Democratic deficit in World Bank presidential appointment: Where is the evolution?

The lack of democratic governance and accountability in the World Bank Group is a key problem in global governance and the financial architecture. Yet, it remains unaddressed. US President Joe Biden’s nomination of Ajay Banga for World Bank president – two days after the public resignation of Trump-appointee, David Malpass – has resurfaced these critiques. The Bank’s board will likely approve Banga’s appointment without heeding calls for a democratic, transparent and merit-based process.

The selection process for the Bank’s president is one cause and symptom of the institution’s malaise (see Background, What is the ‘gentleman’s agreement’), but it is far from the only one. Wealthy governments from the Global North have significantly more decision-making power (see Inside the Institutions, IMF and World Bank decision-making and governance). Civil society is not a part of the Bank’s governance. The Bank also maintains that it does not need to uphold international human rights obligations and therefore cannot be held accountable in national courts.

The Bank recently released its “evolution roadmap” – opening the door to change its vision, mission and ways of working – while many are questioning if the international financial architecture is equipped to deal with the current polycrisis of inequality, ecological breakdown, climate change, pandemics, etc. The appointment process of the new president comes at this crucial moment and could signal the political will for the Bank to engage in real reforms.

The World Bank acts like a shadow government in the global governance system

The Bank says it is an apolitical economic development agency, but in practice it is a key geopolitical actor, setting global standards and shaping law, policy, and fiscal and civic space at the national level, particularly in middle- and low-income countries. The Bank advances a top-down, neoliberal model of development that is not politically neutral. Without the participation of affected communities and civil society groups, Bank-supported activities are fueling human rights abuses and increasing inequality.

The Bank has long focused on advancing privatisation. The use of debt-based financing and policy conditionality – pushing for deregulation in the name of creating an enabling environment for the private sector (see Observer Winter 2021) – have further...
eroded state capacity. The Bank has even been accused of having supported private clients to evade taxes in countries hosting projects by depositing funds in tax havens.

The Bank is also contributing directly and indirectly to exacerbating civic space restrictions and reprisals against people speaking out against activities it supports. Many economic and governing elites are using Bank-supported projects to further advance authoritarianism and corporate capture, maintain the democratic deficit and power imbalances in their own countries, and silence dissent using smear tactics, threats and violence.

Unless there is a profound transformation, the Bank’s new roadmap will lead nowhere for communities in the Global South. An open, merit-based and transparent selection process for the next president could be a small, but important, step towards this larger transformation. Unfortunately, the nomination of Ajay Banga – former MasterCard CEO and investment banker, without demonstrable development or human rights expertise – signals more of the same: Redirecting public resources to generate private profit without transparency, accountability or participation.

More money will not directly result in better development outcomes

One thing is clear: Merely giving the World Bank more funds won’t fix any global crisis. The types of interventions the Bank adopts will determine if they help people and the planet, and support states to meet their international human rights obligations.

The Bank has a potentially important role in mobilising crucial resources that communities in the Global South could use to respond to the current polycrisis. But these crises are not just resource issues, they are ethical and distributional issues rooted in questions of justice, equity and planetary stewardship. How these crises are framed, as well as what responses are chosen, will determine the quantity and type of resource gaps states must bridge to meet their international human rights obligations and respond to the needs of their citizens and the planet.

Democratic governance and accountability are crucial for the Bank to remain relevant

Many are questioning if the World Bank, with its democratic deficit, is the appropriate institution to identify and fill the gap. The Bridgetown Initiative, which calls for reform of the Bank and the International Monetary Fund – spearheaded by Prime Minister of Barbados, Mia Mottley – is receiving increasing support.

The Bank’s evolution roadmap provides an opportunity to undertake reforms that go beyond a slightly better resourced but largely unchanged institution. It must include steps to increase democratic governance and accountability, and reshape the Bank’s mission, vision and model to advance human rights-based and community-led development. The fact that it recognises the need for more grant-based mechanisms over debt is welcome. However, we need to work towards a transformational approach with greater participation of directly affected people in the Bank’s governance and its operations.

The Bank must use 2023 – the 75th anniversary of the Universal Declaration of Human Rights – to develop a human rights policy in consultation with grassroots communities and their allies. The policy should include a plan to adopt development indicators for human rights-based and community-led development, human rights due diligence for all project investments and policy interventions, and an effective remedy framework for when communities are harmed.

The Bank’s shareholders should revise its governance system to be more equitable, looking at existing models and adapting them to be better fit for purpose. For example, the United Nations General Assembly follows the system of one country, one vote. Additionally, the Green Climate Fund, a funding partner of the Bank, includes non-voting civil society observers on its board. The Bank should work consultatively with grassroots communities and their allies to explore similar and more representative structures that factor in carbon emissions (see Observer Winter 2022), the level of climate related risks, historic wealth transfers due to colonisation, population levels, etc. This would enable people most affected by the Bank’s activities to have a say in its governance, and equip the Bank to address the challenges outlined in the roadmap.

The United States, which is currently the Bank’s largest shareholder, should lead by example in sharing and devolving decision-making power. It should take the first step by walking away from the gentleman’s agreement that has shaped the leadership of the Bank and IMF since their inception. This would signal the US government’s seriousness about tackling climate change and the US government’s seriousness about tackling climate change in a just and sustainable way through the evolution roadmap process, and beyond.

A different ‘evolution roadmap’: Havana conference calls for changes in world order hierarchy

On 27 January, 50 delegates from 26 countries comprised of parliamentarians, diplomats, academics and policymakers convened in Havana, Cuba, to discuss the reinvigoration of the 1974 UN General Assembly’s resolution on the Declaration of a New International Economic Order (NIEO). The Congress was organised by Progressive International, a coalition of progressive thinkers, academics and policy makers, as part of its wider efforts to raise awareness about the NIEO and “update it for the 21st century,” in advance of its 50th anniversary next year.

The Congress issued a declaration stressing that “hunger, disease, and war once again overwhelm the world and [there is a risk] of the extinction of humanity at large,” while celebrating victories brought about by “combining a program of sovereign development...culminating in the adoption [of] the...[NIEO].”

As the World Bank discusses its ‘evolution roadmap’ (see Observer Spring 2023) and with the IMF’s quota reform likely to fall victim to geopolitics, the Declaration stressed that, “Northern powers...seek to preserve their position in the hierarchy of the world system,” and called for a renewed non-aligned movement, a renovation of the NIEO, an assertion of Southern power, support of Cuba in the G77 and the building of a “new planetary bloc.”
Civil society calls on World Bank and IMF to safeguard civic space and prevent retaliation around Marrakesh Annual Meetings

Guest analysis by Shereen Talaat, Arab Watch Coalition

World Bank and IMF Annual Meetings in Morocco this year raise fears of another civil society crackdown without proactive prevention measures

Early engagement with MENA civil society and Moroccan authorities key to safeguard space and prevent reprisals

Civil society organisations (CSOs) look forward to enriching discussions and critical debate during the International Monetary Fund (IMF) and World Bank Annual Meetings in Marrakesh, Morocco, this October. Yet, this constructive engagement will only be possible if the Bretton Woods Institutions (BWIs) proactively work with the host country to ensure it publicly guarantees that the gross mistreatment meted out to civil society during the Annual Meetings in Bali, Indonesia, in 2018 – when authorities used force to silence activists and critical voices – will not take place in Marrakesh.

In Bali, a parallel event and later strategy meeting sought to peacefully express criticism about and make recommendations regarding Bank and Fund policies but were disrupted repeatedly by Indonesian authorities using tactics ranging from blocking access to the venue to using excessive force and arbitrarily detaining activists (see Dispatch Annuals 2018). This cannot be allowed to happen again.

While IMF and World Bank representatives intervened with authorities after arrests had already been made, the BWIs could have done much more to prevent this crackdown by throwing their full weight behind their commitment to accountability and open debate ahead of time. A look into restrictions of civil society space in the wider MENA region already raises serious concerns – dozens of activists were arrested and harassed in Egypt during last year’s COP27 and the UN High Commissioner for Human Rights is raising the alarm on civil society arrests in Tunisia, while civic space and freedom of speech are increasingly undermined in Morocco itself. Another “Bali” is on the horizon, unless the Bank and Fund act now.

Civic space is fragile in the region, the World Bank and IMF must act to protect it

In organising the Marrakesh meetings, the IMF and World Bank must draw lessons from the experience in Bali to uphold and safeguard engagement with civil society, beyond the space available within official venues. This can only be achieved by attaching utmost importance to human rights, free speech and the right of assembly, and incorporating these rights into all the BWIs’ policies – especially in a region beset with instability and authoritarianism.

CSOs are calling upon the Bank and Fund to engage proactively with the Moroccan authorities on issues such as facilitating visa applications and offering a space conducive to free speech to help activists safely engage in constructive dialogue, including holding their own parallel events to freely express their critical views and recommendations. The IMF and Bank should get in touch with regional civil society organisations early, to take stock of their very real safety concerns and priorities regarding the region’s macroeconomic situation and the impacts of BWI policies.

The BWIs must ensure information about the Annual Meetings’ agenda, schedule and logistics as well as policies and procedures relating to participation, such as visa processing and approval criteria, is accessible. It is the duty of these institutions to provide a platform and a free space for CSOs, to make sure the meetings are fully equipped and conducive to constructive discussions.

Steps should be taken to protect civil society activists against retaliation and reprisals during and after the event for the views they express at the Annual Meetings. These include protection against harassment, intimidation and arbitrary detention by authorities.

To promote positive engagement beyond preventing harm, IMF and World Bank representatives could also act as facilitators of dialogue between different civil society organisations in the MENA region, government representatives and private sector stakeholders, to support a constructive exchange on economic development policies. Finally, special attention should be given to fostering inclusive representation and diversity by promoting the participation of marginalised and under-represented groups such as women, the youth, the disabled and indigenous communities at the Annual Meetings’ Civil Society Policy Forum and official ‘flagship’ events.

By taking these steps, the BWIs can turn the page on the mistreatment of activists that marred their Annual Meetings in Bali. They can make Marrakesh a new start for a proactive engagement with MENA-based civil society that puts human rights and democracy at the core of their economic and financial development policies in a way that is conducive to creating stable, prosperous and equitable societies in the region.

bit.ly/AnnualsMorocco

Protesters at COP27 in Sharm el Sheikh, Egypt, in 2022.
Between a rock and a hard place: How can IMF provide support amidst debt restructure deadlock?

Deadlock in talks leads to unprecedented delays in IMF lending, hurting countries’ capacity to respond to urgent needs

IMF lending into arrears policy could help address the lack of alignment between official and private creditors

The IMF’s ability to adequately respond to crises remains in question as the institution faces unprecedented delays in providing financial support to countries in debt distress. Chad, Zambia and Suriname are among the countries that received IMF loans almost a year after reaching staff level agreements. Continuing this trend, Sri Lanka, Tunisia and Ghana signed staff level agreements last year but are still waiting on IMF board sign-off due to clashes between China and Western economies over debt relief (see Observer Winter 2022).

The IMF is proving ineffective both in supporting countries on the brink of default as well as in their debt restructuring processes (see Observer Autumn 2022). Pakistan – amongst the top five IMF debtors – is at risk of default as the country’s foreign exchange reserves sank to less than the equivalent of a month’s imports. As the country wrestles with a deepening financial crisis, it is struggling to receive a second IMF loan tranche due to the lack of progress on fiscal consolidation required by the Fund (see Observer Summer 2022, Spring 2022, Winter 2021). Indeed, the IMF’s harsh austerity conditionality requires Pakistan to raise VAT to 25 per cent, liberalise exchange rates and increase electricity tariffs, raising concerns about the impact of such policies on the most vulnerable (see Observer Winter 2022).

Sri Lanka and Ghana are expecting IMF loans of $2.9 and $3 billion respectively, but since they announced defaults on their debt in 2022, their bailout package will be signed off only after they undergo debt restructuring – which has proven difficult under the G20 Common Framework (see Observer Winter 2020). The rift between China and the Paris Club is further widening as China remains reluctant to offer debt relief, demanding that multilateral development banks and private creditors also participate in debt restructuring. Indeed, in Africa alone, governments owe three times more debt to private lenders than to China.

Breaking the creditor deadlock

As private lending becomes a much bigger component of national debt, the IMF should consider using its lending into arrears policy (LIA). The policy can be applied when lending to a country in default on obligations to its commercial creditors and official bilateral creditors. While a big step forward in lending without being constrained by uncooperative creditors, the policy cannot be applied to official bilateral creditors if it has a negative effect on the Fund’s ability to mobilise official financing packages in the future. Moreover, given that private creditors are by-and-large not participating in debt restructuring (see Observer Winter 2021), even if accumulating arrears, countries are still expected to repay this debt, effectively using IMF resources to pay off private creditors. In the end, applying LIA involves weighing one risk against another: Giving a creditor veto power over IMF financing, using IMF resources to bailout private lenders, or risking the Fund’s future ability to finance its programmes.

Oligarchs and corporations are expanding control over Ukraine’s agricultural land with help from the IMF and the World Bank

Since Russia’s invasion, Ukraine’s external debt has soared as it has relied on financial support from the West. Western aid – particularly through International Financial Institutions (IFIs) – is conditioned on drastic structural adjustment programmes, including cuts in social safety nets and the privatisation of economic sectors, according to a new report from the Oakland Institute.

One key structural adjustment initiated by IFIs in Ukraine was the creation of a land market and deregulation of the agricultural sector (see Observer Summer 2022). The report found that as a consequence, 28 per cent of the country’s arable land was acquired by oligarchs and large agribusinesses, with the largest landholders controlled by foreign actors. This continues the trend of grain trade concentration, with a few companies controlling about 70-90 per cent of the global grain trade (see Observer Summer 2022). In Ukraine, most landholders are indebted to the World Bank and the European Bank for Reconstruction and Development, giving them financial stakes in agribusinesses and raising legal questions considering Ukraine’s ban on foreign ownership of land.
Lagging behind: World Bank and IMF rank poorly against other IFIs as their approach to macro is still gender-blind despite reform promises

A newly released report by civil society organisations (CSOs) Gender Action, Friends of the Earth and Urgewald shines a light on the inadequacy of the World Bank and IMF’s gender and climate policies. The paper ranks 13 major International Financial Institutions (IFIs) based on the strength of their gender policy goals, mandate, staffing, operations, monitoring and integration of multiple aspects of gender inequality, such as care work and gender-based violence, into their operations. On safeguarding frameworks, it investigates the inclusion of gender as a cross-cutting topic of analysis in social risk assessments, debt and accountability.

Both the IMF and World Bank scored poorly, especially the Bank’s “nearly gender-blind” 2018 Environmental and Social Framework (ESF). Civil society has long criticised the fact that the Bank’s ESF (see Observer Winter 2018), which sets out environmental and social safeguards of Bank-financed projects, does not apply to its loan operations through Development Policy Financing (DPF) (see Observer Summer 2020). DPF loans without targeted gender goals lack systematic assessments of their gendered social impacts, making a large share of the Bank’s lending operations effectively gender-blind.

The new research comes as all eyes are on the World Bank to make a transformative effort on gender equality and climate in line with recent promises of reform. With the early resignation of current President David Malpass, diverse voices are calling for a feminist president, and an end to the regressive ‘gentleman’s agreement’ (see Observer Spring 2023; Background, What is the ‘gentleman’s agreement?’).

Meanwhile, the Bank’s Evolution Roadmap, launched as a response to requests from shareholders to explore reforms, lacks a focus on gender and safeguards. This furthers concerns that the upcoming World Bank Gender Strategy Update will see the Bank continue its outdated ‘Smart Economics’ approach to addressing gender inequality (see Inside the Institutions, The World Bank’s approach to gender mainstreaming) instead of acknowledging and addressing the demonstrably harmful gendered effects of its macroeconomic policy (see Briefing, Learning lessons from the Covid-19 pandemic: The World Bank’s macroeconomic policies and women’s rights). This was also highlighted in an open letter signed by over 50 CSOs in December 2022.

As the World Bank’s promised reforms take centre stage at the Spring Meetings in Washington DC in April, the IMF prepares to implement its own controversial gender strategy – which women’s rights groups recently rejected as “pinkwashing” and illegitimate “mission creep” (see Observer Winter 2022, Spring 2022) – and the world celebrates the 75th anniversary of the Universal Declaration of Human Rights this year, the BWIs must commit to taking a more critical approach to their existing gender and climate promises.

MIGA’s support for gas projects raises concerns about its climate credentials

As the World Bank Group prepares to begin aligning its investments with the Paris Agreement from 1 July, the Multilateral Investment Guarantee Agency (MIGA), the bank’s commercial insurance arm, is coming under scrutiny for a series of recent guarantees supporting gas power projects (see Inside the Institutions, Multilateral Investment Guarantee Agency: Observer Winter 2022).

MIGA provided $407 million worth of guarantees to cover the acquisition and refinancing of the Bhola-2 220-Megawatt gas power station in Bangladesh in June 2022, a controversial project that was opposed by local communities over claims of land-grabbing.

“The World Bank’s finance for the Bhola power plant is yet another example of the World Bank’s failure to act seriously on the climate crisis,” said Claire O’Manique of international civil society organisation Oil Change International.

MIGA also provided recent guarantees for two controversial gas projects in Mozambique – including $186.35 million to cover the acquisition of the Central Térmica de Ressano Garcia gas power plant in May 2022, and $251.3 million for the construction of the Central Térmica de Temane gas power plant in December 2021.
World Bank’s financial inclusion agenda blind to growing gendered over-indebtedness

The World Bank released its latest Global Findex data on financial inclusion last year, celebrating a worldwide rise in account ownership from 51 to 76 per cent since 2011, fuelled by digitisation, mobile money and increasing female banking rates. However, research by Third World Network and Universidade Federal do Rio de Janeiro’s professor Lena Lavinas on Ecuador, Pakistan, Brazil and South Africa points to another concerning trend: Growing household over-indebtedness, much of which is shouldered by women. In Ecuador, massive cuts to the public health care system as a result of World Bank and IMF loan conditions led to women taking on growing debt to cover healthcare and household expenses (see Observer Summer 2020; Briefing, Learning lessons from the Covid-19 pandemic: The World Bank’s macroeconomic policies and women’s rights). In Brazil, financial inclusion of the poor coupled with widespread financialisation and constitutionally-enshrined austerity mean that over half the adult population is now indebted and a third of household income is used to service debt alone, most of which is consumer credit (see Dispatch Annuals 2022; Observer Spring 2018).

These dynamics show that rather than facilitating women’s economic empowerment, in the context of social spending cuts and privatisation of public services, ‘financial inclusion’ of the poor may in fact lead to new gendered layers of deprivation and dependence (see Observer Winter 2017).

Consumer protection is not enough to counter financialisation impacts

The World Bank tackles these issues mainly from the perspective of consumer protection, suggesting better financial literacy education and consumer safeguards – although what incentives banks and microfinance institutions have for moving away from their profit-driven model, which the Bank itself has helped promote, remains unclear. The Bank’s assertion that when financial inclusion doesn’t yield the desired effects it is because “the financial sector doesn’t always work correctly” (see Dispatch Annuals, 2022) conveniently overlooks the fact that information asymmetry, rent seeking and moral hazard are common features of the financial sector almost everywhere. “The development banks promoted this personal profit-making version” asserted microfinance pioneer Muhammad Yunus in a 2022 Bloomberg report, which calculated that since 2011, the International Finance Corporation (IFC) – the Bank’s private sector arm – invested $5.3 billion in microfinance institutions, including in Cambodia, where lenders seized over-indebted borrowers’ lands while posting record profits during the pandemic years. Other examples abound in the same article, from debtors’ prisons in Jordan to suicides in Sri Lanka. Kenyan mobile money provider M-Pesa, once championed as an anti-poverty solution, has since been discredited for predatory lending and consumer data exploitation, causing even CGAP, the Bank-affiliated financial inclusion think tank, to call for caution.

Yet, the Bank still fails to systematically make the connection between its own Findex findings that two-thirds of adults in developing countries face significant financial worries to meet their basic needs, the rapid growth of accessible commercial financial products, commercial banks’ primary profit motive, and growing consumer over-indebtedness. Findex authors admitted that “while access to finance is growing globally, financial health and well-being are stagnating or even declining.” Academic research has also shown that the evidence for financial inclusion facilitating broader development outcomes, poverty alleviation and “good business” is far from convincing.

Unfortunately, the expected appointment of former Mastercard CEO and financial inclusion champion Ajay Banga as World Bank president will likely mean doubling down on this agenda (see Observer Spring 2023). However, without a critical investigation of these dynamics, the Bank runs the risk of continuing to champion development “solutions” that ultimately fail and trap the poor in cycles of debt without meaningful productivity gains, let alone empowerment.

Civil society calls to move away from PPPs grow, while World Bank doubles down on private finance-led approach

Momentum has picked up on civil society’s calls to move away from much-criticised public-private partnerships (PPPs). Following the ‘Our Future is Public’ conference in Chile in December 2022, a ‘Santiago Declaration for Public Services’, endorsed by over 200 organisations, was published on 26 January, advocating for “bold collective national action for ambitious, gender-transformative and progressive fiscal and economic reforms, to massively expand financing of universal public services.”

The declaration emphasised the role of the IMF and World Bank in the stripping away of crucial public services, highlighting austerity cuts in public sector budgets and wage bills promoted by the IMF, which further dependency and unsustainable debt (see Observer Autumn 2022).

Despite evidence that private finance is more expensive than government borrowing – as governments take a ‘derisker’ role for the private sector – less efficient and creates opaque systems often exempt from regulations, the Bank appears committed to promoting this approach. This seems to be reinforced by the US nomination of former Mastercard CEO Ajay Banga as the next World Bank president, which likely signals a potentially deepening of the Bank’s private sector bias (see Observer Spring 2023).
Against regressive taxes and austerity: IMF and World Bank must pivot tax policies to support a just and green transition

Klelia Guerrero, LATINDADD & Matti Kohonen, Financial Transparency Coalition

The one-size-fits-all austerity approach has proven unfair and ineffective in tackling current crises and demands

Green taxes should correct producers’ externalities rather than making essentials more expensive by cutting fuel subsidies

UN-led tax governance is crucial to achieve taxes’ full potential, ensure equity and promote participation

This year, 85 per cent of the world’s population is expected to live under austerity measures, likely further widening inequality. Citizens are told that there is no money, even if during the pandemic 38 per cent of intervention funds benefited large companies instead of financing social protection and supporting informal workers. Countries effectively bailed out affected companies, while failing to tax the ones which made excess profits.

Despite widespread economic volatility in recent years, the world’s largest 1,000 companies recorded excess profits of $1.15 trillion in 2020 and 2021, a 68.5 per cent increase from the pre-pandemic period. Taxing corporate windfall profits, especially from fossil fuel companies, and imposing taxes on wealthy individuals would have enabled greater recovery spending, which only averaged 2.4 per cent of GDP in 21 Global South countries in 2020-2021.

Instead, the IMF Fiscal Monitor from October 2022 warned that “one needs to weigh carefully whether taxes on windfall profits from fuel extraction are appropriate”, citing concerns they could reduce investments into the energy sector in the long term.

Countries in the Global South that consider taxing windfall profits also face other obstacles. As Guyana’s Vice President noted, “In Guyana’s oil contract agreement, it would be a breach to impose the tax on the massive returns being enjoyed by the companies.” Here, the World Bank should assist countries in navigating out of such legal threats rather than reinforce them (see Observer Summer 2021).

Change of course needed in BWIs’ approach

An example of the consequences of the Bretton Woods Institutions’ (BWIs) policies can be seen in Ecuador, where an IMF loan led to fiscal consolidation, deregulation and health care cuts combined with regressive value-added taxes (VAT), contributing to one of the highest rates of excess mortality from the pandemic (see Observer Summer 2020). This contrasts, for instance, with Chile’s introduction of higher mining royalties to finance its crisis response aiming to increase tax collection by 3.6 per cent of GDP, or about $10 billion annually.

Making matters worse, the IMF estimates that the 2021 Organisation for Economic Cooperation and Development (OECD)/G20-led Global Minimum Tax proposal of 15 per cent on multinational companies will not help countries in the Global South. It calculates the additional revenue collected from this tax at below 0.2 per cent of global GDP, while claiming that domestic tax reforms in low-income countries could increase revenue by 8 per cent. This not only implicitly assumes that the Global Tax Deal cannot be improved but also puts the onus on developing countries. As the IMF’s advice to Kenya shows, this means dismantling innovative progressive taxes, including removing domestic digital services taxes without offering alternative sources of income.

This comes against the backdrop of a resolution at the United Nations General Assembly in November 2022 that will bolster the role of the UN in tax governance, possibly leading to a UN Tax Commission. It remains uncertain whether this proposal will succeed despite its importance, as ongoing negotiations at the OECD – supported by the IMF – may hamper progress.

For its part, the World Bank has made public statements linking progressive taxation to tackling inequality. However, in practice, their rankings of business environments – whether the old Doing Business Report (that gave points for low taxes and less social protection) or the new Business Enabling Environment Project (where lower taxes are recorded as part of measures, but no longer part of the ranking) – reward the contrary. Its advice continues to maintain that lower taxes bring about growth and investment.

The World Bank’s Development Policy Financing (DPF) also tends to suggest regressive VAT taxes, while supporting actions to tackle tax avoidance and evasion. However, loan conditions rarely support wealth or windfall taxes (see Background, What is World Bank Development Policy Financing?). There is another incoherence: If the Bank truly aimed for a green and sustainable tax agenda, its advice to countries should be to reduce tax incentives to extractive industries and not the opposite.

One pertinent example comes from Brazil, where one of the largest bauxite mines, Mineração do Rio Norte, received a 75 per cent corporate income tax exemption costing $76 million between 2020-2021, more than the combined revenues raised by the regional municipality through local taxes, fees and charges over the same period. Doing away with such exemptions, while potentially provoking Investor State Dispute Settlement (ISDS) cases (see Observer Summer 2020), would be highly progressive ways to raise public revenues.

Regressive taxes and austerity are already the default option for constrained countries, a dangerous trend made worse by IMF and World Bank policies. While poor and marginalised populations are not able to mobilise their causes effectively in political or judicial arenas, corporations and the wealthy are – and have historically done so.

Progressive tax policies are a must in order to equitably address the current crisis and multilateral organisations should encourage their incorporation in the local and global spheres instead of posing obstacles to their implementation or labelling them as undesirable or technically unfeasible.

bit.ly/GreenTaxes
Resilience and Sustainability Trust’s first loans promote climate PPPs, raising concerns they may create fiscal risks

The first series of loan agreements from the IMF’s new Resilience and Sustainability Trust (RST), which became operational in October (see Dispatch Annuals 2022), has doubled down on the Bretton Woods Institutions’ support for crowding in private finance, an agenda also strongly supported by their Group of Seven (G7) shareholders and a key pillar of the World Bank’s emerging ‘evolution roadmap’ process (see Observer Spring 2023).

The RST, a new trust capitalised by on-lent Special Drawing Rights from better-off IMF member countries, is designed to support policy changes which address potential future balance of payments issues related to climate change (see Inside the Institutions, What are Special Drawing Rights (SDRs)?)

The IMF’s board has now approved five financing packages since November for Costa Rica, Barbados, Rwanda, Bangladesh and Jamaica, respectively – topping $3.3 billion in total.

Lending programmes from the RST require countries to have another IMF funding programme in place, meaning that countries accessing the trust need to negotiate a wider set of macroeconomic conditionalities with the Fund, which are typically based on fiscal consolidation – potentially limiting their fiscal and policy space to address their vulnerability to climate impacts (see Observer Summer 2022, Spring 2022).

Climate PPPs: Opening fiscal space, or fool’s gold?

The conditionality agreed between the IMF and member countries to secure RST financing thus far strongly favours the expanded use of public-private partnerships (PPPs) for climate action. This raises questions about whether the RST’s policy reforms are fit for the purpose of helping states mitigate potential balance of payments issues related to climate change, given the risks associated with the PPPs financing model, which have been repeatedly highlighted by civil society in recent years (see Observer Autumn 2022, Spring 2019, Winter 2017-2018).

For instance, Bangladesh’s $1.4 billion in RST financing, approved by the IMF’s board on 30 January, is premised on helping “leverage private sector climate finance,” including a plan to “update the PPP policy and framework to reflect climate risks.” Similarly, Rwanda’s RST ‘qualifying reforms’ – linked to $319 million in financing – include efforts to increase ‘fiscal space’ via PPPs, while Barbados’ $189 million RST programme notes the country will seek to “significantly scale up private climate financing in the next three years,” including through reforms to its power sector licensing system to allow renewable energy PPPs. In Costa Rica’s $710 million RST programme – the first approved under the trust – agreed reforms include, “simplifying administrative procedures for private participation in power generation from renewables.”

In contrast to the recent spate of RST loan conditionality, on IMF staff note released in August warned, “public-private partnership investment implies potentially large public debt increases through the crystallization of contingent liabilities” (see Observer Autumn 2022). “No evidence supports the RST rationale that an ‘enabling environment’ can close the gap in climate finance through volatile private funding,” said Federico Sjaba of Netherlands-based CSO Recourse. “The IMF should guarantee more conditionality-free SDRs for debt-stricken Global South countries to address the balance of payment issues that arise from just transitions.”

IMF Managing Director Kristalina Georgieva and Rwanda finance minister Dr Lizziel Ndagijimana participate in a roundtable on “Building a Resilient and Inclusive Future; Supporting Africa’s Climate Agenda” in Kigali, Rwanda, in January.