

BRETTON WOODS observer

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

FINANCE

analysis

Opportunity lost? IMF approach to Special Drawing Rights channelling risks wasting golden chance



IMF approves a historic allocation of \$650 billion SDRs

High-income countries' SDRs need to be channeled to those in need

IMF's channelling proposals lack transformative potential and ambition

On 2 August, the IMF board of governors [approved](#) a general allocation of \$650 billion worth Special Drawing Rights (SDRs), to serve as “a shot in the arm for the global economy at a time of unprecedented crisis.” [SDRs](#) are a type of international reserve asset which can be freely traded for hard currency to pay for imports or any other type of government expense. Following the board of governors decision, on 23 August IMF member countries (with some [exceptions](#), such as Afghanistan) received their allocated SDRs and are now free to use them as they see fit to respond to the crisis.

While falling significantly short of the \$3 trillion [called for](#) by civil society organisations

(CSOs) such as Belgium-based Eurodad, the scale of the allocation is nevertheless significant. SDR allocations occur very rarely – the IMF has done so only four times in its history – and the current allocation accounts for 69 per cent of all the SDRs ever disbursed. The disbursement, which had previously been [blocked](#) by the US Trump Administration (see [Dispatch Springs 2020](#)), is one of the landmark moments in the history of the IMF and has the potential to serve as enormous support to low- and middle-income countries (L/MICs) in their pandemic responses.

But the new SDR allocation is not the end of the story. Beyond questions of how countries will be able to actually use their SDRs in different country contexts (see [Observer Autumn 2021](#)), a crucial issue now is how SDRs can be channelled from rich countries – for whom the new SDR allocation is not needed and indeed would almost certainly remain unused – to the countries in need of urgent economic support.

Because of IMF rules, SDRs are allocated to countries based on the relative size of their

economies, not their relative need to respond to the crisis, an arrangement that has been criticised by the G24. This means that high-income countries have [received](#) nearly \$400 billion worth of the SDRs, with MICs receiving \$230 billion and LICs just \$21 billion. For an allocation whose motivation, in the [words](#) of the IMF, is especially to “help our most vulnerable countries struggling to cope with the impact of the COVID-19 crisis,” having a large chunk of the SDRs sitting idle on the balance sheets of high-income economies is unhelpful.

SDR channelling proposals from the IMF: Business as usual

High-income economies and the IMF recognise that for the SDR allocation to have the largest possible positive effect, rich countries need to channel some of their SDRs to LICs and MICs. In June, the G7 [stated](#), “we encourage the IMF to work quickly with all relevant stakeholders to explore a menu of options for channelling SDRs to further support health needs, including vaccinations, and to help enable greener, more robust recoveries in the most affected countries.” The G7 countries noted

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that they hoped for a global channelling of \$100 billion worth of SDRs.

Over the past months, the IMF has been working on channelling proposals, and it is now relatively clear what approaches the IMF is recommending that rich countries undertake: (1) using SDRs to boost the resources of the IMF's Poverty Reduction and Growth Trust (PRGT) (see *Observer Autumn 2021*), (2) using SDRs to provide initial funding to a soon-to-be-created IMF fund, the Resilience and Sustainability Trust (RST), and (3) on-lending SDRs to multilateral development banks (MDBs), including the World Bank.

On the [PRGT](#) – the IMF's concessional lending facility for LICs – the IMF has [called for](#) \$17.9 billion worth of SDRs to boost its lending capacity. For the RST, the G7 has given the IMF the [green light](#) to work on the plan, with the intention of providing loans for countries to combat climate change or improve their healthcare systems. The early [suggestions](#) are that it would be operational from the end of 2022 at the earliest and would require economic conditionality for countries to access finance. In terms of on-lending to MDBs, high-income economies are increasingly interested in this option, but an issue remains around how countries can on-lend to MDBs whilst still maintaining the option to recall their SDRs in the event of balance of payment emergencies.

Assuming that the plans being mooted at present are close to what will transpire, we will see high-income economies channelling around 15-20 per cent of their allocations to boost the conventional lending capacity of the IMF, the World Bank, and other MDBs. As outlined below, for many, this is an unsatisfactory state of affairs.

Calls for ambition at definitive moment in economic recovery

There has been vocal and varied criticism of the approach that the IMF and high-income economies are proposing for SDR channelling. Former US Treasury official Mark Sobel and Martin Wolf, of the *Financial Times*, have both argued that the IMF should not be burdening countries with more debt at this time of crisis, as would almost certainly be the case under the PRGT/RST/MDB proposals. Sobel [wrote](#) of the RST that "LICs need grants, not more debt", while Wolf [argued](#) that "bringing the pandemic under control is a global public good, which must be delivered by grants from rich countries. It is a crime and a blunder that this has not been understood and done already."

In similarly strong terms, CSOs such as Oxfam have [argued](#) that channelled SDRs must provide debt-free financing and not include economic conditionality that could force countries to [impose austerity](#). A group of UK-based CSOs, including CAFOD and the Jubilee Debt Campaign, raised similar [demands](#) to the UK government, adding that the UK should consider offering alternative foreign reserves to the SDRs, freed up by the influx of SDRs to the Treasury, to provide grants or support initiatives such as [Covax](#). The details on how this could be done in the UK context have been [outlined](#) by CAFOD, and similar arrangements need to be explored for other high-income economies. The size of rich countries' SDR channelling is also a matter of concern. Channelling 15-20 per cent of their SDR allocations is far less than these countries can [afford](#) or what is required.

A final problem that has [emerged](#) is that several high-income economies intend to count their on-lending of SDRs to the IMF and MDBs towards their aid commitments, leading to likely cuts to aid spending elsewhere. As CSOs, including Oxfam and Christian Aid, have [noted](#), this would be a moral failure on the part of these governments, as the SDR allocation is a new addition to their balance sheets, and in no way incurs a cost to their taxpayers or negatively impacts their debt profiles.

Ultimately, given the precarious moment that the global economy presently faces, there is a need for high-income economies and the IMF to be ambitious. The current course set on SDR channelling is one of relatively limited benefit for LICs and MICs and, indeed, could even see their debt outlooks worsen or the likelihood of austerity being imposed increase, as well as potentially reducing the amount of aid financing. The alternative – that large-scale debt-free financing is provided to countries in need to allow them to respond to the pandemic – is achievable, if the political will is there.

bit.ly/SDRs2021

For additional online content for this issue of the *Observer*, see brettonwoodsproject.org/observer

Para la versión en español, visite: brettonwoodsproject.org/es/observador

Global civil society achieves significant victory as World Bank discontinues contentious *Doing Business* Report

On 16 September, the World Bank Group [announced](#) that it will discontinue its *Doing Business* Report (DRB, see *Observer Winter 2019*). The end of the report is a significant victory for civil society, popular movements and academics who have long criticised the report on many fronts, including its methodology (see *Observer Autumn 2020*; *Update Autumn 2013*). However, the celebration will be tempered for some by the Bank's assertion in its announcement of the report's discontinuation that it, "remains firmly committed to advancing the role of the private sector in development and providing support to governments to design the regulatory environment that supports this."

The Bank made the announcement hours after the executive board authorised the release of the damning [findings](#) of an independent report, *Investigation of Data Irregularities in Doing Business 2018 and 2020*, conducted by the law firm WilmerHale, at the request of the Bank's ethics committee in response to allegations that the DRB's data had been manipulated.

As [reported](#) by *The New York Times*, the investigation highlights a series of extremely serious issues with the DRB and the conduct of senior management, including the Bank's former President Jim Yong Kim and then World Bank CEO and current IMF Managing Director Kristalina Georgieva. The investigation maintains that the management interfered with the report's methodology to appease the Chinese government during the Bank's capital increase negotiations in 2018 (see *Observer Summer 2018*). The report contains similar accusations of data manipulation in 2020 to improve Saudi Arabia's standing in the Bank's *Ease of Doing Business* rankings by one of the DRB's co-founders, Simeon Djankov. The investigation is also highly critical of the "toxic work culture" at the institution, including fear of retaliation within the *Doing Business* team and a lack of "consistent policies" guiding the production of the DRB.

bit.ly/DoingBizWBG



IMF rhetoric and practice on public sector wage constraints: Advice to slash spending continues despite Covid-19 pandemic

Guest analysis by David Archer, ActionAid International

Forthcoming research from ActionAid International shows IMF's support for public sector wage bill cuts continues

Cuts often have devastating consequences for state spending on education and health

Over 15 years ago, ActionAid documented the impact of public sector wage bill caps imposed by the IMF as an explicit condition of loans in low-income countries, showing how they [blocked](#) progress on education and on [responses](#) to HIV/Aids. After three years of consistent research and advocacy, the IMF backed down and removed public sector wage bill caps conditionality in its loan programmes worldwide in 2007. The IMF executive board at the time [said](#) that it, “welcomed the declining incidence of such ceilings in Fund-supported programs,” and hoped to dispense with them entirely, in the meantime using them only “in exceptional cases.”

This dramatic policy shift, questioning one of the pillars of austerity, occurred at a time when the IMF faced diminishing influence and legitimacy – just before the financial crisis of 2007-2008, which [re-emboldened](#) the institution. Since then the IMF has rebuilt its power and it has cast aside its aspiration to dispense with the use of wage bill constraints, making routine use of them as a central part of its coercive policy advice. ActionAid's *Who Cares for the Future* [report](#), released in April 2020, showed that the IMF recommended that governments either cut or freeze public sector wage bills in 78 per cent of countries – over the previous three years. This rose to 90 per cent when we revisited the data in October 2020, as shown in the [report](#) *The Pandemic and the Public Sector*, which looked at the initial impact of Covid-19 on public spending. Despite a shift in rhetoric during the pandemic, country level practice remains largely unchanged and a rapid return to austerity, including wage bill constraints is now [predicted](#) for 85 per cent of the world's population (see [Observer Autumn 2020](#)).

New ActionAid research shows IMF's dogmatic approach to wage bill cuts continues

ActionAid's new investigation in 2021 looked at IMF country documents over a five-year period, combined with in-depth research across ten countries. To be published on 12 October in a report called *The Public versus Austerity*, we will show that the use of public sector wage constraints is both blunt and ineffective, often damaging the very sectors that governments claim they want to protect. Despite the Fund arguing that ‘exemptions’ are routine for education and health personnel, we found no evidence of this in two-thirds of the countries studied. Given that teachers and health-workers are usually the largest two groups on the wage bill, overall cuts cannot be delivered without impacting them – and at best ‘protection’ of these meant a freeze, whilst even deeper cuts were made in other sectors.

The IMF claims that public sector wage constraints are only ever short-term measures, but in the countries studied, we found every country faced a consistent cut or freeze for at least three years and most countries for five or six years. There was no consistent advice given to countries to ensure that measures would indeed be temporary – for example on how to increase fiscal space by raising tax revenues. And even where countries did raise tax revenues significantly, those countries were not advised to increase spending on the public sector wage bill.

ActionAid's latest research found that there is no guideline or consistency on what percentage of GDP a country should sensibly spend on the public sector wage bill, with this ranging from 13 per cent to 2 per cent in the countries studied. Every country was urged to cut or freeze regardless of whether they were above or significantly below regional and global averages. There is almost no reference made in these documents to the shortages of health and education workers that are evident in most countries and no clear attempt to assess the impact of any constraints. Much of the data that the IMF claims to have used in offering advice remain secret, making it hard to contest any conclusions.

One of the most striking findings of ActionAid's latest research is that multiple IMF documents suggested countries needed to cut social spending in order to increase social spending. That is, you need to cut recurrent spending in order to increase capital spending on buildings and equipment. Most people would see nurses or teachers as key items of social spending but not the IMF. In fact, a focus on infrastructure moves resources away from health and education (which have large recurrent budgets) towards other sectors which depend more on capital spending (roads, energy, water). This also diverts resources from the public sector (frontline workers) to the private sector.

The use of public sector wage bill constraints is not based on evidence, is profoundly blunt and often has unintended impacts, so why are the IMF and many Ministries of Finance still so keen? We conclude there is an unconscious bias against the public sector, one rooted in a fundamentalist ideological position and an attachment to what might be best called the ‘cult of austerity’. There are so many economic [alternatives](#) being explored by so many actors – including in the IMF headquarters [itself](#). But these are not trickling down to IMF staff involved in country level processes. Now is the time to stop the cult of austerity and actively pursue the plethora of alternatives – to reimagine the public sector workforce as a key engine of national development in light of Covid-19 and the climate crisis.

bit.ly/IMFSDR2021

Photo: CarlosE Video/Sutterstock



A man undergoes a Covid-19 test in Ecuador.

New IMF climate strategy seeks to radically expand its climate work – amid concerns about its approach

Strategy proposes adding up to 95 new staff to boost Fund's capacity to work on climate issues

Board's support for proposal remains unclear ahead of general budget discussions

Civil society research suggests Fund's common policy advice misaligned with support for low-carbon transition

The IMF quietly proposed a major increase in staff capacity to work on climate at the end of July as part of an institution-wide climate strategy, even as questions about its approach remain.

A new staff [paper](#) published on 30 July, *IMF Strategy to Help Members Address Climate Change Related Policy Challenges: Priorities, Modes of Delivery, and Budget Implications*, proposed adding up to 95 staff to boost the Fund's capacity to tackle climate issues, including in its surveillance work, capacity building and debt sustainability analyses.

However, the IMF executive board's assessment of the paper appeared to stop short of giving a full endorsement of the proposed increase in capacity, noting that it, "looked forward to assessing this, together with other funding requests, during the discussion of the Fund's overall budget," which is due to happen by the end of 2021.

The strategy comes as research from civil society organisations and academics has highlighted the negative climate impacts of recent IMF policy advice (see [Dispatch Springs 2021](#), [Annals 2020](#)).

This includes a [report](#) published by ActionAid USA and the Bretton Woods Project in late August. The research, based on a review of the IMF's bilateral surveillance in its member states since the Paris Agreement was signed in December 2015, found that the IMF has been undermining a just energy transition in many countries, including through support for fossil fuel infrastructure expansion in over half its members (105 countries). The report argues that the Fund's policy orthodoxy across much of the Global South, which often prioritises fiscal consolidation and increases in carbon-intensive exports, is misaligned with states' national climate plans.

Surveillance: A key priority of the IMF's climate strategy

Among the key components of the IMF's proposed climate strategy is a significant increase in climate coverage in its surveillance work (see *Inside the Institutions*, [IMF surveillance](#)). The Fund is seeking to cover different aspects of climate's 'macrocriticality' – or how climate is immediately relevant to countries' macro-financial stability – in 60 countries per year under the proposal (an increase from 8-12 per annum currently).

The strategy proposes looking at adaptation and resilience issues in Article IV reports – the IMF's annual economic "health checks" of its members – in 20 countries each year which are particularly vulnerable to the physical impacts of climate change (i.e. where storms, floods or other impacts risk causing significant economic damage). Similarly, the IMF is seeking to proactively engage the world's 20 largest greenhouse gas emitters on climate change mitigation issues in its Article IV reports, with a proposed 6-7 reports yearly focused on this issue.

Significantly, the strategy also includes a strong emphasis on 'transition management' to a low-carbon economy – an acknowledgement by the Fund that weaning its members off fossil fuels will involve traversing considerable macroeconomic challenges, particularly for countries heavily reliant on revenues from carbon-intensive sources. The strategy notes, "Transition management is a macro-critical policy challenge for almost every IMF member", with the macroeconomic implications of meeting national climate plans as one area highlighted by the Fund. As such, the Fund proposes to look at the issue in Article IV reports in all countries, once every 5-6 years, meaning 33-34 reports focusing on this topic annually.

Policy advice for an equitable future?

Despite being cautiously optimistic about the Fund's attempts to integrate climate change into its mandate, civil society and academics have highlighted that this is a significant departure from the Fund's current policy advice.

[Research](#) by Boston University's Global Policy Development Center released in March found that only three Article IV reports even mentioned transition risks related to climate change in 2020. The two Article IV reports that did note the risk of fossil assets being

'stranded' by the low-carbon transition also gave contradictory advice about the need to boost investment in carbon intensive sectors.

The ActionAid USA and Bretton Woods Project report documented that, in addition to support for fossil fuel infrastructure expansion, other common features of the Fund's policy advice in its surveillance are also contrary to achieving a just energy transition in emerging and developing economies, in particular.

The Fund's commonplace [advice](#) that countries pursue fiscal consolidation has implications for the energy transition: The report found that the Fund has supported the privatisation of state-owned enterprises in the energy sector in 69 countries. This can pose challenges for coordinating the rapid phaseout of fossil fuel-based energy required to meet global climate goals, including resulting in privatised fossil fuel assets being owned by foreign investors. Such investors have increasingly sued states in investor-state dispute settlement tribunals (such as the World Bank-hosted International Centre for Settlement of Investment Disputes), if they attempt to retire these assets early (see [Observer Summer 2021](#)).

The report also found that the IMF's efforts to reduce fossil fuel subsidies (present in 71 countries) primarily focused on 'demand-side' subsidies, rather than fossil fuel production subsidies. Without clean energy alternatives, which are often lacking in emerging and developing economies, this policy is unlikely to reduce emissions at scale, resulting in higher energy prices for those in the Global South, in what has been referred to as 'green structural adjustment' (see [Observer Autumn 2021](#)).

The report calls for the Fund to develop clear guidance for staff on managing transition risks that ensures that – at a minimum – the Fund's policy prescriptions 'do no harm'. It calls for Fund advice on energy subsidies to be "firmly embedded in countries' national just transition dialogues," and for the Fund to create an institutional view on sustainable industrial policy, "that empowers IMF operations to support effective and coordinated strategies for sectoral and economic transformation," as part of a re-think of its advice on privatisation.

bit.ly/IMFClimateStrategy

World Bank's new Accountability Mechanism: One step forward...?

Civil society welcomes new dispute resolution function within the World Bank's accountability system

Concerns raised about potential erosion of Inspection Panel independence and lack of remedy mechanism

In September 2020, World Bank executive directors [approved](#) significant changes to the institution's accountability system. This included the [establishment](#) of a new Accountability Mechanism (AM), which will house the existing Inspection Panel (IP), and a newly created Dispute Resolution Service (DRS; see *Observer* [Spring 2020](#)). While civil society has [welcomed](#) the creation of a dispute resolution mechanism, it has voiced concerns that the AM's structure may undermine the IP's independence, and lamented the lack of a mechanism for provision of remedy to affected communities.

The creation of the AM was accompanied by a [resolution](#) outlining its terms of reference. The resolution reaffirms, "the importance of the [Inspection] Panel's function, its independence and integrity." The DRS and IP will be "organizationally separate", with the AM responsible for oversight of the IP's administration. The IP will continue to determine the eligibility of all complaints. The mechanism became operational on 3 May with the [appointment](#) of Ms Orsolya Székely as its Secretary, who will report directly to the board of directors.

The AM was established after a two-year period of fraught internal deliberations (see *Observer* [Autumn 2019](#)). A group of 33 civil society organisations (CSOs) raised their concerns about the process's insufficient consultation and transparency and the erosion of the independence and authority of the IP in a December 2019 [letter](#) to the Bank's Committee on Development Effectiveness.

As Margaux Day and Gregory Berry of US-based CSO Accountability Counsel [noted](#) in a March 2020 blog, the establishment of the DRS means that "communities may now seek to remedy adverse project impacts through dispute resolution, which was never before an option for WBG public-sector projects." The blog outlined additional significant changes brought about by the IP review and the establishment of the AM: For newly approved projects, "impacted communities will be able to file complaints to the Inspection Panel

up to 15 months after the closing date of the loans financing the projects. Previously, complaints could only be filed if less than 95 percent of loans were disbursed, and under limited circumstances, the Inspection Panel now has the power to verify bank management's adherence to 'Management Action Plans' that are drafted to address project shortcomings."

Concerns about the Accountability Mechanism remain

Day and Berry outlined concerns that must be addressed through the AM's procedures, which are currently being developed, particularly regarding the lack of clarity about the "guardrail" that separates the IP and DRS. They stressed that the AM's structure with "new reporting lines and responsibilities risks undermining the independence and effectiveness of the World Bank's accountability system."

While the new dispute resolution function addressed a long-standing gap, in a November 2020 [blog](#) of the *European Journal of International Law*, various academics echoed Day and Berry's concerns. The blog underscored several potential shortcomings of the AM arising from the inherent power imbalances between

communities, the Bank and borrowers during the dispute resolution process. The authors identified a serious threat to the IP's ability to fulfil its [mandate](#) if it is restricted to merely accepting the outcome of the dispute resolution process and closing the case if the parties reach an agreement. The blog asked whether the parties could "lawfully waive – by agreement – violations of Bank policies and procedures regardless of the legal consequences of the material adverse effects of these violations on the Requesters and the communities they represent." It also emphasised the missed opportunity to create a mechanism for reparations for harms caused to communities by World Bank projects.

Given the impact of the procedures that will guide the AM's operation and the risks outlined above, Accountability Counsel's Day and Berry stressed that, "it is critical that communities and civil society advocates be consulted with and have the opportunity to provide input on their implementation." Secretary Székely's current focus on drafting the AM's procedures provides the next critical opportunity for dialogue and consultation.

[bit.ly/WBGAM](#)

Photo: Artem Avetisyan/Shutterstock



The World Bank's Inspection Panel building in Washington.

World Bank and IMF's gender analysis of VAT falls short

BWIs' analysis of gender impact of VAT at odds with civil society demands

CSOs call for a deeper and more focused gender analysis of regressive taxes

Civil society organisations (CSOs) have long [called](#) on the World Bank and the IMF to ensure that they consider the gendered impacts of their tax policy proposals, which have the potential to exacerbate gender inequality. One particular concern for CSOs is the disproportional impact that value-added tax (VAT) increases have on women (see Briefing [The IMF, gender equality and VAT](#)).

Both the IMF and the World Bank appear to be taking small steps towards considering the impact of VAT on women. For example, a joint World Bank/IMF/OECD [blog](#) in June noted the impacts of certain types of VAT increases on women. It highlighted that, "The broad-based nature of VATs may raise the price of services, including those that substitute for household services. This may create a disincentive for women to work." Additionally, within the IMF's [tax policy assessment framework](#) (TPAF), a new box has been included which asks, "Does the VAT impose a gender bias?"

While a positive advance in the Bank and Fund's efforts to lay out a gendered analysis of their policy prescriptions and conditions, these initiatives do not fully engage with the recommendations and evidence provided by women's rights groups and UN Women. In the above mentioned TPAF, the IMF notes that, "Whether VAT is biased for or against women...depends on various aspects, including the different consumption patterns of men and women as well as the choice of goods and services covered by the VAT. Assessing this can be complicated and, even conceptually, not straightforward." This however seems to ignore substantial evidence gathered by CSOs and academics demonstrating how VAT disproportionately affects women.

Additionally, the Bank and Fund's country-level prescriptions fail to take into account the above-mentioned concerns as both continue to promote the use of regressive taxes. A World Bank Development Policy Financing loan to Nigeria in 2019 aimed at supporting the government's fiscal consolidation efforts to reduce its deficit, which included prior actions such as the increase of VAT and income tax revenues, demonstrates the trend. It did not include an analysis of the impact of measures such as the introduction of an 8 per cent VAT

rate on petroleum products on women (see Briefing [Learning lessons from the Covid-19 pandemic](#)). "International financial institutions continue to ignore or deny the regressive effects of consumption taxes like the VAT on those with low incomes. For example, contemporary research now focuses on the claim that the VAT is actually progressive when the informal sector is included in distributional impact analysis," noted Kathleen Lahey, of Queens University in Canada.

IMF and World Bank conditionalities often force governments to increase regressive taxes, such as VAT, which CSOs and academics have shown impacts heavily on the poor and especially [women](#). CSOs have long raised concerns that both institutions rely too heavily on regressive taxes, without systematically measuring their distributional and gendered impacts (see [Dispatch Springs 2019, Annuals 2017](#)). This trend has also been reflected in IMF's lending programmes agreed in the context of Covid-19. Research by Belgium-based CSO Eurodad published in October 2020 [found](#) that of 59 country programmes analysed, 39 made commitments to the IMF to increase the share of indirect taxes, particularly VAT, in total government revenues (see Observer [Winter 2020](#)).

bit.ly/GenderVAT



An unidentified woman buying in a typical grocery shop in Madagascar.

Pressure mounts for an end to IDA's Private Sector Window as IDA20 negotiations continue

Civil society calls for an end to IDA's Private Sector Window

African Heads of State demand an IDA replenishment of at least \$100 billion

As the World Bank and broader international community pursue their responses to the inequality, debt and climate crises exacerbated by the Covid-19 pandemic (see *Dispatch Springs 2021*), the 20th replenishment of the International Development Association (IDA20) has attracted significant attention from civil society organisations, labour unions (see *Observer Summer 2021*) and Heads of State.

The resources of IDA, the World Bank's low-income country are, normally replenished every three years, with the [19th replenishment](#) approved in 2019 for the period of 1 July 2020 to 30 June 2023. However, as almost half of IDA19 resources were [committed](#) during its first year in response to the pandemic additional resources are required, "for countries to meet their urgent development needs". According to the [World Bank](#), the IDA20 replenishment process, which aims to support 74 countries between July 2022 and June 2025 "in their recovery from the COVID-19 crisis and transition to green, resilient, and inclusive development", will be completed in December 2021. The third IDA20 replenishment deputies' meeting is scheduled for October, following the World Bank's 2021 Annual Meetings.

The importance of the IDA20 replenishment process was evident in the 15 July *Abidjan Declaration* endorsed by 13 African heads of state and government. It called on "IDA donors to support an ambitious and significant IDA20 replenishment of at least USD 100 billion by the end of 2021," to help countries meet the sustainable development goals.

IDA's Private Sector Window – draining essential resources from the public sector during a crisis

One point of particular concern in the IDA20 negotiations is the fate of IDA's Private Sector Window (PSW). The PSW was established in the IDA18 replenishment (see *Observer Winter 2017*), with the allocation of \$2.5 billion of IDA resources to the World Bank's International Finance Corporation

(IFC), its private-sector investment arm, and the Multilateral Investment Guarantee Agency (MIGA), its political risk insurance arm. The PSW transformed IFC from a contributor to IDA to [a net recipient](#) of IDA resources. The PSW is intended to "catalyze private sector investment in IDA-only countries, with a focus on fragile and conflict-affected states" and forms a key part of the Bank's Maximizing Finance for Development strategy (see *Observer Spring 2020*, *Summer 2017*).

A September [article](#) by economist Jayati Ghosh and Eurodad's Farwa Sial in online magazine Project Syndicate criticised the PSW for draining scarce public finance away from IDA during the pandemic, stressing the lack of evidence of [development impact](#) and "[poor targeting of development-related projects](#)" in the context of responses to COVID-19." Reinforcing these concerns, in June Oxfam [recommended](#) that the PSW be closed in IDA20 and resources redirected "either to expanding [the] crisis response window (e.g. for vaccines) or back to IDA for...building long term public health, education or social protection systems."

Oxfam argued that the pandemic is an important reminder of [the limits of market-based solutions](#), stressing that, "there is little justification to divert aid resources to the private sector at this time of crisis and that the Bank and its donors should be maximizing public sector investments through IDA20."

In April, Charles Kenny from US-based Center for Global Development wrote a [blog](#) calling for a large IDA20 replenishment, but with the exclusion of the PSW, arguing that "the Window (and the IFC as a whole) is particularly poorly designed as a crisis response tool."

Despite concerns about the PSW and the calls made in the *Abidjan Declaration*, the *Co-Chairs' Summary* issued at the end of the second IDA20 Replenishment Meeting on 28-30 June made several references to the PSW and the key role of the private sector, and limited IDA20 financing scenarios to an upper limit of \$95 billion, of which \$24.9 billion would be comprised of new donor contributions.

bit.ly/IDAPSW

Photo: Happi Raphael



Cameroonian doctor working on Covid-19 response in April 2021.

Time for action: How can IMF help countries use their SDRs for crisis recovery?

Under addressed aspect of the SDR debate relates to how national governments might use their SDR allocations

Experts argue that the IMF needs to do much more to support governments to try to use their SDRs to help the poorest and most vulnerable

Much attention following the IMF's [historic allocation](#) of \$650 billion worth of Special Drawing Rights (SDRs), an IMF international reserve asset, in August has focused on how rich countries can best channel part of their new SDR allocations to low- and middle-income countries (LMICs) (see *Observer Autumn 2021*). But of more immediate importance in determining the ability of countries to respond to their health and economic crises is how LICs and MICs will use their own designated SDR allocations.

Throughout the pandemic, civil society organisations (CSOs) have pushed the IMF to allocate SDRs to support developing countries. In February 2021, more than 200 CSOs [called on](#) the G20 and IMF to approve an allocation that “would free up funds urgently needed for the pandemic response, including gender-responsive public health systems, universal social protection and comprehensive vaccine rollouts.” The idea, in short, was that a SDR allocation was needed to respond to the economic crisis exacerbated by the pandemic, whilst helping to avoid a new [wave of austerity](#) promoted by the IMF.

While [concerns](#) over equity in the distribution of SDRs amongst countries remain, the sums reaching LICs (\$21 billion) and MICs (\$230 billion) are nevertheless significant. The amount of SDRs that [Uganda received](#) exceeds its annual health budget, for example, and it is estimated that Senegal's allocation is 300 per cent of the country's previous foreign reserve levels.

These funds are at the disposal of governments right now and could be used to counter the austerity [foreseen](#) across developing countries (see *Observer Autumn 2021*). As Oxfam [argued](#) in August, “the decision on how to use SDRs can be critical: they could remain in central bank reserves and help maintain the austerity status quo; or they could be used to reduce inequalities and as a tool to set the path

for alternative policy choices, steering away from austerity.”

The role the IMF must play

The ‘save vs spend’ SDRs debate has rumbled on over recent months. As South American CSO coalition Latindadd noted in an August [publication](#), “conventional voices have argued that SDRs are only reserve assets and should only be used (exchanged) exceptionally for balance of payments purposes, exclusively by central banks”, whilst others argue that they should be used as fiscal resources.

The decision is politically complex, partially owing to often competing views of central banks and treasuries, exacerbated by the IMF-backed rise of central bank independence (see *Observer Summer 2021*). In Mexico, for example, the central bank has stated that it will only give the government access to SDRs at market prices and further rejected the government's claim that SDRs could be used to pay off debt.

To its credit, in its guidance note on the SDR allocation, the IMF was relatively positive on

the possibility of fiscal uses of the allocation, writing that the allocation will “provide scope for spending on members' crisis response, helping to protect the most vulnerable,” and suggesting that spending now can boost debt sustainability.

But the IMF must go further to ensure that countries are given the necessary support to use SDRs positively, say experts. As Ecuadorian economist Andrés Arauz argues, “Developing countries (and their central bankers) need IMF reassurance – not calculated ambiguity – that governments can use SDRs as budget support. The IMF should not stop at ‘it's a matter of domestic law’; its recent guidance needs a step-by-step update to include all of the legally viable and accounting pathways to expeditiously use the SDRs as budget support for strategic priorities and essential needs. The top-of-the-pyramid decision by governments to issue the SDRs will not be felt on the ground by people, if the ‘last mile’ of the SDR allocation is not resolved.”

bit.ly/IMFSDR2021



Photo: Nick Youngson/Shutterstock

INFRASTRUCTURE

news

Nigerian CSO denounces increase in energy tariffs linked to World Bank-backed reforms

Nigerian civil society has opposed further proposed electricity price increases in the country linked to World Bank-backed energy reforms. In a 1 September [interview](#) with online news outlet, *Premium Times*, Ene Obi, of [ActionAid Nigeria](#) noted that the planned increase will further erode the purchasing power of Nigerian workers and impoverish more Nigerians. She stressed that, “The increase in electricity tariff is not only ill-timed but insensitive to the precarious plight of Nigerians whose lean disposable incomes are already decapitated.”

The World Bank has been a key promoter of energy sector reform in Nigeria, with a \$750 million Performance for Results (P4R) loan in 2020 linked to reforms of the sector (see *Observer* [Autumn 2020](#)). Despite measures to mitigate impacts on the poorest, the reforms have led to increased electricity prices for most Nigerians, amidst a deep economic crisis triggered by the Covid-19 pandemic.

A further \$500 million [financing package](#) – consisting of a P4R loan, an investment loan, and technical assistance – was approved by the Bank’s board in February 2021. The package includes performance indicators for Nigeria’s electricity distribution companies (DISCOs) and its success measured according to improvements in percentage of metered customers, annual electricity billed and annual collection of billed electricity. The reform of the DISCOs is just one element of wider market-based reforms promoted by the Bank that have led to increased energy tariffs (see *Observer* [Autumn 2020](#)).

Power sector reforms have been consistently pursued by the World Bank and the IMF over recent decades, with uneven ‘success’, according to the Bank’s own [research](#) published in 2020.

bit.ly/NigeriaEnergy

Learning lessons from the Covid-19 pandemic: The World Bank’s macroeconomic policies and women’s rights

The World Bank has been staunchly criticised by civil society organisations for failing to put a feminist, just recovery front and centre of its Covid-19 pandemic response, and failing to take adequate steps to reduce the harmful impacts of the pandemic on gender equality globally.

A new [briefing](#) by BWP’s Gender and Macroeconomics Project (GEM) argues that the World Bank must reconsider its diagnostic tools and policy prescriptions and advice attached to loans. It is vital that the Bank understands its own role in undermining countries’ fiscal space, decent work and progressive taxation policies, to ensure that similar policy recipes are not repeated, especially as countries attempt to recover from the economic health and social crises triggered by the pandemic.

bit.ly/GEMCovidLessons

FINANCE

news

IMF increases limits of its concessional lending facility, leading to warnings from debt activists

In July, the IMF [approved](#) reforms to expand the lending powers of the Poverty Reduction and Growth Trust (PRGT), its concessional lending facility, to allow the Fund to “better support” low-income countries (LICs) in their pandemic response. The PRGT access limits have been increased to 145 per cent of a [country’s IMF quota](#) annually and 435 per cent for the total size of the loan, up from 100 per cent and 300 per cent, respectively. Additionally, for the poorest LICs eligible for “[exceptional access](#)”, hard limits on the size of concessional loans have been removed altogether.

The IMF disbursed \$10 billion through the PRGT in 2020, [by far](#) the largest amount in

the trust’s history, and 2021 is already the second largest year for lending. The large demand on resources, coupled with the plans to increase lending capacity, have led the IMF to [call for](#) \$4 billion to be granted by rich countries and an additional \$17.9 billion worth of [SDRs](#) on-lent through a channelling of rich countries’ new SDR allocations to the PRGT (see *Observer* [Autumn 2021](#)).

Reflecting on the PRGT reforms, Tim Jones, of UK-based civil society organisation Jubilee Debt Campaign, stated that, “The IMF is proposing a huge increase in lending and so debt for lower income countries. In the absence of proactive debt restructurings, these loans are primarily used to bail out

previous reckless lenders, while [austerity](#) is pushed on the borrowing country. The real beneficiaries are banks and hedge funds from rich countries, while citizens are impoverished.” Emphasising the debt concerns, [research](#) from Belgium-based network Eurodad published in March had already noted increasing debt vulnerabilities for developing countries as a consequence of the pandemic.

bit.ly/PRGTincrease

New US treasury guidance introduces limits for US support for fossil fuels at World Bank

In August, the US Treasury [issued](#) new guidance on US support for fossil fuel projects for its representatives at multilateral development banks (MDBs). This will guide the US's 'voice and vote' at the World Bank and other MDBs going forward."

Under the guidance, for future World Bank-funded projects, the US will, "only consider [support for] fossil fuels if [cleaner options] are unfeasible," per [reporting](#) by online news site *Climate Home*. The US remains the World Bank's largest and most influential shareholder (see [What is the 'gentleman's agreement?'](#)).

However, gas projects could still be supported by the US at the World Bank if an 'options study' shows no feasible clean energy alternatives. Civil society organisations (CSOs) have voiced apprehension, noting the need for this process to be transparent and credible. Indeed, [analysis](#) by Oil Change International showed that up to 40 per cent of fossil fuel finance provided by MDBs from 2018 to 2020 — or \$1.6 billion per year — went to gas projects that could potentially be eligible for support under the guidance, depending on how it is implemented.

"While the guidance introduces novel, broad-based restrictions on US support for fossil fuel projects at the MDBs...[it] leaves loopholes for continued fossil fuel financing that are so big, you can drive an LNG ship through them," said Luisa Galvao of Friends of the Earth US, in [response](#) to the guidance.

The new guidance follows the release of the World Bank's Climate Change Action Plan for 2021-25 in June, which was criticised by CSOs for not going far enough in limiting the Bank's support for fossil fuels (see *Observer Summer 2021*).

bit.ly/USFossils

Former Ghana national oil company head links World Bank's Sankofa guarantee to gas power plant deals

Further details have emerged of the World Bank's role in the agreement of onerous 'take or pay' gas power contracts with independent power producers (IPPs) in Ghana, which have contributed to the country's deteriorating public finances.

In a March interview with Ghanaian radio station *Okay FM*, the former CEO of the Ghana National Petroleum Corporation (GNPC), Alex Mould, [stated](#) that the Bank's 2015 guarantee for the Sankofa offshore gas mega-project (see *Observer Spring 2020*) included a commitment that the government would agree power purchase agreements (PPAs) with four IPPs for gas-fired power stations.

The Bank helped facilitate the Sankofa offshore gas project via two guarantees (see *Observer Spring 2020*). This included a \$500 million payment guarantee from the International Development Association (IDA), the World Bank's concessional lending arm, covering the risks of GNPC not fulfilling its payment obligations to Eni and Vitol, the two private oil firms involved in the project. Mould indicated that the Bank's guarantee for the Sankofa project was instrumental in four gas power IPPs subsequently raising commercial loans to construct new gas plants, and that the Bank helped devise selection criteria for the IPPs.

The PPAs included 'take or pay' clauses, which require the country to purchase a minimum amount of electricity over the duration of the long-term contracts, whether it uses it or not. 'Take or pay' clauses – including for the four IPPs in question – have resulted in the country facing a \$500 million-a-year bill for unused electricity. The contracts have become a bone of contention in Ghana, with the current administration repeatedly [citing](#) them as adding to the country's debt burden. Ghana has signed 32 PPAs, overall, in recent years, according to its latest IMF's Article IV [report](#).

bit.ly/SankofaGas



CRITICAL VOICES ON THE WORLD BANK AND IMF

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