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BRETTON WOODS project

BRETTON WOODS observer

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

FINANCE analysis

IMF board's reluctance leaves Special Drawing Rights as underused tool in Fund's toolbox

IMF board belatedly approves SDRs rechannelling via MBDs' hybrid capital facilities with firm limits, despite European opposition

Resilience and Sustainability Trust's interim review fails to resolve eligibility concerns, doubling down on problematic 'green conditionality'

Southern governments call for more SDR allocations, as academics and CSOs continue to call for SDRs reform in order to strengthen global financial safety net

Amid a growing debt crisis – illustrated by a trend of net-negative aid flows compared to debt repayments in many Global South countries – IMF shareholders remain at loggerheads over expanding the role of IMF Special Drawing Rights (SDRs), the Fund's reserve asset, in response to these challenges (see Inside the Institutions, *What are Special Drawing Rights?*).

The IMF board is not actively discussing a new SDR allocation, and even relatively conservative proposals for new SDR-backed hybrid capital facilities at multilateral development banks (MDBs) have faced opposition from some of the IMF's most powerful European shareholders. After a series of delays, the IMF's executive board finally approved this use of SDRs on 10 May, but initially capped the amount of SDRs that can be utilised by such facilities at 15 billion SDRs (around $22 billion).

In a signal of ongoing hostility to the use of SDRs for development financing purposes by some IMF shareholders, including Germany, the IMF's press release revealed that 'a number' of executive directors had opposed the proposal – a qualifier meaning that between 6 and 9 executive directors voted against it. As Mark Plant from the Center for Global Development pointed out in a blog post on 15 May, "opposition to the proposal, particularly among some European central bankers, is strong."

However, Plant noted that IMF staff argued in their report to the board that, "Not approving the current proposal may entail business and reputational risk [to the IMF]." Staff added this "would be perceived as intentionally limiting the attractiveness of the SDR" – in a nod to the IMF Articles of Agreement, which contains language stipulating that all members must work to ensure the SDR is the "primary reserve asset in the international monetary system." However, SDRs have remained a marginalised tool, historically speaking, accounting for just 6.8 per cent of global reserves in mid-2022.

SDR rechanneling via the IMF: a vehicle for austerity and green conditionality

Since the 2021 general allocation of $650 billion worth of SDRs (see *Observer* Autumn 2023, Autumn 2021), the European Central Bank has twice reiterated its position in statements to the IMF's International Monetary and Financial Committee that under EU rules, EU member states can only rechannel SDRs to IMF-based trusts, i.e. the Poverty Reduction and Growth Trust (PRGT) and the new Resilience and Sustainability Trust (RST), established in 2022 (see *Observer* Spring 2024; Inside the Institutions, *What is the IMF Resilience and Sustainability Trust?*).

In this issue

3 **No false solutions: IMF surcharges must go** by Michael Galant and Alex Main

4 **'Worst ever' debt crisis puts IDA's financial model at risk, underscoring need for ambitious donor contributions to IDA21 replenishment**

5 **IMF's Interim Guidance Note on Mainstreaming Gender fails to address negative gendered impacts of IMF austerity**

9 **Economics is political: the IMF's programme in Egypt can't succeed without reforming both** by Timothy E. Kaldas

Despite the recent decision by the IMF board, proposed SDR-backed hybrid capital facilities at the African Development Bank and Inter-American Development Bank face an uphill battle to find countries willing to capitalise them via rechannelled SDRs, amid likely non-participation from EU member states. Additionally, the US Congress has so far failed to authorise any SDR rechannelling, including via the IMF, although the US is the largest recipient of the 2021 SDR allocation as the IMF's largest shareholder (the US did allocate $21 billion to the PRGT earlier this year from non-SDR reserves).

Rechannelled SDRs currently primarily benefit the PRGT and the RST, which have received $55 billion and $45 billion, respectively, in rechanneled SDRs since 2020 and require countries who access financing to undertake IMF conditionality.

The IMF board also completed an interim review of the RST on 8 May. Despite climate vulnerable countries in the V20 Group recently calling for the IMF to reconsider the RST's eligibility requirements, which require countries to have a concurrent IMF programme in place in order to access RST financing (see *Dispatch* Spring 2024), the IMF has kicked this issue down the road until a full review of the RST in 2026.

An April report published by Netherlands-based civil society organisation (CSO) Recourse highlighted problematic conditions included in the initial wave of RST programmes, such as the promotion of austerity and privatisation and fossil fuel expansion (see *Dispatch* Springs 2024). The board's interim review reinforces this approach, noting that access to RST financing higher than the standard 75 per cent of countries' IMF quotas would be "based on exceptionally high-quality reform packages," reflecting support from some shareholders for this financing to remain heavily embedded in IMF conditionality.

Back to the future: SDRs 'development link' debate remains unresolved, amid highly unequal global financial architecture

The lukewarm endorsement of SDR rechanneling through MDBs by the IMF board, where European countries in particular remain over-represented (see *Observer* Springs 2024), stands in stark contrast to continued calls from Global South governments for additional SDR allocations in the face of an increasingly dire financing outlook.

Most recently, as part of the outcome document of the Third South Summit held in Kampala, Uganda, in January, the G77 and China called for "new issuances of SDRs, driven by the need to enable the achievement of the Sustainable Development Goals, including eradicating poverty." This followed calls from African finance ministers in 2023 for direct allocations of SDRs to African countries with weak external positions (see *Observer* Summer 2023).

A report by the UN High Level Advisory Board on Effective Multilateralism published in 2023 highlighted a number of measures that could be undertaken in order to enhance the role of SDRs within a more resilient global financial safety net. These included annual allocations linked to global growth rates in order to meet countries' reserve asset needs, and automatic SDR allocations to countries that experience shocks, including climate disasters – recommendations which may be taken up in September's UN Summit of the Future.

These calls for reform were echoed by a civil society proposal launched in April by ActionAid USA and the Bretton Woods Project and endorsed by 18 other CSOs. The proposal called for a new SDR allocation to provide immediate liquidity and act as a bridge to further reforms, including automatic, needs-based allocations, and reverting back to the IMF's pre-2009 classification of SDRs as equity (rather than as a liability), in order to remove legal hurdles to countries using them. The proposal noted, "There is an urgent need to create an SDRs system that is fit for purpose to help all IMF member countries achieve a feminist, just transition and pursue their development objectives. This requires SDRs allocations that are more regular, predictable, and needs-based, as well as reforms that enhance the usability of SDRs, and increase their liquidity in a manner akin to other types of reserves."

tinyurl.com/SDRsToolbox

TRADE news

Ecuador ratifies 2008 ban on investor-state dispute settlement mechanism

On 21 April, Ecuador's citizens voted in a referendum to keep its ban on investor-state dispute settlement (ISDS) – the mechanism that resolves disputes between foreign corporations and states.

Ecuador's ISDS ban came into force after a constitutional popular vote in 2008. It took 8 years for the country to completely abandon ISDS, first exiting the World Bank's International Center for the Settlement of Investment Disputes (ICSID) – the main forum for investor-state dispute resolution (see Inside the Institutions, *What is the World Bank's ICSID?*; *Update* 58).

The vote was a victory for a civil society campaign, which included a global declaration by over 150 organisations and a 12 April open letter supported by 100 groups globally, highlighting ISDS was "created by and for investors, giving them access to a private, parallel and privileged judicial channel, bypassing national justice."

ISDS's opaque and biased nature has long been criticised. A July 2023 report by the UN Special Rapporteur on human rights and the environment, David R. Boyd, noted that ISDS "has become a major obstacle to the urgent actions needed to address the planetary environmental and human rights crises."

"Ecuador has long been a global example on how states can face ISDS," said Luciana Ghiotto of Netherlands-based Transnational Institute, "Not only did it include the ban on ISDS in the 2008 Constitution. It also called for an audit commission of all its investment treaties and ISDS cases in 2014 showing the capacities this system has given to corporations to go treaty-shopping and forum-shopping according to their needs."

Ecuador joins several countries either renegotiating or rejecting investment treaties that include ISDS mechanisms, including South Africa, Indonesia and India.

tinyurl.com/EcuadorISDS

PRIVATE SECTOR background

What is the International Finance Corporation (IFC)?

This *Inside the Institutions* explores the International Finance Corporation (IFC), the World Bank Group's private sector arm. It examines the function of the IFC as a development institution focused solely on private sector solutions to development. It also considers civil society's critiques of IFC and highlights recent case studies of the harmful impacts of its activities.

tinyurl.com/InsideIFC

FINANCE analysis

No false solutions: IMF surcharges must go

Guest analysis by Michael Galant and Alex Main, Center for Economic and Policy Research

IMF surcharges punish countries like Ukraine that are already struggling under onerous debt burdens

New proposals to use surcharge income to fund concessional lending would only entrench an unjust and senseless system

The IMF's surcharge policy review offers a window of opportunity to end surcharges once and for all

The International Monetary Fund (IMF) announced in April that it will be initiating a review of its controversial surcharge policy. For the global movement that has sought to discontinue the policy in recent years, this represents a key window of opportunity. But surcharges defenders have fallen back on disproven old arguments – and are even considering new policies that could stand in the way of meaningful reform.

Surcharges are fees that the IMF levies, on top of regular interest and service costs, on borrowers whose outstanding debt to the Fund exceeds a certain threshold and/or beyond a specified amount of time (see Inside the Institutions, *What are IMF surcharges?*). Because surcharges only apply to heavily indebted borrowers, the policy has been criticised as regressive and counterproductive, further punishing countries already facing crushing debt burdens. Ukraine, which is currently in the midst of a war, and Pakistan, which, in 2022, saw one-third of its territory flooded as a result of climate change, are two of the top five countries most impacted by surcharges (see *Observer* Summer 2024).

By our organisation's (the Center for Economic and Policy Research) estimates, the IMF will charge its members $9.8 billion in surcharges over the next five years. Ukraine alone is projected to pay $2.9 billion from 2024 to 2033. Today, 22 countries are affected by these fees, nearly three times the number before the Covid-19 pandemic. Eleven of these countries are considered to be particularly vulnerable to climate change, while 12 are in, or at risk of, debt distress.

The fact that the IMF is conducting an internal review of the policy is a testament to the growing global pressure to suspend or eliminate surcharges, including from international civil society, the G77 and G24 developing country groups (see *Dispatch* Springs 2024), UN bodies, UN human rights experts, leading economists, and – of particular significance given the outsized role of the US at the Fund – the US Congress (see *Observer* Spring 2022, Summer 2021). But a review alone is not a guarantee of progress, and much of the discourse surrounding surcharges – which were developed 40 years after the IMF's creation and aren't contemplated in its Articles of Agreement – rests on dubious premises.

The policy's proponents contend that surcharges disincentivise overreliance on the Fund. But this assumes that the accumulation of debt is driven by a lack of adequate punitive incentive, and ignores that a major disincentive is already built into IMF lending: the loss of economic sovereignty resulting from conditionalities, which are frequently procyclical in nature. Governments typically only turn to the Fund as a last resort.

One concern that is likely motivating resistance to reform, primarily from wealthy countries, is that surcharges are a major source of income for the Fund's precautionary balances, which are meant to act as a buffer to protect against potential losses. Given the Fund's current lending firepower of $1 trillion, it is debatable whether these reserves – which the IMF aims to maintain at $25 billion – are actually needed. But in any case, the Fund's precautionary balances target was already hit earlier this year and is projected to increase further in the years to come, even without surcharge income. So why force highly indebted countries to continue paying surcharges?

Surcharges as a source of indirect funding for the PRGT – a broken logic

Some countries may have an additional motivation to keep surcharges in place. The US and other advanced economies have recently discussed channeling net income from the Fund's non-concessional lending to the Poverty Reduction and Growth Trust (PRGT), a concessional lending facility for low-income countries that is expected to soon face funding shortfalls due to an expanding portfolio coupled with declining wealthy country contributions.

This net income would normally go toward the further funding of precautionary balances. If it is diverted for other uses, then it becomes more difficult to maintain the balances without relying on surcharges. In effect, concessional lending meant to help low-income countries would be financed by a tax on some of the most vulnerable and heavily indebted (largely middle-income) developing countries in order to compensate for the failure of high-income countries to meet the PRGT's future funding needs. These same high-income countries, meanwhile, contribute to the conditions that drive indebtedness by consistently failing to meet their aid and climate finance commitments to support developing countries.

Wealthy countries should step up their contributions to the PRGT, but if they are unwilling to do so, there are far better options than a continued reliance on surcharges – such as the sale or revaluation of a fraction of the IMF's vast, and largely untapped, gold reserves.

As Nobel laureate economist Joseph Stiglitz has noted, surcharges go "exactly against what [the IMF is] supposed to be doing. It's supposed to be helping countries…not extracting extra rents from them because of their dire need." It never made sense – and may even violate international law – to rely on the most indebted debtors to finance the Fund's reserves. It makes even less sense to cover the shortfalls in wealthy country contributions through this same reliance on revenue from highly indebted countries.

As the IMF conducts its review of the surcharge policy over the coming months, it should reject this broken logic. The upcoming review should not be merely a checked box; it should involve a thorough, objective assessment of the impact of surcharges on countries' economies and on the livelihoods and welfare of ordinary people. It should examine potential alternatives to funding precautionary balances down the road. And it should seriously consider the complete discontinuation of the surcharge policy. Anything less will be a missed opportunity for meaningful reform.

tinyurl.com/EndSurcharges

FINANCE news

‘Worst ever’ debt crisis puts IDA’s financial model at risk, underscoring need for ambitious donor contributions to IDA21 replenishment

Debt crisis likely to overwhelm IDA’s funding model, leaving it with no choice but to reduce critical grant-based support for low-income countries or erode its equity base

Record-breaking capital contributions needed to prevent deterioration in IDA’s finances in the face of worsening global conditions

The 21st replenishment of the International Development Association (IDA21) - the World Bank’s low-income lending arm - due to conclude in December, takes place amid a worsening debt crisis. Even if IDA21 lives up to calls from World Bank President Ajay Banga for record breaking funding, the unfolding debt crisis will likely limit IDA’s ability to provide highly concessional loans and grants to its low-income country (LIC) members.

When an IDA country faces debt difficulties, its loans can be converted to grants, though this support is capped according to unpublished country quotas. From 2020 to 2022, as LICs struggled with the exogenous fallout of the Covid-19 pandemic and their debt situations worsened, the ratio of grants-to-loans in IDA’s portfolio rose from one-fourth to one-third. IDA began converting loans of moderately debt distressed LICs to 50-year credits instead of its usual mix of credits and grants which, according to Clemence Landers and Hannah Brown from US-based think tank Center for Global Development (CGD), should restore grants to a manageable level.

However, according to Development Finance International, the current debt crisis is the ‘worst ever’, with many LICs now paying more on debt servicing than on health, education, social protection and climate combined, meaning this crisis could place significant strain on IDA’s funding model.

The strength (and weakness) of IDA’s funding model: market-based finance

Since its 18th replenishment (2017-19), IDA has issued market debt backed by its equity base, mostly comprised of its outstanding loans (see *Observer* Winter 2017). This approach has allowed IDA to grow its resources to $185 billion. In IDA20, $23.5 billion of donor contributions were leveraged into a $93 billion replenishment, $33.5 billion in borrowing and $36 billion in reflows via repaid debt from IDA members. As long as grants are less than contributions, IDA does not have to dip into its equity base – but if it does, it could cause a larger contraction in its loan portfolio because its equity is the basis on which it raises market finance.

According to CGD’s calculations, a moderate worsening of LIC debt dynamics would require at least $36 billion in grants over the IDA21 replenishment cycle, requiring an additional $12 billion in contributions compared to IDA20 to avoid dipping into IDA’s equity base. A significant worsening would require at least $45 billion in grants over the replenishment cycle, requiring an additional $22 billion compared to IDA20. As donor contributions to IDA have fallen by 20 per cent in real terms over the last decade and, as CGD notes, many large donors have signalled that reaching even the level of their contributions for IDA20 may prove difficult, even the moderate debt crisis scenario could significantly affect IDA.

As debt repayments surge and capital flows turn net-negative, LICs have been forced to rely on IDA for affordable finance, while high-income countries have persistently failed to meet their 0.7 per cent GNP target for Official Development Assistance or agree on a new allocation of SDRs (see *Observer* Summer 2024, Spring 2024).

Quality vs quantity

However, concerns about the size of the IDA21 replenishment should not obscure more fundamental questions of how effective IDA assistance has been: only 17 out of 81 IDA countries have graduated out of IDA eligibility since 1996 (see *Observer* Spring 2024).

IDA assistance remains linked to highly problematic policies that have a strong pro-liberalisation, deregulation and private sector bias. This has favoured profit extraction by international investors, been linked to the financialisation of Global South economies, and has failed to catalyse economic transformation (see Briefing, *Financialisation, human rights and the Bretton Woods Institutions: An introduction for civil society organisations*). This approach looks set to continue in IDA21, with the draft policy package released on 17 June containing numerous references to efforts to crowd in private finance into climate and development efforts.

“IDA is of critical importance for the 39 African states that rely on its financing. But just ensuring it can continue current levels of support is not enough,” noted Jane Nalunga of Ugandan civil society organisation SEATINI. “We need a better IDA, that actively supports their economic transformation, not just keeps them on life support, and to do this we need rich countries to increase their contributions to substantially reduce IDA’s reliance on market finance.”

tinyurl.com/IDAFinancing

Photo: Iam Foulk / World Bank

Civil society consider World Bank responses at IDA Forum in Washington DC during April Spring Meetings.

GENDER analysis

IMF's Interim Guidance Note on Mainstreaming Gender fails to address negative gendered impacts of IMF austerity

IMF Guidance Note on Gender released in early 2024 offers non-mandatory advice to staff on incorporating 'light touch' and 'deep dive' gender analyses

More work is necessary to include feminist economic policy measures and ensure meaningful engagement with civil society

To address gender inequality the IMF must recognise the gendered impacts of its austerity measures

The International Monetary Fund's Interim Guidance Note on Mainstreaming Gender is the latest step in the institution's stated commitment to mainstream a gender lens across its operations. Following years of advocacy by civil society organisations (CSOs), feminists and activists, particularly those from the Global South, exposing the negative impacts of IMF policy advice and conditionality on women and girls, the IMF released its first gender strategy in 2022, almost a decade after it extended its remit to cover gender (see *Observer* Spring 2022).

The IMF's 'gender mainstreaming' occurs against a backdrop in which progress towards achieving Sustainable Development Goal 5 on gender equality (SDG5) has been reversed, and according to the guidance note, "medium-term global growth prospects are at their lowest levels in decades." The Note's instrumentalising of gender policies as "new engines of economic growth" assumes a positive correlation between growth and gender equality and, as Farah Galal from MENA Fem Movement For Economic, Development And Ecological Justice argues, "frames gender equality purely as a means for economic growth which cannot be the sole metric for gender justice."

Decades of IMF-promoted austerity policies have had a demonstrably negative impact on human rights and have failed to improve debt-to-GDP ratios – engendering worse outcomes for low- and middle-income countries (LMICs). Crisis ridden middle-income countries who heavily rely on IMF borrowing are in addition forced to allocate a greater percentage of GDP towards debt repayments in the form of surcharges (see Inside the Institutions, *What are IMF Surcharges?*). This cycle of debt and crisis has led to further fiscal consolidation measures being demanded by the IMF, including shrinking the public sector, lowering public wage bills and increasing regressive taxation, which, in turn, has a negative impact on gender equality. Galal argues that by not recognising this, "the document fails to address how the IMF's austerity-based economic reform programmes and debt burdens disproportionately affect women in the Global South. These policies frequently result in cuts to social safety nets, healthcare, and education – areas that are critical for women's well-being and empowerment."

Civil society critiques of the IMF's 2022 gender strategy and the 2018 'How to' gender note to staff focused on three main elements of the IMF's work on gender: lack of a uniform methodology in identifying gender 'macrocriticality' (i.e. issues the IMF considers key to growth and macro-financial stability); the robustness and transparency of data collection; and absence of engagement with feminist economists, civil society and agencies with gender expertise (see *Observer* Spring 2022). Core recommendations are that the IMF should refrain from entering policy areas that are not within its field of expertise, and should cease demanding a neo-colonial gender conditionality which infringes upon the autonomy of countries in the Global South. Instead, it should abide by a principle of 'do no harm' across its work, and consider alternative policy approaches including counter-cyclical policy advice that departs from austerity measures (see Briefing, *The IMF and Gender Equality: A Compendium of Feminist Macroeconomic Critiques*).

Making women work for the economy, or the economy work for women?

The guidance note is stage two of three of the IMF's gender mainstreaming process. It attempts to establish models for the kinds of issues staff will incorporate into a gender analysis, which will serve as the basis for stage three's full guidance note to be published in 2026. Its guidance to staff is not mandatory, and staff are advised to incorporate policy advice into the IMF's three areas of work: bilateral surveillance (Article IV reports), loan conditionality and capacity building. The fact that incorporating gender is not mandatory and the choice between conducting 'light touch' or 'deep dive' gender analysis lies with IMF country missions raises questions about evenhandedness – uniformity of treatment among countries (see *Observer* Autumn 2013).

The note provides examples of gender 'gaps', which demonstrate engagement with areas of feminist economics, including informal labour and unpaid care work, although as Galal argues, it fails to "acknowledge the intersectional nature of gender with other signifiers like race, class, and geography." Other issues covered, such as social and cultural "norms" and legal status, do not fall under the IMF's expertise, raising questions about the robustness of its approach to what constitutes macrocriticality, which risks instrumentalising rights-based issues such as gender equal access to social, political and legal structures.

Although progress has been made on the recognition of some gender issues, the examples of 'light touch' and 'deep dive' policy advice comprise a narrow field of policy approaches. Private finance, public-private partnerships (PPPs) and financial inclusion are uncritically put forward as policy solutions without mention of the demonstrable harmful impacts that typically accompany them (see *Observer* Winter 2023), and where there is reference to the negative gendered outcomes of broader macroeconomic approaches, the focus is on mitigation measures such as cash transfers, which have been proven to be limited in their effectiveness, rather than alternatives.

Finally, the note states that fostering external collaboration is "a critical pillar of the gender strategy", yet lacks concrete requirements for staff to consult with civil society, feminist economists or the UN human rights system. Galal argues that the document "positions the IMF as the sole arbiter of what constitutes 'good practices' for gender integration. This disregards the expertise and lived experiences of feminist activists and local civil society organisations in the Global South, reaffirming the optional nature of the choice to consult with them."

For the IMF's gender strategy to meet its stated aims, genuine heterodox or feminist economic policy measures need to be adopted. Such measures, in addition to meaningful consultation and transparency in data collection are crucial for progress to be made towards SDG5 and in poverty reduction, inequality, and climate and gender justice.

tinyurl.com/IMFGenderNote

FINANCE news

Pakistan's debt crisis fuelled by more IMF loans

Pakistan on track to receive its 24th loan from the IMF after the lender disbursed the last tranche of the country's latest $3 billion programme

IMF's loan conditionality, focused on fiscal consolidation and regressive taxation, has a long track record of exacerbating poverty and inequality, and harming human rights

The IMF has opened discussions with Pakistan on a new loan as its current $3 billion programme draws to a close. In March, the Fund approved the "immediate disbursement" of the last $1.1 billion tranche, urging the government to implement further fiscal consolidation reforms, such as removing subsidies to export sectors and reducing import duties in the upcoming budget with potential negative implications on the local market.

The government is seeking another long-term loan from the IMF in an attempt to escape default, as the country is still reeling from a severe economic crisis after the devastating floods that impacted 33 million people more than two years ago (see *Observer* Autumn 2022, Winter 2021). With reserves depleted to $3 billion in February 2023, the loan increased Pakistan's foreign reserves to $8 billion, enough to cover over eight weeks of imports. Its economy is particularly burdened by debt obligations. The country has a debt-to-GDP ratio of over 70 per cent and requires between 50 to 60 per cent of the government's revenues to pay for debt interest payments. Only default-stricken Sri Lanka, Ghana and Nigeria are worse off (see *Observer* Spring 2023). Civil society organisations have long called for international financial institutions to cancel Pakistan's debt and put people's rights and needs ahead of debt servicing.

When the 'lender of last resort' becomes a primary creditor

While the IMF highlighted in its final review of the current programme in May that Pakistan's "economic and financial position has improved" in recent months, with reduced inflation and more stable foreign reserves, these economic indicators are a 'mirage' because perceived stability is due to more loans coming in. Pakistan is looking to negotiate a larger, long-term loan to help stabilise economic activity and to request additional financing from the IMF under the Resilience and Sustainability Trust (see Inside Institutions, *What is the IMF Resilience and Sustainability Trust?*). But in order to do that, the government must seek parliamentary approval on major economic reforms related to the energy, power and tax sectors, and on the privatisation of state-owned enterprises before starting formal talks for another programme. If secured, the new loan would be the 24th IMF loan for Pakistan with the country already owing the IMF $7 billion, further illustrating the failure of IMF reforms to address Pakistan's long-term economic issues, while subjecting the country to additional surcharge penalties for over-relying on IMF funding (see Inside Institutions, *What are IMF surcharges?*). The Fund's loan conditionality, focused on fiscal consolidation and regressive taxation, has a long track record of exacerbating poverty and inequality and harming human rights in Pakistan, according to a recent Human Rights Watch report.

Pakistan was forced to adopt harmful measures before in order to meet IMF conditions (see *Observer* Spring 2022), particularly by raising taxes on the country's nascent renewables energy market, threatening its international climate obligations. As the Fund has itself acknowledged, similar measures are likely to fuel more protests country-wide over the coming year. In the latest instance, several thousand people in the northern state of Azad Kashmir protested over high prices of flour and electricity between 8 and 14 May, following IMF mandated subsidy cuts and a switch to a market-based exchange rate.

"Still reeling from the 2022 floods, Pakistan was forced into a year of brutal austerity under the Stand-by Arrangement, pushing Pakistan deeper into debt crisis and sending over 4 million souls into poverty with food and energy inflation at a multi-year high. Following an early round of negotiations on a new loan, the Pakistani government has now been forced to raise the electricity tariff by another 20 per cent with the new budget inaugurating a fresh round of subsidy removals and devastating tax hikes. Despite independent experts and local coalitions raising the alarm on the unsustainable nature of the Fund's fiscal strategies and debt analytics, the Fund has remained insular insisting on its business as usual approach threatening to push the nation beyond the point of recovery," highlights Zain Moulvi, Research Director at Alternative Law Collective.

tinyurl.com/PakistanLoan

Photo: Asianet-Pakistan, Shutterstock.

Activists of PMML protest demonstration against the issues of inflation, unemployment, and hike in the prices of gas, electricity and petrol, in Peshawar, 2 August 2023.

LAND news

World Bank agricultural reform programme facilitates exploitation of Zambian farmers

A new Zambian law, supported by the World Bank, infringes on the rights of smallholder farmers to share and reuse seeds

Research indicates the Bank's agricultural development programmes increase food insecurity, favouring agribusiness that prioritises profitable export markets

Zambian civil society has voiced strong opposition to a new World Bank-backed seed law, which the government is determined to push through by the end of June. Groups argue that the law benefits large profit-driven agribusinesses, while undermining food security by disadvantaging the smallholder farmers producing most of Zambia's food.

Parliamentary approval of the Plant Variety and Seeds Act is a disbursement-linked indicator in the World Bank's $300 million Zambia Growth Opportunities Program (ZAMGRO), with the stipulation that the draft law "will be shared with the World Bank for review before…approval by the MoA [Ministry of Agriculture] Cabinet."

Zambia's seed sector is already aligned with the International Union for the Protection of New Varieties of Plants' (UPOV) 1978 revision, but the proposed law will align it with the 1991 revision. UPOV is a non-UN treaty body that works to privatise seeds by granting intellectual property rights to developers of plant varieties, and according to the Zambia Alliance for Agroecology and Biodiversity (ZAAB), "significantly strengthens the rights of breeders and further erodes and, in a sense, criminalises, farmer-managed seed systems."

The new law's alignment with UPOV 1991 would infringe on smallholder farmers' rights to share and reuse seeds, practices at the heart of traditional systems of seed use. This is a direct violation of the 2018 UN Declaration on the Rights of Peasants that Zambia ratified, which states peasants have "[t]he right to save, use, exchange and sell their farm-saved seed or propagating material."

Eugene Ng'andu of non-governmental organisation Caritas Zambia said that, "Even though this new law may not be properly enforced when enacted, it is concerning that aligning the act to UPOV 91 will place more restrictions on what farmers are allowed to propagate as compared to the current act [and this] will undermine traditional farming practices." He added that while it is not a crime for plant breeders to appropriate characteristics of farmers' indigenous seeds – in other words, farmers don't have rights over their own seeds – breeders' rights to the seeds they develop from farmers' seeds are protected by law, and even accidental cross fertilisation in farmers' fields could be regarded as theft.

World Bank agricultural policy systematically disadvantages smallholder farmers

Smallholder farmers produce around 96 per cent of Zambia's maize, a staple crop, while commercial agriculture focuses on more profitable exports even as Zambia is facing a record-breaking drought likely linked to climate change. "These reforms promote commercial agriculture, but not the country's food security," Ng'andu explained.

The government's agricultural improvement programme, the Comprehensive Agricultural Transformation Support Programme (CATSP) and the World Bank's ZAMGRO promote a one-size-fits-all solution to the problems of Zambia's agricultural sector, pushing expensive fertilisers and hybrid seeds that tie farmers into debt and financial dependence. Ng'andu said Caritas has seen the benefits of these programmes go to agribusiness, which supplies fertilisers and seeds, while the needs of individual farmers were ignored. There is also a narrative, he noted, that commercial hybrid seeds are needed to address low productivity levels in smallholder farms, but many factors influence productivity, for instance the overuse and depletion of farmland, which can be addressed through agroecological approaches.

Research by UK-based civil society organisation (CSO) CAFOD found the World Bank's agricultural policy interventions globally have focused largely on promoting agribusiness, pushing smallholder farmers to buy hybrid seeds and fertilisers much like the new Zambian law, while undermining farmer-led seed systems and ignoring their role in tackling poverty and enhancing food security (see *Observer* Spring 2020). As CSOs have pointed out, the World Bank's promotion of international agribusiness and the financialisation of agricultural sectors in the Global South is being achieved at the expense of food security and food sovereignty (see *Dispatch* Springs 2024; *Observer* Summer 2023).

tinyurl.com/ZambiaAgriculture

Photo: Georgina Smith

A woman harvesting rice in Barotse floodplain, Zambia.

ENVIRONMENT news

World Bank's $1 billion loan to South Africa risks undermining just transition by doubling down on 'de-risking' private capital

World Bank loan conditioned on separating Eskom's activities and de-risking private sector participation in electricity provision

Concerns arise regarding effectiveness of Bank's private sector led approach to decarbonisation and just transition

In September 2023, the World Bank agreed a $1 billion development policy financing (DPF) loan to support South Africa's low carbon transition (see Inside the Institutions, *What is World Bank Development Policy Financing?*). This support was deemed necessary due to South Africa's electricity crisis, characterised by high tariffs, regular rolling blackouts and the significant debt of the state-owned utility Eskom, which amounted to 8.6 per cent of GDP in March 2022.

The loan mandates eight reforms across two pillars, aimed at further privatising South Africa's electricity sector. Pillar 1 targets the restructuring of the power sector by supporting the separation (i.e. unbundling) of Eskom's activities. Pillar 2 focuses on supporting the low carbon transition by encouraging private sector investments in renewable energy – including by removing threshold requirements for licensing projects that sell electricity directly to private consumers and extending tax incentives to businesses.

Civil society organisations (CSOs) have been calling for an overhaul of the Bank's private sector led approach as part of the Evolution Roadmap, labelling it a "flawed development paradigm" because "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" (see *Observer* Summer 2023).

Bank's problematic engagement in South Africa's energy sector continues

The DPF deepens the Bank's influence in South Africa's energy sector, following substantial financial support and policy guidance over the past decade (see *Observer* Winter 2022). In 2010, the Bank extended a $3.75 billion loan to Eskom for the construction of the 4800 MW Medupi coal-fired power plant – its largest ever energy loan (see *Observer* Spring 2019). This problem-riddled project has led to criticism from South African CSOs who have labelled it 'odious debt' and called for its cancellation.

Recently, the Bank also played a supporting role in the country's Just Energy Transition Partnership (JETP) (see *Observer* Winter 2022). Agreed at COP26 in 2021, the JETP is a $8.5 billion climate finance initiative involving France, Germany, the UK, the US, the EU and World Bank-hosted Climate Investment Funds. It pools commercial loans, concessional loans and grants from rich nations while anticipating private sector coverage of the rest of the transition financing needs through public-private partnerships (PPPs).

The JETP shows a clear imprint of the Bank's private sector-led approach to decarbonisation in low- and middle-income countries, where it encourages national governments to pursue de-risking measures to make projects 'bankable' for private sector investment (see *Observer* Autumn 2023, Winter 2022). This approach is based on the assumption that billions of dollars of public finance will unlock trillions of dollars from private investors (see Briefing, *Gambling with the Planet's Future*).

The South African JETP has however fallen short of its promised financing, securing only one-tenth of the required funds, a challenge seen also in Indonesia and Vietnam, which have also launched JETPs (see *Observer* Spring 2024). As of last November, only $308 million of grant-funded projects under the JETP had progressed to the implementation phase, while information on loans, which make up a staggering 97 per cent of donor-backed support, has yet to be disclosed. The fact that most of the support is being provided in the form of loans denominated in foreign currencies – making them more expensive – raises further concerns, especially given South Africa's (and Eskom's) current debt burdens (see *Dispatch* Annuals 2023).

As Gilad Isaacs of the South Africa-based Institute for Economic Justice argues, "South Africa's JETP is a cautionary tale for all Global South countries. The deal was negotiated in secret, offers very little grant financing, fails to protect workers in transition sectors, advances privatisation, and overwhelmingly seeks to guarantee profitable investment opportunities for private finance. Instead, climate financing should take place through transparent multilateral process that acknowledge the Global North historic climate debt."

tinyurl.com/SouthAfricaDPF

Photo: @jbdodane

Windmills of Humansdorp, Western Cape, South Africa, 20 October 2014.

CONDITIONALITY commentary

Economics is political: the IMF's programme in Egypt can't succeed without reforming both

by Timothy E. Kaldas, The Tahrir Institute for Middle East Policy

IMF's promotion of austerity has played a central role in Egypt's persistent crisis

While Fund categorises Egypt's debt as 'sustainable', last fiscal year the government spent more on interest payments than on its total tax revenue

As the second largest IMF borrower, Egypt's debt crisis risks becoming "too big to bail"

The IMF has augmented its loan to Egypt – the Fund's second largest borrower after Argentina – from $3 billion to $8 billion. When the newest programme is over, the IMF will be back again. Since Egypt's President Abdel Fattah El Sisi came to power in 2014, Egypt's external debt has ballooned from $46.1 billion to $168 billion as of December 2023.

In Egypt, eight years of economic reforms in coordination with the IMF have failed to deliver macroeconomic stability and inclusive growth. IMF figures show that since Egypt started reforms in 2016, GDP in current US dollars has actually shrunk, going from $351.44 billion in 2016 to a projected $347.59 billion in 2024. In that time, the country has suffered repeated liquidity crises requiring regular financial support. The official exchange rate collapsed repeatedly in 2016, 2022 and 2024. Egyptians have endured punishing levels of inflation over the past decade, with core inflation last year exceeding 40 per cent while inflation on food and beverages surpassed 70 per cent. Since 2016, labour force participation has declined. For women, it has collapsed, dropping to the 7th lowest level globally according to the World Bank. Millions of Egyptians have fallen into poverty, with the government refusing to publish up-to-date figures for several years now.

The IMF in Egypt: financing elite capture

So, what did all this borrowing and nearly a decade of reform buy Egypt? During this period, Egypt has been one of the world's top importers of arms. The government is building a massive $58 billion new capital, a project overseen by a company owned by Egypt's military. The new capital is home to Africa's tallest tower, the world's longest monorail, as well as a new presidential palace that President Sisi has commissioned.

Since coming to power, leveraging the Egyptian state with a heavy dependence on external borrowing, with the IMF's support, has been central to financing President Sisi's strategy of consolidating power. In 2023, *Bloomberg* estimated that Egypt was the second most likely country to default. However, in their latest report, Fund staff made generous claims classifying that Egypt's debt is sustainable "but not with high probability" (see *Observer* Autumn 2022, Autumn 2020).

To make the math work, the new IMF programme envisions significant austerity, with measures that include a cap on public investments to facilitate debt payments, lowering the debt-to-GDP ratio. The cap on investments is the IMF's understandable attempt to rein in the reckless and self-enriching spending by Egypt's leaders on vanity projects that has helped nearly bankrupt the state. The trouble is that growth rates envisioned in the new programme appear untenable. GDP growth is projected to rise from 4.4 per cent in 2024-25 to 5.6 per cent in 2028-29, but this is while the IMF predicts anemic investment rates that range from 9.9 to 11.4 per cent. The Fund appears to be hoping for significant private investments, which seem unlikely given that the private sector has been in a persistent state of contraction, the cost of domestic borrowing is prohibitive, and the purchasing power of the consumer base has been devastated by a decade of inflation and a collapsing currency. Moreover, the political conditions that deter investment remain unaddressed, such as a lack of access to reliable information due to repression of the press and a heavily co-opted judiciary, undermining the rule of law.

At the core of Egypt's problems is a leadership that has leveraged the state for their narrow interests and stubbornly refused necessary reforms to rescue the country's economy not to mention investing in the wellbeing of its inhabitants. This is a political crisis with economic consequences. The new IMF programme is unlikely to meaningfully rescue Egypt on either front. More debt without tackling the political sources of Egypt's economic problems means a deepening of the crisis.

More IMF Loans: same approach, same result

The IMF, among other financial backers of Egypt, has played a central role in facilitating this persistent crisis. Large loans to Egypt were attached to reform programs that not only failed to address the political context, but actually added to the deterioration of many of the areas they wanted to see improve, all while enriching and empowering Egypt's rulers.

The IMF's programme design is insufficient to sustainably stabilise Egypt's finances and encourage significant private sector-led growth, never mind reduce poverty, inequality or meaningfully improve social protection. The IMF isn't responsible alone for Egypt's woes, but it has undeniably helped enable the leadership's economic malpractice, that brought Egypt to this harrowing moment. This new programme is an attempt to find a way out, but too many structural problems remain unaddressed while others are on track to worsen.

When this programme is over, Egypt's debt levels will likely remain higher than projected, inflation will have been higher than projected, and Egypt's need for yet another injection of financing is all but certain. But given that the latest bailout of Egypt from the UAE, IMF, World Bank and European Commission is estimated to be worth $57 billion, over 15 per cent of GDP, it remains to be seen if Egypt will continue to be viewed as too big to fail or become, in the words of former World Bank Economist Ishac Diwan "too big to bail."

tinyurl.com/EgyptIMF

INFRASTRUCTURE news

Banga calls energy access a 'human right' as he announces World Bank will provide access for 250 million people in Sub-Saharan Africa by 2030

During a flagship event at the World Bank and IMF Spring Meetings in April, World Bank President Ajay Banga stated "electricity is a human right." Following this statement, Banga announced that he will make access to energy in Sub-Saharan Africa a top priority through a new World Bank commitment to provide energy access to 250 million people in the region by 2030.

Explicit mention of human rights obligations has long been a taboo subject at the World Bank, with UN Special Rapporteur on Human Rights and Extreme Poverty Philip Alston remarking in 2015 that, "For most purposes, the World Bank is currently a human rights-free zone. In its operational policies, in particular, it treats human rights more like an infectious disease than universal values and obligations."

In 2023, civil society groups called for the World Bank's Evolution Roadmap process to include the creation of a holistic human rights policy, and will closely monitor how the new commitment is operationalised.

"I hope that under the leadership of Ajay Banga, the World Bank can ensure the Evolution Roadmap process is truly a developmental evolution for the World Bank, enabling it to effectively meet the current economic crisis through the adoption of a human rights-based approach that effectively contributes to the institution's new mission and vision", said Attiya Waris, the UN Independent Expert on foreign debt, other international financial obligations and human rights. "In this respect, the Bank's plan for achieving this new institutional energy access goal will be an important signal...hopefully protecting the other human rights of people affected by this."

tinyurl.com/BangaEnergyAccess

GENDER news

Tara Povey joins the Bretton Woods Project as new Gender Equality and Macroeconomics Project Lead

The Bretton Woods Project is happy to welcome Tara Povey as our new Gender Equality and Macroeconomics Project Lead. Tara will develop BWP's work on gender and feminist macroeconomics through the Gender Equality and Macroeconomics (GEM) project, and continue the work of the gender team in advocacy targeting the IMF and the World Bank. Her responsibilities will include tracking and reporting on developments in the IMF, feminist economist and women's rights spheres to support advocacy opportunities and deepen relationships with civil society partners working on economic justice and women's rights.

Before joining, Tara was an academic and researcher at the School of Oriental and African Studies (SOAS) and Goldsmiths, University of London. Her work focused on the policies of the IMF and World Bank and their impact on gender-based social movements and civil society organisations in the Global South. She has published extensively on social movements, austerity and neo-liberalism in the Middle East and North Africa, and women's movements in contemporary Iran. Tara also has a background in policy and campaigning, previously working as Policy and Research manager at Refugee Action.

Tara holds a PhD in Middle Eastern Studies from the University of Sydney and has taught courses in gender and international politics. She is passionate about Global South and intersectional feminist economic approaches and exploring ways to undertake advocacy to bring about sustainable, transformative change.

tinyurl.com/WelcomeTara

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

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