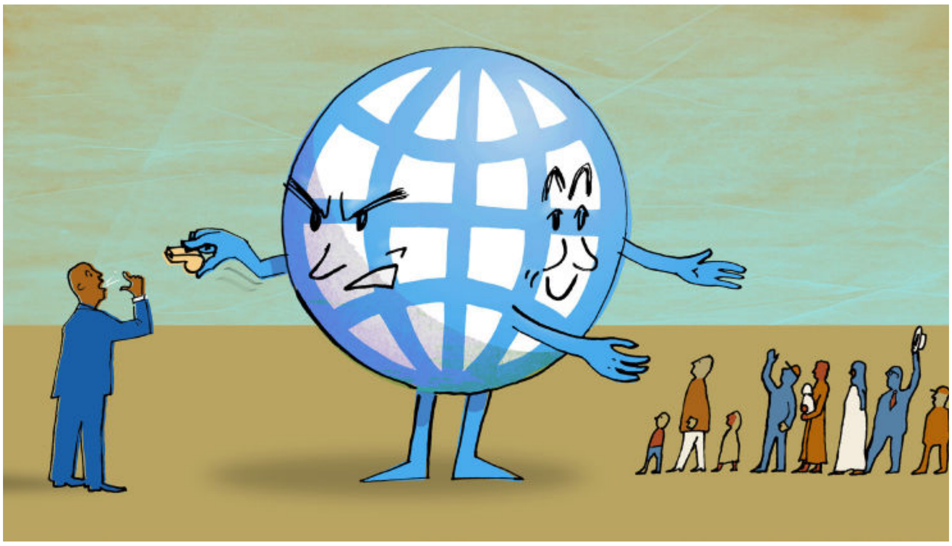
BRETTON WOODS
observer
A quarterly critical review of developments at the World Bank and IMF

ACCOUNTABILITY analysis

A proposal for Ajay: No evolution without remedy



By Margaux Day, Accountability Counsel and David Pred, Inclusive Development International

Evolution of World Bank must include the addition of remedy into its Playbook

Recent scandal of alleged child sexual abuse and cover up relating to IFC's investment in Bridge Academies underscores the need for urgent action

Civil society call for IFC to contribute to a remedy fund for Bridge Academies survivors of child sexual abuse

At this October's World Bank and IMF Annual Meetings in Marrakech, we heard from the Bank's President Ajay Banga, who prefers to be addressed by his first name, that the World Bank needs to evolve into a "better" and "bigger" Bank that operates at greater speed and scale. This raised concerns among civil society organisations (CSOs), like the two we represent, that have repeatedly witnessed environmental and social harms caused by World Bank projects, and experienced how difficult it is for affected people to secure redress for those harms. Despite our well-founded fears that a bigger Bank functioning at a quicker pace will cause more harm, we are prepared to offer Ajay a deal.

So, Ajay, here is the proposal: We can accept that the Bank must evolve and that "ending poverty on a livable planet" requires bold actions. In return, we ask that the Bank accept and bear the risks of those actions.

In other words, the Bank needs to add remedy to its Evolution Playbook.

Put simply, "remedy" means taking action to ensure that adverse human rights impacts caused by development projects are addressed and rectified. Absent a commitment to remedy, even with the best of intent, the Bank will fund projects that externalise costs to project-affected people and the environment. Adding remedy to its Playbook need not slow the Bank or make it more risk averse. On the contrary, embracing remedy will enable it to move more quickly on bolder initiatives, secure in the knowledge that it has the tools to course correct if things go wrong (see *Observer* Summer 2022).

Yet, we've seen intense resistance from the Bank. Earlier this year, the International Finance Corporation (IFC), the Bank's private sector arm, opened a public consultation on a proposed approach to remedy. In 2020, an independent expert review, led by former IFC CEO Peter Woicke, made pointed recommendations regarding the need for a remedy framework. Rather than addressing Woicke's recommendations, however, the IFC threw up a smokescreen, proposing a pilot of undefined measures seemingly designed to distract from its unwillingness to remediate harms caused by its projects. Global civil society gave the paper a resounding fail, urging the IFC to go back to the drawing board and draft an approach that accords with international standards.

Per the United Nations Guiding Principles on Business and Human Rights (UNGPs), if a project's financier contributes to harm, it must also contribute to remedy. A financier contributes to harm if it: (a) has knowledge of, or should have known of, potential or actual adverse human rights impacts

In this issue

caused by a client or investee; and (b) fails to take reasonable steps to prevent or mitigate such impacts through its due diligence and supervision processes.

Bridge Academies scandal points to acute need for IFC remedy fund

Shocking news of child sexual abuse by teachers at schools run by an IFC client, Bridge International Academies, provides an opportunity for the World Bank Group to show that it understands its responsibility to contribute to remedy when it has contributed to harm. The IFC invested in Bridge in 2013 to help it scale up a chain of for-profit private schools in Kenya and beyond. But according to a leaked investigation by IFC's internal watchdog, the Compliance Advisor Ombudsman (CAO), the IFC failed to identify or mitigate the obvious child protection risks that emerged from its client's cost-cutting business model. Worse, it is reported that when evidence of sexual abuse at Bridge schools emerged, the IFC ignored it, instead hatching a plan to "neutralise" CAO's lead investigator and delay revelation of the abuse, lest the news "spook investors". In March 2022, the IFC exited the investment without taking any steps to ensure that the Bridge child sexual abuse survivors received remedy (see *Observer* Summer 2022). This is a clearcut example of the IFC contributing to egregious harm.

That's why we join US Senators Elizabeth Warren and Peter Welch and civil society groups around the world in calling on IFC to contribute to a remedy fund for Bridge child sexual abuse survivors. The IFC should do this together with Bridge and its other investors, which include an array of other development finance institutions from the UK's Commonwealth Development Corporation to the US's Development Finance Corporation. In November, the IFC responded to our letter saying that it had already "worked with Bridge to address gender-based and child safety issues" and claiming that its exit from Bridge was "responsible", but did not commit to remediating the harm.

We've heard skeptics say that it would create a "moral hazard" for financiers to contribute to remedy. This is backward thinking. Moral hazard exists where a company takes on excess risk because it knows someone else will pay the price. Following this definition, it is the ability to externalise environmental and social costs onto project-affected communities that creates a moral hazard, as this incentivises financiers and their clients to take on projects without fully accounting for – and indeed being accountable for – their impacts. Sure, hypothetically financiers could create a moral hazard for their clients if they were to regularly accept too much responsibility for remedy. But they can avoid this exposure by ensuring that investment agreements require clients to address environmental and social harm and incorporate sanctions if they fail to do so.

Embracing a new remedy approach in line with the UNGPs will support the Bank to tackle the crises of our time without externalising risk onto the poor communities it is committed to serve. The alternative is grim: A bigger Bank, externalisng the costs of development on the poor, with greater speed and at greater scale than ever. That is why we say there can be no evolution without remedy and ask Ajay to accept our proposal.

tinyurl.com/EvolutionRemedy

FINANCE news

Significant IDA21 replenishment required as need for concessional finance grows

Rich country donors are under pressure to ensure that the upcoming 21st replenishment of the World Bank's International Development Association (IDA21), which starts early next year and runs until December, sees a significant increase in funding. IDA provides concessional financing and grants for low-income countries, which are in desperate need of financing to deal with a series of compounding crises, in addition to suffering from a liquidity crunch that has pushed at least half of IDA's members into debt distress or high risk of debt distress.

Given the critical need, many have called for a significant increase in IDA funding. In their World Bank and IMF Annual Meetings 2023 communiqué, the V20, a grouping of countries systematically vulnerable to climate change, stated they expect "an ambitious IDA21 replenishment", and backed calls for contributions to be tripled by 2030 (see *Dispatch* Annuals 2023).

While civil society recognises the need for additional grant and concessional finance, it has nonetheless questioned the value of IDA's Private Sector Window (see *Observer* Summer 2021), arguing that the $2.5 billion allocated to the window under IDA20 to subsidise private sector investments would be better spent on core IDA projects.

Meanwhile, IDA is seeking to avoid a 'fiscal cliff' in the remaining 18 months of IDA20, which runs to mid-2025, through a combination of cancelling and recommitting unused committed funding, new donor contributions to two crisis windows and new bond issuances (see *Dispatch* Annuals 2023). This shortfall was the result of the $93 billion IDA20 replenishment being front-loaded to help countries with the economic fallout from Russia's invasion of Ukraine, which left IDA $7.8 billion dollars short for the last two years of its current three-year IDA20 funding cycle.

tinyurl.com/IDAFiscalCliff

ENVIRONMENT background

What is the IMF Resilience and Sustainability Trust?

New *Inside the Institutions* explores the Resilience and Sustainability Trust (RST), an IMF facility providing concessional long-term financing to support low- and middle-income countries in addressing climate-related balance of payments challenges. The article assesses the RST's impact on the ability of low- and middle-income countries to achieve their development and climate goals. It focuses on the RST's strict eligibility criteria, 75 per cent IMF quota access cap, 'green conditions' linked to austerity, and its extension of credit to nations already in debt distress.

tinyurl.com/InsideRST

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

Para la versión en español, visite: brettonwoodsproject.org/es/observador

FINANCE analysis

Decolonising the global economic architecture: The prerequisite for a just transition

Guest analysis by Prof. Fadhel Kaboub, Global Institute for Sustainable Prosperity

Global South faces severe structural deficiencies that weaken its economic sovereignty, putting it at mercy of neo-colonial global financial architecture

World Bank and IMF have no vision for decolonising African economies or addressing the roots of external debt problems

Global South's response to 21st century polycrisis requires structural transformation that ensures – *inter alia* – food and energy sovereignty

The World Bank Group and International Monetary Fund (WBG and IMF) were created in 1944 when most of Africa was still colonised. No fundamental changes were made to these institutions when they first held their Annual Meetings on the African continent in Nairobi 50 years ago, and no such changes were announced at the second Africa-based Annual Meetings in Marrakech, Morocco, in October 2023 that would lead to a decolonised global financial architecture any time soon (see *Dispatch* Annuals 2023).

The Global South faces severe structural economic deficiencies that weaken its economic sovereignty and put it at the mercy of a neo-colonial international trade, finance and investment architecture, as discussed in the May report titled *Just Transition: A Climate, Energy and Development Vision for Africa*, which I co-authored as part of the Independent Expert Group on Just Transition and Development. This is illustrated with one simple statistic: The global economic architecture annually extracts $2 trillion of net financial flows from the Global South to the Global North.

These negative net financial flows are the direct result of the role that was historically imposed on the Global South as the place: 1) where the industrialised world can acquire cheap raw materials; 2) where industrial output from the Global North can be dumped in a large consumer market; 3) for low-cost tourist destinations; and 4) for outsourcing obsolete technologies, and low-tech, low labour-cost, assembly-line manufacturing in the name of "development" and "cooperation", guaranteeing the Global South remains locked at the bottom of the global value chain.

New Global South-led development paradigm sorely needed

If the Global South does not articulate a forward-looking vision for a just, equitable and sustainable 21st century, this will ensure that we fall prey to the strategic vision of other major economic powers that are comfortable seeing us play the same role we played in the past (see *Observer* Spring 2023). The good news is that this polycrisis is a reminder that neither the Global South nor the Global North can afford to ignore these major imbalances in terms of financial, social and ecological stability.

The Global South's response to the 21st century polycrisis requires structural transformation to repair three major economic deficiencies: 1) food sovereignty; 2) energy sovereignty; and 3) excessive reliance on low value-added manufacturing and purely extractive industries. These deficiencies amount to structural trade deficits, depreciating Global South currencies, and increasing costs for critical imports such as food, fuel and medicine. These force Global South governments to increase food and fuel subsidies to protect their most vulnerable and borrow dollars in a desperate attempt to artificially stabilise their exchange rate. This dynamic brings the Global South into the vicious circle of growing external debt that culminates in sovereign debt crises, reducing fiscal capacities to invest in national priorities, strengthening the grip of global financial institutions, and further weakening economic sovereignty (see *Observer* Winter 2023).

While the focus on the external debt crisis is important, it is crucial that we recognise it as a symptom of the three economic deficiencies outlined. So when we speak of debt restructuring, concessional finance and even debt cancellation, we must acknowledge that without addressing the root causes of external debt, we guarantee that new sovereign debt crises will continue to emerge and global imbalances will persist.

The Global South must continue to demand a just global financial architecture, for new Special Drawing Rights (SDRs) allocations to go to developing countries (see Briefing, *Reconceptualising Special Drawing Rights as a tool for development finance*), for the $100 billion in climate finance pledged to be fulfilled, for more favourable terms of finance, for scaling up funding for the Green Climate Fund, and for immediate financing at scale for the Loss and Damage Fund. However, none of this can replace the need for the strategic structural transformation of the Global South. The Global South has the opportunity to put forward a united front with an unbreakable commitment to collective action on debt, climate finance, financial architecture negotiations, and, most importantly, on access and use of strategic minerals that are under the sovereign control of Southern nations. These should be leveraged for South-South industrial policies rather than exported as raw materials to secure the economic hegemony of the Global North.

Finally, it is vital that the Global South rejects false solutions that have been imposed on us. Policies that encourage exports end up leading to more imports of fuel, capital equipment and intermediate inputs. Policies that promote foreign direct investment end up increasing imports of fuel for energy production and transportation. Policies that promote the liberalisation of financial services end up hurting domestic investors and inviting speculative attacks from abroad. All of these policies masquerade as solutions, when they are in fact structural traps.

After decades of "leadership" by international financial institutions via development finance, loans, and technical "assistance" and "cooperation", the fact that the Global South is stuck in a vicious debt cycle means one of two things: a) incompetence, or b) intentional entrapment. The WBG and IMF have no vision for decolonising African economies or addressing the roots of our external debt problems. This should galvanise efforts across the Global South to build alternative financial institutions that would challenge the hegemony of the global trade, investment, finance, and taxation architectures, and would render the World Bank and IMF redundant institutions that must either be radically transformed or dismantled.

tinyurl.com/AfricanGreenTransition

FINANCE news

New data show Global South is in worst debt crisis ever, with another lost decade looming

As Zambia deal unravels, IMF continues to insist situation is not "systemic"

Civil society alliances call to prioritise sustainability of life and climate action over debt, while UN calls debt crisis a "systemic failure"

A month after Zambia's "landmark" debt restructuring deal with bondholders was announced, and three excruciating years post-default, the deal now faces derailment over disagreements between commercial and official creditors on "comparability of treatment", questioning the equity of the haircut terms for each. While the Global Sovereign Debt Roundtable – a forum meant to find common ground between Paris Club and non-Paris Club bilateral creditors, private sector lenders and borrowing countries, chaired by the IMF, World Bank and former G20 presidency India – had just praised the "positive momentum" from Zambia's agreement, the deal's rejection is now sending ripple effects to other countries in debt distress, once more challenging the already barely functioning Common Framework (see *Observer* Spring 2023, Winter 2020).

Meanwhile, despite the Fund's acknowledgement that poor countries need urgent debt relief to tackle the climate crisis and encouragement of "pre-emptive restructuring" in the latest *Global Financial Stability Report*, at the October Annual Meetings senior IMF staff continued to emphasise that "we are still far from where we stood before the HIPC [Heavily Indebted Poor Country] initiative in the 1990s" and have refused to call the current situation a debt crisis. Following reports from UNDP, UNCTAD, the UN Independent Expert on Debt and Human Rights, and various civil society organisations (CSOs) demonstrating the staggering impacts of debt-induced austerity on human rights, poverty and inequality (see *Observer* Autumn 2023), the refusal to call a spade a spade because it is not "systemic" feels like tone-deaf semantics to people in the Global South. The UN Secretary General's 12 July remarks made clear that "because most of these unsustainable debts are concentrated in poor countries, they are not judged to pose a systemic risk to the global financial system. This is a mirage. 3.3 billion people is more than a systemic risk. It is a systemic failure."

Indeed, a new database by Development Finance International shows that "citizens of the Global South now face the worst debt crisis since global records began," with an average of 38 per cent of government revenue absorbed by debt servicing, rising to 54 per cent in Africa. "These figures are more than twice the levels faced by low-income countries before HIPC," emphasised author Matthew Martin, where "debt service equals combined total spending on education, health, social protection and climate, and exceeds it by 50% in Africa." Already two years ago, lower income countries were spending five times more on external debt payments than on tackling climate change (see *Observer* Winter 2021). This ratio has now risen to 12 times.

Civil society urge decision-makers to cancel debt and prioritise sustainability of life

Civil society's decades-long calls for a new approach to debt sustainability are growing again, fuelled by the escalating climate catastrophe that traps many vulnerable countries in a vicious cycle of climate shocks, debt and fossil extraction. Chad, another Common Framework applicant, exemplified this: Its 2022 restructuring deal granted no debt relief as temporarily higher oil prices made its oil-backed loans from commercial creditor Glencore suddenly repayable, effectively forcing Chad to keep maximising oil extraction (see *Observer* Winter 2022). And while the Fund continues to base debt sustainability assumptions on over-optimistic fossil revenue predictions like in Mozambique (see *Observer* Summer 2022), fiscal needs for climate and development spending remain un-accounted in these analyses (see *Observer* Autumn 2023, Autumn 2022).

In September, the Bogota Declaration united experts from across the Global South demanding "unconditional cancellation of all unsustainable and illegitimate debts from all creditors, for all Southern countries" and stressing that "the heaviest impacts are borne by millions of working people, particularly women." An open letter from the Global Week of Action for Debt, Climate and Economic Justice with 600 signatories including leading economists Thomas Picketty, Jayati Ghosh and Jason Hickel, highlighted in November that advanced economies continue to skirt their climate finance obligations. "They owe us reparations for the massive ecological and climate debt incurred from the historical exploitation and dispossession of the human and environmental resources of the South," stressed letter co-coordinator Lidy Nacpil from the Asian People's Movement on Debt and Development.

tinyurl.com/GSDebtCrisis

Photo: Iolanda Fresnillo, Eurodad

Matthew Martin presents new debt database to IMF at a Civil Society Policy Forum event during the October 2023 Annual Meetings.

CONDITIONALITY analysis

World Bank and IMF promoting private finance and fiscal consolidation despite mounting evidence of harmful impacts

World Bank determined to capitalise on global austerity sweep with private finance push, despite evidence of harm

IMF continues to impose austerity measures through lending

Oxfam International's *Sick Development* report and analysis by Social Justice in Global Development add more damning evidence of harm

As global cost of living, inflation and inequality spike, austerity measures are sweeping across the world at record levels and public services face cutbacks, with dire consequences. In this context, pre-existing concerns are growing about the World Bank and IMF's focus on market-based solutions, including its impact on accountability at the World Bank.

October's World Bank and IMF Annual Meetings in Morocco were an opportunity for the Bretton Woods Institutions (BWIs), the World Bank and the IMF, to respond to warnings from civil society organisations (CSOs) and other critics about the impact of austerity measures on the provision of essential basic public services to billions of people. Despite evidence, testimonies and viable alternatives being offered, World Bank President Ajay Banga and IMF Managing Director Kristalina Georgieva remained adamant during the meetings that private finance is essential to bridge what they stress is a significant financing gap (see *Dispatch* Annuals 2023). Solutions such as increases in public finance, tax reform and tackling illicit financial flows, donor compliance with Official Development Assistance targets, climate finance and debt cancellation were glossed over, with the BWIs instead focusing on 'crowding in' private finance with the likes of a Private Sector Investment Lab at the Bank.

Privatised public services fraught with equity and quality challenges

The International Finance Corporation (IFC), the World Bank's private sector arm, faces particular scrutiny as evidence of harmful practices under IFC-funded projects mounts, including the recent Bridge International Academies scandal (see *Observer* Winter 2023). The 2023 Annual Meetings offered fresh evidence of IFC-backed harm, in this case to healthcare services, following a damning June report by Oxfam International titled *Sick Development*. The report maps financing flows between development finance institutions (DFIs), including the World Bank, to for-profit private healthcare providers in the Global South. Illustrated by in-depth case studies in India and Kenya, Oxfam found that DFI promises to advance universal health coverage and protect rights were not fulfilled. Instead, taxpayers' money earmarked for fighting poverty and achieving development goals, given DFIs are publicly financed, is being used to back expensive, for-profit private hospitals that deny service to, bankrupt, or even detain patients who cannot pay. Noting that the Bank has a mandate to help deliver the Sustainable Development Goals, reduce poverty and support inclusive growth, the report exposes serious harm to patients in IFC-funded hospitals, a lack of transparency of investments, questionable flows of taxpayer money into tax havens, and the ultimate failure of IFC healthcare investments to provide adequate support to those who need it most, i.e. the poorest and most vulnerable.

The report noted that the "IFC has been at the vanguard of the drive to use public funds to maximize the role of both private finance and commercial providers in healthcare systems in the Global South," adding, "what is lacking is a clear and evidenced theory of change as to how DFI investments in for-profit private healthcare providers will succeed in advancing pro-poor and gender-equitable access to quality healthcare without financial hardship."

In a Civil Society Policy Forum (CSPF) event at this year's Annual Meetings titled *Development finance to for-profit private healthcare: What implications for uhc, human rights and gender equality?*, IFC representative Charles Dalton responded to a presentation from the report's lead author, Anna Marriott of Oxfam, by noting the IFC accepts such findings are unacceptable and will investigate them fully. Yet, he stressed, a solution to healthcare needs must be found and unfortunately fiscal consolidation is an inevitability. Dalton responded that he was "personally upset and annoyed by the stories" and admitted that the "could do better. The private sector doesn't have all the solutions and IFC doesn't say this. But the demand to supply is so big and we have to think outside the box."

Yet, leading global institutions disagree that private finance is the missing piece in healthcare and other public services. The World Health Organisation (WHO) guidance on achieving universal healthcare, for instance, states that "countries should reduce their reliance on private financing and instead progress towards primarily publicly funded healthcare, because it leads to better efficiency, effectiveness and equity."

Fiscal consolidation, austerity's partner in crime

Human Rights Watch has also published other critical research exploring the IMF's approach to tackling inequality. A September paper, *Bandage on a Bullet Wound*, analysed 39 IMF loan programmes from the beginning of the Covid-19 pandemic to March 2023 to assess the Fund's response to crises through a human rights lens. It found an overwhelming preference for fiscal consolidation and stressed that this is the case despite the fact that the IMF's own 2023 *World Economic Outlook* concluded that, "On average, fiscal consolidations do not reduce debt-to-GDP ratios."

An Autumn 2023 paper by Barry Herman of Germany-based CSO Social Justice in Global Development, titled *IMF has a new policy on social spending: How should the Fund implement it?*, analysed how the IMF offers advice and determines policy requirements for IMF loans under its new social spending strategy. The paper noted "recent country programs and recent advice in Article IV consultations still embody an unwarranted degree of austerity, negatively impacting the poor and vulnerable citizens in affected countries." Herman noted that the Fund identifies key criteria for assessing social spending programmes: Adequacy, efficiency and fiscal sustainability. Herman commented, "Good, and now the Fund should hear civil society calls for universal support of mothers and children, the disabled and the elderly, funded through sufficient progressive taxation, supplemented with international assistance in the poorest countries and during catastrophes."

Amid ongoing discussions about global governance and increasing concerns about peace and stability (see *Observer* Winter 2023), the reports foretell a harsh future for borrowing countries: Crumbling public services and state capacity and related loss of trust in public institutions, little debt reduction and negative human rights impacts on billions.

tinyurl.com/SickDevelopment

ENVIRONMENT news

Morocco and IMF Resilience and Sustainability Trust: Balancing debt, privatisation and neocolonial dynamics

Morocco secured a $1.32 billion loan from the Resilience and Sustainability Trust (RST), subject to 'green conditions'

RST's 'green conditions' may trigger European-led hydrogen rush in the country, at expense of national climate and development goals

In late October, Morocco obtained a $1.32 billion loan from the IMF's Resilience and Sustainability Trust (RST). Established in 2022, the RST uses rechanneled Special Drawing Rights for concessional long-term financing, and is intended to help low- and middle-income countries address future balance of payments challenges related to climate change (see Inside the Institutions, *What is the Resilience and Sustainability Trust?*).

The Moroccan RST programme mandates 16 reforms across six pillars. Pillar 2 targets electricity market reform, including the unbundling of Morocco's publicly-owned electricity and water company, the Office National de l'Électricité et de l'Eau Potable (ONEE). The RST justifies separating generation, transmission and distribution by stating that it would allow for greater competition, boost investment in renewable energy, and eventually lead to lower electricity prices.

These reforms align with the RST's operational guidance note, including employing climate-related public-private partnerships (PPPs; see *Observer* Spring 2023, Spring 2019). This approach raises concerns because unbundling state-owned enterprises can conflict with climate goals, undermining just transition principles (see *Observer* Summer 2022, Spring 2022). Although, in the short term, PPPs may free up public funds, in the longer term, the risks of public debt from contingent liabilities that may materialise can drain fiscal resources for climate action and privatise gains, exposing countries to Investor-State Dispute Settlement tribunals known for corporate bias and lack of democratic accountability (see *Observer* Spring 2023, Summer 2020).

This PPPs approach also imposes costs on citizens. Concerningly, the RST's strategy in Morocco is linked to taxation reforms, raising carbon prices to motivate "behavioural changes" in accordance with climate objectives, all the while saving public resources for debt repayment. Consequently, the public bears the cost of de-risking climate projects for private profit, facing higher energy costs without corresponding public support.

Who wins? The role of the RST in the international grab for green hydrogen

Concluding the IMF board discussion on Morocco's RST programme in September 2023, IMF Deputy Managing Director Kenji Okamura, asserted, "Morocco is well-placed to reap the benefits of the global decarbonisation agenda." But who will really benefit from this agenda?

RST reforms might help drive a hydrogen rush in Morocco, fueled by the EU's interest as outlined in the EU's 2020 Hydrogen Strategy. Netherlands-based think tank the Transnational Institute warns the push "for green hydrogen might serve Europe's energy transition, but in North Africa it will translate into a proliferation of sacrifice zones in the region."

The impact of the EU's strategy on shaping Morocco's RST reforms is apparent from their alignment with the World Bank's 2022 Country Climate and Development Report (CCDR) for Morocco. The CCDR focuses on easing the entry of European investors into Morocco's renewable energy sector, by, for example, unbundling ONEE and enhancing the legal and regulatory framework for EU market compatibility.

Consequently, the focus seems to be on utilising Morocco's renewable energy resources for the benefit of Europe. This dynamic can be exemplified in projects like the Tan-Tan solar and wind project, managed by the British company Xlinks, which aims to meet 8 per cent of the UK's electricity needs by 2030. Other examples include a French project covering 170,000 hectares of state-owned land, and the Australian company CWP Global contemplating a $20 billion deal with Morocco for a mega green hydrogen and green ammonia project.

Shereen Talaat of Morocco-based CSO MENAFem Movement For Economic, Development and Ecological Justice said, "Moroccan civil society expresses concern over the perceived neocolonial impact of the RST on Morocco, seeing it as a tool favouring foreign interests at the expense of our nation's well-being. The emphasis on green hydrogen projects, influenced by external entities like the EU Global Gateway, raises fears of exploitation and the creation of sacrifice zones. There is apprehension that our renewable energy resources might be used for the benefit of the Global North, echoing historical patterns of resource extraction and colonisation that prioritise profit over our citizens' needs."

tinyurl.com/RSTMorocco

Photo: Dana Smillie / World Bank

Solar panels being cleaned. June 10, 2010.

ENVIRONMENT news

Selection of World Bank to host new Loss and Damage Fund draws ire of developing countries and civil society advocates

Developing countries insist on list of conditions as Bank is named interim host of new Loss and Damage Fund

Failure to invoke 'sunset clause' at the Bank-hosted Climate Investment Funds in 2016 viewed as cautionary tale

In early November, after tense negotiations, the Transitional Committee on Loss and Damage (TC) adopted a package of proposals to operationalise a new Loss and Damage Fund (LDF), including an agreement that it will be hosted by the World Bank for four years on an interim basis.

The agreement of the TC's proposals, which were formally approved at COP28 in Dubai, United Arab Emirates, on 30 November, followed stark divisions emerging between developed country and low- and middle-income country representatives during negotiations, as the option of creating a standalone fund was discarded in favour of a US-led proposal for a World Bank-hosted fund.

The LDF, whose establishment was agreed at COP27 in 2022 (see *Observer* Spring 2023), with the TC given a one-year mandate to clarify how it would be operationalised, is intended to help countries address growing loss and damage from climate change. As Barbados representative Avinash Persaud noted at the November TC meeting, this already amounts to nearly $200 billion per year in climate vulnerable countries.

However, the negotiations resulted only in language on voluntary rather than mandatory contributions based on developed countries' historical responsibility for climate change. Initial pledges to the LDF upon its approval at COP28 amounted to $650 million.

Civil society voices reject World Bank's selection as Fund host

As the Bank emerged as the likely host of the LDF in November, developing countries put forward a wide-ranging list of demands required for them to agree to the proposal, including autonomy of the Fund's board to select its executive director and to "establish and utilize its eligibility criteria, based on guidance from the [UNFCCC and the Paris Agreement], including in cases where it differs from the criteria of the World Bank."

Civil society advocates also voiced strong concerns about the Bank being selected as the host. "The World Bank, as the interim host of the new Loss and Damage Fund, embodies a deeply flawed approach," said Harjeet Singh of Climate Action Network International. "Rooted in neoliberal policies, its governance structure has long favoured wealthy nations, often to the detriment of developing countries. The Loss and Damage Fund must be independent, equitable, and truly attuned to the needs of vulnerable communities. It cannot be under the control of an institution with a history of inequitable and environmentally detrimental practices," (see Briefing, *The World Bank and the environment: A legacy of negligence, reform, and dysfunction*).

Although the LDF will be under its own governance structure – rather than under the control of the Bank's board of directors where the US retains *de facto* veto power over key decisions – there are other reasons to be concerned about the hosting arrangement.

In an op-ed for online news outlet *Climate Home* on 3 November, David Archer of ActionAid International, who is a civil society representative at the Global Partnership for Education (GPE) – one of 26 financial intermediary funds currently hosted by the World Bank – commented on the increasing administrative fees charged by the Bank in recent years: "A few years ago, this went up to 17% [from 12% of the Secretariat's costs] and then the bank tried to increase it to 24%. This provoked outrage from the GPE board who negotiated it down to 20.5%."

The notion of the Bank being an 'interim' host of the LDF was also greeted with incredulity by civil society observers, after the long-running saga of the World Bank-hosted Climate Investment Funds (CIFs). When the CIFs were created in 2008, a 'sunset clause' was included, with the understanding that the CIFs would later close to make way for a UN-based climate fund. Despite the subsequent creation of the UN-based Green Climate Fund, the decision to invoke the sunset clause was delayed in 2016 and suspended indefinitely in 2019 (see *Observer* Summer 2019).

tinyurl.com/LossAndDamageFund

ENVIRONMENT background

Laure-Alizée Le Lannou joins the Bretton Woods Project as new Environment Project Officer

The Bretton Woods Project is happy to welcome Laure-Alizée Le Lannou as our new Environment Project Officer. In her role, Laure-Alizée will support BWP's work on environmental and climate advocacy targeting the World Bank. Her responsibilities will include conducting research on the Bank's climate and energy policies. Additionally, she will assist in the development of a campaign to reform IMF Special Drawing Rights to better serve developing countries' climate and development financing needs.

Before joining, Laure-Alizée worked with the ZOE Institute-for Future fit Economies, where she conducted research on socio-ecological transformation within the European Union. At ZOE, her work included green industrial policy in the EU and creating an Economic Resilience Index for guiding economies towards well-being within planetary boundaries. Laure-Alizée is passionate about new economic thinking, focusing on why our current system leads to ecological collapse and rising inequalities, and exploring ways to transform it for climate and economic justice.

She holds a Master's in Development Studies from the University of Cambridge, where she studied the impact of the Washington Consensus on development experiences, and an undergraduate degree in Economics and International Relations from the University of St Andrews.

tinyurl.com/StaffChangesBWP

FINANCE analysis

UN Secretary General's *New Agenda for Peace* calls for urgent financial architecture and policy reform

UN Secretary General's report identifies reforms in financial architecture as essential to address mounting threats to peace and stability

World Bank and IMF strategies fail to engage with broader drivers of fragility, conflict and violence

Lack of support for governance and policy reforms at IMF and World Bank pose a significant challenge to peace and stability

In July, on the eve of the 75th anniversary of the Universal Declaration of Human Rights (see *Observer* Summer 2023, Spring 2023), the UN Secretary General, António Guterres, released a report titled *A New Agenda for Peace* (NAP) calling for immediate actions to address growing threats to peace and stability. The report argues that challenges to peace and the multilateral order, more broadly, are rooted in questions of trust, cooperation and solidarity among and within nations, and go beyond the dynamics in individual situations of fragility, conflict and violence (FCV). The NAP is an important addition to calls for a 'new multilateralism', as it stresses the implications for peace and security of the current unjust international system, of which the Bretton Woods Institutions (BWIs) – the World Bank and the IMF – are key components. The report gives important prominence to longstanding civil society calls for the establishment of a more just and environmentally sustainable economic order that enhances the social contract (see *Observer* Summer 2022).

Many trees, not a forest in sight: BWI's myopic view ignores austerity and privatisation's impacts on fragility

The IMF and the World Bank have long been concerned with the negative consequences of FCV. In March 2022, the IMF released its *Strategy for Fragile and Conflict-Affected States* (see *Observer* Autumn 2022), which followed the 2019 launch of the World Bank's *Strategy for Fragility, Conflict, and Violence 2020 – 2025* (see *Observer* Autumn 2019). The strategies are welcome adaptations to the approaches of both institutions in fragile and conflict-affected situations (FCS). They rightly detail the negative impacts of FCV on poverty, food insecurity and the attainment of the Sustainable Development Goals (SDGs), recognise their damaging spill-over effects, and note that weak governance and administrative capacity, lack of trust in institutions and weak human resource development contribute to FCV.

However, both strategies are limited to interventions *in* FCS and treat them as if they existed in a political and historical vacuum, disregarding the relationship between the position of FCS in an unequal global economy and the local drivers of FCV. They fail to consider the extent to which the BWIs have contributed to what the World Bank acknowledges is a 'crisis of development' and what the Fund recognises is a rise in social unrest (see *Observer* Winter 2022) through, *inter alia,* their support of austerity, privatisation of social services, and cuts in public sector wage bills, including for the provision of health and education (see *Observer* Spring 2022, Autumn 2019). Indeed, these policies act as drivers of FCV by contributing to the erosion of the social contract and distrust of public institutions locally and globally.

Failure of governance and policy reforms at Bank and Fund threatens peace and stability

In contrast to the narrow scope of the Bank and Fund's approach to FCV, the NAP identifies reforms to the global order as essential to peace and security. It asserts that, "redressing the pervasive historical imbalances that characterize the international system – from the legacies of colonialism and slavery to the deeply unjust global financial architecture and anachronistic peace and security structures of today – must be a priority." The document makes a clear link between the unequal distribution of gains from the current system and increasing distrust in institutions, domestically and globally.

Challenging the financing gap narrative of key Bank and Fund shareholders and management, the NAP highlights that adequately financing the SDGs is not charity, but "eminently fair to redress past and current injustices, in particular those in international trade and the global financial system." It notes the impact of debt on states' capacity to finance development needs, the high cost of capital for developing states and unequal distribution of IMF Special Drawing Rights (SDRs; see Briefing, *Reconceptualising Special Drawing Rights as a tool for development finance*) and the unequal global tax system. The report stresses, "It is in the interest of all developed and developing countries to reform the international financial architecture in order to rebuild trust in the system and prevent a further drifting apart and eventual fragmentation of inter-national financial and economic relations."

Alas, recent developments at the BWIs are inauspicious. The failure to agree a long-delayed quota realignment in the IMF's 16th quota review, coupled with the unwillingness to act on the UN Secretary General's call for a SDR-based SDGs stimulus and continued use of its counter-productive and unnecessary surcharges policy (see *Observer* Spring 2023), point to an unwillingness of the IMF's key shareholders to grasp the nature of the threats outlined in the NAP.

Similarly, the Bank's resistance to use the Evolution Roadmap process to evaluate its contribution to the 'crisis of development' it rightly identifies is highly problematic, particularly given concerns about the negative impact of its private sector-led approach on inequality, the equitable delivery of essential social services (see *Observer* Winter 2023), erosion of labour rights, and fiscal impacts of public-private partnerships (see *Observer* Spring 2023).

To a significant degree, the effectiveness of the *New Agenda for Peace* rests on the willingness of BWIs' management and key shareholders to broaden their understanding of fragility, and to actively support the NAP's recommendations to reform their outdated and unjust governance structures and counter-productive policies. As Professor Erin McCandless of the University of Witswatersrand stresses, "this will require acknowledging the varying root causes of fragility – some of which arise in the making and execution of Bretton Woods policy approaches. Transformative measures towards greater peace in the world will need to start here, and are unlikely to take root with business as usual reforms."

tinyurl.com/Agenda4Peace

FINANCE news

The rise of bilateral currency swaps – a threat to the IMF?

Argentina's swap agreement with China highlights important flaws in IMF's role in global financial safety net

Bilateral currency swaps undermine multilateral lending standards and predictability of access to crisis finance

A new issuance and reconceptualisation of SDRs would be important first steps to strengthen the system

Argentina – the IMF's largest debtor with a total outstanding debt of $46 billion – has recently used $2.8 billion equivalent of Yuan from a bilateral currency swap with China, to cover just over half of two repayments outstanding from a 2018 IMF loan, in order to avoid a default to the Fund. While the move will help unlock further IMF finance, it highlights a fundamental flaw with the Global Financial Safety Net (GFSN) system.

The IMF's capacity to ensure financial stability and manage global financial crises is increasingly undermined due to its growing inability to boost its resource capacity and reform its governance system. This exposes significant gaps in the GFSN and is forcing countries to rely on currency swaps that entrench asymmetrical power relations and perpetuate the *status quo*. Indeed, the Covid-19 crisis has shown the IMF fell short of providing the necessary $2.5 trillion liquidity estimated by the UN. Not only did the $650 billion Special Drawing Rights (SDRs) allocation prove insufficient, it was also unequally distributed, with countries with the most pressing needs receiving the lowest allocation.

Absence of IMF governance reform – breeding ground for alternatives sources of finance

Boston University' GFSN tracker reveals that the IMF is no longer the single most important crisis prevention and backstop source for all income groups, with an increased preference for bilateral central bank currency swaps by those countries that can access them. For example, during the 2008 global financial crisis, US swap agreements rose to $850 billion, four times the IMF's gross assets. On 19 March 2020, the Federal Reserve reactivated the swap lines with nine central banks and doubled their swap limits.

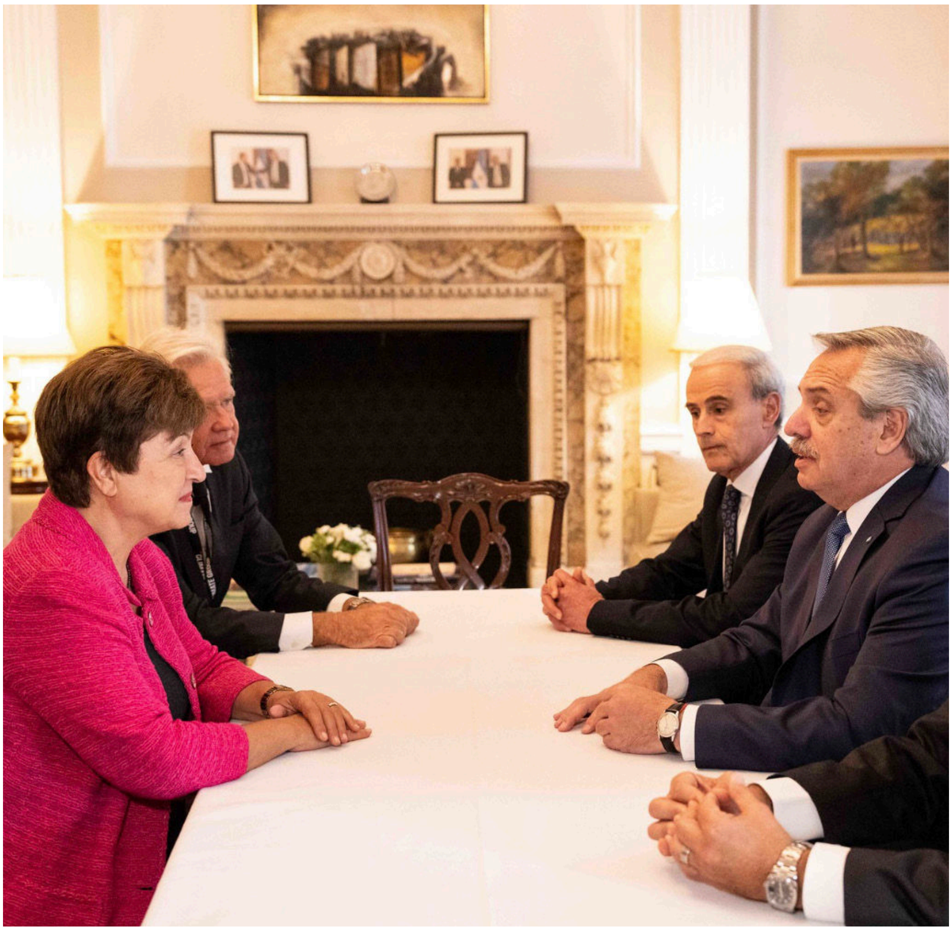
While central bank swap lines are meant to relieve external funding pressures, their access is mostly determined by geopolitical and economic interests. Countries are known to use them as political tools to internationalise their currency – as in the case of China – or maintain currency hierarchy and dominate the status of international lender of last resort – as in the case of the US (see *Observer* Autumn 2022).

The danger with accessing central bank currency swaps in contrast to IMF finance is that access to currency swaps are not predictable and not based on multilaterally agreed rules. This potentially undermines key elements of the GFSN, such as multilateral lending standards and predictability of access to crisis finance. In addition to the geopolitical contingent nature of currency swaps, they exclude a vast majority of low- and middle-income countries and thus further reinforce the existing asymmetries of the international financial system.

The only way to solve this systemic issue is to make SDRs the main source of counter-cyclical finance and reform the IMF governance system, by decoupling SDRs from the quota system and ensuring a fairer representation of countries in the Fund's decision-making process (see *Observer* Autumn 2023). While IMF shareholders remain cautious about using SDRs as an instrument of the GFSN, civil society organisations have called for years for fresh SDR allocations to boost reserves and stabilise economies after the pandemic, and for a fairer distribution based on countries financing needs instead of the quota system. IMF's urgent governance reform remains the single most viable solution for a well-functioning GFSN to ensure the stability of the multilateral system in a time of increasing instability.

tinyurl.com/DebtSwaps

Photo: Kim Haughton/IMF Photo



Managing Director Kristalina Georgieva meets Alberto Fernández, the President of Argentina.

FINANCE news

Civil society urges governments to agree on a UN tax body as a high priority

On 22 November, UN members voted in favour of the African Group at the UN's proposal for a comprehensive UN tax convention. The vote followed a 7 November open letter, signed by over 200 organisations and trade unions from around the world, calling on governments to support the proposal.

The UN body resulting from the convention would move decision-making away from the OECD, a largely rich-nation club, which has been criticised – including by UN Secretary General António Guterres – for enabling wealthy countries to have an outsized influence over tax rules while ignoring the needs of developing countries. The letter also raised the importance of ensuring key issues are not left aside in the negotiations, including: Keeping a holistic scope as well as flexibility and resilience to ensure equitable results, establishing clear links between the new tax body and other UN agendas, and ensuring there is effective civil society participation throughout the process.

The historic decision to start negotiations for a UN tax convention took place in November 2022, by unanimous consensus, and was widely welcomed by civil society groups, which have for more than two decades called for an international tax body that allows all countries to participate equally.

In an open letter the day before the vote, the Independent Commission for the Reform of International Corporate Taxation (ICRICT), which includes renowned economists such as Jayati Gosh and José Antonio Ocampo, also expressed support for a UN tax body, urging rich countries not to block the vote. However, the voted passed without the support of EU members, the UK and the US, among others.

tinyurl.com/TaxConventionUN

ENVIRONMENT news

IFC trade finance continues to invest in fossil fuels, with no board oversight

New research produced by Germany-based civil society organisation Urgewald in September found the World Bank Group invested an estimated $3.7 billion in oil and gas developments in 2022 via trade finance. Despite claims it is refocusing on the low-carbon transition, the Bank's private sector arm, the International Finance Corporation (IFC), is still making climate-wrecking investments – including in oil, gas and coal projects (see *Observer* Winter 2022). The research focused on trade finance provided by IFC, an opaque indirect financing instrument that involves complex financial products such as bonds, stocks and guarantees used by banks and other institutions to guarantee payments or provide short-term capital to governments or businesses.

Since 2019, the IFC has doubled the amount of trade finance it offers, accounting now for over 60 per cent of its annual funding commitments, but there is still a lack of transparency around how the funds are spent, with over 70 per cent of IFC trade finance given out in secrecy. "The easiest way for an oil company or coal operation to hide public funding is through complex, opaque trade finance. It represents a huge loophole that must be closed by the World Bank Board by requiring public disclosure of trade finance transactions and by finally adding coal, oil and gas to IFC's exclusion list for both direct and indirect finance," highlights Heike Mainhardt of Urgewald. As long as this lack of transparency continues, the World Bank will be a long way from its stated commitment to align with the Paris Agreement (see *Observer* Summer 2023, Winter 2021).

tinyurl.com/IFCTrade

IMFBoss blog coming soon

As Kristalina Georgieva's five-year term comes to an end in October 2024, we, and civil society in general, are very much looking forward to the upcoming "open, democratic and merit-based" selection process for the next IMF managing director, and with it the reopening of the IMFBoss blog. Watch this space or subscribe to get updates on civil society campaigns and other advocacy actions in the lead up to the leadership race.

imfboss.wordpress.com

BRETTON WOODS project
CRITICAL VOICES ON THE WORLD BANK AND IMF

Bretton Woods Project
33-39 Bowling Green Lane
London EC1R 0BJ
United Kingdom

+44 (0)20 3122 0610
info@brettonwoodsproject.org
www.brettonwoodsproject.org
@brettonwoodspr
facebook.com/BrettonWoodsProject

The *Observer* is available in print, on the web, and by email.

Subscriptions
www.brettonwoodsproject.org/subs

Spanish
www.brettonwoodsproject.org/es/observador

ISSN 2053-7522

Design by Base Eleven and printed by RAP Spiderweb on recycled paper.

The Bretton Woods Project is an ActionAid hosted project, UK registered charity no. 274467, England and Wales charity no. 274467, Scottish charity no. SC045476.

This publication is supported by a network of UK NGOs, the C.S. Mott Foundation, the William and Flora Hewlett Foundation and the Wellspring Philanthropic Fund.