Death of Doing Business Report greatly exaggerated as World Bank announces rebranding plans

On 16 September civil society organisations had occasion for celebration, as the World Bank announced the cancellation of the Doing Business Report (DBR, see Observer Autumn 2021). The decision resulted from an independent investigation into allegations of data manipulation, at the request of the Bank’s ethics committee. The investigators’ report alleged serious ethical improprieties, including conflict of interest within the Bank’s advisory services and data manipulation of the Doing Business Rankings to appease China and other important shareholders, involving the Bank’s former President Jim Yong Kim and then World Bank CEO and current IMF Managing Director Kristalina Georgieva.

These findings gave rise to intense discussions among World Bank and IMF shareholders and within the media. It also brought to the fore the degree to which the Bank and Fund are impacted by deepening tensions between the US – and the Global North more generally – and China. After a period of ardent speculation about the implications of the investigation for the legitimacy of the Bank and Fund, and the fate of Georgieva’s tenure, the IMF executive board issued a statement affirming its support of the managing director on 11 October.

Much media coverage focused on the personal responsibility of former Bank President Kim and Georgieva, and the allegedly strained relations between Georgieva and current Bank President, David Malpass. Some presented the episode as evidence of Chinese efforts to expand its influence within international organisations.

Disappointingly, very few media outlets in the Global North – while lamenting or warning of the inherent dangers of increased Chinese weight at the World Bank – took time to reference the work of Eric Toussaint of the Committee for the Abolition of Illegitimate Debt, and other academics, who have critically documented historical US hegemony within the multilateral system.

Recognising that the DBR scandal was just the “tip of the iceberg” and arguing for a comprehensive response, a 12 October open letter signed by 143 civil society organisations and individuals, called for the Bank to urgently address the structural issues revealed by the DBR scandal. The letter demanded reform of both institutions’ governance structures, including the gentleman’s agreement. It called for steps to address the internal accountability deficit and perceived conflict of interest in policy lending and technical assistance, the ideological bias in policy advice and conditionality, and the unwillingness of the World Bank to engage meaningfully with the international human rights framework.

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Did we say cancellation? We meant rebranding

Hopes that the World Bank and IMF would use the DBR scandal as an opportunity to address the structural shortcomings outlined in the CSO letter were short-lived. On 10 November Reuters reported that, “the World Bank plans to unveil in about two years a replacement for its flagship ‘Doing Business’ report.” The development of the new DBR will be informed by the results of an external panel review of the report commissioned by the World Bank’s Chief Economist Carmen Reinhart, released on 20 September. The panel made several recommendations that relate to long-standing civil society criticisms of the DBR, including adopting indicators that measure the positive functions of government in promoting a good business environment; removing the country rankings; ending the potential conflict of interest created by selling consulting services to governments aimed at improving their country’s score; establishing a firewall between the DBR unit and other Bank operations; and creating a permanent external review board.

According to Reuters, Reinhart noted that, “key concepts for the new product... [include] a mandate for more transparency about the underlying methodology... and less focus on ranking countries.” Reinhart emphasised that the Bank had instituted “a lot of safeguards” over the past year, noting that, “the underlying nuts and bolts will be in the public domain.” She hoped that “credibility will follow”. Regarding credibility, a 26 October Al Jazeera article noted that a second WilmerHale report investigating “potential wrongdoing by current and former bank staff, including Georgieva,” will be released in about two months to the Bank’s human resources department and not its board.

The announcement of DBR’s rehabilitation confirmed the fears of economic justice groups and labour unions, many of whom had anticipated that the report would be refashioned without engaging with the structural concerns raised by civil society. Despite the expert panel’s sensible recommendations, the Bank has failed to address critical questions about its undemocratic governance or the DBR’s private sector-led development bias.

The Bank’s unwillingness to critically engage with the report’s premise that “what is beneficial for business is good for development”, or to assess the negative impact of DBR-driven reforms, has long been criticised (see Observer Winter 2019). Unsurprisingly, the DBR cancellation announcement stressed, “the World Bank Group 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.”

Doing Business remains deeply embedded in the Bank’s wider DNA

Further evidence of the Bank’s direction was seen in Malpass’s comments during the 2021 Annual Meetings Town Hall with civil society, where he stressed that the Bank would continue to analyse and advise on country-level business reforms through its Systematic Country Diagnostic. Likewise, the Bank’s 2021 Development Policy Financing (DPF) retrospective notes, “By fostering an environment more conducive to private sector development, DPFs play an essential role in mobilizing private capital and supporting private sector led growth in client countries, especially critical in a context of tight fiscal space.”

Civil society, labour unions and social movements fear that the focus on tightening fiscal space and related allusions to the expected austerity wave (see Observer Winter 2021), will lead to a further push for the privatisation of social services and development more generally even as the global impacts of the pandemic persist. Continued IMF-mandated austerity was strongly opposed by over 500 organisations and individuals who signed an open letter to Georgieva in advance of the 2020 Annual Meetings (see Dispatch Annuals 2020).

DBR scandal raises doubts about the Bank’s capacity for institutional learning and reform

The Bank’s planned revival of the DBR is consistent with a wider trend: Rather than critically engaging with fundamental structural criticisms about its market-solutions approach, it is merely redeploying it under a more financialised incarnation (see Observer Spring 2020). This was also the case with the Bank’s ‘cascade’ approach (see Observer Summer 2017), since renamed Maximizing Finance for Development (see Observer Spring 2020), and now integrated into the institution’s Green, Resilient and Inclusive Development (GRID) approach (see Dispatch Annuals 2021).

The DBR and other World Bank-devised frameworks can be linked to a phenomenon identified by Brazilian political economist Lena Lavinas as the collateralisation of social policy. She observed that “credit and debt, along with new financial devices, are becoming the cornerstones of what used to be social protection systems.” These erode state capacity, relegating its function to a what Bristol-based economist Daniela Gabor calls the “de-risking state” (see Observer Winter 2017-2018). According to Ohio State University’s Professor Linda Labao’s 2018 article, the shrinking of the state has resulted in the restructuring of the social contract between governments, citizens and the private sector, which has, “led to shifts in state capacity and policy orientation that leave populations bereft of needed public services, increased inequality across geographic areas and sociodemographic groups, and political effects such as the growth of right-wing populism.”

University of Johannesburg sociologist Patrick Bond remarks, “What’s ultimately most important is that again and again, the Bank not only sets the stage for neoliberal coddling of corporations at policy level, in Doing Business. Just as important is the actual practice of the Bank and International Finance Corporation when ‘doing biz’...” Here in South Africa that includes catastrophic investments such as the Bank’s biggest-ever loan: $3.75 billion for the bribery-riddled Medupi coal-fired power plant, as well as the Marikana platinum mine and Net1. These have amounted to unpunished victim-filled crimes, egged on by a mentality fostered by Doing Business: deregulatory, profit-centric, high-carbon, extractivist and eco-catastrophic, Ponzi-scheming and profoundly anti-poor” (see Observer Spring 2013).

The over 360 organisations, trade unions and individuals who signed a March open letter calling on the Bank to discontinue the DBR (see Observer Autumn 2020, Winter 2019; Update Autumn 2021) must redouble efforts during the next two years to drive the Bank to address the iceberg concealed by the DBR scandal. As Frederic Mousseau of US-based Oakland Institute stressed, reflecting on the 2014 joint statement from 280 organisations of the Our Land Our Business Campaign, “global civil society is determined to make the Bank keep the DBR in its grave, where it can no longer do harm.”

bit.ly/DBRSscandal

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

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New IMF-Pakistan agreement likely to have adverse impact on women

Guest analysis by Bilquis Tahira, Shirakat Partnership for Development

IMF and Pakistan have reached agreement for a further loan disbursement, with Pakistan agreeing to significant cuts

Activists warn of the potential impact of spending cuts on women and gender inequality

Pakistan’s exceptionally long relationship with the IMF spans almost seven decades, with 23 loan programmes valued at $38 billion. Despite this long tenure and Pakistan following the IMF’s expert guidance and macroeconomic principles, the programmes’ stated objectives of boosting economic growth, reducing poverty, facilitating structural reform, or containing a domestic economic crisis are still far from being achieved.

The current 39-month, $6 billion Extended Fund Facility (EFF) arrangement, which began in 2019, was suspended in January 2020 because Pakistan resisted IMF recommendations to increase electricity prices and impose additional taxes (see Observer Winter 2020). In March, the IMF board completed the combined second through fifth reviews of the EFF and approved a disbursement of about $500 million, bringing the issued credit to $2 billion. However, renegotiations for further disbursement reportedly failed over disagreement on VAT reforms and Central Bank autonomy. On 21 November, an agreement was finally reached for the disbursement of a further $1 billion, with Pakistan bowing to IMF pressure by agreeing to significant cuts in expenditure over the coming months.

Like previous loans, the current arrangement follows the neoliberal agenda of the IMF. The IMF-imposed conditionalities include a broad range of fiscal consolidation measures, based on privatisation, deregulation, curtailing subsidies, limiting social sector spending, as well as tax reforms. In March, the Government agreed to several fiscal consolidation measures including increasing electricity prices and improving regulation of the power sector; imposing PKR 140 billion (USD 791 million) in additional taxes and reform of corporate taxation; Central Bank autonomy (see Observer Summer 2021); and better management and privatisation of state-owned enterprises (SOE).

Conditionalities severely impact vulnerable people, particularly women

Following the IMF’s agenda in the context of other challenges such as Covid-19, natural disasters, crop failures, climatic effects in the cotton sector, and food and rural inflation, has had visible impact on the disadvantaged population in Pakistan. Poverty has risen from 31.3 per cent in 2018 to 39.3 per cent in 2020-21 per World Bank estimates, with over two million people falling below the poverty line in 2020 alone. Similarly, all essential household consumption items have seen an upward trend in prices, placing the burden on the poor again and particularly on women. For example, the price of wheat flour has increased by 39 per cent; petrol by 79 per cent; LPG cylinders – used for cooking and heating – by 92 per cent; and charcoal by 14-28 per cent. This means women spend more time collecting firewood and more income on household essentials.

The situation for women has become further untenable. Pakistan already lags on global gender equality: It ranks third to last in the latest Global Gender Gap Index (2021). Economic participation and opportunity, educational attainment, and health and survival of women and girls are a matter of serious concern. Gender based violence is on the rise, and convictions are rare. Female labour force participation is one of the lowest in South Asia at 22 per cent. Approximately 70 per cent of women are in the informal sector without any social protection. Less than 2 per cent of adult women own a house or land, and women receive only 19 per cent of enterprise financing. Only 11 per cent of women have bank accounts, compared with 21 per cent of men. Representation of women in formal small and medium enterprises is low – only 6 per cent of firms are women-owned.

IMF policies exacerbate gender inequality in a time of global crisis

The neoliberal conditionalities imposed by the IMF – and enforced by the Government for lack of choice – exacerbate gender-based discrimination. Shirakat recently conducted 20 focus group discussions with 118 women in low-income areas of Islamabad and Rawalpindi. The women shared that due to the price hike in coal and gas, they must walk long distances to collect firewood. Access to healthcare has become limited, as the petrol price increase has made public transport costs prohibitive. Steep rises in electricity bills have made using light at night difficult, so most of the paid and unpaid work must be done during daylight. Girls are being taken out of school to manage household chores. Even with a rise in the minimum wages, the cost of living has become unmanageable due to inflation. Violence within the households has reportedly increased as the whole family faces the pressure of making ends meet.

On 18 November, parliamentarians passed the Privatisation Commission (Amendment Bill, 2021) and the SBP (State Bank of Pakistan) Banking Services Corporation (Amendment) Bill 2021 in a joint session of the Parliament. The impact of the Bills will be seen as their implementation rolls out. In the light of the multiple crises faced by Pakistan, the severity of conditionalities imposed on it is highly inappropriate, and it is high time the IMF rethink its neoliberal approach to prevent its policies from further hurting the most vulnerable.

bit.ly/PakistanIMF

Activists of Labor Party (LPP) shout slogans against IMF during protest demonstration in Lahore, Pakistan on October 2011.
Lack of public finance and debt relief at COP26 undermines countries’ climate goals

Rich countries fail to meet $100 billion per year climate finance goal – including finance disbursed via MDBs

Climate-for-debt swaps mechanism proposed by IMF fails to materialise, as debt crisis hampers developing countries’ ability to finance climate plans

Climate conditionality looms for new IMF Resilience and Sustainability Trust, as critics warn of green ‘shock therapy’ policies on horizon

At the UN Framework Convention on Climate Change’s (UNFCCC) 26th Conference of Parties (COP26) in Glasgow in November, the public finance urgently needed to fund climate action remained lacking – a situation compounded by debt distress affecting many low- and middle-income countries (see Observer Winter 2020).

Furthermore, critics have warned the World Bank and IMF's proposed solutions to the climate crisis – including crowding in the private sector, carbon pricing and continued austerity – risk further undermining governments’ capacity to address the crisis.

At COP26, wealthy countries failed to meet a 2009 pledge to mobilise $100 billion per year in climate finance by 2020, including through the World Bank and other multilateral development banks (MDBs), with a new roadmap released by the UK’s COP26 presidency suggesting the goal would not be met until 2023.

“The whole framework of [the] Paris [Agreement]...is potentially fundamentally flawed in being based around national pledges...without any financing plan,” Avinash Persaud, an advisor to Barbados Prime Minister Mia Mottley, told online news outlet Climate Home in November. “We have a $50 trillion scale of a problem and we’re using a village hall budget to try and address it. That’s not going to work.”

Debt relief to facilitate climate action nowhere in sight

The lack of available climate finance is being exacerbated by ongoing debt crises in many countries, which are often aggravated by climate impacts.

New research by UK-based civil society organisation (CSO) Jubilee Debt Campaign found that 34 low-income countries spent five times more on debt repayments than on climate action over the past five years – one illustration of the opportunity cost of debt burdens. Civil society advocates have raised concerns that climate finance flows themselves are increasing debt burdens: According to Oxfam, in 2017-2018 just $12.5 billion of the $59.5 billion in climate finance provided by rich countries was in grants – compared with $24.5 billion in non-concessional loans.

In April, IMF Managing Director Kristalina Georgieva announced that the Fund would work with the World Bank to establish a climate-for-debt swaps mechanism to be launched at COP26 to ameliorate this problem. However, Reuters reported in late October that the IMF had “dropped plans to release a joint proposal with the World Bank,” and was “narrowing its push for debt-for-climate swaps to focus on countries without major debt issues.” This coincided with the G20’s failure to address the broader debt crisis at its leaders’ summit in Rome in October (see Observer Winter 2021).

With a lack of leadership from the Bank, Fund, and G20, it was left to others to raise the issue. In late October, the Vulnerable Group of Twenty (V20) – a bloc of 48 countries – called for a debt restructuring option for climate vulnerable countries to be created. In a statement released during COP26, 243 CSOs – including Focus on the Global South and Third World Network – called for debt cancellation in recognition of the larger “climate debt” owed by the Global North to the Global South. This was echoed by 43 UK Members of Parliament in a cross-party letter sent to UK Secretary of State for the Foreign Commonwealth and Development Office, Liz Truss, during COP26, which demanded the UK support, “efforts to write off debt for countries in the global South and allow them to prioritise their response to climate breakdown.”

Critics warn of green ‘shock therapy’ embedded in the marketisation of climate action

With rich countries unwilling to mobilise public finance at the scale required to address the climate crisis, critics are wary of what comes next. Discussions about crowding private investors into climate action dominated the World Bank and IMF Annual Meetings in October (see Dispatch Annuals 2021) and this continued at COP26, despite the yawning disconnect between the private sector’s thirst for profits and the growing need for debt relief.
grants and highly-concessional forms of climate finance.

Writing in the Financial Times, Professors Daniela Gabor of UWE Bristol and Isabella Weber of University of Massachusetts Amherst warned that the IMF’s fledgling approach to climate (see Observer Autumn 2021) could play a damaging role in this regard. Of a new IMF climate strategy published in July, they noted, “In 42 pages, it mentions carbon pricing 23 times, green industrial policy once, and green public investments never.” They argued this approach—embodied by, inter alia, the IMF’s proposal for an international carbon pricing floor among large emitters—is reminiscent of the shock therapy delivered by the Fund in post-Soviet economies in the 1990s, when private investors enjoyed the spoils, often at the expense of the shock therapy delivered by the Fund in post-Soviet economies in the 1990s, when private investors enjoyed the spoils, often with devastating social and environmental consequences. “The price narrative sounds eerily familiar: carbon price hikes will allocate resources, real and financial, towards the right sectors,” they wrote. “Macro austerity may not be in the speech, but it is on the menu: after nearly two years of pandemic-related monetary and fiscal expansion, we are back to calls for shrinking the public purse.”

Climate-related conditionality from the IMF may form part of this agenda. Georgieva noted at COP26 that the IMF’s new Resilience and Sustainability Trust (RST) will, “provide long-term financing on concessional terms to vulnerable countries… so they can have the financial resources necessary to be strong in the face of climate shocks to come.” The RST will be financed by ‘re-channelling’ IMF Special Drawing Rights from wealthy countries (see Observer Autumn 2021; Inside the Institutions, What are Special Drawing Rights?), with Georgieva telling the Paris Peace Forum on 11 November that the aim, “is to start with about $30 billion, building it up to $50 billion and beyond.” These figures dwarf the resources available to the UNFCCC-based Green Climate Fund (see Observer Spring 2019), although it remains unclear how much RST finance will be climate-related.

The UK Executive Director to the IMF, Shona Riach, confirmed at an event on 18 November that although the RST’s design is still being discussed, it will almost certainly disburse low-interest loans (rather than grants) and is likely to require conditionality to access finance (see Dispatch Annuals 2021).

Against this backdrop, civil society will push for the Bank and Fund’s climate work to be aligned with economic and climate justice imperatives.

Global Day of Action against the IMF and World Bank rejects corporate recovery agenda

Sixty civil society groups from 24 countries joined forces on 15 October for a Global Day of Action Against the IMF and World Bank during the 2021 World Bank and IMF Annual Meetings (see Dispatch Annuals 2021). They protested the Bretton Woods Institutions’ (BWIs) recovery agenda over concerns of greenwashing and corporate capture through, inter alia, the World Bank’s Green, Resilient, and Inclusive Development (GRID) framework.

Co-organiser IBON International, a global civil society network working on democracy and development, wrote that, “GRID travels the same path of Public–Private Partnerships, the discontinued Doing Business Reports, and of the Maximising Finance for Development—all champion the corporate capture of development” (see Observer Winter 2021, Spring 2020, Summer 2019; Briefing The World Bank’s Privatization). In the same article, Beverly Longid, coordinator of the Indigenous Peoples Movement for Self-Determination and Liberation (IPMSDL), called for “systemic changes for people-centered development.”

The event also raised concerns around the growing debt burden in developing countries (see Observer Winter 2021). loan conditionalities, the climate emergency, and the Bank’s opposition to the intellectual property waiver for Covid-19 vaccines (see Observer Spring 2021). IBON condemned “the IMF-WBG’s continued promotion of corporate monopolization of vaccines and technologies.”

The accompanying Global Day of Action statement called out the BWIs’ continued bolstering of a “neoliberal regime” that entrenches exploitation, inequality, and dispossession in favour of multinational corporations and their profits. It further highlighted how loan conditionalities place undue burden on Global South countries struggling with the pandemic, forcing them to prioritise debt payments and continued extractive investments over national development priorities and health spending (see Dispatch Springs 2021).

Instead, IBON and fellow organisers called for debt cancellation, a freely available people’s vaccine, and an end to “the policy regime of privatization, deregulation, liberalization, and denationalization.” Participants stressed that a people-centred and transformative development agenda must include “democratic ownership of current and future economic trajectories,” and continued global solidarity with workers’, women’s, indigenous and poor people’s movements.

bit.ly/COP26FinanceGoals

bit.ly/IBONStatement
World Bank accused of being ‘ongoing underperformer’ at COP26, as key Bank shareholders commit to fossil-fuel finance phaseout

UN official and civil society criticise World Bank and other MDBs for lack of ambition at COP26

Countries representing 45 per cent of IBRD voting shares sign COP26 declaration pledging to end public finance for fossil fuels by end of 2022

While the World Bank failed to take concrete action to introduce new restrictions on its support for fossil fuels in its Climate Change Action Plan for 2021-25 published in June (see Observer Summer 2021), a number of the Bank’s key shareholders have signalled their intent to push for further progress at the Bank and other multilateral development banks (MDBs) in 2022.

Thirty-nine countries and finance institutions signed on to a statement on International Support for the Clean Energy Transition at the United Nations Framework Convention on Climate Change’s 26th Conference of Parties (COP26) in Glasgow in November. The statement notes, “we will end new direct public support for the international unabated fossil fuel energy sector by the end of 2022, except in limited and clearly defined circumstances that are consistent with a 1.5°C warming limit and the goals of the Paris Agreement.” The commitment applies to the bilateral finance provided by signatory governments, and “will also guide [their] approach on the boards of multilateral development banks.”

Although the World Bank itself failed to sign on to the statement, a number of its large shareholders, including the US, Germany, France, the UK, Canada and Italy, did – as well as a range of borrower countries including Sri Lanka, Zambia, Mali and others. All told, signatories account for 45 per cent of the voting shares of the International Bank for Reconstruction and Development (IBRD), the Bank’s middle-income country lending arm – meaning that a significant proportion of World Bank shareholders now support ending public finance for fossil fuels, baring exceptional circumstances.

World Bank becomes poster child for MDBs’ climate inaction at COP26

The clean energy transition statement followed a disappointing joint MDBs ambition statement” that was quietly released at the start of COP26 on 1 November – and largely consisted of the multilaterals merely outlining previously-announced commitments. In the lead-up to the statement’s release, Nick Mabey, the CEO of UK-based think tank E3G, questioned whether World Bank President David Malpass was directly responsible for watering it down, noting the, “[w]ord on the street is Malpass is personally blocking more advanced MDB positions on climate” at COP26.

In a civil society reaction to the MDBs statement, published on 2 November, Bronwen Tucker of global civil society organisation Oil Change International commented, “While their Paris Alignment commitment was promising in 2017, after years of stalling the MDBs are now standing in the way of the Paris Agreement rather than aligning with it. They can change this by joining other countries and institutions in ending all fossil fuel finance, greatly increasing support for community-led energy access and just transition, and re-focusing their climate finance to serve the most vulnerable communities rather than private sector profits.”

Frustration with the MDBs’ failure to provide much semblance of united ambition at COP26 was further voiced by Selwin Hart, Special Adviser to the UN Secretary-General on Climate Action, who told the Financial Times on 4 November that multilateral development banks could not “continue to fiddle while the developing world burns,” adding, “I’m compelled to single out the World Bank as an ongoing underperformer.” Hart’s comments garnered considerable reaction, and apparently resulted in a call between Malpass and UN Secretary-General Antonio Guterres on 6 November. Still, as long as a Donald Trump-nominee with a history of climate scepticism is at its helm, it’s difficult to imagine the Bank being anything but a climate laggard.

bit.ly/COP26FossilFuels

World Bank President David Malpass addresses COP26 on 1 November.

Photo: Doug Peters/UK Government
Independent Evaluation Office downplays IMF’s promotion of austerity whilst civil society warns of further cuts

New IEO report criticises impact of IMF-imposed cuts but does not consider austerity recommendations excessive

Civil society highlights impact of austerity on inequality and sounds alarm on impending wave of cuts

In September, the Independent Evaluation Office (IEO) of the IMF published its evaluation Growth and Adjustment in IMF-Supported Programs. In the report, the IEO, whose role is to conduct evaluations of issues relevant to the Fund, assessed the extent to which IMF programmes from 2008 to 2019 have supported growth in countries, and considered if the IMF had been heavy-handed in prescribing austerity policies. Portions of the report presented damning conclusions.

The IEO report made three recommendations: (1) attention to growth implications of IMF programmes should become more thorough, systematic, and sensitive to social and distributional consequences; (2) programmes should pay greater attention to supporting growth-oriented structural reforms; and (3) the Fund should build toolkits to analyse the adjustment-growth relationship.

In her formal response, IMF Managing Director Kristalina Georgieva stated that she supported the second and third recommendations but downplayed the attention the IMF should give to growth and social-distributional impacts of its loans, arguing that “growth cannot be placed above or on par with the core objective of Fund lending of helping members resolve their balance of payments problems.” She further questioned the ability of the Fund to monitor social and distributional consequences, due to “possible budgetary implications” for the institution.

Excessive austerity past and future

In a meeting between the IEO, civil society organisations (CSOs) and academia, hosted by the Bretton Woods Project, it became clear that this ambivalent take on austerity was not shared by the economic justice community, who consistently emphasised that whether austerity is “excessive” or not does not just depend on its effect on growth. Rebecca Ray of Boston University presented research showing that IMF-imposed austerity exacerbates inequality, concluding that “even if growth outcomes are beginning to improve, it is not being reflected in living standards and wellbeing.”

Civil society and academics are raising serious concerns that the pandemic will result in a wave of IMF-promoted austerity across low- and middle-income countries. A paper from Isabel Ortiz and Matthew Cummins earlier this year warned of a “post-pandemic fiscal austerity shock... far more premature and severe than the one that followed the global financial crisis,” and called on the IMF to “stop taking decisions that affect the lives of millions of people without adequate consultation.” In October 2020, Oxfam showed that 84 per cent of IMF loans during the pandemic “encourage, and in some cases require, poor countries hard hit by the economic fallout from the pandemic to adopt more tough austerity measures in the aftermath of the health crisis.” These assessments led over 500 CSOs and academics to publish a letter calling on the IMF to stop promoting austerity.

Such warnings appear to have fallen on deaf ears. In its Regional Economic Outlook for sub-Saharan Africa in October, the IMF argued that, “Despite the spending needs associated with the pandemic, most countries will nonetheless need to undertake fiscal consolidation to contain rising debt vulnerabilities.” In November, the IMF stated its support for ambitions of the Government of Jamaica to reduce debt from 109 to 60 per cent of GDP by 2027-28, to improve “investor confidence and preservation of macroeconomic stability.”

Δbit.ly/IEOReport2021

A protest march in the city of London demands an end to austerity.
Alto Maipo: Harms endure due to MDBs’ lack of proper due diligence

Guest comment by Juan Pablo Orrega, Ecosistemas

Alto Maipo project continues to cause harm to communities and environment

World Bank and Inter-American Development Bank failed in their due diligence

Independent accountability mechanisms cannot provide remedy for harms caused and cannot substitute for adequate due diligence

In 2008, the Chilean environmental authority accepted into its evaluation pipeline a farfetched 531 MW hydroelectric project, Alto Maipo (AM), proposed by subsidiaries of the North American company, AES Corp. The environmental impact assessment (EIA) was one of the most deficient and incomplete we have seen in decades of environmental defense work.

The ‘run-of-the-river’ project deploys installations in the headwaters of the three main sub-basins – Colorado, Yeso and Volcán – of the Maipo River watershed, to capture the waters of these tributaries, conducting them through a 75 km network of tunnels to two underground power-houses.

The international precautionary principle and the preventive principle of Chile’s environmental legislation were ignored. We find it impossible understand that the government authorised a project that degrades the headwaters of the Maipo River, putting at risk the hydrological cycle in the whole watershed, considering that it supplies drinking water to 8 million people and irrigation to 136,000 hectares, and that the region is desertifying.

An opposition campaign started as soon as AM was announced (see Observer Autumn 2013). AM’s proponents claim that the opposers cannot demonstrate that AM puts at risk the water supply to Chile’s Metropolitan Region. Neither can AES prove the contrary. Thus, the need to apply the precautionary and preventive principles.

International financial institutions (IFIs) bear responsibility for funding flawed project

Curiously, and despite calls against its involvement, the World Bank’s private sector arm, the International Finance Corporation (IFC), approved a $150 million loan for the project in October 2013. IFC joined the Inter-American Development Bank (IDB) and US’s State Overseas Private Investment Corporation (OPIC, now the International Development Corporation), which provided $200 million and $250 million loans respectively. Ultimately, the IFC and the German bank KfW divested from the project, transferring their stakes to commercial banks.

In 2017, Ecosistemas, the Coordinadora No Alto Maipo, and other inhabitants of the basin, with the support of the US-based Center for International Environmental Law, presented complaints before the grievance mechanisms of IDB and IFC – the Independent Consultation and Investigation Mechanism (MICI) and Compliance Advisor Ombudsman (CAO) respectively. Their belated responses were useless from the point of view of those affected by AM.

Apart from being dominated by management’s bias towards projects already approved by them, the MDBs’ complaints mechanisms are “reactive”: They accept complaints once the harms or impacts have begun occurring (see Observer Summer 2017). Both CAO and MICI took 4.5 years to produce their reports, while AM was being constructed at a feverish pace. This is unacceptable.

Affected communities and the environment urgently need proactive institutions which can prevent damage and ensure that projects considered for financing are sound. They should seek to ‘prevent rather than cure’.

Alto Maipo’s disastrous impact evidences lack of due diligence

In this sense, IFC management’s response to the CAO’s report is symptomatic. A huge mistake, from our point of view, since they affirm that their ‘due diligence’ prior to the approval of the credit was flawless, and repeatedly mention “experts” who were hired (at high costs, no doubt), for this purpose. If this were the case, how does one explain the litany of grave, unanticipated problems faced by the project from day one?

AM has suffered worker strikes, acute conflicts with contractors (including the renouncement of a main European contractor which sued AM in international courts), and a critical period of technical default. It has been the subject of constant financial restructuring and numerous legal and administrative demands. AM projected a selling price of electricity of $120 per MWh; today the price is at less than $50 per MWh.

The declared estimated project cost has more than tripled from $700 million to $2.5 billion and the construction time more than doubled, from 5 to 12 years. AM is already costing the equivalent of five natural gas combined-cycle thermal plants, with less capacity than one of them.

The influx of workers to the region has also had serious consequences. AM declared it would employ 2,050 workers, but the number has reached 5,500. MICI recognised that there was no gender perspective evaluation of the impact of this mostly male workforce invading the countryside. According to AM’s authorisation, workers were supposed to stay at contained camps, but instead they dispersed throughout local towns and villages.

Water from fractured aquifers, mixed with sediments, poured out of the tunnels under construction, contaminating water courses. This occurred despite technical arguments in the EIA that this wasn’t going to happen. The EIA and IFIs due diligence also failed to consider AM’s impacts on ‘recreational, touristic and landscape uses’, this being the area’s main economic asset today. This was also recognised by MICI in their report.

Despite concerns voiced by opponents from the beginning, the impacts of climate
Civil society frustrated by lack of substantive engagement in IDA20 replenishment process

The current replenishment of the International Development Association (IDA), the World Bank’s low-income lending arm, will be essential to the Bank’s support for pandemic response in low-income countries. Civil society has provided substantive recommendations for the replenishment, including through an October joint statement by Belgium-based Eurodad, Zimbabwe-based Afrodad and the Bretton Woods Project. Trade unions, Oxfam and others have also made recommendations, including on civil society engagement (see Observer Summer 2021).

On 13 November the World Bank released the draft Deputies Report for IDA’s 20th replenishment process (IDA20), and invited public comments by 26 November. The finalised report will be tabled for endorsement at the IDA20’s last meeting, scheduled to take place in Tokyo on December 14th and 15th.

Civil society expressed their frustration that despite substantive suggestions, few of their proposals were integrated into the IDA20 Deputies Report. Examples abound: no IDA20 commitment to universal social care, a decreased focus on inequality, the unwillingness to ensure the Bank does not support the privatisation of essential health and education services, and the potential increase in the size of the controversial Private Sector Window (see Observer Autumn 2021).

The frustration has been made explicit in a forthcoming CSO statement which stresses that the adoption of some civil society language in the absence of supporting transformative policies is insufficient to legitimise the consultation process. Nadia Daar of Oxfam International, stressed, “Opening the formal comment period when most things are already baked is rather meaningless. It is essential that civil society – both in donor and IDA recipient countries – are able to feed in meaningfully to the process” (see Observer Autumn 2019).

Tensions escalate between Argentina and the IMF ahead of crucial loan repayment deadline

Negotiations between the IMF and Argentina have entered a crucial phase as the Argentine government called for flexibility ahead of a $2.8 billion repayment in March 2022, part of a total of $19 billion it owes to the Fund next year. Former President Mauricio Macri agreed a $57 billion arrangement with the IMF in 2018, the largest in the Fund’s history (see Observer Autumn 2019).

The negotiation road blocks are surcharges (see Observer Winter 2021), the length of repayment period and the pace of proposed spending cuts. To placate tensions, Argentina is seeking Chapter 11 Bankruptcy Proceeding protection in the US, declaring a debt of $2 billion, while blaming changes in Chile’s electricity market and the impact of climate change on glaciers and river flows that will diminish AM’s generation capacity.

A radical shift is required for the World Bank and other IFIs to meet their development mandates. Rather than relying on weak accountability mechanisms, they must develop robust due diligence processes that ensure that harms, such as those currently being suffered by the communities and ecosystems in the Maipo River watershed, do not occur in the first place.

Δbit.ly/IDA20PSW

Δbit.ly/AltoMaipoMDBs
Debt crisis: What next as IMF and G20 initiatives set to expire?

The coming months will see the end of two of the main multilateral mechanisms for debt relief: The G20’s Debt Service Suspension Initiative (DSSI), which expires in December 2021, and the IMF’s Catastrophe Containment and Relief Trust (CCRT), set to expire on 10 January 2022 – although the IMF will consider its possible extension for “a final tranche of debt relief” until 13 April 2022, “subject to the availability of sufficient resources in the CCRT.”

The DSSI and CCRT serve to support countries with debt repayment issues in different ways. The DSSI suspends debt payment on bilateral public debt to G20 countries. Countries get a pause on their debt payments, but still owe the same amount which they will have to pay later. The CCRT provides countries with grants to help them make debt payments to the IMF specifically.

The DSSI, established in April 2020, has been criticised for failing short of expectations. An October study by UK-based civil society organisation (CSO) Jubilee Debt Campaign (JDC) found that only a quarter of the $35 billion of debt suspension announced by the G20 was delivered. Meanwhile, private lenders were paid $14.9 billion, while suspending only 0.2 per cent of payments.

The CCRT provided $850.7 million in debt service relief to 29 eligible countries in four tranches, according to the IMF’s last update, leaving out most of Latin America where only Haiti received such relief. Nadia Daar of Oxfam International said that the CCRT “was pretty much the only mechanism which effectively ‘cancelled’ some debt payments for some countries. However, it was very limited in size and scope...and ultimately, the IMF also benefitted from this scheme as CCRT grants can only be used to pay back the IMF.”

G20 turns to deeply flawed Common Framework

The forthcoming termination of the DSSI and the CCRT means that there will only be one active multilateral mechanism for debt support, the G20 Common Framework for Debt Treatments (see Dispatch Annuals 2020). On paper, this framework was created to deal with the more complex issue of restructuring and reducing debt burdens. However, an article by the Atlantic Council, a US-based think tank, has called it an “abject failure”, highlighting that, “Three countries—Chad, Ethiopia, and Zambia—have sought debt relief through the program, but little progress has been made.” In most cases creditors were merely encouraged to change payment terms, which JDC highlighted was, “similar to the current suspension scheme,” adding, “It mainly kicks the can down the road, creating a future debt problem” (see Observer Winter 2020). A recent study by UNDP identified 72 countries with a high degree of debt vulnerability, of which 23, holding about 65 per cent of the total debt service at risk, are not eligible for the Common Framework or the DSSI.

Acknowledging some of these concerns, in a recent blog, IMF Managing Director Kristalina Georgieva and Director of the Strategy, Policy, and Review Department Ceyla Pazarbasioglu, stated, “With policy space tightening for highly indebted countries, the [Common Framework] can and must deliver more quickly,” adding that “It is also critical that private sector creditors implement debt relief on comparable terms.”

The role of private creditors will be extremely important in resolving the crises. CSOs are demanding they “cancel the debt for low- and middle-income countries that request it to help them respond and recover from the pandemic, and to play full part in international processes, including the G20’s Common Framework, granting requests for debt relief through this process” (see Dispatch Annuals 2021).

Daar highlighted, “The situation is extremely dire with the pandemic continuing to rage and persistent vaccine inequity. Countries facing economic hardship will resume debt payments to bilateral creditors in 2022 and continue to pay back private creditors who have escaped from any responsibility and will likely be forced into severe austerity in the coming years.”

bit.ly/DebtCrisis2022
civil society and economists call for IMF to abolish unethical and harmful surcharges on countries in debt distress

Surcharges draining urgently needed funds for Covid-19 recovery in sixteen countries

With a $2.8 billion payment deadline looming in March 2022, the fraught relationship between the IMF and Argentina has been thrust into the spotlight again, as reported by the Financial Times (see Observer Winter 2021). One of the core issues of disagreement are surcharges – additional interest rates the IMF has been charging since 1997 for loan programmes that exceed a certain size or repayment term length. A recent paper from the Center for Economic and Policy Research (CEPR) called them “unethical” and “opaque”, estimating that Argentina’s surcharge payments alone add up to $3.3 billion over 2018-2023. A brand-new data tool and guide from Belgium-based civil society organisation (CSO) Eurodad estimates that surcharges increase borrowing costs by 64 per cent in affected countries, calling them “unconscionable”.

Since 2016, level-based surcharges add 2 per cent to interest rates on outstanding credit above 187.5 per cent of each country’s assigned IMF quota, while time-based surcharges add 1 per cent on credit outstanding for 51 months. This means surcharges are levied on countries that are most heavily and protractedly indebted. In theory, they are meant to disincentivise countries from borrowing beyond their allotted IMF quotas and to encourage them to repay loans early, while helping the Fund build up “precautionary balances”. However, the CEPR paper highlights that governments already have many other incentives to avoid turning to the IMF: the associated stigma and negative signalling to financial markets, loss of sovereignty and potential welfare impacts through conditionalities, as well as protests from civil society and their electorates.

According to an October briefing from Boston University’s Global Development Policy Center (GDP Center), surcharges primarily represent penalty fees to bolster the IMF’s cash flows, with middle-income countries (MICs) – lacking appropriate representation in the Fund’s undemocratic governance structure – subsidising the IMF’s operational costs. Surcharges work pro-

cyclically and erode debt sustainability by draining government funds when they are most needed, increasing default probability and undermining the Fund’s own mandate to ensure financial stability (see Dispatch Annuals 2021). This seems particularly inappropriate given the unprecedented economic collapse triggered by the Covid-19 pandemic, which the IMF itself has called “a crisis like no other”, when many MICs find themselves in unforeseen debt distress and urgently need fiscal space for their pandemic responses. CEPR calculated that Argentina could vaccinate its entire population nine times over with its surcharge payments, Egypt twice and with Ecuador seven times.

Economists, civil society, and UN experts unite in calls to abolish surcharges

While Argentina’s current plight is receiving most press attention, surcharges affect some 16 countries and make up a third of the Fund’s operational revenues. Egypt is expected to pay $1.8 billion through 2026, and Ecuador around $1 billion by 2029. Many countries are unaware they are paying these fees, as data are not transparently published. Eurodad’s December guide presents surcharges data for 14 countries for the first time.

“These policies are completely contradictory and undermine the IMF’s own efforts around the COVID recovery,” stressed Shereen Talaat of CSO Arab Watch Coalition, concerned about strained Middle Eastern economies. “What we expect in this moment of global crisis is debt relief and reform to ease the burden on middle-income countries – not additional charges.”

Calls by CSOs, governments and experts to abolish surcharges have so far gone unheard. In an open letter in May, current and former UN Independent Experts along with CSOs pointed out that surcharges violate international human rights law, as their “main impact is to punish poor countries” (see Observer Summer 2021). The G24 communiqué at this year’s Annual Meetings urged the Fund to “correct the regressive and procyclical character of the Surcharge Policy” (see Dispatch Annuals 2021). In the GDP Center briefing, Joseph Stiglitz and Kevin Gallagher emphasised that, “the IMF should not be in the business of making a profit off of countries in dire straits,” and suggested the Fund should instead be conceptualised as a “cooperative” where operating costs are shouldered by countries faring relatively better. Daniel Munevar of Eurodad argued, “this system of punitive fees must be immediately suspended and eventually eliminated.”

bit.ly/Surcharges2021

Argentinians demonstrate against IMF debt payments.
IMF takes steps to control cryptocurrency policies

The IMF, no stranger to criticism, is encountering new adversaries: cryptocurrency advocates. In its recent Global Financial Stability Report (GFSR), published in October, the IMF cited cryptocurrencies as one of the three major challenges to global financial stability (along with Covid-19 and climate change), proposing a host of policies to mitigate the threat. IMF blogs in October and July also emphasised the institution’s cryptocurrency concerns.

El Salvador made headlines earlier this year when it became the first country to adopt Bitcoin as national currency. In response, the IMF warned that “given Bitcoin’s high price volatility, its use as a legal tender entails significant risk to consumer protection, financial integrity, and financial stability.” Cryptocurrency advocates, including the Human Rights Foundation, see the technology as a tool with the potential to decentralise power away from global financial centres and corrupt governments, and some have opposed the IMF’s calls for control. An article published by Nasdaq in October argued that, “The IMF hates Bitcoin because its decentralized protocol and programmatic monetary policy defies the control the fund wants to implement.” Whether the Fund’s critics are right or wrong, cryptocurrencies will be a space of increasing IMF intervention in national economies over the coming years. Experts have argued, for example, that El Salvador’s approach to cryptocurrencies could affect its possibilities of securing an IMF loan. There are also concerns that IMF interventions in cryptocurrencies will be used to promote its traditional policies. In the GFSR, for example, the IMF warned that to avoid “cryptoization” of economies, countries must “strengthen monetary policy credibility, safeguard the independence of central banks, and maintain a sound fiscal position.”

Will IMF policy advice align with new UNESCO Declaration on education finance?

A new UNESCO declaration agreed in November called on countries to, “Raise more revenues to increase education budgets, in particular via measures that strengthen the design and the equity of the tax system.” It also pushed governments to implement previous commitments to “allocate at least 4-6% of GDP and/or at least 15-20% of total public expenditure to education.”

Such efforts are likely to be frustrated by IMF’s conditions that would require Ministers of Finance to re-impose austerity (see Dispatch Springs 2021). As Isabel Ortiz and Mathew Cummins argued in April’s Global Austerity Alert, a rapid return to austerity, including public sector wage bill constraints, is now predicted for 85 per cent of the world’s population, affecting 159 countries (see Observer Autumn 2020).

Analysing IMF loans from the past five years across 15 countries, ActionAid International’s October report demonstrated that the Fund’s medium-term advice resulted in these countries dropping below the global average for public sector wage bill spending (see Observer Autumn 2021). Despite the IMF’s claims that cuts should be accompanied by actions to expand tax revenues, even the few countries that did so were advised to cut spending on public sector wage bills.

David Archer of ActionAid International said, “To make a real difference, education advocates will need to draw attention to the gross contradictions between their aspiration to spend more and IMF’s austerity policies...They need to enter a systematic dialogue with the IMF about how their wider policies have unintended consequences on education spending – and that dialogue needs to be replicated with Ministries of Finance in every country.”

What are Special Drawing Rights?

Bretton Woods Project’s new Inside the Institutions looks at the IMF’s Special Drawing Rights (SDRs), a type of international reserve asset. The IMF recently created $650bn worth of new SDRs, which has the potential to greatly support the global recovery, if used effectively. This piece looks at their history, usage, and options for re-allocation of SDRs from the rich economies to the developing world.