G20 debt proposal continues to favour creditors

G20 announces disappointing common framework for debt restructuring
Framework relies on much-critiqued IMF and World Bank debt analysis
Debtor countries must agree to IMF treatment as condition of debt relief

Ahead of the G20 Leaders’ Summit on 21 and 22 November, former UK Prime Minister Gordon Brown stated that, “despite the promises made by the G20, the IMF and the World Bank to stand behind them in their hour of greatest need,” the world’s poorest countries had “received only about a fraction of what they need in debt relief.” Brown was speaking at the launch event for a proposal for Debt Relief for a Green and Inclusive Recovery written for policymakers by a group of economists, including Kevin Gallagher and Stephany Griffith-Jones.

As the global debt crisis exacerbated by the pandemic deepens, the response from the G20 and international financial institutions, dominated by wealthy, creditor countries, risks wreaking further havoc on the economies of countries in debt distress. As well as directly bampoming health and other vital public spending during the pandemic, debt repayments look set to undermine any hopes of a just recovery, especially for countries that have already experienced severe social spending cuts from servicing debt prior to the pandemic.

On 13 November, G20 finance ministers published the much-anticipated ‘Common Framework for Debt Treatments’ (see Dispatch Annuals 2020). The framework follows the G20 debt standstill announced at the World Bank and IMF Spring Meetings in April, which allowed for the postponement of debt repayments from 73 eligible low-income countries (see Dispatch Springs 2020). This standstill, called the Debt Service Suspension Initiative (DSSI), originally agreed until the end of 2020, was extended to mid-2021 at the World Bank and IMF Annual meetings in October (see Dispatch Annuals 2020).

New framework fails to include key creditors
Rather than merely postponing debt servicing like the DSSI, the common framework was the G20’s supposed attempt at dealing with the more complex issue of restructuring and reducing debt burdens. To this effect, it allowed for debt write-offs “in the most difficult cases,” but clearly stipulated that this should be avoided: “In principle, debt treatments will not be conducted in the form of debt write-offs.” Yet, in most cases under the common framework, creditors were encouraged to merely change payment terms, which UK-based civil society organisation (CSO) Jubilee Debt Campaign (JDC) remarked was, “similar to the current suspension scheme,” adding, “It mainly kicks the can down the road, creating a future debt problem.” Iolanda Fresnillo of Belgium-based CSO network Eurodad called the framework “absolutely insufficient”, adding that it, “merely offers reprofiling of debt payments for the limited number of countries already included in the G20 DSSI.”
Countries seeking debt restructuring through the framework will be required to submit proposals that are subject to a Debt Sustainability Analysis (DSA), conducted jointly by the IMF and World Bank. These assessments have already been criticised for their over-optimistic forecasts during the pandemic (see Observer Autumn 2020). DSAs are also the subject of long-standing criticism for disregarding countries’ human rights obligations, climate commitments and other sustainable development goals, including from the United Nations Conference on Trade and Development (see Observer Winter 2017).

The common framework also lets “private lenders off the hook again”, according to JDC, making little progress on addressing the issue of private creditors, who increasingly hold significant amounts of developing country debt but refused to participate voluntarily in the DSSI. Without this participation, bilateral debt relief offered to countries will be drained from the Covid response and used instead to pay private creditors. Professor Daniel Gabor of the University of the West of England Bristol highlighted that bondholders’ “chutzpah” is down to G20 leaders and their central banks, who have “nurtured” private finance to become so powerful that they now find themselves unable to curtail its might. Though private creditors were encouraged to participate and ensure “fair burden sharing” in the framework, it is up to the country in debt distress to take up the near-impossible task of persuading its private creditors to grant debt relief. Rather than a comprehensive approach, debt treatment will be conducted on a country-by-country basis.

Zambia, which defaulted on its sovereign debt in November, tried this approach to no avail. The Zambian minister of finance put this experience bluntly in an interview with US-based media organisation Bloomberg on 16 November: “Imagine being us; a man drowning in a fast-flowing river. And you, the US-based media organisation Bloomberg, say to me, oh, we’ll fold and I’m screaming to you, help me, I’m drowning. And then you say to me, oh, we’ll help you when you come out of the water.”

Also missing from the framework is a requirement for multilateral lenders to participate. Despite much talk from World Bank President David Malpass about the need for private creditor participation in debt relief efforts, the World Bank, dominated by the US, Japan and European shareholders, is still not providing relief on its own loans. While the IMF is providing debt relief on some of its loans through its Catastrophe Containment and Relief Trust, this is being financed with external donor resources, which could be used to support countries’ Covid-19 responses (see Dispatch Annuals 2020; At Issue Summer 2020).

Debt relief hinges on harmful IMF conditions

A major feature of the common framework is that countries seeking debt restructuring under it will now be obliged to sign up to an IMF loan programme. IMF financing could be made available to countries while they are in arrears to private creditors, as long as they continue to negotiate in ‘good faith’. While this can theoretically strengthen countries’ negotiating position towards private creditors, it seems unlikely to materialise in practice.

This change also raises serious concerns about the IMF’s broken policy prescriptions and its power to impose conditions on developing countries in order to meet stringent fiscal consolidation targets (see Observer Autumn 2020). The IMF is currently in talks with Kenya, which, like many other countries in debt distress, did not join the DSSI over concerns that doing so would downgrade its credit rating (see Dispatch Annuals 2020). The negotiations centre on a $2.3 billion loan programme over three years, the same time period in which the country will be expected to repay $2.3 billion to external private lenders. It seems Kenya has little choice but to use the IMF loan to bail out its private creditors, likely shifting the burden of fiscal consolidation, for example through regressive taxes hikes already pushed by the IMF, onto the most marginalised (see Observer Summer 2020).

Hodgepodge responses instead of sustainable solutions

The prominent role given to the IMF and World Bank in the common framework is indicative of yet another disjointed, temporary fix designed without representation of those most impacted, while further cementing the role of the G20 as a permanent fixture in the global financial architecture. It moves even further away from longstanding CSO calls for a comprehensive multilateral framework for debt crisis resolution under the auspices of the United Nations, which would restructure debt through a fair and transparent process in which all countries have an equal say.

Others in the debt justice community, like Eric Toussaint of Committee for the Abolition of Illegitimate Debt have pointed to the need for debt cancellation based on debt audits to identify illegitimate, odious and illegal debt. In response to the common framework announcement, civil society network Afrodad stated, “We call on the G20 to impress on itself with great urgency the need to come up with a Sovereign Debt Restructuring Mechanism (SDRM) that enshrines the 2015 UN principles and provides a lasting solution to indebtedness of African countries.”

As long as creditor countries continue to call the shots, this seems highly unlikely.

For additional online content for this issue of the Observer see bit.ly/G20_debt

World Bank and IMF delay Morocco’s hosting of Annual Meetings until October 2022

The World Bank and IMF announced on 5 November that their 2021 Annual Meetings, scheduled to take place in Marrakesh, Morocco, will now be hosted by Morocco in October 2022, due to the Covid-19 pandemic.

The Annual Meetings are typically hosted by a non-US IMF and World Bank member country every third year. Bali, Indonesia, was the site of the 2018 Annual Meetings – the last gathering held outside the Bank and Fund’s Washington DC headquarters. The 2021 Annual Meetings will now be held in Washington.

Given the additional time to prepare, civil society will be calling on the Bank and Fund to work with the Moroccan hosts to ensure ample civic space at the 2022 Annual Meetings, after unofficial civil society events outside the Bali Annual Meetings were repeatedly broken up by Indonesian authorities, with activists harassed and threatened (see Observer Winter 2018).
In mid-September, the government of Costa Rica announced negotiations with the IMF to agree a $1.75 billion loan. The loan was premised on a steep reduction of public investment and spending, which would have meant the dismantling of the state and a heavy burden of regressive taxes at a time of severe economic contraction. The proposal triggered strong social opposition, even from business sectors, which opposed increased taxes. Over the course of a few days, the essence of the proposal, albeit perhaps not the prospect of an IMF programme itself, lost its political viability.

Costa Rica is a middle-income country that, unlike its Central American neighbours, and despite being relatively poor, managed to develop a fairly universal social protection system, most notably through healthcare and pensions. However, the system has been continuously at risk of being dismantled by three and a half decades of neoliberal policies. Currently, the entire workforce in the formal sector is covered by the country’s social protection system, while 45 per cent of the workforce in the informal sector remains unprotected. Civil society and unions have defended the role of the welfare state which has allowed the country to guarantee greater equality in terms of a better redistribution of income for many decades. Unfortunately, the Covid-19 pandemic has exacerbated a severe economic crisis, resulting in an economic contraction of five per cent.

Costa Rica is one of the countries in the region with the least fiscal space to respond to the pandemic, given a fiscal deficit and public debt of 9 and 66 per cent of GDP respectively. Austerity proposals such as those of the IMF would therefore imply the country’s economic and political suicide. Democratic and inclusive decision-making process leads to better outcomes for all

After the social unrest that resulted from the government’s announcement of its intention to negotiate with the IMF, the government was forced to start a process of dialogue with representatives from diverse sectors of society to identify savings of at least 2.5 per cent of GDP. After three weeks of intense negotiations between civil society, unions, cooperatives, businesses, the Catholic Church and academia, in which I participated on behalf of the main union bloc in the country, 58 agreements on different measures related to revenue, spending efficiency and other issues (some one-off) were signed, representing 3.19 per cent of GDP in total. With all sectors involved having committed to the agreements made, they are now due to be translated into bylaws and formally approved by the executive government and, in other cases, laws to be approved by the parliament.

These measures are focused on greater control over tax evasion and tax avoidance, providing the ministry of finance with better tools to fight tax fraud, as well as concrete measures for greater and better control of customs evasion by importers and exporters. After 20 years of opposition by the business sector, an agreement was finally reached on establishing a global income tax, which applies to all taxpayers with residence in Costa Rica, regardless of nationality or whether the income is generated domestically or abroad. Measures were also approved to restructure the country’s public debt, with a focus on domestic debt, which is its largest component. It was also agreed that the country would join global efforts to restructure its external debt. Regarding public spending, budget adjustment and reduction measures were accepted as long as these do not endanger social policy programmes, do not imply layoffs or wage reductions for public sector workers, nor the privatisation of state assets. And, finally, concrete measures to promote economic reactivation in the post-pandemic period have been agreed, with special emphasis on how to reverse the significant increase in labour and economic informality.

In other words, a joint effort has been made to carry out an economic adjustment in the face of the worst economic crisis in the last 40 years that does not put the welfare state at risk, does not place the burden of this adjustment on the shoulders of the working class, and does not mean imposing more taxes on the consumption of goods and services that affect society as a whole.

Multilateral organisations, particularly the IMF, should learn from this democratic exercise of multi-sectoral agreement. It is not with ‘austericidal’ and technocratic recipes that countries like Costa Rica can confront the current situation whilst preserving progress in terms of social protection and guaranteeing universal and high-quality public services.

If the IMF was really changing its paradigm, it would expand its emergency support without conditionality or recommendations that later turn into restraints for countries like Costa Rica, make progress in meeting the global demand for the issuance of Special Drawing Rights (SDRs), and more importantly, abandon its orthodox belief that debt adjustment and fiscal deficit reduction are the only way out of a crisis like this one. The pandemic has shown that the orthodox path of budgetary austerity and restrictions in social investment only brings greater social conflict. We demand that multilateral organisations and specifically the IMF acknowledge that the time has come to change their paradigm. Otherwise, history and the people will proclaim them as entities that act against the quest for the common good.

bit.ly/Costa_Rica_IMF
Biden, the Bank and IMF: A break with ‘America first’ or its continued pursuit through multilateral means?

Optimism for reform tempered by Biden’s previous support for status quo

Actions on key issues such as SDRs and debt cancellation will be pivotal

Fonteh Akum of South Africa’s Institute for Security Studies spoke for many within foreign policy circles in a November blog for international think tank Council of Councils when he noted that Biden’s election would “reap predictable multilateral and diplomatic dividends.” Yet, Biden’s views on the nature of the multilateralism he has vowed to support merits closer investigation.

In a March article for American magazine Foreign Affairs, Biden underlined that, “For 70 years, the United States, under Democratic and Republican presidents, played a leading role in writing the rules... that guide relations among nations.” It is precisely the US’ leadership in writing the rules promulgated and enforced by the World Bank and IMF that is contested by states and international justice movements. Critics have long argued that the current multilateral order built by the US and its European allies, anchored on the Bretton Woods Institutions, has principally protected their interests and those of Southern elites (see Observer Summer 2019, Bretton Woods at 75).

As the world struggles to respond to multiple crises triggered by the Covid-19 pandemic, amid proposals to ‘build back better’, calls for radical reforms of the multilateral system grow (see Dispatch Annuals 2020). The key question raised by Biden’s victory is therefore which multilateralism will Biden, deemed “the last, best hope of globalists” in an April Financial Times article, support: The current failed system or a rupture with the past?

Democratising multilateralism

The world will be watching for Biden’s willingness to take significant steps to address historic democratic and legitimacy gaps at the World Bank and IMF, such as by ending US objections to IMF quota reforms, the last round of which were quashed by the Trump administration. To begin to repair the damage done, the administration could support calls to move up the timeline of the 16th review of IMF quotas, which will otherwise not be completed until December 2023.

The new administration could also back a comprehensive review of the quota formula itself to ensure that quota reviews do not merely reallocate power to significant emerging countries such as China and India to the detriment of other developing countries (see Observer Winter 2018). Biden’s support for an end of the ‘gentlemen’s agreement’ that sees the leadership of the Bank and Fund monopolised by US and European nationals, respectively, would have important practical and symbolic consequences (see Observer Spring 2019). Other opportunities to address the under-representation of the Global South include the ongoing shareholding review at the World Bank, as well as supporting double majority decision-making (see Inside the Institutions April 2020).

Biden’s commitment to a new multilateralism will also be evident in whether he advocates for a central role for the United Nations in the international financial architecture, such as by supporting the establishment of a well-resourced UN tax body and debt workout mechanism.

Ensuring a just and ecologically sustainable recovery

Biden plans to implement a $7 trillion stimulus package to help the US ‘build back better’. It will be crucial that his domestic rhetoric and counter-cyclical approach is matched by action in the international sphere. The signs to date are mixed.

While, according to US financial publication Market Watch, Biden’s nomination of Janet Yellen as Treasury Secretary was deemed to “mitigate the risk of any material progressive rules or regulations that would be disruptive to the banking and financial services sectors”, the pick was praised by Nobel laureate Paul Krugman and Foreign Policy magazine in light of her support for counter-cyclical policies. Regardless of Yellen’s domestic policy positions, a key test will be whether she pushes back against IMF-prescribed fiscal consolidation targets in developing countries’ recovery plans (see Dispatch Annuals 2020, Observer Autumn 2020). Given Wall Street’s strong support of Biden, critics of the World Bank’s Maximizing Finance for Development approach, which privileges the private sector and promotes the financialisation of development and climate action, must wait for clarity on the administration’s position on privatisation, deregulation and push for the establishment of new investment asset classes (see Observer Spring 2020).

Considering the chorus of calls for a new allocation of the Fund’s Special Drawing Rights to alleviate the evolving debt crisis, attention will focus on whether Yellen will reverse the current US opposition to it. While there are efforts in the US Congress to support an SDR issuance equivalent to $2.8 trillion, Yellen outlined her own position to it in a March interview with American think tank the Brookings Institution, expressing a preference for an expansion of IMF’s emergency lending capacity instead.

As noted by online news site Inside Climate News, Biden’s decisions to rejoin the Paris Agreement and appoint former US Secretary of State John Kerry as US Climate Envoy have been widely welcomed. Biden has stated that the administration will “lead a major diplomatic push to raise the ambitions of countries’ climate targets” and “convene a climate world summit to directly engage the leaders of the major carbon-emitting nations.” It is hoped that the change in American policy will significantly strengthen coalitions within the World Bank to ensure further action on climate change and to pressure the IMF to meet its objective of ‘greening the recovery’. However, CSOs who have long opposed the Bank and Fund’s conditionality will be concerned by the language used in Biden’s climate plan, which supports the development of strong climate-related conditions at the BWIs. The plans stipulate that the US will, “work with international financial institutions to pursue shared debt relief for countries provided that they use those funds for climate-friendly development.” This raises questions about whether proposed ‘positive conditionality’ are consistent with a just transition or will add a mechanism for creditors to dictate terms to and open the markets of the Global South.

Few working to defend human rights and the environment in a just global economic system will shed tears at the change of leadership in Washington. Yet, at a time when the world faces the climate and inequality crises, concentration of corporate and financial power and distrust in institutions, questions remain whether Biden will support the structural changes urgently required.

bit.ly/Biden_US_multilateralism
World Bank reparations demanded for murder of frontline South African anti-coal activist

Guest analysis by Patrick Bond, University of the Western Cape, South Africa

The brutal assassination of South African anti-coal activist Fikile Ntshangase on 22 October has once again highlighted the dangers facing human rights and environmental defenders and the long-term consequences of the World Bank’s support for damaging projects. The Bank’s private sector investment arm, the International Finance Corporation (IFC), was the original backer of the venture capital fund that financed a coal mine’s early operations, opposed by Ntshangase and her Mfolozi Community Environmental Justice Organisation (MCEJO).

Ntshangase, 63, was shot five times by a gang of six men a few weeks after refusing what she alleged was a $20,000 bribe by the Tendele coal mine in the KwaZulu-Natal town of Somkhele. She would not withdraw court challenges to the project saying, “I refuse to sign. I cannot sell out my people. And if need be, I will die for my people.” MCEJO’s legal suit would curtail at least a ten-year expansion of Tendele coal mining, and was widely considered the motivation for Ntshangase’s murder. It is alleged that Ntshangase was just one of several names on a local hit list. At stake, the mine’s owners argued, was the loss of hundreds of local jobs dependent on the extension, and a 20 per cent shareholding mainly controlled by local patriarchal ethnic leadership.

MCEJO opposed Tendele mine for years, as recorded in the 2017 report, No longer a life worth living, by PanAfrican ecofeminist alliance WoMin. The mine is the largest African producer of anthracite used in steel and provides several million tons of thermal coal annually for both South African and export markets, contributing to the climate catastrophe.

IFC’s involvement in the Tendele mine dates to its investment in the New African Mining Fund (NAMF), which was the recipient of a $5 million initial IFC commitment in 2002, escalating to $30 million for its second stage in 2010 (aborted in 2014 during the global mining crash). Tendele is owned by Johannesburg-based multinational corporation Petmin, with roots in apartheid mining in 1970. Petmin raised 7.6 per cent of its capital from the NAMF for its main operation, Tendele, and that stake, in turn, enabled NAMF to declare an annual 39 per cent profit rate at the time the IFC enjoyed its 6 per cent stake in the fund. Petmin’s founder, Bradley Doig, who is currently Petmin USA’s president, still brags on the Petmin website about the IFC investment that got Tendele up and running. IFC’s original 2002 investment was presented as contributing to Black Economic Empowerment and sustainable development through support to junior mining operators. But earlier promises of community prosperity, block advancement and environmental responsibility made when the IFC initially got involved were all jettisoned at Somkhele, and nearly all the NAMF and Petmin beneficiaries are white males.

In 2018 Ntshangase and her MCEJO, representing a peak membership of 4,000, went to court to halt Tendele’s expansion, arguing that the mining operation was illegal from the outset, lacking crucial government water and waste-related permissions. MCEJO lawyer Tembeka Ngcukaitobi and Kirsten Youens cited a recent constitutional court case – also by coincidence involving a company with 22 per cent IFC ownership (Cash Paymaster Services), charged with predatory lending and corruption and ultimately forced into bankruptcy in mid-2020 – to argue for remedial relief following a declaration of unlawfulness. At the Supreme Court of Appeal on 3 November, Ngcukaitobi asked for disclosure of Tendele profits – which include dividends sent to the IFC for several years – and insisted they be repaid to the community.

It is not known how much the IFC earned from the NAMF and its largest investment, Tendele coal mine, though the dividends likely exceed $10 million. If such profits were returned to Somkhele, the process of financing the desperately-needed decarbonisation could begin. Compensation would allow communities to diversify their economic activities, begin to change power dynamics and provide employment opportunities outside the environmentally and health damaging coal mines. The Tendele mine does have support from two unions and some community members, simply because of the lack of other options in the desperately poor area.

Reparations payments could link the local community more closely not only to organised labour, but also to climate-solidarity movements and conservationists (just 6km west, at Hluhluwe-iMfolozi Park – Africa’s oldest reserve – white rhinos were saved from extinction but are again threatened by coal mining). A genuine Just Transition could potentially achieve eco-socio-economic objectives in Somkhele: CO2 emissions-source mitigation, drought adaptation and other climate-crisis resilience projects, funded by the state, self-managed by workers, and controlled by communities, especially women and youth.

Reparations due for historic harms

World Bank reparations are certainly due to South Africa. Apartheid profiteering by the Bank began in 1951 and lasted more than two decades before the United Nations forbade further loans at the request of Martin Luther King, Jr. After Apartheid was defeated in 1994, neoliberal World Bank policy advice is a major reason inequality increased to the world’s highest level (a Gini Coefficient of 0.63).
Other Bank and IFC investments have been deeply mired in socio-ecological destruction, super-exploitative capitalism, and outright corruption. For example, the largest coal-fired power plant now operational was the Bank’s largest-ever loan: $3.75 billion for Eskom’s Medupi generator, riddled with fraud and without exaggeration a clear case of odious debt (see Observer Spring 2019). To this, one can add IFC’s investment in Cash Paymaster Services, which, under the banner of financial inclusion, illegitimately drew profits from social security payments. The $50 million IFC ‘Community Social Investment’ stake in the infamous Lonmin platinum mine, site of the Marikana Massacre, which contributed to South Africa’s worst post-Apartheid social crisis (see Update 82) is another example.

As the World Bank embraces the rhetoric of the fight against racism, its contribution to the unjust power relationships and sequence of events that led to Ntshangase’s cold-blooded murder should bring it to finally match words with deeds. It is high time the Bank puts its money where its PR is and begins the process of paying for reparations for long-standing harms caused by its projects (see Observer Autumn 2020). 

bit.ly/Reparations_coal_SouthAfrica

### World Bank cancels Bisri dam project in Lebanon after years of community resistance

The World Bank cancelled its controversial Lebanon Water Supply Augmentation Project on the Bisri River in south Lebanon on 5 September. The Bank had partially suspended financing in June over concerns about the government’s failure to complete the ecological compensation plan and arrangements for operations and management of the dam, which were preconditions of the loan. The project faced ongoing resistance from the local community and environmental groups amidst economic turmoil in Lebanon after its first sovereign default in March (See Observer Autumn 2020).

The World Bank agreed to co-finance the dam with a $474 million loan in 2014, alongside the Islamic Development Bank and the government of Lebanon. Construction on the dam, due to be completed in 2024, is yet to begin, and $244 million in undisbursed funds from the Bank have now been cancelled. According to a World Bank factsheet, it had “repeatedly raised” concerns about the project since January.

The Save the Bisri Valley campaign, co-founded by The National Campaign to Protect the Bisri Valley and the Lebanon Eco Movement (LEM) in 2018, launched a public petition in November 2018 that urged the Bank to cancel the dam, calling it “destructive” and “land-greedy”, citing harms to the natural habitat, cultural heritage and safety. In June 2019, LEM submitted a ‘request for inspection’ of the project to the Inspection Panel, the World Bank’s accountability mechanism, which was not accepted.

According to news site Arab News, activists from around the country set up camp in an attempt to prevent construction until the project was scrapped. “The cancellation of the Bisri Dam project is very symbolic for Lebanon because it challenges policies that have devastated our environment for years, often encouraged by international financial institutions such as the World Bank,” said Roland Nassour, co-founder of the Save the Bisri Valley campaign.

bit.ly/Bisri_dam_Lebanon

### New CAO vice president urged to fight for CAO independence

On 27 October, the World Bank Group announced the appointment of Janine Ferretti as the new vice president of the Compliance Advisor Ombudsman (CAO), the independent accountability mechanism of the International Finance Corporation (IFC), the World Bank’s private sector investment arm, and the Multilateral Investment Guarantee Agency (MIGA), its private sector guarantee arm. Ferretti will replace Osvaldo L. Gratacós when she assumes her post in January 2021. Her arrival takes place in the context of the departure in October of the IFC’s Chief Executive Officer, Philippe Le Houérou (see Observer Autumn 2020).

Though civil society organisations had urged that the Bank appoint a professional from the Global South, Ferretti is a US and Canadian national. She has extensive experience working on environmental and social safeguard issues from her previous role at the Inter-American Development Bank, where she was Chief of Environmental and Social Safeguards.

Responding to Ferretti’s appointment, Margaux Day, of US-based civil society organisation Accountability Counsel, emphasised that Ferretti will have to put that experience to use as she endeavours to fulfill the terms of reference of the post during challenging times. Day stressed that Ferretti “must immediately defend against threats to the CAO’s independence by the IFC, which has yet to publicly endorse the recommendations of the external review of IFC and MIGA’s environmental and social accountability framework; commit to a plan for implementing the recommendations; or agree that the CAO should retain the exclusive authority to implement its own reforms” (see Observer Autumn 2020). 

bit.ly/CAO_VP
First gathering of world’s public development banks fails to deliver concrete commitments

World Bank’s leadership questioned as it remains on fringes of global summit

Event fails to produce solutions needed to urgently address overlapping global crises

Civil society organisations (CSOs) were left largely frustrated as the world’s first summit of public developments banks failed to breathe new life into a multilateral system facing multiple crises (see Dispatch Annuals 2020).

The Finance in Common (FiC) Summit took place on 11-12 November alongside the Paris Peace Forum and was hosted by French development bank Agence Française de Développement (AFD), with the aim of uniting the entire finance community in support of common action for climate and the UN Sustainable Development Goals (SDGs). The summit included 450 public development banks (PDBs) who issued a general declaration on 12 November. Although the declaration included some promising language on PDBs aligning their finance with the Paris Agreement and the SDGs, it contained no time-bound commitments requiring banks to undertake these actions. Additionally, a number of multilateral development banks (MDBs), including the World Bank, failed to join as signatories, despite the non-binding nature of the declaration.

In response to the declaration, Lidy Nacpil of the Asian People’s Movement on Debt and Development (APMDD) remarked, “Southern movements and peoples’ organisations from around the world delivered a clear and urgent message to public financial institutions gathered at the summit that concrete, immediate steps must be taken to end public financing of fossil fuels. They also called for debt cancellation for developing countries. The...Declaration falls very short of these calls.”

European Investment Bank’s (EIB) board approved its Climate Bank Roadmap 2021-2025 on 10 November, outlining how it plans to align with the Paris Agreement.

CSOs criticised these efforts for not going far enough. Laurie van der Burg of Oil Change International noted, “By allowing continued gas financing up until 2030 and leaving options open for gas financing beyond 2030, European DFIs are clearly failing to face up to the climate emergency.” Belgium-based CSO Counter Balance, meanwhile, argued that the EIB’s roadmap was “lacking ambition,” and contains loopholes allowing continued investment in carbon-intensive activities.

Despite their shortcomings, these institutions remain ahead of the curve in comparison to their PDB peers, including the World Bank, which was largely absent from discussions on climate throughout the summit, raising questions about its claims to be a climate leader among MDBs.

Banks falling short on just, human rights-based recovery

Though the joint declaration committed to “take into account the imperative of a just, inclusive and rights-based transition”, many CSOs were disappointed by the proposals.

While women’s rights organisations, including Mexico-based Equidad de Genero: Ciudadanía, Trabajo y Familia, prepared a joint briefing ahead of the summit with recommendations for PDBs to support feminist finance principles, none of these were adopted. Five CSO networks, including APMDD and Third World Network, issued a joint response highlighting their concern that the declaration was heavily reliant on private sector finance, with no commitments to strengthen public health services and no response to the sovereign debt crisis (see Dispatch Annuals 2020).

Human rights groups were also unimpressed with the lack of action in support of human rights defenders and the exclusion of communities impacted by development projects from the summit, issuing a joint CSO statement. Mark Fodor of the Coalition for Human Rights in Development said, “With no real commitments to community-led development, respect for indigenous peoples’ rights, protection of defenders raising their voice around PDB-financed activities or a rights-based approach more generally, any talk of inclusive development is just that: talk.”

Δbit.ly/Finance_in_common

European banks take further tentative steps towards fossil fuels phaseout

The 15 European bilateral development finance institutions (EDFI) announced in the lead-up to the summit that its members, “will exclude new coal and fuel oil financing, and...limit other fossil fuel financing to Paris-aligned projects until generally excluding them by 2030 at the latest.” Meanwhile the
Pakistan resists IMF measures that could “push more people into poverty”

In October, an IMF mission was due to visit Pakistan to resume the second review of the $6 billion Extended Fund Facility agreed in July 2019, which had been delayed due to the Covid-19 pandemic (see Observer Spring 2020). Yet, the mission was indefinitely postponed over the refusal of Prime Minister Imran Khan to implement specific reforms tied to the programme, which the Fund is requiring as ‘prior actions’ before talks can resume.

The Pakistan-based newspaper The Express Tribune reported in October that Abdul Shaikh, economic advisor to the prime minister, “was of the view that additional measures could push more people into poverty.” After the current government faced major demonstrations over the constantly increasing cost of living in 2019, the newspaper reported that Shaikh had told IMF Managing Director Kristalina Georgieva, “that Pakistan was not in an election mode and the government was seeking postponement...purely on human grounds.”

The contentious measures include power sector reforms that would increase electricity tariffs and significant regressive consumer tax hikes (see Observer Winter 2020). Bilquis Tahira with Pakistan-based civil society organisation Shirakat – Partnership for Development, commented, “the IMF must commit itself to upholding international commitments on human rights. People must come first in all fiscal negotiations. We support our government in its stance on considering IMF loan impacts on the have-nots.”

As the IMF talks stall, the country remains under serious economic pressure, exacerbated after Saudi Arabia demanded a $1 billion loan repayment and froze an oil credit facility worth more than $3 billion in August.

Eni files ICSID arbitration request linked to controversial Nigeria oil deal

Italian oil major Eni filed a request for arbitration against the government of Nigeria at the World Bank-hosted International Center for Settlement of Investment Disputes (ICSID) in October. The request was linked to oil prospecting licence (OPL) 245, which concerns the rights to one of West Africa’s most lucrative oil blocks and has been at the centre of controversy for over two decades.

According to an October article from Nigerian news publication The Cable, “The oil company said it plans to argue that Nigeria’s failure to allow it to exploit an oilfield it acquired with Royal Dutch Shell nearly a decade ago breaches their investment agreement.”

Eni and Shell acquired OPL 245 in 2011, paying $1.1 billion to purchase the rights from Nigerian oil company Malabu, with an additional $210 million paid as a signing bonus to the Nigerian government, according to The Cable. Malabu initially gained rights to the bloc in the late 1990s, when it was awarded a prospecting licence by Nigeria’s then-petroleum minister Dan Etete, who covertly controlled the company, according to an October article in Finance Uncovered.

The deal is the focus of an ongoing trial in Milan, where Etete, Eni, Shell and various middlemen are accused of corruption – with all parties denying wrongdoing. A ruling is expected by the end of 2020 or early 2021. As part of the trial, Finance Uncovered noted that, “Nigeria – under new political management since 2015 – has asked the court to award it the $1.1 billion as part of compensation it hopes could run to several billions more once its potential losses from the terms of the 2011 deal are totted up.”

Meanwhile, with Eni’s rights to OPL 245 set to expire at the end of April 2021, the ICSID case is being viewed by civil society organisations (CSOs) as a legal counter-offensive by the oil major. A joint statement from CSOs, including Nigeria-based Human and Environmental Development Agenda and Italy-based Re:Common, said, “Nigeria must stand firm and resist Eni’s blatant bullying. Nigeria has no case to answer.” The groups have written to ICSID urging it to reject the case because it involves corruption allegations that are already being tried before a national court.

**ISDS: A haven for fossil fuel interests?**

As states take emergency measures in response to the Covid-19 pandemic that could expose them to claims from international investors, concerns have been raised that investor-to-state dispute settlements (ISDS) may be on the rise (see Observer Summer 2020). Concurrently, there are also fears that ISDS cases, including those arbitrated by ICSID, will form a significant barrier to the managed drawdown of fossil fuel production needed to achieve global climate goals.

Cases at ICSID are already skewed towards oil, gas and mining interests, with a 2019 report by Mining Watch Canada, the Institute for Policy Studies and the Center for International Environmental Law showing that the number of mining, oil and gas cases filed at ICSID has nearly doubled in the past two decades – as have the aggregate amounts awarded to investors by ICSID tribunals.

A report published in October by the International Institute for Environment and Development noted that, “ISDS protects most of the world’s 257 foreign-owned coal plants, which must be retired early in order to put the planet on track to keep temperature rise below 1.5°C above pre-industrial levels....In Indonesia...the estimated value of 12 coal-fired power stations protected by ISDS could be up to $7.9 billion. The cost of ISDS compensation could be even greater.” The report added that, according to one estimate, stranded oil and gas assets globally could run between $3-7 trillion, with compensation awards via ISDS cases potentially greatly increasing the cost of the low-carbon transition.
Unions raise alarm over alleged retaliatory firing at IFC-financed Guinea hotel

The International Finance Corporation (IFC), the World Bank’s private sector investment arm, has come under fire after an apparent violation of its performance standards at the five-star Marriott-Sheraton Grand in Conakry, Guinea, following the alleged retaliatory dismissal of two employees after they raised workplace concerns.

The hotel, owned by the Topaz group, received a $26 million investment from the IFC in 2013 (see Update 86) and opened in 2016. It is managed by Marriott, the largest hotel company in the world.

Union leaders and hotel employees, Amadou Diallo and Alhassane Diallo, were fired on 7 October, following the dismissal of another employee, Mohamed Saliou Sampil, on 18 August. The union leaders were fired after disagreeing with the termination of Sampil’s contract at a meeting with the hotel’s management. During the meeting, they presented a petition signed by a majority of the hotel workers in support of their colleague, according to the International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers’ Associations (IUF), a global federation of trade unions.

In an interview with BWP, Alhassane Diallo said that hotel management fired him, “just to kill the union because we were fighting for our rights,” emphasising that his union colleagues still working at the hotel are now afraid to lose their jobs.” Amadou Diallo called the firing “unexpected” and “unfair.” He added, “It has had a big impact because I have a family. I have to pay rent and for school for my children.”

In response to low wages, unpaid overtime and an absence of health insurance, workers at the hotel organised earlier this year as part of the Fédération de l’hôtellerie, du tourisme, restauration, catering et branches connexes (FHTRC) and won union recognition from the hotel. The IUF, to which the FHTRC is affiliated, says the firings are part of an ongoing effort by the hotel’s management to dismiss union leaders.

The alleged retaliatory firings would be a violation of IFC’s Labor and Working Conditions performance standard, which outlines provisions against union busting. IFC has a history of investing in clients in the hospitality sector that have been found to undermine workers’ rights, including collective bargaining (see Observer Winter 2018, Summer 2020).

“The IFC has chosen to allow violations of its own Performance Standards as well as ILO Conventions 87, 98 and 135,” said IUF General Secretary Sue Longley, adding, “The IUF will not tolerate such brazen violations of trade union rights, and so...have launched a campaign for the reinstatement of the union leaders.”

Labour rights at risk during the pandemic

Violations of workers’ rights are at a seven-year high, according to the International Trade Union Confederation. In recognition of the increased risk of reprisals against workers during the pandemic, IFC issued guidance for clients on minimising risks, stating, “IFC does not tolerate any retaliatory action by our clients against those who voice their opinion regarding the activities of IFC or our clients.”

US-based Global Labor Justice-International Labor Rights Forum (GLJ-LRF) argued that the IFC’s guidance is insufficient if it is not backed up by enforcement. Responding to the Mariott-Sheraton case, Director of GLJ-LRF Jennifer Rosenbaum stated in October, “It is time for the World Bank and IFC to get serious about the role organized workers and trade unions must play...This includes making them an integral part of dialogue with the IFC and its loan recipients and responding swiftly to remedy reprisals.”

The Marriott hotel issued a response to a request for comment from the Business and Human Rights Resource Centre (BHRRC), which claimed their actions were consistent with company policy and local law. The IFC has yet to respond to the BHRRC’s request.

Rally to reinstate the fired union leaders at the World Bank Group-funded Mariott-Sheraton Grand Conakry on 2 December 2020.

Photo: Fédération de l'Hôtellerie de la Restauration et du Tourisme and Organisation Nationale des Syndicats Libres de Guinée
IMF’s continued VAT push inconsistent with rhetoric on progressive taxes

In September, the IMF hosted the first of a series of webinars celebrating the rise of value added taxes (VAT) and the Fund’s “worldwide leading role” in spreading the use of VAT, as noted in opening remarks by Vitor Gaspar, director of the IMF’s fiscal affairs department (FAD). Reflecting longstanding civil society concerns that the IMF relies too heavily on regressive taxes like VAT without systematically measuring their distributional and gendered impacts, many questions were raised on the regressivity of VAT during the event (see Dispatch Springs 2019, Annuals 2017, briefing The IMF and Gender Equality: VAT). Yet, FAD Deputy Director Michael Keen continued to emphasise the importance of having “few or no exemptions or other special treatments... [including] on items on which the poor spend a large proportion of their income.”

The IMF’s push for the expansion of VAT has also been reflected in its lending programmes agreed in the context of Covid-19. Research by Belgium-based civil society organisation Eurodad published in October found that of 59 countries analysed, 39 made commitments to the IMF to increase the share of indirect taxes, particularly VAT, in total government revenues. In Ecuador, the IMF agreed a 27-month programme in September that required increasing the VAT rate and removing a VAT refund to the elderly. These measures were designed to raise 0.24 per cent of GDP in revenue, while modifications to the corporate income tax (CIT) in the programme sought to raise less than half of that, as reported by news outlet Bloomberg in October (see Observer Summer 2020).

IMF emphasis on VAT exacerbates broader inequality trends

These policy positions are inconsistent with the high-profile messaging by the IMF during its October annual meetings. During a town hall meeting with civil society, IMF Managing Director Kristalina Georgieva endorsed taxing capital in response to fierce criticism of the Fund’s backing of rigid fiscal consolidation measures during the Covid-19 recovery (see Dispatch Annuals 2020, Observer Autumn 2020). The Fund’s October Fiscal Monitor also emphasised financing the Covid-19 recovery through progressive taxes, including on higher bracket incomes, capital income, higher end property and wealth, while falling short of civil society demands that these efforts should start “with those directly benefitting from the crisis, such as high-frequency traders, investment funds and large digital corporations.” Responding to this discrepancy, Tove Maria Ryding of Eurodad commented, “We’re seeing a complete disconnect between what the IMF is saying when the cameras are rolling during Annual Meetings and what it is actually doing in its programmes. It is more clear than ever that the FAD is obsessed with VAT and has no shame in pushing this unquestionably regressive policy measure in the midst of an unprecedented inequality crisis that is only exacerbated by the Covid-19 pandemic.”

In 2018, UN Women published a report on gender, taxation and equality in developing countries. It found that VAT often violates the ‘ability to pay’ principle that is fundamental to tax policy and human rights law and argued against the heavy reliance on consumption taxes in developing countries. The report’s author, Kathleen Lahey, noted, “IMF longitudinal data makes it clear that between 1990 and 2017, predominantly progressive tax systems in countries at all levels of development were replaced with regressive tax systems – almost always because replacing PIT [personal income tax] and CIT revenues with VAT has been expected as part of the IMF’s own conditions. At the level of individual countries, women consistently are left further behind in terms of even being able to meet basic necessities of living, losses that are highest in countries with the most fragile economies.”
Delays in Inspection Panel eligibility decision in Nepal risk “irreversible damage”

Fears have been raised about the capacity of the World Bank’s independent accountability mechanism, the Inspection Panel (IPN), to effectively respond to complaints brought by those affected by World Bank-financed projects during the Covid-19 pandemic, after delays in an eligibility decision on a case in Nepal.

In correspondence with CSO partners in November, Nepalese civil society network Community Empowerment and Social Justice Network (CEMSOJ) highlighted “extreme delays in eligibility determination of complaints by Inspection Panel.” CEMSOJ lamented that while, “Indigenous Newa(r) and local communities in south of Kathmandu affected by the World Bank financed Chobhar dry port filed a complaint to the Inspection Panel in late April 2020 which was subsequently registered in May 2020”, the IPN has deferred the eligibility determination until they can undertake a field mission, the timing of which remains highly uncertain given the pandemic.

The IPN’s decision took place despite the fact that a local consultant it commissioned submitted his report following his visit to the affected communities. Although the community voiced concerns about this delay through correspondence with World Bank executive directors, no action has been taken. In the meantime, construction of the project, which is 50 per cent completed, continues amidst the presence of armed police personnel. The communities are unable to undertake public actions to express their concerns due to a ban on large public gatherings. “It is highly likely that any accountability of wrongdoing of the World Bank in construction of the dry port...will be too late to avoid or mitigate the irreversible damage the dry port is causing to the local communities,” said Prabindra Shakya of CEMSOJ.

IFC’s first Green Equity Approach client backs Indonesian coal plant expansion

The launch of the Green Equity Approach (GEA), an initiative of the International Finance Corporation (IFC), the World Bank’s private investment arm, faced a stumbling block after it emerged that the first IFC equity client to take part had invested in a major new coal plant expansion in Indonesia.

The GEA, which was first announced at the 2018 World Bank Annual Meetings (see Observer Winter 2018), requires new IFC equity clients to commit to divest from coal by 2030. The IFC also provides support to help clients grow the proportion of green finance in their portfolios under the GEA.

The IFC, which has been implementing the GEA since 2019, published the final version of the approach in September. In October, it emerged that Hana Indonesia, the client IFC had chosen to pilot the scheme in 2019, had since approved finance to support a 2,000 MW expansion of a coal power station in Banten, Indonesia – known as Java 9 and 10 – according to a report on the online news site Climate Home. The article highlights that, “IFC officials claimed not to be aware of Hana Indonesia’s involvement in the coal megaproject,” when asked about the investment.

“The IFC has made huge progress in eliminating coal from its indirect investments, and with its Green Equity Approach has sent a strong signal to its private investor clients that the era of coal is over,” said Kate Geary from Netherlands-based civil society organisation Recourse. “So it’s a massive disappointment that IFC’s first GEA client...provided project finance to two new highly-polluting coal projects, Java 9 and 10. IFC must close the coal loophole in its GEA and ban clients from funding new coal plants if they get the IFC’s stamp of approval through the GEA.”

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