Civil society still waiting for ‘IMF Spring’ to blossom

The word of the week throughout the 2017 IMF and World Bank annual meetings (see BWP Dispatch) in the IMF was undoubtedly ‘inequality’. From the IMF’s managing director, Christine Lagarde, proclaiming to much surprise that rather than taxing the rich, “the most efficient way to reduce inequalities would be to close the gender gap”, to the Fund’s flagship 2017 Fiscal Monitor being titled Tackling Inequality. Perhaps this increased focus since 2013 finally elevated the ‘defining issue of our time’ to the firmament of ‘core’ IMF work, ensuring its survival within the Fund beyond that of a temporary fad and in part answering the call of civil society to protect the victories of the ‘IMF Spring’ (see Observer Summer 2017).

Responding to this significant shift in IMF rhetoric, civil society organisations (CSOs) were out in full force throughout the week, armed with new in-depth research and the voices of those directly impacted by the ways in which IMF policy advice still fuels inequality in practice, calling on the IMF to walk the talk on inequality.

The Fight Inequality Alliance, a broad CSO coalition, produced a statement by 133 CSOs and organised a public demonstration at the annual meetings. It declared that, “We are united in believing that the World Bank and IMF are too often fuelling inequality”, and that while these institutions have recently acknowledged the inequality crisis, “for 40 years they have been among those responsible for creating and maintaining it”.

Another statement prepared by Global Unions, a collective of international trade unions, noted that “action in … policy advice has been slow to catch up to the … research and discourse on the need to reduce inequality”. Rejecting the IMF’s claims to the contrary, it added that “many IMF programmes or policy recommendations continue to support measures that weaken minimum wages, employment protection regulations or collective bargaining institutions … despite the role that coordinated collective bargaining systems have played in achieving more equal income distribution”.

A 2017 report by New Rules for Global Finance, Friedrich-Ebert Stiftung and Development Finance International (DFI), Are the Multilateral Organizations Fighting Inequality?, took stock of whether international institutions are “being successful in helping governments fight inequality”. While presenting the report, Matthew Martin of DFI explained that “compared to others like the World Bank, the IMF looks better with regard to inequality, but only because everyone is doing very badly”.

A Christian Aid March report examined how in Latin America and the Caribbean, intersecting inequalities such as those based on identity, gender, economic situation, climate change impact or geographic...
location are exacerbated by regressive fiscal policies. During a presentation of the report at the annual meetings, speakers concluded that the policies and the practices of the IMF and World Bank do not adequately address this intersectionality. In turn, Bretton Woods Project’s Compendium of Feminist Macroeconomic Critiques outlined the ways in which commonly-prescribed IMF policies continue to undermine women’s rights and gender equality, despite the Fund’s shift in rhetoric.

Surveillance pilots – still myopic on inequality

Perhaps anticipating these critiques, the IMF has explicitly and repeatedly indicated over the last year that it is committed to operationalising its inequality research. In the words of Lagarde, the IMF is committed to “not just words [but], action”, which it will pursue primarily through piloting inequality analyses in surveillance reports, the annual country documents the IMF produces on the state of the macro-economy of its members.

Oxfam analysed these claims in an October report, examining 15 surveillance inequality pilots, and found “no assessment of the distributional impacts of the core macro-economic targets and policy advice” and that “none of the pilots fully explored alternatives to rapid fiscal and monetary tightening”. It concluded that by focusing on compensating losers rather than questioning the structural reforms themselves, the IMF is “not promoting policies that reduce inequality”. Another Oxfam report examining surveillance reports for five countries found a gap between the IMF’s commitment to leveraging fiscal policy to fight inequality and its actual tax advice to developing countries, concluding the IMF had contributed little to tax-progressivity in these countries.

An ActionAid International study, meanwhile, reviewed 124 surveillance reports from 2016, demonstrating that the Fund now recommends action to increase female labour force participation in more than one in five countries, as echoed by a similar surveillance analysis by the Centre for Global Development. However, close to 80 per cent of those countries were also told by the IMF to “start, increase or not deviate from plans on fiscal consolidation” in the same surveillance reports, underscoring that IMF policy advice continues to ignore the contradiction that fiscal space is needed to address gender inequality.

Mounting evidence of increasing policy contradictions

Common threads of these reviews included finding that the Fund’s approach to inequality is unsystematic, as well as contradictory to other IMF policy advice. Most reviews also found little evidence of consultation with relevant national civil society groups, and warned this work will not be sustainable if not further institutionalised within the Fund, as echoed by Chapter V in BWP’s Compendium. As the Fund is expected to develop its first ‘official’ lessons-learned of the inequality pilots in its current interim surveillance review, to be completed in 2018, civil society is eagerly awaiting to see whether any of its analyses will be taken into account.

More broadly, the Fund’s defence of its inequality work and civil society’s critiques remain disconnected. The Fund’s narrative seems to be that the institution just needs time to operationalise its new research findings but that it generally agrees with civil society and is heading in the right direction. Yet, the more nuanced critique common to almost all civil society analyses is that there are major conflicts between meaningfully tackling inequality and the bulk of the IMF’s conventional policy advice, which the IMF fails to recognise. This contradiction was exemplified by the comments of the IMF Fiscal Affairs Department’s Marialuz Morena Badia, who, while repeatedly stressing the IMF cares about gender equality and acknowledging fiscal space is needed to achieve it, when asked about the harmful impacts of the Fund’s austerity policies, still responded: “in terms of austerity ... you cannot defy gravity”. Lovisa Möller of ActionAid responded, “When austerity means that the state fails to provide, societies are able stay afloat because they shift the costs to women. The IMF’s closed-mindedness towards recognising and redressing the gendered impacts of their core policy prescriptions, especially austerity, demonstrates it still has a very long way to go on inequality.”

World Bank and IMF civil society working group election results announced

In November, the Civil Society Policy Forum (CSPF) interim working group, created in 2016, announced the names of individuals elected by civil society to serve on the permanent CSPF working group. The permanent working group will serve as an interlocutor with the Bank and Fund’s civil society teams on the planning and implementation of the CSPF at the IMF and World Bank spring and annual meetings (see BWP Dispatch). The working group is expected to commence work in 2018, after the interim working group completes drafting its terms of reference by the end of December.

The new members are: Godswill Agbagwa (Center for Social Awareness, Advocacy and Ethics Inc., Nigeria), Reema Nanavaty (Economic and Rural Development, SEWA, India), Frank Vogl (Transparency International, Germany), Marcelo de Jesus (Fores, Argentina), Walid Alkhatib (Center for Strategic Studies University of Jordan, Jordan), Abdul Qadir (Atlas Service Corps, USA), Faustino Fynn-Nyame (Population Services International, USA), and Zahra Bazzi (Arab NGO Network for Development, Lebanon). The 2018 working group will also include three interim members, who are staying on for continuity, as well as two-to-three Indonesian representatives, as the 2018 annual meetings will take place in Bali, Indonesia, in October.
Debt sustainability review: Tinkering around the edges while crises loom

Guest analysis by Mark Perera of Eurodad and Tim Jones of Jubilee Debt Campaign

Under the joint Debt Sustainability Framework (DSF) of the World Bank and IMF (Bretton Woods Institutions or BWIs), regular assessments of the risk of external debt distress are conducted for all countries that are eligible to borrow from either institutions’ concessional lending funds (the International Development Association and Poverty Reduction and Growth Trust, respectively). The DSF directly impacts the scale of lending by the World Bank and other multilateral development banks, and influences lending decisions by governments and the private sector.

Latest DSF review completed

The development of the DSF in 2005 brought in a welcome systematic monitoring of countries’ debt situations, placing debt at the centre of the BWIs’ economic analyses and lending operations. Its forward-looking approach reflected the importance of preventative action to mitigate debt crises. But since its introduction, civil society has pointed to substantive problems with its approach, particularly its disconnect from debt relief, and its conception of sustainability in terms of how repayable debt is, rather than the impact debt levels have on a country’s ability to safeguard the rights of its citizens (see Update 40).

The latest DSF review, to which over 30 CSOs made a joint submission in June 2016 (see Observer Summer 2016), was completed in October. The review adopted some of the submission’s recommendations and introduced a number of key features to improve the rigour of the IMF’s technical assessments, including analysis of some of the liabilities arising from public-private partnerships (PPPs) – instruments attractive to governments as they can enable debts to be hidden (see Observer Spring 2017). Risks of government liabilities arising from private external debt were also given greater importance, but focus was limited to the financial sector. Closer attention will also be given to specific risks arising from natural disasters and commodity price shocks.

Another positive development following the review was the move away from exclusive reliance on World Bank Country Policy and Institutional Assessments (CPIAs) (see Update 43) when gauging how much debt a country can carry. The new DSF added a new ‘composite country indicator’ with historical and projected data, including on domestic and world growth as well as levels of international reserves. This reflected the questionable relevance of CPIA scores, which effectively measure levels of market liberalisation, to assess debt crisis risks. The new DSF also shifted from a narrow focus on overall debt figures to consider the impact of public investment on growth, acknowledging the potentially productive nature of debt financing, aiming to make the IMF’s growth projections more realistic and therefore improve debt servicing projections.

Major CSO concerns ignored, as risk of crises remains

Despite the steps forward, the BWIs have largely ignored civil society concerns raised in the submission about the basic DSF process, including UN and CSO calls for assessments to be carried out by an independent body, rather than by international financial institutions who are themselves major lenders. Discretionary judgement remains a key component of the framework and a September 2017 research paper by Lang and Presbitero demonstrated links between improved DSF ratings and political support from the main international financial institution (IFI) shareholders. The review fails to acknowledge these civil society concerns directly, but does note that staff judgement has sometimes led to over-optimistic DSF ratings: specific reference is made to Mozambique between 2009 and 2014, a country now in major debt crisis, where staff continually downgraded the country to low risk, despite data pointing to medium risk (see Observer Spring 2017).

No consideration is given in the review to the impact of a country’s debt burden on its ability to meet its human rights obligations and development goals. Scope remains for the IMF to improve this when implementing the current reforms, for example by basing country growth and debt servicing projections on ring-fenced social spending to meet minimum floors, as recommended by the International Labor Organization (ILO). Nor have steps been taken to incentivise the better use of loans by recognising that where good transparency and accountability practices exist, debts are likely to be better spent, and so governments have more space to borrow for useful investments.

The opportunity has also been missed to establish a link between the DSF and a country’s option to seek debt relief. This would ideally rely on a pre-defined risk definition triggering a stay on payments and obliging a country to enter discussions with all its creditors, supported by an independent debt workout institution.

The technical changes introduced in the current review are largely a step forward, but by the IMF and World Bank’s own admission in the review, the revised DSF would still have missed one-in-five past crises. Debt levels are rising globally: three more countries have gone into DSF-defined debt distress in 2017 alone (Chad, Gambia and South Sudan, joining Grenada, Mozambique, Sudan and Zimbabwe), and just 11 of 67 countries are currently deemed by the DSF to be low risk – the lowest number since assessments began. With the storm clouds gathering so ominously on the horizon, the IMF and World Bank have to address the fundamental shortcomings of the DSF, if it is to be a genuinely effective tool in the prevention of future crises.
Chinese growth’s contribution to poverty reduction challenges World Bank and IMF neoliberal policies

October 17 marked the 25th anniversary of the International Day for the Eradication of Poverty. According to the Sustainable Development Goals (SDGs) website, examples of impressive recent achievements in combating extreme poverty include a decrease in the global poverty rate from 28 per cent in 1999 to 11 per cent in 2013. The standard narrative, echoed by former US President Barack Obama during his speech at the UN in September 2016, is that the neoliberal policies of ‘globalisation’ and ‘open markets’ have been the driving force behind the significant drop in poverty rates (see Observer Spring 2016).

As argued by Babb and Kcntkelenis in their 2017 paper, the World Bank and IMF in turn played a key role in developing and enforcing neoliberal policies associated with, inter alia, globalisation and open markets globally. While likely driven by a fear of an anti-globalisation backlash (see Dispatch annual meetings 2017) and perhaps sharing UNCTAD’s assessment that ‘anxiety is fast becoming a new zeitgeist of the twenty-first century global economy’, the Bank and Fund have recently been said to soften their stance on structural adjustments and neoliberalism generally (see Observer Summer 2016, Summer 2017).

BWIs – taking credit where none is due?

Despite these rhetorical reassessments, the Bank and Fund, like Obama, remain in no doubt that the policy prescriptions they energetically promulgated during the past 25 years can be credited with the success in global poverty reduction. Speaking in Washington ahead of the World Bank and IMF’s annual meetings in October, World Bank president Jim Yong Kim called China’s efforts to eliminate poverty historic, noting, “With [its] embrace of the global market, China has lifted over 800 million out of poverty”. Kim is indeed correct in his assertion that Chinese efforts have been historic. An October report by the US-based think tank Center for Economic and Policy Research (CEPR) supports his point, noting that “for the 25 years [up to 2016]... two-thirds of the approximately 1.1 billion people who were pulled across the extreme poverty line were in China”, adding “from 1981 to 2010, it is even more a story of Chinese success: about 94 percent of the reduction of extreme poverty was in China.” However, Kim’s implicit assertion that Chinese growth is due to its embrace of global markets has been robustly challenged.

China’s growth not result of neoliberal policies

CEPR’s report stressed that “Chinese global economic integration was not based on neoliberal reforms and policies that were adopted by the vast majority of low and medium-income countries since the 1980s”. It noted: “China did not establish an independent central bank or abandon the industrial and development policies of prior decades. ... They maintained state control over the banking system, had strict currency controls and a huge role for state-owned enterprises, and until recently the state controlled most investment.”

Neoliberalism’s failure to deliver growth

The fact that China’s growth has largely been achieved by policies that contravene the Bank and Fund’s received wisdom poses a significant challenge to the legitimacy of the models they have historically supported. China’s departure from the neoliberal model is also stressed by Ha-Joon Chang. Putting the issue into historical context, Chang has noted that “the popular impression, largely created by neoliberal propaganda, is that neoliberalism ... is able to generate rapid growth, albeit often at the cost of worsening other ‘social problems’”. However, he stressed that “Per capita income growth in the developed countries slowed from 3.2% to 2.2% between the interventionist period 1960-80 and the neoliberal period of 1980-99, while that in the developing world halved from 3% to 1.5%”. Echoing Prates and Peruffo’s 2016 article What is left of the rising South, Chang stressed that “without ... China and India, two countries that have definitely not followed the neoliberal recipe, the 1.5% rate would have been close to 1%”.
In October, the World Bank published its 15th Doing Business Report (DBR), Reforming to Create Jobs, noting that 119 economies had carried out 264 business reforms in the past year to “create jobs, attract investment and become more competitive”. The Bank stated in a press release that the DBR provides “objective measures of business regulations and their enforcement across 190 economies”, whilst encouraging economies to “compete towards more efficient regulation” (see Observer Summer 2017). It continued that “3,188 business reforms have been carried out since it began monitoring”.

From its inception, civil society organisations (CSOs) have been critical of this influential publication for promoting one-size-fits-all solutions to development. CSOs argue that the Bank and IMF use the DBR to promote deregulation and neoliberal reforms, based on the unfounded claim that more ‘business friendly’ regulations play a key role in lowering income inequality, while not taking into account the social or economic benefits of regulation and costs of de-regulation.

Despite claims, DBR’s deregulation policies do not lower income inequality

The DBR incentivises tax competition

CSOs concerned DBR does not promote inclusive growth

Simeon Djankov, the creator of the Doing Business series, said in an October press release that, “Reforming in the areas measured by Doing Business can be particularly beneficial to employment creation when those reforms take place in the areas of starting a business and labor market regulation.” Considering that claim, Matti Kohonen from Christian Aid UK stressed that, “This microlevel view is often at odds with a macro-level perspective, where something that may be beneficial at an individual firm owner level (e.g., lesser labour regulation), may hurt macroeconomic objectives – such as greater labour productivity through upskilling of committed employees”. He added that, “Recent macroeconomic perspectives on women’s labour market participation, and tackling inequality may be at odds with the entire DBR.”

Civil society further criticised the DBR’s ranking of nations as based on narrow business interests over those of citizens and countries (see Observer Autumn 2013, Update 86, 85). For example, according to the International Trade Union Confederation (ITUC), eight out of the DBR 2017’s “top 10 improvers” had poor or worsening performance on workers’ rights. According to UK-based charity CAFOD’s 2013 research, the DBR failed to match the priorities needed for small private sector enterprises to grow. These include ensuring adequate funding for small enterprise support programmes and public services, as well as recognising informal workers’ organisations and collective bargaining processes. In November Peter Bakvis of ITUC commented on Inequality.org that, “giving better scores to low-tax venues is in clear contradiction with the World Bank’s stated objective of giving governments the means to provide essential public services, especially to the poor, and reducing inequality”. Despite a series of methodological changes in 2015 after extensive criticism of the report from the Bank’s own Independent Evaluation Group (IEG) in 2013 (see Observer Summer 2017, Update 86), these civil society critiques still stand.

DBR’s policy impacts

Belgium-based network Eurodad noted in 2015 that while “there is little connection between the report’s findings and reality on the ground, it nevertheless has a notable impact on policy-making”, informing reform programmes in many developing countries. Worldwide governments take note of their DBR ranking. For example, in November, the Ukraine Business Journal pondered How Can Ukraine Rise on the World Bank’s Ease of Doing Business Index? and The Times of India reported that “investor sentiment got a boost from World Bank’s Ease of Doing Business report where India jumped 30 places on back of recent reforms”. The Economic Times noted that “India is gearing up to leapfrog into the top 50 with around 90 specific reforms lined up for various ministries, top officials said”. These reforms, for instance, include a decrease in the number of processes needed to register a business, but also regressive tax reforms such as the Goods and Services Tax (GST) that, as outlined by Indian economist Jayati Gosh, will increase the tax burden on low-income households and as stressed by Delhi-based lawyer Tara Narula, impact women disproportionately.

Considering the DBR’s benefits, Djankov noted that “in addition to good policy, once you start ranking countries and comparing them, natural competition like a ‘World Cup’ or the ‘Olympics’ comes about”. However, countries are not firms that compete on an open market place. States have human rights duties towards their citizens, and fulfill a public mandate by the electorate rather than price competition pressures in markets. As stressed by UN Independent
Expert, Alfred de Zayas, the Bank and the Fund should “finally let go of the outdated conditions of privatisation, deregulation of markets, and ‘austerity’ in social services, which have not given states adequate policy space to fulfil their human rights obligations” (see Observer Autumn 2017).

DBR and inequality: correlation without causation?

In line with the Bank’s twin goals of eliminating extreme poverty and boosting shared prosperity, and justifying its relevance, the DBR noted that, “Economies with poor quality business regulation have higher levels of income inequality on average.” However, cautioning against the Bank’s jump from correlation to causation, Bakvis noted that the 20 top DBR countries are almost all advanced economies with low Gini coefficients, while the bottom 20 countries, including Afghanistan, Venezuela, Somalia and Yemen, are in severe civil or political conflict. Bakvis concluded “it seems ludicrous for the Bank to imply that the only thing these conflict countries have to do to achieve more equal income distribution is to deregulate business.” While it may be true, as the report claims, that “economies with better business regulation have lower levels of poverty, on average”, the fact that China and Vietnam’s significant progress on poverty reduction was accomplished without DBR promoted policies (see Observer Winter 2017-2018) brings into question the report’s implicit link between deregulation and decreased poverty.

Last year’s DBR introduced a gender component to three indicators, namely starting a business, registering property and enforcing contracts. In response, the Oakland Institute argued, a “gender equity component doesn’t make the policies promoted by the Bank more equitable. The report’s country scorecards show that the Bank gives better Doing Business scores to nations that favor corporate profits over citizens and countries’ interests.” For example, while India has improved significantly in the DBR rankings, according to 2017 research by Lucas Chancel and Thomas Piketty, income inequality in India is at its highest since 1922. Shipra Dawar, founder of ePsyclinic, an online mental health clinic, commented to Forbes that, “While it is great that India has improved its ranking in doing business, and young entrepreneurs will benefit from it, we are overlooking the importance of gender equality. It’s not possible for India to become a global economic power if half of its population is ignored, and not given more economic opportunities.” Dawar’s comments are supported by data from the World Economic Forum (WEF), which showed that India fell 21 places to 108 in the 2017 Global Gender Gap Report Index, even as its DBR ranking improved.

Given the persistent flaws of the DBR and the Bank’s supposed focus on sustainable and equitable growth, it should heed civil society’s calls, echoed by the JEG’s report, to cease country rankings and to ensure that indicators used are robustly linked to poverty eradication and inclusive growth objectives.

CAO released damning audit of IFC hydro project in Guatemala

The CAO audit was prompted by a complaint filed in October 2014 by Colectivo Madre Selva and the Consejo de Pueblos de Tezulutlan on behalf of several communities downstream and upstream of the Santa Rita project. The complaint alleged that “the project did not meet IFC’s consultation requirements for free, prior, and informed consent... [and] has not considered its potential for adverse impacts on local water sources.” The communities also claimed they “fear that the project will compromise their ability to generate income and to sustain their livelihoods ... [and] asserted that their opposition to the project has been met with violence, repression, and criminalization of community leaders.”

The CAO’s audit noted that the IFC’s review of the Environmental and Social Due Diligence (ESDD) of its client in 2012 failed to identify “(a) gaps in the environmental assessment information presented, including that it related to an earlier – and significantly smaller – version of the project; (b) the lack of a social impact assessment; (c) inadequate analysis of the project’s expected impacts on biodiversity, land use, drinking water, livelihoods, and cultural heritage; and (d) the lack of an assessment of whether the dam met World Bank design and safety standards.”

Community demands accountability through protest

The project has been the site of determined local opposition since 2010. The CAO reported that in July 2013 a road block, which is still in place, was established by community members at the nearby village of Monte Oliva. Consequently, construction at the project was suspended, and LRIF has advised the CAO that it no longer plans to develop the project. Documenting community struggle against the project, an October Mary Knoll Office for Global Concerns newsletter reported that 160 indigenous families were displaced in 2014 by more than a thousand police officers. Local communities
called for a UN investigation of the project in October 2014. Considering the community protests, the audit underscored that the “IFC did not sufficiently engage with the Fund [LRIF] to address the rising tensions, violent incidents, and serious allegations of E&S [environmental and social] impacts” and that “the prevalence of community opposition was sufficient for IFC to require a re-evaluation of the applicability of its Indigenous Peoples standards to the project.”

Risk assessment ignored project’s location in indigenous area

The audit found that while the IFC correctly categorised the project as high-risk, its “pre-investment review was not commensurate to risk” and the “IFC did not have an adequate understanding [of] the contextual risks associated with its investment”. It further stressed that the IFC “gave insufficient consideration to the challenges that the Fund [LRIF] would face in implementing IFC’s recently updated Indigenous Peoples requirements.” According to a 2015 report The Suffering of Others by several NGOs, including Oxfam International, the IFC claimed as late as October 2014 that “there were ‘no high-risk projects’ funded by their client’”. The report argued this initial “assessment entirely ignored or downplayed the fact that the project was situated in an indigenous area”. The report further alleged that only after public exposure of the project did the IFC’s website disclose the project as high risk. The IFC’s initial risk assessment seems at odds with the Bank’s appalling track record in Guatemala, where several hundred indigenous people were massacred during the construction of the Chixoy dam in the 1980s. Additionally, severe conflicts had already occurred at a similar project, Cambalam, where a state of emergency was declared in the same year as LRIF’s investment in Santa Rita (see Observer Spring 2014, Bulletin February 2014).

Kate Geary of NGO BIC Europe commented, “In the face of these damning findings, the IFC’s noncommittal response is highly disappointing. Lending through intermediaries is a highly risky business and demands that the IFC assesses and manages the risks to people and the environment posed by sub-projects all the more seriously.” Additionally, Geary noted that, “Unfortunately, IFC’s dismissive attitude to this audit is part of an ongoing trend. The IFC must take seriously the lessons learned in this case - otherwise how will adequate reforms be put in place to avoid such problems happening all over again to other communities?”

The audit adds to previous concerns raised by the CAO about the IFC’s FI investments in its 2013 FI audit and March compliance report (see Observer Spring 2017). It also comes in the context of an increasing number of cases unearthed by civil society, including the IFC’s support for coal in contravention of the World Bank’s policies, their role in land-grabbing across Africa (see Observer Winter 2017-2018, Summer 2017, Winter 2017) and the World Bank’s push for hydropower beyond Santa Rita (see Observer Spring 2016, Bulletin February 2014). The IFC’s new ‘de-risking’ approach to ‘leveraging’ private sector investment (see Observer Autumn 2017) as outlined in IFC CEO Philippe Le Houérou’s October “letter” leaves little hope that the experience of the Santa Rita community will not be duplicated elsewhere.

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Street art in Guatemala: “Monte Olivo lives, no to Santa Rita dam.”
IMF and Bank “intensifying” tax work: Possible progress or consolidating control?

World Bank and IMF are stepping up work under the Platform for Collaboration on Tax

New tax initiatives focus on progressivity

Civil society cautions against top-down, IMF-led approach

A World Bank and IMF (Bretton Woods Institutions or BWIs) organised event during their 2017 annual meetings (see BWP Dispatch) on taxing wealth in developing countries led Alex Cobham of Tax Justice Network in his October blog to ask, Is tax justice the new Washington consensus? The Bank and Fund are “intensifying” their tax work under the umbrella of the Platform for Collaboration on Tax (PCT), a partnership between the BWIs, OECD and UN. Perhaps this signifies the BWIs starting to slowly chip away at long-standing civil society criticisms about their role in promoting the ‘tax consensus’ that promotes regressive taxes and underemphasises illicit financial flows (see Observer Autumn 2016).

Building a “social consensus” on revenue targets

For example, Medium-Term Revenue Strategies (MTRS) are a new PCT concept described as a “social contract on … revenue mobilisation … for 5 to 10 years with due consideration to the poverty and distributional implications of the associated measures”. It is a process for comprehensive tax reform underpinned, in the words of the PCT, by a “social consensus”, to be achieved through “national dialogue led by political leaders with representatives of the community … that determines society’s expectations for the level of public services and the related expenditure needs that determines revenue collection targets”. In return for signing up to an MTRS, countries will receive technical advice from the PCT, in particular the IMF. Setting aside the question that arises from this initiative of how governments will be expected to navigate the delicate political economy of tax reform, Kwesi Obeng of Oxfam pointed out that this idea is not new. It was already developed in the Monterrey Consensus of 2000, meaning it had taken the organisations that make up the PCT 17 years to catch up to the idea of citizen engagement being crucial for tax reform. Obeng also warned that shrinking civil society space globally poses a major threat to the MTRS process, and must be acknowledged and reversed.

Measuring equity impacts

The Bank and Fund are also developing a new tool, the Tax Policy Assessment Framework (TPAF), aimed at helping decision-makers assess the various trade-offs of tax policy. TPAF will take the shape of a publically available website compiling IMF and World Bank ‘canon’ on different types of taxes in one place, and will include equity considerations for the assessment of every type of tax. Given that a World Bank Independent Evaluation Group February report found the Bank’s approach to tax lacked an equity focus (see Observer Autumn 2017), and that recent reports have found the Fund lacks recognition of the gender and equality impacts of its tax policy advice, the equity components will be particularly scrutinised by civil society critical of the BWIs’ approach to inequality. Its first chapter will focus on VAT and will be publically piloted by the end of the year, at which time it will be open to civil society feedback.

Hosting the first global conference on tax and the SDGs

Finally, the PCT is organising its first global conference in February 2018 under the banner Taxation and the Sustainable Development Goals (SDGs) to “take forward the global dialogue on the role of tax in achieving the SDGs among senior policy makers and tax administrators” and inform the future work of the PCT. Civil society is expected to call attention to, among other issues, the lack of recognition of gendered tax impacts and, likely re-energised by the revelations of the Paradise Papers, the growing global consensus on the need for a UN Global Tax Body.

Remaining concerns about IMF’s influence

While these initiatives seem to be tentatively welcomed by some as steps in the right direction, the PCT has a track-record of promoting the agenda of OECD countries over the interests of developing countries (see Observer Autumn 2016). This begs the question of whether these initiatives signify hope for tax justice or whether they are a way for the IMF in particular to gain dominance in international tax discourse. As Cobham points out, “One thing that hasn’t changed at all is the sense that people in Washington institutions are ultimately best placed to say what policy positions are best. So while it’s welcome that the policy positions they’re taking may be improving, we as civil society shouldn’t lose sight of the fact that tax policy is highly political – policy choices must reflect public preferences. So policy decisions cannot be delegated to a technical elite from the other side of the world or anywhere else.”

tinyurl.com/taxinitiatives

Photo: Platonic Paul

TAX the RICH and GREEDY NOT THE NEEDY!
Shared prosperity? WBG fails to progress on energy access for poor

Only 13 per cent of World Bank’s energy investments go to improving access

CSOs urge Bank to prioritise clean energy access over investments in fossil fuels

Incoherence between Bank’s PPPs push and achieving universal energy access

A civil society report released in late October criticised the World Bank for its failure to commit more resources to energy access, arguing that its approach to energy investment does not do enough to end energy poverty in developing regions.

The report, Funding Clean Energy Access for the Poor: Can the World Bank Meet the Challenge?, co-published by Bank Information Center Europe (BIC Europe), the Swedish Society for Nature Conservation (SSNC), and the Big Shift Global campaign, pointed out that lending linked to improving energy access accounted for only 13 per cent ($1.5 billion) of the Bank’s energy lending portfolio in fiscal year (FY) 2016. It called for the Bank to introduce specific targets to scale up investments in energy access, including at least $5.75 billion in annual funding for energy access and investments that enable 15 million people to gain connections annually.

The World Bank’s 2013 Energy Directions paper outlined that its, “energy practice will be centered on contributing to the achievement of ... the UN Sustainable Energy for All initiative [SEforAll]”, which includes the ambitious target of achieving universal energy access worldwide by 2030. The target is also included in the Sustainable Development Goals (SDGs) under SDG7, which is aimed at providing access to affordable, sustainable, and reliable energy for all. However, the Funding Clean Energy Access for the Poor report argued the Bank needs to take additional steps to prioritise energy access over investments in energy for export, particularly in energy poor countries in Sub-Saharan Africa and Asia, in order to help reach SEforAll goals.

Investment in distributed renewable energy vital to meeting SEforAll target

An October report by the International Energy Agency (IEA), a Paris-based intergovernmental organisation, has shown that investment in distributed renewable energy technology, including off-grid and mini-grid electricity in remote rural areas of developing countries, is essential for meeting SEforAll’s goal of achieving universal energy access. It documented that 1.1 billion people worldwide remained without electricity access in 2016, and that under current trends this number will decline to 700 million by 2030 – with 60 per cent of this improvement in access projected to be covered by renewable energy. To reach universal access by 2030, the IEA report suggested that 90 per cent of the remaining 700 million connections would need to be provided by renewable technology, with off-grid and mini-grid technology playing a key role in energy poor countries with limited conventional grids.

The Bank’s investments in off-grid and mini-grid technologies have historically been a peripheral area of its energy policy. For example, a 2016 report from the World Bank Group’s (WBG) Independent Evaluation Group (IEG) noted that between FY 2000-2016 WBG investment in off-grid electrification was estimated to be only about 2.5 per cent of its overall lending in the electricity sector (averaging $87 million a year). The IEG report noted: “No discernible trend is found in these commitments” over the period included in the review.

While the Bank’s support for a number of recent clean energy projects is encouraging, there are serious questions about whether the Bank’s wider push to mobilise private sector finance for development (see Observer Summer 2017) is compatible with achieving universal energy access. For example, the Funding Clean Energy Access for the Poor report pointed to the profound disconnect between the Bank’s approach to achieving universal energy access targets and its agenda of promoting public-private partnerships (PPPs), as a means of maximising finance for development: “it is not clear that large-scale PPP projects in the energy sector are well suited to address energy access because the World Bank has not provided any guidance on how to align the private sector objectives, i.e., aimed at profits, with government objectives to provide energy access to the poor.”

Anna Östergren of SSNC commented: “When it comes to electricity for the poor, for the World Bank it is not a lack of funding but a matter of getting the priorities right. The World Bank needs to ensure electricity for the poor is put ahead of using scarce public funds to support fossil fuel exports.”

tinyurl.com/WBGaccess
A November letter from 77 civil society organisations (CSOs) worldwide, including Derecho, Ambiente y Recursos Naturales (DAR) from Peru and Buliisa Initiative for Rural Development Organisation (BIRUDO) from Uganda, called on the World Bank Group (WBG) to “fulfil its commitment to prioritise forests and forest peoples’ rights in its support to borrowing countries and the implementation of their nationally determined contributions (NDCs)” to the Paris Climate Agreement.

The letter, addressed to World Bank president Jim Kim, coincided with the UN Framework Convention on Climate Change’s (UNFCCC) Conference of Parties 23 (COP 23) in Bonn. It called on the WBG to prioritise forests and indigenous peoples’ rights in World Bank Country Policy Frameworks. The letter further called on the Bank to strengthen safeguards to protect forests and indigenous peoples’ rights, including for Development Policy Loans (DPLs) (see Observer Spring 2017) – which are not subject to the Bank’s new Environmental and Social Framework (ESF). It also argued that the Bank should take steps to avoid funding direct and indirect causes of deforestation, including through investments via financial intermediaries (see Observer Winter 2017).

The CSO letter also urged the Bank to make its Forest Notes – which are currently under development in a select number of countries – open to stakeholder consultation. The Notes were introduced as part of the Bank’s 2016-2020 Forest Action Plan (FAP), and are meant to guide national policy on forests, including for Development Policy Loans (DPLs) (see Observer Spring 2017) – which are not subject to the Bank’s new Environmental and Social Framework (ESF). It also argued that the Bank should take steps to avoid funding direct and indirect causes of deforestation, including through investments via financial intermediaries (see Observer Winter 2017).

The link between deforestation and climate change is well-documented: As Frances Seymour of the Center for Global Development noted in an August blog, “If tropical deforestation were a country, it would rank third after China and the United States as a source of emissions.” However, tackling deforestation is a relatively low institutional priority for the Bank, with small lending volumes in comparison to other areas of Bank finance and WBG country teams often lacking specific forest expertise (see Observer Winter 2016).

The Bank’s lending through Development Policy Loans has also led to deforestation, according to CSOs. For example, Harlem Marínó from DAR emphasised the effect of the Bank’s DPL lending on forests in South American countries like Peru: “The main problem we found by analyzing the latest Development Partnership Loans for Peru is the seemingly little willingness shown by the Bank to develop an adequate monitoring system to assess the social and environmental risks of their different loan operations. The evidence of this are the laws approved as prior actions [required by the Bank’s DPL lending] in Peru to promote investments by reducing the Government’s capacity to sanction environmental infractions caused by the extractive industry, especially those based in the Amazon rainforest.”

Meanwhile, one of the forest initiatives the Bank manages, the Forest Carbon Partnership Facility (FCPF), a climate investment fund that supports Reducing Emissions from Deforestation and Forest Degradation (REDD) projects, received stinging criticism in March in an article published by the REDD-Monitor. The piece called the FCPF, “The most cost-inefficient tree-saving scheme ever,” owing to high administrative costs between fiscal years 2009-2015 absorbing 64 per cent of FCPF’s $55 million expenditure. Subsequently, in August, the Rainforest Foundation UK (RFUK) and US (RFUS) raised concerns in an exchange with the World Bank about full prior and informed consent (FPIC) being achieved among communities affected by a proposed FCPF-supported REDD project in the Democratic Republic of Congo’s Mai Ndombe province. A RFUK briefing published in August found that the Mai Ndombe project’s, “safeguard plans as they currently stand are seriously flawed, [are] inadequate to ensure proper protection against harm, and need substantial re-working, clarification and improvement.”

Despite such shortcomings, as the Bank remains the biggest multilateral source of finance for forests, it has a potentially important role to play in initiating meaningful policy change in this area. Events at COP23 itself offered some positive developments in terms of the need to consult with indigenous peoples as part of the broader NDC process. While the 2015 Paris Agreement recognised the contribution of indigenous knowledge in dealing with climate change, COP23 built on this, arguing that countries, “should, when taking action to address climate change, respect, promote and consider their respective obligations on the rights of indigenous peoples and local communities.” CSOs are hopeful the Bank will heed this language in its own forests policy.

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CSOs call on World Bank to halt its aggressive support of PPPs

In October, ahead of the World Bank and IMF annual meetings in Washington DC, 152 civil society organisations (CSOs), including Rivers Without Borders Mongolia and Colombia’s Consejo Laboral Afrocolombiano, launched the Public-Private Partnership (PPP) Global Campaign Manifesto. The manifesto outlined the signatories’ serious concerns with PPPs generally and the World Bank’s presentation of PPPs as a panacea for the world’s social and economic infrastructure financing gap. The manifesto demanded that the Bank, IMF and other multilateral development banks (MDBs), “halt the aggressive promotion and incentivising of PPPs for social and economic infrastructure and publicly recognise the financial and other significant risks that PPPs entail.”

The manifesto also urged “all those concerned with justice, equality, sustainability and human rights to resist the encroachment of PPPs and push … for high-quality, publicly-funded, democratically controlled, accountable public services.”

As detailed in Brussels-based CSO Eurodad’s October report, Defusing the ticking time bomb, the manifesto was developed in the context of a strong MDB push for PPPs despite their potential serious negative consequences, such as their higher costs compared to projects financed through public borrowing, their impact on equitable access to public services, and fiscal impact through the creation of hidden contingent liabilities (see Observer Autumn 2015).

As noted by Heinrich Böll Foundation’s Nancy Alexander in her blog Beware the Cascade, PPPs form an important pillar of the Bank’s new cascade strategy to de-risk private sector investments in order to support the MDB’s ‘billions to trillions’ aspirations (see Observer Autumn 2017, Summer 2017).

IFC to revisit its development outcomes framework

In an October blog published ahead of the World Bank and IMF annual meetings in Washington DC, Philippe Le Houérou, CEO of the International Finance Corporation (IFC), the World Bank’s private sector arm, noted that the IFC has developed “a new framework — Anticipated Impact Measurement and Monitoring, or AIMM — to enable us to better define, measure and articulate the development impact of each project.” AIMM will eventually allow the IFC to “judge and communicate our results not only from an operational and financial perspective but also from a development and portfolio perspective.” While details about timelines and the degree to which outside expertise will inform AIMM are not available, the IFC will convene a meeting with civil society organisations in London on 7 December to discuss the process.

The IFC’s discovery that as a development institution, it should “eventually” be able to judge its results “not only from a financial perspective” but also “a development perspective” seems a step in the right direction. As outlined in a January 2016 Mother Jones magazine article, titled The World Bank Is Supposed to Help the Poor. So Why Is it Bankrolling Oligarchs?, the IFC’s investment choices and their supposed linkages with its development mandate have been heavily criticised (see Update 84). Additionally, the heavy caseload of its accountability mechanism, the Compliance Advisor Ombudsman (CAO), and persistent recent reports of the negative consequences resulting from the IFC’s inability to ensure its investments through financial intermediaries do no harm, underscore the need for structural changes within the institution (see page 7 of this issue, Observer Spring 2017, Autumn 2016).

Given the importance of the process, civil society is hopeful that the meeting in London will mark the beginning of a formal process of consultation with a wide array of stakeholders on the development of AIMM.

Long-awaited ESF Guidance Notes fail to meet CSO expectations

After waiting nearly 15 months for the release of the World Bank’s draft Guidance Notes for Borrowers, civil society organisations (CSOs) reacted with disappointment in a December letter signed by 29 CSOs, including Inclusive Development International and the Egyptian Initiative for Personal Rights, to what many felt were documents unfit for purpose.

The Guidance Notes (GNs) are meant to facilitate the implementation of the Bank’s Environmental and Social Framework (ESF) safeguards for development project lending approved in August 2016, by providing borrowers with tools across the ten core ESF standards. The notes were released for public comment on 2 November, with a closing date for comments of 15 December.

The joint letter, sent to Manuela Ferro, the World Bank Group’s vice president of operations policy and country services, underlined civil society’s dissatisfaction with the draft notes, expressing “deep concerns.” It noted that, “Throughout the safeguards review process, civil society [was] assured that the Guidance Notes would reflect pressing questions and concerns about the ESF.” It went on, “While a small number of the draft Notes refer to resources and recommendations on certain issues, we feel the great majority of the objectives for the Notes are not achieved in these drafts.”

Despite the GNs being a vital feature of the Bank’s newfound ESF – which will increasingly rely on borrower systems (see Observer Autumn 2016) – they are not policy, and thus do not have to be approved by the World Bank’s board. It is unclear the extent to which feedback received during the current public comment phase will be integrated into the final versions of the notes – which are due for release in early 2018 – as the Bank has previously declined to make them available for a full public consultation.
CSOs express concern about IMF’s “strongly divergent” social protection approach

In October, the Global Coalition for Social Protection Floors, a network of over 90 civil society organisations (CSOs) and trade unions, submitted a letter to the IMF’s managing director, Christine Lagarde, and its executive board. Following a July report from the IMF’s Independent Evaluation Office on the IMF and social protection (see Observer Autumn 2017), the letter expressed concern with the report’s findings that the Fund’s approach contradicts the internationally-agreed objective of universal, rights-based social protection laid out by Recommendation 202 of the International Labor Organization (ILO) and enshrined in the Sustainable Development Goals. In doing so, the letter argued, the IMF “diverges strongly” from the internationally-agreed agenda on social protection. The letter therefore called on the IMF to, inter alia, change its current policy approach, coordinate much more with the ILO, and actively seek the participation of CSOs and trade unions at country level.

The IMF’s divergence from international standards was further highlighted by a November paper by UK-based NGO Development Pathways. The paper contrasted the ‘citizenship paradigm’, which emanates from an understanding that social security is a right for all, with the ‘charity paradigm’, which conceptualises social protection as handouts to ‘the poor’. The paper called on the IMF to reconsider its ‘charity-based’ approach to social protection and address the harm this is inflicting around the world (see BWP At Issue February 2017).

Evelyn Astor from the International Trade Union Confederation commented that, “adequate, universally-accessible social protection is a fundamental human right, an essential component of decent work and a key ingredient for sustainable economic development. The IMF nevertheless continues to push for scaling back social protection due to short-sighted cost concerns – an approach that needs to be thoroughly reconsidered.”

Landmark climate-change complaint against IFC lodged in Philippines

An official complaint filed in October against the private sector arm of the World Bank, the International Finance Corporation (IFC), has made history as it became the first ever climate-change related complaint submitted to the IFC’s independent accountability mechanism, the Compliance Advisor Ombudsman (CAO). On behalf of affected communities and civil society organisations, the Philippine Movement for Climate Justice (PMCJ), through its complaint to the CAO, accused the IFC of “contributing to the crisis of global climate change and causing other serious environmental and social harm”.

The accusation is based on the IFC funding 19 coal power plants across the Philippines and companies that operate them through a financial intermediary (FI) and local bank, Rizal Commercial Banking Corporation (RCBC).

The complaint additionally claimed that despite failing to meet the IFC’s social and environmental Performance Standards and climate commitments, RCBC was given $253 million by the IFC to invest in projects that were considered to have “significant adverse environmental and social risks that are diverse, irreversible or unprecedented”.

This is not the first time that the IFC has been called out for its inability to monitor its FI investments. Civil society groups have previously highlighted how IFC funding has continued to support fossil fuel-related projects over the past decade and a half, such as those in Indonesia and India, in contravention of its social and environmental responsibilities and World Bank policy (see Observer Summer 2017, Winter 2017, Bulletin Dec 2013). The complaint provided additional evidence to support civil society calls for the IFC to ensure its investments in FIs do no harm to local communities or the environment (see Observer Spring 2017).

COP 23 puts Bank-backed climate insurance in spotlight

November’s UN Framework Convention on Climate Change (UNFCCC) Conference of Parties (COP) 23 in Bonn ended without agreement on financing Loss and Damage (L&D) for developing countries already experiencing the impacts of climate change. In the absence of clarity on the issue, the role of climate insurance – an instrument widely promoted by the World Bank – in mitigating L&D is increasingly emerging as the default option, despite the fact that it is unable to address many climate-change related impacts (see Observer Autumn 2017).

Two new initiatives were launched at COP 23 with a heavy climate insurance focus: The G20-backed InsuResilience Global Partnership – which will rely on the Bank’s technical assistance, and will seek to provide ‘access’ to climate insurance for 400 million people in developing countries by 2020 – and the UNFCCC Clearing House on Global Risk – which highlights existing Bank, and other, climate insurance initiatives for potential developing country clients. Harjeet Singh of ActionAid International responded in a statement: “Insurance might turn out to be a piece of the puzzle, but we can’t pretend that it’s a safety net for everyone. Insurance does sometimes help people who are impacted by floods or cyclones. But it won’t be an option for those facing certain losses.”

Questions also remain about who will fund premium financing for climate insurance schemes, which range from state-level ‘sovereign’ policies, to micro-insurance for farmers and property owners in developing countries. As summed up by Singh: “Will poor people in vulnerable countries, who have done nothing to cause the climate crisis and who bear the brunt of its impact, need to pay for climate insurance?”
New IMF conditionality database launched

A team of UK-based academics launched a new website in September, compiling the first freely available, comprehensive and transparent database of IMF conditionality, or mandated policy reforms. The database systematises the 58,406 conditions applicable to IMF programmes between 1980 and 2014. The data were extracted from countries’ loan agreements with the IMF and enable nuanced examinations of the economic, social and political determinants and implications of IMF conditionality.

The team plans to continue working to expand the database and make it more accessible over the next few years. Thomas Stubbs of Royal Holloway, University of London, one of the researchers behind the database, explained, “We sought to lower the informational barrier for civil society, policymakers and the public vis-à-vis the outputs of the IMF. Information about the content of conditionality had been largely inaccessible, impeding attempts to hold this controversial organisation to account.”

Bank and Fun(d)speak of the year 2017

Every year, the Bretton Woods Project highlights some of the most farcical remarks of IMF and World Bank staff.

This year saw the ignominious birth of possibly the world’s most ephemeral yet brilliantly, if subconsciously, named development concept, the Cascade (see Observer Summer 2017). We haven’t seen a water-based metaphor this exciting since trickle-down economics. As the name implies, the Cascade promised the world’s poor a thrilling, if hazardous, ride on the wetty roller coaster of private-sector led development goodness. Business leaders watching the Cascade’s magical ability to quickly and artistically erode their business risks and raise their profit margins in an uncertain, growth-constrained world will no doubt enjoy the Cascade’s majestic beauty, power and just plain profit-making fun. Alas, the policy that sounds like a beauty, power and just plain profit-making no doubt enjoy the Cascade’s majestic ability to quickly and artistically erode their business risks and raise their profit margins in an uncertain, growth-constrained world will no doubt enjoy the Cascade’s majestic beauty, power and just plain profit-making fun. Alas, the policy that sounds like a beauty, power and just plain profit-making beauty, power and just plain profit-making noise may not yet brilliantly, if subconsciously, named development concept, the Cascade (see Observer Summer 2017).

In keeping with the Bank’s focus on ‘Maximising Finance illustration, to the adequately boring and was renamed, much to the chagrin of our remarks of IMF and World Bank staff. This year saw the ignominious birth of possibly the world’s most ephemeral yet brilliantly, if subconsciously, named development concept, the Cascade (see Observer Summer 2017). We haven’t seen a water-based metaphor this exciting since trickle-down economics. As the name implies, the Cascade promised the world’s poor a thrilling, if hazardous, ride on the wetty roller coaster of private-sector led development goodness. Business leaders watching the Cascade’s magical ability to quickly and artistically erode their business risks and raise their profit margins in an uncertain, growth-constrained world will no doubt enjoy the Cascade’s majestic beauty, power and just plain profit-making fun. Alas, the policy that sounds like a beauty, power and just plain profit-making beauty, power and just plain profit-making noise may not yet brilliantly, if subconsciously, named development concept, the Cascade (see Observer Summer 2017).

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