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BRETTON WOODS project

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

LAND analysis

World Bank and IMF's response to global food crisis misses mark, as financial speculation drives food prices to historic highs

Rising food prices linked to rampant speculation in food futures rather than 'market fundamentals', say experts

World Bank and IMF's emphasis on encouraging open trade of agricultural goods and increasing production misdiagnoses root causes of crisis

Despite looming hunger in many African countries, World Bank warns countries against introducing food subsidies

The world faces an acute food crisis, with food prices hitting all-time highs in March, according to the UN Food and Agriculture Organization, before receding in recent months.

Russia's invasion of Ukraine has brought the issue into focus, as both countries are key producers of grain exports and agricultural fertilisers.

But while the Covid-19 pandemic and the conflict in Ukraine have exacerbated issues in global agriculture supply chains, food experts argue that the crisis is not rooted in a global food shortage, with current food production sufficient to feed the world's population 1.5 times over – but rather in an increasingly unequal and financialised global food system.

As Professor Jennifer Clapp, vice-chair of the High Level Panel on Food Security and Nutrition, argued in May on online platform *Civil Eats*, "The [current] excessive price rises and fluctuations… are not based on market fundamentals. In just nine days in March 2022, the price of wheat on futures markets jumped 54 percent….Evidence suggests financial speculators are jumping into commodity investments and gambling on rising food prices."

According to Professor Sergio Leite of Universidade Federal Rural Rio de Janeiro in Brazil, "the upward movement in prices begins in mid-2020 and is not only related to the pandemic and the war in Ukraine, but also to issues already related to the increase in production costs, to the debate on transition of the production model [i.e. the EU's 'farm to fork' initiative]," and to commodity speculation. Leite added that the number of investment funds globally that are backed by agriculture grew from fewer than 50 in 2005 to more than 600 in 2020.

Despite this, an action plan to address food insecurity released by the World Bank, IMF and other international financial institutions (IFIs) in May failed to even mention financial speculation – and rather focused on (*inter alia*) promoting open trade, mitigating fertiliser shortages and supporting increased food production. The lack of acknowledgement by the IFIs of the role of the corporatisation of agriculture in the current crisis is concerning, as the Bretton Woods Institutions have played an important role in facilitating the financialisation of the sector over recent decades (see *Observer* Spring 2020, Spring 2018).

The action plan's launch followed a declaration signed by over 280 civil society

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organisations in October, ahead of the 2021 Finance in Common Summit, which called "for an immediate end to the financing of corporate agribusiness operations and speculative investments by public development banks," and renewed focus on supporting "peoples' efforts to build food sovereignty, realize the human right to food, protect and restore ecosystems, and address the climate emergency."

Crisis in a time of plenty: Bank and Fund back free trade solutions

As Frederic Mousseau of the US-based Oakland Institute noted in a 30 May op-ed for *Inter Press Service*, "There is no food shortage. According to a May 6, 2022 report by the United Nations Food and Agriculture Organization (FAO), the world enjoys 'a relatively comfortable supply level' of cereals."

Rather, the current crisis reflects power asymmetries in the global food system. Clapp argues that, "the production of the world's staple crops destined for export is concentrated in a small number of countries, and they are shipped around the world by a handful of trading firms...Add to this concentrated global food system the financial markets, which can further exaggerate the effects of price shocks." In fact, despite increasing global food outputs, the number of undernourished people, according to the World Health Organisation, has been steadily growing since 2015 after years of decline, reaching 811 million in 2020.

Rather than calling out financialised interests, however, both the World Bank and IMF have instead vocally opposed countries introducing trade restrictions. For example, the World Bank's April 2022 *Commodity Markets Outlook* argued that, "Recently... policy responses have tended to favor trade restrictions, price controls, and subsidies, which are likely to exacerbate shortages."

The IFIs' action plan released in May likewise noted that, "The IMF is engaging its members and is working with the World Bank, the WTO, and others to promote open trade. The IMF's trade policy tracker is monitoring trade restrictions on food and agricultural inputs and has...identified...20 countries that have resorted to such practices since the start of 2022."

Mousseau noted the example of India, where both the US and IMF have sought to convince the country to lift a suspension of wheat exports. He argued, "Their cited concern is that export restrictions will exacerbate food shortages... But the argument does not stand ground technically or morally." Moussueu added: "The US produces roughly 400 million tons of corn, but over 40 percent of this amount – 160 million tons – goes to ethanol production, while another 40 percent goes to animal feed, and only 10 percent is used as food whereas another 10 percent is exported. India was not expected to export more than 10 million tons of wheat in 2022-2023."

Bretton Woods Institutions' policies have actively contributed to the current food systems *status quo*

As Flora Sorkin noted in an April 2020 *At Issue* briefing, "The World Bank and IMF have played a pivotal role in facilitating the financialisation trend [in agriculture] through their support for market-led land reforms and financial sector deregulations, which enabled private investors' access to large-scale land deals in developing countries and further speculation over commodity futures" (see also Inside the Institutions, *The World Bank and agriculture*).

The Bank's *Enabling the Business of Agriculture* rankings, which were discontinued as part of the wider *Doing Business Report* scandal in 2021 (see *Observer* Autumn 2021), included a land indicator aimed at promoting large-scale land acquisitions by foreign investors, according to 2019 research by the Oakland Institute. A 2020 report also by the Oakland Institute included six case studies where the World Bank was a key player in the large-scale dispossession of rural lands. This included in Ukraine, where, "the World Bank and the International Monetary Fund leveraged the economic fallout from the COVID-19 pandemic to coerce 'Europe's basket' into putting its agricultural land for sale in a land market" (see *Observer* Winter 2019).

Meanwhile, the World Bank is currently urging countries to resist introducing universal food subsidies in an apparent continuation of earlier, ill-fated Bank interventions during the period of 'structural adjustment', when food and agriculture subsidies were slashed under World Bank reforms (see *Update* 62). The World Bank's director for development finance, Samuel Maibo, told the East African website in May that, "The World Bank position is that subsidies are effective if temporary or targeted. If you do not have these two working carefully, the risk of mismanaging subsidies is high."

IFC's response risks further consolidating power of commodity traders

There is arguably a direct link between such policies and the continued concentration of power by a handful of global agricultural commodity traders. Clapp noted that just four companies, Archer-Daniels Midland, Bunge, Cargill and Dreyfus, control "the bulk of the world's commercial grain trade...These global corporations hold large reserves of grain, but do not publicly report them, nor is there a requirement for them to do so. This lack of transparency makes it impossible to get a clear view of global stores of grain, which contributes to further volatility."

As noted in Oxfam's May 2022 *Profiting from Pain* report, recent years have seen an unprecedented boom for agriculture traders' profits. In 2021, Cargill had a "net income of $5bn and made the biggest profit in its history....The company is expected to make record profits again in 2022."

As part of its efforts to bolster production, the International Finance Corporation (IFC), the Bank's private investment arm, is considering finance for these same players, including a recently approved $200 million loan to Dreyfus's Brazilian subsidiary, which drew opposition from civil society over human rights and environmental concerns – as well as claims that the agricultural production supported will mainly be used for animal feed (see *Observer* Summer 2022). Such support appears part of IFC's wider strategy, with the IFIs' action plan noting IFC will "focus on facilitating financing to maintain trade flows of commodities from alternative origins and meeting increased working capital needs of its private sector clients along the supply chain...through financial intermediaries as well as by directly lending to agribusiness companies."

Mousseau noted: "As hundreds of millions struggle to buy food, it is difficult to say what is the most shocking: The record profits made by a handful of multinational corporations that dominate the global food trade or the 'keep trade open' mantra repeated tirelessly by international financial institutions to sustain the business of these corporations and speculators gluttoning on world hunger."

bit.ly/FoodCrisisBWIs

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ACCOUNTABILITY analysis

Why the IFC can't afford to squander this opportunity to get remedy right

By Robi Chacha Mosenda and Megan Pearson, Accountability Counsel

Responding to long-standing criticisms, the IFC is developing a remedy framework

The need for remedy mechanism is urgent given the legacy of harms resulting from IFC projects

Civil society stresses need for rights-based framework that addresses projects with verified non-compliance

Communities affected by development projects and their advocates have long known that development finance institutions (DFIs) do not adequately remedy harms caused by their projects (see *Observer* Winter 2021, Autumn 2020, Summer 2020). In response to a directive from its board in 2020, the International Finance Corporation (IFC), the World Bank's private sector arm, announced in April that it is developing a remedy framework and that it will seek public consultation on the plan later this year. It is critical that the IFC designs a rights-based remedial framework and that other DFIs quickly follow suit.

The responsibility of DFIs to provide an effective remedy for harmful projects is a human rights obligation essential to their "do no harm" development mandate. However, for communities seeking justice for abuse financed by the IFC, the World Bank, and other DFIs, remedy has been long overdue. For example, in 2013, tea workers in Assam, India, raised issues to the IFC's Compliance Advisor Ombudsman (CAO), its independent accountability mechanism, alleging dangerous living and working conditions at tea plantations co-owned by the IFC (see *Observer* Winter 2017). A 2016 compliance investigation verified that the IFC had violated its Performance Standards on Environmental and Social Sustainability, but to this day, the IFC has neither addressed harms done, nor facilitated remedy for the affected workers and their families.

Meanwhile, communities in Kampala, Uganda, facing evictions to make way for a drainage channel supported by a $175 million loan from the World Bank are calling for a more immediate response to abuses they are suffering. They have sought redress through the World Bank Accountability Mechanism's new Dispute Resolution Service (DRS) (see *Observer* Autumn 2021). This is the first case before the DRS, and it is a critical opportunity for the World Bank Group to ensure meaningful and sustainable remedy for the affected communities, who were not consulted adequately about the dispossession of their homes and land.

IFC's opportunity to set the bar on remedy

So far, the IFC, which heralds itself as a leader in corporate governance, is the only DFI that has committed to creating a remedy framework. How will we know if the IFC gets remedy right? The basic requirements of a rights-based remedy framework are already known. A February 2022 UN report on *Remedy in Development Finance* recommended that: (1) DFIs and their clients should both enable and contribute to remedy for ethical and legal reasons, and because remedy is essential to their development mandates; (2) opportunities to provide remedy be built into each stage of every project; (3) DFIs establish financing mechanisms for remedy; and (4) DFIs' accountability mechanisms be well resourced, and their mandates specifically include facilitating remedy.

The most important reflection of whether the IFC gets remedy right will be how it addresses the existing projects with verified non-compliance, like Assam and the multiple other projects that the CAO found to be non-compliant with the IFC's Performance Standards and dispute resolution processes that resulted in agreements. A truly rights-based remedial framework cannot only be forward-looking but must also commit to remedying the confirmed harms that communities are experiencing now.

The UN report exposed as "questionable" some of the arguments that DFIs have mounted for why they do not enable or provide remedy for harm, including concerns about moral hazard and exposure to legal liability. The worry that committing to remedy will disincentivise borrowers from following the DFI's performance standards fails to critically consider that adherence to these standards is already disincentivised: when project implementation falls short, the costs are already externalised away from borrowers to local communities. And arguments about legal liability often fail to consider the formidable costs and procedural hurdles facing communities who seek to bring legal actions against DFIs. Furthermore, adequately responding to accountability mechanism findings and recommendations in the first place may prevent legal liability down the road.

Given DFIs' emphasis on a risk-based approach, it is shocking that they fail to plan for the inevitable: That harms occur despite preventative efforts. By neglecting to set aside funds for remedy at the outset of every project, DFIs open themselves to the substantial risk that their operations will leave communities worse off than before. Now that the IFC is in a position to finally get remedy right, it can pave the way for other DFIs and usher in a new standard for development effectiveness. But if the IFC's new framework falls short of a rights-based commitment to remedy project harms, and if other DFIs, including the World Bank, don't quickly commit to establishing remedy frameworks, then local communities will continue to pay the price and continue to lack remedy for violations of their human rights.

bit.ly/IFCRemedy

Photo: Gudkov Andrey/Shutterstock

Woman collects tea on a tea plantation in a village in the province of Assam, India.

SOCIAL SERVICES news

World Bank's commitment to private sector-led development casts doubt on effectiveness of new Pandemic Preparedness Fund

Bank slated to be trustee of new fund, despite concerns about its private sector bias

Civil society calls for fund's board to include representatives of all stakeholders, including from the Global South

The World Bank's support for business interests, including through the World Bank Group president's stated opposition to the TRIPS waiver during the pandemic (see *Observer* Summer 2021) raises serious questions about its proposal for a Financial Intermediary Fund (FIF) for Pandemic Prevention, Preparedness and Response. The FIF, announced in the G20's Spring Meetings press briefing (see *Dispatch* Springs 2022), will leverage a range of private and public resources to support international initiatives, with the Bank providing financial intermediary services as trustee.

Civil society organisations (CSOs) have been strongly critical of the initiative. "Development actors should prioritise public over private provision, especially for primary healthcare, as recently noted by the Lancet commission on Primary Healthcare," said Marco Angelo, of Belgium-based Civil Society Organisation Wemos. He added, "Private provision negatively affects equitable access when it is not integrated in the public health financing system; when integrated, on the other hand, it can present many challenges."

Belgium-based CSO Eurodad also argued private healthcare should not be prioritised over public provision, echoing calls from experts at the 2021 World Bank and IMF Annual Meetings (see *Dispatch* Annuals 2021).

The proposed FIF raises several concerns, not least relating to the Bank's preferred support for the private sector at the expense of public provision. This was evident even in response to the Covid-19 pandemic, which clearly demonstrated the importance of integrated public health systems capable of providing universal access to quality healthcare.

The proposed TRIPS waiver and vaccine inequality

During the pandemic, World Bank President David Malpass opposed temporarily waiving intellectual property rights (The Agreement on Trade-Related Aspects of Intellectual Property Rights, better known as TRIPS) for Covid-19 vaccines, which would have allowed any country with the capacity to produce Covid-19 vaccines, potentially vastly expanding the global supply and allowing developing countries access to many more doses of vaccines at cheaper prices (see *Observer* Summer 2021).

Without the TRIPS waiver, which was supported by the vast majority of the Bank's own shareholders, low-income countries were forced to depend largely on an ill-suited international support system in which charity and solidarity played a disproportionate role, including through the World Bank-supported COVAX facility. As a direct result, as of March 2022 developed countries have fully vaccinated 79 per cent of their populations, while only 14 per cent of people in developing countries have been vaccinated. The recent deal on Covid-19 vaccine patents agreed at the World Trade Organization announced in June fell far short of a full intellectual property waiver and may even make it harder for countries to access vaccines in a future pandemic. Vaccine inequality is a large part of the reason why the death toll in developing countries was four times higher than in developed countries.

The Bank's support for pharmaceutical companies did not stop at Malpass's opposition to the TRIPS waiver. Last year, the Bank paid over $600 million to pharmaceutical giants Pfizer and Moderna for their Covid-19 vaccines, via contracts awarded through COVAX – $352.8 million to Moderna and $284.6 million to Pfizer. Pfizer doubled its overall profits last year on the back of its vaccine sales, while Moderna, selling only its vaccine, made $13 billion pre-tax profits on nearly $18 billion revenue.

Questions over FIF governance and representation

The proposed FIF also raises concerns about governance and representation. The suggested governance structure of this FIF would likely see the board primarily composed of large donors – namely wealthy countries from the Global North. Global South countries would likely be restricted to observers with little voice in key decision-making processes, even though they disproportionately bore the brunt of the Covid-19 pandemic and are likely to do so with any future pandemic. The proposed structure mirrors the Bank's own governance deficits and contravenes calls for democratisation of the multilateral system in general and of the BWIs in particular (see *Observer* Summer 2022)

Oxfam's response to the Bank's White Paper on the FIF called for the governing board to include key representatives of all stakeholders with equal weight for recipient and donor governments, and for the FIF to be hosted by the World Health Organisation, a recognised expert in the field of global health, and not the Bank.

bit.ly/WBGFIF

Photo: Viacheslav Lopatin/Shutterstock

COVID-19 vaccine in researcher hands, female doctor holds syringe and bottle with vaccine for coronavirus cure.

WB/IMF ROLES analysis

A new Bretton Woods for whom? Civil society calls for democratisation of global governance

Growing geopolitical tensions amidst worsening economic outlook threaten current multilateral order

Calls for a new Bretton Woods to support *status quo* and failed economic policies have become mainstream

Civil society demands democratisation of world economic order

As the unequal recovery from the Covid-19 pandemic and the war in Ukraine exacerbate pre-existing economic, climate, social and political challenges (see *Dispatch* Springs 2022), the multilateral order is once again in the mainstream spotlight. Calls now abound for a new Bretton Woods moment, recalling the establishment of the United Nations and the World Bank and IMF in the aftermath of World War II.

Calls for New Bretton Woods overlook the system's imperialist origins

On 18 April, the *Financial Times* published an article supporting US Secretary of State Janet Yellen's proposal for a new Bretton Woods arrangement in a 13 April statement. Secretary Yellen noted the need for a multilateral system in which countries are not able to "use their market position in key raw materials, technologies, or products to… exercise unwanted geopolitical leverage." US-based think tank Atlantic Council has recently launched a Bretton Woods 2.0 Project. Discussions about the need for a new international order have once again clearly moved beyond the confines of its 'usual critics' (see *Bretton Woods at 75 conference*; *Observer* Summer 2019).

Secretary Yellen's remarks about the need for a new Bretton Woods moment to respond to imbalances in global power and "unwanted geopolitical leverage" is rather strange when one considers the origins of the Bretton Woods system and the interests it was designed to protect. As professor Celine Tan from the University of Warwick notes, "the governance and operational structures of the Bretton Woods Institutions continue to represent contemporary geopolitical and economic realities rooted in colonialism and imperialism."

Given the obvious disparity in the nature of the critics, the pressing issue is therefore what vision of a reformed international order will prevail: One that perpetuates or deepens the interests of international and national elites and financial capital with roots in empire, or one that democratises global governance, redistributes power among states in the Global South and North, is able to respond to the climate crisis, enables all citizens to avail themselves of their human rights, and reverses the increasing financialisation of the global economy and related commodification of essential public services?

Calls for a new international order are not new. In February 2014, at the 70th anniversary of the Bretton Woods Institutions (BWIs, i.e. the World Bank and IMF), and in the aftermath of the 2008 global financial crisis, then IMF Managing Director Christine Lagarde delivered a speech in which she highlighted the need for a "new multilateralism for the 21st century." In it she called for a more inclusive multilateralism, based on the "values of a global civil market economy" and stressed that the system must support "a financial system that serves the productive economy rather than its own purposes."

As substantially documented, the former IMF Managing Director's assertions about the benefits of the system have been widely and robustly contested (see *Observer* Winter 2020, Autumn 2019; Briefing *Bretton Woods at 75*) both by the people who have suffered and continue to suffer from its consequences, but also by volumes of academic work. Despite Secretary Yellen's pleas for a new 'values based' multilateral system that legitimises the *status quo*, the importance of addressing its persistent critiques has only become more pressing in the aftermath of the Covid-19 pandemic and the food security (see *Observer* Summer 2022) and energy crises exacerbated by the war in Ukraine.

In response to multiple crises, advocates call for system reform, not a new Bretton Woods

Aside from persistent calls by civil society for the BWIs to accept their accountability under international human rights law and recent documentation from the UN Conference on Trade and Development (UNCTAD) that commodity dependence remains a trap and has increased since 2009, it is worth also noting that the putative poverty reduction claimed by advocates of the current system is disputed (see *Observer* Winter 2017-2018). That is, the current system has failed to deliver on its promises to reduce poverty and to bring about the economic transformation that would enable citizens to avail themselves of their human rights and live within ecological boundaries.

Any effort to develop a new Bretton Woods must thefore address the BWIs' inherently undemocratic governance structures by ending the gentleman's agreement (see Background, *What is the gentleman's agreement*), radically adjusting their voting and board structures and enhancing the ability of countries in the Global South to influence their policies and programmes. A new Bretton Woods would also address the IMF and World Bank's equivocal interpretation of their position within the UN system, where they refuse to accept their responsibility under international human rights law, and require them to develop a human rights framework and related policies.

A Financing for Development conference could provide an opportunity for progress in these areas. As underscored by Farwa Sial from Belgium-based civil society organisation Eurodad, "Current rethinking of the Bretton Woods Institutions is driven by its most powerful members serving their own interests. A Financing for Development summit at the UN would be a much more equal and effective setting, giving every country the chance to negotiate the blueprint for new rules and institutions governing global finance, the economy and trade. This would be an opportunity to break out of this power deadlock."

Within this context, the efforts of global social movements and allies such as Philippines-based Ibon International and the Asian People's Movement on Debt and Development, and women's rights organisations such as India-based Development Alternatives with Women for a New Era to reframe the discussion and call for a people-centred, just and ecologically sustainable world economic order, remain essential.

As Jason Braganza from the African Forum and Network on Debt and Development noted, "a rules-based system cannot ignore the voice of developing country regions like Africa anymore. The pandemic, climate, conflict, and other systemic challenges are all evidence of Africa's deepening role in the global politics, economics, and more broadly. Thus any reforms need to have African leaders at the table as rule makers not rule takers." Indeed, Professor Tan stressed that "a reformed international economic architecture would account for the impact that industrialised countries and their powerful financial actors have played in creating global collective problems from climate change to sovereign debt and financial crises to trade wars and military conflict. The responsibility for addressing these crises must rest on these powerful actors and they must account for their actions and make appropriate reparations" (see *Observer* Autumn 2020).

FfD4: A rare opportunity for concrete structural change?

While exchanges at the Eurodad 2022 conference in Brussels in June ranged from vaccine inequality to "Ensuring the primacy of human rights in times of systemic crises", discussions also took place concerning the importance of supporting calls for the likely forth UN Finance for Development Conference (FfD4) during 2023 to seek urgently needed structural reforms to the international architecture.

While recognising that the UN system is not immune from the power imbalances on which the current global economic order is anchored, participants noted that a 4th conference could provide an important mechanism for structural changes, such as a UN tax body, a UN debt workout mechanism or a global financial transaction tax. They highlighted that the UN's governance structure – which, unlike the BWIs – allows every state an equal voice and has a unique ability to take legally binding decisions that affect the international financial architecture, makes FfD4 an important forum for collective action.

Participants in the discussion also recognised that, given the interests aligned against significant structural changes, as articulated in the 'Billions to Trillions' agenda (see *Observer* Autumn 2017), the World Bank's Green, Resilient, Inclusive Development framework and increased reliance on ESG investments as a developmental tool, a truly concerted effort by social movements, civil society, labour unions and progressive academics will be required to counter efforts to use the 'new Bretton Woods moment' to deepen the current failed model and to take concrete steps toward a more just economic system.

bit.ly/NewBWMoment

Photo: Halfpoint/ Shutterstock

Placard from global strike for climate change.

PRIVATE SECTOR news

World Bank's IFC ends funding for fee-paying primary and secondary schools

The International Finance Corporation (IFC), the World Bank's private sector arm, announced on 8 June that it would not resume its investments in for-profit fee-paying private primary and secondary schools, following a critical report by the World Bank's Independent Evaluation Group (IEG) published in January.

This means the IFC's temporary suspension of all direct and indirect investments in for-profit schools announced in 2020 is now permanent (see *Observer* Summer 2020). The suspension followed a campaign mounted by civil society organisations (CSOs), in particular in Africa, and a March announcement that the IFC was divesting from for-profit education provider New Global Schools, previously known as Bridge International Academies (BIA; see *Observer* Spring 2022).

The IFC noted in a June 8 statement responding to the IEG evaluation that "there is potential" for investment in private schools to exacerbate inequality and have unintended consequences for the public sector school system.

The move was widely welcomed by CSOs, which have long criticised IFC's funding of for-profit education (see *Observer* Spring 2018). In a CSO statement, Magdalena Sepúlveda of the Global Initiative for Economic, Social and Cultural Rights called for the World Bank Group to provide "increased support to governments to build stronger and more equitable public education systems, through its public sector support."

The negative impacts of private capital investing in for-profit education providers, such as BIA, are now widely recognised. The right to inclusive and equitable quality education is enshrined in Sustainable Development Goal 4 (SDG), and last year, UNESCO's Global Education Monitoring (GEM) Report 2021/2 stated that "profit making is inconsistent with the commitment to guarantee free pre-primary, primary and secondary education."

bit.ly/IFCPrivateSchools

What is the World Bank's International Center for the Settlement of Investment Disputes (ICSID)?

A new Bretton Woods Project *Inside the Institutions* piece looks at the World Bank's International Center for the Settlement of Investment Disputes (ICSID), which is the main forum for Investor-to-State Dispute Settlements.

ICSID was established in 1966 by the Convention on the Settlement of Investment Disputes between States and Nationals of other States. Currently, ICSID includes 164 member states in contrast to the 193 member states of the UN.

The article details civil society concerns about ISDS, which allow states to be sued by foreign corporations alleging violations of international trade treaties – with such cases potentially undermining the human rights of communities affected by foreign investments, as well as frustrating climate action in cases where a phaseout of foreign-owned fossil-fuel infrastructure is required to meet national climate goals.

bit.ly/WBGICSID

FINANCE news

Highly indebted countries face further cuts to public spending to service debts, as IMF austerity bites

Highly indebted countries forced to prioritise debt repayments

Need for an effective mechanism of debt relief more urgent than ever

A May report by UK-based civil society organisation Debt Justice (DJ), formerly Jubilee Debt Campaign, found that public spending in the most indebted countries is falling or stagnating, "despite the need for countries to increase their spending in response to the food and energy prices hikes" (see *Observer* Summer 2022).

Using IMF data from 41 low-income countries where information is available, the report noted that "the countries with highest debt payments of over 15% of government revenue faced a drop in public spending of 3% between 2019 and 2023, compared to an increase of 14% for the countries with the lowest debt payments."

Currently, the only international mechanism for debt relief to which countries have access is the G20 Common Framework for Debt Treatments (see *Observer* Winter 2020). This has proven ineffective as none of the three countries that have applied have had any debt cancelled and the involvement of private lenders in this scheme is still unclear, despite several calls from civil society organisations (CSOs) and leadership at both the IMF and World Bank (see *Observer* Winter 2021).

Tess Woolfenden of Debt Justice highlighted that given the lack of an effective debt relief scheme, "Lower-income countries are being forced to prioritise debt payments over public spending on healthcare or access to food, right at a time when spending is so urgently needed... Debt repayments to wealthy lenders should not take precedence over people's needs in a time of multiple crises."

Inequality crisis worsens in the absence of solutions to rising debt

Debt and human rights experts have raised concerns about continued IMF-mandated austerity, warning that the inequality crisis will be exacerbated by hikes in food and energy prices (see *Observer* Summer 2022) and the high level of external debt payments – which according to DJ is now as its highest since 2001.

A 2021 paper by Isabel Ortiz and Matthew Cummins, which focused on projections of future spending to 2025, warned of a "post-pandemic fiscal austerity shock...far more premature and severe than the one that followed the global financial crisis." In a July 2021 blog, IMF Managing Director Kristalina Georgieva noted the Fund's concerns about "a worsening two-track recovery, driven by dramatic differences in vaccine availability, infection rates, and the ability to provide policy support" and called for "urgent action by the G20 and policymakers across the globe."

However, the IMF's own promotion of austerity measures in highly indebted countries (see *Observer* Winter 2021), and other policies such as IMF surcharges (see Inside the Institutions, *What are IMF Surcharges?*; *Observer* Spring 2022), are forcing countries to prioritise paying back their debts over meeting their international human rights obligations.

In July, UN Secretary-General Antonio Guterres stressed the need for immediate debt relief for low-income countries. He also noted that, "efforts are also needed to create sovereign debt workout mechanisms that can significantly reduce the disproportionate burden placed on developing countries, while bringing all creditors to the table."

Debt workout mechanism under UN auspices one key solution

Longstanding calls for a United Nations-based debt workout mechanism that guarantees responsible lending where all actors, including the private sector, take part in line with international human rights norms remain pressing (see *Observer* Spring 2022). The possibility of a 4th Financing for Development Conference (FfD4) could bring an opportunity to establish such a framework at the UN. As highlighted by the Civil Society Financing for Development Group, this mechanism would be key to "address unsustainable and illegitimate debt including through extensive debt cancellation" and move towards an economic system that "works for people and the planet."

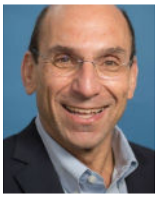
Sri Lanka recently witnessed the collapse of its economy, unilaterally suspending \$25 billion of foreign debt payments. Mass protests since March due to high levels of debt, the impact of the Covid-19 pandemic and the rising costs of commodities led to the president's resignation in July. Without urgent action taken to tackle the debt crisis, Sri Lanka is widely seen as a harbinger of more defaults by other countries to come.

bit.ly/DebtCrisisReport

Photo: Ruwan Walpola/Shutterstock

People stage a protest in front of the Presidential Secretariat Office in Colombo against the government of Sri Lanka in April.

ACCOUNTABILITY commentary



The IMF is changing and needs an independent ombudsman

By Danny Bradlow, American University Washington College of Law

The IMF has substantially expanded the scope of its work to include climate change, gender, the pandemic and inequality

The broadening of its work increases the risks to communities and individuals

The IMF must establish an ombudsman to receive and investigate complaints about the negative consequences of its programmes

The fact that the IMF has recognised that issues like pandemics, climate change, gender discrimination and inequality influence macro-economic stability is to be welcomed. So is the fact that the Fund has begun to incorporate these issues into its research and its regular consultations with its Member States, and is proposing to include them in the scope of financing facilities such as the Resilience and Sustainability Trust (see *Observer* Spring 2022).

However, it is concerning that the IMF has not yet fully recognised how these issues challenge its usual way of doing business.

They require the IMF to interact directly and systematically with non-state actors in its Member States so that it can understand how these issues affect communities, organisations and individuals, and how they may respond to particular IMF policy proposals. This increases the risk that the IMF's own activities may directly and adversely affect these non-state actors. The principles of good governance require that the IMF be accountable for these impacts.

This article argues that the IMF should appoint an ombudsman who can receive and investigate complaints about the way in which it has exercised its power. This will help the IMF address the operational challenges posed by these new issues.

Three challenges facing the IMF

First, these issues blur the boundaries between the macro- and micro-impacts of economic, social and environmental policies. For example, a full understanding of the impacts of climate policies includes assessing both their macro-level financial and fiscal implications, and their differential impacts on sub-national governments, businesses, communities, regions, and social groups. These impacts – and the response of these groups to them – can both affect the success of climate policies and have implications for inequality and discrimination in the Member State. The IMF, therefore, can only fully assess the likely success of the proposed policies if it consults with all these groups about the policy.

Second, policies addressing these new issues operate over longer time periods than the usual IMF operations. Thus, the IMF staff, in developing them, must take more variables into account. They must also directly consult with a broad range of state and non-state actors, who will now have time to adjust their conduct to the policies, thereby influencing their success or failure.

Third, the IMF staff and the Member State cannot address all of these issues in any particular country mission or financing arrangement. They will have to decide which ones to prioritise. The staff, therefore, will need to decide whom to consult about these choices and what information they should make available in these consultations.

These new issues, therefore, necessarily require IMF officials to take decisions that can have a substantial impact on the lives and wellbeing of the residents of its Member States.

The IMF has only partially responded to these challenges. For example, its current Guidance Notes envisage that staff can undertake consultations but do not establish formal procedures that staff should follow in deciding whom to consult or about which issues. They also do not provide staff with clear guidance on the scope of the impact assessments they should undertake (see *Observer* Summer 2021).

IMF needs mandatory staff guidance and an ombudsman

First, management should formulate a set of publicly available mandatory policies that explain how staff should manage the environmental and social aspects of macroeconomic policy. Staff should make decisions based on reliable data, appropriate consultations with all stakeholders and without fear or favour of any particular stakeholder. The policies should clarify the IMF's approach to information disclosure. They should stipulate the criteria for assessing the adequacy of consultations with all relevant stakeholders and the environmental and social impacts of current and proposed macroeconomic policy.

Second, the IMF board of executive directors should appoint an ombudsman who is independent of IMF management, reports to the board and can hold the IMF staff and management accountable for their compliance with these policies.

This official should have the authority to receive and investigate complaints from external stakeholders who claim they have been harmed by the failure of IMF staff and management to comply with the IMF's own operational policies and procedures. After completing the investigation, the ombudsman should submit to the Board a publicly-available report documenting its findings and making recommendations about how to address any harm caused by the IMF staff's non-compliance with the applicable policies and procedures. The ombudsman should also issue an annual report that, when appropriate, discusses the lessons it has learned about IMF operations from its investigations.

Currently, the IMF is the only international financial institution without an independent accountability mechanism. It is time it corrects this deficiency and appoints an independent ombudsman.

bit.ly/IMFOmbudsman

Photo: StockPhotoArt/ Shutterstock

Portuguese students protest against IMF austerity in Lisbon in 2011.

ENVIRONMENT news

Mozambique IMF loan moves forward amid serious sustainability and transparency concerns

Despite ongoing concerns about insecurity, high debt levels, and vulnerability to natural disasters, on 9 May the IMF approved a $456 million Extended Credit Facility (ECF) loan to Mozambique. While Article IV consultation documents have still not been published two months later, the accompanying press release indicates that the debt sustainability analysis was likely once more based on the assumption of long-term growth prospects from Mozambique's major liquefied natural gas (LNG) projects.

Contrary to this assessment, a detailed May 16 report from civil society organisation (CSO) Friends of the Earth asserted that the discovery of gas has been closely connected to destabilisation, displacement, disappearance of journalists and other human rights violations. Meanwhile, due to fluctuating commodity prices, security concerns – leading French investor Total to declare *force majeure* on its offshore LNG project in 2021 – and World Bank-advised tax breaks for gas developers, the expected "tremendous" economic windfall for Mozambique is now projected to be much smaller than anticipated (see *Observer* Autumn 2020).

The accelerating climate crisis and resulting long-overdue global policy shift towards renewable energy generation – including in key importer markets such as the EU – mean the LNG export projects risk becoming a stranded asset in future. This would have serious potential ripple effects on Mozambique's debt sustainability and development prospects, as highlighted in two separate in-depth analyses by think tank Open Oil and UK-based think tank E3G in 2021. "IMF modelling was a key factor in inflating the bubble of expectations on gas in Mozambique," according to E3G. While the Fund has tamed its revenue projections and the board admits that "risks remain significant", the ECF went through nevertheless, calling into question the rigour of the IMF's risk assessment. Environmental activists Nnimmo Bassey and Anabela Lemos emphasised in a February article in *Foreign Affairs* that, "Instead of pouring more money into fossil fuel production and perpetuating the crises many African countries face… investments in renewable energy would produce an economic model that is cheaper, more reliable, and more democratic."

bit.ly/MozambiqueIMFLoan

PRIVATE SECTOR news

Report on privatisation of Kenya's healthcare highlights human impact of World Bank's private sector bias

A November 2021 report by the Center for Human Rights and Global Justice at New York University (NYU) titled *Wrong Prescription: The Impact of Privatising Healthcare in Kenya* provides a damning picture of the rapidly expanding role of private sector healthcare in Kenya promoted by the World Bank under its Maximising Finance for Development (MFD) approach (see, *Observer* Spring 2022, Summer 2017). It finds that privatisation can compromise universal access to healthcare (a human right under both the Kenyan Constitution and international human rights law) by diverting resources away from the public sector and prioritising services focused on profit. The trend of financialisation, both generally and of essential public services in particular, has been noted by civil society as a concern for states fulfilling their human rights obligations (see *Observer* Spring 2022).

Despite well-founded concerns, Kenyan policymakers, urged on by development actors such as the World Bank, have adopted policies to increase private sector participation in the country's health system by subsidising private care, pursuing public-private partnerships (PPPs; see *Observer* Autumn 2015) and offering tax incentives to investors. The NYU report concludes that healthcare privatisation in Kenya is bad value for taxpayers and has had severe negative human rights impacts for Kenyans, proving costly for individuals and the government while pushing Kenyans into poverty and crushing debt.

The report adds to civil society concerns about the promotion of private solutions by international financial institutions (IFIs). The report states that private actors are "insulated from the obligations and democratic processes associated with the public sector", and international actors who influenced Kenya into privatising its healthcare system are "arguably even less accountable" than private actors. The World Bank and others failed to respond to questions from the authors about whether they assess the impact of their support for private sector healthcare on human rights, social risks, or access to healthcare.

Joint author Rebecca Riddell commented: "The World Bank has aggressively pushed for more private sector participation in healthcare in Kenya, despite widespread concerns about rising costs, inequality in access, and uneven quality of care. These are not just minor problems that can be downplayed or blamed on regulators—they really go to the core of whether the MFD approach is fit for purpose."

bit.ly/WBGKenya

ENVIRONMENT news

Resilience and Sustainability Trust: Will "qualifying reforms" bring long-overdue institutional shift?

IMF and World Bank to define "qualifying reforms" to access finance from new RST fund over the summer

BWIs' questionable track record on climate and fossil fuel finance calls into question their expertise to determine countries' climate policies

After a year-long civil society campaign calling on rich countries to re-channel their unused Special Drawing Rights (see Inside the Institutions, *What are Special Drawing Rights (SDR)?*) to poor countries struggling with Covid-19 pandemic response, climate shocks and growing debt burdens, in April the IMF established the Resilience and Sustainability Trust (RST; see *Dispatch* Springs 2022). As the IMF ventures into lending for long-term balance of payment challenges for the first time, the RST's design remains flawed: Eligibility is tied to countries having an existing IMF programme; disbursement is via loan financing with a tiered interest structure, rather than grants; and a quota-based access limit means countries with small quotas or high levels of existing debt will hardly benefit (*Observer* Spring 2022). Moreover, the $45 billion funding aspiration seems staggeringly unambitious compared to the minimum $6 trillion of climate finance needs calculated by the UN Climate Change Conference (UNFCCC), especially given that G7 countries currently have $1 trillion in SDRs on their balance sheets.

The RST will also require countries to undertake yet-to-be-defined 'qualifying reforms' related to climate change or pandemic preparedness to access finance, with the IMF working with the World Bank to design these reforms. The April RST board paper emphasised that reforms would be identified by Fund and Bank staff, and national authorities' strategies considered only "where applicable", casting doubt on a truly country-led approach. Other sources of expertise like the UNFCCC or civil society remain unmentioned. The accompanying press release suggests "reforms supported by the Trust are also intended to catalyse increased financing from the private sector," indicating an unwavering focus on a market-led transition.

Given the ubiquity of fiscal consolidation measures across almost all recent IMF loan programmes (*Dispatch* Springs 2022), as well as the contradictory approach of both institutions on climate and fossil fuel investment (*Observer* Winter 2021, Autumn 2021), the implications of the Fund and Bank assuming decision-making power over countries' climate policies and related public spending needs are problematic. Indeed, in an April report, Chiara Mariotti from Brussels-based civil society organisation (CSO) Eurodad highlighted "serious risks that the RST will lock countries into multiple frameworks of conditionality and undermine their already limited policy space."

IMF's expertise to prescribe climate policies remains questionable

Recognising the "macro-criticality" of the transition risks of the economic transformation away from fossil fuels, the IMF developed a climate strategy in 2021 that included proposals for a serious expansion of staff capacity (*Observer* Autumn 2021). However, research by ActionAid USA and the Bretton Woods Project published in August 2021 demonstrated that the Fund advised over half its members to continue investing in fossil fuels in the six years prior, including expanding fossil infrastructure, privatising energy and utility companies, and more. Mozambique is a case in point (see *Observer* Summer 2022, Autumn 2020), where the Fund predicted a coal and offshore gas boom and developed a regime of tax breaks for investors, only for the main coal mine to become a stranded asset, and the country's flagship gas project to be halted over increased insecurity and violence. Mozambique's debt has ballooned partly as a result, an outcome that a serious assessment of transition risks might have accounted for.

While the IMF can – in theory – play a crucial role in navigating the macroeconomic impacts of climate change and mitigation policies to support a just green transition, including through the RST, this will need a deep institutional shift beyond scaling-up climate staff and collaboration with the World Bank. "The current approach is a continuation of the type of policies that the IMF and World Bank have imposed since the era of Structural Adjustment Programs, which have for decades failed to deliver meaningful outcomes on development goals," said Lara Merling of Boston University's Global Development Policy Center. "It's unclear how doubling down on the same approach is now expected to result in a different outcome on achieving climate goals, while also supporting countries' development outcomes."

bit.ly/RSTClimate

Photo: IMF Photo/Raphael Alves

A young woman arranges clothes on the clothesline of her house, a floating one located on the banks of the Rio Negro on the edge of the village of Cacau Pirêra, in Iranduba, Amazonas, Brazil on April 2021.

GENDER news

World Bank's new gender strategy: Concerns about approach to social protection and gender-blind macroeconomic reforms remain

Care and social protection may be potential focus of new World Bank gender strategy

Civil society cautions that Bank's proposed support for privatised childcare provision risks repeating past mistakes

With the World Bank's current gender strategy set to expire next year, hints of the focus of the new strategy are keenly anticipated. While the Bank has confirmed that development of the strategy is yet to begin, a focus on care and social protection has emerged in its gender work. One challenge for the Bank will be to stop undermining the targeted work of the gender team with fiscal consolidation and regressive tax-focused loan conditions in its Development Policy Financing. The Bank's current gender strategy, for fiscal years (FY) 2016-23, focuses heavily on themes such as improving human endowments, removing constraints for more and better jobs and removing barriers to women's ownership and control over assets. Civil society have criticised the strategy's instrumentalist approach to women's empowerment, the lack of a system of accountability, and the absence of a macroeconomic lens (see *Observer* Winter 2016).

IDA20 replenishment provides insights into direction of travel of Bank's gender work

Possible insights into what may lie ahead can be gained from the 20th replenishment of the International Development Association (IDA), the Bank's low-income country arm, in December 2021, where a range of gender policy commitments were made. The Gender and Development special theme contains a commitment to support "at least 15 IDA countries to expand access to quality affordable childcare, especially for low-income parents," which has resulted in the creation of a Childcare Incentive Fund.

A briefing note for the Childcare Incentive Fund makes clear that it will seek to both expand public provision of childcare, as well as support for 'non-state' actors, including 'chains of private providers'. However, recent negative outcomes of the Bank's support for for-profit education providers (see *Observer* Summer 2022) and privatised healthcare (see *Observer* Summer 2022), raise serious concerns that the fund will serve as a vehicle for further Bank-promoted privatisation of vital social services. Fiana Arbab of Oxfam International commented, "It is deeply concerning to see expectations of the 'nonstate sector to expand provision' including for-profit enterprises, and 'chains of private providers' in the Bank's current draft concept note on the Fund knowing there is significant evidence from for-profit models in the K-12 education sector that demonstrate when there are fees, no matter how low, certain income groups are excluded. For-profit models should therefore be avoided altogether due to the gender and economic inequality and quality of provision impacts."

Bank must ensure its macroeconomic policy does not undermine gender equality

The Bank also risks overriding more targeted gender efforts if its macroeconomic policies remain gender blind. The Bank continues to support austerity policies through prior actions in its development policy finance instrument (DPF; see Inside the Institutions, *What is World Bank Development Policy Financing?*; Briefing, *Learning lessons from the Covid-19 pandemic: The World Bank's macroeconomic policies and women's rights*), which have a particularly negative impact on women and girls, as the burden of stretched household income and reduced public services is felt mostly by them. The continued adherence to fiscal consolidation and touting of for-profit "alternatives" in the midst of severe crises contradicts the Bank's commitment to the Sustainable Development Goals and risks undermining its own gender targets.

Elsewhere, civil society has critiqued the implementation of current Bank social protection policies. In a June 2020 report, UK-based consulting firm Development Pathways highlighted the contradiction between the World Bank's stated focus on 'universal social protection' and evidence of its continued promotion of a targeted approach to it. The Bank has a history of advocating for the implementation of targeted, means-tested protection systems, which can lead to significant targeting errors, often not reaching those who need support the most (see *Observer* Spring 2018).

On the World Bank's work going forward, Mareen Buschmann of Care International UK noted, "Covid-19 has rolled back progress on gender equality by a generation, and for instance increased the time that women and girls spend on unpaid care and domestic work by a further 30-40 per cent... We'd encourage the Bank to go beyond childcare, expand the country portfolio to 25-30 IDA countries accelerating action, invest in creating decent care jobs, and integrate a gender lens across recovery from crisis, be it from Covid, conflict or the climate emergency."

bit.ly/WBGCare

Photo: Dominic Chavez/World Bank

Families wait to see a nurse to vaccinate their children at the Howard Karagheusian primary health care center, in Beirut, Lebanon.

FINANCE news

Restart of Pakistan's IMF loan agreement collapses with change in government, as soaring costs of IFC-supported LNG add to fiscal pain

Pakistan has reopened negotiations with the IMF to resume a $1 billion disbursement of its stalled $6 billion Extended Financing Facility, after prime minister Imran Khan was ousted in April following a no-confidence vote, scuppering a deal to restart the loan programme (see *Observer* Spring 2022).

The previous restart of Pakistan's IMF loan had drawn the ire of Pakistani environmental civil society groups, as a mini-budget linked to the programme had removed tax breaks for imported renewable energy components and electric vehicles, in a blow to the country's agreed national climate targets (see *Observer* Spring 2022).

According to a 3 June article in the *Financial Times*, Pakistan's government is now increasing the cost of energy to its citizens – despite the global food and fuel crisis (see *Observer* Summer 2022) – in an effort to meet the IMF's conditions. The *FT* noted, "The government...has raised fuel prices by more than a third in two separate moves this month after requests by the IMF to remove subsidies."

Among the issues exacerbating Pakistan's fiscal crisis is its growing reliance on importing liquefied natural gas (LNG). A June report from the US-based International Institute of Energy Economics and Financial Analysis (IEEFA) found that, "Increasing reliance on LNG has exacerbated energy insecurity and financial struggles for the government, household and business, and economic sectors," warning that this has exposed the country to commodity price shocks.

The International Finance Corporation (IFC), the World Bank's private investment arm, played a pivotal role in investing in Pakistan's first LNG import terminal in 2015, providing $35 million in loan and equity support to the project, according to research published in April by Netherlands-based civil society organisation Recourse.

bit.ly/IMFPakistanLoan

LAND news

IFC approves loan to industrial agriculture producer in Brazil despite pleas for protection of sensitive grassland biome

On 1 July, online environmental publication *Mongabay* reported the approval of a $200 million loan by the International Finance Corporation (IFC), the World Bank's private sector lending arm, to "industrial agricultural producer Louis Dreyfus Company (LDC) for monoculture soy and corn production in Brazil's Cerrado, a grassland biome that has lost nearly 80% of its habitat cover."

The decision was heavily criticised by local human rights and environmental protection organisations. The loan was approved despite a 31 May letter signed by over 200 Brazilian, Latin American and international civil society organisations, including Amigos da Terra – Brasil and Haki Nawiri Afrika, calling on the executive board to reject the loan. The letter argued that LDC would use the proceeds from the IFC loan to purchase commodities from the "heavily threatened Cerrado biome of Brazil, the world's most biodiverse savanna that has already lost roughly half of its native vegetation to agribusiness."

The letter also highlighted the risk of human rights violations and land conflicts, deforestation and environmental degradation in the sensitive Cerrado, and noted that the corn and soy would be principally used for animal feed in damaging industrial farming operations. It is concerning that the IFC chose to support agricultural production being used for animal feed. Given the evolving food crisis, the orgins of which are rooted in the financialisation of food systems and predate the war in Ukraine (see *Observer* Summer 2022, Spring 2020), the use of the resources for animal feed is nonetheless a concern in light of the current context. Additionally, the letter noted that, "LDC lacks a full traceability system and its zero deforestation policy does not fully apply until the end of 2025."

The letter cited research that alleges that LDC and its subsidiaries have contributed to deforestation and land conflicts and stressed that the loan is inconsistent with the World Bank's climate commitments (see *Observer* Summer 2021).

bit.ly/IFCBrazil

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