

BRETTON WOODS observer

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

FINANCE

analysis

G20 review calls for increased MDB lending as World Bank ignores urgent need for policy changes



G20 independent review of MDB capital adequacy frameworks calls for reforms to enable increased lending

World Bank crisis response framework proposes continuation of market-led approach and related reforms

Bank stresses its capital structure was not developed to respond to multiple crises, raising the possibility of future capital increase

In July the G20 [published](#) an independent review of multilateral development banks (MDBs) capital adequacy frameworks (CAFs). The review follows a 2015 G20 [Action Plan on Balance Sheet Optimization](#) and, as summarised in a Devex [article](#) in July, proposed that MDBs undertake a concerted effort to boost their lending, including a decreased reliance on external credit rating assessments. The review stressed the proposed recommendations would result in increased lending capacity by MDBs during times of extreme resource constraints, thus improving global crisis response.

Also in July, the World Bank published a [report](#) titled *Navigating Multiple Crises, Staying the Course on Long-term Development*, broadly outlining the institution's response to "the crises affecting developing countries."

The report follows the Bank's '[Proposed Roadmap](#)' launched in April in response to the war in Ukraine. It sets out four interlinked pillars, combining crisis response and long-term development: (i) Responding to food insecurity; (ii) protecting people and preserving jobs; (iii) strengthening resilience; and (iv) strengthening policies, institutions and investments.

The Bank's report makes for sombre reading and identifies the crises as composed of the consequences of the "COVID-19 pandemic, the war in Ukraine, food and nutrition security, high energy prices, tightening financial conditions, risk of debt distress, and climate disruptions." While increased inequality is referenced, it is not included in the elements comprising the current crises. Also notable by its absence is the [austerity](#) crisis and mention of the lack of progress on economic transformation (see *Observer* [Winter 2017-2018](#)), with many countries

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still [dependent](#) on commodity exports, and long-term decline of state capacity resulting in no small part from World Bank and IMF-supported policies such as privatisation of health, education and other essential public services (see *Observer* [Summer 2022](#), [Summer 2021](#), [Winter 2020](#)).

Optimising MDB balance sheets: Whither the optimisation of development impact?

Rodolfo Lahoy of Filipino civil society organisation IBON International spoke for many communities and individuals negatively impacted by World Bank policies in stressing that, "the Bank talks of crisis response but remains silent on its own responsibility for crises. Each day that passes that the Bank leaves its development approach unchanged, even evading responsibility for policy failures, the more we can understand why social movements are sceptical about its continued operations in the Global South."

The World Bank's crisis response framework makes it clear that additional capital made available through changes to its CAF will

not result in urgently needed increased development impact. It is telling that the report fails to consider any links between the crises it identifies and the Bank's reliance on private sector-led and [financialised](#) approaches to development (see *Observer* [Spring 2022](#); *Dispatch* [Springs 2020](#)). It is disappointing, for example, that references to the evolving food security crisis fail to engage with the well-documented impacts of the financialisation of food production and related financial speculation on food prices (see *Observer* [Summer 2022](#), [Spring 2020](#)).

Likewise, while the report highlights that “delivering and administering vaccines remains an urgent need,” it refrains from commenting on the catastrophic consequences of the unwillingness of some of its principal shareholders to support – and World Bank President David Malpass's [opposition](#) – the temporary waiver of intellectual property rights (TRIPS) to facilitate urgently needed production of Covid-19 vaccines in middle- and low-income countries (see *Observer* [Summer 2022](#), [Spring 2021](#)). It also fails to engage with the well-documented negative impact of Bank-supported privatisation of public services, including health services (see *Observer* [Summer 2022](#)). The implications of these shortcomings are heightened by the fact that pillar three of the proposed approach focuses precisely on crisis and pandemic preparedness and support for “adaptive social protection systems”, rather than on universal coverage.

Response anchored on GRID-enabling institutional reforms

Civil society concerns are further exacerbated by the proposed focus of the Bank's Green, Resilient, Inclusive Development (GRID) approach, with the report emphasising that “WBG interventions under Pillar 4 will focus on long-term policies to advance the GRID agenda and help rebuild better.” This is despite long-term civil society and others' [criticisms](#) of the Bank's Maximising Finance for Development framework (see *Observer* [Summer 2017](#)), which has now been incorporated into GRID, as [discussed](#) during last April's Spring Meetings Civil Society Policy Forum. Worryingly, the report emphasises throughout that the Bank's responses will be heavily reliant on [development policy financing](#) (DPF), an instrument which requires conditions (i.e. ‘prior actions’) in return for budget support loans or grants, and falls outside the institution's social and environmental safeguards (see *Dispatch* [Springs 2021](#)), as outlined in a civil society

[submission](#) to December's DPF retrospective. It is evident that DPF will continue to be actively used to imbed reforms the Bank considers necessary to create a [business enabling environment](#), thus further contributing to long-term negative consequences of what Professor Daniela Gabor from the University of Bristol calls the [Wall Street Consensus](#), i.e. the ‘derisking’ of private sector investments by MDBs and governments (see *Observer* [Autumn 2022](#), *Dispatch* [Annals 2021](#)).

The document highlights that the World Bank projects the disbursement of \$170 billion (with \$60 billion in ‘climate co-benefits’) in support of its crisis response during the next 15 months (April 2022 to June 2023). However, it stresses that the proposed 15-month financing plan “will stretch WBG finances and limit availability of World Bank financing in later years,” raising the prospect of a future capital increase on the horizon (see *Observer* [Autumn 2018](#)).

The Bank's proposed crisis response framework makes it clear that the G20 proposal does nothing to address the fundamental need for MDB policy reforms required to ensure increased resources contribute to solutions to the multiple crises faced by humanity and the poorest in particular.

[bit.ly/WBGLending](#)

Follow BWP's World Bank and IMF 2022 Annual Meetings Dispatch

For the first time in three years, this year's World Bank and IMF Annual Meetings will happen in person, in Washington DC. The meetings will take place from 10-16 October with the Civil Society Policy Forum (CSPF) running between 11-14 October. Key themes in the discussions will be: The World Bank and IMF's response to the worsening global food and energy crisis; worsening debt distress in many countries; the Bretton Woods Institutions' response to climate change; both institutions attempts to mainstream gender; and institutional governance changes, including IMF quota reform.

The Bretton Woods Project will provide analysis of the meetings' communiqués, notes from CSPF seminars and more on its dedicated [Dispatch page](#).

[bit.ly/Annals2022](#)

For additional online content for this issue of the *Observer*, see [brettonwoodsproject.org/observer](#)

Para la versión en español, visite: [brettonwoodsproject.org/es/observador](#)

RIGHTS

news

‘Uber Files’ and ‘Back off BlackRock’ campaign expose ‘pink washing’ as the heart of corporate women's economic empowerment agenda

Following outcry from civil society organisations (CSOs), UN Women has put on [hold](#) a controversial partnership with BlackRock, the world's largest investment fund manager. Nearly 600 CSOs signed a [letter](#) in August demanding its termination, citing BlackRock's history as a “morally bankrupt” institution and major investor in fossil fuels and weapons manufacturers.

This case reflects increasingly brazen attempts at corporate capture of development and global governance spheres via ‘pink washing’, allowing corporations to position themselves as empowering women, while undertaking actions that harm them in search of profit.

This has not stopped the International Finance Corporation (IFC), the World Bank's private sector arm, from partnering with Uber and touting the gig economy for “empowering women economically”. The recent ‘Uber Files’ is a case in point, with Uber claiming it empowers women, while undermining labour rights (see *Observer* [Summer 2021](#)).

In response to the ‘Uber Files’, University of Birmingham's Professor Kate Bedford [stressed](#) “[IFC's involvement] matters because the World Bank Group is highly influential in international development.”

[bit.ly/PinkWashing](#)



Quota reform needed at IMF in order to address 21st century challenges

Guest analysis by Lara Merling, Global Development Policy Center, Boston University

As IMF leadership gathers for Annual Meetings, progress must be made on quota review due for completion in 2023

Current quota formula in urgent need of reform to enable countries to respond to escalating crises

IMF legitimacy at stake as risks of fragmentation to multilateral order increase

The IMF is a multilateral institution with global membership, yet the countries that chose its leadership do not make up a majority share of the global economy, or the world's population. So why do they get to run the show? A “[gentleman's agreement](#)” dating to 1944, grants an American the role of World Bank leader, and reserves IMF leadership for a European (see Background [What is the ‘gentleman's agreement’?](#))

The responses to the ongoing crises, particularly interest rate hikes in advanced economies that are [harming](#) the rest of the world, reinforce suspicion these countries are looking out for their own interests.

The power dynamics between countries' formal and informal influence over other decisions at the IMF are similar. The US holds sufficient [voting power](#) to veto major decisions within the Fund, and along with other members of the G-7 and the European Union has an overall voting majority. The [voting power](#) of countries is determined by their quota share, adding to it a number of “basic votes” evenly distributed amongst all members. Basic votes only make up 5.5 per cent of the total, with voting power [closely](#) tracking quota distributions (see Inside the Institutions [IMF and World Bank decision-making and governance](#)). Quotas are also used to determine the distributions of Special Drawing Rights allocations. These require an 85 percent majority, making them subject to US veto. This results in the inequitable distribution of SDRs, which have largely gone to high-income countries to the disadvantage of those that urgently need additional non-debt resources to respond

to the evolving crises (see *Observer* [Autumn 2021, Spring 2021](#)).

At the IMF, countries are represented by 24 executive director offices that represent its 190 members. Eleven offices are controlled by one single country that holds a majority of the votes within that office. This distribution further dilutes the voices of middle- and low- income countries, with Sub-Saharan African countries represented by only two executive directors.

Quota reform remains elusive, reflecting the IMF's democratic deficit

IMF quotas, assigned to members when they join the IMF, are supposed to reflect their relative importance within the global economy and determine contributions to the Fund's resources. IMF quotas are periodically reviewed but in the last 30 years, only two reviews resulted in a quota increase (see *Observer* [Summer 2019, Winter 2018](#)). The US veto power has meant that recent changes to the size and distributions of quotas resulted in tweaks to the formula, maintaining the US veto (see *Observer* [Winter 2019](#)).

Claims that linking contributions to voting power is necessary to safeguard resources are questionable. To meet financing needs, the IMF turned to separate arrangements with specific countries, which does not grant them additional voting power. Furthermore, the IMF's preferred creditor status means there is little reason for concern about non-payment from borrowers, as such a move has acutely negative impacts on their perceived creditworthiness.

Access limits and policies on IMF fees are still based strictly on quota shares. The IMF charges penalty fees – known as surcharges (see Inside the Institutions [What are IMF surcharges?](#)) – to countries that borrow above 187.5 per cent of their quota or with outstanding debt after 36 months – 56 months in the case of credit under the Extended Fund Facility (see *Observer* [Winter 2022](#)). The IMF defends this as required to discourage excessive use of resources by a

small number of countries. However, with quotas not increasing to match needs, it is almost the norm for loans to exceed that threshold: as of July 2022, 12 out of 16 active loans exceeded 187.5 per cent of each borrower's quota. This situation is likely to worsen, as the global economic outlook darkens.

The IMF's own [metrics](#) and evaluations concede that few of its programmes succeed on their own terms, and in most cases, programme countries fail to meet the IMF's growth projections (see *Observer* [Autumn 2022](#)). The austerity measures imposed by the IMF are linked to worse outcomes on poverty and inequality (see *Observer* [Summer 2022](#)). Yet, the countries at the receiving end of programmes that fail, or harm, people have no means to hold the IMF accountable (see *Observer* [Summer 2022](#)). Over the last 20 years, of a total of 275 completed IMF programmes, only 7 were in advanced economies, and 117 were in Sub-Saharan Africa, a region that only holds 3.5 per cent of voting shares.

As the IMF takes on the issue of [climate change](#), it means that advanced economies, historically large emitters, will guide and decide the IMF's approach. Climate Vulnerable Forum countries, which control only about 5 per cent of votes – despite being home to over 1.4 billion people – will have no say in shaping IMF's policy (see *Observer* [Autumn 2022](#)).

For the US and its peers to live up to their commitments on supporting multilateralism and a “rules-based” order, they need to support reforms of the IMF's governance structure that allow all countries to have a voice in how the rules are made. Only an IMF that is responsive to the needs of all members and not just creditor countries, as well as accountable when it fails, can maintain its legitimacy. The ongoing review of IMF quotas, to be concluded at the end of 2023, is the perfect opportunity to deliver on these needed reforms.

🔗 bit.ly/QuotaReformIMF

IMF seeks to ‘unleash’ private climate finance, as experts question ‘de-risking state’ model

New IMF staff note argues IMF can play a “catalytic role” in mobilising private climate finance

Academic experts argue approaches to decarbonising finance must go beyond ‘de-risking’ to green ‘credit allocation policies’

The IMF [released](#) a new staff climate note in August entitled *Mobilizing Private Climate Financing in Emerging Market and Developing Economies*, which laid out the IMF’s potential role in helping to increase private finance flows to finance climate action and decarbonise financial markets. An accompanying [blog](#) co-written by IMF Managing Director Kristalina Georgieva on 18 August argued, “we need a major shift to harness public and, especially, private [climate] financing. With \$210 trillion in financial assets across firms,...the challenge for policymakers and investors is how to direct a big share of these holdings to climate mitigation and adaptation projects.”

The staff note, which is not official IMF policy, followed calls by the US Treasury for multilateral development banks to develop plans for mobilising private climate finance by the UN Framework Convention on Climate Change’s 27th Conference of Parties (COP27) in November in Egypt, per [reporting](#) by *Reuters* in July. BlackRock CEO Larry Fink also [called](#) for the World Bank and IMF to do more to de-risk private climate finance in emerging markets at a July meeting of the G20’s finance ministers.

However, the staff note included a series of warnings about the challenges such an agenda faces. Efforts to de-risk projects to entice private sector investment may lead to significant contingent liabilities, with states footing the bill (see *Observer Autumn 2022*). The note also acknowledged the unhelpful role that investor-to-state dispute settlement claims currently play in protecting fossil fuel investments and frustrating climate policy (see *Observer Autumn 2022*, *Winter 2020*). It pointed out that large private climate finance inflows that are not accompanied by increased domestic capabilities in low-carbon manufacturing or large critical minerals endowments could themselves have a destabilising impact on countries, leading to current account deterioration and affecting their balance of payments outlook.

The IMF staff note suggested, “The IMF can play an important role... [in mobilising private climate finance] through its instruments, including surveillance, capacity development, risk assessments, and climate diagnostic tools. In addition, the RST [the IMF-based Resilience and Sustainability Trust] can act as a catalyst in leveraging private sector financing” (see *Observer Autumn 2022*). The note argues key levers governments can pursue to attract private climate finance include announcing and implementing climate-related policy reforms; public investment in green infrastructure to create investment opportunities; and developing relevant green taxonomies to support the low-carbon transition.

Beyond the Wall Street Climate Consensus? Experts call for green ‘credit allocation’ approaches

In the face of growing calls to de-risk green investments for the private sector, macroeconomic policy experts have called for different policy pathways to manage the transition to a decarbonised global economy more effectively. A new [working paper](#) from academics Katie Kedward, Daniela Gabor and Josh Ryan-Collins published in early August called for a shift to an ‘allocative green credit policy regime’, as an alternative to the market-led ‘de-risking’ of private investments, with such a regime being “organised around green industrial policy objectives and democratically agreed green missions.” The paper “draws on post-war credit policy regimes...but also deals with the specific challenges posed by market-based finance.”

“It’s great to see that the IMF acknowledges that local fiscal resources should only be derisking private flows in combination with policies to increase domestic green manufacturing capacities,” said Gabor of the IMF staff note. “The next step is for the IMF to take this seriously and set out a framework for this more developmental derisking.”

bit.ly/PrivateClimateFinance

Will IMF Strategy for Fragile and Conflict-Affected States escape traditional focus on austerity?

While the IMF’s recently issued Fragility and Conflict-Affected States (FCS) [strategy](#) has incorporated many civil society [concerns](#), questions remain as to what extent the IMF will prioritise integrating a conflict sensitive, political economy approach that focuses on rebuilding the social contract and conflict prevention into its usual programming focused on fiscal consolidation measures.

The strategy, issued in March, recognises state fragility and conflict as macro-critical issues, and calls for a tailored approach that “factors in the drivers of fragility, political economy dynamics, and specific constraints to reform in each country...in coordination with other partners.”

This stress on working with partners,

presumably international organisations like the UN and relevant civil society groups, is likely to be critical moving forward as the IMF does not have expertise in the field of state fragility and conflict and will benefit from their expertise.

bit.ly/FCVStrategyIMF

ENVIRONMENT

news

Pakistan calls for climate reparations, as CSOs push for fresh SDR allocation to ease multiple crises

Non-debt forms of financing essential, as many countries on front line of climate change face 'polycrisis' that threatens macroeconomic stability

Questions remain about how the IMF's new Resilience and Sustainability Trust will align resilience aims with Fund's rigid limits on spending

As [calls](#) for climate reparations grow amidst the worsening climate crises, the stark gap between them and global economic governance remains yawning – with Pakistan offering a poignant illustration.

Following historic monsoon flooding – which impacted one-third of the country's districts and caused an estimated \$10 billion in damages – Pakistan's climate minister Sherry Rehman said in a September [interview](#) with UK newspaper *The Guardian*, "There is so much loss and damage with so little reparations to countries that contributed so little to the world's carbon footprint that obviously the bargain made between the global north and global south is not working." Rehman's words echoed a [growing chorus](#) of Southern voices calling for climate reparations and [debt relief](#) to address loss and damage from climate change (see [Observer Winter 2021](#)).

However, the conditions associated with Pakistan's recently restarted IMF Extended Fund Facility (EFF; see [Observer Summer 2022](#), [Spring 2022](#), [Winter 2021](#)) – the

Fund's executive board [approved](#) a \$1.1 billion disbursement in September as part of the country's efforts to ward off a sovereign debt default – demonstrated the macroeconomic straight-jacket in which many low- and middle-income economies find themselves. The mini-budget approved as part of the restarted EFF requires widespread tax increases, the removal of consumer fuel subsidies, and power sector reforms, while also setting rigid limits on public spending, in line with wider IMF austerity prescriptions (see [Observer Autumn 2020](#)). Although Pakistan's government did a U-turn on previously announced plans to scrap tax exemptions on imported solar power components (see [Observer Spring 2022](#)), other tax exemptions for green technology were removed from Pakistan's IMF-backed budget, raising questions about the IMF's commitments to align its lending operations with national climate goals (see [Observer Autumn 2021](#)).

Debt-free finance to face the climate emergency and inter-linked crises found wanting

Pakistan is facing its plight as the IMF is preparing to launch its new Resilience and Sustainability Trust at the 2022 Annual Meetings this month (see [Observer Spring 2022](#)). The Trust will make use of 'rechannelled' IMF Special Drawing Rights (SDRs), which will be lent to the Trust by IMF member states who have surplus SDR reserves. IMF Managing Director Kristalina Georgieva [hailed](#) the RST as the third pillar of the Fund's lending, which will "help build

resilience against long-term risks to balance of payments stability," including those related to climate change, after its establishment in April. However, the Trust's eligibility requirements, which require countries to have another IMF lending programme in place, raise questions about how the IMF will promote resilience to climate shocks while insisting on rigid limits to public spending. The RST will also provide financing via loans – albeit highly concessional ones with long grace periods – rather than grants.

An alternative solution, one which would not further increase countries' debt, would be a new issuance of SDRs. Research [published](#) in April by US-based think tank CEPR shows that the 2021 issuance of \$650 billions of SDRs (see [Observer Autumn 2021](#)) was widely used by at least 105 IMF members to help cushion the blow of the initial pandemic, including \$80.4 billion worth of SDRs used for fiscal purposes by at least 69 countries. A civil society [letter](#) to the IMF board sent in early October called for a "new general issuance of at least \$650 billion worth of debt-free Special Drawing Rights (SDRs)", noting, "The great majority of the world's countries are struggling amid multiple historic, overlapping, and generally worsening crises."

bit.ly/PakistanClimate

ACCOUNTABILITY

news

What are the World Bank and IMF Annual Meetings?

BWP's latest *Inside the Institutions* looks at the World Bank and International Monetary Fund Annual Meetings, one of two official yearly events bringing together governors, officials, civil society, academics and journalists to discuss major economic developments and global governance. This piece offers an insight into the Civil Society Policy Forum, a crucial opportunity for civil society to engage with the Bank and Fund, but not without significant criticism relating to accessibility and limited slots for panel events.

bit.ly/BWIsAnnuals

Photo: Abdul Majeed Goryo/IRIN



A family tries to escape the floods in northwestern Pakistan.

IMF debt sustainability analysis in times of compounding crises: Still unfit for purpose

IMF operationalises new Debt Sustainability Analysis framework while methodology kept confidential

A history of over-optimistic IMF assessments casts doubt on whether latest changes will make a difference

Compounding economic, climate, health, and food security crises call for comprehensive large-scale debt workout

In July, massive protests engulfed Sri Lanka as the debt-distressed country sank deeper into crisis. Two months later, the IMF [announced](#) a \$2.9 billion package for Sri Lanka, and shortly thereafter another [\\$1.3 billion](#) loan to Zambia, which had defaulted on its debts in 2020. The latter comes with tough conditions: According to the loan agreement, Zambians will have to shoulder “a large, front-loaded and sustained fiscal consolidation.” But further interventions from the Fund may soon be needed. Based on the IMF’s latest [numbers](#) from 29 August, eight low-income countries are already in debt distress and 29 at high risk. Meanwhile, Pakistan’s climate disaster risks unravelling their recent IMF loan restart (see *Observer Autumn 2022*).

Against this backdrop, on 8 August the IMF [published](#) a staff guidance note to operationalise its new *Sovereign Risk and Debt Sustainability Framework* for advanced and emerging market economies – a process which is key to determining whether countries’ debt is ‘sustainable’ as global economic headwinds worsen (see *Observer Spring 2021*). With rising inflation and interest rates compounding the economic, climate, health, food and fuel crises, the time for the establishment of a long-demanded comprehensive multilateral [sovereign debt workout mechanism](#) has never been more urgent. Yet, with increasing complexity of the creditor landscape, the international sovereign debt architecture remains a melange of inadequate and insufficient attempts, including the expired Debt Service Suspension Initiative (DSSI) and the hardly-used G20 Common Framework (see *Observer Summer 2022, Spring 2022*).

While comprehensive multilateral solutions may not currently be politically feasible, decisive action is needed to prevent a domino of defaults. However, the IMF’s unfounded optimism about countries’ ability

to service debts, along with unrealistic fiscal consolidation targets and resistance from large private and multilateral creditors to debt haircuts, has meant that the debt restructuring has fallen short.

Determination of liquidity vs solvency crisis is highly political

While the Fund has released its overall framework for debt sustainability analysis (DSA), its precise methodology remains “strictly confidential”, with the argument that it is “market-sensitive” and nondisclosure “avoids disruptive reactions... particularly if judgement is needed.” This continued lack of transparency is problematic, as the DSA framework is “legally and macroeconomically biased towards...underestimating sovereign insolvency problems,” [according to](#) Dr Karina Patricio of University of Leeds (see *At Issue, Autumn 2022*), resulting in a “persistent pattern...that underpins the widespread trend of post-pandemic austerity in the Global South.” This bias has created a history of self-admitted “[heroic](#)” over-optimism, which “can involve pretending that countries face illiquidity and not insolvency, letting creditors avoid significant upfront losses and blithely dissembling that debt can simply be rolled over and extended,” [wrote](#) former US IMF representative Mark Sobel in the *Financial Times* in August. As a result, private sector lenders have repeatedly been paid off with IMF-backed public funds, while the local population bears the burden of ensuing austerity and deepening inequality (see *Dispatch Springs 2022; Observer Autumn 2020*). As the IMF itself has [noted](#), these dynamics contribute to social unrest.

Research by Boston University’s Global Development Policy Center has also [shown](#) that DSA is far from politically neutral: Borrowing countries with high foreign direct investment from Western European private lenders face harsher austerity conditions, while those whose trade and diplomacy align with Europe get lighter ones. Moreover, the lack of adequate early restructuring extends a debt crisis, leading to prolonged suffering and frequent failure of later IMF programmes, as evidenced by the Fund’s [2018 Review](#) and a [2022 report](#) from Germany-based civil society organisation (CSO) Erlassjahr. While Zambia’s announcement called for a large-scale debt restructuring, it remains unclear how much will be cancelled or simply rescheduled by

ten years, as [highlighted](#) by Tim Jones, of UK-based CSO Debt Justice, on Twitter.

Effective DSA needs transparency and developmental lens

A lack of transparency in sovereign debt is a major hurdle to more realistic assessments, something leading IMF and World Bank economists have [stressed](#). The arguments for not disclosing its analysis then seem specious, especially given the major signalling power of the Fund’s debt sustainability assessment as the “lender of last resort”. Making its criteria public and assessments more conservative would create greater legitimacy and accountability. It might also enable the Fund to make a credible assertion that it will not rescue a country without serious debt restructuring, including by private creditors, thus eschewing the current moral hazard-inducing expectation that IMF-facilitated official debt relief will eventually enable private debt repayment, something over 100 experts [called out](#) in September.

A DSA fit for the current global context requires “a view of debt sustainability that is conducive to long-term development strategies and is based on consistent macroeconomic policies and the sustainability of the balance of payments in the longer term, rather than short-term debt service goals,” writes Patricio. Otherwise, there is a [significant risk](#) that many low-income and climate-vulnerable countries will remain trapped in a spiral of debt, austerity, and bailouts from which they are unlikely to emerge (see *Observer Autumn 2022*), while the prospects of regaining the fiscal space needed for [achieving sustainable development, realizing human rights](#), and responding to climate change effectively fade into the distance.

bit.ly/IMFDebtAnalysis

Photo: Valmedia/Shutterstock



Many people unite on the steps of the Presidential Secretariat HQ with national flags during mass economic protest in July 2022 in Colombo, Sri Lanka.

ENVIRONMENT

analysis



World Bank's failure to disclose details of climate finance accounting opens its claim to be leading green financier to scrutiny

Guest analysis by Jason Farr, James Morrissey, and Christian Donaldson, Oxfam

Newly released Oxfam study finds Bank's claims of climate finance for FY2020 could be off by as much as 40 per cent, or \$7 billion, based on lack of public disclosure

Disclosure of the Bank's climate finance assessments to enable independent verification is required to have confidence in reported figures

The World Bank is currently the largest multilateral provider of climate finance. However, the quality of its climate finance reporting is woefully poor. A newly released study by Oxfam found that the Bank's claims of climate finance for fiscal year (FY) 2020, totalling \$17.2 billion, could be off by as much as 40 per cent, or \$7 billion, based on lack of public disclosure about its project-level accounting. The study covered the International Development Association (IDA), the Bank's low-income country arm, and the International Bank for Reconstruction and Development (IBRD), the Bank's non-concessional lending arm.

This calls into question the Bank's claims that it has met its climate finance goals of 28 per cent of its portfolio constituting climate finance in FY2020, rising to an average of 35 per cent for FY2021-25 (see [Observer Summer 2021](#)).

Climate finance is essential to ensure countries and populations least responsible for climate change can adapt to its impacts and transition their economies without compromising the fight against poverty, but the situation is dire. Currently pledged levels of climate finance – “developed” countries pledged in 2009 to mobilise \$100 billion a year in climate finance by 2020 – are both [inadequate](#), and [unmet](#) (see [Observer Winter 2021](#)). Further, according to the most recent Organisation for Economic Co-operation and Development [data](#), 64 per cent of climate finance in 2020 was delivered via debt instruments (rather than grants) which have to be paid back. In a system that is failing so badly, and with climate finance being such a scarce resource, transparency over what finance is delivered and what it is used for is essential. This is made more important given the debt burdens low- and middle-income

countries are taking on in order to access limited climate finance.

The Bank, along with other multilateral development banks (MDBs), determines what counts as climate finance [according to](#) an agreed MDBs joint methodology, which provides guidance for assessing climate finance under an array of circumstances and instruments. However, the level of transparency in its application is wholly inadequate.

Lack of disclosure makes public audit of World Bank climate finance impossible

Oxfam's new study sought to replicate the Bank's reported numbers by applying the MDBs' joint methodology to a random sample of 78 of its FY2020 projects tagged as climate-related. Where the information provided by the Bank was inadequate to allow for the joint methodology to be applied, Oxfam made a systematic set of assumptions. The use of these assumptions caused Oxfam's estimate of the Bank's climate finance to diverge significantly from the reported figures. The findings from the sample were extrapolated to make claims about the quality of reporting for the Bank's entire portfolio.

On average, Oxfam's estimates differed from the Bank's reported figures by 35 per cent with a confidence interval of 5 per cent. This means that the Bank could be over- or under-reporting its climate finance by up to 40 per cent – or \$7 billion, given total climate finance related lending (IDA and IBRD) was 17.2 billion for the year. In the worst-case scenario, this would mean that the Bank has not met its claims of providing 28 per cent of its finance as climate finance in FY2020, with only around 19 per cent of its portfolio being climate-related.

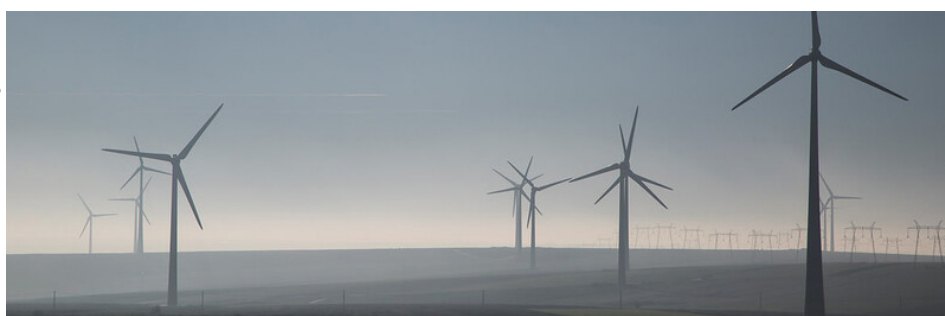
This lack of transparency should be concerning for stakeholders, especially those in countries and communities who need this climate finance, but also the Bank's wealthy shareholders. In the absence of this information, it is essentially impossible for the public to hold the Bank and recipient governments accountable for the use of these funds. Increased transparency would help safeguard against greenwashing, overreporting, and underinvesting in mitigation and adaptation.

The Bank is particularly significant among the providers of climate finance as its practices often set standards for other institutions. The Bank should set a high bar for other climate financiers by clearly demonstrating how it calculates and plans to deliver climate finance and measuring whether its efforts are having positive impacts on adaptation and mitigation goals.

There are several actions the Bank should take to improve its climate finance reporting. The Bank should disclose its detailed climate finance assessments for individual projects, and the evidence and justifications in support of their calculations in a way that allows for independent verification. It should also standardise how it reports on climate finance in projects by providing assessments for all projects consistently (current practice seems to vary by project). All this information should be captured in a public World Bank climate finance database. By taking these important steps and others outlined in the report, the Bank would provide evidence to support its claims and set a much higher standard for all climate finance reporting.

bit.ly/OxfamClimate

Photo: Jutta Benzenberg/World Bank



Wind turbines in rural Romania.

ACCOUNTABILITY

news

World Bank's accountability mechanisms, still a long way to go

57 CSOs submit comments to the Draft operating procedures for the Accountability Mechanism and Inspection Panel

CSOs highlight concerns about the proposed mechanisms, including lack of clarity on the structure

In response to the World Bank comment period for the [Draft operating procedures for the Accountability Mechanism and Inspection Panel](#) after a five-year reform process, in September a group of 57 civil society organisations (CSOs) and individuals submitted [recommendations](#) to improve the draft operating procedures.

In September 2020, the World Bank's executive board announced a series of changes to the institution's accountability system (see *Observer* [Autumn 2021](#)). These included the creation of a new [Accountability Mechanism](#) (AM) that would host the existing Inspection Panel (IP), the independent accountability mechanism for the World Bank's public-lending side, and a newly created [Dispute Resolution Service](#) (DRS; see *Observer* [Spring 2020](#)). While civil society welcomed the establishment of the

DRS, it voiced concerns about the risk of the AM undermining the IP's independence and the notable lack of a remedy mechanism to address damages to affected communities (see *Observer* [Summer 2022](#)).

World Bank lags behind other MDBs, missing critical aspects of effective monitoring and remedy

CSO concerns about these mechanisms date from the designing stages of the AM. The comments on the consultation process stressed that the draft procedures include "multiple provisions that are inconsistent with and far behind standard practice at other [Multilateral Development Banks'] accountability mechanisms", including the need for the Board to approve both a decision to investigate and to access the dispute resolution mechanism.

The submission emphasised the need to allow cases where not all issues are resolved to be eligible for a compliance investigation by the IP, which would be in line with the standard procedures at other AMs, such as the Compliance Advisor Ombudsperson of the International Finance Corporation (IFC), the Bank's private sector arm.

As part of the comments, CSOs also urged the World Bank to provide the DRS with an explicit monitoring mandate, noting this is "critical to...the effectiveness of a dispute resolution function itself."

Some of the many other problematic issues highlighted included: The inability of the AM and IP to recommend the suspension of projects when, during a dispute resolution or investigation process, they become aware of imminent or irreversible damage; and the lack of guiding principles or a description of the roles of the AM and IP in facilitating remedy.

Commenting on the process, Shankar Limbu, of Nepal-based CSO LAHURNIP, noted, "World Bank Projects do not recognize international law and human rights standards that guarantee the rights of Indigenous Peoples in the project cycles, including sanctioning the loan and grant.... It must be rectified by recognizing the collective, and individual rights of Indigenous Peoples enshrined under these standards, which should be the core basis of the Bank, IP, DRS, and other associated mechanisms, when the World Bank considers investing in the Indigenous Peoples' lands, territories and natural resources."

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CONDITIONALITY

news

Nigerians set for higher bills as Bank pushes for removal of 'inefficient' energy subsidies

World Bank President David Malpass has expressed renewed support for energy sector reforms that will remove fuel subsidies and increase energy costs for most Nigerians, as part of Nigeria's [Energy Transition Plan](#). In a [readout](#) of a September meeting between Malpass and Nigerian Vice President Yemi Osinbajo, Malpass expressed "readiness" to support the reforms. According to media outlet

[Pulse](#), the Nigerian government plans to end subsidies by June 2023.

The Bank has been pushing energy sector reforms that remove 'inefficient' fuel subsidies, despite the Bank's own economists [recognising](#) that "rising prices continue pushing millions of Nigerians into poverty."

This renewed support for liberalising

energy prices will likely be met with serious concerns from civil society, which previously denounced wider Bank-backed market-based reforms (see *Observer* [Autumn 2021](#)). Nigeria's federal government suspended the removal of subsidies [earlier this year](#) following threats of protest by groups such as the Nigerian Labour Congress.

bit.ly/NigeriaSubsidies



CRITICAL VOICES ON THE WORLD BANK AND IMF

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