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BRICS challenge IFIs:
Out of the frying pan into the fire?

Large middle-income countries jointly initiated alternatives to the World Bank and IMF in March, but advocates are not satisfied with either set of institutions.

At a leader-level summit in late March, Brazil, Russia, India, China and South Africa (BRICS) announced their preliminary agreement to set up multilateral institutions for both development finance and emergency financial support. Progress was faster than expected, largely due to BRICS anger at the failure of rich countries to sufficiently include them in governance of the Bank and Fund (see page 6), or adequately respond to their calls for greater lending (see *Update* 77, 70). South African finance minister Pravin Gordhan told journalists IMF and World Bank reforms "are inadequate in terms of reflecting current economic and other realities around the world."

The so called BRICS Bank (see *Update* 80) will focus on infrastructure finance. However, details on the exact financial contributions, location and governance structure of the bank were discussed, but not agreed. An agreed Contingent Reserve Arrangement (CRA), to pool foreign exchange reserves among the BRICS countries, was announced to be $100 billion and is not expected to have any formal link to the IMF.

The BRICS countries have not yet decided whether either institution would have a mandate to operate outside their own five countries. These details are to be decided over the next year, with leaders meeting again in September on the sidelines of the G20. A full agreement is expected in 2014 and the institutions to be operational by 2015.

Competition or cooperation?

For years civil society organisations have been encouraging the creation of regional financial institutions as rivals to the Bank and Fund (see *Update* 80, 73, 56), but these new initiatives may not really be in competition with the Washington-based lenders. In the run up to the summit, the Brazilian minister for development, industry and foreign trade Fernando Pimenetel said: "The objective of the BRICS development bank ... is not to rival any other organisation but actually to offer alternatives." The World Bank formally welcomed the BRICS announcement saying it "stand[s] ready to work closely with the new bank to end poverty and build shared prosperity throughout the developing world."

These notes chime with the thinking of the mid-March UN *Human Development Report* which argues for "coherent pluralism", instead of "a false choice between globalism and regionalism". It went on to argue: "New institutions will be more effective if they work in concert with existing regional and global institutions, filling gaps in funding and investment."

The CRA, on the other hand, looks to be a more direct challenge to the IMF. Kavaljit Singh, of Indian NGO Madhyam, agreed: "In a western-dominated financial world, the idea of a BRICS reserve fund looks very exciting and promising. In a post-crisis world full of financial risks and uncertainties, the reserve pool could potentially reshape the global financial architecture of the 21st century."

Demanding a third approach

Civil society reactions to the BRICS announcement have overall been sceptical and cautious. Alfredo Tjiurimo Hengari of the South African Institute of International Affairs was doubtful, writing in the newspaper *Windhoek Observer* that the BRICS group "is not independent from existing global power structures. It seeks to reinforce these power structures through a voice that is not substantively an alternative, but merely one of continuity."

Dorothy-Grace Guerrero of Bangkok-based NGO Focus on the Global South said "social movements and activist academics are increasingly wary that the economic model [China] is advancing is the same unsustainable and unjust paradigm that facilitates accumulation of wealth by a few while resulting in the dispossession and pauperisation of the already marginalised and powerless." Bobby Peek of South African NGO Groundwork suggested that civil society groups "build a strong criticism that demands equality instead of new forms of exploitation."

Carlos Tautz of Brazilian NGO Instituto Mais Democracia said: "For the first time in history, civil society organisations have the opportunity to monitor an international financial institution from its birth." Tautz summarised demands being made of the new institutions: "1) a wide public information policy, including norms of transparency; 2) international accountability criteria; 3) prior to disbursements, an open process for discussion and decision-making with people potentially affected by the projects; 4) the deliberative decision-making space to include civil society organisations of the countries impacted; and 5) a norm against any violation of human rights."

Statement by BRICS leaders
tinyurl.com/BRICSBank

The rise of China and BRICs, Dorothy-Grace Guerrero
focusweb.org/content/rise-china-and-brics-multipolar-world-making

New World Bank strategy "unambitious" and "cosmetic" *—page 2*

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New World Bank strategy accused of being "unambitious" and "cosmetic"

World Bank president Jim Yong Kim's new overarching strategy on ending absolute poverty and creating shared prosperity elicits criticism for ineffectively tackling inequality and sustainability.

A March leaked draft of a Bank strategy document set out targets for the institution's overarching goals of ending extreme poverty and ensuring "shared prosperity", which Kim first introduced in the autumn (see *Update* 83). It proposed a "target of reducing the percentage of people living on less than $1.25 a day to 3 per cent by 2030" and "to promote the income growth of the bottom 40 per cent of the population in every country." It argued that the latter "is critical for reaching the poor everywhere since all countries aspire to achieving rapid and sustained increase in living standards."

The paper was discussed by the Bank board in mid March. In response to the leak, the Bank said the documents were only drafts, however, Kim publicly unveiled the same targets in an early April speech in Washington. The final document, *A common vision for the World Bank Group*, will be discussed by a committee of finance and development ministers at the World Bank spring meetings in mid April.

Missing inequality

The strategy argued: "Growth that is inclusive of the poorer segment of society and sustainability are essential to achieving these two goals." It also argued: "Sustained progress in achieving shared prosperity is incompatible with a steady increase in inequality. ... Growth of the bottom 40 per cent that is consistently lower than the average income growth of a country should be a cause for concern, as rising inequality may eventually abate the growth process itself." Kim's April speech used the word inequality six times.

However, Nuria Molina of NGO Save the Children UK, said the targets were "very unambitious". She told the news site guardian.co.uk: "The devil is always in the details. You need to have a meaningful measure, and just looking at the bottom is not sufficient. It's very important to look at the gaps." Setting explicit targets on inequality is one of the main asks from organisations consulting with the UN on the post-2015 development targets.

In the same week that the Bank document was leaked, Alex Cobham of US-based think tank Center for Global Development and Andy Sumner of UK-based Institute for Development Studies released a paper arguing for policy makers to track a new measure of inequality, "the Palma ratio - meaning the ratio of the top 10 per cent of population's share of gross national income (GNI), divided by the poorest 40 per cent of the population's share of GNI", arguing that this "may be particularly relevant to poverty reduction policy." Cobham subsequently told news agency Inter Press Service: "It would be great to see the World Bank give this new approach serious consideration."

The Bank's 2006 *World Development Report* on equity argued for levelling playing fields because "high levels of economic and political inequality tend to ... generate economic costs" (see *Update* 48). However, the report did little to change Bank policy or practice. David Woodward, an economist specialising in growth and inequality issues and a former adviser at the IMF and World Bank, said the new strategy was a "business-as-usual scenario, with little or no change in the basic thrust of its development approach". He said: "What we've still got is a global version of trickle-down economics. We should not be designing policies promoting growth on the assumption that this will deliver everything else."

Lack of sustainability?

The draft strategy document also included a section on sustainability, stating that the goals "must be achieved in an environmentally, socially and fiscally sustainable manner, to ensure that progress is sustained over time and across generations." It went on to commit the institution to "supporting countries to attain an environmentally sustainable path to ending poverty and to prosperity" and to "improv[ing] the quality and coverage of quantitative indicators related to environmental sustainability".

However the document failed to spell out any top level goals on this front, prompting Bhumika Muchhala of Malaysia-based NGO Third World Network to say: "Sustainability is touched upon by the World Bank's strategy paper in an entirely cosmetic fashion." She went on to argue that "before the World Bank can legitimately talk about environmental sustainability, it must confront the demonstrably destructive impacts of its own fossil fuels, extractive and infrastructure project financing, including the International Finance Corporation's [the Bank's private sector arm] public-private partnerships and investment partnerships with the private sector."

The sustainability section of the strategy was reminiscent of the Bank's 'green growth' report produced ahead of the June 2012 Rio+20 summit (see *Update* 81, 80), including its repetition of the Bank's promise to "promot[e] wealth and natural capital accounting and mak[e] progress in the development of measures of genuine savings that include natural capital depletion and pollution damages". This led Diana Aguiar of Brazilian civil society network REBRIP to say: "This type of greenwash, of market-based solutions to the environmental and climate crisis, is exactly why movements have mobilised against the 'green economy' paradigm promoted in the Rio+20 summit last year. Their purpose is to create environmental services industries markets without doing the needed fundamental changes to production and consumption patterns and the development model. And obviously the World Bank is at the forefront of this 'green' business."

A common vision for the World Bank Group, leaked draft
www.whistleblower.org/storage/documents/WBCV.pdf

Jim Yong Kim speech at Georgetown
tinyurl.com/freeofpoverty

'The Palma' as a policy-relevant measure of inequality
tinyurl.com/CobhamSumner

'Undesirable' Red-Dead canal "feasible"

The $10 billion Red Sea-Dead Sea Water Conveyance project, a proposed 180 km pipeline and desalination plant in Jordan to transport water from the Red Sea to the Dead Sea, was found to be technically feasible by a Bank-funded study released in January. The project, which aims to "save the Dead Sea from environmental degradation" and increase hydro-power whilst building "a symbol of peace" (see *Update* 80, 77), was criticised during the public consultation period for its impact on water usage and the environment. NGO Friends of the Earth Middle East opposed the project, saying it "will not save the Dead Sea from environmental degradation", instead "it threatens other critical natural and herit

IFC-Coke 'development' project to sell drinks

In a three-year $100 million partnership, announced in mid March, the International Finance Corporation (IFC, the World Bank's private sector arm) and Coca-Cola will work together with female entrepreneurs in Africa and other emerging markets. Initially the partnership will focus on Nigeria, with an IFC investment of $22 million in Access Bank to provide loans to "thousands of women who are part of the [Coca-Cola] supply and distribution chain." Patience Ekeoba of NGO ActionAid Nigeria said: "A major concern with these kinds of projects is that they do not benefit the poorest of the poor", particularly "women in rural areas or those in urban poor settings".

Tanzania water project "complete failure"

A Tanzanian water and sanitation project, in which the Bank invested $164 million from 2003 to 2010, has been "a complete failure" according to NGO Civil and Political Rights Watch (CPRW). The project, which was supposed to replace aged water pipes and introduce billing meters for over 4 million residents of Dar es Salaam, has not improved the water supply and the meters do not work, but has placed a debt burden on local residents. Activists challenged the Bank over whether the Tanzanian government should repay the loan "when there are no results" and said the Bank needed to work more closely with local NGOs to provide "feedback".

allafrica.com/stories/201303070614.html

Social accountability compromised?

The World Bank's controversial Global Partnership for Social Accountability (GPSA), a new mechanism for the Bank to provide financing directly to civil society organisations (CSOs), opened its first call for proposals from mid February to mid March. Decisions on grants, which some critics have worried may be used to buy off opposition to Bank-funded projects, will be made by a steering committee equally composed of donors, developing country governments, and CSOs. Proposals were only accepted from 14 countries that 'opted-in', including those accused of human rights abuses such as Belarus, Tajikistan and Honduras. The GPSA will "make selected proposals available to governments for a 10-day vetting period."

Dr Kim, where is Mongolia's economic diversification?

COMMENT

by Sukhgerel Dugersuren, Oyu Tolgoi Watch, Mongolia

In late February the World Bank's private sector arm, the International Finance Corporation (IFC) and the European Bank for Reconstruction and Development (EBRD) decided to spearhead a $4 billion dollar syndicated loan to a copper, gold and silver mine located in the Gobi Desert in Mongolia, which is also backed by a $1 billion political risks guarantee provided by the World Bank's Multilateral Investment Guarantee Agency (MIGA). Yet the details of this 10-year-old project are constantly changing, meaning that the Mongolian people do not know what or whom to believe. An increasing number believe that it is going to lead Mongolia to dependence on one product and one corporation, driving the country into deep insecurity.

Oyu Tolgoi LLC – 34 per cent owned by the government of Mongolia and 66 per cent by Rio Tinto – applied for the loan to complete its investment in the Oyu Tolgoi mine (see *Update* 84, 83, 82). In order to bring the mine to full operation it requires a $13.2 billion investment – triple the estimate given when it first negotiated with the Mongolian government. A concerning feature of this project is that the investment amount and the economic impact vary from document to document.

The government of Mongolia is understandably worried about the cost overrun and increasing investment required to bring the mine to operation, potentially reducing the benefits to the government and people. Since the investment requirement changed so drastically the government wants to re-negotiate the deal but the company refuses, accusing the government of 'resource nationalism'. Meanwhile, the country's over dependence on minerals is aggressively pushing out its former core sectors: agriculture, tourism and light industry. If by 2020 Oyu Tolgoi produces 35 per cent of Mongolia's GDP, how much will other IFI-financed mega mines contribute?

Donor funding is going either directly to financing mines or supporting its related industries, development of export-oriented infrastructure or financial services to extractives. The statement that donors and IFIs are supporting economic diversification and sustainable development is not supported by the relative amounts of money directed to finance these sectors. Compare the EU's €5 million ($6.5 million) country budget with the $4 billion going to Oyu Tolgoi. Since the early 2000s, the Bank's development policy advice has strongly recommended economic diversification and legal reform to increase the country's competitiveness to attract large foreign direct investment.

Large mines tend to make promises to bring social development, better education and jobs. The IFC's project document claims that Oyu Tolgoi will spur investment in the Khanbogd Soum region including "$126 million in Mongolia's largest education and training programme", but the training centre built in 2011-2012 only houses Oyu Tolgoi's community relations office. Furthermore, a team of national and international civil society organisations and independent experts found the Oyu Tolgoi environmental and social impact assessment completely inadequate (see *Update* 84).

At the time the World Bank started preaching economic diversification through large scale mining, mines already produced 60 per cent of Mongolia's export earnings, which constituted most of government revenues. The government's diversification talk included developing a knowledge-based sector, IT development, outsourcing, tourism and accessing high-end markets for its cashmere products. Today the so-called economic diversification leads to large mines taking away pasture from nomadic pastoralists, who employ 25 per cent of Mongolia's workforce and constitute the backbone of its livestock sector, including production of raw materials for light industry: cashmere, wool, meat and dairy production. Nomadic herders are also carriers of the ancient nomadic culture of the Mongols, one of the primary attractions of the tourism sector.

Where does the World Bank see the economic diversification in Mongolia that will ensure sustainable development? In order to bring this promised diversification the Bank should lead donors to match the funding amounts provided to the minerals sector in funding support for the core sectors, which together employ over 40 per cent of the country's workforce.

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Carbon capture: World Bank's climate actions to "breathe new life" into carbon markets

The World Bank has revealed details of its new climate change strategy (see *Update* 83), including promotion of carbon markets despite concerns from indigenous groups. While new conversations about the Bank's energy investments are anticipated, further criticisms were made over its involvement in fossil fuels.

In an early April speech (see page 2) president Jim Yong Kim confirmed that the Bank is working on "a revamped strategy to significantly strengthen our climate change interventions and help catalyse urgent action among global partners". Kim said that the Bank is exploring "new mechanisms to support and connect carbon markets; politically feasible plans to eliminate fossil fuel subsidies; increased investments in climate-smart agriculture; and innovative partnerships to build clean cities."

The Bank's vice president for sustainable development, Rachel Kyte, in a March interview said that one of the "most important things that need to be done at the global level", includes "getting a global price on carbon". The Bank's continued focus on carbon markets (see *Update* 81, 79, 78, 77) was re-emphasised in mid March, as a group of countries supporting the Bank's Partnership for Market Readiness (PMR, see *Update* 74), met "in an attempt to breathe new life into this ailing arena".

Sunita Dubey of South African NGO Groundwork said: "The World Bank's over-emphasis on the carbon markets to curb impacts of climate change is not a real solution that will benefit poor communities. Creating highly complex, artificial market based solutions will be difficult to regulate and can be disastrous to communities as well as climate mitigation."

Meanwhile, indigenous groups in Honduras have criticised the Bank's Forest Carbon Partnership Facility (FCPF, see *Update* 84, 81, 78, 75), which funds developing countries' national Reducing Emissions from Deforestation and Forest Degradation (REDD+) plans and includes a carbon fund. In a February letter to the Bank, the Civic Council of Popular and Indigenous Organisations of Honduras (COPINH), representing about 200 indigenous communities, "publicly rejected" Honduras' REDD+ plan, calling it "another trap for indigenous peoples".

Further focus on the Bank's energy approach (see *Update* 84, 83, 77) is expected, including an informal Bank board meeting on "Directions for the World Bank Group's energy sector" in mid May. An early April letter to Kim signed by 59 organisations, including the Vasudha Foundation in India and Greenpeace International, called on Kim "to ensure that the Bank stops financing projects that contribute to the climate problem, and to put an end to the false rhetoric that fossil fuel projects promote energy access."

CSO energy letter to president Kim
tinyurl.com/WBfossilfuel

Honduras FCPF letter
tinyurl.com/HondurasFCPF

IDA 17: Back to big infrastructure, flirting with climate finance

While donors and the World Bank focus on IDA structural reform, the proposed IDA shift towards financing infrastructure and climate adaptation raises concerns.

March saw the commencement of formal negotiations on the 17th replenishment round of the International Development Association (IDA), the process by which donor countries decide on their financial contributions to the Bank's concessional lending and grant fund for the period 2014-2017 (see *Update* 69, 55).

In November 2012, the mid-term review of IDA 16 dissected performance so far. IDA donor and borrower representatives discussed the overarching theme of IDA 16, changes to the results measurement system and progress on the special themes of gender, climate change, fragile states and crisis response.

Unfinished business

Shortcomings on gender, a special theme proposed to be carried forward to IDA 17 because of lack of progress, are corroborated in a March Gender Action working paper. The paper from the US NGO concludes that the Bank still only superficially includes women's concerns in its investments and policy and strategy mechanisms.

The study suggests that even when jobs are created, Bank-funded projects have an inordinately negative impact on women. Gender Action's Elaine Zuckerman, speaking to the Inter Press Service on 19 March, said "almost 100 percent of jobs went to men, not only in building the coal plants and mines but even office jobs, while women lost jobs."

The chairperson's summary of the IDA 16 mid-term review concluded that "large gaps remain between the scale of development assistance needed to support climate change adaptation and mitigation efforts and the available resources". Meeting participants "encouraged the Bank to develop new climate change related indicators" though at the same time cautioning "against an overlap between IDA and other institutions, such as the Green Climate Fund and the Climate Investment Funds." However, a requested paper on how IDA fits with the wider climate finance architecture is yet to be published. The Bank has proposed making climate change a special theme again for IDA 17.

Prioritising big infrastructure

The first IDA 17 meeting, in mid March, proposed "maximising development impact" as an overarching theme and on top of the two unresolved themes from IDA 16, gender and climate change, proposed adding: inclusive growth and regional transformative initiatives; both to be pursued in the context of private sector development. Inclusive growth will focus on labour, natural resource wealth and financial inclusion, whilst transformational projects will place an emphasis on infrastructure projects with regional developmental impacts. These transformational projects led Peter Bosshard, of US NGO International Rivers, to worry that the Bank is again courting large infrastructure as a "silver bullet that, in one fell swoop, would allow them to modernise economies".

In the lead up to the IDA 17 meeting, a joint letter by six US think tanks and NGOs urged the US government not to support the Bank in its current focus on large-scale infrastructure. They recommended "that IDA members drop the special theme of regional transformational initiatives, and that IDA shifts its focus on infrastructure [to] solutions that are more effective at addressing the energy needs of the poor and at fostering inclusive growth, gender equality and climate resilience."

IDA structural reform

Much of the official negotiating agenda is focused on retooling IDA given changing economic conditions. Proposals have been made to provide transitional support for borrowers 'graduating' from IDA. The IDA 17 paper, notes that the Bank expects that Angola, Armenia, Bosnia and Herzegovina, Georgia and India will no longer qualify at the end of IDA 16. Currently, graduation can prove problematic and "adversely impact a country's capacity to maintain development momentum if it leads to a significant lessening of available financing for that country." To ameliorate this, the Bank proposes that "the size of transitional support to an eligible country be lower than the support it would have received had it remained an IDA borrower, but still significant." The suggested proportion is two-thirds of its IDA lending.

The paper on *IDA's support to fragile and conflict-affected states* referenced the 2011 *Word Development Report* (see *Update* 77) which said that the slow development of most of these countries calls for a paradigm shift in the way assistance is delivered. Fragile states are currently penalised in the IDA allocation formula because of their low administration capacity (see *Update* 78). The Bank has developed a revised allocation framework for fragile states for implementation in IDA 17 resting on two components: providing exceptional support to countries facing "turn-around" situations; and increasing poverty-orientation of the regular performance-based allocation system.

Assessing the effectivness of World Bank investments, Gender Action
www.genderaction.org/publications/assessingeffectiveness.pdf

IDA17 replenishment, World Bank
www.worldbank.org/ida/ida-17-replenishment.html

IFC Honduran client linked to death squads

New evidence links repeated forced evictions and killings in Bajo Aguán region to palm oil producer Corporación Dinant.

A February report by US-based NGO Rights Action revealed concrete links between the Honduran army, the regional police, and a number of private security firms and calculated that at least 88 campesinos (peasant farmers) and their supporters have been killed in the region since 2009; the majority "clearly have the characteristics of death squad killings." The report concluded that "actions taken by the World Bank ... directly contributed to the context of impunity which facilitates the ongoing death squad activity, as they provided loans to Dinant, a principal actor in the conflict, even as reports of the land conflicts in the Aguán were widespread and a general context of impunity and repression carried out by the state in the context of the military coup was also widely reported upon". According to German NGO Rainforest Rescue, Dinant has been implicated in land conflicts dating back to the 1970s.

The International Finance Corporation (IFC, the Bank's private sector arm) provided Dinant, the region's largest single landowner, with a $30 million corporate loan in November 2009, just five months after Honduras's president was removed in a military coup. The IFC insists in the project summary, that: "land acquisition is on a willing buyer-willing seller basis, and there is no involuntary displacement of any people."

The Compliance Advisor/Ombudsman (CAO), the IFC's accountability mechanism, began an investigation in April 2012 after allegations from human rights organisations that the IFC's client "conducted, facilitated, and supported forced evictions of campesinos in the Aguán valley through inappropriate uses of force by the public and private security forces under the control or influence of Dinant." In August 2012, the CAO began a full audit into the adequacy of the IFC's response (see *Update* 82). Its decision is expected to be published in the summer.

The IFC's partnership with a client strongly linked to human rights abuses, has attracted international condemnation. In March, an open letter signed by 17 global NGOs, including social movement La Via Campesina, and an international petition signed by over 63,000 people, called on the Bank to immediately cease its support for Dinant. Yoni Rivas of Honduran campesino activist group Movimiento Unificado Campesino del Aguan (MUCA) said: "the World Bank financing for monocultures and transnational corporations is what today has generated agricultural and food crisis in Honduras." The IFC maintains that "Dinant understands the importance of having good relationships with their neighbouring communities and are quite proactive in this regard."

Rights action report
tinyurl.com/HRinAguan

Inside the institutions

World Bank staff incentives

The World Bank Group's staff incentives and compensation schemes are considered important drivers of the Bank's successes and failures. According to the Bank's 2012 review of its compensation schemes, they are reviewed every year in order for the organisation to remain a competitive employer which attracts "global talent".

In 2010 the World Bank Group adopted its internal reform agenda with the objective of making the Bank "more efficient, effective and accountable", which has implications for staff incentives. In financial year (FY) 2012, the total staff costs were $734 million for the International Bank for Reconstruction and Development (IBRD, the Bank's middle-income country arm), $750 million for the International Development Agency (IDA, the Bank's low-income country arm) and $524 million for the International Finance Corporation (IFC, the Bank's private sector arm).

There are two basic types of staff compensation, variable and fixed pay. Variable pay depends on staff performance measured by a pre-determined set of criteria, while fixed pay does not. The Bank does not provide details of the criteria it uses. Variable pay schemes can broadly be divided into performance-based salary increases and performance-based awards.

Performance-based salary increases Within the performance-based salary increase, common to all World Bank Group institutions, there are two types of increases: the basic performance-based salary increase (PBSI) and the supplemental merit increase (SMI). For FY 2012, they together accounted for 2.8 per cent of the total staff costs. The size of a staff member's PBSI depends on their performance evaluation, called the salary review increase (SRI, ranging from a low of 1 to a high of 5) and the staff member's starting salary. For the same SRI, the PBSI is higher for salaries up to $60,100 and lower for salaries from $197,200 upwards.

SRI ratings are given relative to the performance of colleagues in a department. The Bank's corporate guidelines cap SRI 4 and 5 ratings at 25 per cent and 11 per cent respectively per department. Several criteria are used to judge staff performance for the SRI ratings which are not consistent across departments. Staff have annual objectives which the evaluations are conducted against. The IBRD and IDA did not provide details about what criteria are used. At the IFC, there are four main factors for an investment officer: hitting volume targets, financial return of investments, contribution toward the IFC development goals (see *Update* 81), and ratings on the development outcome tracking system (see *Update* 62, 58). However, currently no fixed formula is used for weighting these criteria in the review process, meaning departments have freedom to assign weightings as managers see fit.

Performance-based awards Performance-based awards, commonly known as bonuses, are increasingly being used. For FY 2013, the 2012 review of staff compensation recommended "setting aside funds of $16 million for non-salary awards programmes", $1 million more than the previous year. The IFC is devoting the largest amounts to non-salary programmes. For FY 2012, IFC awards amounted to $11 million or 2.4 per cent of IFC's total payroll. IBRD/IDA devoted $3.75 million and the Multilateral Investment Guarantee Agency, the Bank's political insurance arm, $184,400.

The IBRD/IDA team awards are designed for team accomplishments. They are open to all teams and awarded to all the team members. They are capped to 5 per cent of the market reference point (the average labour market salary) and can range from $400 to $2,000 per person. The IFC's corporate awards are similar but applicants have to go through a panel review.

IFC-specific awards include the annual and department-based individual performance awards, which are for staff with SRI 4 or 5 ratings and can go up to 15 per cent of the base salary. This year the IFC intends to spend $4.6 million on these awards. Secondly, the scorecard awards recognise investment departments achieving the best performance according to scorecard indicators, such as client satisfaction and development impact. Although there are no official weights to the different indicators, there is a development impact threshold a department has to achieve in order to be eligible.

Thirdly, there are long-term performance awards which reward teams and individuals for their project results over a three year period. They can go up to 20 per cent of the recipient's base salary and in order to qualify for these awards the projects need to exceed certain development and financial thresholds as well as go through a panel review. The IFC does not publish the details of this process. For FY 2013, the IFC intends to spend $7.6 million on long-term performance awards. Lastly, the smart lessons award aims at recognising knowledge transfer. On top of two $2,500 grand prizes, there are five prizes of $1,500 and five of $500.

India complains Doing Business "not robust"

As an independent review of the World Bank's controversial* Doing Business *rankings begins, India's public criticism of the rankings adds weight to opposition.

Announcing that a formal letter of complaint had been sent to the Bank, Arvind Mayaram, a departmental secretary in the Indian finance ministry, criticised the *Doing Business* rankings methodology during a late March speech, as "not robust", citing the Bank's reliance on only one city (Mumbai) to justify its rating of 138 for land acquisition. Mayaram acknowledged that it is "difficult" to buy land in Mumbai, but that this rating does not reflect the national picture: a "very large number of U.S. businesses who have been [in India] for more than 100 years and have done exceptionally well, have made lots of money and would like to continue to work [in the country]."

The panel tasked by the Bank in October to review the rankings, which is chaired by former South African planning minister Trevor Manual (see *Update* 83), has appointed independent advisers Peter Bakvis of the International Trade Union Confederation, and Jeffrey Owens, formerly at the Organisation for Economic Cooperation and Development, on labour and tax issues respectively. A February letter, signed by 20 NGOs, including UK-based CAFOD and Zambian Jesuit Centre for Theological Reflection, highlighted that the review "risks sidelining critical voices of affected groups", including poor small business owners and civil society. Lack of consultation means that the panel is denied a vital "understanding of how the *Doing Business* products are used in client countries".

Summarising the priorities for the panel, Christina Chang of CAFOD said: "first, they need to ensure that they address reforms that are relevant to poor small businesses; second, they need to ensure that they are used in an appropriate manner in policy making - driven by broad consultation and not by ranking; third, they need to recognise the limitations of *Doing Business* and make greater use of tools such as enterprise surveys; fourth, they need to ensure *Doing Business* is not promoted inappropriately in countries, including by donors; and finally, they need to rethink some damaging reforms advocated by indicators, such as the Paying Taxes indicator."

The panel, which had held three meetings by mid-March, has already confirmed that it will not meet its original schedule of reporting to the Bank by March and publishing a final report by May. In mid March the panel opened an online consultation which ends in mid April 2013. It will hold consultations with CSOs on the sidelines of the World Bank spring meetings in mid-April. Anyone wishing to meet the panel should contact the panel secretary Hanief Ebrahim: Hanief@po.gov.za.

Doing Business in agriculture

Despite widespread criticism of the rankings' objectives, methodology and criteria (see *Update* 84, 81, 78), the Bank is pressing ahead with the launch of *Doing Business in agriculture* (see *Update* 83) announcing in December its plans for "pilot stage data collection and indicator development" in 10 countries in 2013. The pilots, which will be selected by end May, will commence in the second half of 2013.

Doing Business independent panel consultation
dbrpanel.org

US stalls IMF governance reform

The IMF governance reform has been stalled but the debate goes beyond the mathematics of voting shares and representation, raising critical questions about the Fund's legitimacy.

The implementation of the IMF's 2010 agreement on quota and governance reforms, due to finish in October 2012 (see *Update* 73), has suffered a further setback with the refusal of both houses of the US legislature to sign off their government's request to reallocate an existing $65 billion loan to the IMF (see *Update* 65) into a permanent increased shareholding. Although the March request did not commit the US to increased funding, it coincided with politically sensitive negotiations over spending cuts. US congressional approval is needed for the 2010 agreement to come into force.

The measures, predicated on increasing the representation of fast-growing but underrepresented middle-income countries at the Fund, have been shown by the IMF's own economic projections to be overdue. Min Zhu, deputy managing director of the IMF, said during a mid-March speech that 2013 is expected to be the year when economic output from developing nations exceeds that of the traditional industrialised countries.

The 2013 UN *Human Development Report*, published days later stressed that "the rise of the South is unprecedented in its speed and scale" with over 40 developing countries making higher than predicted development gains. The report saw "scope for renewed multilateralism" but that "there have been only modest governance reforms at the IMF and World Bank."

Not when, but how

As the January deadline for revisions to the quota formula (see *Update* 84) passed without agreement, the process was incorporated into the schedule for the IMF quota review. Although the deadline for this review is January 2014, as these negotiations happen at the intergovernmental level policy makers are likely to near a decision at the IMF annual meetings in October.

In early February, Russian president Vladimir Putin stated at a finance ministers meeting in Moscow his belief that "at the upcoming Russian summit, the G20 will be able to agree proposals for a new formula for calculating quotas that will take full account of the modern distribution of forces in the global economy." The declaration of the fifth summit of Brazil, Russia, India, China and South Africa, released end March (see page 1), asked that "the reform of the IMF should strengthen the voice and representation of the poorest members of the IMF, including Sub-Saharan Africa." The European Commission position, as given at the October 2012 annual meeting of the Bank and Fund, argues that "GDP and openness should remain the main variables in the quota formula" and that openness should carry an increased weight.

A February paper by the G-24, a developing country grouping at the IFIs, makes clear the democratic deficit inherent in the current quota formula. It argues that the formula is "systematically biased against emerging markets and developing countries", mistakenly characterising them as "over-represented" whilst at the same time making "the quota for advanced Europe as a group a third larger than its relative weight in the global economy." Amar Bhattacharya of the G-24, said that "achieving a more equitable and democratic governance structure is a prerequisite for the legitimacy of the Fund; and its capacity to fulfill its mandate effectively. The governance structure must ... ensure that all members including the poorest have an equitable stake in the institution."

IEO: Advanced economies "indifferent" to IMF advice

In mid February the Independent Evaluation Office (IEO) of the Fund released a report on the *Role of the IMF as a trusted advisor*, which focused on the assessment of Fund advice to its members. The report found that "the degree to which the Fund is viewed as a trusted advisor is found to differ by region and country type, with authorities in Asia, Latin America, and large emerging markets the most sceptical, and those in large advanced countries the most indifferent."

tinyurl.com/IEOtrustedadvisor

IFIs on capital flows: new tune, same song?

While the IMF-supported bank restructuring in Cyprus (see page 7) includes a strict set of restrictions on capital movements, the World Bank and IMF are failing to embrace a more pragmatic approach to capital account regulation.

Cyprus's capital outflow regulations include limits on withdrawals from banks, the volume of euros allowed to be transferred overseas, and international credit and debit card transactions. While emergency outflow restrictions have been a part of the IMF crisis resolution toolkit, albeit sparingly used, the Fund has proved much warier of regulations on capital inflows.

A mid March article from academics Kevin Gallagher and José Antonio Ocampo argued that the IMF's new 'institutional view' on capital account regulations (see *Update* 83), "scrutinises the exact types of capital account regulations in emerging markets", but "it does not equally examine which types of monetary and regulatory policy trigger the most risky capital flows from developed to developing countries". Gallagher and Ocampo argued that "the conditions under which [the IMF] will advise nations to regulate capital flows may be too narrow. It is too early to tell if the IMF has simply changed the tune but playing the same song."

In early March, Bank regional vice president Hasan Tuluy indicated that the kinds of capital account regulations adopted by Brazil have been disruptive: "Protectionism is a very blunt instrument. Having complicated capital controls may be attractive right now, but cannot be sustained in the long term."

In contrast, Antonio Tricarico from Italian NGO Re:Common said: "Iceland and Cyprus show us that the only way to start regaining some control over finance is to put the genie of global finance back into the bottle. Reintroducing permanent regulation over international movements of capital is the way to subordinate finance to industrial policies and the long overdue transformation of our societies toward a low-carbon and more just economy."

Gallagher and Ocampo paper
www.epw.in/commentary/imfs-new-view-capital-controls.html

Financial architecture reform: IMF "to bury its head in the sand"?

The G20's agenda on the international financial architecture looks to tackle sovereign defaults, but not 'currency wars'.

The Russian presidency of the G20 has prioritised debt as one of the key themes of 2013. A February civil society paper for the G20 argued that it "needs to acknowledge the need for sovereign debt work out" and "establish milestones for a global dialogue and a common debt work out framework."

Ugo Panizza of Switzerland-based The Graduate Institute argued in an early February paper that the IMF's incentives as the main international lender of last resort actually make it difficult to prevent delayed, costly and messy sovereign defaults. Panizza proposed automatic triggers on sovereign default, arbitration and haircuts on IMF loans, but admitted that his proposals were "currently not politically feasible".

Currency wars?

In the lead-up to the February meeting of G20 finance ministers in Moscow, Japan's efforts to reduce value of the yen sparked much talk of currency wars, the intentional devaluation of currencies by states to gain trade competitiveness. The IMF sought to dispel fears of such wars, with IMF managing director Christine Lagarde saying "we have not seen any such thing as a currency war. ... We've heard currency worries, not currency wars." The media storm over the issue died down when the G20 refused to censure Japan over its devaluations.

Given claims that the IMF has not been even-handed in its policy advice (see above, *Update* 84), the Fund faces a dilemma. Aldo Caliari of US NGO Center of Concern said: "any real route out of the problem means ousting the currency of the US as the main one for international invoicing and store of value. It is not surprising that the IMF, where the US holds veto power, will prefer to bury its head in the sand."

Ugo Panizza paper
tinyurl.com/sovereigndebtcrises

CSO proposals to the Russian G20
tinyurl.com/civil20

Democracy: "an enemy to the IMF"?

The legitimacy of IMF engagement with Middle East and North African nations and eurozone crisis countries continues to be heavily criticised.

In the Middle East and North Africa region, the transitional nature of governments in countries that have undergone dramatic political changes since the onset of the so-called Arab spring has called into question their mandate to implement wide-ranging reforms sanctioned or required by the Fund.

The IMF stands accused of excessive haste in its willingness to lend to new administrations. Following January reports that the IMF had opened negotiations with the Tunisian government over the terms of a potential $1.78 billion loan agreement, an IMF spokesman confirmed in March that the Fund continues to negotiate "at a technical level." Reuters reported in March that government reforms, including tax increases and levies on public salaries, though not explicitly linked to an IMF loan, have led to a "storm of public criticism" which "may affect" government efforts to secure the loan.

"clear blackmail"

The interim Tunisian government is set to be dissolved later this year for planned elections. Speaking to *Al Jazeera* in March, Mabrouka Mbarek of Tunisian opposition party Congress for the Republic noted that "it seems that democracy is an enemy to the IMF."

In Egypt, despite a $4.9 billion loan agreement having been rejected twice due to popular protest (see *Update* 83, 82), the IMF reportedly floated the possibility of an interim loan under the Rapid Financing Instrument while negotiations continued. Concerns are mounting that an agreement with the IMF may be rushed through without a sufficient mandate. Mohammed Mossallem, of NGO the Egyptian Initiative for Personal Rights, said "officials have insisted that the IMF loan has no conditionalities and do not infringe upon Egypt's financial autonomy. However, the extent of the control and leverage exercised by the Fund in Egypt's case became evident when the government refused to disclose its reform plan until the IMF had approved it."

The *Financial Times* reported in February that the Egyptian government was keen to use the subsequently delayed April elections "to form a government mandated to implement an IMF programme", so that Egypt's population "would then be persuaded to swallow the bitter pill of reform".

Egyptian newspaper *Al Masry Al Youm* quoted in March an Egyptian finance ministry official as claiming that the IMF remained "not satisfied" with Egypt's amended social and economic reform programme, despite the government adopting a "more severe version of the reforms last year" which had been rejected due to the scale of the "public outcry".

IMF still adrift in Europe

Having published in March the first ever financial sector assessment for the European region, focusing on the risks to economic stability posed by the private financial sector's continuing need for reform, the IMF now increasingly interacts with eurozone nations as a bloc, rather than as sovereign nations.

The failure of reforms sanctioned by the IMF via the Troika – the partnership of the European Central Bank and European Commission with the Fund to provide loans to eurozone crisis countries – has been criticised for undermining the legitimacy of the reform agreements themselves and even threatening the euro's future (see *Update* 84, 83, 82). Writing in February, Paul De Grauwe of the London School of Economics and Yuemei Ji of the University of Leuven, pointed out that the popular mistrust of these reforms is due to the now "obvious" fact that "austerity produces unnecessary suffering", such that "millions may seek liberation from 'euro shackles'".

The March Troika agreement with Cyprus has been castigated by commentators such as Wolfgang Munchau in the *Financial Times*, who argued that apart from running the risk of provoking a bank run, the "long-term political damage of this agreement is going to be huge." It has also provoked disbelief due to the apparently high-handed manner in which a deal, which was subsequently unanimously rejected by the Cypriot parliament, was imposed upon the newly-elected government. George Sklavos, a senior Cypriot finance ministry official present at the meetings with eurozone countries and Troika representatives, told UK newspaper the *Guardian* that the meeting was "clear blackmail. We were told either you accept this or on Tuesday your banks will not open", adding "It was a *fait accompli*. They had made their decision before the meeting had even begun."

The Troika will provide Cyprus with €10 billion ($12.8 billion) of loans, of which the IMF will provide €1 billion. The deal requires the winding-down or downsizing of Cyprus's two dominant, and now bankrupt, banks in addition to drastic fiscal consolidation, which will reduce GDP by 4.5 per cent according to the Fund. Petros Kosmas, of the Cyprus University of Technology, remarked that "Cypriots have been kept in the dark while their fate was determined in Brussels by institutions who took no interest in their needs or rights. Democratic pressure rejected the first, untenable Troika agreement, now people have to exercise their rights to resist any more damage being illegitimately imposed on them".

In Greece, the role of the IMF in legitimising structural adjustment was analysed by US-based Levy Institute, in a February paper. It pointed out that in the early phase of Greece's crisis the government approached the IMF directly, as "Greece needed to be 'rescued', and the Europeans needed not only the IMF's expertise but also to add … legitimacy to the austerity experiment."

While in Ireland anger remains over the IMF-sanctioned agreement on the resolution of collapsed Anglo Irish bank in February. The Anglo: Not Our Debt campaign described plans to make taxpayers liable as "devious and undemocratic", arguing that the reform was "railroading through legislation."

Cyprus - whose crisis? Petros Kosmas
brettonwoodsproject.org/cyprus85

The future we the people need, Friedrich Ebert Stiftung
library.fes.de/pdf-files/iez/global/09610.pdf

Indian NGO faults IFC energy project

A November field study by Indian NGO the Research Collective has found that an International Finance Corporation (IFC, the Bank's private sector arm) supported coal-power plant run by GMR Kamalanga Energy Limited (GKEL), financed through a financial intermediary, has caused water pollution in the Odisha region. The study found that the project has led to increased unemployment, lost livelihoods and reduced grazing land whilst the status of women has been undermined by a lack of alternative income opportunities. GKEL is also under investigation by the Compliance Advisor/Ombudsman, the IFC's accountability mechanism (see *Update* 76).

tinyurl.com/Researchcollective

IFC financial sector revamp demanded

In early March, 45 CSOs including Thailand-based Focus on the Global South and US-based Center for International Environmental Law, complained that the International Finance Corporation's (IFC) response to an audit of its lending to the financial sector (see *Update* 84) "fail[ed] to acknowledge the gravity of the findings and [was] notable for its lack of commitment to addressing them". They demanded that it "develop a new strategy" including "independent input, participatory consultation with affected communities, and broader stakeholder engagement." The IFC held a staff-level consultation with CSOs in mid March and will hold another during the spring meetings.

tinyurl.IFCletter

IEO review: IMF reform "not working well"

The second external evaluation of the IMF's Independent Evaluation Office (IEO), discussed by the IMF board end March, evaluated how well the IEO has met its institutional mandate since 2006. The report concluded that the IEO had strengthened the IMF's external credibility but saw room for improvement. The evaluation warned however that the process for implementing IEO recommendations, developed after the 2006 external evaluation (see *Update* 52), was "not working well." It also recommended that the mandate of "promoting greater understanding of the work of the Fund" should be dropped as it "may be seen as inconsistent with the IEO's independence and oversight functions."

tinyurl.com/ieoreview

French police raid Lagarde home

French police searched the Paris apartment of IMF managing director Christine Lagarde in late March as part of an investigation over the way Lagarde, as French minister of finance, handled the compensation settlement of French businessman Bernard Tapie (see *Update* 76). An IMF spokesman said that, despite the raid, which occurred on a day of key negotiations over a loan to Cyprus (see above), and the ongoing investigation: "Madame Lagarde would be able to effectively carry out her duties as managing director". The IMF executive board confirmed it knew about the Tapie investigation at the time of her hiring.

Safeguards: Bank urged to incorporate human rights commitments "in all of its activities"

As the consultations on the World Bank's safeguards review progressed, indigenous peoples and NGOs raised concerns over the process. There were also calls for the Bank to respect human rights in its policies, including a report from a UN Special Rapporteur.

A March letter to Bank president Jim Yong Kim, endorsed by 74 indigenous peoples organisations, NGOs and academic institutions, referred to previous communication to the Bank regarding the safeguards review process (see *Update* 83, 82, 81). This included concerns that "there has been as yet no clear and specific outreach for indigenous people's organisations" and "limited input on the key emerging issue areas".

The importance of indigenous peoples' rights was also raised in a February draft paper prepared for the May session of the UN Permanent Forum on Indigenous Issues. The paper argued that the safeguards review process is "a unique opportunity to positively align the Bank's policies and practice with respecting, recognising and promoting the human rights of indigenous peoples", noting that: "None of the safeguard policies have yet been revised to reflect the articles set out in the UN Declaration [on the Rights of Indigenous Peoples]". The paper's recommendations included for the Bank to "develop its policies and procedures in a fashion that fully recognises and respects the individual and collective rights of indigenous peoples".

In early March, 34 NGOs, including US based Accountability Counsel and Humanitywatch in Bangladesh, wrote to Anna Brandt, Nordic-Baltic executive director of the Bank and chair of the board's Committee on Development Effectiveness (CODE), requesting that a formal invitation to participate in the review should be extended to the Bank's accountability mechanism, the Inspection Panel (IP). The letter argued that with almost 20 years of experience the IP is "well placed to provide insights and recommendations to the Bank in its review of the safeguards". Brandt responded in mid March that "CODE is not managing the review process, so it is not for me to send an invitation letter to the Panel", which would fall on the Bank management.

Human rights in the spotlight

A February report from the UN Special Rapporteur on adequate housing, Raquel Rolnik, urged the Bank "to seize the opportunity of the safeguard review process to commit to human rights in all its activities", to ensure that it "maintain[s] its position as a central player in the effort to combat social exclusion, empower communities as actors for their own development and eliminate poverty at its roots." Rolnik argued that: "As a specialised agency [of the UN], and as subject to international law, the World Bank is required at a minimum to respect … the 'universal ... observance of human rights'." Noting the sole focus on investment lending in the review, she recommended the Bank "to undertake (and require borrowers to undertake) human rights due diligence in all of its activities, including investment lending, development policy lending and the newly adopted Program-for-Results."

Meanwhile, two recent reports commissioned by the Bank and the Nordic Trust Fund, an initiative to help the Bank develop a more informed view on human rights (see *Update* 71, 53), came out strongly in favour of human rights approaches. A late 2012 study of human rights and economics noted that "human rights add value when it comes to the quality of economic growth, and specifically the distribution of growth within a society". Furthermore, a February review of human rights impact assessments (HRIAs) noted that they include a focus on concerns "that often do not receive sufficient attention in standard impact assessment, such as issues of transparency, accountability or cultural adaptability." The report concluded that "HRIAs have several unique features that can contribute to the assessment of policies or projects in a way that adds value and is complementary to other types of impact assessments."

Jorge Daniel Taillant of Argentinian NGO Center for Human Rights and Environment said: "It's unacceptable in this age, that as an organisation whose foremost goal is the reduction of poverty, the World Bank refuses to engage in a substantive discussion about how to advance lending to promote the progressive realisation of universally accepted human rights."

UN Special Rapporteur report
tinyurl.com/UNspecrap

UN Indigenous Peoples World Bank paper
tinyurl.com/UNindigenous

2013 World Bank-IMF **Spring meetings schedule**

Board members of the World Bank and IMF, and development and finance ministers will gather in Washington DC, from 19 – 21 April 2013.

Official meetings

18 April	*G24 ministers' meeting*
18, 19 April	*G20 ministers' meeting*
20 April	*International Monetary and Financial Committee meeting*
20 April	*Development Committee meeting*

World Bank, civil society events

17 April	*IMF lending facilities to low-income countries, results and performance (RAP) report, global partnership on social accountability (GPSA), counterfeit medicines, open data, gender justice, governance, IEO, update, private sector, climate change, LGBT issues, jobs, safeguards, agribusiness, coal health effects*
18 April	*WDR 2014, IMF consultations, Bank accountability, Egyptian power plant, Bank's access to information policy, Post-2015 development agenda, preventing mass atrocities, IDA 17, safeguards, youth engagement, Bank re-engagement in Burma (aka Myanmar), agriculture, debt limits, Bank's open development initiative, forests, internet and global NGOs*
19 April	*IMF fiscal transparency, CAO, OECD guidelines for multinational enterprises, MIGA discussion, FSB early warning exercise, safeguards, global economy, World Bank consultations, CAO financial markets audit, forests, new World Bank Framework, IMF reforms*
20 April	*G7 and resilience, FSB, sovereign debt workouts, safeguards, IMF loans to Arab countries, energy, African think tanks, World Bank and sustainability, Eurozone macroeconomic policy, Doing Business rankings panel discussion and civil society strategy session, climate finance*

Bank ignores IEG on logging

The World Bank board's Committee on Development Effectiveness has responded to a December evaluation of its forest strategy by the Bank's Independent Evaluation Group (IEG, see *Update* 84), by accepting some recommendations but "disagree[ing] with IEG's recommendation regarding timber concession reform in tropical moist forest countries." Furthermore, it was "not in favour of undertaking a parallel review" on the issue. Rick Jacobsen of NGO Global Witness said "It's time for the Bank to stop defending destructive logging practices in the name of development benefits that never materialise." The International Finance Corporation, the Bank's private sector arm, is under scrutiny for its proposed €22.7 million ($29.2 million) financing of French logging company Rougier Afrique's activities in Gabon, Cameroon and Republic of Congo. The project aims to "creat[e] value in natural forests which is an important driver for forest conservation", however, Simon Counsell of NGO Rainforest Foundation questioned "how removal of all the commercially valuable trees from a forest can 'create value' for conservation."

tinyurl.com/CODEforest

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