Human Rights (see Update 57).

However, the IMF paper also advocated halving gold mining royalties to 3 per cent in order to attract foreign investment. NGO Eurodad questioned whether such a cut was necessary in the world’s poorest country, in the context of rising gold prices and low national tax rates: gold accounts for 75 per cent of the country’s exports but only 8 per cent of GDP.

Indeed, a 2009 report by NGO Christian Aid found a lack of evidence that generous mineral tax incentives of the kind promoted by the international financial institutions in Latin America had encouraged investment.

In contrast to its approach in Mali, IMF staff endorsed a super-profits tax of 40 per cent on mining companies in Australia. At a conference, the IMF’s deputy head of tax policy Philip Daniel said it “doesn’t show adverse effects on Australia’s economic prospects.” An April policy paper also said that resource rents provide “a potentially robust source of relatively non-distorting revenue”, as well as calling for a global crackdown on tax avoidance.

Tax crackdown?

In August, Bank vice president Charles McDonough expressed support for requiring oil and mining companies to publish their revenue and cost figures on a country-by-country basis, to prevent tax avoidance. The International Accounting Standards Board is considering developing new standards for the sector, long demanded by civil society groups. These groups are pushing for any rules should be comprehensive and cover all sectors.

The Bank’s position represents a belated and partial response to the 2004 Extractive Industries Review (see Update 49), which recommended that the Bank promote more transparent revenue management and fair revenue sharing. Clear information on the Bank’s investments in the sector remains unavailable, with mining reported together with energy.

UK reviews World Bank, multilateral aid

In June, the new UK coalition government announced a hasty review of its funding to multilaterals, including the World Bank Group which gets almost $1.4 billion annually from the UK. Though its final report will be published early next year, it is expected to influence the UK’s contribution to the upcoming IDA replenishment (see page 8). The review will focus on value for money and relevance to the UK’s objectives on poverty reduction. UK-based NGO the Bretton Woods Project argued that the UK should focus on “pushing for policy and institutional change at the Bank, and should not increase its funding to the institution.”

Swazi unions tell IFIs to “go hang”

The IMF, World Bank, and African Development Bank criticised the 4.5 per cent pay rise of Swazi public servants in August, because of the country’s tight fiscal situation. A representative of SwaziLand’s Nurses Association said, “whoever is unhappy must go hang” and added “SwaziLand is where it is today because of the same capitalism which the IMF advocates.” A primary school ‘association’ member argued: “We should define the economy in our own way.” Disagreement over public salaries and fiscal adjustment led to loan refusals when the country turned to the IFIs amid a serious cash-flow problem in September.

Jamaica: IMF halts school construction

Newspaper Jamaica Gleaner reported in early September that the country’s IMF programme has slowed the building of new schools. Quoting the head of the National Education Trust which is responsible for capital investment in education, the paper reported that the IMF is holding up both investment because of the budget implications, and the issuance of bonds to pay for new schools because of the debt limits in the Fund programme. In mid September, the National Workers Union called for renegotiation of IMF conditions because of their incompatibility with the government’s contractual agreements with public sector workers.

Bank consultation problems

In July, the Bank’s new disclosure policy came into effect (see Update 68), but NGOs are warning that it fails to adequately cover ongoing processes and negotiations with governments. In August the Arab NGO Network for Development complained that in consulting on a new strategy for Lebanon, the Bank held only a single meeting with Bank-selected participants and failed to announce any consultation. In July, 52 South Asian civil society organisations complained about the performance standards review (see page 12), saying the IFC’s consultations were “undermining the democratic process, lacking transparency and failing to hear the communities affected by various IFC-funded projects.”
The World Bank is actively undermining the ability of the Philippines to directly access urgently needed climate adaptation finance without involving intermediaries. Documents acquired by Philippine NGO, the Institute for Climate and Sustainable Cities (iCSC), and testimonies of government officials exposed plans by the Bank that would deny the Philippine government the option of directly accessing resources from the UN’s Adaptation Fund (AF) and potentially impose more climate loans.

The AF has two funding modalities - the multilateral modality where a country accesses AF resources through intermediary institutions such as the Bank, and the direct access modality which offers developing countries the option to directly access funds.

Long championed by the Philippines, the direct access modality in the AF was crafted and agreed in the UN as an alternative to conditionality-spiked, inefficient, and bureaucratic intermediary institutions. Among global climate funds, the AF today represents the benchmark for democratic governance (it is governed by a board mandated to maintain a developing country majority) and financing mechanisms that do not replicate the donor-driven models of the aid system.

The document acquired by iCSC shows the Bank inserting itself as the funding conduit to the AF. It demonstrates the Bank colluding with unwitting officials from the Department of Public Works and Highways (DPWH) and the Philippine Atmospheric, Geophysical and Astronomical Services Administration (PAGASA) in relation to a prospective $15 million AF grant.

The scheme was exposed in a mid August speech by Philippine Senate president Juan Ponce Enrile, based on analysis provided by iCSC, which revealed the Bank’s plan to charge excessive management fees for serving as the intermediary institution that would access the AF.

The Bank responded to Enrile’s charges the next day in a letter that admitted knowledge of the proposal. The Bank denied, however, that it had tried to insert itself as an intermediary institution, saying that it was actually approached by DPWH and PAGASA and that it was supportive of Philippine direct access to the AF.

The Bank’s letter admitted that it was aware that another agency, the Department of Environment and Natural Resources (DENR), had already applied to the AF board for accreditation as the Philippine agency that would directly access AF funds. However, the Bank said the DENR was also the authority that would endorse Philippine proposals to the AF. AF rules show that the entity that intends to directly access AF funds cannot be the same authority that endorses proposals to the AF board. The Bank delivered another letter to the Senate in early September which said the Bank was still “the fastest way for the country to mobilise resources from the AF.” However, Enrile retorted that the issue is not about speed but the country’s ability to submit proposals based on country-crafted plans in a process that is free from Bank meddling.

Enrile’s speech prompted the Senate Climate Change Committee to hold a hearing on 25 August, where officials from the DPWH and PAGASA testified that they were in fact approached by the Bank in relation to the proposal. Philippine climate change network Aksyon Klima Pilipinas (AKP) said “The Bank’s hand has been caught again in the climate cookie jar. It is part of the problem and has no business peddling itself as a conduit for climate finance for the Philippines or abroad.”

Instead of concrete adaptation projects, the Bank’s proposal would have funded feasibility studies costing $2 million and allocated $1.5 million to rehabilitate failed projects. It also allocated $1 million to “consultancy services” provided by teams that would likely follow Bank-designed plans instead of nationally crafted action plans. Finally, the $15 million proposal allocates almost $2 million – 13 per cent – for Bank management costs: even the most corrupt official would smile at the prospect of taking such a large share.

The controversial Bank proposal deliberately contradicts the long-held Philippine position in international climate finance talks, which champions adaptation finance options free of multilateral development bank intermediaries. The proposal was not based on the country’s adaptation action plan and would have squandered urgently needed financial resources from the AF.

Bank admits ‘land grab’ risks but proceeds

A long-suppressed report by the World Bank remains supportive of large-scale land acquisitions in developing countries by foreign investors, despite highlighting significant risks for vulnerable populations. Civil society groups have argued that the Bank is complicit in violations of human rights associated with so-called ‘land grabs’ (see Update 71) through its investment advisory services.

The Bank report was finally published in early September, despite being promised in April. It documents the dramatic increase of investor interest in agricultural land since the 2008 food price spike.

The Bank highlights a number of cases where large-scale investments in land have been successful, including Peru’s auctions of public land worth almost $50 million. Despite these supposed successes, the report emphasises the exploitative nature of many investments, finding that investors have targeted countries with “weak land governance”, enabling them to gain land “essentially for free and in neglect of local rights”. According to the report, land deals between investors and governments have occurred in secrecy, marginalising affected communities.

Additionally, it finds that investors have not created the number of jobs they promised, and have failed to effectively invest in purchased land. The report notes that the deals exacerbated existing problems of gender discrimination, which an April report by NGO ActionAid International calls one of the key barriers to reducing hunger in the developing world.

Nevertheless, the Bank claims that these risks “correspond to equally large opportunities” for “increased productivity and effectiveness” in the utilisation of large areas of land not previously cultivated. This is in line with the Bank’s focus on large-scale land investment and farming (see Update 61, 58). The report advocates the implementation of the seven principles on land investments it helped draft, which were criticised for legitimising land-grabbing (see Update 71).

Speaking at a UN conference in May, UN special rapporteur on the right to food, Olivier De Schutter, argued that the prioritisation of large-scale, capitalised forms of agriculture neglects smallholders who feed local communities and claims that such methods will not solve the problems of hunger and malnutrition.

US think-tank the Oakland Institute has highlighted the contradiction between the report’s findings and the Bank’s agricultural policies (see Update 71). Anuradha Mittal, director of the Oakland Institute called for “heightened scrutiny of the Bank’s activities”, saying it should not be allowed “to sweep the damming findings under the rug.”
Failing to fix the foundations: IMF mandate reform falls short

As the IMF mandate reform concludes, significant changes prove elusive. While proposed reforms for central banking and surveillance lack ambition, positions on capital controls remain inconsistent. The Multilateral Assessment Process promotes business as usual.

The IMF’s executive board is slated to report back on progress regarding the review of its mandate in relation to surveillance, financing, and the stability of the international monetary system (see Update 70) at the annual meetings in October. The review was requested by the G20 in 2009. As the mandate reform process draws to a close, the ambition and commitment of major IMF shareholders remain dubious.

Inconsistency on capital controls

The IMF’s view on unrestricted capital flows has certainly changed in the wake of the crisis, but suffers from a lack of consistency (see Update 70). In an August paper “your grandfather’s IMF,” professor Ilene Grabel of University of Denver finds that the Fund has made “positive statements about the protective role of capital controls followed immediately by warnings about their use only as a temporary, last resort, and an enumeration of the significant risks and potential long-term costs of capital controls.”

A September policy briefing by London-based NGO Bretton Woods Project points to the Fund’s scepticism, particularly towards longer-term controls, despite the formal acceptance of controls in the IMF’s Articles of Agreement. It argues that “while the renewed interest in capital controls by the IMF is a positive development, the bias within even the more accepting staff towards viewing capital controls as temporary, short-term solutions to deal with volatile capital flows is still unsatisfactory.” The board is due to discuss the subject again before the annual meetings.

Monetary reform remains open

As IMF proposals to enhance global financial safety nets are finalised (see page 7), policy options to reform the international monetary system are yet to be concluded (see Update 70, 68).

A review of the special drawing right (SDR, see Update 65) will be discussed by the Fund’s board in October. Economist Robert Mundell has recently pressed for the inclusion of the Chinese yuan in SDR currency basket.

The final IMF paper on reforming the international monetary system – focussing on the supply of reserve assets, including promoting emerging market reserve assets, and enhancing the role of the SDR – is still pending.

The promotion of increased emerging market currency reserves in the international system was favoured by a late June report of the Asian Development Bank and Columbia University’s Earth Institute. The report says the “global reserve system is in dire need of reform toward a multi-currency alternative” in which Asian currencies, particularly the Chinese yuan, would play a key role.

Repeated calls by United Nations Conference on Trade and Development (UNCTAD) for a regulated international exchange rate system remain ignored by the IMF. The 2010 UNCTAD Trade and development report argues that, an internationally agreed exchange-rate system aimed at ensuring stable and sustainable real exchange rates for all countries would go a long way towards reducing the scope for speculative capital flows [and] would greatly reduce the need for emerging market economies to hold international reserves as a means of self-insurance against currency crises.

Rethinking central banking?

In an attempt to address public concerns about financial regulation, the IMF has recently reengaged in the discussion on reforming the IMF’s role in conducting multilateral surveillance and analysing spillovers. The board concluded its discussion on reforming the IMF’s role in multilateral surveillance in early September.

Agreement was reached on increasing the synergies among the IMF’s various multilateral surveillance products, including to “enhance integration between the Fund’s macro-financial analysis” in the Global Financial Stability Report and Global Financial Stability Report. More reluctantly, the board agreed to strengthen the Fund’s spillover analysis which will assess the external impact of a country’s economic policy. The Fund’s work plan now envisages the preparation of five spillover reports on a trial basis over the next year, covering China, the eurozone, Japan, UK and US. No agreement was achieved on the Multilateral Surveillance Decision proposed in March to “create clear expectations for staff, management, and the world at large about the Fund’s role in conducting multilateral surveillance and analysing spillovers” and to “provide a framework to engage with policy makers across countries.”

In an August paper, Claudia Maurini from the Bank of Italy argues that the lack of ambition regarding progress on multilateral surveillance is rooted in the Fund’s governance structure (see page 1). She finds the Fund more discipline on smaller and less powerful countries than in the bigger ones. … At the same time bigger countries are precisely those whose policies generate more international spillovers and affect more the global stability.

Business as usual under MAP

While progress on reforming its surveillance mandate remains weak, the Fund has increased its technical assistance to the G20. In November 2009, the G20 asked the IMF to coordinate a Mutual Assessment Process (MAP). At the G20 Toronto summit in June, IMF staff presented two alternative policy scenarios under the MAP, capturing potential G20 macroeconomic development and recommending respective policies. The upside scenario acts on the assumption of a strengthened economy as a result of G20 collaborative policy action. The downside scenario assesses the risks stemming from fiscal deficits and lower productivity and formulates policy recommendations to mitigate them.

The IMF’s scenarios have been criticised for a lack of consultation and resultant business-as-usual fiscal consolidation (see page 7). Ben Moxham of the UK Trades Union Congress condemned the exclusion of the International Labour Organisation from the consultation process and found “worrying elements” of proposed labour market reforms, including the “reform of employment insurance systems”, recommended in advanced countries in general, and the “reduction of minimum labour cost” which is proposed for advanced and emerging surplus countries.
IFI-induced debt catastrophes?

Natural disasters in Haiti and Pakistan have heightened calls for larger debt cancellation, rather than new IMF loans, and for a rethink of the sovereign debt system.

Even before massive August floods pushed more than 10 million people to need emergency assistance, calls were mounting for debt cancellation for Pakistan. A July report from UK NGO Jubilee Debt Campaign, *Fuelling injustice*, noted that “Pakistan, a country where 38 per cent of small children are underweight, spent nearly $3 billion servicing debts last year – almost 3 times what the government spends on health care.”

After the catastrophe, the World Bank increased the amount of its existing loan to Pakistan from $900 million to $1 billion. The IMF agreed a new emergency assistance loan of $450 million with rapid disbursement. However, it refused to soften the conditions on Pakistan’s more than $10 billion two-year Stand-by Arrangement, which was agreed in November 2008 and has not been fully disbursed. The Fund suspended programme reviews and disbursements until a later date because of the disaster, but Pakistani officials have continued to disagree with the Fund over conditions on tax reform and fiscal deficits. With the new loan, Pakistan now owes the IMF more than $8.3 billion, about 14 per cent of its total external debt, but is not eligible for the IMF’s existing debt cancellation processes because of its status as a middle-income country.

An end August conference of NGOs, social movements, and political parties in Pakistan called for full cancellation of the country’s foreign debts. Abdul Khaliq, of NGO CADTM Pakistan, argued that “instead of accepting new loan offers, the democratically elected government of Pakistan should request help and grants at the same time as demanding total and unconditional cancellation of its foreign debt.”

**Relief, but not for women**

In response to the agreement to provide debt relief to Haiti after its massive earthquake in January ([see Update 69](https://www.cadtm.org/Pakistan-The-only-way-out)), the IMF’s board has now agreed to the creation of a Post-Catastrophe Debt Relief Trust. The June agreement allows eligible countries to get two years relief of debt repayments, as well as, “full cancellation of a country’s stock of debt to the IMF… in cases where the disaster has created substantial and long-lasting balance of payments needs, and where the resources freed up by debt stock relief are critical for meeting these needs.” The IMF set up the trust fund with $422 million of its own resources. The board agreed to cancel $250 million worth of Haitian debt in July, including the emergency assistance loan granted in January, but simultaneously approved another loan of $60 million which Haiti will start repaying in 2016.

Malva Villard-Apollon, leader of the Haitian women’s organisation KOFAVIV has raised international attention to problems in the Haitian reconstruction efforts: “conditions in the displacement camps, following the January 12 earthquake, have exacerbated women’s vulnerability to rape. Women and girls live in constant fear for their safety.” However, US NGO Gender Action found that over 50 projects and programmes either approved or proposed by international financial institutions all “failed to address Haiti’s escalating gender-based violence, despite international mandates made by the UN Guiding Principles on Internal Displacement, UN Security Resolution 1325, and other internationally recognised standards.”

**Dealing with sovereign debt**

At a gathering of social movements from Latin America and the Caribbean in June, participants rejected “any form of pretended debt relief, launched by Northern governments and their international financial institutions,” and called again for “participatory and comprehensive audits of the debts claimed from our countries.” In August, Jubilee South and other organisations called for a global week of action against debt and international financial institutions in mid October.

The UN Conference on Trade and Development held a meeting on responsible sovereign lending and borrowing in China in early September. The UN Department of Economic and Social Affairs’ consultation process on debt met in early September in London focussed on banks and financial institutions. UN DESA hopes to develop consensus on proposals that can “lead to the orderly working of the international financial architecture for debt.”

---

**IMF changing position on financial sector taxation?**

After the IMF’s initial dismissal of a global financial transactions tax (FTT, see *Update 71*), its opposition lately seems to have softened. An August draft working paper by a Fund staffer was welcomed by campaigners for its positive view of FTTS.

The draft paper, *Taxing financial transactions: Issues and evidence*, contradicts claims that FTTSs are unfeasible and hard to implement, finding that securities transactions taxes (STTs) on secondary trading in equity shares, the most common form of STTs, are feasible and hard to implement, finding that securities transactions taxes (STTs) on secondary trading in equity shares, the most common form of STTs, can make a contribution to safeguarding and extending public spending on, for instance, health and education. “A meeting of European finance ministers in early September failed to reach agreement on EU-wide financial sector taxation. While Germany, France, Austria and Belgium generally showed support for the FTT, Sweden, the Netherlands and the UK were less convinced by the idea. French president Nicolas Sarkozy also called for an FTT to pay for global development at the UN Millennium Development Summit in mid September.

Whether evidence of the impact of FTTSs will inform the Fund’s position on financial sector taxation is uncertain. At a mid September conference on financial sector taxation at the IMF’s Paris office, the yet to be published working paper remained unmentioned, with the earlier IMF report to the G20, which favoured the financial activities tax, constituting the reference for debate.

---

*Taxing financial transactions: Issues and evidence, IMF working paper* [tinyurl.com/ftt-wp-imf](https://tinyurl.com/ftt-wp-imf)

Saying one thing but meaning another: IMF advises protecting jobs and cutting spending

While Hungary has booted out the IMF, Greece is still toeing the line of IMF austerity demands. The IMF has softened its rhetoric in some places, notably on unemployment, but critics worry that many staff are still pushing fiscal retrenchment that may damage growth prospects.

Hungary’s populist prime minister Viktor Orban broke off his country’s programme with the IMF (see Update 66) at end July, declaring that Hungary needed to “restore its economic self rule.” Orban, leader of the Fidesz party which won national elections in April, had campaigned on a platform against Hungary’s austere IMF deal.

Hungarian officials had blamed the low 2.8 per cent fiscal deficit target that the IMF and EU were pushing for 2011, but media reports cited disagreement over the government’s proposed bank taxes as the real reason for the dispute. The government is introducing a bank levy to raise 200 billion forint (€710 million) to help bridge the fiscal gap, instead of further cutting spending. Hungary’s banking sector is almost entirely owned by Western European banks. The IMF argued that the tax “is likely to adversely affect lending and growth”, despite mild support from the IMF for other bank levies that have been introduced in Europe (see page 5, Update 71).

The LMP, a new green pro-union party composed of former NGO leaders, was comfortable with the government’s hard stand against international institutions, but questioned the policy agenda that Fidesz was taking. It said that the plans to “stimulate the consumption of the wealthy and upper classes by introducing a flat rate income tax, considerably decreasing company taxes and abolishing estate taxes... are inadequate to kickstart economic development.” It called on the government to “prevent social and educational budget cuts that endanger the reproduction of human capital.”

Austerity continues in Europe

The Greek government passed its first review by the IMF and EU in September (see Update 71). The government has proceeded with creditor-required plans to reduce pensions and now must “present [a] detailed privatisation plan with dates and revenue guidelines” by the end of the year. The privatisation will include the railways, electricity and gas sectors, water services for two major cities, the post office, and numerous other state enterprises. The Greek economy had fallen deeper into recession even before the IMF- and EU-required austerity measures really started to bite. Early September figures of second quarter GDP showed a 3.7 per cent decline compared to the previous year.

Petros Kosmas, lecturer at the Varna Free University of Cyprus, worried that the IMF-EU approach was counterproductive. “There is an acute danger that the resulting recession in Greece will lead to the very situation it was meant to avoid – i.e. a default.” An early September report, The eurozone: Between austerity and default, produced by the Research on Money and Finance group of academics, argues that debtor-led default should be actively considered. “Default, debt renegotiation and exit from the eurozone have very serious implications. These must be weighed against the equally serious implications of recession and long-term stagnation of several eurozone countries.”

Sporadic strikes erupted across Greece throughout the summer, including a general strike at end June and more protests during the IMF mission visit at end August. Another massive general strike is planned by the Greek trade unions for end September, which is being coordinated with the International Labour Organisation (ILO) in Norway on the challenges of growth, employment and social cohesion. In the joint conference paper, the IMF stated “the cost to those who become unemployed could be a persistent loss in earnings, reduced life expectancy, and lower academic achievement and earnings for their children. Unemployment is likely to affect attitudes in a manner that reduces social cohesion, a cost that all will bear.”

The IMF argues that “a recovery in aggregate demand is the single best cure for unemployment”, and that “most advanced economies should not tighten their fiscal policies before 2011, because tightening sooner could undermine recovery.” However the report prepared by IMF staff still argues for cutting public servant salaries and government spending. It also claims that “fiscal adjustment has typically had an inequality-reducing effect over the longer term.” The ILO part of the paper counters this, calling for an increase in real wages and the wage share of national income if aggregate demand is to increase and inequality to go down.

Sharan Burrow, the general secretary of the International Trade Union Confederation, called on the IMF to “encourage countries, including those that borrow from the Fund, to adopt and maintain job-intensive stimulus policies until recovery is self-sustaining and unemployment is falling to pre-crisis levels.”

Austerity gets in the way

This chimes with some of the advice from the IMF in an early September staff position note on fiscal space in advanced economies. The note calculated a theoretical debt limit beyond which a country’s debts would spiral out of control. Only in Greece, Italy, Japan, and Portugal were the current debt forecasts anywhere near the calculated debt limits, so most advanced countries still had fiscal space and would only require adjustment in the medium-term.

However, “the analysis abstracts entirely from liquidity/rollover risk”, meaning a country below the limits could still enter a debt crisis if the bond markets lost faith in the government. This is what many analysts assume will happen to Greece, which still pays considerably more in interest on bond markets than the German government pays on its bonds. This risk prompts the recommendation in the staff note for quicker fiscal adjustment.

Another early September IMF staff paper returned to the siren call of cutting spending. Calling debt default in advanced economies “unnecessary, undesirable, and unlikely”, it said that “the challenge stems mainly from the advanced economies’ large primary deficits, not from a high average interest rate on debt.” However, if the IMF-style austerity package adopted in Ireland early in 2010 is any guide, countries drastically cutting spending may push their economies into another recession and not avert sovereign debt crises, which have multiple causes (see Update 71).

Despite the unemployment and jobs crisis, and the acknowledged need for more stimulus, many countries are being told to begin austerity packages now. The IMF has repeatedly claimed to have shaken off the one-size-fits-all approach, but may be entering a Janus-faced era. When Strauss-Kahn speaks the message is one of protecting people and employment, but when many IMF staff advise finance ministries, it is about how to cut spending.

Where is the stability? Petros Kosmas

The eurozone: Between austerity and default, Research on Money and Finance

BRETTON WOODS UPDATE

NUMBER 72 – SEPTEMBER / OCTOBER 2010

fiwatchnet.org/node/33458

The eurozone: Between austerity and default, Research on Money and Finance
IMF at MDG summit: Poor countries should spend less, not more

While the IMF has focussed on its mandate review and governance reform, its policy towards low-income countries has taken a backseat. NGOs are worried that the IMF has returned to promoting fiscal austerity and constraining the investment needed to reach goals on poverty.

A detailed cross-country study into the impact of the financial crisis and IMF programmes on low-income countries’ (LICs) budgets reveals plans for significant cuts in spending in 2010. The research report, published in July by UK-based think-tank Development Finance International and NGO Oxfam International, studied 2009 results and 2010 budgets for 56 poor countries to see how they compared to the spending needed to reach the Millennium Development Goals (MDGs).

While praising the stimulus programme to access resources with -

facility launched during the finan-

Line (FCL), a conditionality-free between the IMF's Flexible Credit to create a Precautionary Credit board finally accepted the proposal The G20 asked the IMF to critics argue that it should focus -

light to new crisis lending windows,

While the IMF has given the green -

out specific reform commitments, it -

policies and did not need significant -

the impact of the financial crisis and

reform. The PCL, in contrast, will be -

funds for middle-income countries, the

Fund's standard lending window

thirds of the countries in 2009, it

found that “in 2010, deficits are set to

reduce, and not because of recovery or increased revenue. … Countries with IMF programmes are cutting faster than others: half of African countries (and 75 per cent of other LICs) with an IMF programme are cutting spending, even though most need to massively increase it if they are to reach the MDGs by the 2015 deadline.”

The report describes a ‘fiscal hole’ created by the financial crisis, but argues that there are ways to fill that hole. Based on indices of debt and macroeconomic variables, it finds that almost all examined countries have space to absorb and spend more aid, and that some of them could borrow more or raise more domestic revenue. It recommends that the IMF should “ensure that countries with IMF programmes (and others where it is providing policy advice) do not cut back spending in 2010 and 2011, and spend more to meet the MDGs and tackle climate change.”

To spend or not to spend?

The IMF background paper submitted to the UN’s mid September MDG summit focussed on stronger growth as a precondition for reducing poverty. The paper argues that “in order to withstand future volatility, [low-income] countries should start rebuilding their policy buffers as the recovery takes hold.” They define ‘policy buffers’ to “include low fiscal and current account deficits, higher international reserves, low debt and low inflation.” Essentially the IMF is arguing for no increase in government spending without increases in revenue, and claims that “rebuilding policy buffers and accelerating progress toward the MDGs are consistent objectives.”

A July IMF working paper, which does not represent official IMF policy, described the model used to project the impact of the scale-up of aid according to the promises made by rich countries at the G8 meeting in Gleneagles in 2005. It adds nuance to IMF positions on spending and absorbing of aid (see Update 57). The paper argues that in some cases it does not make sense to spend all aid, but that in other cases accumulating aid surges as foreign reserves can be damaging. A key conclusion is that “a better approach … might be to redirect efforts to quickly increase the efficiency of public investment to enjoy the benefits of aid surges.”

Critic’s of the Fund were dissatisfied, especially given the focus on aid at the MDG summit. Rick Rowden, a researcher at India’s Jawaharlal Nehru University, argued that “the de facto message to donors is very clear: no need to scale-up aid”, “until countries can use their aid in the most efficient way.”

NGO Third World Network’s briefing for the MDG summit warned that IMF loans carry “conditions for fiscal austerity, monetary policy tightening, and a prioritisation on debt repayment and maintaining open capital accounts. This macro-stability-focused strategy for creditors, investors, and markets, often at the expense of development-oriented macroeconomic policies.”

The debate between the IMF and its critics also played out in the International Journal of Health Services throughout the first half of the year. One innovative suggestion that came out of the series of articles was for the IMF to undertake health impact assessments for all of its programmes. These would assess the effect of the borrowing countries’ economic policies on the health of the citizens of that country, with a special focus on the distributional consequences.

IMF crisis lending reform faces fundamental critiques

While the IMF has given the green light to new crisis lending windows, critics argue that it should focus instead on other ways of preventing crises.

The G20 asked the IMF to review its crisis lending toolkit in November 2009. In August the IMF board finally approved the proposal to create a Precautionary Credit Line (PCL). The new PCL fits in between the IMF’s Flexible Credit Line (FCL), a conditionality-free facility launched during the financial crisis (see Update 65), and the Fund’s standard lending window for middle-income countries, the Stand-by Arrangement (SBA).

Whereas the FCL allowed eligible countries to access resources without specific reform commitments, it was only available to members that the Fund already thought had good policies and did not need significant reform. The PCL, in contrast, will be available to countries with sound policies, that may not yet meet the high FCL qualification standards, but do not require the same large-scale policy adjustment normally associated with traditional IMF arrangements.”

Borrowers can access large amounts of money through the PCL, up to 1,000 per cent of quota over two years, but will have to abide by IMF conditions. Those conditions will not be as extensive as those on an SBA, but will be focussed on the policy areas where the country is judged by the IMF to be the weakest. The PCL is designed to be a precautionary arrangement to help prevent markets from withdrawing capital from countries, rather than a loan when a country has urgent need of cash. This type of facility had failed to attract interest from any borrowers before the advent of the PCL (see Update 54).

At the same time the board also modified the PCL, doubling the possible duration of access to two years, and removing the implicit access limit of 1,000 per cent of quota.

Simon Johnson, former chief economist of the IMF, was derisory about these new mechanisms, saying that for European countries facing sovereign debt crises (see page 6) they would only exacerbate the likelihood of insolvency while bailing out the private banks that lent money to those countries. He argues that the “insolvent nations … need debt restructuring instead.”

Global (un)safety nets

The PCL is only the first leg of reform, as the IMF has been working with G20 chair Korea to fashion a consensus on a new global safety net designed to prevent financial crises should there be another global economic downturn. The proposals are the final piece of the IMF mandate review (see Update 70) and are expected to be finally agreed at the G20 summit in Korea in November. The G20’s global financial safety nets expert group, jointly chaired by the UK and Korea, has been working on the proposals, which are expected to be a follow-up to the the ideas of multi-country swap lines and IMF financial support to regional monetary funds (see Update 71, 70).

Former chief economist of UN Conference on Trade and Development Yilmaz Akyüz had a fundamental objection: “After almost every major financial crisis the IMF seeks a new role. This is almost always construed in terms of expansion of its crisis lending capacity. But the IMF’s main business is the prevention of instability and crises, not crisis financing. It has so far missed, not just failed to prevent, every major crisis of its lifetime.”

Akyüz went on to argue that in those cases where crises happen “it would be better to respond to them by combining mandatory debt work out mechanisms, including temporary debt standstills and exchange controls, with emergency lending rather than to keep on bailing out international creditors and investors with attendant consequences for burden sharing, moral hazard and financial stability.”

Brady bonds for Europe, Simon Johnson www.project-syndicate.org/commentary/Johnson12/
Gender-blindness and conditionality cast shadow over record Bank lending

New evidence of worsening gender performance and persistent conditionality has led critics to ask if the Bank is fit for purpose.

Commitments by the World Bank Group in the financial year (FY) ending June 2010 reached $72 billion, up from $60 billion (see Update 66); $40 billion was actually disbursed. Middle-income countries were the main destination: International Bank for Reconstruction and Development commitments exceeded $44 billion, up 34 per cent on the previous 12 months, as the global crisis took its toll. International Finance Corporation (IFC, the Bank’s private sector arm) commitments leapt from $14.5 billion to $18 billion, according to preliminary figures. In contrast, commitments by the Bank’s low-income country arm, the International Development Association (IDA), rose only 4 per cent, to $14.5 billion.

Infrastructure was again the golden sector (see Update 66), attracting over $22 billion in lending commitments, outweighing $4 billion for health and $4.5 billion for education.

The Bank is yet to disburse 15 per cent of commitments made since July 2008. Developing countries have repeatedly rated the Bank poorly for rapid and predictable disbursement in recent surveys conducted by UK think-tank Development Finance International (DFI) for the UK’s Department for International Development (see Update 68).

Gender failures

A June report by the Bank on the implementation of its gender mainstreaming strategy during FY2009 confirmed the critical findings of the Independent Evaluation Group (IEG) review, which covered 2002-8 (see Update 69).

Although three-quarters of operations across all social sectors were ‘gender-informed’, only 27 per cent of economic policy work was. Energy and mining was the weakest sector, at just 9 per cent (see page 2). The overall proportion of Bank lending judged gender-informed declined from 45 to 38 per cent in FY2009. The report was unable to explain that deterioration, listing portfolio variation and external conditions as possible causes, while admitting that the lack of gender expertise within the Bank – which is not monitored – could be to blame. One in six Country Assistance Strategies (CAS), Bank documents which guide its activities in each country, (see Update 70) failed to integrate gender, and one-third of countries were yet to complete gender assessments, despite a commitment to universalize these by 2005. In May, the Bank published its $68 million gender plan for 2011-2013. It sets out a results framework to monitor gender integration in operations and policy dialogue, as well as beneficiaries by sex. Measurement of gender integration will be extended to include policy lending and sector-level work as well as projects, as advocated by civil society groups (see Update 69).

Despite the consistent evidence of weak performance, the Bank claims it is “well-placed to lead efforts to mainstream gender in economic sector operations”. A continued “focus on women’s economic empowerment” entails measuring gender responsiveness in infrastructure lending, and women’s access to finance through the IFC. It also includes modest targets for 75 per cent of agriculture operations to be gender-informed.

The plan commits to working more closely with clients on gender and capacity building through regular Bank operations. In a reiteration of its controversial market-oriented – rather than rights-based – approach, it casts the forthcoming 2012 World Development Report on gender as “a unique tool to more effectively help disseminate the business case for gender equality.” Of the IEG’s wide-ranging criticisms, the plan highlights only CAS and monitoring and evaluation as requiring particular attention. It maintains a selective approach to integrating gender, with no reference to the ongoing energy and trade strategy reviews, contrary to recommendations that gender should be mainstreamed throughout decision-making and operations.

Elaine Zuckerman of US NGO Gender Action said, “The Bank’s new gender transition plan, although more comprehensive than its predecessor the 2007-10 Gender Action Plan, still lacks a women’s/human rights focus. It almost exclusively promotes economic empowerment as the means to achieve gender equality, reiterates a promise to improve gender-related statistics which the Bank has failed to fulfill for over 30 years, and largely neglects the role of men in achieving gender equality. However, we are pleased that the transition plan adds a reproductive health focus.”

An NGO 12-country review of 10 years of Poverty Reduction Strategy Papers (PRSPs), guiding documents produced by countries with the involvement of the Bank, found that they have failed to sufficiently involve or take account of women and minorities. The August report, by international NGO Minority Rights Group, revealed that analysis of women’s situation was often limited to a few sectors and rarely covered gender discrimination.

Allocation debate

A storm of criticism continued to rage over the Bank’s Country Policy and Institutional Assessment (CPIA), on which its allocations to IDA countries are based (see Update 63). Governments and civil society groups are advocating fundamental reform, following the IEG’s conclusion that the exercise should be completely redesigned (see Update 69).

In research published by DFI in August, southern policymakers confirmed that they viewed the Bank’s allocation system as putting too much focus on performance rather than need. The same month the African Caucus of Ministers established a taskforce to contribute to the Bank’s review of CPIA. They are expected to draw on an August paper by German think-tank the Heinrich Boell Foundation, which sets out the ways in which CPIA is inflexible and contrary to country-ownership. It offers specific recommendations to make the Bank’s allocation system more need-based, country-owned and transparent.

Conditionality continues

Leading policymakers in developing countries criticised the Bank’s “excessive ‘one size fits all’ conditionality” in DFI’s survey. 2009 research by DFI found that the Bank applies almost twice as many conditions as other multilaterals.

A July study by NGO Eurodad of conditionality attached to loans made to Ghana during the financial crisis found that the Bank “continues to influence developing country economic policies through placing conditions on loan agreements, despite concrete commitments by the Bank to significantly reduce [them]. … What is new, however, are the more discreet channels of influence … conditions for the receipt of loans are increasingly being pushed in through the side door, for example by being stipulated outside of the loan agreement itself in side documents and letters, contravening responsible financing principles.”

With IDA deputies meeting in early October, the Bank has been aiming to maximise its share of global aid by presenting the replenishment as the ‘last chance’ to accelerate progress towards the Millennium Development Goals. Civil society groups, however, urge governments to address the issues afflicting the Bank before trusting it with more aid (see page 2).

Gender monitoring report FY09

© tinyurl.com/genderfy09

Development Finance International survey

© tinyurl.com/difiresearch

World Bank neglecting education?

In September the Bank announced an additional $750 million for basic education over five years. Joanne Carter, co-chair of the Global Campaign for Education UK, said this represented “a welcome correction” to the 40 per cent reduction in Bank funding for this area over the last decade.

However, research published by NGO Results in June showed that average Bank support for education in sub-Saharan Africa is only $200 million per year. The report also presented evidence that the Bank was reducing IDA education support to countries receiving money from the Education for All – Fast Track Initiative (FTI), putting them at risk since future FTI funding is far from assured. Participants in the consultation on the Bank’s education strategy review (see Update 71) expressed concern on this point.

Consultation feedback also highlighted the importance of equitable and free access to education as a right. Following Bank support for untrained ‘para-teachers’ to plug staff shortages on the cheap, an emphasis on quality of education also featured strongly. Participants from low-income countries warned that the Bank needed to ‘listen more’ in general. Consultations on the draft strategy will continue through October before board consideration next January.
The Multilateral Investment Guarantee Agency (MIGA), which forms a part of the World Bank Group, promotes foreign direct investment (FDI) in its 175 member countries. To this end, MIGA provides insurance for companies investing in its developing member countries in the form of guarantees against political risk, as well as advisory services, capacity building support, and mediation services.

MIGA is run by World Bank vice president Izumi Kobayashi, and governed by the Bank’s executive board. MIGA’s member countries have pledged capital of $1.15 billion to the institution, of which 20 per cent has been paid in. The agency also operates using retained earnings.

MIGA insures eligible projects against losses relating to currency transfer restrictions, expropriation, war and civil disturbance and breaches of contract. This is intended to improve lender and investor confidence. MIGA insures private sector investments originating from MIGA member countries destined for developing country members for up to 15 years. These investments include equity, shareholder loans and shareholder loan guarantees.

MIGA’s operational strategy aims to attract investors into difficult operating environments by encouraging developing countries to reform their investment environments and address investor perceptions of political risk. The focus is said to be areas where there is potential to encourage greater change, such as conflict-affected areas and south-south investment.

Since its inception in 1988, MIGA has issued guarantees worth over $21 billion for over 600 projects in 100 developing countries. In the fiscal year 2009 MIGA issued $1.4 billion in investment guarantees for 26 projects. Sub-Saharan Africa, despite being a strategic priority, received only $50 million in guarantees for 10 projects. The Eastern Europe and Central Asia region received the largest volume of guarantees, thanks to support to the region’s banking sector hit by the global financial crisis.

The financial sector accounts for the largest share of MIGA’s outstanding gross portfolio (47 per cent); followed by the infrastructure sector with a 35 per cent share; while agriculture, manufacturing and services take 11 per cent. Oil, gas and mining projects account for 7 per cent of the agency’s portfolio.

MIGA claims to support investment projects that are developmentally sound and meet high social and environmental standards, by applying their own set of safeguard policies. These policies are modelled on the much-criticised IFC performance standards (see page 12, Update 71) but with amendments reflecting the agency’s different role.

MIGA also provides other services as part of its overall effort to encourage FDI in the developing world. Together with the World Bank Group’s Foreign Investment Advisory Service (FIAS), MIGA helps developing member countries market themselves as suitable investment destinations to potential foreign investors. Areas of assistance include strategic planning, marketing and obtaining project finance from private banks. For over 10 years MIGA has operated a suite of online information services providing information for international investors about investment opportunities through websites such as www.miga.org.

MIGA’s operational direction for fiscal years 2009-2011 reiterates the agency’s stated aim of promoting investment in low-income countries, post-conflict countries, complex projects and support for south-south trade. In January 2008, MIGA announced its first ever guarantee for Shariah-compliant project financing (see Update 59).

World Bank assesses water strategy, faces barrage of criticism

In September, the Bank released a progress report on the implementation of its 2003 water resources strategy, while criticism mounts over its hydropower lending, water resource management and support for private sector provision.

The Bank’s progress implementation report, Sustaining water for all in a changing climate, examines activities in the first six years of its strategy (see Update 29). It ignores the criticisms made by the Bank’s arms-length evaluation body, the Independent Evaluation Group (IEG) in a recent evaluation (see Update 70) preferring instead to focus only on achievements.

Hydro controversy

Plans to maintain water sector lending at around $6 billion annually from now until June 2013 are set out, with a focus on “continue[d] support for infrastructure” despite “high reputational risks”. This includes scaling up support for hydropower, “as the largest source of renewable and low carbon energy” (see Update 69, 66).

These plans are likely to enrage the 108 civil society organisations from around the world who wrote to the Bank in June to express their concern “that the Bank’s pledge to increase support for large hydropower projects will result in increased poverty and irreversible social and environmental damage.” They argued that large hydropower projects can increase greenhouse gas emissions, exacerbate conflict over water, and damage ecosystems, without necessarily increasing energy access for the poorest. They reiterated support for the recommendations of the World Commission on Dams (see Update 20) which the Bank “has done little to implement” since the commission’s report was released ten years ago.

The Bank’s progress report also promises to “increasingly” mainstream water into other sectors of Bank activity, and says that “efforts towards climate change mitigation will be paramount” in future investments.

IFC in hot water in Peru

The report highlights the Bank’s intention to “increase its assistance to agricultural water management” just as the International Finance Corporation (IFC), the Bank’s private sector arm, runs into trouble over this issue in Peru. In April, a Bank official was short of all tension mounted over the IFC’s support for one of Peru’s biggest asparagus producers, Agrokasa. The company is accused of contributing to the depletion of the aquifer on which farming in Huancavelica, the poorest region of Peru, depends. Since 1999, the IFC has lent $23 million to the company, though last year, after mounting criticism, Agrokasa withdrew an application for further funding from the IFC.

In June, the IFC’s internal watchdog, the Compliance Advisor Ombudsman (CAO) released an announcement of complaints it had received from various groups, including local ground-water users’ associations, over alleged violations of IFC policies and performance standards. They decided to conduct an audit, saying it was “unclear whether IFC policy provisions have been applied properly and whether the IFC policy provisions provided an adequate level of protection” to local people. Drop by drop, a September report by NGOs Progressio, Centro Peruano de Estudios Sociales and Water Witness International said this “illustrates that the IFC’s safeguard measures have failed to assess or act on some of the risks attached to its lending” (see page 12).

Wedded to the private sector

Longstanding criticisms of the Bank’s support for private sector provision of water (see Update 66, 55) flared up again when the IFC made a €100 million equity investment in multinational Veolia Voda, for its activities in Eastern Europe. “A similar equity investment by the IFC in a Veolia competitor operating in the Philippines produced disastrous results for people living in and around Manila, who now face alarming water shortages,” said Joby Gelbspan of US-based NGO Corporate Accountability International.

Surprisingly, though the Bank’s progress report recognises that “it has been difficult to attract the private sector to water-related projects,” it also says that it still intends to “explore opportunities presented by private finance.” Drop by Drop

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

Para la versión en español, visite: bretonwoodsproject.org/es/boletin

www.miga.org

CSO letter to World Bank on hydropower

tinyurl.com/CSOdamsletter

tinyurl.com/DropbyDrop

tinyurl.com/CSOpetition
**IFIs on trade and investment: Liberalisation bias returns**

By Aldo Caliari, Center of Concern

The World Bank’s latest report on foreign investment and its new trade strategy are part of a worrisome trend that involves the Bank’s growing use of tools other than conditionality to restrict the space for countries to pursue alternative, country-tailored development strategies.

In early July, the World Bank launched *Investing Across Borders*, a report that, in the words of the Bank, “offers objective data on laws and regulations affecting foreign direct investment across 87 countries.” The report, which will be updated every year, covers indicators for these countries in four areas: investing across sectors, starting a foreign business, accessing industrial land and arbitrating commercial disputes. The report contains disclaimers about the need to read its findings with caution, outlining that the indicators are “only partial measures of the topics they cover” and that “circumstances in each economy must be considered when interpreting the indicators and their implications for policies and the investment climate.”

The Bank lays out, at the end of the chapter on each indicator, a set of “good practices” with a heavy bias towards the liberalisation of foreign investment. For instance, some of the top recommended practices emerging from the report are: “equal treatment of foreign and domestic investors”, including in their right to acquire and own land (see page 11); adherence to and implementation of conventions on arbitration such as through the Bank-based International Centre for Settlement of Investment Disputes (see Update 66); and the “simplification of the establishment process” for foreign investors.

If previous experience is any guide, the “naming and shaming” impact of the report on countries not implementing such “good practices” is likely to be much stronger than the disclaimer wording would suggest. The publication follows in the footsteps of the *Doing Business* report, a yearly compilation of indicators comparing countries’ business regulations that the Bank started publishing in 2003 (see Update 66, 62, 57, 53). The recognition of important methodological shortcomings in *Doing Business* (see Update 67) did not prevent the Bank from releasing a new ranking based on its indicators in 2010. The ranking has become quite influential: that, in the words of the Bank, “offers objective data on laws and regulations affecting foreign direct investment across 87 countries.”

The reference to an “anti-trade bias” is also found in a recent IMF staff note analysing trade in low-income countries: “This bias reflects moderate to high average levels of protection, and uneven and unstable tariffs, trade-related taxes, and other trade-related policies.” The Fund staff’s sweeping recommendation is to lower tariffs to a maximum of 25 per cent and an average of 15 per cent. Not content with that, it says “further tariff rate reductions would be even more beneficial.”

Strongly underpinning the Bank proposals on trade seems to be the view that the emergence of production-sharing networks means that “low transaction costs and favourable business enabling environments have become more important sources of comparative advantage.” However, the experience of countries that used trade to develop shows they did it on the basis of a dynamic notion of comparative advantage. Indeed, full use of tools to manage the rate and patterns of investment into export sectors was key to their progress. Interestingly, none other than World Bank chief economist Justin Lin has recently defended the need for states to take deliberate steps to upgrade their productive capacities and over time change their initial comparative advantage. This sounds very different from the passive approach of competing on the basis of lower cost and reduced regulations that the IMF and the Bank strategy suggests.

Sad, should the Bank succeed in its intense advocacy of indiscriminately reducing barriers to all foreign investment, developing countries’ ability to use trade in their interests and upgrade comparative advantages may become a thing of the past.

International Working Group on Trade-Finance Linkages steering committee submission to the World Bank

[www.coc.org/system/files/WBTradeStr+Response.pdf](http://www.coc.org/system/files/WBTradeStr+Response.pdf)
**Bank and climate: New roles, old challenges?**

With the World Bank and IMF under consideration as significant sources of climate finance, controversy continues around the Bank’s Climate Investment Funds (CIFs) and carbon offset projects.

The UN secretary general’s High-level Advisory Group on Climate Change Financing is expected to report in November on potential sources of climate finance (see Update 70). A March paper for the group suggested the international financial institutions could play an “important role”, including through leveraging private sector investment. IMF special drawing rights and Bank profits are under consideration as sources of finance.

Bank involvement in managing climate finance has been divisive due to its inequitable governance and carbon-intensive portfolio; the same concerns could apply to the Bank serving as a source of finance.

A September briefing by UK NGO the Bretton Woods Project argues that the Bank’s repackaging of existing lending instruments for climate funds could undermine country demands for direct access to climate finance. Continued use of conditionality in Bank lending as well as Bank influence over trust funds pose obstacles.

Concerns about the CIFs have continued to emerge following their meetings in June (see Update 68). Civil society observers to the CIFs and Forest Carbon Partnership Facility (FCPF) are concerned that country proposals are being waved through with inadequate consultation (see Update 68), and about the extent to which critical country governance issues are taken up.

While reference to rights and safeguards was included in the operational guidelines of the Forest Investment Program, calls by civil society groups for them to require compliance with international environmental and human rights agreements were rejected. Plans on plans to increase the number of delivery partners for the FCPF and allow them to implement their own safeguards. NGOs including the Pan-African Climate Justice Alliance said “the proposed changes represent a potentially significant weakening of safeguards and standards.”

At the FCPF June meeting in Guyana, Tony James, president of the Amerindian Peoples Association and others raised concerns about indigenous land rights.

**Carbon offsets debacle**

Controversy intensified over the Bank’s involvement in carbon offset-setting (see Update 59) as German NGO CDM Watch released evidence that manufacturers were increasing emissions of greenhouse gas HFC-23 to generate more carbon credits by destroying it. In August, the executive board of the Clean Development Mechanism halted the issuance of offsets to five projects, including two with Bank funding.

Outcry greeted the April announcement that South African utility Eskom was conducting a feasibility study to establish whether its Medupi coal plant, recipient of a controversial $3 billion Bank loan (see Update 70), could be eligible for carbon credits on the grounds that it uses more efficient technology.

**IFs sceptical of rating agencies**

Doubt about private credit rating agencies’ assessments have grown since 2008 and are being echoed by World Bank president Robert Zoellick. “After the experience of the past years, I would not want to rely completely on the judgement of such agencies anymore,” Zoellick told German weekly Die Zeit. In August 2010, Standard & Poor’s was criticised by the IMF executive director representing Ghana for downgrading the country from B+ to B. He said that “the downgrade [was] based on wrong information.”

European Commission president Barroso has backed calls from Germany and others for a public competitor to the IMF. He said that “the downgrade [was] based on wrong information.”

**IEO invites input on IMF evaluation topics**

In late August the Independent Evaluation Office (IEO) of the IMF issued a list of possible topics for future evaluations of the IMF and invited input from civil society and external stakeholders. The IEO, which has recently issued scathing critiques of the IMF’s conditionality and governance, will pick two topics for evaluations in the coming year from a shortlist that includes issues of IMF surveillance, forecasting, inflation and reserves advice, internal governance, and collaboration with other international organisations. The IEO is currently working on evaluations of the IMF’s research and its performance in the run-up to the financial and economic crisis.

**Bank coal lending up amid energy furoro**

World Bank energy policy remains controversial, with escalating lending for coal and a delay to the energy strategy review. Past Bank-financed energy projects in Ghana and Albania are also proving problematic.

In mid September the Bank released its lending figures for the fiscal year (FY) through June 2010, showing that it had lent a record amount to coal power projects, despite promising a more limited role. According to the Bank, it lent $3.4 billion to coal projects, amounting to one-quarter of all its energy sector lending, with over $3 billion going to a giant power station in South Africa (see Update 70).

US NGO Bank Information Center (BIC) put the figure even higher, including a $1 billion electricity transmission project in India (see Update 68) designed to connect coal power stations to the national grid. BIC research found that combined World Bank Group fossil fuel funding for FY2010 “hit a new record high of $6.3 billion, a 138 per cent increase over the previous year.”

These figures are destined to anger the US Senate which in August passed a foreign operations funding bill including a proviso that they expect the Bank’s new energy strategy (see Update 71, 68) will “rapidly phase out Bank support for fossil fuel-related projects,” except those specifically to provide energy access to the poor.

The volume of criticism has forced the Bank to extend the schedule for its strategy review. It is now planning to prepare a second draft for more consultations in early 2011 before finalising it in the middle of the year.

**Basel III: IMF says tiger, critics say mouse**

In mid September, the Basel Committee on Banking Supervision (see Update 63) released its ‘Basel III’ rules. José Vinals, director of the IMF’s monetary and capital affairs department, welcomed the agreement among G20 countries on the new capital rules, but said that “basel has laboured mightily and brought forth a mouse.”

Needless to say, the banking industry will insist the mouse is a tiger. He adds that trebling of capital reserves “sounds tough”, but “trebling almost nothing does not give one very much.”

**No taxation for Latvian IMF staff, argues Fund**

The IMF does not wish to pay taxes on the salaries of employees at its representative office in Latvia, despite these workers being Latvian citizens according to magazine The Baltic Course. With legal provisions clearly stipulating tax obligations in this case, the Latvian foreign minister says that by not making social security tax and income tax payments, the IMF is acting unlawfully. The IMF’s position adds with the austerity measures imposed on the country under the current Stand-By Agreement. In its July Letter of Intent to the IMF, Latvia committed to “intensifying [its] efforts to improve tax administration and encourage tax compliance.”

**BrettonWoodsProject.org/clap-datedJuly2010**

**BIC energy lending figures, FY2010**


[www.baltic-course.com/eng/finances/?docid=28109](www.baltic-course.com/eng/finances/?docid=28109)

**[tinyurl.com/ieopossibletopics](tinyurl.com/ieopossibletopics)**

**[tinyurl.com/MWeilfBasel](tinyurl.com/MWeilfBasel)**
Palmed off: Bank's palm oil framework 'business as usual' despite environmental and rights concerns

The World Bank’s draft framework for investment in the palm oil sector was met with dismay from civil society groups, who said that it failed to offer a credible strategy to address manifold social and environmental problems.

The draft was published in late July and was mulled throughout August, following a Bank freeze on palm oil investment last year, prompted by environmental and human rights concerns (see Update 67).

Convinced that the Bank “in partnership with others, can play a significant role in promoting change in the palm oil sector”, the draft sets out four themes for the Bank’s future engagement: supporting enabling policy and regulatory environments; mobilising socially and environmentally sustainable private investment; encouraging benefit sharing with smallholders and local communities; and supporting sustainability codes of practice.

The draft commits to strengthening monitoring and evaluation and to promoting smallholder inclusion in certification schemes.

The International Finance Corporation (IFC), the Bank’s private sector arm, says it will invest “only where its interventions will meet IFC’s performance standards and will have clear and measurable development impacts that contribute to economic growth and poverty reduction.” It will strengthen its due diligence and require plantations to be internationally certified as sustainable, or have a time-bound plan to become so.

However, it will invest “even if the public sector legal/regulatory enabling environment is less than ideal, if [the] IFC is convinced that the project will have strong and measurable impacts and that any risks can be mitigated through other governmental or non-governmental programmes.”

Rethink needed

The draft was met with criticism from civil society groups, with Knud Voecking of German NGO Urgewald saying: “We are dissatisfied that the authors of the Bank’s framework have left our core inputs on rights and accountability to one side.”

A consortium of 105 indigenous peoples’, smallholders’ and non-governmental organisations called for the freeze on Bank investment to continue until an adequate strategy is developed. Norman Jiwan of Indonesian NGO SawitWatch, commented: “The World Bank Group says it is ‘aware of negative environmental and social impacts, including deforestation, biodiversity loss, greenhouse gas emissions, land use conflicts and questions over land tenure and human rights’, but the ‘framework’ document they have produced looks like business as usual to us. No new standards, nothing about how they address the deficient legal frameworks in Indonesia and Malaysia, and no measures to curb global warming.’

Particular concerns raised in the consortium’s comments on the draft include the unresolved disparities between the standards of the multi-stakeholder Roundtable on Sustainable Palm Oil (RSPO) and Bank policies and performance standards, notably with regard to recognition of customary rights and the right to free, prior and informed consent. The consortium condemns the draft’s lack of guidance on issues including carbon emissions caused by forest and peatland clearance for oil palm plantations, forced resettlement, and internal staff incentives that were previously found to prioritise financial over social and environmental considerations (see Update 67).

The consortium finds the Bank’s plans to strengthen monitoring and evaluation to be insubstantial, certification requirements vague and open to abuse, and conservation reliant on inadequate legal frameworks. It notes that “the current legal framework in Indonesia does not provide legal means to protect [High Conservation Value habitats] in areas permitted for plantations so companies seeking to follow the RSPO standard are finding that government agencies are taking these unplanted areas off them and handing them to less scrupulous companies to develop.”

The consortium called on the Bank to rethink its draft strategy and engage further with affected peoples.

The Indonesian Oil Palm Smallholders Union expressed concerns that smallholder schemes would continue to deprive people of land and cause indebtedness.

The World Bank draft palm oil framework, IFC +44 (0)20 3122 0610

Civil society groups’ comments on draft framework tinyurl.com/socomments

Call for performance standards delay to strengthen rights

Civil society organisations are calling for the extension of the schedule of the International Finance Corporation’s (IFC, the Bank’s private sector arm) consultation on its performance standards (see Update 67) to allow opportunity for human rights and other controversial issues such as climate to be incorporated.

They believe a delay could lead the IFC to more adequately adopt the principle of free, prior and informed consent (FPIC) and take on board the recommendations of John Ruggie, the UN special representative on human rights and business (see Update 71).

US civil society organisations have seen the likely endorsement by the US and Canadian governments of the UN Declaration on the Rights of Indigenous Peoples as an opportunity to put pressure on the IFC to adopt the principle of FPIC. With the US and Canada on board, FPIC would become a near universal standard.

While Canada’s endorsement is imminent it may be up to four months before the US ratifies the declaration. With the performance standards due to go to the Bank’s board’s committee on development effectiveness for approval in mid October, NGOs have been pushing for a delay in the process until after this has happened.

Many of the comments in the recent round of submissions for phase two of the performance standards consultation highlight the failure to take on board Ruggie’s recommendations, including on proper due diligence and tracking and reporting of performance (see Update 71).

Although the first draft acknowledges Ruggie’s framework, a letter from the Equator Principles Financial Institutions (EPFIs), a group of financial companies, highlights the fact that the timing of the Ruggie mandate and the IFC review process are not fully aligned. Ruggie is due to issue his next report in 2011, after the review has already gone to the Bank’s board’s committee on development effectiveness for approval in mid October.

NGO Amnesty International argues that the “IFC’s conclusion that all relevant civil, political, economic, social and cultural rights are ‘well addressed’ in the Sustainability Framework is not credible.”

Job vacancy: research and communications officer

An exciting opportunity at the Bretton Woods Project

Use your communications experience, analytical ability and knowledge of international development and/or environmental issues to help challenge and change the World Bank and IMF.

Deadline for applications: 10 October 2010.

Published by Bretton Woods Project

Critical voices on the World Bank and IMF

No permission needed to reproduce articles. Please pass to colleagues interested in the Bank and Fund, and let us know of other groups interested in getting the Update. The Update is available in print, on the web and by e-mail.

Subscriptions: www.brettonwoodsproject.org/subs

Spanish: www.brettonwoodsproject.org/es/boletin

Bretton Woods Project

33-39 Bowling Green Lane
London, EC1R 0BQ
United Kingdom
+44 (0)20 3122 0610
+44 (0)20 7287 5667
info@brettonwoodsproject.org
www.brettonwoodsproject.org

The Bretton Woods Project is an ActionAid-hosted project. UK registered charity no. 279467. This publication is supported by a network of UK NGOs, the CS. Mott Foundation and Rockefeller Brothers Fund.

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

ISSN 1471-1168

72