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European countries plot heist of IMF top job once again

Dominique Strauss-Khan's sudden resignation as head of the IMF saw European countries break promises for "an open, merit-based and transparent selection process", by pushing French finance minister Christine Lagarde ahead of a field of underwhelming choices.

Strauss-Kahn formally stepped down on 18 May after allegations of sexual assault against a New York hotel worker. European governments rushed to back Lagarde as their candidate with a presumption that she would get the job. Nuria Molina of Eurodad, writing on new blog imfboss.org, commented: "both amnesia and backtracking are common features amongst European decision-makers regarding IMF governance."

Even before the resignation, a global coalition of civil society groups had been demanding a fair selection process. Their mid April briefing, *Heading for the right choice?*, called for an end to European domination of the post. It argued that the right candidate "must be, and must be seen to be, wholly independent of any national or regional interest", must have "a rigorous focus on poverty", and be "well versed in the particular problems of low-income and middle-income countries".

On 23 May an open letter to all governors of the IMF, signed by over 100 organisations, asked that they honour their promises to an open race and demanded that "the candidate must gain the open support from at least the majority of IMF member countries, with no single bloc wielding excessive power."

European presumptions riled developing countries. In late May the IMF executive directors representing Brazil, Russia, India, China and South Africa released an unprecedented joint statement saying: "if the Fund is to have credibility and legitimacy, its managing director should be selected after broad consultation with the membership." They added that the next IMF head should be "committed to continuing the process of change and reform of the institution so as to adapt it to the new realities of the world economy." A Chinese foreign ministry spokeswoman, with uncharacteristic directness, said: "we believe that [the process] should be based on the principles of fairness, transparency and merit."

ROBIN HEIGHWAY-BURY / THOROGOOD

Who is in the running?

Lagarde formally launched her bid on 25 May. European states argued that the eurozone crisis (see *Update* 75, 72, 71) demanded a European candidate. This drew immediate fire, with Phillippe Marliere of University College London saying it was "astonishing that one of the major architects of the punitive and ineffective bailouts in Greece, Ireland and Portugal, should now find herself at the helm of the IMF". Indian economist Jayati Ghosh feared that Lagarde "would pursue, even more enthusiastically, the same self-defeating and economically damaging measures whose only beneficiaries are the German, French, Dutch and British banks." Lagarde may yet engulf the race in scandal after the French Court of Justice determined on 10 June to postpone a decision on whether to pursue charges of abuse of office against her for a decision she made as finance minister.

As with the last IMF leadership race, the Russians again nominated a candidate, Grigoriy Marchenko, governor of the Kazakh central bank. Though he himself admitted that winning the race was only "theoretically possible".

Meanwhile, Mexico backed their University of Chicago trained central bank governor Agustín Carstens, who declared that his priorities would be the eurozone crisis, the Middle East and quota reforms at the IMF. In an indictment of her compatriot's skills, Noemi Levy of Universidad Nacional Autónoma de México wrote: "Carstens' inability to understand the genesis and development of the economic crisis has proven very costly for Mexico." In a surprise move, Stanley Fischer, Bank of Israel Governor and former IMF deputy managing director, entered the race on the last day of nominations.

Process rushed, not transparent

Member governments had until 10 June to nominate a candidate, three weeks less than last time (see *Update* 57). The board then released the shortlist of three candidates, with the final vote to be held by end June.

According to the criteria published by the IMF board, the successful candidate: "will have a distinguished record in economic policymaking "; "will have a proven understanding of the Fund and the policy challenges facing the Fund's diverse global membership"; and "will have a demonstrated capacity to be objective and impartial".

With neither Carstens nor Lagarde meeting the demands for a candidate set out by civil society groups, there was little satisfaction. "This rushed process means that we are stuck with a paltry choice of candidates with similarly narrow economic world-views and little proven capacity to do the job," said Soren Ambrose of ActionAid International. At the close of nominations, NGOs issued a demand that at the very least the candidates should participate in an open public debate to find out their views on key global economic issues.

www.imfboss.org

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IFC financial intermediary lending: cause for complaint?

A case filed by Indian communities has prompted the first internal probe of the International Finance Corporation (IFC), the Bank's private sector arm, for its lending through financial intermediaries, highlighting transparency and effectiveness concerns.

In April, the IFC's internal grievance mechanism, the Compliance Advisor Ombudsman (CAO), reacted to rising concerns about the institution's use of intermediaries, such as banks and private equity firms (see *Update* 73), by announcing a review of financial sector investments. The review will focus on whether the IFC's social and environmental assurance process – which includes the IFC's minimum performance standards (see *Update* 74, 71) – is working for financial sector investments, which now account for around half of IFC activity. Initially, a sample of investments will be studied, with the assessment due by end 2011.

In May, the temperature of this review was raised after the CAO deemed a complaint about IFC lending through financial intermediaries eligible for assessment – the first time this has happened. Community groups in the Indian state of Odisha (formerly Orissa) filed the case against the IFC, complaining of negative social and environmental impacts of the Kamalanga coal power plant. This plant is run by GMR Kamalanga Energy Limited (GKEL), who received financing from the private equity India Infrastructure Fund, who themselves received a $100 million equity investment from the IFC in 2008.

The complainants also allege that the company did not adhere to legally mandated procedures when acquiring land, has not offered proper compensation, and that it used intimidation and force. Amulya Nayak, of community group Odisha Chas Parivesh Surekhsa Parishad, said "the company never shows any regard for community health. It ignores villagers' requests to not dump its garbage [next] to adjacent agricultural lands. GKEL employs dynamite blasting at the project site, which causes cracks in nearby houses and [the] primary school building. [The] project also extracts [a] huge water volume and we witness in our bore wells the depleting water level, which is the main source of drinking, cooking and washing for thousands of families."

"Our inability to secure the most fundamental information about this [financial intermediary] loan ... shows [the] IFC does not practise its supposed commitment to transparency", added Vijayan MJ of NGO Delhi Forum, which is one of the complainants. The CAO will first make an attempt to mediate between the parties, but if no resolution can be reached, a full investigation will be launched.

Private equity boom

Over the past few years the IFC has become an active investor in private equity funds. It signalled its intention to make this model core to its global business by announcing in March a raft of new investors in its infrastructure-focussed African, Latin American, and Caribbean Fund (ALC). The IFC has chipped in $200 million itself, with an additional $600 million contributed by others, including the Dutch pension fund manager PGGM, Korea Investment Corporation, the State Oil Fund of the Republic of Azerbaijan, a Saudi pension fund, and the United Nations Joint Staff Pension Fund. Jeroen Kwakkenbos of NGO Eurodad said, "there's grave concern about channeling development aid into these types of private funds. Nobody really knows where this money is going to end up and if it is going to help the people who really need it."

nobody knows where this money is going

The IFC's Asset Management Company (AMC) manages the fund. The AMC is a wholly owned subsidiary of the IFC, and is headquartered in Delaware, in the United States. Delaware is a tax haven which holds the top spot in the international NGO Tax Justice Network's financial secrecy index of jurisdictions that are most aggressive in providing secrecy in international finance.

Meanwhile, the IFC drew fire from campaigners for a $20 million equity investment in the $100 million Asia Water Fund, fuelling the controversy that has long surrounded the World Bank's support for private sector involvement in water (see *Update* 72, 69, 62). As with many private equity funds, the structure is complicated and designed to facilitate tax avoidance or evasion, according to campaigners. The fund itself and the fund manager will both be domiciled in the Cayman Islands. The Cayman Islands ranks fourth in the Tax Justice Network's financial secrecy index, cementing campaigners' complaints that the IFC's policy on tax havens is inadequate (see *Update* 74, 73). Joby Gelbspan, of US NGO Corporate Accountability International, said "this is a terrible case of corporate tax evasion backed by public institutions. In addition, the focus on public-private partnerships and the lack of transparency raise concerns that this will do little to support citizen's right to water."

The increasing focus of development finance on the private sector, including money provided by the World Bank, was the subject of an international conference of civil society groups hosted by NGO Eurodad in Rome in May. Commenting on the rising influence and activity of private investors and financial companies in development finance, Richard Ssewakiryanga of the Uganda National NGO Forum asked: "How is it possible that the people who misbehaved so badly three years ago are now, in the aftermath of the global crisis, given the power to lead development?"

tinyurl.com/caofireview

tinyurl.com/caoindiacase

Bank's internal evaluation body faults IFC poverty focus

An April report by the Bank's arms-length evaluation unit faults the International Finance Corporation (IFC), the Bank's private sector arm, for failing to pay enough attention to how its promotion of private sector growth impacts the poor.

The report by the Independent Evaluation Group (IEG), *Assessing IFC poverty focus and results*, examined a random selection of 481 IFC projects over a ten year period from July 1999 to June 2010. The report finds that "fewer than half the projects reviewed included evidence of poverty and distributional aspects in project objectives, targeting of interventions, characteristics of intended beneficiaries, or tracking of impacts." More shockingly, only "13 per cent of projects had objectives with an explicit focus on poor people", while just "6 per cent of projects explicitly identified gender issues in project design." This echoes previous critiques of the IFC's poverty focus made by civil society groups (see *Update* 73, 70).

The fact that "of 211 nonfinancial sector projects, 86 per cent reported [economic rates of return] of more than 15 per cent" will bolster critics who claim that the IFC prioritises financial returns over development impact (see *Update* 70, 62).

However, overall, the IEG buys into the IFC's assumption that "achieving satisfactory economic returns suggests that [projects] make a positive contribution to growth and therefore, most likely, to poverty reduction."

The findings on the IFC's provision of advice and technical assistance through its advisory services (see *Update* 71, 62) are similarly disappointing. The IEG reviewed a random sample of 98 closed advisory service projects and found that only "10 per cent delivered benefits to the poor and 40 per cent delivered benefits to society but did not provide evidence of enhanced opportunities to the poor." The IEG's caveat is that this "may reflect difficulties in capturing poverty outcomes from projects where the main deliverable is knowledge, a product that is intangible and very difficult to measure."

Adding to the IEG's previous criticisms of the IFC's monitoring and evaluation (see *Update* 74, 66, 63), the report found that the "IFC's evaluation framework does not quantify benefits to poor and vulnerable groups and thus has no specific indicator for measuring a project's poverty effects."

The IEG recommends that the IFC focus much more explicitly on poverty impacts in its goal setting, monitoring, evaluation and reporting. The management response welcomed the report's recommendations, but argued that existing initiatives, such as the creation of a new department for development impact, mean that the IFC is already tackling the issues raised.

IEG evaluation of IFC poverty focus

ieg.worldbankgroup.org/content/dam/ieg/IFC/ifc_poverty_full_eval.pdf

Bank's Africa strategy rutted in comfort zone

COMMENT

by Patrick Bond, University of KwaZulu-Natal

Soon after the February launch of the World Bank's ten-year strategy document, *Africa's future and the World Bank's support to it*, a mini-tsunami of Afro-optimism swept in, with similar publications from the IMF, the Economic Commission on Africa, the African World Economic Forum and the African Development Bank.

Drunk on their own neoliberal rhetoric, the multilateral establishment swooned over the continent's allegedly excellent growth and export prospects, in the process downplaying underlying structural oppressions in which they are complicit: corrupt power relations; economic vulnerability; worsening resource curses; land grabs; and threats of environmental chaos and disease.

Embarrassingly, the Bank's strategy endorses the African Union (AU). There were once high hopes that the AU would respond to Africa's socio-political and economic aspirations, but not only did Libyan leader Muammar Gaddafi exercise a strong grip as AU president, the organisation became a source of no small patronage. It has been unable to address repressive rulers across the continent, from Dennis Sassou-Nguesso in the Republic of Congo, King Mswati III in Swaziland, to Meles Zenawi of Ethiopia and Ali Bongo in Gabon.

These sorts of rulers are the logical implementers of the Bank strategy. No amount of bogus consultations with civilised society can disguise the piling up of odious debts on African societies courtesy of the Bank, IMF and their allied strongmen borrowers. In contrast, the Africa strategy makes no mention whatsoever of those pesky, uncivil-society democrats who are opposed to Bank partner-dictators, so visible in recent uprisings and protests in Tunisia, Egypt, Libya, Algeria, Senegal, Benin, Burkina Faso, Gabon, Uganda, and Swaziland.

The Bank will continue standing in their way by funding oppressors, leaving the Africa strategy with a structurally-unsound, corny architectural metaphor: "The strategy has two pillars – competitiveness and employment, and vulnerability and resilience – and a foundation – governance and public-sector capacity."

Setting aside hypocritical governance rhetoric, the first pillar typically collapses because greater competitiveness often requires importing machines to replace workers. And Bank advice to all African countries to do the same thing – export! – exacerbates mineral or cash crop gluts, such as were experienced from 1973 until the commodity boom of 2002-08. It is not strategic for Africa for the Bank to promote further exports from African countries already suffering extreme primary commodity dependency. Nowhere can be found any genuine intent of assisting Africa to industrialise in a balanced way.

The Bank strategy also faces "three main risks: the possibility that the global economy will experience greater volatility; conflict and political violence; and resources available to implement the strategy may be inadequate." These are not just risks but certainties, given the unresolved problems that caused the 2008-09 meltdown; an increase in resource-based conflicts as shortages emerge; and donors chopping aid budgets for years to come. While the Bank retains "some confidence that these risks can be mitigated", its strategy actually amplifies them.

The Bank's bland counterclaim: "While Africa, being a relatively small part of the world economy, can do little to avoid such a contingency, the present strategy is designed to help African economies weather these circumstances better than before." But these are not "circumstances" and "contingencies": they are core features of North-South political economy from which Africa should be seeking protection.

A poignant example is the Bank's warm endorsement of Kenyan cut-flower trade in spite of worsening water stress, commodity price volatility, inclement carbon-tax constraints, and crippling water shortages for peasant agriculture. And as for what is indeed "the biggest threat to Africa because of its potential impact, climate change could also be an opportunity." Dangers to the peasantry and to urban managers of the likely seven degree rise in global temperatures are underplayed, and opportunities for a wider vision for a post-carbon Africa are ignored, such as the importance of the North (including the Bank itself) paying its vast climate debt to Africa.

The Africa strategy hubris is dangerous, especially in seeking a route to "an African consensus." Does Africa need a sole neoliberal voice claiming "consensus", speaking from shaky pillars atop crumbling foundations based on false premises and corrupted processes, piloting untenable projects, allied with incurable tyrants, impervious to demands for democracy and social justice?

Bank approach to global food crisis

NGO criticism of the World Bank's market-based approach to the global food crisis, particularly with regard to foreign agricultural investment, increased in recent months, while the Bank reiterated its existing position in April meetings.

At its Annual Conference on Land & Poverty in April, the Bank expressed sustained support for the controversial Principles for Responsible Agricultural Investment (RAI) that it drafted jointly with UN agencies in April 2010 (see *Update* 71). The RAI principles are not legally binding, and the Bank has stated that "ultimately, governments in recipient countries are responsible for securing property rights". However, a paper on agricultural investment treaties published in April by the Institute for Development Studies concluded that "in cases where domestic laws and regulations in the host state are weak or vague, local communities and land users are left with little or no legal protection for their land, water, food and work."

NGOs continue to urge the Bank to adopt policies that defend the property rights of vulnerable, indigenous, and landless populations. Just prior to the Bank's conference, a global coalition of civil society organisations including GRAIN and La Via Campesina released a letter calling for so-called 'land grabs' to be outlawed. Referencing a 2010 Bank report on agricultural investment (see *Update* 71), the letter stated that "the Bank could not find any convincing examples of 'wins' for poor communities or countries, only a long list of losses". The letter criticised the RAI principles, stating that facilitating the "takeover of rural people's farmlands is completely unacceptable no matter which guidelines are followed." A petition drafted in February at the World Social Forum that makes similar appeals to national governments and international financial institutions (IFIs) will be presented to the G20 agriculture ministers when they convene in June.

A report released in April by US-based NGO Gender Action accused IFIs of increasing developing countries' vulnerability to fluctuations in global food prices by imposing market-based reforms on agricultural sectors, particularly privatisation and trade liberalisation. The report stated that "by removing safeguards needed to protect local production, IFI-imposed deregulation crushes local markets and destroys the livelihoods of poor farmers". Meanwhile, a June Oxfam report called for international reform to the global food system. The report called on the Bank to provide balance of payments support and "ensure a fast and fair response in the event of crises", but did not specify further what role the Bank should take.

tinyurl.com/oxfamreport

tinyurl.com/genderactionreport

IMF's European austerity drive goes on, despite failures and protests

A new IMF programme for Portugal highlights the heavy conditionality attached to loans. Meanwhile, a big, and very public, fight is brewing over debt in Greece.

In late May the IMF board approved a €26 billion ($38 billion) loan package to Portugal, as a contribution to the overall loan of €78 billion which has been orchestrated by the European Union. Portugal's memorandum of understanding with the EU, negotiated by a caretaker government without a popular mandate (see *Update* 75), has over 200 conditions attached, including the finest details of national fiscal policy. Mass protests in Portugal occurred sporadically throughout the negotiation period.

The economic policies demanded of Portugal mirror those the IMF typically imposed in Africa during the structural adjustment era (see *Update* 62), such as value-added tax rises, privatisation of state-owned enterprises, a 5 per cent cut in the average level of all public sector wages, a reduction in the size of the public sector workforce, and the imposition of larger health service user fees. However, the agreement has unusual conditions as well, such as reducing: incentives for renewable energy; the number of municipalities; and social security contributions paid by employers.

The largest trade union confederation in Portugal, the CGTP, described the package as "an attack against democracy and national sovereignty, a clear capitulation to foreign interference, a denial of the country's development, and a genuine assault on workers and the people". The union particularly slammed the proposed reduction of the only social tax payable by employers as weakening the social security system.

In early June, the prime minister elect Passos Coelho said, "we are very ambitious about these structural reforms, much more than what is laid out in the (bailout) agreement."

The IMF's conditionality review (see *Update* 75, 74) will not take into account the Portugal programme, because it came after a February cut off date, but the loan raises awkward questions. In comparison to the EU's 200-plus conditions, the IMF agreement with Portugal only had 22 structural conditions. However, many were actually bundles of conditions, such as the privatisation plans for 10 state-owned enterprises being listed as only one demand. Additionally, the co-financing with the EU means that failure of the Portuguese to meet the EU conditions would still result in a suspension of the IMF loan.

Greek debt in the spotlight

Portugal signed its IMF loan just over one year after Greece became the first eurozone country to borrow from the Fund (see *Update* 71), but the apparent failure of Greece's programme may force a policy rethink in Europe. The Greek IMF-EU programme envisioned the country borrowing on bond markets again in 2012, but that is impossible, as the interest Greece would have to pay has doubled to over 16 per cent. By end May, credit rating agencies had severely downgraded Greece's ratings and assessed the chance of default at 50 per cent.

Greece failed to meet its original fiscal deficit targets, as the government continually uncovered hidden spending and failed to realise more tax revenue. In early June a joint mission from the IMF and EU agreed to release the next tranche of the Greek loan, but did not finalise a second package to bridge the new financing gap. The conditionality in the existing programme was ratcheted up, with the government now expected to bring in €50 billion through privatisation rather than the €15 billion agreed at the last review (see *Update* 75).

In early April, German magazine *Der Spiegel* reported that the IMF had finally recognised that Greece needed to restructure its debt (see *Update* 75, 73, 72) because the austerity programme was not going to be successful. The magazine said that the Greek government, the European Central Bank and other major EU countries rejected the IMF position in programme negotiations. After the report was published, the IMF denied that it had ever suggested restructuring.

In early May, 400-plus activists from Greece and across the world met in Athens to discuss alternatives such as debt audits and debt repudiation, including presentations on similar experiences in Ecuador, Argentina and Brazil. The concluding Athens declaration on debt called for citizens in Europe to "challenge the austerity policies of the EU and the IMF, oppose international financial power, and reject the slavery of debt."

During the end May IMF-EU review, the main square in Athens, situated in front of the parliament building, saw a giant sit-in turn into a semi-permanent encampment. With at least 30,000 in the square daily and as many as 200,000 on a weekend in early June, the protest is being compared to the social movements that toppled the governments in Tunisia and Egypt. A 'people's assembly' voted that they would "not leave the squares until those who compelled us to come here go away: governments, the Troika (EU, ECB and IMF), banks, the IMF memoranda, and everyone that exploits us. We send them the message that the debt is not ours."

Iceland, on the other hand, has not yet agreed to full debt repayment for creditors of failed private Icelandic banks. The government has insisted on subjecting any repayment package to a referendum; the most recent such vote in April again failed to garner sufficient support. The IMF package is still on track after more than two years (see *Update* 71, 68, 67) despite some of the Fund's major shareholders' demands for full repayment of creditors.

European countries are not alone in facing austerity. An early May paper from US-based think tank Center for Economic and Policy Research said Jamaica's debts were unsustainable and that "pro-cyclical macroeconomic policies, implemented under the auspices of the IMF, have also damaged Jamaica's recent and current economic prospects." It concludes that Jamaica's "policy mix risks perpetuating an unsustainable cycle where public spending cuts lead to low growth, exacerbating the public debt burden and eventually leading to further cuts and even lower growth."

Athens debt declaration, Initiative for the Greek Audit Commission
www.elegr.gr/details.php?id=134

IMF decision halts Afghan, Malawi aid

International donors, including USAID and UK DFID, have halted aid to Afghanistan following the IMF's suspension of funds in February. The IMF decision was based on reports of corruption and insolvency at Kabul Bank, but in February the Afghan Ministry of Finance blamed "ineffective" international technical support for exacerbating the crisis. In May the World Bank decided to hold back $40 million in loans to Malawi because the country had not completed a second review of its performance regarding its IMF package. Funding cuts from other donors followed the suspension, which caused foreign donors' contributions to its national budget to drop from 30 to 13 per cent.

tinyurl.com/bankholdsback

IMF paper: lobbying contributed to crisis

In May the IMF released a working paper, *A Fistful of Dollars: Lobbying and the Financial Crisis*, pointing out the role of lobbying by financial firms for lax regulation which directly led to the 2008 subprime crisis. The authors argue that the mortgage lenders who lobbied most aggressively for deregulation increased their risk taking and thus had worse outcomes during the crisis. The paper concludes: "Our analysis suggests that the political influence of the financial industry can be a source of systemic risk. ... The prevention of future crises might require weakening political influence of the financial industry or closer monitoring of lobbying activities."

tinyurl.com/imflobbying

IMF sets new reserve adequacy metrics

In early March the IMF board agreed to the use of new ways of measuring whether a country's foreign exchange reserve are adequate. The new policy was developed in the context of debate on whether reserve accumulation in emerging markets like China had proceed too far, while there have been complaints about the IMF's belief that low-income countries have insufficient levels of reserves. Complementing existing rules of thumb, such as three months of import coverage, the Fund will now use a "a two-stage 'risk-weighted' approach" in emerging markets, and an econometric estimation of optimal reserve levels for poor countries.

www.imf.org/external/np/sec/pn/2011/pn1147.htm

IMF to spend $436 million on office refurb

The April IMF board approval of its budgets for the 2012 financial year (FY), and indicative budgets for FY 2013-14, gave the first public insight into the amount the Fund plans to spend on refurbishing its offices (see *Update* 74). The capital budget will increase by $436 million over the next two years, which can be attributed to the Fund's refurbishment project. NGOs have questioned whether this spend is an irresponsible and unnecessary use of the Fund's resources. The IMF spent just $196 million (in 2011 dollars) to build a new second headquarters building in 2001. The Fund has not published a detailed breakdown of the costs or the options considered by the board.

tinyurl.com/imfbudget2012

Inside the institutions | The IFC's approach to international trade finance

Trade finance refers to financing arrangements that support international trade transactions. Financial institutions – normally banks – provide guarantees or loans to assist exporters who require prepayment in order to ship their products, or to reduce the risk for purchasers who need to pay for goods before actually receiving them. This allows traders and producers who suffer from credit constraints to have more access to credit and thus enjoy greater integration in international trade markets. Trade finance is also one of the central parts of a new ten-year strategy paper on international trade currently being developed by the World Bank for the period between 2011 and 2021 (see *Update* 72).

The International Finance Corporation (IFC), the Bank's private sector arm, currently operates two main trade finance programmes: the Global Trade Finance Program and the Global Trade Liquidity Program. The Finance Program offers major international and regional banks partial or full insurance guarantees in various forms, such as letters of credit, promissory notes and advance payment guarantees. This enables them to offer risk guarantees to local financial institutions in emerging markets so they can expand the trade finance services they offer to local exporters. The Finance Program had its ceiling increased in December 2008 from $1 billion to $3 billion following the global financial meltdown.

In 2009, as a response to the financial crisis, the IFC created the Liquidity Program, which raises funds from public sources such as international finance and development institutions, governments and banks. The IFC channels the funds through commercial banks, which then provide it as trade finance to clients in developing markets (see *Update* 66). The IFC has committed $1 billion to the Liquidity Program. The aim is to raise a total of $4 billion, with contributions from G20 governments, in order to support up to $45 billion of trade over three years.

In 2010 the IFC launched two new programmes. Global Trade Supplier Finance is a new joint investment and advisory programme to provide short-term financing directly to exporters in emerging markets who sell their products to large international companies. The Global Warehouse Finance Program, on the other hand, supports the agriculture sector by providing banks with liquidity or risk coverage backed by warehouse receipts, which allows farmers and small businesses to have access to finance as soon as they deposit their commodities in warehouses.

As of January 2011, the IFC has supported almost $22 billion of trade transactions through the Finance Program and the Liquidity Program, according to the Bank's website. In the 2010 financial year, the Finance Program issued $3.46 billion in guarantees, marking a 44 per cent increase over the previous year. Over one third of trade supported by it was in Latin America, 22 per cent in Sub-Saharan Africa and 16 per cent in the Middle East and North Africa.

The IFC states that, as of December 2010, the Liquidity Program had supported trade worth over $11.2 billion since its creation in 2009 through around 8,000 transactions. Of these, 81 per cent were for small and medium enterprises, though the definition of this term has been questioned (see *Update* 73). Of the total, 28 per cent were for members of the Bank's low-income country arm, the International Development Association (IDA). According to the IFC, 41 per cent of trade supported by the Liquidity Program was in Latin America and the Caribbean, followed by 26 per cent in East Asia and the Pacific, 16 per cent in Sub-Saharan Africa and 12 per cent in South Asia.

An April report by the Bank's arms-length evaluation body, the Independent Evaluation Group (IEG), highlighted that the development impacts of trade finance projects have not yet been assessed (see page 2). There are also concerns about the potential for trade finance projects to violate the Bank's social and environmental policies as trade finance investments to financial intermediaries, such as banks, are still subject to less stringent guidelines for compliance with the IFC's performance standards (see page 2, *Update* 74).

tinyurl.com/ifctradefinance

tinyurl.com/ifcliquidity

tinyurl.com/ifcsupplierfinance

tinyurl.com/ifcwarehouse

Brazil, India spurn IMF capital controls framework

Major developing countries have rebuffed the IMF's proposed framework on capital controls, or "code of conduct" as it has been renamed. The board paper discussed in March (see *Update* 75) drew fire from Brazil and India for being too prescriptive and suggesting that controls should only be used temporarily and as a last resort, but the policy will go ahead despite the acrimony.

Brazilian finance minister Guido Mantega launched a scathing attack on the exercise during the IMF spring meetings in mid April. His statement to the meetings read: "We oppose any guidelines, frameworks or 'codes of conduct' that attempt to constrain, directly or indirectly, policy responses of countries facing surges in volatile capital inflows. Governments must have flexibility and discretion to adopt policies that they consider appropriate."

At an early May meeting in the Vietnamese capital Hanoi, Indian finance minister Pranab Mukherjee also poured cold water on the code of conduct: "What I feel is that [the Fund's] framework for managing the capital flows requires more intense discussions and further work is required."

Ashok Upadhyay, a columnist in Indian financial newspaper *Hindu Business Line*, cited the Fund's failures in Indonesia, Greece, and most recently Ireland. He asked: "Is it any surprise that the emerging economies, having been scalded by the IMF's disastrous policies, have refused its solution to volatile capital flows?"

recipe for continued instability

In early May, Nobel-prize winning economist Joseph Stiglitz also argued that "we should have learned from the crisis that financial markets *need* regulation, and that cross-border capital flows are particularly dangerous. Such regulations should be a key part of any system to ensure financial stability; resorting to them *only* as a last resort is a recipe for continued instability."

Mantega's April statement also said that "insufficient consideration [has been] given to 'push' factors or to the policies in major advanced economies that have produced large and often disruptive financial flows." Academics have long been arguing that source country policy needs to be considered (see *Update* 74). Mukherjee also called for flows to be "tackled both at the flowing end and at the receiving end".

While the code of conduct has already moved IMF analysis away from its firm opposition to capital controls (see *Update* 73, 72, 70), practice in developing and emerging countries has been varied. Korea, like Brazil, has ignored the code and confirmed in late April that it would impose, from August, a levy of up to 0.2 per cent on foreign debt owed by domestic banks. On the other hand, Chile agreed with a late April IMF analysis that additional capital controls are not warranted in the country, despite strong pressure for currency appreciation. In late April, the IMF's *Regional Economic Outlook* for Sub-Saharan Africa mentions, but does not take a position on, the measures by Tanzania and Zambia to tighten capital controls to dampen speculation. Instead, it contains a long description of the monetary, fiscal and financial policies that should be taken before resorting to "temporary controls".

In late May, in Rio de Janeiro, the IMF co-hosted a conference on capital inflows with the Brazilian authorities. Some voices from within the IMF have indicated that the Fund needs to be less prescriptive. At the conclusion of the meeting, the IMF's chief economist Olivier Blanchard argued that countries need to build their capacity to use capital control in advance of massive inflows, and that "there has to be an infrastructure on a permanent basis."

Luciana Badin, researcher at Brazilian NGO Ibase, commented: "there must be the acknowledgment of the right a country has to enforce capital controls when necessary and that individual countries must have autonomy to decide when this right is to be exercised. The IMF's Articles of Agreement already recognise the right, in fact the duty, of countries to manage their capital accounts."

The IMF board will next discuss the subject in September, for consideration of a paper on the "multilateral aspects", and in October, for the promised paper on managing capital outflows.

Statement by Guido Mantega
tinyurl.com/mantegastatement

The IMF's switch in time, Joseph Stiglitz
tinyurl.com/imfswitchintime

Guest analysis

IMF policy, but not practice? Regressive tax in Pakistan

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Pakistan's IMF programme is on hold over tax reform, but the Fund's demands fail to address the under-taxation of the wealthy elite. The IMF's policy approach is starting to consider the distributional effects of taxation, but this has not translated into practice.

Since 2008, Pakistan has received nearly $8 billion of its $11.2 billion Stand-by Arrangement from the IMF, but the remaining amount has been suspended since May 2010 due to the country's failure to alter the general sales tax (GST) and increase overall tax revenue, among other measures. Pakistan collects less in taxes as a percentage of its overall economy than almost any other country its size. The IMF wanted Pakistan to improve its tax-to-GDP ratio to 14 per cent by 2013, and to reduce the budget deficit to 4.7 per cent of GDP from 6.3 per cent in 2009-10.

While Pakistan failed to achieve several of the IMF's conditions, one of the most important was the implementation of a value added tax (VAT). Pakistan's constitution requires that each of the four provinces assent to any tax on services, but consensus on the VAT was never reached. In an attempt to keep the programme alive, the IMF agreed that Pakistan could instead transform the GST into a reformed general sales tax (RGST). While the passage of the RGST through parliament is struggling, the government plans to double the existing GST from its current 8 per cent to 16 per cent.

Sales taxes can be regressive, meaning they take a proportionally greater amount from those on lower incomes since they are charged at a flat rate on all purchases, regardless of the income level of the purchaser. Pakistan has a very narrow tax base. Only 1 per cent of the population pays income tax and politically powerful rural landlords have kept their land-related incomes out of the tax net. It is the poor and salaried class who bear the major burden of the GST and income tax.

IMF programme documents highlight the importance of broadening the tax base and increasing social spending in order to compensate for the distributional impacts of a higher GST. However, the reforms do not appear to be bringing elites into the tax net and it is those who already pay the majority of taxes that are being taxed more heavily by the reforms.

Besides asking the government to expand its tax base, the IMF is pressing for withdrawal of subsidies for the energy sector, which will increase the cost of production both in the agricultural and industrial sectors. This will have serious implications for food inflation in the country.

The pressure to meet the conditions on tax and release funding is causing the government to avoid parliament, leading to undemocratic fiscal policy. The finance minister has described the parliament as the biggest obstacle standing in the way of achieving the IMF reform targets. Instead, the government used a presidential order to bring in a 15 per cent income tax surcharge, a 2.5 per cent excise duty and removal of exemptions. This is depriving the country of the debate that would normally accompany decision making on how the state levies taxes.

Becoming more progressive?

This casts a shadow on some of the positive changes the IMF appears to be making in tax policy advice, as articulated in a recent policy paper (see *Update* 74). The IMF's tax policy advice has emphasised raising revenue in developing countries from consumption taxes, such as VAT, which are often regarded as regressive.

The policy paper, *Revenue Mobilization in Developing Countries*, recognises the importance of the tax burden being fairly spread saying that "distributional effects are important in themselves (poverty relief is a major motivation for raising revenue in the first place) and for their impact on compliance". Real estate taxation is identified as having significant revenue potential for local taxation, building local accountability and boosting progressivity because of the "positive correlations between property ownership, income, and wealth."

The paper qualifies and defends the IMF's backing for VAT, and particularly its advice to raise VAT at a single rate without exemptions, saying that the poor can benefit from the elimination of exemptions when the additional tax revenue is used to finance targeted spending measures. Importantly though, they concede that "precise measures to address any equity concerns from proposed tax reforms ... are often left unspecified."

In Pakistan, it is the poor who will feel the impact of a rise in energy tariffs, the introduction of the RGST and elimination of exemptions in the sales tax. In this case it seems that the IMF's official recognition of the importance of fair tax systems has been subordinated to the more pressing need to increase revenues in the traditional way – through consumption taxes that hurt the poor.

Bank energy strategy stalled

A mid April meeting of the World Bank board sub-group, the Committee on Development Effectiveness (CODE), threw the development of the Bank's energy strategy into disarray, while NGOs complain of a weakening of Bank commitment to consultation and continue to critique its energy investments.

CODE met to discuss the first draft of the Bank's new energy strategy (see *Update* 75, 72, 68), but a rift opened up between the G11 group — nine developing countries including China, India and Brazil, as well as high-income countries Saudi Arabia and Kuwait — and the US and allies over the draft's proposed ban on coal lending to middle-income countries. A G11 position agreed before the meeting said "it is unacceptable for the Bank Group to discriminate between categories of countries in terms of fuel base" and that discussions with countries on Bank support for energy should take place "without excluding any energy source upfront."

The G11 also raised concerns over the Bank's reliance on markets and the private sector as the principle means of delivery, and said it should do more to promote technology transfer for renewable energy and energy efficiency. There was no agreement during the CODE meeting on the need for greenhouse gas accounting to assess the carbon emissions of each Bank project, and some European directors argued that the Bank should use a tighter definition of what counts as a 'clean energy' investment, rather than its current expansive and controversial method (see *Update* 71).

After the CODE meeting, Bank management backtracked on its commitment to a further round of consultation on the draft strategy, 'deferring' a decision on whether to do this, despite having consistently promised it throughout the pre-draft consultation period (see *Update* 67). In late May, more than 50 civil society organisations from across the world wrote to Bank president Robert Zoellick saying any abandonment of this commitment would be "a major step backwards". Bank management is focussing on reaching agreement within the board and is maintaining an optimistic July date for its final decision on the strategy, which would appear to rule out further consultation.

World Bank, climate change and energy financing, an April report co-authored by seven NGOs, including Groundwork South Africa and Friends of the Earth, adds further weight to existing criticisms of the Bank's energy lending (see *Update* 73, 72). Detailing seven case studies, the report finds that "projects constructed in the name of alleviating energy poverty and/or transitioning to a lower carbon economy very often don't achieve the desired outcomes, and all-too-often the opposite results."

In addition, a May report by US NGO CO2 Scorecard takes the Bank to task for misleadingly portraying its coal investments as cleaner than other coal plants, and for failing to prioritise energy access.

World Bank, climate change and energy financing , Friends of the Earth
www.foe.org/world-bank-climate-change-and-energy-financing

CO2 Scorecard report
co2scorecard.org/home/researchitem/19

Conflict of interest? World Bank's role in global climate fund causes outcry

As developing countries and civil society groups continue to warn against World Bank influence in the design and management of the new Green Climate Fund (GCF), further criticism is emerging of existing Bank climate initiatives.

At a United Nations Framework Convention on Climate Change (UNFCCC) meeting in Bangkok in April, Southern civil society groups strongly questioned any future role for the Bank in the GCF, adding to a growing chorus of critical voices from international civil society groups (see *Update* 75, 74). Lidy Nacpil, of NGO Asia Pacific Movement on Debt and Development, argued that the GCF must be "democratic, accountable, transparent, and governed by a board with a majority coming from South countries, not countries who are responsible for the problem of climate change. The World Bank is not that institution and has no place in designing, setting up or running such an institution."

At the first meeting of the transitional committee tasked with designing the GCF, held in late April in Mexico City, controversy broke out over a role for the Bank in the committee's technical support unit (TSU). The TSU's design document stated that some job positions would be filled by staff from multilateral development banks (MDBs). Rumours circled that Warren Evans – former environment director at the Bank and influential in setting up the Bank-housed Climate Investment Funds (CIFs) (see *Update* 75, 73, 68) – had been lined up as the GCF's design specialist. Developing countries including Nicaragua, the Philippines and India, argued that any role for the Bank would constitute a conflict of interest, as Bank staff seconded to the TSU would have an instrumental role in constructing a fund that also employs the Bank as trustee.

Nicaragua pointed to international fiduciary standards and to the famous 2010 US court ruling on Enron that precludes the combination of consultancy and fiduciary functions. The Philippines, quoting the sunset clause in the CIFs which says they will cease activity once a new financial architecture is effective under the UNFCCC, said that the involvement of anyone connected to the CIFs in the design of the GCF would also constitute a conflict of interest. Clearly referring to the Bank, developing countries asked that any reference to a specific institution in the job descriptions of TSU members be removed.

Damning reports

In May the UK research body Institute of Development Studies (IDS) published a report on the Pilot Programme for Climate Resilience (PPCR), one of the CIFs. It highlights a consistent lack of developing country and civil society input in the design process of the PPCR, and a lack of participation for affected communities and civil society groups at country level. A case study on the PPCR in Mozambique reveals that the dominant role of MDBs in planning and implementation of the programme meant that it reflected MDB interests as opposed to national priorities for climate resilience. The report concludes that a lack of public engagement and awareness means that "the MDBs undermine the PPCR's claim that it is 'designed to catalyse a transformational shift' in climate change policy and adaptation practice, and increase the risk that it will in fact end up reinforcing rather than transforming 'business as usual'."

A late March discussion note by Italian NGO Campagna per la Riforma della Banca Mondiale (CRBM) outlines a widespread assumption that the Bank has the capacity to leverage large amounts of private finance for climate investments, which is widely accepted amongst high level government officials. It argues this assumption is part of a wider trend in increased Bank lending to the private sector, based on the premise that an increased role for the private financial sector will be a key engine for economic growth and development (see page 2). However, the paper highlights that investment in the private sector very often has a poor developmental and climate impact, and carries considerable financial risk (see *Update* 73).

REDD mist over FCPF safeguards

The Bank's Forest Carbon Partnership Facility (FCPF) is considering whether to allow multiple delivery partners, including UN agencies and regional MDBs, to implement Reducing Emissions from Deforestation and Degradation (REDD+) grants without applying Bank safeguards (see *Update* 72). The FCPF charter currently states that all FCPF projects are subject to Bank safeguards, but a task force will instead consider a common delivery approach for implementing agencies, which would negate this provision. A May letter to the Bank, signed by 30 civil society organisations including Greenpeace International and Ghanaian NGO Civic Response, argues that current proposals indicate a significant weakening of safeguards and a potential lack of effective monitoring and supervision of FCPF funding. It says that "the World Bank and donors to the FCPF face substantial legal and reputational risks by agreeing to include delivery partners that do not have accountability mechanisms in place and cannot otherwise demonstrate the substantial equivalence of their safeguards and supervision policies."

Civil society FCPF letter, REDD-Monitor
tinyurl.com/fcpfletter

Can financial markets solve the climate crisis?, CRBM
tinyurl.com/crbmnote

BP cash for World Bank forest fund

Global oil and gas company BP has pledged $5 million to the Bank's Forest Carbon Partnership Facility (FCPF). BP will finance the FCPF's carbon fund, which facilitates the sale of forest carbon credits from participating countries to investors. The company will reportedly be able to offset its own emissions through the fund, or profit from its involvement by buying credits and selling them on open markets. "The carbon fund is almost entirely public money and cannot be used to bail out dirty industries like BP" said Kate Horner, of Friends of the Earth US.

US cuts funding to Bank climate fund

The Clean Technology Fund (CTF), one of the controversial Bank-housed Climate Investment Funds (CIFs, see Update 75, 73, 68), was a victim of the 2011 US budget deal, which passed in April. The US has pledged $1.4 billion to the CTF. US president Barack Obama requested a $400 million 2011 disbursal of this pledge, but negotiations between the Democratic party-controlled Senate and Republican party-controlled House of Representatives resulted in a budget allocation of only $185 million. This was not as radical a reduction as that proposed by Republicans, who initially called for a complete axing of funding to the CTF.

tinyurl.com/usbudgetdeal

World Bank admits failures in East Timor

A draft report by the Independent Evaluation Group (IEG) - the Bank's arms-length evaluation body - assessing Bank operations in East Timor from 2000 to 2010 was leaked in April. It asserts that the Bank partly failed to relaunch Timorese education and medical sectors and also reveals that it urged the fragile post-conflict country to save a large part of its petroleum revenues rather than spend them on social projects. The report states that poverty "rose significantly through most of the evaluation period and declined only after 2007, when the government, against bank advice, increased its spending using petroleum resources."

tinyurl.com/nyt-timor

World Bank refuses access to bloggers

At its April spring meetings, the World Bank decided not to give press accreditation to Aidwatch – a blog linked to the New York University's Development Research Institute – banning the site's bloggers from access to the media briefing center. Aidwatch contributor Laura Freschi said: "I was shocked, actually, since the World Bank is usually ahead of the curve when it comes to technology and communication. I expected so much better." The Bank has not explained its decision, but responded by forwarding to the Aidwatch bloggers the 2011 World Development Report, which at that time had not yet been released.

aidwatchers.com/2011/04/world-bank-to-bloggers-drop-dead

Tamils slam Bank project in Sri Lanka

In April Tamilnet.com, an independent newswire service dedicated to issues concerning Tamil people in Sri Lanka, accused the World Bank of contributing to the "the dismemberment of the Eezham Tamil nation in the island." The Bank will provide 100 million US dollars for a road project connecting the island's east and west regions. While the Bank's Country Director for Sri Lanka, Diarietou Gaye, said that such connections "will be critical for Sri Lanka to realise its ambitious development goals", Tamilnet.com stated that "the World Bank has taken it as a policy to abet the Sri Lankan state in its structural genocide of Tamils."

tinyurl.com/tamilnetwb

Rehash of failed policies for Arab states?

As revolutionary movements sweep the Arab world, the World Bank and the IMF have taken a lead in international economic engagement in the Middle East and North Africa region. But critics have warned of the dangers of locking transitional governments into long-term loans with economic conditionalities that may perpetuate the flawed development model that contributed to the crisis in the first place.

In early June the IMF announced a $3 billion loan to support Egypt's economic programme for 2011-12, which the IMF praised as "a first step to laying the foundation for a more inclusive private sector-led economic growth". The loan has yet to be officially approved by the IMF board and the conditions attached to it are still unknown. A week earlier, at a summit in France at the end of May, the G8 announced that multilateral development banks, including the World Bank, would provide over $20 billion from 2011 to 2013 to Tunisia and Egypt. Just days before the summit the Bank had already announced up to $6 billion in loans for the two countries, although it was not clear if the money was part of the G8 pledge. This followed the launch in April of a $1 billion infrastructure fund for the Arab region – with a focus on regional projects and public-private partnerships – backed by the Bank and its private sector arm, the International Finance Corporation, along with the Islamic Development Bank.

IMF and Bank loans led to concentration of power

Dr. Adam Hanieh, from the School of Oriental and African Studies in London, argued that the "most important point to note about the aid packages promised to Egypt is that they do not in any way represent a break from … previous economic strategies for the region." Over half of Bank aid to the region goes to financial and private sector development, according to the German news agency Deutsche Welle, while figures from US NGO Bank Information Center (BIC) show that education, health and other social services have made up on average only 6.5 per cent of total Bank lending in the past four years.

Angelina Jarrouj of BIC noted in an article that many experts argue that privatisation programmes and market-based approaches pushed by the Bank and the IMF in the region in the 1990s led to mass layoffs of public workers, a limited role for unions and concentration of wealth. This contributed directly to the rise of unemployment, poverty, inequality and corruption, which sparked the current crisis.

Noha El Shoky, an academic and development professional from Egypt, added that the Bank's focus on private sector development and its push for aggressive open market policies proved damaging to small Egyptian entrepreneurs. Moreover, Bank-funded public programmes allowed the government to inflate figures of new job opportunities, while in reality only temporary labour intensive employment was created. "Development work implemented through Bank funding distorted markets and allowed the government to inflate 'false and superficial' progress", she said.

This ultimately led to hidden unemployment and deteriorating socio-economic standards instead of proclaimed social development achievements. For El Shoky, "IMF and Bank loans promoting neoliberalism allowed for the concentration of both political and economic power in the hands of a few, who systematically marginalised, oppressed and tortured Egyptians until they revolted."

In a tacit recognition of the Bank's past failings in the region, Bank president Robert Zoellick gave an early April speech admitting that "now it may be time to invest in the private, not-for-profit sector – civil society". However, rather than examining criticisms of the way the Bank may have undermined opportunities for public engagement on economic policy in the region, he focussed instead on expanding the Bank's role. He focussed on examining "whether the Bank needs new capabilities or facilities that could leverage support from countries, foundations, and others to strengthen the capacity of [civil society organisations] working on accountability and transparency in service delivery."

Another concern regarding the new Bank and IMF loans is the countries' already bulky foreign debts: Egypt has a total external debt of $30 billion, while Tunisia owes $15 billion. UK NGO Jubilee Debt Campaign has called for the unconditional cancellation of all of Egypt's and Tunisia's debt run up by their former rulers that is found to be unjust.

Economic failures, revolutions and the role of the World Bank in the MENA region, Angelina Jarrouj
tinyurl.com/bic-mena

G8 urged to cancel unjust debts
tinyurl.com/debtcampaign

Open for business: World Bank to reinvest in palm oil amid criticism

Early April saw the launch of the new World Bank Group strategy for engagement in the palm oil sector, which failed to resolve civil society concerns over several issues, including the rights of indigenous peoples and how performance standards will be applied across supply chains.

The strategy outlines the conditions and standards under which the Bank will invest in the palm oil sector. This ends the moratorium on investment in palm oil announced in September 2009, which followed years of pressure from civil society and indigenous peoples groups (see *Update* 72, 71, 68).

The new strategy claims the Bank will be tougher on recipient countries' legal and governance frameworks, will require companies requesting support from the International Finance Corporation (IFC), the Bank's private sector arm, to seek credible certification, and includes various new tools and initiatives to help guide investment decisions.

Marcus Colchester, director of UK NGO Forest Peoples Programme, said of the new strategy: "The policy as adopted would discourage, but still allow, the takeover of indigenous peoples' and local communities' lands without their free, prior and informed consent. The policy has weaker provisions on the clearance of peatlands and forests than industry best practice. Nor are the IFC and World Bank offering to make reparations for harms caused by previous investments."

The strategy has guidelines on how Bank clients should ensure performance standards apply to the full supply chain, meaning that downstream investments in palm oil trading and processing facilities must take into account the social and environmental impacts of the oil palm estates and smallholdings from which the product is sourced. This application of performance standards may be more achievable for vertically integrated companies which source from their own plantations, but the strategy acknowledges that where supply chains are more fragmented it is unclear how clients will be able to mitigate social and environmental risks.

Norman Jiwan, of Indonesian NGO SawitWatch, said that "one of the key weaknesses of the new strategy is the lack of clarity on how performance standards will be applied across the entire supply chain. The social and environmental impacts of subsidiary companies and other actors in the supply chain are often very high, including significant conflict with indigenous peoples. The new strategy does not go far enough in detailing how the IFC will ensure these impacts do not continue."

A longer version of this article is available online at
www.brettonwoodsproject.org/palmoilstrat

World Bank strategy for engagement in palm oil
tinyurl.com/bankpalmoil

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