BRETTON WOODS project

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observer
A quarterly critical review of developments at the World Bank and IMF

FINANCE analysis

# Democratic deficit: the IMF, Ecuador, and central bank independence


## In this issue



**Ecuador approves law granting central bank independence following IMF demands**

**Central bank independence has become a staple IMF policy and a major way in which it shapes global monetary policy**

**Civil society organisations and academics raise concerns over the policy in Ecuador and globally**

In April the Ecuadorian National Assembly approved a law greatly increasing the independence of Ecuador's central bank. The move, which had been a point of acute tension during Ecuador's presidential election earlier this year, was required by the IMF in order for Ecuador to access a $6.5 billion loan agreed in September 2020.

The "law for the defence of dollarisation" establishes legal and operational autonomy for the Central Bank of Ecuador (BCE), removing it from the direct authority of the finance minister, who previously headed a board which set the bank's monetary policy and controlled its budget. The law – the decrees of which are now being implemented – will ban the BCE from financing government spending, buying public sector debt, and investing in public or private businesses.

The IMF has emphasised the central bank reform, designating it as one of only two *prior actions*, a type of condition required for loan disbursement. The legislation was prepared with IMF technical support claiming it will align the BCE "with best practice in areas of governance, independence, objectives, transparency, and controls." Central bank independence (CBI) had previously been part of the portfolio of reforms proposed by the IMF for Ecuador's $4.2 billion loan in 2019, but was left unimplemented as the government was met with widespread protest and political opposition (see *Observer* Winter 2019).

International and national civil society organisations (CSOs) and academics have responded with anger to the new law. A January statement from academics affiliated with Progressive International, a global mobilisation campaign, called it an "economic absurdity" to limit the government's ability "to use their full range of policy tools", adding that the law would facilitate "the outflow of capital from Ecuadorian private financial institutions." Jameson Mencías, an Ecuadorian economist with the Latin American Network for Economic and Social Justice (Latindadd), commented that the reforms proposed in this law, "point to the protection of private banks and the liberalisation of financial flows, clearly confusing the defence of the monetary system with defence of the banking system."

It is not just in Ecuador where the IMF has been pushing aggressively for CBI. Over recent months, it has featured prominently in IMF loan discussions with Ukraine, the Democratic Republic of Congo, and Mauritius. Over the last two decades, CBI has become a staple IMF policy and a major way in which it shapes global monetary policy.

**The IMF and the rise of central bank independence**

Central banks are the institutions responsible for managing a nation's currency and monetary policy – i.e. the supply of money into an economy and the interest rates payable on borrowing. Contrary to popular opinion, their independence is a relatively recent policy practice, first emerging in the 1970s. Over the last 25 years there has been a "global rise" in CBI: academics note that in 2015, 81 per cent of countries had a CBI index score over 0.5 (on a scale of 0 to 1, where 1 represents full independence), compared to 12 per cent in 1980.

As widely acknowledged, the IMF has played a "vital role" in this global policy transition. Initially not a major feature of IMF conditionality or technical assistance, since the 1990s the Fund has increasingly called for various policies to boost CBI. The argument in favour of CBI is simple: it controls inflation by taking interest rate management out of the hands of short-sighted politicians. As IMF staff write, "if politicians manipulate monetary policy to bolster their pre-election popularity, their prioritization of short-term political gains could invite long-term pain for the economy, in the form of higher inflation or even hyper-inflation."

This "political interference" – as the IMF calls it – involves governments pushing central banks to lower interest rates. This makes it cheaper for businesses to borrow and expand, thereby creating employment. This boosts governments' popularity, but at the possible cost of inflation running out of control. The 'interference' also involves governments turning to central banks to fund their public spending, thereby raising public debt to unsustainable levels.

But despite its presentation as best practice, the process of increased CBI is highly contentious and can in fact be detrimental to development.

**Undemocratic, undevelopmental and unequal**

Critics have argued that taking monetary policy out of the hands of elected politicians is undemocratic. As economist and former Minister of Finance for Greece Yanis Varoufakis argues, "so-called independent central banks are independent only of their parliaments and the people and, thus, fully in the pockets of the financiers and the broader oligarchy." While IMF staff have commented that CBI is aimed at "politics-free monetary policy decisions", as Varoufakis suggests, removing government authority over central banks does not make them free of politics, only free of democratic accountability.

In a 2020 working paper, the Fund asked if central banks should consider inequality when taking decisions. Their inevitable ambiguity in answering such questions points to the core fallacy of the argument that central banks can be 'politics-free'. Even establishment voices such as *Foreign Policy* now acknowledge that the "illusion" that monetary policy is "technical, not political" has been completely ended by the pandemic response, which has shown that central banks "hold the reigns of the global economy".

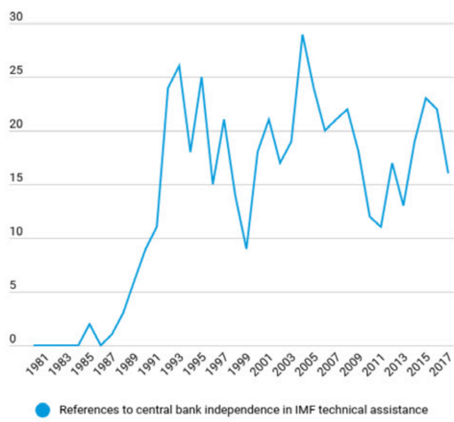
It has also been argued that CBI enhances the power of the Fund, at the expense of national parliaments. Economist Bernhard Reinsberg observes that, by limiting policy options, "strengthening CBI helps the IMF in nudging a government into painful austerity and reform measures, ultimately leading to greater program compliance." This reduced policy space makes countries less developmental. According to Daniel Munevar with Belgium-based civil society network Eurodad, "In practice, CBI becomes another binding constraint on the capacity of countries to use available policy space to pursue developmental policies." Importantly, these curtailed tools – such as boosting employment via interest rate adjustment or financing domestic spending – were essential parts of the policy programmes that today's rich countries used as part of their development policies.

The wave of CBI of recent decades has also had broader impacts. It has been shown that the rise of CBI directly leads to financial deregulation, as governments seek alternative policy tools to stimulate their economies. This has made them more open to financial shocks and increases the influence of private financial actors over government policy. Relatedly, a January World Bank working paper argues that CBI increases inequality by reducing fiscal policy space (making redistribution harder), increasing financialisation (which benefits asset holders), and weakening the bargaining power of workers.

The IMF must critically reassess its central bank policies if countries are to be given the space to prioritise the wellbeing of their citizenry over the interests of global finance. The pandemic has only exacerbated this tension. Economist Jayati Ghosh comments that, "All the myths of central bank independence have been blown sky-high by the pandemic – but only in the advanced economies. In the developed world, they realise fully that monetary policy has to be closely aligned with fiscal policy, and both have to be expansionary to support the economic recovery and protect citizens during this major crisis. But no such realisation is evident for developing countries, where the clearly wrong policies of fiscal austerity and so-called central bank independence are being thrust on to populations already hugely battered by the pandemic." If countries like Ecuador are to respond effectively to the crisis they need more, not fewer tools to support development.

***bit.ly/CBindependence***

Photo: IMF




The rise of IMF technical assistance on central bank independence.

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FINANCE analysis

# Economic stability with social instability: The IMF and austerity protests in Colombia

Guest analysis by Mario Alejandro Valencia, Latindadd

**Massive protests in Colombia following IMF proposed tax reform**

**Expected state spending cuts make possibility of a strong recovery from the pandemic unlikely**

Colombia, according to the World Bank, is one of the five most unequal countries globally. This is partly the result of its regressive tax structure, which, after 15 reforms in the past 30 years, has evolved to increase the prevalence of indirect taxes such as the regressive value-added tax (VAT) and reduce direct taxes, such as those on businesses. Each reform has introduced new carve-outs which total more than 230 different tax exemptions, accounting for an annual fiscal loss of approximately $4.5 billion.

The country has entered into an austerity trap, following the demands made by the IMF over multiple structural adjustment programmes in exchange for loans to resolve its balance of payment problems. The latest loan instalment of $5.4 billion took place in December 2020, and was followed in February 2021 by recommendations from the IMF to further increase VAT and broaden the base on personal income tax.

In April, the government of President Iván Duque presented the IMF tax recommendation, which aimed to collect some $7.5 billion in additional revenue per annum, to Congress. This revenue would be collected principally from the middle class, which has already been heavily hit by recent low economic growth, compounded by the pandemic. According to the government, the purpose of the tax reform is to finance social programmes for the poorest in Colombia. But a closer look at the reform reveals that 58 per cent of the new resources will be dedicated to paying off Colombia's national debt.

In response to the proposed tax reform, a national strike was called on 28 April by trade unions and social organisations. The strike has been ongoing for over sixty days, with large protests across the country's major cities. It has led to the withdrawal of the tax reform bill, the resignation of various ministers, and allegations of human rights abuses by the state.

### The origins of the discontent

The debt crisis in Latin America in the 1980s led to a wave of interventions from the IMF, which granted loans in exchange for fiscal austerity measures (see *Observer* Summer 2019). The relative macroeconomic stability and control of inflation has had a high social cost, including increased inequality (see *Observer* Summer 2021), leading to massive social protests across Colombia since 2019. Whilst the loans flowed and the fiscal adjustments advanced, the Colombian state did not take the political decision to correct the systematic deficits of the current account – deficits caused by unbalanced globalisation supported by IMF policies.

Colombia exports raw materials and natural resources and imports processed goods. Unsurprisingly, the country does not earn sufficient dollars on these exports to pay for its imports and, on top of that, with the ambition of attracting foreign investment, Colombia has eroded its tax base. As such, what has taken priority is the growing informality of business and labour, which impedes the population from obtaining sufficient income for a better quality of life.

### A failed model for recovery

The pandemic worsened the situation and Duque's government was unable to inject into the economy resources to allow for a better health response and income support during the national lockdown. On the contrary, the state returned to the classic and failed approach of loans in exchange for austerity: The Minister of Finance José Manuel Restrepo has revealed that he expects a reduction in state spending of 7 per cent of GDP from 2021 to 2026.

How could one expect an economic recovery without the force of sufficient public spending to kick-start the machinery of the economy? The response is simple: There will not be reactivation because there has not been a single reform of the productive apparatus or of business policy. The highest aspiration can only be a return to the unacceptable status quo of 2019.

If there is no change in the productive structure, with an economy able to produce goods and services with medium- and high-technological transformation, as opposed to the extraction of natural resources, it will be impossible to correct Colombia's fundamental economic problems.

The market, despite its supposed ability to efficiently channel investment, was unable to direct the necessary resources towards the health, education, scientific research, infrastructure, and access to credit needs of the economy, which in reality required a large level of state intervention. The solution for Colombia is to access resources with low interest rates or finance without debt, such as the IMF's Special Drawing Rights (SDRs) (see *Observer* Spring 2021). This would allow it to invest in vital sectors such as agriculture and manufacturing that are able to generate profits and employment that reduce the country's commercial deficit.

The country can also consider the restructuring of its debt or utilising its foreign reserves to support government expenditure. In this way, it would not be necessary in the future to take up the non-concessional IMF loans or their policy recommendations. It would also be possible to strengthen Colombia's revenue structure by stopping capital flight to global financial centres. Only a fiscal, business, and productivity reform of this magnitude will lead to the return of social stability in the country and enable it to pursue a just recovery from the pandemic.

**bit.ly/Colombiaanalysis**

Photo: Remux

Colombians protestors march against tax reform.

FINANCE commentary

# World Bank must place economic transformation at heart of IDA20 replenishment

Guest comment by Kwasi Adu-Amankwah, General Secretary, ITUC-Africa

**IDA20 must change policy framework to support economic transformation**

**Social Protection Fund is required to meet current and future needs of IDA countries**

**Labour movements demand substantive consultations on all IDA20 and future IDA processes**

The African Regional Organisation of the International Trade Union Confederation (ITUC-Africa) welcomes the early replenishment of the World Bank's International Development Association (IDA), the World Bank's low-income country arm. The Covid-19 pandemic has sapped the resources of countries around the world, with the poorest countries worst affected. They face economic devastation and staggering debt which threatens to reverse what little progress they have made over the last decade. These countries urgently need help in the form of concessional loans and grants. For most poor countries, current levels of public debt do not allow them to go to the commercial capital market for loans. We therefore consider the early replenishment of IDA20 concessional and grant-making resources essential to support recovery from the pandemic and to begin to address pre-existing developmental challenges faced by low-income countries.

ITUC-Africa agrees that the proposed IDA20 special themes of climate change, fragility, conflict and violence, gender, jobs and economic transformation, and human capital, are issues of special significance in Africa where the majority of IDA-eligible countries are located.

### Economic transformation requires a new policy framework

Whilst we agree on the broad policy themes underlying IDA20, several concerns remain. Principal among these is the policy context in which IDA funding occurs. In our view the policy mix proposed by the World Bank to date does nothing to tackle underdevelopment, and in fact institutionalises it. It is not enough for 'jobs and economic transformation' to appear on the list of policy themes for IDA20. Real and urgent action is needed, as described in the ITUC's detailed proposal for the World Bank on job creation, social protection, debt relief, and labour standards.

As the United Nations Conference on Trade and Development noted in its March 2021 report, before the pandemic, the policy matrix of austerity (fiscal consolidation), inflation targeting, trade and investment liberalisation, innovative finance (financialisation) and labour market flexibility have only produced stark inequalities, arrested development, economic and financial fragility, and unsustainable exploitation of natural resources. More than ever, countries in the Global South need a break from these counterproductive policies. Tackling the climate emergency, an important theme for IDA20, requires a movement away from dependence on natural resources. Trade and investment liberalisation foisted on poor countries has limited precedent in the history of countries that have successfully undergone economic transformation. It is the reason African countries deindustrialised in the 1980s and 1990s and have remained in the throes of balance of payment challenges ever since.

Economic transformation fueled primarily by the extraction and export of commodities that leads to deindustrialisation is a perverse transformation. It creates harmful agricultural policies which impoverish farmers and force them to flee from the countryside. That transformation has only created low productivity, indecent jobs and increased informality. Developing countries need real transformation. IDA20 must support policies that enable countries to improve agricultural capacity while building productive capacity in light manufacturing. This is the only sustainable way to create more and better jobs.

### Social protection: Essential for workers and the economy

In the context of the Covid-19 and jobs crises, IDA20 offers an opportunity for the Bank to work with stakeholders to reverse past policies that dismantled worker protection schemes. Deliberate efforts are needed to promote worker's rights, which are essential not only for workers, but also for the economy.

IDA-eligible countries need assistance to build or rebuild social protection systems that can offer tangible protection to workers and families in times of need. Covid-19 has shown the importance of installing such systems ahead of time. The World Bank is uniquely placed to help establish a Global Social Protection Fund that supports and protects all of humanity during crises. The situation where rich countries bailed out and vaccinated their citizens and poor countries looked on helplessly while their citizens suffered is a blot on the conscience of humanity and detracts significantly from notions of human progress. Only through the establishment of such a fund will low-income countries be able to avoid damaging lockdowns and prolonged crises driven by the unequal access to vaccines and related medical equipment (see *Observer* Spring 2021).

### IDA processes must ensure adequate civil society consultations

Only by benefiting from the experience and expertise of civil society can IDA truly meet its stated development objectives. We therefore demand qualitative consultations on the IDA20 replenishment and all future IDA processes. After many years of organising workers in either public bureaucracies or the private sector and in engaging in the development policy processes, ITUC-Africa, and the union movement in Africa more broadly, retain potent knowledge needed to strengthen development processes. The current lack of consultation with civil society and union movements makes it highly unlikely that the changes required to meet IDA's overall objectives will be made in the IDA20 replenishment process. The system in which limited civil society 'consultations' take place only after IDA's policy packages have been largely agreed must be immediately changed. The IDA20 replenishment process must be a starting point for IDA to become truly responsive to the needs of the communities and countries it is mandated to support.

***bit.ly/IDA20comment***

GENDER analysis

# Latest IMF gender research: Making the economy work for women, or women work for the economy?

**New IMF research moves away from macroeconomic drivers of gender inequality**

**Understanding human costs of fiscal consolidation more urgent than ever in pandemic recovery**

In March, the IMF published a summary of some of its most recent gender impact assessment work, which was part of a wider IMF bilateral UK-financed research project. The summary paper signalled a potential shift in the IMF's attention away from the macroeconomic drivers of gender inequality and towards further instrumentalising women for economic growth. As the IMF's new senior gender advisor, Ratna Sahay, who was appointed to the newly created position in April, takes up her post, women's rights organisations will be watching to see whether the IMF will confront head-on the ways in which its core policy advice continues to undermine women's rights.

The paper described a number of IMF country studies conducted between 2018 and 2020 as part of its surveillance work that aimed to measure the economic gains of closing certain gender gaps. In Sierra Leone, for instance, the IMF found that closing gender gaps in education could "boost GDP by an impressive…40 percent." In Senegal, the IMF ran a simulation in which the enforcement of anti-discrimination policies increased GDP by 5 per cent. Similar exercises were conducted in Iran, Lao PDR and Nigeria. This research focus has also been replicated at the World Bank, which produced a 2019 study of Niger outlining the "economic costs" of gender inequality, including consideration of women's fertility rates, which, if reduced, the Bank found, would have "budget savings". In concluding from this research that these gender gaps should – somehow – be closed, the IMF and World Bank ignore the structural macroeconomic barriers to achieving gender equality, which include their own continued adherence to fiscally restrictive policy advice and loan conditions in the Global South.

### New research direction negates opportunity for transformative change

While the IMF's gender work has, since its inception in 2013, consistently focused on making the economic case for gender equality, these latest studies come after the IMF opened the door to examining the harmful gendered impacts of its own macroeconomic policy advice in 2018, when it published guidance for staff on operationalising gender issues at country-level. That guidance recognised what has long been established by the women's rights movement, that "some macroeconomic policies recommended by IMF staff," such as budget cuts on subsidies, social programmes and the public sector wage bill, "could exacerbate gender inequality." The note went on to direct staff to consider an alternative policy mix in these instances, laying out a potential path for IMF staff to move away from some of the most harmful policy advice to women's rights.

To help staff determine which policies might exacerbate gender inequality, the IMF developed a modelling framework to analyse impacts of macroeconomic reforms on gender inequality. The first iteration of this modelling work was conducted in Argentina in 2017, where the IMF examined the impacts of a tax cut on female labour force participation and the gender pay gap. While the IMF's approach remained unsystematic and narrow, the understanding that conventional IMF macroeconomic policy advice can impact men and women differently, and that this difference should be measured and taken into account by macroeconomic policymakers, was a welcome development (see BWP, *The IMF and Gender Equality: Operationalising Change*). This work was cited in the 2018 IMF gender note as an example of how to consider differential gendered impacts of a conventional macroeconomic policy reform.

The subsequent regression of the Fund's gender impact assessment work away from examining the implications of the IMF's conventional macroeconomic policy advice towards closing gender gaps is therefore concerning. It negates the ability of this impact assessment work to reveal how proposed IMF policy reforms could exacerbate gender inequality and thereby fails to offer an evidence-based avenue for IMF staff to move away from some of its most harmful policy advice. Even when the IMF did consider the gendered implications of fiscal policy in a 2020 staff discussion note, it chose to focus on fiscal interventions that are regarded as "promoting" gender equality, failing to acknowledge a central feminist critique that the bulk of the IMF's conventional policy advice undermines gender equality and women's rights, particularly in the Global South (see BWP, *Positioning women's rights and gender equality in the macroeconomic policy environment*).

This approach is tone deaf to the long-standing work of many women's rights organisations and feminist economists. In a 2019 letter to IMF Managing Director Kristalina Georgieva, 67 civil society organisations outlined that the impact of the IMF on gender equality lies first and foremost in its historic and continued adherence to "fiscal consolidation, regressive taxation and labour flexibilisation, [which] have exacerbated the feminisation of poverty [and pushed] women into informal, low-waged work, increased their unpaid care burdens, and negatively impacted on their access to education, health and social protection…particularly in the Global South." These groups have consistently called for gender impact assessments of macroeconomic reforms to be systematically conducted across the IMF's work, in alignment with the UN Guiding Principles on human rights impact assessments of economic reform programmes adopted by the UN Human Rights Council in 2019 (see *Observer* Spring 2019).

### Human costs of fiscal consolidation higher than ever

Focusing on the human costs of fiscal consolidation is particularly urgent in the context of the extremely constrained fiscal environment of the Covid-19 recovery in the Global South. The IMF's member countries require robust analysis and all the policy options on the table to carefully weigh what the IMF has described as "difficult trade-offs". In this context, the IMF must prioritise understanding the implications of its continued restrictive fiscal policy advice, which is projected to be implemented in 154 countries this year, affecting 6.6 billion people by next year, according to the latest global austerity report by Ortiz and Cummins (see *Observer* Autumn 2020).

While the IMF could, in theory, commit to examining both the gendered impacts of macroeconomic policy reforms and the economic impacts of enhancing gender equality, in practice, its resources to carry out dedicated gender impact assessment work are extremely limited. While the IMF put forward a medium-term budget in May that proposes the first increase in the IMF's operational budget in a decade, it fails to make provisions for scaled up, systematic gender impact assessments across its operations, as was also reflected in the lack of emphasis on assessing gender impacts in May's Comprehensive Surveillance Review (CSR, see *Observer* Summer 2021). In this context, it is imperative that the IMF directs its limited gender resources to where they are needed most, and, as the Fund prepares the staff guidance note on implementing the CSR, prioritises providing unambiguous, detailed guidance to its staff on exactly how to identify and address adverse gendered impacts of IMF-backed macroeconomic policy reforms in practice.

***bit.ly/IMFgenderresearch***

Photo: IMF


Women for Growth, the slogan of the IMF's gender work, encapsulating its instrumental approach to women's work.

RIGHTS news

# IFC faces critical questions over investments in gig economy

**IFC increases investments in gig economy platform companies**

**Labour unions raise workers' rights concerns**

The International Finance Corporation (IFC), the World Bank's private sector arm, has invested in several transport platform companies in recent years that have been criticised by labour rights advocates for their workers' rights records.

Most recently, in March, IFC invested €20 million in Bolt, an Estonian transport platform, for it to expand services in emerging markets, including South Africa, Nigeria, and Ukraine. The service, which has been compared with Uber, enables users to hire taxis via an app.

Bolt faced legal action in the UK in March 2020 over claims that it failed to pay the minimum wage to its drivers. Earlier this year, the Independent Workers' Union of Great Britain held protests over drivers' safety following the murder of Bolt driver Gabriel Bringye. Research published by Oxford University in March found that Bolt, alongside Amazon, maintained the worst working conditions for gig economy workers in the UK.

In April, Bolt drivers in Lagos, Nigeria, under an umbrella body of drivers, the Professional E-hailing Drivers and Private Owners Association, went on strike to protest poor working conditions and pay. They called on Bolt, alongside other transport platforms, to raise fares in line with inflation, and provide an adequate welfare package and compensation for the families of drivers killed and kidnapped on the job. Last month, Bolt was forced to increase its fares in Kenya after drivers in Nairobi threatened to strike over high fuel prices.

General Secretary Stephen Cotton from the UK-based International Transport Workers' Federation said, "We have serious concerns with the rise of investments in 'gig economy' companies. Global development institutions like the IFC must carefully vet their investments to ensure vulnerable workers are not being exploited and trapped in poverty."

**Driving a race to the bottom**

Though IFC has recognised gig economy workers as being particularly vulnerable during the Covid-19 pandemic, its investment in Bolt follows a growing trend of the IFC financing platform companies in the transport and logistics sectors. Last June, delivery workers in Brazil organised a strike over low pay and poor working conditions against Loggi, a motorcycle courier platform, which received a $5 million IFC investment in 2016. Over the last three years, IFC has also invested in FCS Moove, Uber's fleet manager in Sub-Saharan Africa, in India-based food logistics platform Shadowfax, and in Kobo360, a truck delivery platform based in Lagos.

IFC has touted ride-hailing platforms as an opportunity for women's economic empowerment, citing the additional barriers that women face in accessing the formal economy. Prominent feminist economists have argued that the reverse is true: that the gig economy promotes deregulation of the labour market, which places women in more precarious positions and increases poverty. In a 2016 paper, researchers Radhika Balakrishnan, Lisa McGowan and Cassandra Waters wrote that the gig economy, "automatically assigns women a higher burden of unpaid care work, and assumes that the preferential way to address this issue is flexible schedules, not better pay, better access to child care and other support services, or rethinking social stereotypes."

Sally Roever from UK-based civil society organisation Women in Informal Employment: Globalizing and Organizing said, "We are concerned that the focus on the gig economy risks skewing the analysis of the informal economy. The rise of working through platforms in some sectors and some countries should not obscure the fact that the majority of the world's jobs are neither formal, nor part of the gig economy. Effective policies for poverty reduction must address the reality of two billion of the world's workers whose livelihoods are marginal and unprotected because they work in the low-tech informal economy."

The World Bank has a long history of promoting labour flexibilisation, not least through its controversial *Doing Business Report* and the 2019 *World Development Report* (see *Observer* Winter 2019, Winter 2018). In a 2019 *White Paper on Social Protection*, the Bank maintained that governments should increase labour flexibilisation by limiting minimum wage increases and making it easier for employers to hire and fire workers.

***bit.ly/IFCgigeconomy***

Photo: Luiginter

Gig economy workers in Milan.

ENVIRONMENT news

# World Bank's oil revenue outlook for Guyana at odds with climate action

**Bank's Systematic Country Diagnostic predicts huge revenue from offshore oil development for Guyana**

**Concerns Bank's oil-based growth estimates are overly optimistic and at odds with climate goals**

Guyanese civil society has reacted with incredulity to the World Bank's first Systematic Country Diagnostic (SCD) for Guyana, which has suggested that – despite the urgent need to transition to a low-carbon global economy – the country will experience a substantial windfall from its new offshore oil development. According to the document, the development could see Guyana's per capita GDP rise to $16,900 by 2030, more than 2.5 times its current size.

This comes after research published in September showed that the World Bank and IMF have routinely over-estimated future revenues from new oil and gas discoveries over the past two decades, resulting in a 'presource curse' in many countries characterised by a severe mismatch between policies and actual revenues.

The Bank's projection – which will frame its engagement with Guyana over the next five years – flies in the face of global climate goals, which the Bank is ostensibly supporting all countries to achieve through its newly released Climate Change Action Plan for 2021-25 (see *Observer* Summer 2021). The Bank previously backed Guyana's offshore oil development through a combination of development policy finance (see Background, *What is World Bank Development Policy Finance*) and technical assistance – with both national and international civil society being highly critical of this support (see *Observer* Autumn 2020).

The Bank's support ignores increased calls to abandon new oil and gas extraction projects. In its *Net Zero Report* released in May, even the historically conservative International Energy Agency noted that limiting average global temperature increase to 1.5°C compared to the pre-industrial period would necessitate "no new oil and gas being approved for development."

The Bank's projection is also at odds with analysis of Guyana's oil prospects produced by the US-based Institute for Energy Economics and Financial Analysis (IEEFA) published in October 2020. In contrast to the Bank, IEEFA found, "that oil revenues won't cover Guyana's annual budget deficit over the next three years and meet its pledge to build a Sovereign Wealth Fund. This will lead to a shortfall of $482 million in the first three years." Even with a predicted improvement in the following two years, IEEFA notes, "the aggregate five-year annual cash deficit still is likely to be $160 million," with the following period looking highly uncertain: "the outlook for the oil and gas industry is largely negative. New, long-term global market and political forces have created a permanent oversupply of oil and gas, low prices and new competitors that will keep markets unstable."

### Ignoring climate risks in favour of business as usual

The World Bank's strong support for oil-based growth in Guyana is also counterproductive in light of the country's severe vulnerability to the physical risks posed by climate change, even as the development pathway it endorses means these impacts will be more severe. Ironically, the SCD fully acknowledges these risks, noting, "fiscal risks emanating from climate and natural disasters could derail…growth and development efforts; necessitating targeted public investment to build resilience. Coastal flooding is an especially serious risk, as much of Guyana's population and economic activity—especially agriculture—is concentrated in low-lying areas along the Atlantic coast."

Melinda Janki, a Guyanese lawyer, noted, "Joseph Stiglitz and Lord Stern, two former World Bank economists, say renewable energy offers better economic returns. The International Energy Agency says no new fossil fuel projects. Yet country director Tahseen Sayed and the World Bank team are pushing Guyana to transition to oil and to go from a carbon sink to a 3.87gigaton carbon bomb disaster. The Executive Directors must stop this lunacy before the country team destroy Guyana and the entire planet."

Indeed, in response to the threats posed by climate change, Guyanese citizens sued their government in a ground-breaking case filed in May, claiming its pursuit of offshore oil development is unconstitutional, "on the grounds that it exacerbates global warming and threatens human rights." The case, the first of its kind in the Caribbean, was filed in Guyana's Constitutional Court and is ongoing.

**bit.ly/Guyanaoilrevenue**

Photo: David Stanley

A seawall in Georgetown, Guyana. The low-lying country is highly vulnerable to flooding from sea-level rise caused by climate change.

ENVIRONMENT analysis

# World Bank's new Climate Change Action Plan fails to deliver much-needed transformative agenda

**Plan lacks detail in key areas, including concrete commitments to end fossil fuels support**

**Efforts to crowd in private investors potentially at cross-purposes with just energy transition**

The World Bank Group (WBG) published its updated Climate Change Action Plan (CCAP) for 2021-25 on 22 June, with the plan serving as its corporate strategy on climate change. Despite the CCAP noting that, "Our collective responses to climate change, poverty, and inequality are defining choices of our age," civil society organisations (CSOs) expressed disappointment at the plan's lack of detail in key areas.

On paper, the CCAP seeks to help countries and private sector clients transform key sectors in alignment with global climate goals, including through Country Climate and Development Reports (CCDRs), which "will be used to inform, prioritize, and sequence climate action through the country engagement process and thus implement the Action Plan." The Bank aims to conduct 25 CCDRs in the coming year, but it is unclear how they will influence its investment decisions.

Furthermore, the plan notes that, "All investment in new gas infrastructure will be assessed for consistency" with countries' national climate plans, but provides no explanation of this screening process. This lack of disclosure is concerning, as a June report from the International Institute for Sustainable Development (IISD) found the Bank provided 12 per cent of all G20 and multilateral development bank-related public finance for gas projects in developing countries between 2017-19. In March, over 150 CSOs and academics called on the Bank to phase out its support for fossil fuels and increase support for a just energy transition.

"The Climate Change Action Plan allows the WBG to continue to expose the countries and communities it's mandated to support to the risks and harms of fossil fuel development, including increasingly expensive and volatile energy prices, lock-in of obsolete infrastructure, stranded assets, illness, displacement, and a delayed and unjust transition," said Luísa Galvão, of Friends of the Earth US.

The CCAP includes a target of 35 per cent of the Bank's investments between 2021-25 being "climate-related" on average – a commitment blunted by a lack of transparency about how the Bank accounts for climate finance in its projects (see *Observer* Spring 2021). It affirms that the Bank will align most of its finance with the Paris Agreement by 1 July 2023 – with further details forthcoming at COP26 in Glasgow in November – putting a deadline on a process initially announced in 2018 at COP24 in Katowice, Poland (see *Observer* Spring 2019). However, the International Finance Corporation (IFC), the Bank's private sector investment arm, and the Multilateral Investment Guarantee Agency (MIGA), the Bank's political risk insurance arm, are working on a delayed timeline, with 100 per cent of their "real sector operations" to be aligned by 1 July 2025. The CCAP offers no deadline for the Paris alignment of IFC and MIGA's financial intermediary (FI) portfolios, despite the IFC's FI clients frequently being linked to new coal investments (see *Observer* Winter 2020).

### CCAP deepens Bank's devotion to 'Wall Street Climate Consensus'

The CCAP emphasises engaging the private sector in the Bank's climate work, in line with its wider Maximizing Finance for Development (MfD) agenda, which privileges the private sector and exposes states to long-term fiscal liabilities (see *Observer* Summer 2017). It notes that, "public sector interventions can be focused on helping countries implement policy and regulatory reforms needed to create the right incentives to crowd-in private sector participants—including through upstream reforms—and to catalyze private sector investment, using our menu of advisory and financial instruments."

There is a tension between these efforts and achieving a people-focused climate agenda that is based on a consultative approach to transforming key systems, in line with a just transition to a low-carbon future. As noted by economist Daniela Gabor in a June op-ed in UK-based newspaper the *Guardian*, private sector-led climate efforts, "often place the burden of decarbonisation on the poor," adding that under MfD, "Government spending is...directed to 'derisking' private infrastructure, to cover the gap between the fees paid by users of essential public services and the commercial rates of return expected by private investors."

***bit.ly/CCAPlaunch***

Photo: World Bank


World Bank President David Malpass, far left, speaks at an event on the economic recovery at the World Bank and IMF Spring Meetings in April, where he highlighted that the World Bank's new Climate Change Action Plan was in development.

ACCOUNTABILITY news

# IMF faces wave of calls to suspend loan disbursements in Africa

During the World Bank and IMF Spring Meetings in April, the IMF was confronted with a social media storm in Kenya criticising the institution for approving a $2.34 billion loan to the East African country amidst allegations of widespread corruption and concerns about its high debt levels. Official virtual events of the meetings were disrupted and a petition to suspend disbursement of the loan until a new, more accountable Kenyan administration is in office was signed by over 230,000 "weary Kenyan taxpayers". The petition lamented that "Kenyans have nothing to show for previous IMF loans while prices of basic commodities such as fuel are skyrocketing." Wangari Kinoti, a Kenyan feminist activist and international policy advisor with ActionAid tweeted at the time, "All the Kenyan anti-IMF activity over the last few days is encouraging, but I wish that it included a wider critique of what comes with IMF loans." In the three-year financing package in question, IMF staff call for further reductions in the public wage bill and the removal of consumption tax exemptions, including on fuel.

In June, similar citizen initiatives were launched in Nigeria and Uganda calling for suspensions of IMF loan disbursements. In Cameroon, 20 women leaders sent a letter to the IMF asking for a pending loan to be halted until two IMF loans totaling $382 million disbursed to Cameroon have been fully accounted for. The new loan comes at a time when Cameroon has already requested emergency debt relief which is likely to be conditioned on its commitment "to return to the fiscal consolidation path" in the recovery. In June, IMF Communications Director Gerry Rice noted that the Fund had agreed anti-corruption measures with Cameroon. Sarah Saadoun, based in New York with Human Rights Watch, who investigated the implementation of these measures and found that the IMF's efforts were insufficient, commented that, "The Covid-19 corruption scandal rocking Cameroon shows the high cost of the IMF treating anti-corruption and transparency as tick-the-box exercises rather than a means toward ensuring public oversight over public spending."

**bit.ly/IMFaccountability**

Photo: Phil Pasquini


Illustration of the Kenyan social media storm targeting the IMF during its Spring Meetings in April.

ENVIRONMENT news

# Dutch government sued at World Bank tribunal for fossil fuel phase out plan

In February, online news site *Clean Energy Wire* reported that German energy company RWE has sued the Dutch government "for compensation payments in relation to the country's coal phase-out plans" at the World Bank's International Centre for Settlement of Investment Disputes (ICSID, see *Inside the Institutions*, ICSID). The article notes that, "in contrast to Germany's planned coal exit, the Dutch phase-out law for the fossil power source does not stipulate an 'adequate compensation' for plant operators." According to a March report by the Netherlands-based Centre for Research on Multinational Corporations (SOMO), RWE "seeks €1.4 billion in compensation for damages resulting from a new law, adopted in December 2019, that prohibits the use of coal for the production of energy as of 2030."

In a separate report, which focused on Anglo-Dutch oil and gas company Royal Dutch Shell's use of investor-to-state dispute settlement (ISDS) mechanisms to thwart state efforts to work toward a green and just energy transition, SOMO stressed that "almost a fifth of the more than 1,000 registered ISDS cases relate to fossil fuel investments", including oil and gas extraction and transportation, gas supply and combustion, oil refining, and coal extraction. These reports add further evidence of the power of the regulatory chill produced by the threat of action in international arbitration tribunals such as ICSID, which threatens climate action and undermines state responses to the Covid-19 pandemic (see *Observer* Summer 2020; Winter 2020).

**bit.ly/ICSIDNLcoal**

FINANCE news

# Former UN Independent Expert calls for end to IMF surcharges

**Open letter calls for IMF to end use of surcharges**

**Letter claims that surcharges may violate international human rights law**

In May, former UN Independent Expert (IE) on foreign debt and human rights, Juan Pablo Bohoslavsky, wrote an open letter calling for an end to the use of surcharges by the IMF, as these extra charges constrain the ability of countries in the Global South to respond to the Covid-19 pandemic and meet their international human rights obligations during a worsening debt crisis (see *Dispatch* Spring 2021). Since the 1997 Asian financial crisis, the IMF has sought to "generate income to allow the Fund to accumulate precautionary balances" and to disincentivise countries from an over-reliance on IMF financing. It does this by penalising them for borrowing beyond their allotted IMF quota (see *Observer* Winter 2019) and for maintaining loans for prolonged periods by charging a premium on borrowing costs. These quota and time-based surcharges have become an important source of income for the IMF. As Professor Kevin Gallagher noted in a March article in UK newspaper, the *Financial Times*, "the IMF estimates the surcharges have become the Fund's largest source of revenue, accounting for almost half of revenues" and contributing over $1 billion in income for fiscal year 2020. He warned that, "these surcharges can often lead to debt costs as much as tripling", a grave concern as countries struggle to respond to the Covid-19 pandemic amid high debt levels (see *Dispatch* Spring 2021).

Echoing Professor Gallagher's concerns, the open letter, co-signed by the current UN IE on debt and human rights and the International Trade Union Confederation, stressed that, "the same countries most in need of financial assistance will have to pay more than USD$4 billion in additional surcharges on top of interest payments and other fees from the beginning of the crisis to the end of 2022." The letter noted that the surcharges are procyclical, discriminate among countries based on their economic strength and may therefore contradict international law.

The letter argued that surcharges may also contravene another core principle of international human rights law, because they prevent States from generating, adequately allocating, and making use of their maximum available resources to move as quickly as possible towards the achievement of the full realisation of human rights. It consequently calls on, "countries in the Global North to ensure, through their own contributions, that the IMF is adequately and equitably funded to undertake its mandated function."

The April communiqué of the Group of 24 major developing countries also called on the IMF to "correct the regressive and pro-cyclical character" of the policy (see *Dispatch* Spring 2021). In May, *Bloomberg* quoted Argentina's President Alberto Fernandez as stating, "I expect its [surcharges] suspension during the pandemic. I hope the Fund's board discuss this in its October meeting, and once and for all, eliminates them." IMF Managing Director, Kristalina Georgieva responded in May that she, "took note of President Fernández's request and…will consult with the membership on this issue." Further commenting in May, IMF Director of Communications, Gerry Rice, underlined that "any review is the prerogative of the executive board", adding that "surcharges are an important part of what we call our risk management framework."

**bit.ly/IEsurcharges**

Photo: Phil Pasquini


Protest at the 2021 IMF Spring Meetings in Washington DC calling for debt relief.

IFI GOVERNANCE news

# Civil society calls for IFC and MIGA to build upon CAO reform

On 1 July, the board of directors of the International Finance Corporation (IFC), the World Bank's private sector lending arm, and the Multilateral Investment Guarantee Agency (MIGA), the World Bank's political risk insurance arm, announced that they had finalised the development of a new policy for the Compliance Advisor Ombudsman (CAO), the independent accountability mechanism of IFC and MIGA.

Reacting to the new policy, Carla García Zendejas of US-based civil society organisation (CSO) Center for International Environmental Law stressed that, "while the changes in operations at the CAO are well received, a core objective of this reform process must be transforming the IFC's commitment to providing remedy into a reality for communities who have been harmed by IFC-financed development projects." Margaux Day, of US-based CSO Accountability Counsel concurred: "The CAO facilitates access to remedy, but the IFC and MIGA ultimately need to provide it." Despite the policy's overall strength, civil society organisations were concerned that it nonetheless dilutes portions of the CAO's mandate, including through a restriction on the CAO director general's decision to investigate; projects pending board approval no longer being eligible for CAO review; and eligible complaints will not be published until the conclusion of the assessment phase, with ineligible complaints not published at all.

The new policy was developed after an external review of IFC and MIGA's environmental and social accountability framework. The review, published in August 2020, included an assessment of the role and effectiveness of the CAO (see *Observer* Winter 2019). In May, 24 civil society organisations CSOs who have worked with communities seeking remedy for harm caused by IFC and MIGA, submitted comments to a draft CAO policy published in April. The submission raised concerns about the above-mentioned dilution of the CAO's mandate adopted in the final policy.

**bit.ly/NewCAOpolicy**

GENDER news

# World Bank gender-based violence mechanism raises "serious concerns"

In November, the World Bank updated its procurement policy to include a disqualification mechanism to ban contractors for two years if they are found to violate its rules on gender-based violence (GBV). The mechanism, which applies to large works contracts approved after 1 January 2021, aims to tackle GBV and sexual exploitation and abuse (SEA) taking place in World Bank-funded projects, after a Bank-financed Uganda road project was cancelled due to allegations of abuse by project construction workers against women and girls in 2017 (see *Observer* Spring 2017).

The mechanism was recommended by the Bank's GBV Taskforce, launched in October 2016 in response to the allegations raised in the road project (see *Observer* Autumn 2017).

However, there are concerns that the mechanism could deter communities from reporting GBV. Elana Berger with US-based Bank Information Center said, "There are serious concerns with this mechanism. Communities were critical to raising original issues of sexual exploitation around projects and they should be involved in all reforms."

She highlighted concerns with access to the board which oversees compliance with the policy, stating, "The fact that communities are not able to connect with the Independent Board or take part in investigations means that this mechanism is not accountable to those most affected by its decisions."

It is also feared that because the policy only applies to projects that are deemed high risk, the Bank could be disincentivised from categorising projects as such. Project contractors and borrowers are also closely involved in the selection of the board, raising further concerns about the board's independence.

**bit.ly/GBVprocurement**

SOCIAL SERVICES news

# Malpass makes World Bank a pariah with opposition to TRIPS waiver

On 8 June, World Bank President David Malpass said that the World Bank opposes the proposal made by India and South Africa at the World Trade Organisation (WTO) to temporarily waive intellectual property rights for Covid-19 vaccines in order to combat the pandemic. Responding to a question about the Bank's stance on the waiver during a call with reporters, Malpass stated, "We don't support that, for the reason that it would run the risk of reducing the innovation and the R&D [research and development] in that sector." However, research shows that most R&D costs for Covid-19 vaccines have been financed by public funds, not pharmaceutical companies.

His comments came after he issued a joint statement with IMF Managing Director Kristalina Georgieva to the G7 ahead of its June summit calling for action on Covid-19 vaccine access through a $50 billion plan proposed by the IMF, which also did not endorse the waiver.

In May, US President Joe Biden voiced US support for the waiver of some aspects of the Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement, which 100 developing countries have demanded, in order to increase access to Covid-19 vaccines, drugs, and other medical technologies.

The World Bank has come under fire for its lack of action on vaccine access, particularly through its reliance on the COVAX initiative, which has only delivered 81 million vaccine doses, falling far behind its target of making two billion doses of vaccine available worldwide in 2021 (see *Observer* Spring 2021; Background). In a June video, Malaysia's vaccine minister Khairy Jamaluddin said that COVAX has been an "abysmal failure", and that the "World Bank owes it to developing countries to be a strong voice for vaccine equity on the global stage."

**bit.ly/MalpassIP**

Photo: World Bank / Brandon Payne

World Bank President David Malpass speaks at the virtual Spring Meetings in 2021.

BRETTON WOODS project
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