Civil society calls for World Bank to reroute ‘Evolution Roadmap’ away from Cascade

Evolution Roadmap and Paris Summit double-down on ‘private sector solutionism’ despite concerns this will deepen inequality

Civil society questions the proposed expansion of the Cascade approach, which has failed to deliver the ‘trillions’ promised

CSOs call for putting a rights-based approach at the centre of the public development banks’ strategies

Civil society organisations (CSOs) and academics have vocally questioned the World Bank Group (WBG) Evolution Roadmap’s continued promotion of the Cascade approach, a policy paradigm that heavily prioritises incentivising private finance to provide co-financing for development efforts through de-risking – and which has thus far failed in its goal to mobilise ‘trillions’ in supposedly idle capital.

The draft Roadmap, which was initially prepared for discussion by World Bank governors in April, is currently undergoing public consultation until 31 July, ahead of further negotiations on reform of the Bank at its Annual Meetings in Marrakech Morocco, in October.

A briefing published on 5 July, endorsed by 74 CSOs and academics, including Belgium-based CSO network Eurodad and South Africa-based CSO Institute for Economic Justice, noted, “the Roadmap’s push to reinvigorate the Cascade approach represents part of the larger political project which Professor Daniela Gabor (University of the West of England Bristol) has referred to as the “Wall Street (Climate) Consensus”, which reshapes the role of the developing states as de-risking agents for private capital, with international financial institutions helping to facilitate this process.”

It added, “This paradigm risks greatly deepening existing inequalities within and between states, and its promotion within mooted World Bank reforms reflects in part the failure of the World Bank’s wealthy shareholders to help ensure a more equitable multilateral system that is truly fit for purpose to meet the challenges of the 21st century.”

Missing trillions? Despite unfulfilled promises and misalignment with development aims, Bank’s dedication to Cascade remains undimmed

The Cascade, first launched by the World Bank in 2017, focuses on privileging private finance solutions over public ones to supposedly maximise the impact of ‘scarce public resources’. The World Bank’s 2016 Forward Look document, where the Bank’s vision of the Cascade was first set out, noted, “Only where market solutions are not possible through sector reform and risk mitigation would official and public resources be applied” (see Observer Summer 2017).

The World Bank’s Evolution Roadmap proposes a deepening of the Cascade approach, stating: “To further increase the scale of impact...the WBG will invest more in upstream analytical work and support to the business enabling environment; make the Cascade concept central to the country engagement cycle to inform diagnostics, country dialogue and programming; further develop joint programs to maximize the One-WBG approach; institutionalize joint
WBG program pipeline reviews within countries; and revise instruments and approaches across institutions to scale up PCF [private capital formation].”

The Summit for the New Global Financing Pact in Paris on 22-23 June doubled down on this approach, as well, with host French President Emmanuel Macron calling for $100 billion a year in private finance to be mobilised by multilateral development banks in his closing speech at the Summit.

This followed the World Bank launching a new Private Sector Finance Lab at the Summit, and newly appointed World Bank President Ajay Banga somewhat quixotically claiming that he is targeting $5 of private sector co-investment for every $1 spent by the Bank in a panel on reform of the Bretton Woods Institutions at the Summit.

A 2021 estimate by UK-based think tank Overseas Development Institute suggested actually existing rates of private finance mobilisation by public finance institutions are closer to a 0.7-to-$1 ratio, pouring cold water over the idea that ‘trillions’ can be mobilised via blended finance initiatives.

This is before taking into account whether such approaches are appropriate for development finance aims, more generally. “The derisking approach assumes that there will never be trade-offs between commercial goals and the public interest,” said Bhumika Muchhala of global CSO Third World Network. “It also ignores the developmental dilemma posed by prioritising private risk over that of distributive social equity and state sovereignty in legal and normative affairs. It is yet to be seen if the WBG will incorporate sufficient provisions within its plans to escort private capital that ensure the recipient state’s right to regulate in the public interest, for a rights-based economy that upholds economic, climate, feminist justice” (see Observer Summer 2023).

Civil society warns re-affirmation of Cascade approach could exacerbate deeply unequal global economic system at root of the current crisis

The World Bank’s Evolution Roadmap includes a proposed expansion of the World Bank’s mission, with an enhanced emphasis on sustainability, which “reflects the need to ensure that WBG impact is positive including in fiscal, economic, social, and environmental terms.”

However, the joint civil society briefing questions the extent to which this is compatible with the continued promotion of the Cascade, noting, “Rather than ‘evolution’, the promotion of the Cascade represents the reaffirmation by World Bank management and shareholders of a flawed development paradigm that assumes incentivising private finance is inherently benign and productive, while failing to acknowledge that the type of projects designed to attract profit-seeking private investors and generate quick returns might not match the public interest and national or local priorities, or support sustainable economic transformation.”

It calls for ‘rerouting the Roadmap’, via a number of recommendations, including: (1) commissioning an external and independent review of the World Bank’s development effectiveness; (2) inverting the Cascade, putting public interest at the core of the Bank’s efforts to support global public goods; (3) developing and funding a WBG human rights policy; (4) mainstreaming climate justice into the Bank’s operations; (5) mainstreaming a gender lens into the Bank’s operations, extending beyond the mandate of the upcoming Gender Strategy; and (6) developing better metrics for measuring – and policies to tackle – inequality.

The briefing notes that, “As a starting point, we would strongly emphasise that privatisation and blended finance approaches inherent in the World Bank’s current version of the Cascade should not be used for projects that involve essential public services, including health and education.”

It adds, “On the 75th anniversary of the Universal Declaration of Human Rights, the World Bank Group must work consultatively – with grassroots communities who are affected by Bank activities, and their civil society allies – to develop and adopt a Human Rights policy. The Bank must also dedicate adequate funds to effectively implement the policy.”

Finally, the briefing argues that, “the Bank must ensure that climate justice and a focus on green economic transformation are integrated into its approach. This includes supporting publicly-owned clean energy transitions that ensure dividends for developing country governments and citizens, rather than a continued reliance on energy systems privatisation and price liberalisation.”

bit.ly/EndCascade

Word Bank promotes agricultural corporations at cost of food security in Africa

New research published by the UK-based Catholic Agency for Overseas Development (CAFOD) shows how the World Bank is harming farmers in Africa through its agricultural policies, by promoting regulations that support the expansion of commercial markets for hybrid seeds, fertilisers and pesticides. Through seed certification laws and subsidy programmes, the Bank has advocated for national laws that can make it illegal for local communities to propagate, grow, exchange and sell their own seeds, instead encouraging farmers to buy hybrid seeds and fertilisers in the commercial seed market. This means farmers become more dependent on outside interventions and expensive goods (see Observer Spring 2020).

The report shows this approach is ineffective in reducing poverty and increasing food security, particularly for women, as they have less access to finance to buy seeds in commercial markets. This is the result of the Bank’s flawed metrics, which measure the success by greater participation of the private sector (see Observer Spring 2019), instead of measuring poverty reduction. “The World Bank is funded by taxpayer money. Its purpose is to tackle poverty and reduce food insecurity. Yet, it seems the main thing they care about is making it easier for giant corporations to sell expensive seeds and fertilisers”, highlighted Dario Kenner, CAFOD’s lead analyst on sustainable economic development.

In contrast to this industrialised agricultural model, the report encourages the World Bank to support alternative models, based on agroecological principles that involve shifting public finance, scaling up investment in crop diversity, supporting participatory plant breeding, community seed banks and other community level initiatives to protect and build crop diversity.

bit.ly/CAFODReport
UN Financing for Development: The best chance to democratise global economic governance?

Guest analysis by Flora Sonkin, Society for International Development, and Iolanda Fresnillo, Eurodad

As BWIs fail to transform, countries should re-embrace more democratic space at the United Nations

The Bretton Woods Institutions (BWIs) – the World Bank and the IMF – are historically known for their lack of democratic governance and accountability: Their shareholder structure skews decision-making power towards Global North countries, their leadership selection is based on an arbitrary gentleman’s agreement between the US and Europe (see Inside the Institutions, What is the gentleman’s agreement?), and they deny human rights obligations as binding to their operations (see Inside the Institutions, IMF and World Bank decision-making and governance). Despite their neo-colonial structures, the BWIs continue to play an outsized role in shaping the international debt and financial architecture, by being major creditors, global norm setters and policy prescribers to the Global South.

Yet, there is a forum mandated to address global economic governance where each country has an equal say: The United Nations. In particular, the UN Financing for Development (FFD) process constitutes the only inclusive and truly democratic space to advance on the systemic reforms needed to re-design a skewed and dysfunctional international financial architecture towards supporting human rights-centred sustainable development.

Surprisingly enough, both the IMF and the World Bank were constituted as specialised agencies of the UN, but have historically drifted apart from the UN system. They differ on membership and governance and, in contrast to the BWIs, climate change, inequality and human rights are at the core of the UN’s mission.

FFD needs to be made the space for equitable global economic governance

The FFD process has its historical roots in the active discontent of Global South countries about the systemic shortcomings of the international financial architecture and the historical inequalities that define it. The first International Conference on Financing for Development took place in Monterrey, Mexico, in 2002, in the aftermath of the Asian financial crisis. It was an attempt to recover the UN’s voice within the global economic and financial system and resulted in the ‘Monterrey Consensus’, which initiated a process toward coherent, rights-based norms and actions to create policy space for Global South countries to sustainably finance their own development.

Although debt, domestic resource mobilisation and other international economic governance issues are at the core of the FFD agenda, this and other UN processes dealing with global economic reform have been systematically marginalised in favour of the BWIs. For instance, attempts to advance reforms on debt architecture and financial markets regulation under UN auspices have been blocked by Global North countries. Nevertheless, the democratisation of the global economic governance has remained at the heart of the FFD process since the ‘Monterrey Consensus’. Civil society organisations (CSOs) and the private sector are recognised as partners in the process, making the FFD an uniquely inclusive space for discussing global economic issues in all their systemic dimensions.

On sovereign debt resolution, for instance, while FFD could offer an inclusive process where borrowing countries have equal voice under the ‘one country one vote’ system and CSOs participate, the IMF and the World Bank push for discussions at creditor dominated fora such as the G20 or the recent Global Sovereign Debt Roundtable. This is precisely why civil society has been calling for an intergovernmental process to discuss the reform of the international financial architecture and the establishment of a multilateral sovereign debt resolution framework under UN auspices.

Momentum is building on international cooperation to face multiple crises

In recent months, the UN FFD process has regained steam due to two major steps forward: The approval by consensus of a resolution tabled by the Africa Group for an intergovernmental process on tax cooperation at the United Nations, and the momentum building towards the fourth Financing for Development Conference, which seems likely to occur in 2025.

The issues of tax dodging and illicit financial flows, which have been raised by developing countries since the inception of the FFD process, cost governments around the world hundreds of billions of dollars in lost tax income every year. It is one of the main structural impediments to Global South countries’ socio-economic transformation and remains a political choice, with multilateral progress undermined by decades of resistance from OECD economies. The recent resolution offers a concrete opportunity to move towards action on much needed reforms to the international tax system.

As the BWIs fail to deliver their own transformation in response to the pressing challenges we face today (see Dispatch Spring 2023), a fourth FFD Conference has never been more urgent, given the need for structural reform and financing in the context of the Covid-19 pandemic aftermath, 19th century levels of inequality, increasing social and political instability, and the accelerating climate emergency.

While Global North countries attempt to create separate fora – such as the Finance in Common Summit or the Summit for a New Global Financing Pact – where they can set the agenda and steer the outcomes, the UN FFD process remains uniquely placed to foster policy cohesion on global economic governance and to ensure all countries have a place at the decision-making table in shaping a more just and sustainable global economy.
As World Bank launches Paris alignment approach, unclear guidelines raise greenwashing concerns

Approach relies on countries’ national climate plans, which are not currently aligned with 1.5°C goal

Bank failed to hold a formal consultation with civil society, despite repeated requests

The World Bank began operationalising its approach to aligning its activities with the Paris Agreement on 1 July, six years after first announcing its intention to do so, along with its multilateral development bank (MDB) peers, at the One Planet Summit in December 2017 (see Observer Spring 2019).

However, significant concerns remain about the Bank’s oft-delayed approach, which fails to provide clear guidance on limiting future World Bank investments in, or other support for, fossil fuels, and will require Bank staff to interpret whether or not many activities are aligned with the Paris Agreement depending on differing country contexts.

In a Civil Society Policy Forum event on the Bank’s Paris alignment at the World Bank and IMF Spring Meetings in April, World Bank representative Stephane Guimbert noted its assessments of Paris alignment, “will be very country-, sector- and even time-specific. So the assessment in one country today will not be the same as if we are doing it ten years from now.”

The joint MDB approaches for different instruments related to Paris alignment – which constitutes one part of the guidance the Bank relies on – were only made public in June, weeks before the approach was launched.

“It has taken the MDBs eight years to come up with a plan for business as usual,” said Kate Geary of Netherlands-based civil society organisation (CSO) Recourse. “A public and transparent process for producing this guidance would have helped to avoid loopholes and improve accountability measures for affected communities, but instead we have a set of late, weak guidelines that won’t catalyse the necessary shift in financing from fossil fuels to clean energy.”

In a briefing released on 30 June, 14 CSOs, including Recourse and Nairobi-based campaign Don’t Gas Africa, registered their concern that, “the instrument methodologies and sector notes fundamentally fail to respond to the scale of the climate crisis we confront,” and called on the Bank to – inter alia – reorient its approach to the 1.5°C temperature goal.

Lack of clarity on WBG Paris alignment guidelines raises concerns around calls for a ‘bigger bank’

The concerns about the Bank’s Paris alignment approach surface amidst calls by some think tanks and policymakers for a ‘One Trillion Dollar’ World Bank, with a more explicit climate change focus, as part of the Bank’s ‘Evolution Roadmap’ discussions (see Observer Summer 2023).

However, Professor Daniela Gabor voiced fears at a 23 May webinar organised by Belgium-based CSO network Eurodad and partners that the World Bank’s Paris alignment approach could become a further tool for the promotion of the Cascade approach (see Observer Summer 2017), which is centred on the state ‘de-risking’ private investments, in this case privatising the profits and socialising the losses from climate-related projects.

She stated that public banks are expanding their balance sheets to escort private investors into climate initiatives but that they should “not only [be] offering carrots for private lenders but also sticks.”

A joint civil society briefing on the World Bank’s Evolution Roadmap published on 5 July and endorsed by 74 CSOs and academics, including Oxfam and Christian Aid, argued, “The Bank’s approach to Paris alignment must not become a vessel for a new wave of green conditionality that constricts countries’ policy space, including by inducing them into a ‘private-sector first’ approach to climate action, as implied by the Cascade.”

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

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Civil society protestors call for the World Bank to end support for fossil fuels at the Bank’s Spring Meetings in Washington DC on 14 April, 2023.
Honduras threatens ICSID withdrawal over $11 billion ‘neo-colonial’ special economic zone claim

$11 billion compensation claim brought under ICSID against Honduras over the repeal of a law permitting SEZ

Claim relates to ‘charter city’ characterised as a “crypto-libertarian paradise”

ICSID criticised as a “faulty and undemocratic” dispute resolution mechanism

Honduras is threatening to withdraw from the World Bank’s International Centre for Settlement of Investment Disputes (see Inside the Institutions, What is the World Bank’s International Centre for the Settlement of Investment Disputes (ICSID)?) over an $11 billion claim by Honduras, Prospera, a US company, arguing ICSID has breached “law and procedure”. In April 2022, the Honduran government repealed a 2013 law that allowed the US company to establish a charter city in a special economic zone (SEZ) in 2021.

Prospera’s $11 billion claim for damages amounts to about two-thirds of Honduras’s annual budget. US-based publication The Atlantic described Prospera as neo-medieval and neo-colonial, while Bloomberg described it as “a mini startup nation with its own set of laws.”

The case highlights serious issues with both SEZs and investor-state dispute settlement (ISDS) arbitration panels like ICSID (see Observer Summer 2020), raising critical questions about national sovereignty and effective democratic oversight over economic governance in the Global South.

Honduras pushes back against SEZs

The Honduran SEZ law that permitted the establishment of Prospera allowed these zones to operate subject to Honduran criminal law but with their own civil code and administration. It was initially ruled unconstitutional by the Supreme Court in 2012, but was reversed after several Supreme Court Justices were replaced and the constitution changed. The model Prospera followed was based on former World Bank Chief Economist Paul Romer’s idea that poor countries could grow rich by encouraging foreign-run ‘charter cities’. Finally established in 2021, it became what tech news website Rest of World described as a “crypto-libertarian paradise”.

In a promotional video, Prospera asked if Honduras’ SEZs are “Tax havens or catalysts for competitiveness?” Prospera’s neighbours in Honduras were less enthusiastic, fearing the zone could expand and expropriate their land. According to Peace Brigades International-Honduras, the new SEZs in Honduras, of which at least three are known, are strongly reminiscent of “predatory extractivist policies of past decades, such as the mining and banana enclaves of the late 19th and early 20th centuries.”

Crucially, there is no actual evidence that SEZs are economic dynamos capable of supercharging national economies. A study by Shahid Yusuf, Chief Economist of The Growth Dialogue, published in April 2023 by the Center for Global Development, noted that, at best, SEZs display an initial growth spurt, then revert to the growth rate of the rest of the economy, while the incentives provided only increase the cost to the host country. Even the World Bank itself now broadly acknowledges SEZs have failed to live up to their promise.

ISDS: Pervasive, difficult to escape and of no discernible benefit

Unfortunately, even if Honduras does withdraw from ICSID over Prospera’s claim, ISDS cases could still be brought against the country. It would still have to defend Prospera’s $11 billion claim, and any others filed within a six-month window of formal withdrawal notification. Honduras could also potentially be subject to further cases through one of the eight bilateral investment treaties it has signed that refers arbitration to ICSID.

Despite the proliferation of ISDS clauses in trade and investment agreements, evidence does not indicate investment agreements actually stimulate investment, or benefit the host country. A 2018 study from the Columbia Centre on Sustainable Investment (CSSI) concluded “the expected benefits have not clearly materialized, whereas the costs have been unexpectedly high”, while a 2020 meta-analysis by researchers Jozef Brada et al found “robust evidence that [the] effect of international investment agreements is so small as to be considered zero.”

Civil society has long argued that ICSID is “seriously flawed” with a “perceived bias against states”, and that ISDS clauses constrain the policy space available to states to act in the interests of people. UN special rapporteurs have also been highly critical, calling out states for prioritising investments over human rights, the rule of law and democracy.

A May 2023 letter signed by five US Senators and 28 members of the US Congress noted, “Large corporations have weaponized... this faulty and undemocratic dispute settlement regime to benefit their own interests at the expense of workers, consumers, and small businesses globally.” The power relationships in investment treaties are often inherently asymmetrical, with investors from Global North states more likely to win their claims.

CSSI noted these agreements undermine the ability of Global South states to govern, reducing the policy space available to them and increasing the cost of regulating their own economies, and this problem is particularly acute for states navigating the green economic transformation.

These concerns are likely to become even more salient as discussions on reform of international development finance progress. The World Bank’s Evolution Roadmap explicitly refers to increased support for ICSID as efforts are made to mobilise more private capital (Observer Summer 2023).

Can ISDS be challenged?

Momentum is gradually building against ISDS. In 2020, US President Joe Biden signed a campaign pledge to exclude ISDS clauses from future trade deals. The letter from US Senators and members of Congress requested the US administration “investigate any and all options at your disposal to eliminate ISDS liability from existing trade and investment agreements.” The EU Court of Justice has also issued a series of rulings to the effect that ISDS clauses between members of the bloc are incompatible with EU law, but there has been pushback from national courts and ICSID itself, and the issue is unresolved.

However, the web of international treaties and obligations containing ISDS clauses means the system of protection for international investments, embodied in thousands of investment treaties and in ICSID itself, will be more difficult to unravel. As the CSSI notes, “it is particularly difficult to course-correct in a fragmented and often conflicted international investment law regime that lacks meaningful checks and balances.”

Unfortunately, this leaves Honduras likely facing a budget-busting $11 billion claim for reasserting its sovereignty over a foreign enclave a previous government sanctioned on its soil.

bit.ly/ICSIDHonduras
IFC continues extractive investments under cover of biodiversity offsets

With the World Bank Evolution Roadmap process underway, concerns are growing over the Bank expanding its private-finance-first approach to tackling climate change (see Observer Summer 2023). The Bank has been at the forefront of promoting private sector centred “false solutions”, including carbon trading and so-called biodiversity offsets, which attempt to compensate for the destruction of natural habitats and species through conservation elsewhere. While the ineffectiveness of the carbon trading system has been widely documented, the spotty track record of biodiversity offsets has largely escaped public scrutiny, and they were included in last year’s UN biodiversity framework.

The International Finance Corporation (IFC), the Bank’s private sector investment arm, has funded at least 19 projects involving biodiversity offsets. Recent research in Guinea published by investigative news outlet ProPublica demonstrates the problematic nature of this approach, where an IFC-co-financed mining company displaced people and destroyed the habitat of endangered apes who in turn attacked villagers in a shared struggle for food and water. Meanwhile, the “offsetting” project, a national park protecting chimpanzees further away, is already being undermined by another bauxite mine and a planned dam that could kill half the ape population there as well. These issues are not new: In 2013, civil society experts already raised concerns with the WBG board over problematic biodiversity offsets from a different IFC-financed mine in Guinea, also in relation to chimpanzees (see Bulletin December 2013).

Biodiversity offsets are based on thin evidence of their effectiveness, as fragile ecosystems can rarely just be uprooted and recreated elsewhere. As a Civil Society Policy Forum panel at the April IMF and World Bank Spring Meetings pointed out, the sustainability of the conservation offset component is also rarely monitored in the long term, so protection may not even extend beyond a project’s timeframe (see Dispatch Springs 2023). Regardless, offsets go on being used by environmentally destructive companies to continue their business as usual approaches with public funding from the World Bank Group, something environmental civil society organisations (CSOs) like Global Witness have called out as greenwashing.

Without upholding credible standards and remedy, the IFC sets a low bar for others

IFC and World Bank investments in extractives and infrastructure megaprojects have recently been linked to deforestation, displacement, loss of livelihoods, human rights abuses and environmental degradation (see Observer Winter 2021, Autumn 2020, Autumn 2019; Bulletin). However, the impact of such cases goes beyond the project itself, as the WBG’s standards and practices on accountability, remedy and environmental protection (as set the bar for other development institutions and provide a stamp of legitimacy for extractive companies – as shown in a 2018 report by Human Rights Watch, which found the government of Guinea pointing to IFC’s standards as best practice.

Pressed by its board and an expert panel after the highly-publicised Jamb vs. IFC lawsuit (see Observer Summer 2022), the IFC has committed to creating a remedy framework, but a first draft released earlier this year was severely criticised by an alliance of 48 CSOs including Accountability Counsel, Recourse, Oxfam and the Center for International Environmental Law for its “abject failure” to acknowledge human rights obligations or indeed, “provide a plan for any type of remedy” (see Observer Summer 2022). The World Bank’s 2022 reform of their own accountability and remedy mechanism was denounced by a similar group of CSOs for lagging behind even the IFC, lacking the option to suspend projects that result in imminent and irreversible harm (see Observer Autumn 2022).

In the context of a green industrial and energy transition that will see increased extraction of minerals required for renewable energy storage and other “green” technology, the risks of environmental degradation and human harm in resource-rich Global South countries like Guinea will retain their urgency. As a June expert briefing endorsed by 74 CSOs and co-authored by BankTrack, Friends of the Earth, Bank Information Center and Rainforest Action Network stressed: “It is critical that financiers avoid biodiversity and carbon offset approaches...and dependency on unproven, vague technologies, as there is an abundance of longstanding evidence that these approaches are not effective in solving the root problems of biodiversity loss and climate change.”

bit.ly/BiodiversityOffsets

Aerial view of bauxite mine, river and grass farmland.
Tunisian government resists proposed IMF austerity programme

Amid fears of an economic collapse, the Tunisian government is attempting to renegotiate an IMF loan to avoid cutting subsidies on food and fuel required by the IMF that would hurt the poor and economically marginalised. The country is suffering from severe shortages of basic goods and is heavily dependent on imported wheat supplies, which have been disrupted by the war in Ukraine, and is exhausting its foreign currency reserves.

The IMF deal would provide $1.9 billion and unlock a further €1 billion from the EU, including €105 million to stop African migrants from going to Europe. European leaders are facilitating talks between Tunisia and the IMF mainly out of concern that an economic collapse in the country could result in an increased number of migrants crossing the Mediterranean to Europe.

The IMF programme demands the Tunisian government phase out subsidies for food and fuel, replacing them with targeted support as part of its ‘social spending floors’ policy aimed at mitigating the impact of its austerity policies on the poorest.

Middle East/North Africa-based civil society network Euromed Rights argued that this approach is fundamentally misguided, as social protection is a human right, not a form of mitigation. Further, a recent Oxfam study of 17 of these spending floors found they were “opaque and inconsistent” and provided a “fig leaf” for damaging austerity.

A 2022 study by Friedrich Ebert Stiftung found food subsidies in Tunisia are progressive and equitable, and effective in eradicating poverty. The last time Tunisia removed subsidies at the IMF’s insistence, in 1983, widespread rioting and unrest followed, leaving at least 80 dead in a brutal government crackdown (see Observer Autumn 2019; Briefing, IMF policy in the MENA region: Lessons unlearnt).

African finance ministers join growing calls for more equitable SDR allocations

Pressure is mounting to reform IMF’s Special Drawing Rights (SDRs; see Inside the Institutions, What are Special Drawing Rights (SDRs)?) as African finance ministers called for a review of the SDRs rechannelling mechanism (see Observer Autumn 2021) and their reserve asset characteristic during the Annual Meetings of the African Development Bank held in May in Sharm El Sheikh, Egypt. The ministers emphasised “the need for SDR allocation decisions to be made in a rule-based analytical manner to reduce the discretionary and political nature of the allocation process”, and to ensure that SDRs are directed to countries that need them the most.

Demands for a comprehensive SDR reform are increasing. An April report by the UN’s High-Level Advisory Board on Effective Multilateralism called for the “immediate, and thereafter regular” annual issuance of additional SDRs to aid countries facing foreign-exchange shortages. The report also suggests an amendment to the IMF’s Articles of Agreement to permit “selective SDRs allocation” in order to facilitate a more targeted and effective distribution that prioritises the most vulnerable countries over the world’s largest economies.

Following the insufficient and uneven allocation of $650 billion SDRs in 2021, which allocated 64 per cent of the SDRs to advanced economies instead of low-income and climate vulnerable countries, civil society organisations called for a reform of the distribution criteria, currently based on an inequitable quota system (see Inside the Institutions, IMF and World Bank decision making and governance). They and others such as UNCTAD have also called for an additional $2.5 trillion in SDRs to ensure the international community has a global financial safety net, enabling countries to close the climate finance gap and achieve their Sustainable Development Goals (see Observer Spring 2021).

B-Ready for more ill-founded private-sector solutions

In December 2022, the World Bank published the updated concept note of its Business Enabling Environment Project (BEE), the successor of its much-criticised ‘flagship’ Doing Business Report (DBR), cancelled due to a data manipulation scandal in September 2021 (see Observer Winter 2021, Autumn 2021). The BEE has subsequently been rebranded as the Business Ready Project (B-Ready).

Civil society organisations (CSOs) worldwide have for decades called for the DBR’s cancellation on substantive grounds, for instance via an open letter signed by over 360 CSOs, trade unions and individuals on 11 March 2021. Given the strong evidence and the critique published in March 2022 by the Bank’s own Independent Evaluation Group, civil society was extremely displeased with the launch of B-Ready. Maju Varghese of Indian CSO Centre for Financial Accountability lamented, “The launching of the B-Ready report will bring cheer only to businesses and corporations who want to further deregulate environmental and labour policies. We need better regulations to ‘B Ready’ to fight climate change and rising inequality rather than make economies more ‘Ready’ for exploitation and extraction.” Rodolfo Lahoy of Philippines-based IBON International added, “The now-defunct DBR served as a neoliberal whip on governments and was rightly criticised… its successor sends an ominous message: be ready for more of the same profit-centred approach that has hollowed out and drained resources from Southern economies. Instead of artificially reviving dead reports, we need the Bank’s development approach to be held accountable for driving today’s crises and exposing peoples to their effects.”

A 7 March 2022 CSO submission to the B-Ready consultation echoed the call for an urgent rethink of the Bank’s private sector-led approach, calling for an evaluation of its development impact, a recommendation that is more relevant today in light of the push for the expansion of the failed Cascade approach in the World Bank’s Evolution Roadmap (see Observer Summer 2023).
UDHR and IPN anniversaries underscore urgent need for Human Rights policy at all IFIs

World Bank must establish robust and well-resourced remedy framework to meet the obligations under UDHR

 IMF and World Bank must develop human rights policies to begin to adequately respond to evolving poly-crisis

This year marks the 30th anniversary of the World Bank’s Inspection Panel (IPN), created as the result of grass-roots and international pressure on the Bank to address the well-documented negative impacts of the Bank-financed Narmada dam in India and similar projects, on marginalised communities.

The establishment of the world’s first independent accountability mechanism (IAM) at the World Bank in 1993 led to the creation of similar mechanisms at nearly all international financial institutions (IFIs), with the IMF and the German Federal Ministry of Cooperation and Development stark exceptions. The establishment of the IPN and other IAMs was a step-change in accountability, as previously only shareholders and borrowers had institutional channels and pathways to hold IFIs accountable – as opposed to communities affected by their investments. Fittingly, this year also marks the 75th anniversary of the Universal Declaration of Human Rights (UDHR) and the foundation of the international human rights system.

These anniversaries take place as the world struggles to respond to the poly-crisis exacerbated by the Covid-19 pandemic, the worsening impacts of climate change, and the war in Ukraine. This coincides with mounting calls for reform of the unjust international financial architecture, as evidenced by the Bridgetown Initiative and the evolving consensus of the need for a fourth UN Financing for Development Conference (see Observer Summer 2023). The demands for substantive governance reforms are counter-balanced by a strong focus on ‘technical’ and financial fixes, such as reforming multilateral development bank’s capital adequacy framework, to meet a supposed development financing gap of trillions of dollars. Calls for the tripling of IFI project and policy lending to affected communities will become more acute. Despite the Roadmap’s moated expansion of Development Policy Financing (DPF), which falls outside the Bank’s environmental and social framework (ESF) (see Briefing, Learning Lessons from the Covid-19 pandemic: The World Bank’s macroeconomic policies and women’s rights: Background, What is Development Policy Financing?), it does not bring DPF and Program for Results lending within the ESF.

The struggle for improved IFI accountability and compliance with international human rights obligations in the context of the 75th anniversary of the UDHR is further challenged by the fact that the IMF lacks an IAM. This is particularly concerning given the expansion of the Fund’s work to include, for example, gender and climate. The proliferation of its programmes in the context of increased debt burdens and a challenging global economic environment, where Fund-mandated austerity and other policies are having acute social impacts (see Observer Summer 2020) exacerbates those concerns.

Umida Niyazova, Director of the Uzbek Forum for Human Rights, and part of the Defenders in Development campaign stressed, “As World Bank, IMF and other IFI shareholders celebrate the anniversary of the international human rights system, they must go beyond words. Shareholders must demand that all IFIs establish human rights policies, integrate ex ante and post hoc human rights impact assessments into all of their programmes, and ensure their IAMs are adequately resourced and structured to enable them to meet their human rights obligations by providing remedy and accountability to communities affected by IFI project and policy lending.”

bit.ly/UDHRAnniversary

World Bank Inspection Panel building.
Financial liberalisation, capital controls and development in Africa: The case of Uganda

by Jane Nalunga, SEATINI Uganda

Effects of IMF-imposed financial liberalisation on African states in 1980s to attract foreign investment persists

It has made economies more vulnerable to economic shocks and less resilient

In Uganda it has facilitated the extraction of wealth, and most foreign investment has gone to services and mining

Financial liberalisation involves diluting or dismantling regulatory controls over the institutional structures, instruments and activities of agents in different segments of the financial sector. It has had a profound impact on Uganda, as it has on other African economies over the last 40 years, but it has not driven economic transformation.

The issues of financial liberalisation and capital controls in Uganda, as in the continent generally, have come to the fore due to ongoing crises – i.e. climate change, high trade deficits, negative health impacts (including high out-of-pocket fees, vaccine and pharmaceuticals dependence), debt distress and economic contraction. The Covid-19 pandemic intensifies the preexisting structural challenges exemplified by commodity dependence because of the limited economic transformation in many countries (see Dispatch Annuals 2022, Springs 2022).

Africa requires resources to address all of these challenges. Given the dwindling levels of Official Development Assistance provided by wealthy countries and the increasing debt burden, domestic revenues can contribute massively to addressing the current challenges. Therefore, for African countries, the debate around financial liberalisation and capital controls is inextricably related to the urgent quest to mobilise resources by capturing the possible investible surplus for investment. Thus, most post-independence African governments instituted measures to minimise the share of foreign profits repatriated and maximise what was retained in their economies. These included regulations on the repatriation of profits and taxes on foreign investment and profits. Governments also directly supported their economies through state enterprises, capturing the profits that would otherwise have accrued to foreign capital, repatriated, and lost to the domestic economy.

However, the Structural Adjustment Programmes (SAPs) imposed upon Africa by the IMF and World Bank in the 1980s dismantled all these policies, replacing them with neoliberal policies, i.e. economic and financial liberalisation, reformulating the role of government to merely providing a ‘conducive environment’ for the private sector to thrive and the promotion of private sector-led economic development. Given the weak domestic private sector in Uganda, and in many other African countries at that time, a new slate of policies was developed by African governments to incentivise foreign direct investment (FDI). These included tax incentives and the relaxation or total dismantling of regulations regarding financial flows in and out of the domestic economy.

The lasting negative legacy of financial liberalisation

The effects of financial liberalisation have varied across countries. However, the literature has shown that although financial flows increased in some countries, financial liberalisation and capital account liberalisation has presented a number of challenges for African countries (see Dispatch Springs 2022). These include:

- Increased volatility and vulnerability to external shocks due to exposure to volatile capital flows; instability in the countries’ financial systems and pressure on the exchange rate with negative impacts on macroeconomic stability and economic growth; appreciation of the domestic currency due to increased capital flows making exports less competitive; and the weakening of the domestic financial sector.

Specifically, for Uganda, the liberalisation of its capital account in 1997 was carried out as part of a series of stabilisation and reform policies undertaken since 1987 under IMF and World Bank Group SAPs. The government, among other measures, allowed the free flow of capital between Uganda and the rest of the world, permitting residents and non-residents to hold foreign exchange-denominated accounts in the domestic banking system and residents to hold foreign exchange-denominated accounts and instruments outside the country. Liberalisation of the capital account in Uganda was justified on the grounds of closing the savings-investment gap to promote sustainable long-term growth, and to address its fiscal deficit to finance infrastructure projects.

Since liberalising its economy, Uganda has not seen increased capital flows, but key macroeconomic indicators have deteriorated. For example, according to IMF data, in 1998, the inflows accounted for 3.19 per cent of GDP, while in 2020 and 2021 they accounted for 2.32 per cent and 2.82 per cent of GDP respectively. The fiscal deficit has also increased from 7.1 per cent of GDP in 1998-99 to 9 per cent in 2020-21; while public debt to GDP ratio has increased from 45.1 per cent in 1998 to 52.2 per cent in 2022. The trade deficit has also increased from a trade balance of 6.8 per cent of GDP in 1964 to a deficit of 10.1 per cent of GDP in 2021.

These adverse figures conceal a profound structural change that has happened in Uganda since the liberalisation of its financial sector including the collapse of local banks with reduced lending to the rural and informal sectors, persistently high lending rates at between 18-20 per cent and the redirection of investments away from the productive sectors of the economy. Financial liberalisation has thus failed to drive investment to sectors that could actually structurally transform the Ugandan economy. It has in effect perpetuated economic underdevelopment while facilitating the extraction of profits by foreign investors. Thus Uganda remains among the poorest economies in the world.

Uganda’s experience demonstrates the urgent need for African governments – and the IMF – to rethink the efficacy of capital account liberalisation, based on an assessment of the cost of these neoliberal policies on their economies especially given the current polycrisis (see Dispatch Spring 2023).

[bit.ly/CapitalControlsUganda]
Gender progress at risk as new World Bank president enters pushing private-sector focus

In the lead up to the appointment of Ajay Banga as the new president of the World Bank, it was no secret that many Bank watchers were highly critical of the choice of candidate (see Observer Spring 2023). His lack of experience in international development, his veteran status in the corporate finance world and his expressed preference for public-private partnerships (PPPs; see Observer Autumn 2022) rang alarm bells for many, particularly those concerned with gender equality.

The recent global pandemic laid bare the essential role of public services, including healthcare, social care and education, and the importance of maintaining universal protection schemes, most notably for women (see Briefing, Learning lessons from the Covid-19 pandemic: The World Bank’s macroeconomic policies and women’s rights). This, and a steady flow of evidence highlighting the necessity of publicly-funded essential services as well as the gendered effects of austerity measures, was not enough to stop the Bretton Woods Institutions (BWIs) from returning to business as usual, and to recommend policy prescriptions that encouraged damaging and avoidable austerity for ‘client countries’.

A new report by ActionAid UK, launched in May, with evidence from Ghana, Kenya, Malawi and South Africa, highlights the critical importance of public services that are gender responsive. Noting the role of the World Bank in the ongoing privatisation of services and cuts to public spending in these countries, the illustrated guide sets out how women’s and girls’ rights are impacted when public services are of poor quality, privatised or cut, particularly in situations such as the current intersecting crises – inequality, climate, health, education, conflict and debt – alongside the Covid-19 pandemic. The report stresses that we must “keep public services public by resisting pressure to privatise.”

Privatisation cause for concern

The World Bank, through its private sector arm, the International Finance Corporation (IFC), has been repeatedly criticised, including by UN human rights experts, for the harms caused by its investments in for-profit social services, including healthcare and education (see Observer Summer 2022). For instance, the IFC’s support for Bridge International Academies, for-profit K-12 schools, was found by the Bank’s own Independent Evaluation Group (IEG) and others to have resulted in poor quality education, accusations of sexual abuse and abuse of power, lack of transparency and inadequate conditions for pupils and teachers. A June report from Oxfam exposed the harms of World Bank investment in for-profit healthcare models, particularly for women, noting “Profit maximization objectives in healthcare bring inherent risks to public health and patient rights”, highlighting evidence that, “in countries across the world, the higher the share of private financing for health, the higher the rate of women’s deaths.”

The post-pandemic economic forecast remains bleak and global leaders and social movements have increasingly joined calls for reform of the international financial architecture (see Dispatch Springs 2023). New World Bank President Ajay Banga believes the answer lies in mobilising more private finance, despite the wealth of evidence underscoring that this approach has not generated the promised trillions or resulted in inclusive development outcomes (see Observer Spring 2020).

As the formal consultation process for the Bank’s new gender strategy finally begins in July following multiple delays, women’s rights organisations are concerned about the Bank doubling down on privatised solutions to social services provision under Banga’s leadership. They fear its consequences for the decades-long civil society fight to see the Bank recognise the gendered harms its macroeconomic policies and focus on privatisation have caused (see Briefing, Gender Just Macroeconomics, the World Bank’s Privatisation Push). Chikumbutso Ngosi, of ActionAid Malawi, stressed how important it is for women to “understand the unequal ways in which macro economic policies operate [and] how this connects with their rights to access gender responsive public services.”

The World Bank’s approach to human rights

This Inside the Institutions provides an overview of how the World Bank approaches human rights. It considers the global context of human rights and the role of international financial institutions and development institutions in meeting their obligations under the international human rights legal framework.

In reality, however, many human rights defenders, advocates and CSOs are critical of the Bank’s approach to human rights. The concerns go beyond lending and include norm-setting, etc. The post-pandemic and polycrisis of recent years have led to fresh criticism of the Bretton Woods Institutions’ unwillingness to uphold their international human rights obligations, noting that much of their macroeconomic policy arguably violates human rights law and perpetuates structural inequality through austerity and privatisation of social services, for example.

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