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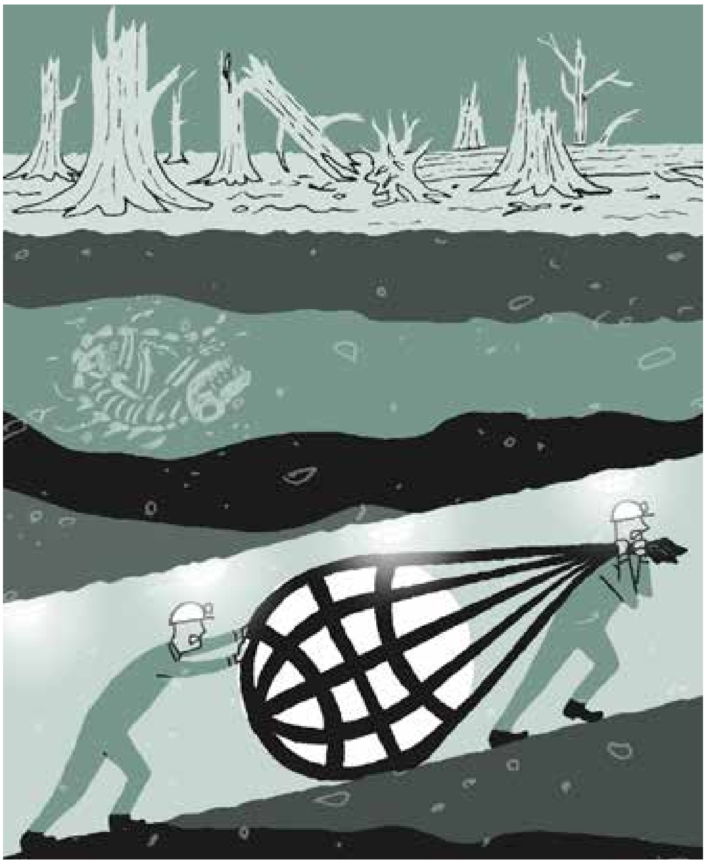
Unearthing the IFC's links to mining abuses

As mining projects in South Africa and Peru face violent opposition, critics are questioning the International Finance Corporation's (IFC) stakes in the companies at the centre of the controversies. IFC funds for mines in Mongolia and Guinea have also caused alarm, prompting renewed interest in the recommendations of the Extractive Industries Review.

The South African platinum mine in Marikana at the centre of violent protests and strikes by miners in August is operated by London-based company Lonmin, which in 2007 received a $100 million loan and $50 million in equity investment from the IFC, the World Bank's private sector arm, to "help to fund the company's expansion and community development plans". Strikes first erupted last year over pay and living conditions for mine workers. The conflict intensified this summer, and led to clashes in mid August, when police opened fire on protesters and over 40 people were shot dead.

A few days later the IFC said in a statement: "The issues are serious and IFC encourages all parties to resolve the dispute through constructive dialogue and negotiation," without mention of its performance standards or any intention to review Lonmin's compliance with them.

An investigation by NGO Centre for Study of Violence and Reconciliation (CSVR) was conducted after the Marikana shooting, because, according to CSVR researcher Jasmina Brankovic, "the dominant commentary on the massacre in South Africa has not dealt with Lonmin's responsibility." CSVR's draft report was tabled at an end August meeting with the South African Human Rights Commission, which has launched its own investigation into the incident. Brankovic said "While Lonmin signed an agreement in 2007 with the IFC to develop the local community, interviewees said they saw few benefits or changes and did not perceive how Lonmin is contributing to the sustainability of the community."


ROBIN HEIGHWAY-BURY / THOROGOOD

An early August report into platinum mines by Bench Marks Foundation, a Johannesburg-based NGO that monitors corporate performance, detailed Lonmin's failures in Marikana relating to worker safety, intimidation of striking workers, poor planning and execution of community development projects, and strong-arm tactics in acquiring land from local farmers. In terms of environmental impacts, the report found that "the situation seems even worse than more than five years ago."

Aside from wages, Bench Marks said one of the primary causes of unrest has been living conditions. The report found that "the residential conditions under which Lonmin ... employees live are appalling," with "broken down drainage systems spilling directly into the river at three different points." Despite five years of complaints, no action had been taken and the report "found that children showed symptoms of chronic illnesses associated with such spills." The report concluded "corporate citizenship and sustainability are currently still illusions on a far horizon."

Indiana University-based researcher Alex Lichtenstein commented: "In retrospect, it is hard to avoid the suspicion that Lonmin secured a major infusion of capital from the IFC five years ago by pimping its vastly overstated claim to corporate social responsibility."

More violence in Peru

In a similar case, violent opposition to the development of a new gold mine by Minera Yanacocha, a Peruvian venture majority-owned by US multinational Newmont Mining and in which the IFC has a 5 per cent stake (see *Update* 79), led to five deaths after police and protesters clashed in July. A late August poll showed that the Congas mine development, in the northern Peruvian state of Cajamarca, is opposed by 78 per cent of the state's residents. The IFC's equity stake relates to the 1999 development of a still-operational gold mine in the same area. The IFC has retained the stake despite the project being listed as "concluded". The IFC has made no public comment on the company or the allegations that the mine expansion would contaminate local water supplies and be detrimental to local agriculture.

Another IFC-funded Peruvian mining project is the subject of a complaint filed in November 2011 with the IFC's accountability mechanism, the Compliance Advisor/Ombudsman (CAO). The Quellaveco mine in southern Peru received an IFC equity investment for a 20 per cent stake in 1993. The mine is still in the pre-construction stage. The complaint to the CAO alleged that land was acquired without the consent of landowners, toxic waste from the project had a negative impact on local communities, and water quality and availability was degraded. Despite the IFC selling off its stake in the project in February, the CAO will conduct an appraisal of the IFC's compliance with its environmental and social policies.

New mine concerns

The IFC investment in a mine in Colombia was criticised by local

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Bank safeguards under scrutiny

With the World Bank's safeguards review due to be launched, indigenous groups and civil society organisations (CSOs) called for it to be rigorous and extensive. Meanwhile, the environmental and social track record of the Bank and its private sector arm, the International Finance Corporation (IFC), has come under scrutiny in India, Ethiopia, Colombia and Brazil.

After a long delay (see *Update* 79), the World Bank's safeguard policies review was expected to be launched in October. The Bank estimates that the process will take two years to complete. An August approach paper anticipated that the process "will lead to a new integrated framework" to "enhance policy alignment with internal and external changes, and provide a solid foundation for a renewed and strengthened partnership with the Bank's borrowers".

Before the launch, CSOs wrote to the Bank to highlight issues, such as resettlement and disability. Titi Soentoro of Indonesian NGO Aksi said: "This review is timely, robust safeguards and due diligence are essential for protecting people and their environment. But we are concerned that it will only serve the needs of borrowers to create a venue to weaken the existing standards."

Concerns have also been raised about the links to the Bank's ongoing investment lending reform (see page 5), which proposes to eliminate or reduce critical requirements related to Bank supervision, appraisal and cost-benefit analysis. In an early September letter, 39 CSOs, including Argentinian Centro de Derechos Humanos y Ambiente and US-based Accountability Counsel, wrote to Bank president Jim Yong Kim to raise concerns that the reform could effectively undermine the safeguards review. The recommendations also included a call for "current trends at the Bank Group to lend through programmes, intermediaries and pooled funds" to receive "at least the same level of public transparency and attention to social and environmental concerns as lending directly to borrowers and clients."

People's rights on the line?

Further controversy over the Bank's lending to large dams vindicates concerns about the Bank's track record in safeguarding local communities (see *Update* 81, 77). In early August, the Inspection Panel (IP, the Bank's accountability mechanism) registered a request for inspection of the Vishnugad Pipalkoti hydroelectric project in Uttarkhand, India (see *Update* 77). The request outlines several social, cultural and environmental concerns, such as water quality and access, including for religious rituals. The IP is expecting a response from the Bank by late October.

The problems with other forms of Bank lending were highlighted in a complaint submitted to the IP in September by indigenous people from Ethiopia's Gambella region. The submission claims that they have been severely harmed by a Bank project providing budget support for the Ethiopian government that "is directly and substantially contributing to a programme of forced villagisation". David Pred of US-based NGO Inclusive Development International said that this process "is violently uprooting tens of thousands of indigenous people from their ancestral lands", which "Bank funds are helping to make possible".

Indigenous peoples have repeatedly raised concerns about the safeguards review process (see *Update* 81, 79), including calls for the inclusion of the right to free prior and informed consent (FPIC). FPIC was included in the updated performance standards of the IFC, which came into effect in 2012. However, CSOs, such as UK-based Forest Peoples Programme, have warned about the weakened language in the final version (see *Update* 77).

The triggering of FPIC in IFC's operations has come under scrutiny in relation to its recently approved $27 million equity investment in PetroNova "to support the expansion of the company's oil and gas exploration programme in Colombia". The IFC has acknowledged that all its performance standards apply but has classified the project as 'category B', i.e. of limited adverse social and environmental impact, rather than the more stringent 'category A'. Lance Crist, global head of IFC oil and gas, argued that the lower classification is due to the investment only supporting "early stage exploration activities" with "a limited footprint" and without "significant adverse impacts". Crist added "IFC's appraisal concluded that indigenous peoples would not be significantly impacted as a result of the proposed investment in exploration activities and therefore FPIC was not required".

Crist claimed that "the company has engaged in consultation with indigenous peoples so that they are aware of the exploration activities and the potential for future development", however, this is questioned by Colombian NGO Instituto Latinoamericano para una Sociedad y un derecho Alternativos (ILSA). A July statement with over 50 signatories, including indigenous associations and local governors, called for a dialogue with authorities to address "the difficult economic, political, social and environmental situation of the indigenous peoples in the region", including concerns about private sector involvement: "When there are strong economic interests that vie for control of our territories for the exploitation of natural resources, mining and hydrocarbons, we are left without tools to effectively defend the territory and deny us the right to freely decide the use we want according to our vision as indigenous peoples."

The IFC has also been linked to the construction of the Teles Pires dam in the Brazilian Amazon, which indigenous peoples are fighting because the reservoir will flood an area deemed sacred. In 2011, the IFC approved a $50 million partial risk guarantee to "longstanding" client and construction company Construtora Norberto Odebrecht "to support the development of infrastructure in Brazil and other Latin American countries", including Teles Pires. João Kayabi, chief of one of the affected villages, told press agency *IPS News*: "It's a sacred area. … It will be left underwater, and will only be a memory. We are trying to keep that from happening."

CSO letter on safeguards
tinyurl.com/safeguardsletter

Vishnugad Pipalkoti IP registration
tinyurl.com/pipalkoti

Indian takes chief economist job at Bank

In early September, the World Bank announced the appointment of Kaushik Basu of India as its next chief economist from the beginning of October. Basu becomes the second chief economist from a developing country, following Chinese national Justin Lin, who just completed his term in the post. Basu most recently served as the chief economic advisor to the Indian finance ministry, while on leave from US-based Cornell University. He studied economics under Nobel laureate Amartya Sen and has produced work on rural economies, bribery and corruption, foreign exchange and international debt among other topics. His most recent work in India has focussed on restructuring the public food distribution system.

No carbon pay for Indian farmers?

The Bank's compliance body, the Inspection Panel (IP), has received a request for inspection from farmers who reforested land in India as part of a Bank carbon sequestration project, under the Bio Carbon Fund (see *Update* 79). The farmers claim the Bank failed to "respect the timeframes for the validation and verification of the emission reductions, which generate the carbon revenue". According to the request, by the time revenue was released, some farmers had harvested and sold their trees, as set out in the project design document, but the Bank was only willing to pay those whose plantations were still standing, according to the request. The IP is expected to submit a report to the Bank board on the request's eligibility by mid October.

IFC to fund Nigerian shopping malls

The Bank's private sector arm, the International Finance Corporation (IFC), announced in June that it will invest $124 million in Nigerian property development group Persianas, calling it a "high growth" sector, in order to construct at least four shopping malls in Nigeria. Project impacts expected by the IFC include the "improvement of food security", as a result of the "rollout of modern food retailing as [a] planned anchor for every development". Soren Ambrose of ActionAid International called this "laughable": "a shopping mall will become an additional choice for the urban middle class. Supporting food security would require credit and other assistance for the small farmers, mostly women, who feed most Nigerians."

Bank returns to Burma amid criticism

After leaving over suspended debt repayment in the late 1980s, the World Bank officially returned to Burma , also known as Myanmar, in early August. It signed off $85 million in grants, but no loans will be approved until the $400 million Burma still owes to the Bank are cleared. In August, 48 Burmese civil society organisations, including minority ethnic groups, complained to the Bank about the "flawed" consultation process for the interim strategy note (ISN) for Burma, which outlines the Bank's plans for the next 18 months. In early September, the groups presented demands to Bank staff, saying "neither reforms nor peace are as far-reaching as the ISN summary suggests."

bicusa.org/burmaisn

World Bank making poverty worse in Kosovo

COMMENT

by Nezir Sinani, Institute for Development Policy, Kosovo

Before joining civil society organisations (CSOs), I worked for Kosovo's state-owned power company for many years. During my time there I learned how the coal industry works and how much it negatively affects every segment of our lives.

Already two years ago, Kosovan CSOs warned the World Bank that things would not turn out well for Kosovo should the Bank continue supporting and pushing for coal development projects in the country. In October 2008, the Kosovan government decided to restructure its energy sector by introducing private investors to key areas of energy generation and distribution, including privatising the electricity grid, opening a new coal mine, and building a new highly polluting 600 megawatt coal-based power plant. This energy strategy was supported and pushed by the World Bank and the US government. The Bank agreed to consider a partial risk guarantee for the mine and the new power plant, while the International Finance Corporation (IFC, the Bank's private sector arm) would provide the Kosovan government with advice on how to undertake the grid privatisation. Neither could move forward without the explicit approval of the US State Department.

Kosovan CSOs and international partners reviewed the strategy and concluded that it was a dangerous path for Kosovo to follow, since it would dramatically increase the price Kosovars pay for power, fail to create jobs, affect the environment and saddle the country with unsustainable debt at a time when the European Union debt crisis is raging.

In August 2011, a complaint was filed with the Compliance Advisor / Ombudsman (CAO, the IFC's accountability mechanism) by the Energy Trade Union of Kosovo (SPEK) about the IFC's involvement in the grid privatisation process. SPEK claimed that jobs would be lost and that social and environmental issues were not addressed in accordance with IFC performance standards. In May this year, the CAO announced that it would audit the project. Meanwhile, the Kosovan government opened a call for companies interested in purchasing the electricity grid, which was won by a bid of €26.3 million ($33.9 million). This sum stands in sharp contrast to the €180 million invested by the Kosovan government in the very same grid in the last 10 years.

Shortly after this announcement, Kosovo's energy regulatory office declared that it would increase the electricity tariffs for customers by 8.9 per cent, claiming the rise is needed to cover the cost of producing and distributing electricity. For the purposes of pushing the coal project forward, in 2011 an additional 1,011 per cent increase of the tariff on coal was approved, which will further increase the retail electricity costs by over 10 per cent next year alone. This is on top of the 4.5 per cent annual increase the Bank says is needed for building the proposed new plant. Any increase in electricity tariffs will make the lives of Kosovars unbearable, recognising that over 45 per cent of Kosovars already live below the national poverty line.

Moreover, opening a new coal mine and constructing a new coal-based power plant has tremendous social and environmental costs. A recent assessment by the World Bank itself estimates the annual costs of pollution in Kosovo to be around €220 million – a figure that is likely to multiply with a new coal power plant. And this time not only Kosovars' pockets will be affected, but our land, environment and above all, our health. Even Daniel Kammen, the Bank's former chief specialist in renewable energy and energy efficiency and professor in the energy and resources group at the University of Berkeley, has publicly called on the Bank and the US government to shift Kosovo's energy path from investing in coal to that of a cleaner and more sustainable future.

This is in line with repeated calls from CSOs to the Bank and other stakeholders to shift the energy investment approach in Kosovo. Failing to do so will put the people of Kosovo's lives and future in jeopardy. This is happening in Europe's poorest nation, with unemployment rates as high as 47 per cent, despite the Bank's key mission to help reduce poverty. We cannot afford this flawed strategy. It is economically unviable, it will result in job cuts, it will destroy our environment and health, and it will make our lives unbearably expensive. Simply put, the World Bank needs to stop exacerbating poverty in Kosovo.

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NGO network Comité por la Defensa del Agua y el Páramo de Santurbán, which filed a case with the CAO in June alleging that the IFC's nearly $20 million investment in the project, operated by Canadian miner Greystar, was in violation of IFC safeguard policies. The complaint stated that "there is evidence that significant, irreversible, adverse social and environmental impacts could occur in the future" because the area to be mined is "essential to supplying fresh water for at least two million persons, and to mitigating climate change."

Moreover, a proposed IFC loan to the Oyu Tolgoi mine in the South Gobi desert in Mongolia is being challenged, particularly over the availability of water resources for local inhabitants and the destruction of pastureland for local herders. In early November the IFC board will discuss up to $900 million in loans to the copper and gold mine, which is two-thirds owned by mining company Turquoise Hill Resources. Mining multinational Rio Tinto owns a controlling stake in Turquoise Hill. The environmental and social impact assessment (ESIA) was not released until late August, despite Turquoise Hill advertising to investors: "First delivery of ore to primary crusher in July 2012" and "overall phase one construction topped 97 per cent at end of August 2012".

According to Sukhgerel Dugersuren, of Mongolian NGO OT Watch, the lack of information in the ESIA about the true impacts of the project is made worse because "Rio Tinto has not organised meaningful, participatory, and culturally appropriate public consultations with the affected herders."

Rio Tinto is also the major force behind the Simandou Iron Ore project in Guinea along with Chinese mining firm Chinalco. The IFC made its third investment in the project in late June, providing another $150 million. It had invested $5 million in 2006 to finance feasibility studies and a further $30 million in 2007, resulting in a 5 per cent stake in the project. It is estimated to be the largest ever private sector investment in Africa. The IFC views its role as "to provide significant input regarding the assessment of environmental risks, especially those regarding biodiversity", but the decision to invest in a further rights issuance in June was taken before the completion of environment and social impact assessments. The US government refused to back the loan: "given that the large scope and timeline for investment triggered a reclassification of the project from Category B to Category A, and because the project site is, by the project team's own definition, a 'bio-diversity hotspot,' the United States believes investors as well as Guinean authorities should have agreed to wait for the [environmental and social impact] assessments to be completed and posted before proceeding with the investment plan."

Alhassan Atta-Quayson of Ghana-based NGO Third World Network Africa said "The African mines supported by the IFC, from Guinea to South Africa, show the IFC's complicity in the sub-optimal exploitation of Africa's natural resources and the escalation of conflicts. The least we expect from the IFC is a return to the recommendations of the Extractive Industries Review (see *Update* 42) and the divestment from these projects."

Bench Marks Foundation report
tinyurl.com/benchmarksreport

What went wrong at Marikana?
tinyurl.com/alexlichtenstein

Avoiding crashes on the financial "highway"?
IFIs discuss role of state in financial sector

The launch of the World Bank's new annual study, the Global Financial Development 2013, and an IMF conference on financial crises, both in September, have renewed scrutiny of the Bank and the IMF's support for the development of private sector financial systems and the role their policy advice played in the global financial crisis.

The debate over whether it was valid for IFIs to champion private capital markets and discourage state involvement in lending and investment (see *Update* 80) is the motivation for the report, as the Bank staffer and GFDR project director Asli Demirguç-Künt explained: "the crisis has prompted many people to reassess state interventions in financial systems … It is important to use the crisis experience to examine what went wrong and how to fix it."

Imposing "speed limits"

The report sets out to comprehensively assess the role of the state in finance. Noting the bailouts by developed countries of their private financial sectors, the report acknowledges the "sound economic reasons" for the state to play an active role in financial systems. However, it cautioned that the long-term benefit of bailouts may be compromised given that the track record of state-owned banks is "unimpressive", adding that one should be "wary" of "too active a role" for the state. It concludes that the state's role should be to ensure "strong supervision, healthy competition, [and] enhanced financial infrastructure".

In a blog post introducing the report, Demirguç-Künt employs the analogy of the financial system as a "highway"; and that government intervention should be akin to the imposition of speed limits. The report itself argued that "if the state does not have the capacity to monitor and police such complex [finance sector] rules, the likely result is more speeding and more crashes".

The report findings reflect the Bank's history of advocating reforms of financial structure in order to support economic development, which were criticised in 2007 by an independent panel of experts (see *Update* 54).

Paulo dos Santos, an economist at the University of London, stated that "the report does raise the important question of what governance mechanisms and incentive structures could help state banks deliver on their mandates, but finds that the necessary oversight is 'challenging, particularly in weak institutional environments'. While presenting this assessment as a 'main message', the report provides neither evidence in its support, nor any discussion of how institutions like the Bank could help improve the institutional environments in state banks."

Dos Santos added that, "instead of offering an open, self-critical reassessment in light of the events of the last four years, the GFDR is in effect a rearguard action seeking to defend old policy shibboleths, published by an institution that spent much of the past twenty years promoting the virtues of 'sophisticated' banks like Citi and HSBC, and their 'advanced' financial practices, against state involvement in banking markets".

More of the same from the Fund?

The IMF's position on financial markets and the role of the state has also been recently re-examined. The 2011 *Triennial Surveillance Review* (see *Update* 78) called on the Fund to better account for the interplay of financial stability with financial deepening, the increasing efficiency of the financial sector and provision of financial products which the Fund has long championed (see *Updates* 68, 63, 61).

In April, an IMF paper prepared by an interdepartmental team in direct response to the review accepted that "deepening is related to crisis incidence, with rapid, insufficiently supervised liberalisation associated with higher crisis risks". Nevertheless, it concluded that enhanced competition, improved market infrastructure and limiting intrusive public sector interventions would benefit developing countries' development.

Policy advice from the Fund has largely been consistent with increasing reliance on capital markets to generate investment, and advocating financial deepening. In September, the head of the IMF mission to India Laura Papi urged further liberalisation of investment rules. An IMF study on China, published in November 2011, called for the end of state controls on banking, the liberalisation of interest rates and the concession of greater control over lending and risk management to banks themselves. One of the report authors, Jonathan Fiechter, told the *New York Times* that China should allow "banks to operate according to market forces" and to "take the training wheels off and let the banking system work".

Global Financial Development Report 2013
worldbank.org/financialdevelopment

IMF urges China to ease state controls on banking, New York Times
www.tinyurl.com/ChinaIMF

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World Bank's climate record in the dark

As the World Bank officially stepped into its role as interim trustee of the United Nations Framework Convention on Climate Change's (UNFCCC) new Green Climate Fund (GCF), its track record on fossil fuel investments continues to raise concerns.

Launched in late 2011 to manage climate finance transfers from the developed to the developing world, the GCF held its first official meeting in Geneva in August after several delays (see *Update* 81). The Bank serves as the fund's interim trustee until 2015, when a permanent trustee will be selected.

In the meeting the GCF interim secretariat presented several draft papers, including an outline of activities and costs incurred by the Bank as interim trustee. The Bank's expected expenditures until end October were estimated to almost $400,000. According to a September report by German political foundation Heinrich Boell, several questions were raised about the comparability and competitiveness of the Bank's fees for services, such as report and document preparation. There were also concerns around language implying a self-assessment by the World Bank of its trustee services instead of a review by an external auditor. The GCF board asked the interim secretariat to work with the Bank to amend relevant reports according to the comments, to be presented at the next board meeting scheduled for mid October.

Meanwhile the Bank's track record on fossil fuel investments continues to raise concerns (see page 3 and *Update* 80). A July report by NGO coalition Jubilee South Asia Pacific Movement on Debt and Development, which reviewed the Bank's carbon projects in the region, concluded that over the past 61 years the Bank has financed projects that produce or heavily use fossil fuels in the Asia-Pacific region to a total value of almost $70 billion. Over $20 billion of this was provided in the last ten years alone, principally to India. The report argues that the Bank therefore lacks a "basis in laying claim to a place in the climate negotiations and a say in climate finance". Instead, the Bank "has a debt to settle with world's peoples, especially in the South, for its complicity in the climate crisis", yet to date it "has never explicitly owned up to its share".

India's coal problems

The July power blackout in India, which affected over 620 million people, has led some to critique the role of the Bank in providing inducements to expand India's exploitation of coal rather than exploring more sustainable energy sources. Daphne Wysham of US-based NGO the Institute of Policy Studies argues that "had the bank heeded its own studies in the early 1990s, which showed that a more economically efficient way of handling the energy

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Inside the institutions

World Bank lending facilities

The World Bank's investment lending (IL) has been joined in recent years by new lending instruments, whilst IL itself faces an overhaul, as the Bank's operational policies come under review and pilots for the use of 'country systems' mature. The Bank is presently using four lending instruments: IL, development policy lending (DPL), Program-for-Results, and the World Bank Guarantee Program.

Investment lending IL, or 'project lending', represents the traditional mode of Bank lending for individual projects and are the primary lending instrument of the International Bank for Reconstruction and Development (IBRD) and International Development Association (IDA), the Bank's middle- and low-income arms, respectively.

IL incorporates loans, credits and grants for "activities aimed at creating the physical and social infrastructure necessary to reduce poverty and create sustainable development", including "capital-intensive investments, rehabilitation and maintenance, service delivery, credit and grant delivery [including micro-credit], community-based development, and institution building". Funds are disbursed to cover project expenditures, including pre-identified equipment, civil works, and technical and consulting services. IL may be accompanied by conditions for specific project components.

IL has a long term focus of 5 - 10 years and, during the last 20 years, has accounted for 78 to 80 per cent of the Bank's portfolio. At present, IL represents more than 90 per cent of the Bank's active lending portfolio, whilst accounting for roughly two-thirds of IBRD and IDA annual commitments. Since 2000, investment loans have ranged from $500,000 to $3.75 billion, averaging $83 million. In the past, IL operations have been governed by more than 30 operational policies. However, reforms are presently underway which aim at consolidating the policies, procedures and guidelines into one policy statement and an accompanying procedure statement.

Development policy lending DPL replaced adjustment lending in 2004. DPL is available in the form of rapid financial assistance to provide funding for programmes of policy and institutional actions. IDA-eligible countries get DPL in the form of grants.

The release of DPL funds is dependent on "satisfactory assessment of performance against a set of indicators in the form of institutional or policy reform measures that reflect progress in implementing a country-owned reform programme." This conditionality is a traditional feature of Bank lending, but has been criticised for lack of sensitivity to countries' individual contexts and a focus on liberalisation, deregulation and privatisation.

In fiscal year (FY) 2009, in response to the financial crisis, 40 per cent of Bank commitments took the form of DPL, rising from 27 per cent in 2008. IBRD DPL commitments peaked in 2010 at $20.6 billion, falling to $9.5 billion in FY 2011. IDA DPL commitments hit $2.8 billion in FY 2009, falling to $2.1 billion in FY 2011. Since 2000, development policy loans ranged from $500,000 to $2 billion, averaging $189 million.

Program-for-Results Program-for-Results (PforR) is a new lending instrument, which was approved by the Bank's board in January 2012 (see *Update* 79). PforR ties the disbursement of funds to the achievement of tangible development results and provides direct support for government programmes in order to help countries "strengthen institutions, build capacity, and enhance partnerships with stakeholders to achieve lasting impact". According to the Bank, PforR can provide support for a wide range of government projects, such as increased immunisation coverage for children or provision of sanitation services. Disbursements fund expenditure programmes rather than individual transactions.

The Bank will pilot the PforR instrument for two years, during which time eligibility for new operations will be limited to 5 per cent of annual IBRD and IDA lending (about $1.5 billion), and category A operations (those with the highest environmental and social risks) will be excluded. As of September, two PforR projects of $60 million and $300 million had been approved.

World Bank Guarantee Program The Guarantee Program offers partial guarantees of private debt, which are designed to "attract long-term commercial financing in sectors such as power, water, transport, telecom, oil and gas, and mining". Guarantees are available to all IDA- and IBRD-eligible countries and take three forms: partial risk guarantees "cover private lenders against the risk of a public entity failing to perform its obligations with respect to a private project"; partial credit guarantees "cover private lenders against all risks during a specific period of the financing term of debt for a public investment"; and policy based guarantees "help to improve governments' access to capital markets in support of social, institutional, and structural policies and reforms". The guarantee instrument has evolved to include new aims such as "improving investors' interest in privatisations".

Country systems The implementation of Bank projects has been managed by special units running parallel to the government's core activities. However, the Bank is moving towards a 'country systems' approach, whereby Bank projects use a country's "national, subnational, or sectoral implementing institutions and applicable laws, regulations, rules and procedures".

Following approval by the Board in 2005, the Bank is presently undertaking a pilot programme which "explore[s] using a country's own environmental and social safeguard systems", across Bank lending. The pilot first applied to individual projects, but in 2008 the board approved a proposal to scale up the initiative to apply nationally and sub-nationally and launched another pilot to trial the use of country procurement systems. A 2011 update to the pilot published by the Bank, *Use of country systems for environmental safeguards*, recognised that the country systems pilots to date had achieved "limited success" in realising their goals of impact, ownership, donor harmonisation, simplification and cost-reduction.

The experience of the pilots' use of country's environmental and social safeguards systems will be reviewed as part of the review and update of the Bank's environmental and social safeguard policies (see page 2).

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needs of the poorest in rural areas would have been to invest in renewable energy, many of India's energy and environmental problems would have been solved".

In a September interview in the Indian magazine *Business Today*, Roberto Zagha, the Bank's India country director, argued that increasing production of Indian coal mines is an "easy solution" to India's energy problem, but that there are also problems, such as that coal "happens to be in protected forest areas or where the tribals are". Zagha noted that "all the coal India needs is going to be imported from Australia and Indonesia. Or you have a different policy regarding clearing forests and people living in them."

Soumya Dutta of the India People's Science Campaign questions the rationale for coal exploitation: "If we take all costs (including environmental costs), wind is much cheaper than coal today, and solar will be so in a few years. New coal power plants will need years to come onstream and lock us in dirty energy for four decades."

Further controversy has arisen over the support of the Bank's private sector arm, the International Finance Corporation (IFC), for coal power in India. In July, the IFC's accountability mechanism, the Compliance Advisor/Ombudsman (CAO), ordered a full investigation into the investment in the Tata Mundra coal power plant (see *Update* 80, 77, 59). The investigation was launched in response to a 2011 complaint of "alleged and anticipated adverse impacts of the plant on livelihoods and the environment".

Bharat Patel of Machimar Adhikar Sangharsh Sangathan (MASS), a fishworkers association that lodged the complaint on behalf of local fisher folk, said: "We hope that they will go to the bottom of issues, investigate impartially and stop financing this project which is threatening the livelihood of thousands of fishworkers and the fragile ecology".

The complaint is in line with a July report by an independent high level panel, set up by the National Fishworkers Forum on request from MASS, and led by the retired chief justice of the Indian state of Sikkim, S. N. Bhargava. The report concludes that the project "has disproportionately high social, environmental, and economic costs", which were "either ignored or wilfully neglected" by the responsible parties. Recommendations include a call for the IFIs' "financial assistance to the project [to] be suspended" until they have undertaken "an immediate review of the project to examine adherence of their safeguard policies".

Heinrich Boell Foundation GCF report
tinyurl.com/GCFboell

Jubilee South Asia Pacific Movement on Debt & Development report
tinyurl.com/asiacarbon

Tata Mundra independent panel report
tinyurl.com/tatamundrareport

IMF's "incompetence" and "failures" in Europe led to "suffering"

The IMF's role as a member of the Troika, the grouping of the European Central Bank (ECB), European Commission and the Fund in the eurozone crisis, is attracting new criticism. Deepening recessions in the eurozone have brought the efficacy and appropriateness of Troika-led reforms into question.

Criticism of the Fund's European involvement includes the claim that it risked its independence as part of the Troika. Support for this view has come from the leaked resignation letter of a 20-year IMF veteran, Peter Doyle, who resigned as an adviser in the IMF's European department in July. Doyle accused the Fund of "failing" in its surveillance function by having "suppressed" publication of problems in Europe that had been identified well in advance, so much so that the Fund was consequently "playing catch-up and reactive roles in the last ditch efforts to save [Greece]", causing "suffering for many". He lays the blame for these failures on the Fund's "analytical risk aversion, bilateral priority and European bias", problems which he argued had become "even more entrenched" and stemmed from the "evidently disastrous" appointment process for the managing director post (see *Update* 77, 76).

Arvind Subramanian, formerly IMF assistant director, wrote in the *Financial Times* that the IMF's conduct during the European crisis demonstrates how it "is failing". He argued that the Fund's status as "junior" member of the Troika means it cannot criticise policies publicly, but rather must "fall into line" once policy choices are made. As a result, the Fund is "failing to challenge orthodoxy, forfeiting its role as a valuable referee in the policy debates".

ECB president Mario Draghi proposed in September a eurozone crisis solution, committing the ECB to conduct new bond-buying programs. ECB board member Jorg Asmussen, when discussing the prospect of these programmes in late August, advocated for the IMF to be "involved in setting the economic adjustment programmes because the IMF … has unique know-how and has high leverage as an external policeman in these cases". IMF managing director Christine Lagarde declared that "the IMF stands ready to cooperate" with the ECB in the new framework for intervention.

Troika reforms contested

The Troika's loans to Greece, valued between €164 billion ($211 billion) and €173 billion (see *Update* 80), have attracted further criticism. Greece's government appointee to the IMF executive board up to January, former finance minister Panagiotis Roumeliotis, was quoted in the *New York Times* saying: "We knew at the Fund from the very beginning that this programme was impossible to be implemented because we didn't have any – any – successful example". Roumeliotis also noted that the Troika underestimated the negative effect of its measures, arguing that it is wrong to claim that Greece's "deep recession is because of the non-implementation of the structural reforms when it is the severe cuts themselves that have led to the under-performance of the Greek economy".

An August letter from the Troika to Greece set out some of its expected labour market reforms, including permitting a six-day work week in all sectors, removing overtime limitations and restrictions on minimum wage levels. In July, a national poll found that the majority of Greeks advocated renegotiating the terms of the bailout. Elena Papadopoulou, of the Nicos Poulantzas Institute in Greece, said that "since the signing of the first Memorandum of Understanding in March 2010, all adjustment programs have failed to bear the promised fruits. Recession has deepened dramatically, unemployment has skyrocketed, the welfare state is collapsing and the 'ultimate goal' of containing public debt has run aground since its restructuring last March was unable to render it sustainable."

In Portugal, the Troika's fifth quarterly review of progress in implementing the conditions agreed in 2011 in exchange for a €78 billion loan indicated that the original austerity targets are unlikely to be achieved. Portugal's deficit targets have been eased substantially as a result, up to 5 per cent of GDP in 2012 and 4.5 per cent in 2013 (from a target of 3 per cent), though the Troika cautioned that "reaching the new deficit targets will require additional consolidation efforts". Mass strikes in late September to protest at the agreed labour reforms succeeded in bringing the process to a halt, as the prime minister offered to hold talks with unions and other protesting parties.

Cuts "counterproductive"

A July IMF working paper by staff and external authors, which does not represent the view of the Fund, studied the efficacy of policies of fiscal consolidation in developed economies, comparing evidence from Europe, Japan and the United States. Its findings suggested that the fiscal consolidation approach, emphasising large and early cuts to expenditure, has proved to be "counterproductive". Therefore, the "key to success of fiscal consolidation" in the European context was argued to be the "protection of growth".

The United Nations Conference on Trade and Development's *Trade and Development Report* argued inequality must be addressed if reforms are to succeed. The September report argued that "the experience of the past few decades has shown that greater inequality does not make economies more resilient to shocks that cause rising unemployment. … It has made economies more vulnerable."

Peter Doyle letter of resignation, CNN
cnnibusiness.files.wordpress.com/2012/07/doyle.pdf

TDR 2012, UNCTAD
tinyurl.com/TDR2012

Successful austerity in the United States, Europe and Japan, IMF
www.imf.org/external/pubs/ft/wp/2012/wp12190.pdf

Promises to keep: the policy actions needed to secure global recovery, IMF
www.imf.org/external/np/speeches/2012/092412.htm

US blocks IMF governance reform

An IMF governance reform deal agreed in November 2010 (see *Update* 73) has been stalled by US Congress' failure to grant it approval. The deal, which gives emerging markets greater voting shares as well as requiring that all IMF board members be democratically elected, will not pass until at least November as Congress is now in recess for the US elections. As the US has 17 per cent of IMF votes, the deal cannot pass without US approval, ensuring that the original mid October deadline will be missed. Charles Kenny of the Washington think tank Centre for Global Development claimed "the threat of losing worldwide economic dominance has left the US too scared to engage constructively in building up global institutions".

External panel to review IMF's IEO

In August, the IMF executive board appointed an external panel to review the work of the Independent Evaluation Office (IEO), the body that assesses the Fund's work. The panel, chaired by former United Nations undersecretary-general for economic and social affairs José Antonio Ocampo, is expected to conclude its review by end 2012. This is the second external evaluation of the IEO (see *Update* 52). It will assess how successfully the IEO has met its goals of enhancing the learning culture within the IMF, promoting greater understanding of the Fund's work and supporting the executive board's institutional governance and oversight responsibilities.

www.imf.org/external/np/sec/pr/2012/pr12285.htm

IMF's role in debt restructuring queried

In August, the IMF published sovereign debt restructuring data between 1950 and 2010, detailing pitfalls in the process, communication amongst stakeholders and the scope of debt relief in past restructurings. An August paper published by Canadian think tank Centre for International Governance Innovation (CIGI) highlights "pressing questions" in the way that international global institutions limit debt costs. The report finds that debt restructuring negotiations were not an "unmitigated success." It recommends developing a legal framework for restructuring and further scrutiny of whether the IMF is "optimally organised for crisis management".

www.cigionline.org/sites/default/files/no.6.pdf

IMF lending politically influenced?

The hypothesis that IMF lending is subject to "political influence … cannot be discarded", according to Andrea Presbitero and Alberto Zazzaro in the autumn 2012 edition of the *World Development* journal. They found that "financial exposure of foreign banks and the amount of G7 direct foreign investments in a developing country significantly increase the size of the loan the latter can obtain". Additionally the severity of the crisis most affects the degree of low- and middle-income member countries' participation in IMF programmes for those nations "which are political allies of G7 governments".

IMF lending in times of crisis: political influences and crisis prevention
tinyurl.com/IMF-politicallending

No strings attached? Egypt to get billions in foreign aid subject to IMF conditionality

Egypt has been in talks to receive over $11 billion in foreign assistance, of which at least $7.5 billion will be contingent on IMF approval, sparking concerns from activists over policies likely to be imposed by the Fund, just as it has ended its conditionality review.

After its first free presidential elections in May, Egypt asked the IMF for a $4.8 billion loan in August. An IMF mission was due in the country at end September and Egyptian officials expected the deal to be concluded by December. European Union officials said in September they would give Egypt €500 million ($645 million) if it secured the IMF loan. Egypt's prime minister Hisham Kandil added there were talks of $1 billion in budget support from the African Development Bank and the World Bank, which "would come after an IMF deal". US officials were also negotiating a $1 billion debt relief deal with Egypt to be completed with the IMF programme. Other pledges to Egypt from Qatar, Saudi Arabia, Turkey, United Arab Emirates, Kuwait and China totalled over $11 billion.

Talks of IFI loans have faced opposition in Egypt, including from religious and political groups, with activists protesting in August against the IMF and World Bank. The points of greatest contention are the austerity measures, such as food and fuel subsidies cuts, likely to be required by the IMF. In September, the Popular Campaign to Drop Egypt's Debt organised a conference in Cairo, where activists called for a full audit of the Egyptian debt and rejected the IMF loan, "pointing to the stringent austerity package … which Egypt would likely have to follow in order to qualify for loan instalments", according to Egyptian news website *Ahram Online*.

> "furthering of neoliberal measures"

Also in September, Amr Adly of the human rights group Egyptian Initiative for Personal Rights wrote that austerity measures were included in a leaked government programme that will need to be accepted by the Fund for the loan to be approved. Adly added: "What is even more alarming is that the IMF, the World Bank and other … IFIs … seem to be the only ones that have a clear strategy for Egypt's economy, which is simply the furthering of neoliberal measures".

Conditionality review

The talks between Egypt and the IMF came as the Fund concluded its conditionality review. In September, executive directors "welcomed the findings that conditionality has become more focused, more closely aligned with programme goals, and generally well-tailored to country characteristics and initial macroeconomic conditions."

However, the review admitted that the opposite has been happening in Europe (see page 6) but claimed it did not cover these loans since "most of these programmes are ongoing, so it is difficult and premature to assess them fully." Peter Bakvis of the International Trade Union Confederation said "the failure to include the European loans in the core analysis of the conditionality review is not a minor omission. Fully 94 per cent of the IMF's outstanding credit is currently allocated to European countries." He added that the review "takes it on faith … that the deregulatory labour market reforms imposed in Europe are necessarily growth-enhancing".

A divisive issue in the review was how IMF conditionality "could undermine ownership", with "some directors express[ing] concern about the use of conditionality that is outside the executive branch's controls". The review found that ownership could be improved by "more frequent and accessible analysis of programme design in a cross-country perspective", as well as by "transparency that would allow stakeholders, such as academics, journalists, and market analysts in programme countries to express informed views on programme design and conditionality issues."

In September the IMF also finished the first phase of its review of lending facilities (see *Update* 81) for low-income countries (LICs), concluding that the 2009 reforms (see *Update* 67) have "clos[ed] gaps and creat[ed] a streamlined architecture of facilities better tailored to the diverse needs of LICs". However, "creating a sustainable concessional financing framework will require securing additional resources – either through use of gold windfall profits or regular fundraising".

IMF conditionality review
www.imf.org/external/np/sec/pn/2012/pn12109.htm

Revamped surveillance: lacks influence?

The IMF has modified its mandate for scrutiny of its members' economies, pushing for greater oversight of large important countries. Doubts remain over its ability to influence its biggest members.

At end July the IMF announced a new decision "establishing a comprehensive framework for the Fund's bilateral and multilateral surveillance" of member countries and the global economy (see *Update* 81, 78). The integrated surveillance decision (ISD) sets out how the IMF will interact with each member and what analyses it will make of their economies. For countries without a loan, bilateral surveillance is the chief implement the IMF uses to advise or criticise. The policy will come into effect in January 2013, modifying the 2007 decision on bilateral surveillance (see *Update* 57, 56).

The ISD introduced a new principle for the guidance of policies: "a member should seek to avoid domestic economic and financial policies that give rise to domestic instability". The decision includes a clause saying that the Fund should "respect the domestic social and political policies of members" and that "the decision does not, and cannot be construed or used to, expand or change the nature of members' obligations." Nevertheless, this potentially gives the Fund more scope to publicly intervene on domestic policy, which could be problematic without a clear definition of "domestic instability" according to Butch Montes of intergovernmental think tank the South Centre. "It would be nice if the IMF had the capacity to tell countries whose domestic policies/instabilities cause systemic problems to cease these policies. And perhaps the IMF could stick with this and not lecture developing countries on every aspect of economic policy."

Referring to China and the US, *Financial Times* commentator Martin Wolf was emphatic in his assessment of the new ISD: "the IMF has precisely zero influence on the two most important countries in the world. And it looks set to stay that way."

Persistant global imbalances

In early July the Fund published two new reports under the rubric of multilateral surveillance, the *2012 Spillover report* and a *Pilot external sector report*. The latter uses a new analytical model and focuses on 'global imbalances', to "provide a snapshot of multilaterally consistent analysis of the external positions of major world economies", covering 27 individual countries as well as the eurozone. It defines any imbalance not "consistent with fundamentals and desirable policies" as a "distortion", providing IMF staff scope to define what is desirable and what is a distortion regardless of country preferences.

Annina Kaltenbrunner of the University of Leeds argued that the model used for the paper is based on a one-size-fits-all approach: "There are no 'fundamentals', because the factors which determine a sustainable external position will depend on the country." She added: "It is tautological and ultimately not objective, because the IMF is deciding which are sustainable policies and depending on that decision will determine if a country is externally sustainable or not. If you are the one who sets the rules and then judges them, it is really not a very fair game."

A late June paper by financial journalist Paul Blustein focusses on the implementation of the 2007 surveillance decision and the IMF's first multilateral consultations in 2007 (see *Update* 59, 54, 51), calling them "a flop and a debacle."

Blustein argues that the IMF's lack of even-handednesss during the 2007 episode means the Fund "can be ruled out as the kind of unimpeachably objective umpire capable of delivering a stinging rebuke at a G20 summit to a country whose economic or currency policies pose a threat to others."

Integrated surveillance decision
www.imf.org/external/np/sec/pn/2012/pn1289.htm

A flop and a debacle, Paul Blustein
www.cigionline.org/sites/default/files/no.4.pdf

IMF divided over capital flows management?

IMF research staff have joined external critics in saying that capital account regulation should be more widespread and better coordinated across recipient countries, setting the stage for a contentious final debate on an IMF institutional view on capital account management at end October.

In early September, the IMF released a staff discussion note: *Multilateral aspects of managing the capital account*. The note does not represent the view of the Fund as an institution. The paper argues for the need for some "rules of the road" on implementing regulations on the capital account and draws four implications for policy makers: "capital controls and related measures ... should not substitute for warranted external adjustment"; "countries should not seek to exploit market power"; "capital flows should be managed in both source and recipient countries."; and "coordination may be needed to avoid capital control wars across recipient countries".

The first implication continues existing IMF positioning on the issue (see *Update* 81, 80, 79) but the third and fourth go beyond what the Fund has agreed in its previous string of policy discussions on the topic, which were supposed to lead into the final institutional view being discussed at the IMF board at end October. Regarding source country policy, the authors argue that source countries – principally the US, UK and the eurozone – could themselves gain from regulation. The previous policy discussion on this topic in late 2011 had exhorted source country policy makers only to "pay attention" to the effects of their policies on other countries (see *Update* 79).

Importantly, the paper supports coordination of inflow controls in recipient countries, arguing this will strengthen their effectiveness allowing the measures to be less intense. The paper's inference is that the IMF could help in country coordination. This is likely to be the most controversial aspect of the IMF board discussion at end October, as governments from emerging powers, such as Brazil, explicitly rejected the idea that the IMF should have guidelines just last year partly because of fears of a liberalisation bias (see *Update* 76).

Regulations, not currency policy

A June working paper by Brittany Baumann and Kevin Gallagher examined the effectiveness of capital flow regulations adopted in Brazil and Chile from 2009 through 2011. Brazil used capital flow measures while the Chilean central bank intervened in the foreign exchange markets directly by buying dollars. The authors found that Brazil's "capital account regulations had a significant but small impact on exchange rate levels and volatility, asset appreciation, on monetary policy independence, and on the scale, composition, and spillover effects of capital flows." Meanwhile, the Chilean approach "did not have a lasting impact on the Chilean exchange rate or on asset prices beyond the initial announcements of the policies."

The early September release of the UN Conference on Trade and Development's *Trade and Development Report* warned of capital flow volatility and underscored the usefulness of capital account regulations when compared to exchange rate policy or tackling imbalances from the trade side. In June, Daniela Gabor, from the University of West England, argued that IMF advice – which emphasises that capital account regulations should be temporary, short-term and not a substitute for other policy – "should be used as a template of how not to manage capital accounts" because it may "perversely increas[e] exposure to hot money inflows."

To IMF or not to IMF?

A July IMF report on the external sector (see page 7) recognises that capital inflows can "require a wide range of policy tools" and that "push factors" in rich countries are often important in determining the volume of capital flows. While inferring that capital account regulations are "distortions" throughout the document, the report claims that "careful reduction in [capital flow] barriers accompanied by appropriate supervision, regulation, and financial deepening should unambiguously improve the allocation of global savings and lower potential vulnerabilities."

Columbia University's José Antonio Ocampo called this analysis "dead wrong. The evidence of emerging and developing country crises over the past four decades shows that capital account liberalisation has a high probability of leading into overvaluation, current account deficits, asset booms of different character and finally crises, which mix in variable ways balance of payments and domestic financial collapse."

IMF staff discussion note
tinyurl.com/imfsdn1210

2012 World Bank-IMF
Annual meetings schedule

Board members of the Bank and Fund, and development and finance ministers will gather in Tokyo, Japan, from 9 to 14 October 2012.

Official meetings

10 -13 October	*World Bank programme of seminars*
11 October	*G24 ministers' meeting*
12 October	*Board of governors plenary*
13 October	*International Monetary and Financial Committee meeting*
13 October	*Development Committee meeting*

World Bank, civil society events

10 October	*Capital markets and financial stability, debt sustainability, managing natural resources, water privatisation, basic education, reproductive health and HIV, governance and accountability mechanisms, land investment and tenure.*
11 October	*CSO meeting with heads of IMF and Bank, jobs and growth, women and the private sector, globalisation, global health, safeguards review, land management, global financial regulators, role of the IEG, DPL and risk assessment, debt workouts, natural capital accounting.*
12 October	*Jobs for development, energy and Africa, environment flows and safeguards, IMF LICs facilities and conditionality review, global financial regulations, Doing Business, debt restructuring, health investment, IMF civil society engagement, African infrastructure financing, post-2015 framework.*
13 October	*Competitive industries, post-2015 global framework, the role of Asia in a changing world, safeguard review tax policies, gender and employment, post-201 MDG1, Green Climate Fund.*

Check our website for regular updates during and after the meetings. For full details of events and contact information for groups in Tokyo for the meetings, visit BIC's website.

www.bicusa.org/en/Article/12688.aspx
brettonwoodsproject.org/am2012

Chinese investment banker new IFC head

Chinese national Jin-Yong Cai, will in October become the International Finance Corporation's (IFC, the World Bank's private sector arm) executive vice president and chief executive officer. Cai began his career at the Bank. While at investment bank Morgan Stanley, he was seconded to the China International Capital Corporation, one of China's largest investment banks, before becoming a managing partner at Goldman Sachs.

Clare Woodford joins the Project

We are delighted to welcome Clare Woodford as the new communications and research officer of the Bretton Woods Project, taking over from Ana Paula Canestrelli. Clare has extensive communications, project management, policy and advocacy experience for UK health NGOs, including health sector Carers UK, and the NHS Confederation. She has also worked in capacity building in northern Nigeria. She holds a Masters from the University of Manchester (International Development).

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