‘Groupthink’ IMF slammed for mistakes before crisis

The Independent Evaluation Office (IEO) found major IMF lapses in judgement before the financial crisis, including the promotion of “light-touch regulation”, casting doubt on the Fund’s ability to contribute to taming global finance.

The IEO report IMF performance in the run up to the financial and economic crisis, released in early February, covered the work of the Fund from 2004 through 2007. It found that “the IMF’s ability to correctly identify the mounting risks was hindered by a high degree of groupthink, intellectual capture, a general mindset that a major financial crisis in large advanced economies was unlikely, and inadequate analytical approaches. Weak internal governance, lack of incentives to work across units and raise contrarian views, and a review process that did not ‘connect the dots’ or ensure follow-up also played an important role, while political constraints may have also had some impact.”

The report analysed IMF multilateral surveillance and bilateral oversight of 40 countries, including those with financial centres and the G20. As examples of how “the IMF missed key elements that underlay the developing crisis”, it highlighted poor analysis of the US financial system, of which IMF staff were “in awe”. According to the IEO, “the IMF praised the US for its light-touch regulation and supervision that permitted the rapid financial innovation that ultimately contributed to the problems in the financial system. Moreover, the IMF recommended to other advanced countries to follow the US/UK approaches to the financial sector.”

In setting out recommendations, the report roundly criticised previous reform of internal governance of the Fund (see Update 65, 61, 51). “The IMF expressed the need for similar steps after previous crises, but some of them were not implemented at that time and the results of others have not been as positive as they had been hoped.” And in a swipe at the unwillingness of the IMF to accept independent evaluations, the IEO professed “the need to address weaknesses in IMF governance, a recurrent theme in IEO evaluations”. It also made numerous suggestions related to remediying the “insular culture”, “silo behavior and mentality”, and “actively seek[ing] alternative or dissenting views”.

Rhetoric on regulation

The IEO report comes in the middle of the IMF’s push on financial regulation, so it is unclear how influential it will be. In 2010, managing director Dominique Strauss-Kahn started to argue for deeper and more systemic financial reform. In his speech at the October IMF annual meetings, he said: “We will fix the financial sector. We will create new rules, have a safer financial sector. We promised a lot; we didn’t deliver enough.”

An October 2010 IMF staff position note – which reflects staff opinion but has not been endorsed by the executive board – on Shaping the new financial system contains a fundamental critique of the size and shape of the finance sector. The note finds it “distorted”, “opaque”, “over-leveraged” and says that “an increasingly large portion of financial activity did not seem to serve the needs of the real economy.”

IMF searching for a new role?

Many have questioned whether the IMF is trying to take on a financial regulatory role. In November, the Fund’s head of capital markets, José Viñals, said that because financial institutions could move their operations to low-regulation jurisdictions, “there will certainly be a need for the proposed reforms address the deeper causes of the 2007 crisis.”

Carvalho countered that “the different voting weights of each IMF member strongly biases the institution in favour of whatever richer countries wish. Moreover, by both training and experience the Fund staff has always shared the view that the Anglo-Saxon model of capitalism is superior to all its alternatives, so no significant change is to be expected.”

IEO report on IMF performance

www.ieo-imf.org/eval/complete/eval_01102011.html
For the love of markets: World Bank, food crisis and agriculture

As record high food prices contribute to unrest in North Africa and beyond, the Bank’s faith in markets has stirred debate on how to address factors underlying a global crisis in food prices. Meanwhile, the Bank continues to champion bringing agriculture into carbon markets.

In January, Bank president Robert Zoellick delivered a pro-market message addressing food prices in the UK newspaper the Financial Times. “The answer to food price volatility is not to prosecute or block markets, but to use them better,” he argued, urging the G20 leaders to put access to food at the top of their agenda. He also emphasised that trade barriers contribute to spikes in food prices and that food aid should be allowed to move more freely.

This differs from both French president Nicolas Sarkozy, who blamed commodity speculators and Nobel-laureate economist Paul Krugman, who emphasised the impacts climate change is beginning to have on agriculture.

**Incongruent conclusions**

Despite widespread concern about market volatility, Octaviano Canuto, vice president of the Bank’s Poverty Reduction and Economic Management network, has stated that there is no clear-cut market regulation. This market-led approach is consistent with the Bank’s Agriculture Action Plan (see Update 69) and the 2008 World Development Report on agriculture (see Update 61).

In stark contrast, the UN’s Conference on Trade and Development (UNCTAD) Least developed countries report 2010, proposes active international management of commodity markets, including food markets, to ensure that the poorest countries benefit. UNCTAD’s proposals include “taxation measures to reduce speculation in global commodity markets”, “innovative commodity price stabilisation schemes” and emergency finance to protect poor countries during commodity price shocks.

Furthermore, Zoellick’s commentary proposed giving countries access to fast-disbursing support as an alternative to export bans or price capping or fixing, Duncan Green of NGO Oxfam has taken exception to Zoellick’s opposition to “price fixing”: “If by that he means deliberate government intervention to stabilise prices for consumers and producers, [it] has been an effective tool... to reduce food insecurity and provide incentives for farmers to increase food production,” he writes in a blog. If Zoellick’s opinion is indicative of a wider approach, “the Bank seems to have a myopic focus on maintaining the integrity of trade and markets”, concludes Green.

Zoellick’s article also brings small-holder farmers into the debate. However, he focusses on proposals such as sourcing some humanitarian food aid from them while larger structural issues remain unaddressed.

A new report on small-scale farming from think tanks International Institute for Environment and Development and Hivos, details the myriad of challenges small holders face and the ways in which they have often been detrimentally impacted by market bias and export orientation (see Update 58). “A strong push within the donor community, particularly from [the World Bank and IMF] but also from a number of bilateral donors, to deregulate and encourage private sector activity also led to a renewed emphasis on exports” notes the report.

**Multilateral efforts**

The Global Agriculture and Food Security Program (GAFSP), of which the Bank is a supervising entity, now has pledges of $925 million to deliver on food security commitments made at the 2009 L’Aquila G8 summit (See Update 71). However, only $263 million had been received by July 2010. Civil society groups fear shortfall of funds. In the US, 28 NGOs have written a letter to encourage president Obama to push forward $100 million of what they expect to be a $250 million US contribution in 2011.

The GAFSP’s private sector window has raised concerns since it will be channelled through the Bank’s private sector lending arm, the International Finance Corporation (IFC), which has been accused of supporting controversial agricultural lending (see Update 72, 71).

In November GAFSP meetings, the IFC agreed to make development indicators for measuring GAFSP outcomes available to NGOs. It also confirmed that environmental and social safeguards for financial intermediaries, which seems to be in contrast to the IFC’s stated policy.

**Private sector lending**

Following exposes that the IFC was backing private sector investment that can lead to land displacement, the Bank joined with the Food and Agriculture Organisation (FAO), International Fund for Agricultural Development (IFAD), UNCTAD and others to devise principles for agricultural investment, focused on land in particular (see Update 71). These principles were critiqued for not being strong enough nor participatory in their development. They are now to be discussed and negotiated by the multi-stakeholder Committee on World Food Security (CFS), with hopes of delivering agreed standards at an FAO meeting in Rome in October.

**Continued market approaches**

At the Cancun climate talks in December 2010, the Bank held a high-level event to re-launch a “roadmap for climate and agriculture” (See Update 73). Resulting from the meetings in the Hague in October last year, the roadmap was contentious due to the lack of participation and the heavy emphasis on bringing agriculture into carbon markets, among other issues. In addition to the UN’s peak meeting in February, Zoellick called for the next round of UN climate negotiations in South Africa in December to focus on soil carbon sequestration.

According to US NGO Institute for Agriculture and Trade Policy (IATP) the Bank has yet to clarify a methodology for measuring amounts of carbon in the soil for the Bank’s first soil carbon sequestration project in Kenya, because it is too costly. “More needs to be learned about the World Bank’s methodology, its environmental integrity and the social impacts of the project,” concludes an IATP briefing on agriculture released in December.

Bank’s ‘blind spot’ blog. Oxfam blog tinyurl.com/Oxfamblog

IID & Hivos on small-scale farmers tinyurl.com/IIDHivos

**Unprecedented ruling on IFC immunity**

Ghana’s Supreme Court ruled in January that the International Finance Corporation (IFC), the Bank’s private sector lending arm, is not immune from legal action in the country. This is believed to be one of the first times an IFC has been made liable to prosecution in a developing country. However, the Court conceded that IFC officials are immune under the Vienna Convention, to which Ghana is a signatory. The decision came in the case of Tsatsu Tsikata, the former head of the Ghana National Petroleum Corporation, who was convicted in 2008 for a corruption scandal involving a project in the offshore Jubilee oil field, which was subsequently funded by the IFC (see Update 72, 65).

WDR Gender outline misses women’s rights

In January, the Bank released an outline of the 2012 World Development Report on gender equality and development. A review by Duncan Green of NGO Oxfam is critical of the report’s largely economic understanding of gender equality. He argues that the report risks equalising participation in the productive economy with recognition and respect, saying that “the institutions bit [of the report] is pretty impoverished, with precious little signs of any collective actors located between households and the state”.

Washington-based NGO Gender Action and London-based NGO Breton Woods Project set up an email list for critical civil society discussion of the process.

Bank sexual health investment falls short

A February briefing by NGO Gender Action finds that “productive health rights are rarely acknowledged or fulfilled through IFC investment” (see Update 56). The World Bank’s Reproductive Health and Action Plan: 2010-2015, which was released in April 2010, recognises that women’s equal participation in development is “contingent on accessing essential reproductive health services” and commits to increase “access to contraceptive, prenatal visits, educational programmes”. Gender Action writes that by the funding pledged in 2002, the Bank “seems unlikely to have a significant impact”.

**Gender Action**

IFC ignores rights in the Philippines?

The International Finance Corporation (IFC), the Bank’s private sector lending arm, has been accused of neglecting the rights of indigenous people in the Philippines. The IFC’s support for mineral exploration activities by mining company Mindoro Resources Ltd has led 29 elders from the Mamana people to write a letter to the IFC’s Compliance Advisor Ombudsman. The group are worried that the mining will lead to the destruction of their native forests, accuses Mindoro of entering “into our ancestral land without proper information and consent from us”, and states that “destroying our forest will affect our daily needs.”

Letter to CAO

tinyurl.com/mamana-ific
World Bank corners climate funds?

As governments reached an agreement at the climate negotiations in Cancun in December 2010, the World Bank continued to stir controversy as it attained a role in a new global climate fund, launched new carbon market initiatives, and touted the success of the controversial Bank-housed Climate Investment Funds.

While some civil society groups applauded the Cancun agreement, there was warning about optimism from a range of organisations. “A closer analysis will make it clear that its text may have given the multilateral climate system a shot in the arm and positive feelings among most participants … but that it also failed to save the planet from climate change and helped pass the burden onto developing countries,” said Martin Khor, Executive Director of think tank the South Centre.

Ongoing opposition from civil society groups to the role of the Bank in climate finance came to a head, with over 100 NGOs signing an open letter to governments demanding there be no role for the Bank in future climate change architecture, and staging protests in Cancun. “[Having] directly experienced the consequences of [Bank] loans, loan-financed projects and policy conditionalities, to us, it is inconceivable that this institution can be entrusted with climate finance,” said Abdul Awal of SUPRO, a network of grassroots community groups in Bangladesh and a member of Jubilee South.

Despite uproar about Bank involvement, an agreement to create a new Green Climate Fund (GCF) was reached, naming the Bank as interim trustee for the first three years. This role has been hailed, with several negotiators from developing countries trying to define that role as narrowly as possible, and civil society groups speaking out against it. Tim Gore of international NGO Oxfam expressed the opinion, repeated by many civil society organisations and delegates from developing countries, that the fund must “act under the authority of the UNFCCC … independent from institutions such as the World Bank.”

The fund is to be designed by a transitional committee that will report on the new negotiations at the end of the year in Durban. The committee will be comprised of 40 members, with 25 from developing countries, as well as staff seconded from multilateral development banks (MDBs) and UN agencies. As think tanks Overseas Development Institute and the Heinrich Boell Foundation pointed out last year, and as January’s paper is likely to show that Bank experts will be seconded to the transitional committee to recommend operational procedures, project selection criteria, and performance standards or safeguard measures for adoption in Durban. According to UK government officials, thus far the MDBs are the only ones to put forward names for secondment. Attention has also been drawn to the question of whether and how civil society participation will take place, with more than 50 NGOs submitting a letter to the UNFCCC calling for full civil society participation as “active observers.”

In early February, at an event in the UK parliament, Bank president Robert Zoellick highlighted that the new green fund needs resources committed to it. This was followed by the message that the Bank is eager to apply the knowledge it has gathered through the Climate Investment Funds (CIFs). In Cancun, comments from Bank staff about being a development institution that would rather apply its knowledge than just write cheques, further suggests the Bank’s ambitions for long-term participation in the international climate architecture go far beyond that of a trustee role.

Touting the CIFs

The Bank held a high profile event in Cancun alongside other MDBs, hosted by Mexican president Felipe Calderon, extolling the virtues of the CIFs as “a new model for transparency, cooperation, and scaling up climate action.” The CIFs will hold another Partnership Forum (see Update 70) in March where stakeholders are expected to discuss lessons and experiences so far, with rumours that the focus will be on how these can be applied to the design of the GCF.

Civil society groups have highlighted an array of continuing concerns over the CIFs (see Update 72, 68, 61). A February 2011 report by Brussels-based NGO Eurodad, Storm on the horizon, focuses on how the Bank is disbursing climate finance at the CIFs. It finds that only one sixth of the pledged funds will be delivered as grants, and that eligibility criteria for CIF funding “may constrain the policy space available for developing countries to decide on their own pathways for sustainable development.” It highlights the fact that over one third of CIF funding is channelled to the private sector, arguing that “private equity is a risky and opaque instrument, likely failing to deliver on intended climate purposes and often undermining country-led equitable and sustainable development.”

Doubts also remain over the extent and depth of community participation. A notable example is the failure of the Forest Investment Program’s Dedicated Mechanism, aimed at ensuring extensive consultation with indigenous peoples and local communities, to be developed in time to allow participation in the design of development strategies.

Bank-backed child labour in Uzbek agriculture

The Bank’s support to agriculture in Uzbekistan has landed it in hot water, suggesting that it does not take seriously the social implications of its lending. Uzbek NGO Ezgulik issued a report in December 2010, documenting severe flaws in the Bank’s assessments in providing the second phase of a $67.9 million loan to the Uzbek government. The loan, provided through IDA, the Bank’s low-income country arm, was a renewal of funding for the agriculture sector for 2010-2015. The report documents a number of failures in the Bank’s support to agriculture, including underestimations of the number of people living in poverty in the agricultural sector over total population estimates of $100 reported by Ezgulik. According to Ezgulik, most disturbing is the Bank’s conclusion that their social assessment did not reveal extensive use of child labour, contrary to reports by other institutions including UNICEF. Child labour in the Uzbek cotton fields has been widely documented by national and international NGOs in recent years. “School kids are working in cotton fields in hazardous conditions … while the agro-project managers of the World Bank keep reporting success stories about the situation in the farming sector of Uzbekistan,” concludes Ezgulik.
As emerging market economies expand tools to actively manage international financial flows to cope with surges, a liberalisation reform of the IMF’s statutes is up for debate again.

In mid December, South Korea introduced a new tax on foreign currency borrowing. In January, Brazil adopted new reserve requirements on domestic banks’ foreign exchange positions, and even Chile’s central bank – otherwise known for its hands-off approach to its floating exchange rate – intervened in the foreign currency market. While South Korea mainly aims to protect its banking system from currency risks, Brazil and Chile are trying to contain the pressure of strongly appreciating exchange rates that make it hard for their exporters to compete in international markets.

In a mid January briefing, Curbing hot capital flows to protect the real economy, Stephany Griffith-Jones of Columbia University and Kevin Gallagher of Boston University pointed to the important role of rich countries for regulating global capital flows. Because controls may shift financial flows to nations that do not deploy them, “the US could introduce measures to discourage carry trade flows to the rest of the world, and especially to developing countries. This could be done by taxing such flows.”

Heated IMF mandate debates

The IMF’s board discussed a long-awaited policy paper (see Update 73, 72) on The Fund’s role regarding cross-border capital flows in mid December. The executive directors noted that “volatile capital flows played a key role in the recent crisis”. While directors agreed that there is a “need to strengthen the Fund’s role regarding international capital flows” in line with the Fund’s surveillance mandate, they stressed that “substantial analytical work is needed to develop a coherent Fund view and inform policy guidance on capital flows”. The outcome of this analysis will then influence the Fund’s future bilateral and multilateral surveillance, which will be discussed by the board later this year.

Strong disagreement was expressed by the board over the idea of amending the IMF statutes to “give the Fund jurisdiction over capital controls”, a demand that its management enthusiastically called for in the mid 1990s (see Update 11). A “liberalisation-centric approach”, as rejected by the board more than a decade ago, was proposed as one option in the December board meeting. It would “establish specific obligations for members to liberalise capital movements, subject to strong safeguards that would allow for the phased elimination of restrictions, the routine exclusion or approval of measures imposed for prudential reasons, and the temporary approval of restrictions imposed for balance of payments and macroeconomic stability purposes.” An alternative, “more neutral approach ... would give the Fund the authority to require a member to either eliminate or impose restrictions”, depending on what the Fund considered appropriate.

Another discussion of the Fund’s role regarding capital flows is now planned for the summer, after IMF staff do the requested analytical work.

Alexander Cobham of London-based NGO Christian Aid said “this beggars belief that the institution which pushed liberalisation so hard, while the evidence accumulated of the complete inappropriateness of this policy prescription, is now repudiating itself to take ‘jurisdiction over capital controls’. If any institution has shown itself unworthy to be trusted to take evidence-based decisions, rather than ideological ones in this important policy area, it is the Fund.”

G20 supporting liberalisation?

In late January, more than 250 economists sent a letter to the US government expressing concern regarding the extent to which capital controls are restricted in US trade and investment treaties. The letter states that “given the severity of the global financial crisis and its aftermath, nations will need all the possible tools at their disposal to prevent and mitigate financial crises.” New research points to an emerging consensus that capital management techniques should be included among the ‘carefully designed macro-prudential measures’ supported by G-20 leaders at the Seoul Summit.

However, the G20 position on the issue could be extremely controversial. French president Nicolas Sarkozy, who chairs the G20 in 2011, set out his agenda in late January, with the international monetary system as one of six priorities (see below). The English version of the agenda, which includes the issue of capital controls, states that “a way must also be found to limit the negative consequences for the global economy of excessive volatility in certain currencies and excessive rigidity in others.” In contrast, the French Dossier de Presses given out to journalists translates to ‘The IMF should have a mandate over capital accounts that it currently does not hold. That could take the shape of multilateral rules supporting the free movement of capital, but allowing for state intervention in cases of massive changes in flows.”

Curbing hot capital flows to protect the real economy

Two January IMF policy papers examined the role of the SDR, and gave encouragement to those who see its expansion as a potential way of creating a global reserve currency to help stabilise the international monetary system (see Update 70). Enhancing international monetary stability – a role for the SDR? argued that “the SDR, if used more in its various guises – official composite reserve asset, unit of account, and possibly new class of reserve assets – could potentially contribute to the long-term stability of the system”. The second paper, Is SDR creation inflationary? authored by Richard Hooper of Harvard University, examines what might happen if SDRs were issued “more frequently in significant amounts.” It finds that under three of five scenarios, including “the most likely ones”, this would not prove inflationary. The note of the IMF board debate on these papers shows a diversity of opinions on all the practical and theoretical issues discussed, but executive directors asked for a slew of further work, indicating that agreement on concrete steps is not yet on the cards.

Signs that emerging markets are taking the SDR more seriously were highlighted in January when Russian president Dmitry Medvedev called for the IMF to include the currencies of the big four emerging markets – Brazil, Russia, India and China – in the IMF’s basket of currencies that dictate the value of the SDR.

Policy maker report on IMS, French presidency

A role for the SDR


Dollar debate continues

In January, French President Nicholas Sarkozy stoked the debate about reforming the international monetary system (see Update 73, 70, 68, 66), while deliberations on the potential future role of the IMF’s special drawing right (SDR) as a prototype global reserve currency continued.

Sarkozy made the international monetary system one of his six priorities for this year’s French presidency of the G20, asking German chancellor Angela Merkel to co-chair a working group with Mexico’s president Felipe Calderón. The French government also commissioned a report from a group of policy makers, including two former IMF managing directors. Their mid-January report highlights the IMF’s failings in a number of areas, in particular the fact that its surveillance has had “insufficient or no effect on the policies of the largest members”. The initial report is short on specific proposals, though a further paper is expected shortly.

Though Sarkozy’s ambition is limited to discussion of issues, and “concrete proposals”, Eric Helleiner of the University of Waterloo in Canada argued in a December special edition of the Journal of Globalisation and Development that the opportunities for reform are greater than they have been for a long time, for three reasons. First, the danger of countries ‘switching’ their reserves away from the dollar retains the potential to destabilise the system. A January statement by Chinese vice-minister for commerce Gao Hucheng that China has been increasing its euro-denominated reserves highlighted this issue.

Second, Helleiner highlights the inequity of the current system, where the US gains from being the sole issuer of the world’s main reserve currency. Finally, demand for reserves is likely to remain high, particularly as countries continue to build their stockpiles rather than rely on the IMF. Helleiner argues that “the rebuilding of trust in the IMF will also require stigmas to be overcome and substantial governance reforms to be carried out, developments that seem unlikely to happen quickly.”

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Policy maker report on IMS, French presidency
IMF serious about measuring conditionality impacts?

More criticism emerged of IMF programmes as it begins the process of another conditionality review. Meanwhile, political upheaval in Ireland and continued protests in Greece are focussing attention on the IMF’s controversial economic policy advice.

A new academic paper published in the International Journal of Health Services in January finds that countries with IMF programmes failed to increase public health spending when receiving additional health aid. The statistical analysis of 119 countries between 1996 and 2006, which the authors admit is based on weak data and susceptible to selection bias, finds that “in IMF-borrowing countries there was essentially no additional benefit of external health aid – each additional $1 of aid resulted, on average, in about $0.45 added to the health system.”

The IMF also argued that their programmes actually encourage poor countries to raise their health spending, but their response failed to distinguish between the use of aid in general and the specific objectives of the research, namely “changes in aid”. A rebuttal by the authors noted that “the IMF’s criticism raises a deeper question. When challenged on this issue, [the Fund] often invokes the problems facing the countries it lends to. Yet this cannot substitute for evidence of the effects of the IMF’s policies.”

IMF conditionality review

The IMF is launching an internal review of conditionality policy this year. The Fund refused to publicly share the concept note on the methodology for the review before the board had discussed and agreed it in mid February. Five NGOs, including Third World Network and Oxfam, wrote to the head of the IMF’s policy department in December arguing that “the conditionality review must also assess the appropriateness of the quantitative targets included in IMF programmes,” and “an assessment of conditionality must involve a dialogue with those affected.”

While they failed to receive an official reply, staff from the IMF said the review would investigate whether the right balance had been achieved between adjustment and the amount of IMF financing, as well as the impact of IMF programmes on growth and employment. The staff were at pains to warn that there should not be too much hope for new analytical work on the impact of IMF programmes, because of the limited budget and time to conduct the review.

New loans, more criticism

In the wake of controversy surrounding the IMF-EU loan to Ireland (see Update 73), the government fell in mid January and early elections are due at end February. The two major opposition parties have both called for a renegotiation of the loan, while smaller opposition parties such as the nationalist Sinn Fein have called for kicking out the IMF and EU altogether.

Meanwhile, protests persist in Greece. Greek transport workers held a one-day strike in December and again in mid January, followed by doctors and health workers in early February, with all public sector workers to follow at end February. The Greek privatisation plan, required by the IMF and EU, was published in mid December and includes the sell-off of state railway and transport companies, the Athens airport, real estate assets, water supply and utility firms, the postal service and hundreds of port and highway concessions.

In contrast, the IMF approved an increase in Mexico’s conditionality-free Flexible Credit Line (see Update 65) from $47 billion to $72 billion in early January. In late January, Poland also upped its credit line, from $21 billion to $30 billion. The new Precautionary Credit Line (see Update 72), which is supposed to have less-onerous conditions than a standard programme, also saw its first client in mid January with Macedonia agreeing to a €475 million ($650 million) programme. The IMF said that they did not actually expect Macedonia to draw on the resources, but the country still faces conditionality on its fiscal deficit and level of foreign exchange reserves.

Donor IDA pledges fall flat

The World Bank gained a 12 per cent inflation-adjusted increase from the 16th fundraising round for its low-income country arm, the International Development Association (IDA), despite flat donor contributions and amid renewed criticism of its overall approach.

In December last year, the Bank announced that IDA 16 (see Update 73, 70, 69) pledges for the period July 2011 to June 2014 totalled $49.3 billion, up from $41.6 billion during the last round. Countries make commitments in national currencies, so it is hard to calculate the inflation-adjusted increase, but allowing for US dollar inflation gives a real boost of around 12 per cent.

Donors pledged $26.4 billion, up from $25.1 billion, meaning no real increase when adjusted for inflation. Other contributions came from the Bank’s internal resources, and a significant proportion from changing the terms of lending to middle-income countries and accelerated repayments from former IDA countries, particularly China.

The Bank’s final report – which will detail what each donor pledged and how IDA will be assessed – will only be finalised by April. However, in a December response to a draft of the report, Brussels-based NGO Eurodad said it was “concerned by the way ‘results’ are defined”. Some indicators are in fact political policy choices such as the “reduction of regulatory obstacles to private sector development.” Eurodad concludes that this “could be interpreted as a way of exerting influence over developing countries economic policies”.

The Bank also places emphasis on country ownership, highlighting that country level priorities for IDA are “customised on the basis of a Country Assistance Strategy” (CAS, see Update 70). However, Eurodad argues that “the World Bank CASs often contain details and indicators that go beyond the national development strategies”, and that the Bank has in the past had a “strong influence” over how these national development strategies are drafted.

Criticisms of the Bank’s impact on domestic policy making through the Poverty Reduction Strategy Process (PRSP, see Update 42, 41) were also made in November by Arne Ruckert of the University of Ottawa. He argues that “the introduction of the PRSP approach has significantly extended the scope and depth of World Bank interventions into the internal affairs of the developing world”. The Least Developed Countries Report 2010, from the United Nations Conference on Trade and Development also argues that “evidence shows that the way in which PRSPs are designed and implemented is still strongly influenced by donors’ policy conditionality, monitoring benchmarks and financing choices.”

The IDA 16 framework also develops indicators for its four special themes: crisis response, gender, climate, and conflict-affected countries. On gender, disaggregated indicators are promised, but only in the education, health and water sectors. The commitment that all CASs would have a gender assessment, initially due to be achieved by 2005 but still a long way off (see Update 72), is repeated, and annual reports on progress are promised.

The new IDA crisis response window has been approved, but has been capped at 5 per cent of total IDA resources.

Eurodad assessment of IDA 16 framework

UCNAD LDC Report 2010

tinyurl.com/2010-UNCTAD
Heat turned up on World Bank energy strategy

As the Bank’s energy strategy approaches finalisation in mid-2011, pressure is growing on the institution to incorporate civil society criticism of its current lending practices.

In a January interview the Bank’s special envoy for climate change, Andrew Steer, defended it against accusations of focussing too much on fossil-fuel based energy (see Update 73, 72, 71, 70). Speaking to German radio station Deutsche Welle, Steer said that “We’ve been massively expanding our support for renewable energy... so no – we’re not going the route of expanding our financing for fossil-based fuel at all.”

Steer’s comments are contradicted by updated figures on the Bank’s energy financing produced by US NGO Bank Information Center (BIC) (see Update 72). They show that Bank fossil fuel funding for financial year (FY) 2010 reached a new record high of $6.6 billion, a 116 per cent increase on the previous year. In comparison, investment in renewable energy and energy efficiency rose to $3.35 billion, an annual increase of just 11 per cent. Financing for coal-based power also hit a record high of $4.4 billion, a 356 per cent annual increase.

This continued support for coal forms a central part of a campaign launched in January 2011 by NGO Christian Aid to compel the Bank to start financing clean, renewable energy that benefits people living in poverty. Christian Aid’s Patrick Whittington characterises the Bank’s current approach to energy lending as consisting “mainly of large-scale fossil-fuel projects delivered by the private sector, an approach which has often failed to provide energy to poor communities or reduce poverty. These projects now threaten to worsen the lives of poor people living in a changing climate by emitting more carbon.”

Energy access
Scrutiny of Bank energy lending has also consistently laid bare the lack of focus on energy access in Bank projects (see Update 73). The Bank has often proclaimed the importance of guaranteeing energy access. Steer noted that developing countries “need to expand electricity access even more rapidly, still 70 per cent of Africa doesn’t have access to electricity.” However, an independent study of 26 Bank-funded fossil fuel projects compiled by NGO Oil Change International in October last year found that not a single one had the specific aim of ensuring energy access for the poor.

Civil society critique of the Bank has coincided with recent statements by Joemar Binay, vice-president of the Philippines, on the merits of investing in renewable energy: “It’s not just about connection, it’s about investing in renewable energy.” However, an independent study of 26 Bank-funded fossil fuel projects compiled by NGO Oil Change International in October last year found that not a single one had the specific aim of ensuring energy access for the poor.

Energy for the Poor? Oil Change International
tinyurl.com/oci-Wbenergy
Energy figures, Bank Information Center
Christian Aid: Get the World Bank out of fossil fuels!
tinyurl.com/co-wbenergy

 IMF to splash out on office refurb?

After a spike in lending that shored up the IMF’s income, the Fund board is considering various options for refurbishing its headquarters building in Washington. The board work programme specified a board committee discussion before end 2010 with a final decision in February or March. No information about the cost of the proposals has been made public. Melinda St Louis of NGO Jubilee USA Network asked: “Should the IFC get another stunning fountain at its headquarters or should countries in Sub-Saharan Africa receive debt relief to invest in clean water for the most vulnerable?”

Bank draft education strategy slated
Before the mid January World Bank board discussion of the draft education strategy, Zoe Godolphin of the University of Bristol argued that “that the Bank’s proposed approach fails conceptually because it does not accept that education is a human right. It also fails pragmatically because it continues to advocate a template approach instead of supporting genuinely country-driven priorities in educational plans.” The Global Campaign for Education wrote to the Bank’s executive directors, complaining “the strategy lacks recognition of education as a human right, a public good and a responsibility to citizens... It focuses too heavily on private sector and market-based approaches to education, and on education as an instrument to serve the job market.”

IFC standards revision leaves out human rights

As the review of the performance standards of the International Finance Corporation (IFC), the World Bank’s private sector lending arm, enters its last stretch, civil society groups are up in arms about the latest draft’s steps backward, particularly in relation to human rights.

The strikin of human rights language from the draft standards, as well as references to labour rights, reflects ongoing debate among IFC staff as well as differing views among the Board. In its 2010 annual report, the Compliance Advisor Ombudsman (CAO), the compliance mechanism of the IFC, notes that 62 per cent of the cases launched since 2000 involve claims of human rights violations or impacts.

NGO representatives from Nigeria, Cambodia and Argentina visited IFC headquarters to demand the inclusion of safeguards against possible human rights abuses. They held a panel discussion in early February, which included executive directors from China and Saudi Arabia, among others. “When all communities are now using rights language, it is the IFC’s duty and professional responsibility to address this issue,” said Daniel Taillant of Argentine NGO Center for Environment and Human Rights (CEDHA) at the panel discussion.

“All countries sitting in the board of the IFC have human rights legislation and have voluntarily ascribed to international agreements that uphold those rights. So we are simply asking those countries to do so at the IFC,” added Chima Williams of Nigerian NGO Environmental Rights Action.

A number of other groups, including Amnesty International, have mounted critiques of the standards’ lack of inclusion of rights and will submit their concerns as part of a final window of consultation to end in early March before the standards are finalised in April. The NGOs demand that the IFC make a clear commitment not to support activities that are likely to cause, or contribute to, human rights abuses. They also demand a clear requirement that IFC and its clients undertake human rights due diligence.

“Although the IFC actively participated in the creation of the United Nations Framework on Business and Human Rights, the latest draft policies conflict with the UN framework by misrepresenting the definition of the ‘responsibility to respect,’ writes Raymond Offenheiser, of NGO Oxfam America, in a letter to IFC president Lars Thunell.

Civil society groups have also drawn attention to financial intermediaries (FI) through which approximately half of the IFC’s investment flow. “It is essential that the performance standards unambiguously apply to all FI sub-projects,” suggests Offenheiser. The proposed standards only apply to “high risk” FI projects, unlike other lending, all of which is covered by the standards.

Despite the welcome inclusion of the need for free, prior and informed consent for indigenous peoples affected by IFC projects, the standard would apply to a narrow set of “special circumstances”. The proposed change puts the IFC more in line with international standards than their previous use of “free, prior and informed consultation”.

Brazil angrily rejects IMF fiscal warning

The managing director of the IMF must have gone on vacation and some of the orthodox old men... got distracted and wrote this stupid thing”, said Brazil’s finance minister Guido Mantega about a January IMF report on the country’s fiscal situation. The Fund described the deterioration of Brazil’s fiscal accounts as “particularly pronounced” and predicted it would end 2011 with an overall budget deficit of 3.1 per cent of GDP, far above the government’s 1.8 per cent forecast. Mantega said the IMF assessment was “totally wrong” and said that Brazil will meet its 2011 fiscal targets, despite admitting that it will just miss its public sector primary surplus target of 3.1 per cent of GDP for 2010.

JDC South Sudan briefing
tinyurl.com/JDC-sudan

Bank IMF and Brazil

IMF targets of GDP for 2010

South Sudan: saddled with IFI debt?

With South Sudan set to become the world’s newest – and potentially poorest – country in July, a big question remains about what should be done with Khartoum’s $378 billion foreign debt, including around $1.6 billion owed to the IMF and $600 million to the World Bank. The Sudanese government, which has been unable to borrow from the IMF since 1993 and from the World Bank since 1993 because of arrears, has urged creditors to write off the debt. UK NGO Jubilee Debt Campaign argues South Sudan ‘should not be born into debt’ and urged any inherited arrears to be cancelled without conditions attached.

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The IFIs’ approach to tax avoidance and evasion

The World Bank and the IMF formally recognise tax avoidance and tax evasion as a critical problem for developing countries’ domestic resource mobilisation. The Bank’s public position on tax evasion and tax havens does not however identify concrete measures to stop investing in companies practicing tax avoidance. The IMF addresses tax policy under its surveillance mandate and in its technical assistance, but does not have an explicit framework or clear approach to deal with tax evasion.

The World Bank Group (WBG) generally coordinates its technical assistance for tax issues with international organisations, such as the IMF and OECD, including through the OECD-led Global Forum on Transparency and Exchange of Information. In April 2010, the WBG made a public statement on Offshore financial centres and tax evasion in World Bank operations. The statement affirms the WBG’s commitment to "the integrity and transparency of global financial markets" and articulates concerns on "the potential risk of tax abuse and the threat to good governance that they present."

It says that "key avenues" for the group’s engagement regarding offshore financial centres (OFCs) and tax evasion “are support for strengthening tax systems and domestic resource mobilisation and due diligence in private sector investment operations”, including “support for countries to meet the internationally agreed standard for tax transparency”. The statement emphasizes that the WBG “exercises due diligence to confirm that the structures in which it invests are chosen for legitimate reasons and are not being used for tax evasion, tax abuse, or other illegitimate purposes.”

The statement justifies the use of tax havens and secrecy jurisdictions by companies the International Financial Corporation (IFC, the Bank’s private sector lending arm) sponsors for “legitimate purposes when partners and sponsors act with integrity. For example, jurisdictions may be used to avoid double taxation of investments in developing countries, or may provide legal infrastructure that a given host country lacks.”

The IMF has never agreed an institutional policy for dealing with tax evasion or tax haven activity. Under its surveillance mandate, the IMF has a Financial Sector Assessment Programme (FSAP) and produces Reports on the Observation of Standards and Codes (ROSC, see Update 35) in cooperation with the Bank.

FSAPs and ROSCs, introduced in the late 1990s, promote adherence to voluntary standards to ensure financial stability and reassure investors. The list of standards and codes does not include whether a country overrides bank secrecy in tax matters, requires the automatic reporting of information or engages in automatic exchange of information on tax (see Update 49).

In June 2000, after pressure from rich countries, the IMF agreed to “extend its work to include assessments of the vulnerabilities stemming from the use of offshore financial centres”. The agreed policy, Offshore financial centres – the role of the IMF, called for frequent and comprehensive assessment of OFCs within the framework of FSAP. This new programme was aimed at monitoring OFCs’ compliance with global financial regulatory standards, but lacked a sanction mechanism. Overall 16 reports were produced. In May 2008, the IMF abolished the workstream on OFCs and integrated the programme in its regular FSAP framework, making assessment less frequent and voluntary.

More generally, the IMF addresses tax policy and revenue administration in its technical assistance (TA) to member countries. TA is provided to member countries on a voluntary basis, and public disclosure only occurs in agreement with the client government. To pay for its TA on domestic resource mobilisation, the IMF is in the process of launching a new topical trust fund, called for frequent and comprehensive assessment of OFCs within the framework of FSAP. This new programme was aimed at monitoring OFCs’ compliance with global financial regulatory standards, but lacked a sanction mechanism. Overall 16 reports were produced. In May 2008, the IMF abolished the workstream on OFCs and integrated the programme in its regular FSAP framework, making assessment less frequent and voluntary.

IFIs labour pains

Critics say IMF policy contributed to fuelling unrest in Egypt and Tunisia, while the IFIs reiterate concern about growing inequality and global unemployment. At the same time, unions accuse the World Bank’s Paying Taxes report of condemning tax and social contributions.

In late January, an IMF staff mission visiting Egypt as part of its annual review stressed the problem of high unemployment. Fund staff blamed labour market regulations, including high costs of hiring and firing workers. This was only a few days before mass protests erupted in the country, leading to the collapse of the government in mid February. Egyptian unions contributed to the presence in the streets, as workers protested low pay, demanding an increase to Egypt’s minimum wage, which has remained unchanged at $6 per month since 1984. Mustapha Said former chief technical advisor on Egypt to the International Labour Organisation (ILO) said “liberalisation policies blindly promoted by the IMF without looking at their social dimension are precisely those that have led to Egypt’s high poverty and unemployment level.”

In Tunisia, high unemployment helped fuel street protests that toppled the government in late December. The IMF staff mission visiting the country in August called for budget cuts, an ending of food and fuel subsidies, a “reduction in profit tax rates offset by an increase in the standard [value added tax] rate” and reform of the social security system.

Inequality, leverage and crisis

Impacts of inequality

A November 2010 IMF working paper, Inequality, leverage and crises, illustrates the links between the “empirically observed rise in income inequality … and the risk of a financial crisis”, an argument several academics have made for years. It finds that increasingly unequal wealth distribution in favour of the very rich, and decreasing wages for middle- and low-income groups has led to the creation and growth of household debt that ultimately increased the fragility of the global financial system.

At a meeting with a high-level trade union delegation in Washington in late January, IMF managing director Dominique Strauss-Kahn and World Bank president Robert Zoellick agreed on the importance of employment, social protection, working with trade unions and broadening the distribution of economic growth. Strauss-Kahn committed to mitigate the social impact of IMF conditionality in crisis-hit countries such as Romania, Greece, Pakistan, Latvia and Jamaica (see Update 73, 72, 71).

The Bank has also drafted a concept note for developing a new social protection and labour strategy. Stakeholder consultations to inform the strategy will be held through May. The ten year strategy is planned to be finalised by December.

Italian-based journalist Vittorio Longhi noted the declarations of intent, but said “with their focus on public sector cuts and business-friendly deregulation, it remains to be seen how sincere the World Bank and the IMF can be in their ambitions to help workers.”

Paying taxes and labour

In late November, the Bank, the International Financial Corporation (IFC, its private sector lending arm), tax rates and multinational accounting firm PricewaterhouseCoopers released Paying Taxes 2011, an expanded version of one chapter of the Bank’s controversial Doing Business report (see Update 73).

The report formally acknowledges the social importance of taxes, but Erinn Weir, senior economist at the International Trade Union Confederation (ITUC) said “the paying taxes indicator is constructed to award the best scores to countries where businesses do not pay any … Indeed, the top paying taxes score for 2011 went to the Maldives, which is widely regarded as a tax haven. The World Bank calculates that all of its business taxes and social-security payments amount to below 10 per cent of profits.”

Longhi on IFIs and workers’ rights

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Bankspeak of the year 2010

Most spurious justification of policy

Carbon trading has become one of the most controversial policy proposals for global climate change mitigation, with the World Bank being a key player in supporting carbon markets (see page 3). With the Bank also earning sizable fees from its role in carbon trading and carbon credit intermediation, Bank positions on the issue should be taken with a full last of salt. So when massive fraud in the European carbon trading scheme became public, it was not surprising that a May World Bank report, State and trends of the carbon market 2010 called the cases of fraud and double-dealing indicators of success: “Entities don’t seek out loopholes in insignificant markets, fraudsters do not focus on small businesses.” Of course this was all before the mid January theft and immediate sale of €45 million ($61 million) worth of carbon credits from national carbon registers in Europe. That must be great progress according to the Bank.

IEG reports mixed Bank effectiveness

The World Bank’s arms-length Independent Evaluation Group (IEG) released its annual report, Results and performance of the World Bank Group in November last year. Whilst the Bank’s own reviews of its performance find its projects to be mostly satisfactory, performance against stated objectives shows “some decline at the World Bank in terms of projects exiting the portfolio in the past three years.” The IEG suggests that this is driven by declines in certain sectors, noting that “current performance has fallen relative to long-term trends in areas such as health, nutrition, and population and even in transport.”

Echoing previous reviews (see Update 68), the IEG highlights concerns that although International Finance Corporation (IFC), the Bank’s private sector lending arm, outcomes in Africa “have improved over the decade, they remain lower than in other regions.” Furthermore, “relative outcomes of projects in fragile states at the World Bank have fallen from being close to overall Bank ratings in 2006 to considerably below them in fiscal year 2009.” The Bank’s poor performance in the health sector has previously been the subject of severe criticism from the IEG and others (see Update 64).

The report also repeats IEG concerns about the increased use of financial intermediaries, such as banks and private equity funds, as conduits for IFC lending (see Update 73), noting that “monitoring lines of credit is difficult, as supervision of sub-borrowers is delegated to financial intermediaries.” The IEG notes that “the IFC, the rapidly growing guarantee instrument segment is not yet tracked by the monitoring and evaluation Development Outcome Tracking System.”

The report contains a special section analysing how IEG recommendations have been taken up at the Bank, finding that “two-thirds of IEG’s recommendations from evaluations since 2003 have been substantially adopted after four years.” However, “the share of recommendations rated high and substantially adopted dropped from 60 per cent in 2007 to 36 per cent in 2010.” The Bank’s poor performance in the health sector has previously been the subject of severe criticism from the IEG and others (see Update 68).

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Electronic resources

www.globalclimatefund.org
NGO website that gathers comments, ideas and resources to substantiate how a new Global Climate Fund can be consistent with the climate justice perspective.
www.triplicrisis.com
Blog on finance, development and the environment with a network of contributors from economics analysts from countries in the North and South.

Recommended resources 2010

PAPERS

Energy for our common future - civil society perspectives on the World Bank energy strategy review; Christian Aid
Brings together responses to the World Bank’s energy strategy review by civil society groups in India, Bolivia, Peru and South Africa, including position papers, case studies and alternative approaches.
www.christianaid.org.uk/commong future
(Mis)Investment in agriculture; Oakland Institute
Exposes the role of the International Finance Corporation in fuelling land grabs, especially in Africa.
www.oaklandinstitute.org/pdfs/ misinvestment_web.pdf

Bottom lines, better lives? Rethinking multilateral financing to the private sector in developing countries; ActionAid, Bretton Woods Project, CRBM, Christian Aid, Eurodad and Third World Network.
Critically examines financing to the private sector by multilateral development banks, and presents recommendations for change.
www.brettonwoodsproject.org/doc/private/privatesector.pdf

Standing in the way of development?; Eurodad and Third World Network
Critical survey of the IMF’s response to the global financial crisis in 13 low-income countries, finding that macroeconomic flexibility given to countries during the financial crisis has already been reversed.
www.eurodad.org/whatsnew/ reports.aspx?id=4083

A roadmap for integrating human rights into the World Bank Group; WRI
Calls for the World Bank Group to integrate human rights standards into its operations.
pdf.wri.org/roadmap_for_integrat ing_humansrights.pdf

Eurozone crisis: eurozone between austerity and default; Research on Money and Finance
Analyses public cutbacks imposed by the IMF and EU across the eurozone and the costs, benefits and social implications of action to break the cycle of debt, as opposed to enduring austerity-induced long-term stagnation.
Tinyurl.com/RMFeuro

Why the IMF and the IMS need more than cosmetic reform; South Centre
Argues that the IMF needs to focus on crisis prevention through overseeing the policies of rich countries and that the G20 agenda misses key issues in the reform of the international monetary system to accomplish this.
Tinyurl.com/Akyuz-rp32

Social insecurity: The financialisation of healthcare and pensions in developing countries; Bretton Woods Project
Examines IIT and private financial institutions’ often detrimental influence on health care and pensions in the developing world.
www.brettonwoodsproject.org/doc/private/socialinsecurity.pdf

BOOKS

Debt, the IMF, and the World Bank: Sixty questions, sixty answers; Éric Tousaint and Damien Millet
In an accessible style, it argues that developed economies have systematically exploited the less-developed economies by forcing them into unequal trade and political relationships, often using the IFIs to accomplish their aims. Monthly Review Press; ISBN: 9780521198950

The International Monetary Fund in the Global Economy: Banks, bonds, and bailouts; Mark S. Copelovitch
Analyses how IMF policies have evolved over the last 30 years, finding that the confluence of interests of major global powers and private banks heavily influence IMF lending. Cambridge University Press; ISBN: 0230229557

Examines the Bank’s promotion of a market-led development approach that has led to the co-option and neutralisation of political opposition. Palgrave Macmillan; ISBN: 0230229557

Owning Development – Creating Policy Norms in the IMF and the World Bank; Susan Park ed.

Fondo Monetario Internacional y Banco Mundial – Instrumentos del poder financiero; Samuel Lichtenstein
Looks at the theoretical and political trajectory of the IMF and the Bank from a historical and Latin American perspective. Universidad Veracruzana; ISBN 9786075020358

Central Banking and Financialisation; Daniela Gabor

International Financial Institutions and International Law; Daniel Bradlow and David Hunter ed.
Examines how IFIs abide by and/or evade international law, including to human rights. Kluwer Law International; ISBN: 0491128816

ELECTRONIC RESOURCES

www.globalclimatefund.org
NGO website that gathers comments, ideas and resources to substantiate how a new Global Climate Fund can be consistent with the climate justice perspective.
www.triplicrisis.com
Blog on finance, development and the environment with a network of contributors from economics analysts from countries in the North and South.