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Recovery outlook for developing countries dims

Even as developed economies are expected to rebound from the COVID-19 crisis, the recovery of developing countries could be stymied by a debilitating liquidity crunch. Current and proposed financing falls short of what is needed and may also come with damaging austerity requirements, while unresolved debt burdens further cloud the developing countries' prospects.

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WTO DG's vaccine event marked by sharply differing perspectives

The pathology of economics

Only multilateral cooperation can stop harmful tax competition

Assessing the World Bank's COVID-19 response

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Trends & Analysis

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WTO DG's vaccine event marked by sharply differing perspectives

Varying views on how to boost the supply of COVID-19 vaccines were aired during a recent high-profile meeting on "vaccine equity" convened by the WTO Director-General.

by D. Ravi Kanth

WASHINGTON: WTO Director-General Ngozi Okonjo-Iweala's much-touted meeting on addressing "equitable distribution of COVID-19 vaccines" brought sharply differing perspectives to the fore on various issues, including the role of intellectual property rights (IPRs) and the need to finalize a decision on a temporary IPR waiver to ramp up global production of vaccines for combating the worsening pandemic, said people familiar with the proceedings.

At the over-five-hour WTO-organized virtual meeting on "COVID-19 and Vaccine Equity: What Can the WTO Contribute?" on 14 April, chaired by Okonjo-Iweala, trade ministers from India and South Africa as well as the World Health Organization (WHO) Director-General called for the temporary waiver of rules under the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS).

In sharp contrast, the United States delivered a nuanced statement on the divide between developed and developing countries on access to the vaccines. Washington did not offer any concrete or defined solutions on how to address this divide other than making some somewhat platitudinous remarks. Despite holding meetings with domestic labour unions, advocacy groups and pharmaceutical lobbies the previous day, the US Trade Representative (USTR) Katherine Tai remained silent on the TRIPS waiver at the WTO meeting.

Separately, over 170 former heads of state and government as well as Nobel laureates on 14 April urged US President Joseph Biden to support the proposed waiver. In an open letter, they encouraged Biden to "let this moment be remembered in history as the time we chose to put the collective right to safety for all ahead of the commercial monopolies of the few."

However, on the same day, the Republican members in the Ways and Means Committee of the US House of Representatives wrote to Biden to oppose the waiver.

The WTO meeting also witnessed differences in perspectives on manufacturing vaccines between Pfizer and Moderna on the one side, and Bharat Biotech from India, Aspen from South Africa, and Incepta Pharmaceuticals from Bangladesh, on the other, said people who asked not to be identified.

Pfizer and Moderna apparently ruled out any prospect of sharing their mRNA vaccine technology with the vaccine firms in developing countries on grounds that it is far too complex and requires more than 100 raw materials. The representatives of these two Northern-based companies, which were directly or indirectly bolstered by billions of dollars of public funds for developing their vaccines, maintained that they cannot guarantee safety in the production of vaccines in developing countries.

But the vaccine companies from the Global South, particularly Bharat Biotech and Aspen, pushed back against such claims, saying that unless countries look outside the box, they will not be able to address the root cause behind the global shortages of vaccines, said people who asked not to be quoted.

Dr Sai Prasad of Bharat Biotech said his company is pursuing an mRNA vaccine along with several companies, and added that if vaccine companies tend to look inside the box, there may not be any solutions. But if they are able to look outside the box, there are plenty of solutions, with pharmaceutical companies in Bangladesh, Pakistan and Brazil being able to produce complex vaccines if there is technology transfer under relaxed IPR conditions.

In her concluding statement at the meeting, Okonjo-Iweala acknowledged that there are differences among participants "on issues concerning the

future shape of vaccine supply chains, on the appropriate role of intellectual property protections, on issues of vaccine contract transparency – which was pointed to by many as an important factor in appropriate pricing and distribution and a critical part of access and equity."

She also alluded to a framework agreement on trade and health at the WTO's upcoming 12th Ministerial Conference for addressing future pandemics.

She had spoken about the TRIPS waiver in a positive way in her opening statement, but went back to her original "third way" approach in her concluding remarks, said people who asked not to be quoted.

South Africa's Ambassador to the WTO Xolelwa Mlumbi-Peter suggested that it is now time for moving rapidly to text-based negotiations on the waiver so as to arrive at a balanced solution.

Significantly, the WHO Director-General Tedros Adhanom Ghebreyesus supported the TRIPS waiver at the meeting, while International Monetary Fund (IMF) Managing Director Kristalina Georgieva pledged considerable support for ramping up vaccine production through the proposed issuance of hundreds of billions of dollars of Special Drawing Rights. Also, the head of the World Bank's International Finance Corporation Makhtar Diop said that special funds are being catered to increasing the capacity for producing new vaccines in Africa.

In short, the whole meeting looked like a very shallow conference and also revealed differences in approaches to vaccine equity and ramping up of production almost along North-South lines.

Inequality of access

In her opening remarks, Okonjo-Iweala said she convened the meeting to look into what the WTO can contribute to addressing the COVID-19 pandemic. She referred to the TRIPS waiver proposal and stressed that there is a lot of inequality of access, which is not acceptable. She said the poorer nations don't have nearly the number of vaccines that they require at this juncture.

The WTO DG also spoke about the complexities in the manufacturing of vaccines, suggesting that in order to manufacture them, there are a lot of things that need to happen, including the sharing of knowledge and transfer of technology, according to people present at the meeting. She asked rhetorically whether, in the absence of collaboration with the rights holders and owners of technology, it could happen as quickly as possible and as required.

And from that point of view, it is important to see how production could be increased and whether it is possible to establish capacities in other parts of the world, she said.

She also emphasized safety and other considerations, and suggested that it is important to know what role other organizations like Gavi, the Vaccine Alliance are playing.

"It is a nice opening statement from the DG," said a person who asked not to be quoted.

However, for some inexplicable reasons, the opening statement, which was initially displayed on the WTO website, seems to have been removed.

In a strong statement issued at the meeting, WHO DG Tedros said the approval and rollout of safe and effective vaccines against COVID-19 was creditable and a stunning scientific development in a matter of one year. Yet, "there remains a shocking and growing imbalance in the global distribution of vaccines – my sister Ngozi said some of them".

Tedros said "more than 800 million vaccine doses have been administered globally, but over 83% have gone to high-income or upper-middle-income countries, while low-income countries have received just 0.2%."

He pointed out that "when HIV emerged 40 years ago, life-saving antiretrovirals were developed, but more than a decade passed before the world's poor got access."

Drawing attention to the COVAX allocation facility for COVID-19 vaccines that was created one year ago, he said "although COVAX has distributed almost 40 million doses of vaccine to 110 countries and economies, vaccine nationalism, vaccine diplomacy and severe supply constraints have so far prevented COVAX from realizing its full potential."

He said global manufacturing capacity and supply chains have not been sufficient to deliver vaccines quickly and equitably where they are needed most.

Tedros said that while more funds are needed for procuring vaccines, this is only part of the solution. "Money doesn't help if there are no vaccines to buy," he said, underscoring the need to dramatically scale up vaccine production.

He suggested that governments and pharmaceutical companies need to "go beyond the traditional modus operandi to provide sustainable and effective solutions to address this extraordinary crisis." He said "the current company-controlled production sharing agreements are not coming close to meeting the overwhelming public health and socio-economic needs for effective, affordable and equitable access to vaccines, as well as therapeutics and other critical health technologies."

"This is an unprecedented emergency that demands unprecedented measures," he argued, emphasizing that "we must leave no stone unturned."

He called for exploring "every option for increasing production, including voluntary licences, technology pools, the use of TRIPS flexibilities and the waiver of certain intellectual property provisions."

He outlined three ways to overcome "the obstacles" faced by members:

1. Companies must share know-how, intellectual property and data with other qualified vaccine manufacturers, including in low- and middle-income countries, as COVAX and the COVID-19 Technology Access Pool (C-TAP) have failed to deliver results;
2. Countries must strengthen their regulatory capacity; and
3. Countries must invest in local vaccine manufacturing.

He reminded the participants at the meeting that "responding to this unprecedented crisis means thinking and doing things differently." Ultimately, "putting aside the old barriers and the limitations of short-term self-interest is the only way to build the safer, healthier and fairer world we all want."

Without committing to any defined solutions, including the TRIPS waiver proposal, USTR Tai called for "extraordinary leadership during this extraordinary time." She emphasized her "commitment to finding solutions that address the gaping divide between developed and developing countries when it comes to access to medicines."

"Humanity," said Tai, is "facing a public health and economic crisis that we struggle to manage and overcome." She said that "extraordinary crises challenge all of us to break out of our comfortable moulds, our in-box thinking, our instinctive habits".

The USTR referred obliquely to WTO reforms, saying that "there are many

aspects of the institution of the WTO and its rules that have not adapted to a changed world, a changed membership, changed practices and expectations."

The European Union's Trade Commissioner Valdis Dombrovskis spoke in favour of voluntary licences and using the existing TRIPS flexibilities such as compulsory licences among others. He also called for "ensuring transparency and effective monitoring of any temporary export restriction, as proposed by the Ottawa Group."

In sharp contrast, the trade ministers of India and South Africa pressed for the TRIPS waiver.

India said that the vaccine shortfalls are due to limited licensing agreements, emphasizing that the TRIPS waiver can address such issues. The Indian minister Piyush Goyal also assured the meeting participants that the proposed waiver is not intended to take away the protection offered to pharmaceutical companies. It is only meant for COVID-19 vaccines, associated medicines and a cure, he said.

He said that although the meeting was focused on the so-called "third way", it was important to engage all potential manufacturers on a transparent framework. He stressed the urgent need for temporary removal of all impediments to the production of COVID-19 medical products, including where necessary intellectual property protection.

South Africa's trade minister Ebrahim Patel also underscored the need for the TRIPS waiver, suggesting that "we have the capacity to take control and engage on issues concerning the ramping up of production."

"Business unusual" approach

Speaking at the conclusion of the meeting, Okonjo-Iweala said: "Concerns expressed by some about cross-border supply chain operations, including export restrictions and shortages of skilled personnel reinforced my view, and hopefully that of members, that the WTO must and can play a central part in the response to this crisis."

She said various perspectives about the TRIPS Agreement and whether the existing flexibilities are enough to address developing-country needs had been put on the table.

However, these issues have already been discussed at the WTO's TRIPS Council, where the proponents of the TRIPS waiver have demonstrated that the existing TRIPS flexibilities like compulsory licensing remain country-specific and inadequate to address the unprecedented pandemic.

She underlined the need for a "business unusual" approach to solve problems concerning the scaling up of production. "This is a problem of the global commons, and we have to solve it together," she said.

She said that roughly 50 speakers took the floor during the meeting, suggesting that it "would serve as the basis for continued dialogue aimed at delivering results in terms of increased vaccine production volumes in the short term as well as longer-term investments in vaccine production and enhancing the trading system's contribution to pandemic preparedness." *(SUNS9327)*

WTO DG to convene virtual ministerial on fisheries subsidies

The WTO Director-General plans to call in trade ministers to bring the fisheries subsidies negotiations over the finishing line, despite a lack of headway made by the ongoing technical-level talks on various substantive issues.

by D. Ravi Kanth

WASHINGTON: The World Trade Organization Director-General Ngozi Okonjo-Iweala has signalled her intention to convene a virtual ministerial meeting on fisheries subsidies in end-July, in an apparent move to let the process determine the substance due to lack of progress on substantive issues, said people familiar with the development.

At an informal heads-of-delegation (HoD) meeting on 21 April, the DG outlined her plans to convene the ministerial meeting to finalize an agreement, notwithstanding the substantive differences over the last four months on all the three pillars of the fisheries subsidies negotiations – disciplines on illegal, unreported and unregulated (IUU) fishing; disciplines to curb subsidies contributing to overcapacity and overfishing (OC&OF); and disciplines on overfished stocks.

In her continued top-down approach to issues without delving into the substantive concerns, the DG and the chair of the fisheries subsidies negotiations seem determined to give short shrift to the unresolved technical discussions among the negotiators and elevate the talks to a political pedestal, said people who asked not to be quoted.

The strategy that is being adopted by the DG and the chair is clearly aimed at "dislocating the technical discussions and dislocating group coordination", said a negotiator who asked not to be identified. This framework of moving away from technical negotiations to political engagement is akin to a type of "skulduggery", the negotiator said.

Moreover, at a time when the COVID-19 pandemic has worsened in many countries, with governments being forced to go into lockdowns as well as the difficulties being faced by countries in the negotiations due to differing time zones, it is not clear why the DG is sticking to a "make or break" approach, the negotiator said.

At the HoD meeting on 21 April, the United States apparently spoke about discussing the issue of forced labour in the fisheries sector, suggesting that it could be addressed as an important element in the fisheries subsidies negotiations, in what appeared to be a reference to China, said

people who asked not to be quoted.

The US is also pursuing a worker-centric approach in trade negotiations to ensure that outcomes are acceptable to its labour unions, people said, adding that the US is also placing emphasis on sustainability rather than subsidies.

The US, however, did not make any statement after the meeting.

China, which on 16 April had opposed the inclusion of Article 5.3 in the second revised draft consolidated text dealing with OC&OF subsidies in the high seas, remained silent at the meeting.

Many developing countries at the meeting called for a horizontal exemption for artisanal and small-scale fisheries, while stating their opposition to Article 5.2 on continuing with the subsidies for industrialized countries engaged in industrial-scale fishing.

The African, Caribbean and Pacific (ACP) Group as well as India suggested that they are ready to consider a hybrid approach for Article 5.2 that allows the big subsidizers to continue with their industrial-scale fishing. Both emphasized that Article 5.7, concerning special and differential treatment (S&DT) for developing countries, is a priority for them.

However, for industrialized countries, particularly the EU, Article 5.2, which would allow them to continue with harmful subsidies, is a sine qua non in the final agreement as well as the regional fisheries management programmes.

South Africa said that if members "are to find a way forward in these negotiations, we need to ensure that the outcome delivers on the mandates, [and] the disciplines are effective to prohibit certain forms of subsidies to improve the state of our oceans."

The final agreement shall not entrench "existing imbalances, with effective S&DT an integral part of the agreement," South Africa said.

"Ministerial engagement"

Speaking at the HoD meeting, the DG supported the chair of the fisheries subsidies negotiations, Ambassador Santiago Wills from Colombia, with regard to "ministerial engagement".

"The aim of [the July] meeting will be for ministers to review a very advanced, hopefully final, text," she said.

Despite the lack of progress on substantive issues in the three negotiating pillars, the DG claimed that "only the final hurdles now need to be dealt [with] at political level."

She touted her recent meetings with various trade ministers on fisheries subsidies, saying that she had spoken with the Spanish trade minister for a long time on 20 April. Spain is one of the major subsidizers and engaged in industrial-scale fishing.

She claimed that whenever she discussed with the ministers, she would "recall the preamble to the WTO Agreement and the mandate of these negotiations". She said that "if there are no more fish in the sea, then the source of food security and livelihood, that was so talked about in the ... preamble, of those who depend on the fish, also will be gone."

The ACP Group (with Jamaica speaking on its behalf at the meeting) said that "on the issues of IUU fishing in Article 3.3b and Article 3.3c, we had a good signal of convergence emerging between the ACP Group text, which we projected at the meeting, to replace these provisions."

The Group said that it is "pleased to see the text suggestions projected from the United States with a similar approach to ours to replace Article 3.3b and Article 3.3c."

It said it looks forward to "exploring a merger of some ideas between the ideas of the ACP Group, the African Group and the United States to continue our objective of seeking convergence with other members," suggesting that it has already begun work in this regard.

In relation to the chair's "hybrid approach" in the current text for Article 5.1 and Article 5.2, "many areas still must be resolved among Members", said the ACP Group. It said it has "repeatedly indicated interest in reflecting explicitly in Article 5.2, as a start, your [the chair's] own consideration in your 12th February aid memoire that the provision should be restricted in scope to the subsidizing Member EEZ [Exclusive Economic Zone] and the relevant RFMO [Regional Fisheries Management Organization] where the subsidizing Member is a party."

The ACP Group said it is working with the African Group on "combining our textual drafting ideas for Articles 5.1, 5.1.1, 5.2 and 5.7."

The Group said it has "not pursued to examine Article 5.2 in order to use it. Instead, our first approach was its deletion." Nevertheless, it can consider "ways to live with it since you have expressed an interest to maintain it and we must find ways to move forward."

"However, we must see equivalent time spent on Article 5.7. For the ACP Group, Article 5.7 is a priority," it said.

It said that it will soon forward proposed text revisions, suggesting that "the balance of the text must include elements across these provisions."

Regarding artisanal and small-scale fishing, the ACP Group indicated its interest in working with texts submitted so far, such as those from Ecuador, Argentina, Chile and Cameroon, along with ideas drawn from the UN Food and Agriculture Organization (FAO)'s work in this area.

Touching on the negotiating process, the Group said that it has "received strong expressions of concern from members of the ACP Group over the de facto relegation of some Members to observer status in the negotiations.

It cautioned that, for the negotiations to move forward, "we need creativity but your pursuit of creativity should always ensure that we preserve the longstanding WTO tradition of inclusivity and decision by consensus."

It urged the chair "to structure your future work to ensure that any delegation who wishes to take the floor or put forward their positions, even in your small-group processes, are able to do so without encumbrances, or perception thereof."

Core prohibitions

Speaking on the OC&OF pillar, South Africa said that "in relation to the core prohibitions under Article 5, to deliver on the mandate, we need to agree on a clear and strong prohibition in Article 5.1. In relation to 5.2, questions and concerns were raised by a number of delegations on the practicalities of demonstrating that the measures are implemented to maintain the stocks in a biologically sustainable level."

South Africa argued that "there is a need for clarifications to establish a common understanding among Members on these issues before we take our final position."

It stated unambiguously that it cannot "live with 5.2 in its current form as we see risk of abuse by those who have the requisite capacity to demonstrate."

Further, South Africa pointed out that "including the sustainability criteria in 5.2

would be a serious compromise on our part and we would need effective S&DT for developing countries under 5.7."

"Importantly, we would need to achieve the appropriate balance in the text based on the principle of common but differentiated responsibility," South Africa emphasized.

Commenting on small-scale, subsistence and artisanal fishing, South Africa said "we believe there is merit in considering a carve-out".

It said that a landing zone for artisanal and small-scale fishing is possible "given the interests of many Members to safeguard the food security and livelihoods of these vulnerable fishers."

It argued that there is "a lot of similarity in seeking protection for fishing communities that are low-income, resource-poor and dependent on fishing for their livelihoods."

South Africa said "when it comes to due process, we strongly believe that in the case of an IUU determination by a coastal Member concerning vessels or operators subsidized by other Members, a coastal state should be given complete deference on how an IUU activity is determined as such."

It expressed concern "with respect to any due process requirements for IUU fishing determinations."

"In other words, we believe that language of the type contained in Article 3.3b may open the door for the Panel to enter into substantive matters of a determination. We support Iceland's view that the first option is to delete 3.3b and that the best way to move us forward is to work with the ideas tabled by the ACP and others, including the US which can assist to find a landing zone to ensure fairness in the process."

"Our interest is in having flexibility to leverage our marine resources for our economic development, safeguard food security and livelihoods of our people and that is the bottom line," South Africa concluded. *(SUNS9332)*

Battles in the WTO

Negotiations and Outcomes of the WTO Ministerial Conferences

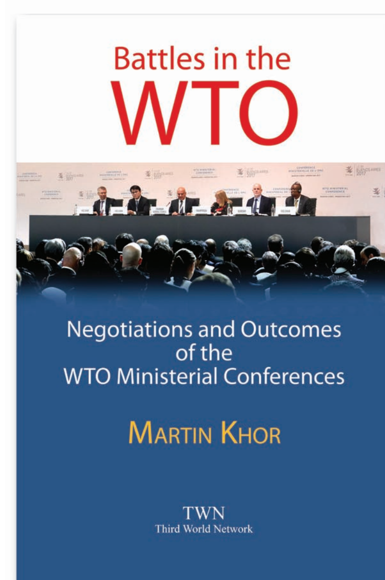
By Martin Khor

The World Trade Organisation has been an extremely controversial and divided organisation ever since its establishment in 1995. The big battles are most evident at its highest governing body, the Ministerial Conference, where the Trade Ministers of member states convene to chart the WTO's course.

This book is a compilation of contemporaneous reports and analyses of what unfolded at each Ministerial, as well as a few "mini-Ministerials", that took place from the WTO's inception up to 2017. As these articles reveal, the Ministerials have been the stage on which battles over the future direction of the WTO are most prominently played out. These clashes have mainly pitted developed member states pushing to expand the WTO's ambit into new subject areas, against many developing countries which call instead for redressing imbalances in the existing set of WTO rules.

This book also shines a light on the murky decision-making methods often employed during Ministerials, where agreements are sought to be hammered out by a select few delegations behind closed doors before being foisted on the rest of the membership. Such exclusionary processes, coupled with the crucial substantive issues at stake, have led to dramatic outcomes in many a Ministerial.

The ringside accounts of Ministerial battles collected here offer important insights into the contested dynamics of the WTO and the multilateral trading system in general.



Email twn@twnetwork.org for further information, or visit https://www.twn.my/title2/books/Battles%20in%20the%20WTO.htm

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Global austerity alert sounded

After COVID-19's devastating impacts, looming public budget cuts will only cause more unnecessary suffering and hardship.

by Isabel Ortiz and Matthew Cummins

Ministers of finance met virtually at the spring meetings of the International Monetary Fund (IMF) and the World Bank in April to discuss policies to tackle the pandemic and socioeconomic recovery.

But a global study just published by the Initiative for Policy Dialogue at Columbia University, international trade unions and civil society organizations, sounds an alert of an emerging austerity shock: Most governments are imposing budget cuts, precisely at a time when their citizens and economies are in greater need of public support.

Analysis of IMF fiscal projections shows that budget cuts are expected in 154 countries this year, and as many as 159 countries in 2022. This means that 6.6 billion people or 85% of the global population will be living under austerity conditions by next year, a trend likely to continue at least until 2025.

The high levels of expenditures needed to cope with the pandemic have left governments with growing fiscal deficit and debt. However, rather than exploring financing options to provide direly-needed support for socioeconomic recovery, governments – advised by the IMF, the G20 and others – are opting for austerity.

The post-pandemic fiscal shock appears to be far more intense than the one that followed the global financial and economic crisis a decade ago. The average expenditure contraction in 2021 is estimated at 3.3% of gross domestic product (GDP), which is nearly double the size of the previous crisis.

More than 40 governments are forecasted to spend less than the (already low) pre-pandemic levels, with budgets 12% smaller on average in 2021-22 than those in 2018-19 before COVID-19, including countries with high developmental needs like Ecuador, Equatorial Guinea, Kiribati, Liberia, Libya, Republic of Congo, South Sudan, Yemen, Zambia and Zimbabwe.

The dangers of early and overly aggressive austerity are clear from the past decade of adjustment. From 2010 to 2019, billions of people were affected by reduced pensions and social security benefits; by lower subsidies, including for food, agricultural inputs and fuel; by wage bill cuts and caps, which hampered the delivery of public services like education, health, social work, water and public transport; by the rationalization and narrow targeting of social protection programmes so that only the poorest populations received smaller and smaller benefits, while most people were excluded; and by less employment security for workers, as labour regulations were dismantled. Many governments also introduced regressive taxes, like consumption taxes, which further lowered disposable household income.

In many countries, public services were downsized or privatized, including health. Austerity proved to be a deadly policy. The weak state of public health systems – overburdened, underfunded and understaffed from a decade of austerity – aggravated health inequalities and made populations more vulnerable to COVID-19.

Today, it is imperative to watch out for austerity measures with negative social outcomes. After COVID-19's devastating impacts, austerity will only cause more unnecessary suffering and hardship.

Financing options

Austerity is bad policy. There are, in fact, alternatives – even in the poorest countries. Instead of slashing spending, governments can and must explore financing options to increase public budgets.

First, governments can increase tax revenues on wealth, property and corporate income, including on the financial sector that remains generally untaxed. For example, Bolivia, Mongolia and Zambia are financing universal pensions, child benefits and other schemes from mining and gas taxes; and Brazil introduced a tax on financial transactions to expand social protection coverage.

Second, more than 60 governments have successfully restructured/reduced their debt obligations to free up resources for development.

Third, addressing illicit financial flows such as tax evasion and money laundering is a huge opportunity to generate revenue.

Fourth, governments can simply decide to reprioritize their spending, away from low-social-impact investment areas like defence and bank/corporate bailouts. For example, Costa Rica and Thailand redirected military expenditures to public health.

Fifth, another financing option is to use accumulated fiscal and foreign reserves in central banks. Sixth, attract greater transfers/development assistance or concessional loans.

A seventh option is to adopt more accommodative macroeconomic frameworks. And eighth, governments can formalize workers in the informal economy with good contracts and wages, which increases the contribution pool and expands social protection coverage.

Expenditure and financing decisions that affect the lives of millions of people cannot be taken behind closed doors at the ministry of finance. All options should be carefully examined in an inclusive national social dialogue with representatives from trade unions, employers, civil society organizations and other relevant stakeholders.

#EndAusterity is a global campaign to stop austerity measures that have negative social impacts. Since 2020, more than 500 organizations and academics from 87 countries have called on the IMF and ministries of finance to immediately stop austerity, and instead prioritize policies that advance gender justice, reduce inequality, and put people and planet first. *(IPS)*

Isabel Ortiz *is Director of the Global Social Justice Program at Joseph Stiglitz's Initiative for Policy Dialogue at Columbia University, and former Director at the International Labour Organization (ILO) and UNICEF.* ***Matthew Cummins*** *is a senior economist who has worked at UNDP, UNICEF and the World Bank.*

The pathology of economics

COVID-19 exposes the deadly dominance of neoclassical economics in Africa.

by Howard Stein

On 24 February, Ghana received a COVID-19 vaccine shipment (600,000 doses), the first to sub-Saharan Africa under the COVAX facility. It amounted to a tiny fraction of the hundreds of millions needed on a continent increasingly ravaged by the pandemic. Contrast this to the tens of millions already vaccinated in the UK and the US.

The optimism that Africa would be spared by "early lockdown", "less dense population", "the effect of ultraviolet", "a climate that meant people spent more time outside" and "Africa's youthful population" has rapidly faded. Officially there are now more than 100,000 deaths on the continent, but the real numbers are much higher due to the paucity of testing and the lack of capacity to accurately track and evaluate causes of mortality.

The shortage of tests and vaccines is exacerbated by the West's hyper-nationalism restricting the import of these two vital tools to combat the pandemic. The same forces have also generated a scarcity of personal protective equipment (PPE), the lack of monoclonal antibody and other treatments, and terrible shortages of medical oxygen so vital to keeping people alive.

How is it possible, 60 years after independence, for African countries to be so highly dependent on the goodwill of the outside world for basic health goods? A good deal of the answer lies in the pathology of economics and related policies, which have spread like a pandemic globally and have come to dominate both the West and the continent of Africa. How did this come about? How does it relate to the strategies that have undermined African capacities to mitigate the effects of the pandemic on the health and welfare of its people? And what should be done?

Institutionalizing neoclassical economics

Following independence, higher education was a key part of the national development project and was aimed at training Africans to take on vital new roles as doctors, teachers, lawyers, civil servants and economists. Economic curriculum in universities theorized about the nature of Africa's integration into the global economy and the domestic policies needed to enhance development. Debates on the government strategies drew on diverse theoretical traditions such as institutional and structural economics. There was a general consensus on the need for African countries to use government tools to build an industrial base.

Beginning in the early 1980s, donors shifted from supporting state planning and import-substitution industrialization towards imposing structural adjustment. They were resisted by local economists not inclined towards the neoclassical model that provided the theoretical basis of neoliberal policies. Donors even ghost-wrote reports, pretended they were written locally and then praised them for their thoughtful insights. The World Bank and other donors realized that opposition could be demobilized, and "ownership" generated, by incorporating the economics profession into the Western economic model.

The crisis of African universities, including the extreme decline of academic wages partly generated by the structural adjustment project of the World Bank in the 1980s, created the opportunity. Donors provided stipends to retrain old faculty, provided the demand for these local "skills" in aid packages, and supported a new generation of students in neoclassical economics through organizations like the African Economic Research Consortium (AERC), formed in 1988 with the support of the World Bank and other agencies.

The AERC set out to revamp higher education by training graduate students and by providing financial support to economics departments in African countries to organize graduate coursework and research along Western lines. The AERC flow of tens of millions of dollars from donors to African universities was a huge inducement for African economics departments to participate in the programmes.

Today, economics departments throughout Africa look no different than their Western counterparts. By the AERC's own count, there are thousands of their graduates in African ministries and central banks, think-tanks, NGOs and academic institutions. Empowering this "epistemic community" of local economists created trusted purveyors of the international agenda and helped facilitate the institutionalization of neoliberal policies on the continent.

At the heart of adjustment were neoliberal policies of deregulation, privatization, macro-stabilization, and user fees in health and education, which were supposed to lead to static efficiency gains. Unfortunately, the results were very different. Public expenditure cuts and the privatization of social services in healthcare and education put African countries in worse health and on the wrong trajectory to combat any pandemic.

Neoliberalism loosened restrictions on capital flows, privatized state enterprises and liberalized trade, undermining local manufacturing capacity and leading to more reliance on imports of manufacturing goods including pharmaceuticals and other health commodities. Increasingly African countries became more dependent on exporting unprocessed raw materials for foreign exchange. Hence, adjustment led to the deindustrialization of the continent and returned Africa to its colonial-style extraction economy with its problematic boom-and-bust commodity cycles. Manufacturing fell from 18% of GDP in 1980 to only 7%-9% after 2000.

The tools of mainstream economics are limited in their ability to conceptualize the structural and institutional exigencies of development, which have become even more challenging with African countries at the lower end of the global supply chain. Recent studies have indicated that Africa's exports after 2000 have increased without a comparable rise in domestic value added. Yet, orthodox economists see liberalized Africa as naturally following its comparative advantage. Hence, we have prima facie evidence of a discipline that accepts a pathological condition as normal, with all of the problematic incapacities to deal with the COVID-19 pandemic.

African policymakers need to draw on

the wealth of accumulated knowledge in multiple theoretical paradigms to design strategies to diversify and structurally transform economies in a value-chain world. None of this is easily conceptualized in the neoclassical paradigm that currently dominates the discipline in Africa, one that narrowly focuses on a world of marginal changes, retracted states, and trade between countries based on static comparative advantage.

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Only multilateral cooperation can stop harmful tax competition

Disproportionately hurt by tax competition and tax avoidance, developing countries have to be included in talks on creating fairer international tax arrangements, write *Anis Chowdhury* and *Jomo Kwame Sundaram*.

US Treasury Secretary Janet Yellen has urged all governments to support a global minimum corporate tax rate of at least 21%. The US is working with other G20 nations to get other countries to end the "thirty-year race to the bottom on corporate tax rates".

For Yellen, "governments [should] have stable tax systems that raise sufficient revenue to invest in essential public goods and respond to crises, and ... all citizens [should] fairly share the burden of financing government".

The Biden administration has unveiled a plan to reverse Trump's tax cuts and raise US corporate tax rates from 21% to 28%. Crucially, it wants to increase tax rates on US firms' overseas profits – global intangible low-tax income (GILTI) – from 10.5% to at least 21%. This should be calculated on a country-by-country basis including all tax havens, i.e., low- or no-tax locations, to minimize evasion.

The US Treasury is also keen to reach international agreement over a digital tax for online giants such as Amazon and Facebook. This sharply contrasts with Trump's threat of retaliation against countries attempting to tax US-based tech giants. *The Economist* estimates that in the past decade, the "big five" – Facebook, Amazon, Apple, Microsoft and Google – paid only 16% of their profits in tax.

Race to the bottom

The Bretton Woods institutions (BWIs) – the International Monetary Fund (IMF) and the World Bank – promoted Reaganite "supply-side economics" from the 1980s, claiming that excessive tax rates discourage labour supply and entrepreneurship. However, contrary to proponents' claims, most tax cuts have resulted in net revenue losses, with Trump's cuts resulting in a shortfall of $275 billion, or 7.6% of previously expected revenue.

As countries raced to the bottom, offering increasingly generous tax incentives to attract investments by transnational corporations (TNCs), the average worldwide statutory corporate tax rate fell from 40% in 1980 to 24% in 2020.

Countries also lose revenue as TNCs use legal loopholes to minimize tax payments, e.g., by abusing differences between national tax rules and bilateral double-taxation agreements. They strive for "double non-taxation" to avoid paying tax in all jurisdictions.

Thus, $500-600 billion, or around 10-15% of annual global corporate tax revenue, is lost yearly to TNCs shifting profits to tax havens, using base erosion and profit shifting (BEPS) bookkeeping.

Corporate income taxation is much more important for developing countries, e.g., comprising 18.6% of tax revenue in Africa and 15.5% in Latin America and the Caribbean, compared with 9.3% in the rich OECD countries in 2017.

Clearly, tax competition and TNC tax avoidance hurt developing countries more. As share of GDP, sub-Saharan Africa has lost most, followed by Latin America and the Caribbean, and South Asia.

Tax reforms

Developing-country governments undertook reforms reducing often progressive direct income tax systems in favour of supposedly neutral but actually regressive indirect taxation on consumption.

Senior IMF Fiscal Affairs Department staff recommended taxing labour instead of capital, considered too mobile to tax. An IMF paper even endorsed complete abolition of corporate income tax!

Encouraged by the World Bank's now discredited *Doing Business* reports, developing countries competed to cut corporate tax rates, falling by a fifth from 1980.

Consequently, low- and middle-income countries have lost $167-200 billion annually, around 1-1.5% of GDP.

The Economist observed weak links between tax rates and investment as well as growth rates.

OECD research showed that tax incentives hardly attracted foreign direct investment, while IMF research found "beggar-thy-neighbour" tax competition cost unnecessary revenue losses to many developing countries.

A G20 report found the fiscal cost of tax incentives in low-income countries "can be high, reducing opportunities for much-needed public spending ... or

requiring higher taxes on other activities".

Estimated annual revenue losses to rich OECD countries due to tax havens range from 0.15% to 0.7% of GDP. Low-income countries (LICs) and even lower-middle-income countries lose relatively more corporate tax revenue than high-income countries (HICs). LICs account for some $200 billion of such lost revenue, typically a higher GDP share than for HICs. This is much more than the $150 billion or so that LICs receive annually in official development assistance.

Further, digitization and changing business models are making it more difficult to determine the actual location of economic activities. Thus, digitization enables BEPS, reducing revenue due to underreported taxable income.

Consequently, in 2017, developing countries lost $10 billion in revenue from e-commerce compared with HICs' $289 million loss. Least developed countries lost $1.5 billion while sub-Saharan African countries lost $2.6 billion.

The UN Conference on Trade and Development (UNCTAD)'s *Trade and Development Report 2019* noted, "Foregone fiscal revenues from digitization are particularly high for developing countries because they are less likely to host digital businesses but tend to be net importers of digital goods and services."

Developing countries' voice

Supported by the G20, the OECD has been working on BEPS since 2013. The OECD's BEPS initiative seeks to check tax base erosion by setting a global minimum corporate income tax rate and taxing TNCs selling cross-border digital services. OECD and G20 countries now aim to reach consensus on both by mid-2021.

However, despite being hurt more, developing countries have long been shut out from discussions of international tax norms, policy and regulatory design. The OECD BEPS Inclusive Framework (IF) now includes developing countries which agree to enforce it despite being excluded from its design. Thus, while IF developing-country associates supposedly participate on an "equal footing", they have no decision-making role, reminiscent of their earlier colonial status! Apparently, "equal footing" only refers to BEPS 4 Minimum Standards enforcement.

Unsurprisingly, although raised during IF consultations, developing-country concerns – such as allocating tax rights between "source" and "residence" states, taxing the informal economy and taking account of their different needs and circumstances – remain largely unaddressed and unresolved.

With such failures implying legitimacy deficits, BEPS measures are unlikely to benefit developing countries very much. It is increasingly clear that the BEPS project and IF were never intended to help developing countries.

UN must act now

So far, the European Commission and other powerful countries have responded positively to Yellen. Her proposal has also been endorsed by the IMF and the UN High-Level Panel for International Financial Accountability, Transparency and Integrity for Achieving the 2030 Agenda (FACTI).

Corporate tax rules currently favour rich countries where most TNCs are based, regardless of domicile for tax purposes. Countries must work together to accelerate more inclusive, equitable and progressive multilateral tax coordination.

The OECD's tenuous monopoly on international tax cooperation discussions has so far failed the world. Creating fairer international tax arrangements requires inclusive multilateral consultations well beyond current processes. These should be led by the UN, the only forum where all countries are represented fairly.

A UN Tax Convention, with universal participation and IMF technical support, can help countries come together to find lasting comprehensive solutions. This must happen soon to pre-empt the OECD from further abusing its exclusive approach, inadvertently jeopardizing lasting progress. *(IPS)*

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Divergent recoveries stem from divergent policies

Although steps are being taken in response to urgent liquidity needs in developing countries amid the COVID-19 crisis, systemic solutions to these countries' debt distress remain elusive and fiscal austerity continues to be on the cards.

by Bhumika Muchhala

At the virtual spring meetings of the International Monetary Fund (IMF) and World Bank with finance ministry, central bank and private sector officials that took place on 5-11 April, the key message from the IMF's flagship *World Economic Outlook* publication is that recoveries are diverging dangerously across and within countries.

While developed countries, as well as China, are expected to experience rebounds in economic growth and trade, developing countries, in particular low-income countries, "are expected to suffer greater scarring given their more limited policy space," the report says.

This unequal recovery is rooted in the inequitable access to affordable COVID-19 vaccines, which the Group of 24 (G24) developing countries in the IMF has called "the most critical public good" in its communique.

Vaccine inequity means that while some countries will achieve widespread vaccinations as early as the summer of 2021, the poorest countries will be waiting until the end of 2022 or even later.

While the IMF recognizes that vaccine equity is the central global dilemma, it does not, unlike the G24, explicitly call for making vaccines publicly available through a temporary waiver of the TRIPS Agreement in the World Trade Organization in order to enable global mass production of affordable vaccines by developing countries.

The IMF says countries need to work together to ensure universal vaccination by ramping up vaccine production and distribution, avoiding export controls, fully funding the COVAX facility on which many low-income countries rely for vaccine doses, and ensuring equitable global transfers of excess doses; but stops short of laying out how exactly the political will to take these critical actions will be generated.

SDRs are good news, but will their reallocation perpetuate conditional loans?

Special Drawing Rights (SDRs), an international reserve asset which provides countries with liquidity, have been called for globally as an urgent response to the liquidity crunch afflicting developing countries since the outset of the pandemic in March 2020.

Over a year later, and after a change of the US administration, the IMF's Executive Board has finally agreed on an issuance of $650 billion of SDRs in the next several months, the amount permissible by US law without having to go through a time-consuming process in the US Congress.

SDRs are necessary to secure recovery for developing countries hardest hit by the crisis created by the pandemic, which face deep losses of revenue and tax income, as well as unemployment and a growing number of people falling into poverty or even extreme poverty.

Layered with debt distress and vulnerabilities and the risk of a normalization, or increase, of interest rates in advanced economies, developing countries, both middle- and low-income, are in a fragile situation and require urgent fiscal space to meet social protection financing needs and improve precarious health systems.

Civil society advocates highlight that while the SDR issuance is welcome, it falls short of the level of response needed for the current economic recession. Hundreds of civil society organizations have endorsed a letter calling on the IMF and finance ministers of the G20 major economies to urgently support a new SDR allocation in the amount of $3 trillion, stating that a scale of $3 trillion is required to address the real needs of developing countries in a sustainable way.

During the global financial crisis in 2009, the international community responded to a crisis of much smaller scope and proportions with an SDR allocation of $250 billion. This initiative had a significant role in restoring market confidence and supporting global recovery.

Last year, even before the scale of the current crisis was clear in late March 2020, IMF estimates placed emerging economies' financing needs at $2.5 trillion.

Aside from the scale of issuance, the second issue is that SDRs are allocated in accordance with IMF quotas, or financial contribution shares, rather than real fiscal need.

This creates an inequity by which 67.44% of SDR allocations automatically accrue to rich countries, which need them the least. Perversely, the countries with the greatest need receive the least.

In order to recycle both existing and newly created SDRs from rich countries to all those that need it, the IMF is currently formulating mechanisms with an emphasis on boosting the Fund's lending capacity and new measures to enhance transparency and accountability in the use of SDRs.

Many developing countries as well as civil society advocates call for ensuring that such mechanisms benefit all countries in need. This means not excluding any country a priori based on income, and instead taking into account factors of real fiscal need and vulnerabilities related to debt and climate change.

In the wake of the spring meetings, the Civil Society Group on Financing for Development (FfD) stressed at the follow-up FfD forum, which took place virtually on 12-15 April, that the closer the recycling mechanism resembles the original properties of an SDR allocation, the more effectively it will contribute to a genuine economic and social recovery. This means that SDR

transfers from developed to developing countries should have low or zero conditionality and low or zero interest.

Essentially, the ideal recycling format allowing for the quickest deployment of urgently needed liquidity would be SDR donations from developed to developing countries.

The key task at hand is to activate SDRs from a reserve asset to actual fiscal support to respond to real domestic economic and health needs. This could be facilitated by the use of SDRs in multilateral, regional or sub-regional development finance institutions to support grants and lending at concessional or below market rates. Developing countries could subsequently create domestic fiscal space without jeopardizing debt sustainability.

Meanwhile, several funds to enhance liquidity have been proposed at UN and regional meetings by regional groups and some developing countries.

Costa Rica has proposed the Fund to Alleviate COVID-19 Economics, or FACE, as a vehicle for international solidarity and sustainable pandemic recovery towards achieving the 2030 Sustainable Development Goals (SDGs). It is envisaged as a fund of half a trillion dollars for one-off support, financed with 0.7% of the gross domestic product (GDP) of the world's richest economies, those that account for 80% of global GDP, to be intermediated by one or several multilateral development banks, as long-term and fixed-interest-rate concessional loans to developing countries.

Recycling mechanisms for SDRs could be channelled through development-oriented financing vehicles like FACE and other such regional or global funds that expand fiscal space while avoiding the deepening of debt and conditionality biased towards fiscal contraction.

However, the developed member countries with the greatest voting power in the IMF are leaning towards repurposing rich-country SDRs through concessional loan facilities such as the Fund's Poverty Reduction and Growth Trust (PRGT). This reflects the reality of wealthy nations' unwillingness to voluntarily offer unconditional liquidity as well as the Fund welcoming an opportunity to expand its lending role. Fund Managing Director Kristalina Georgieva has noted that roughly $20 billion of unused SDRs have already been reallocated to developing countries through concessional loans.

If the SDR issuance results in the perpetuation of lending instruments, this would present two key challenges. First, it will almost certainly discourage the minority few rich countries willing to offer direct and unconditional SDR transfers from doing so.

Second, loans will be attached to the IMF's characteristic fiscal contraction policies. These include, for example, reducing public spending for social sectors by containing the wage bill through which public doctors, nurses and teachers are hired, as well as regressive tax measures, such as value-added taxes that disproportionately impact the poor and vulnerable, women and children in particular.

The pandemic has demonstrated that accessible and affordable public services, especially in health, education and social protection, are indispensable to human survival. This begs the question of whether the costs associated with IMF conditionality are a fair price to pay to meet the urgent need for fiscal liquidity. In April 2020, over 500 organizations and individuals had signed a petition calling on the IMF to put an end to its history of fiscal consolidation conditionalities.

Without a debt workout mechanism, broken cans get kicked down the road

The state of debt distress across low-income countries repeatedly points to the lacuna of systemic debt solutions at the multilateral level.

IMF Managing Director Georgieva has confirmed that developing countries are in "a debt trap," citing the Fund's calculation that 56% of low-income countries are either at a high risk of debt distress or already in debt distress.

In response, Vera Songwe, Executive Secretary of the UN Economic Commission for Africa, said, "It is not so much a debt trap. It is a poverty trap or doubling down of the poverty trap, with 170 million people worldwide falling into extreme poverty. And in the continent when people fall into poverty, they fall much further down and for much longer."

A recent report by the European Network on Debt and Development (Eurodad) reveals the existence of a "debt pandemic" where $194 billion was transferred from developing countries to private, multilateral and bilateral creditors in 2020, and 58 countries experienced more revenue leaving their borders than coming in. In 2020, external public debt service was larger than healthcare expenditure in at least 62 countries, and larger than education expenditure in at least 36 countries.

What this picture makes exceedingly clear is that it is not only the inequity of vaccine access that is constraining pandemic recovery for developing countries; it is also an unsustainable debt burden draining vital financial resources to invest in public services that protect the lives and livelihoods of local populations.

And yet the G20, in its 7 April finance ministers' and central bank governors' meeting, issued a communique that merely repeated a six-month extension of its Debt Service Suspension Initiative (DSSI) through the end of December 2021. The DSSI defers debt liabilities but does not write them off, with the contractual rate of interest remaining in place once the deferment period has ended. Aside from not delivering genuine debt reduction, the DSSI also excludes middle-income countries.

Aubrey Webson, Ambassador to the UN for the island nation of Antigua and Barbuda and Chair of the Alliance of Small Island States (AOSIS), has pointed out: "More than half of the world's small island states don't even qualify for this debt relief, due to the arbitrary designation of our countries as 'middle-income'. This is ludicrous in a year when our debt-to-GDP ratios are beyond maxed out and when even in the best of times, a hurricane can easily wipe out an entire year's GDP in one fell swoop."

Webson emphasized that expansion and extension of the debt suspension initiative is an important first step, but what is needed is a "fairer, more inclusive system that will help us build resilience to the effects of climate change and achieve sustainable development."

Tinkering with the G20's common framework terms falls short of systemic debt solutions

The G20's communique also reaffirmed the "Common Framework for Debt Treatments" in order to address debt vulnerabilities on a case-by-case basis, promising to hold joint creditors' negotiations in an open and transparent manner.

Alluding to the looming concern that without private creditor

participation, debt relieved by bilateral creditors gets passed on to repayments for private creditors, the G20 stressed the importance of private participation in the Common Framework on terms at least as favourable, in line with the comparability of treatment principle.

The G24 developing countries have also emphasized the need for private creditor participation in the Common Framework in order to ensure fair and meaningful debt relief measures.

The IMF reinforced institutional support for the G20's Common Framework, echoing the need for private creditor participation as "a critical factor to ensure adequate burden sharing." A balance between the twin priorities of timeliness and sufficiency of debt relief was also stressed, in that "timeliness cannot come at the expense of ... a debt treatment that is insufficient to durably address the needs of each country."

Although the Common Framework is limited to adjusting the terms of sovereign debt, such as maturity periods, interest rates and standstills through rescheduling or re-profiling initiatives, the Fund still states that "this could enhance fiscal space, smooth consolidation, and help limit financing stress" in indebted countries.

In response to the penalizing behaviour of credit rating agencies, which downgraded 11 countries in 2020, in many cases for requesting debt suspension from the G20's DSSI, the IMF rationalized that making re-profiling options "better known could help moderate market and credit rating agency reactions," as well as "avoid discouraging countries from seeking debt treatment" from the Common Framework.

However, this approach bypasses the need to better regulate credit rating agencies and hold them accountable for the methodology, criteria and biases towards deregulation and austerity that are baked into their business models.

Civil society advocates argue that the Common Framework deters a comprehensive approach, is tied to IMF lending programmes and inadequately assessed debt sustainability indicators, and, importantly, lets private creditors off the hook again.

Private creditors, who hold significant amounts of developing-country debt, have repeatedly refused to participate in any debt relief initiative. They claim that a fiduciary responsibility to protect their clients' investments prevents full involvement.

Bondholders' "chutzpah", as pointed out by Daniela Gabor, professor of economics and macro-finance at the University of the West of England Bristol, is a direct outcome of the way G20 leaders and their central banks have "nurtured" private finance to become so powerful that they now find themselves unable to curtail its might.

Mohamed El-Erian, President of Queens' College, Cambridge and Chief Economic Advisor at Allianz, said at a webinar during the spring meetings that the private sector has been happy to free-ride on the official sector, and this explains its support for SDR issuances. The Paris Club process of case-by-case debt treatments is "not enough to overcome coordination problems in the private sector; the Paris Club needs to impose more of a stick for the private sector," said El-Erian.

Private creditors are not the only ones getting a free ride. Multilateral lenders are also not required to participate in the G20's Common Framework.

The World Bank, dominated by the US, Japan and European shareholders, is still not providing relief on its own loans, claiming the risk of downgrades to its triple-A-rated bonds that would jeopardize its ability to raise funds in capital markets. While the IMF is providing debt relief on some of its loans through its Catastrophe Containment and Relief Trust, this is being financed with external donor resources, which could be better used to support countries' COVID-19 responses.

Meanwhile, the G20 has clarified that a sovereign's need for debt treatment, and the options made available for re-profiling, will be based on an IMF/World Bank Debt Sustainability Assessment and the participating official creditors' collective assessment.

The G24 responded by saying "realistic debt sustainability assessments are necessary to determine the depth of the financing needed."

Civil society as well as the UN Conference on Trade and Development (UNCTAD) criticize the DSA for disregarding countries' human rights obligations, climate commitments, gender equality and the SDGs.

If integrated, the assessment of a country's ability to repay its debts would reflect an understanding that public funds should prioritize domestic development needs before debt repayments.

An underlying feature of the Common Framework is that countries seeking debt re-profiling under it will be obligated to sign up to an IMF loan programme. This raises serious concerns given the decades-long history of attached conditions to contract public expenditure in social sectors, which disproportionately harm health and education services and would effectively stall pandemic recovery.

Meanwhile, the IMF's *Global Financial Stability Report* has warned that rising US interest rates will draw capital from vulnerable countries, resulting in currency depreciation, financing shortfalls and increasing the cost of debt repayment, all leading to prolonged economic crisis. This scenario is predicted with US bonds jumping to their highest level since January 2020.

The G24 has responded by calling on the IMF to accelerate discussions on a short-term liquidity line instrument to support developing countries' efforts to deal with massive capital outflows.

In short, the G20's temporary and fragmented Common Framework ultimately cements a role for the G20 in the design of the global debt architecture, sidelining longstanding calls for a comprehensive multilateral framework for debt crisis resolution under the auspices of the UN, which would restructure debt through a fair and transparent process in which all countries have an equal say.

The debt distress unfolding today presents a golden opportunity to recreate the debt architecture towards fairness, stability and sustainability.

The perils of fiscal consolidation

The role of the IMF as lender of last resort has skyrocketed during the pandemic, with emergency financing and loan packages disbursed to 86 countries since the outbreak in March 2020.

However, in terms of amount, the financial firepower being made available to member countries is only a quarter of the Fund's $1 trillion lending capacity, or $250 billion. Notably, over 50% of the IMF's total pandemic financing is comprised of credit

lines sent to just three countries: Peru, Chile and Colombia.

In a marked departure from its past history, the IMF has supported temporary fiscal spending for health and social protection systems to allow developing countries to respond to the pandemic. In fact, Fund leadership has repeatedly emphasized that "premature fiscal consolidation will spell the difference between a lost decade and rapid recovery that puts countries on a sustainable growth trajectory." Importantly, flexibility clauses to relax fiscal deficit targets appear in many financial packages.

However, the story of pandemic financing does not end here. This fiscal spending is underpinned by three words that appear repeatedly in the fine print: "targeted", "timely" and "temporary", meaning that public spending must be reversed as the pandemic begins to subside.

According to Oxfam, fiscal consolidation measures appear in 84% of loan agreements across 67 countries beginning in 2021 and public budget cuts are to be implemented across 80 countries.

Budget cuts take the form of wage bill reductions and rationalizations, increases in regressive indirect taxation such as value-added tax, and, to a lesser extent, the reform of pension systems. Social protection systems and essential social spending in health are often protected in IMF financing packages, albeit through budget reallocations rather than through wealth and resource redistribution such as progressive income and financial taxes. But the key trend is that in the years ahead, public budget reduction targets often trump social spending.

The IMF's verdict is therefore fundamentally the same: eventual fiscal consolidation is "necessary" for developing countries and even least developed countries.

This is a critical challenge for the near future for two broad reasons. First, pre-pandemic social spending was severely insufficient in most developing countries. Reversing current spending to levels below that of pre-pandemic years will stagnate long-term health, economic and social recovery for many developing countries, jeopardizing their achievement of the SDGs and Paris climate agreement and risking another "lost decade."

Many IMF loans assume that the economic crisis created by the pandemic will abate in the near term. However, it can be argued that there remains a lack of justifiable reason, especially with vaccine nationalism, to expect a near-term recovery. In fact, in May 2020, IMF staff projected that Benin would shake off the pandemic's shock by the end of 2020. Obviously, this projection was incorrect.

Second, empirical data on the impact of fiscal consolidation measures, as well as research by the IMF's Independent Evaluation Office on the Fund's response to the 2007-08 global financial crisis, reveal that fiscal consolidation has led to reductions in health and education investments; losses of hard-earned pensions and social protections; public wage freezes and layoffs affecting public sector employees such as teachers, nurses and doctors; increased unpaid care work; and greater consumption taxes – all of which disproportionately affect the poor and women.

New academic research in 2020 and 2021 confirms that IMF-required austerity is significantly associated with both significantly increased poverty levels as well as rising inequality, by increasing the income share of the top 10% at the expense of the bottom 80%.

Specifically, when IMF loan policies demand social spending cuts and labour market reforms and preclude longer-term fiscal support, particularly in health and social protection, the inequality already exacerbated by the pandemic stalls a real economic recovery.

Related to geopolitical dynamics, empirical research of loan policies between 2001 and 2018 reveals that borrowing countries are less likely to face required austerity if they are strongly tied to Western Europe, through either trade or diplomatic channels, or if they receive significant aid from non-OECD countries (mainly China). Borrowing countries are more likely to face austerity if they are host to significant foreign direct investment, particularly from Western Europe.

Divergent policy frameworks create unequal recoveries

In early 2021, the IMF's Fiscal Affairs Department said to the *Financial Times* that "most advanced economies can live with much higher levels of public debt after the coronavirus crisis," and should therefore "rethink their public finance rules rather than rushing to reduce their liabilities."

In the April 2021 edition of its *Fiscal Monitor* report, the IMF states that "access to basic services helps give everyone a fair shot but is costly." To meet these costs, progressive wealth taxation is proposed as a principal means of mustering the necessary revenues. The Fund even suggests that alongside reducing income inequality, wealth taxes can also increase inter-generational mobility. However, this advice to increase income, inheritance/gift and property taxation is directed very specifically to "advanced economies."

In contrast, in its loans to developing countries, the Fund calls for mobilizing domestic revenue, in the medium term, through raising regressive taxes or removing exemptions to such taxes. For many developing countries, the Fund calls for increased revenue collection through value-added tax, an indirect consumption tax applied to many daily-use products and services which impacts the poor, especially women and children, disproportionately.

The *Fiscal Monitor* stresses the salience of "strengthening social safety nets by expanding coverage of the most vulnerable households" and "investing more and investing better in education, health, and early childhood development." But the Fund's directive to developing countries remains rigid in stance: "Once the recovery is underway, gradual fiscal consolidation will become necessary in many cases, but this must be undertaken in ways that not only protects essential social spending, including health and education spending, but also allows appropriate levels of public investment."

Meanwhile, in seven out of 16 countries that have acquired new IMF loan programmes since October 2020, the Fund is calling for cutting or freezing the public sector wage bill, which pays the salaries of public sector doctors, nurses, teachers and teaching aides in many developing countries.

Costa Rica has already eliminated over 2,000 public sector positions and has frozen public sector wages (with exceptions for healthcare workers and the police) as well as placed a pause on almost 5,000 public vacancies.

Socializing fiscal policy to achieve rights and development

The antidote to fiscal consolidation measures has historical

precedents. In the post-colonial period, newly independent countries ran fiscal deficits financed by printing money to develop their nascent economies. Unlike European countries which were beneficiaries of the Marshall Plan from the United States in the post-World War II period, developing countries were not supplied with any funds, domestic or foreign.

Governments employed fiscal activism to build infrastructure and create public systems in health and education. However, with the backlash against Keynesian fiscal policy in the late 1970s and early 1980s and the turn towards the liberalizing tenets of neoliberalism, public budgets fell subject to fiscal disciplining through stringent fiscal deficit and inflation targets.

The 2007-08 global financial crisis generated a brief revival of fiscal spending for social needs, with large stimulus and bailout packages in developed countries and public infrastructure investment and, to some degree, social protection measures in developing countries.

However, in the years since the global financial crisis, fiscal contraction through spending cuts in public and social services again became the norm. Regressive taxation, mainly on consumption, has grown while direct taxation on corporate and personal income and assets has decreased.

It is clear that fiscal consolidation, even if in the medium to long term, will derail pandemic recovery for many developing countries, while also harming human rights and the achievement of the SDGs and the Paris climate agreement. The fiscal rulebook thus needs to be contested and rewritten in order to create, expand and maintain fiscal space for social and human development. Some elements of such a task include re-conceptualizing the investment character of public expenditures, the formulation of rights- and development-based criteria for public financing and acceptance of these criteria by international and national lending institutions.

A progressive fiscal framework recognizes that human development is the exact and ultimate return that public investment strategies must be rooted in. If the SDGs were to provide the basis for developing such a fiscal framework, existing fiscal rules focused on fiduciary solvency and flawed debt sustainability assessments are clearly inadequate.

Fiscal progressivism entails allowing for higher budget deficit paths and/or higher levels of inflation without jeopardizing macroeconomic stability. The higher deficits should ensure relief for the vulnerable, especially women and children as well as informal sector and casual employment workers, prevent recessions from becoming depressions, and mobilize progress towards structural transformation. Long-term recovery is not limited to resolving the crises exacerbated by the pandemic, it is concerned with the foundations of systemic and inter-sectional inequality in the global economic architecture.

As such, recovery is about diversifying and strengthening the real economies in developing countries away from commodity, extractive sector and global value chain dependency and towards an ecologically sustainable nexus of productive investment, decent work creation and secure financing for public systems and services. Rethinking fiscal rules is an elemental step towards such a transformative recovery. *(SUNS9330/9331)*

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Assessing the World Bank's COVID-19 response

A review of the World Bank Group's financial support for addressing the COVID-19 crisis has found that it is tied to the Group's wider – and misguided – agenda of promoting private sources of development funding. The following is the executive summary of the review report, which was written by *Kate Bayliss* and *María José Romero*.

The COVID-19 health emergency has created a worldwide economic shock on an unprecedented scale, triggering a global recession that far exceeds recent crises. Pre-existing inequalities have been amplified, including gender inequalities. An estimated 100 million people have been pushed into extreme poverty in 2020. The downward trend in global poverty has been reversed for the first time in a generation, with per capita income losses wiping out the gains of the previous 10 years in some cases.

In March 2020, the World Bank Group (WBG) launched a COVID-19 response programme and pledged to provide $160 billion to client countries in the 15 months to June 2021 across its divisions – the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA) (which work with governments) and the International Finance Corporation (IFC) and Multilateral Investment Guarantee Agency (MIGA) (which work with the private sector). A coordinated response across its different components aims to mobilize private sector resources alongside donor funds.

The WBG's COVID-19 response goes considerably further than supporting countries in dealing with the effects of the pandemic. The WB sees the crisis as an opportunity to, what they call, "Rebuild Better". A review of core policy documents and project reports for the World Bank and the IFC COVID-

19 response and beyond indicates that the initial emergency response has in some cases provided an entry point for a more expansive scope for structural reforms, including those linked to a more substantial role for the private sector in development finance, in line with the Bank's development vision.

The WBG has long been a supporter of privatization and public-private partnerships (PPPs), but support for private finance gained added momentum in the 2010s with the "From Billions to Trillions" agenda and subsequently the Cascade/Maximizing Finance for Development (MFD) approach. In essence, it was argued that the trillions needed to achieve the Sustainable Development Goals (SDGs) are beyond the reach of public funds alone, and so private finance is needed. Hence rather than financing development projects directly, public funds should be used to shape developing-country needs for infrastructure and services into profitable business opportunities, largely for investors from the Global North.

An extensive critique has highlighted numerous concerns with this approach, including the negative long-term fiscal impacts, high costs, lack of transparency and potential negative impact on poor households. Private finance, for example through PPPs, can create additional fiscal risks for governments akin to debt and can be associated with outflows of funds in the long term. Attaching the private finance agenda to the Bank's emergency response risks weakening public finances in the long term and deepening structures of global inequality.

The main findings of this review are:

1. The WBG sees its COVID-19 response as firmly linked to its long-term development vision in which global private sector finance plays a strong role.
2. For the WBG, contraction in "fiscal headroom" calls for increased private sector financing. However, diverting public resources to attracting private investment risks placing increased fiscal pressure on government finances, which are already facing immense strain due to the pandemic.
3. The IFC, with its emphasis on creating markets and mobilizing private finance, has a prominent position at all stages of the COVID-19 response. The IFC is expected to account for around one-third of the Bank's response, including in health, suggesting that private markets will be prioritized over equitable public services.
4. Rather than supporting local private enterprises, some IFC projects have provided finance to global chains of hotels, large conglomerates, subsidiaries of international companies and international private health providers.
5. Private finance as a source of financing for development needs to be downgraded, given the overwhelming evidence of its failure to effectively contribute to sustainable development. Greater attention needs to be given to more effective and sustainable means to expand fiscal space, including meeting official development assistance (ODA) commitments, tackling tax avoidance and evasion, and an immediate cancellation of debt payments, linked to a more comprehensive approach to debt crisis resolution under the auspices of the United Nations.

Policy recommendations

- The MFD/Cascade approach should be completely reevaluated. Private finance is not a substitute for public funds and creates a strain on governments. Scarce public resources should not be used to convert essential services into attractive private investments. The emergency humanitarian response should no longer be linked to the wider private finance agenda.
- The WBG needs to restore the balance between the public and private sector in its COVID-19 response and beyond, including in its modalities and instruments. Developing countries are in need of concessional resources to strengthen their public systems, particularly health, education and social protection, and to stimulate economic recovery. This includes, among other things:
  - Placing greater emphasis on supporting public health systems. This is a long-term objective, but it can begin by ceasing to advise governments to bring in international private providers, and avoiding supporting commercial private health facilities that undermine public system building.
  - Reassessing the activities of the IFC in the COVID-19 response and beyond. Rather than providing finance to large conglomerates and global investors, more attention should be focused on fostering local businesses. Rather than large commercial private banks, public national development banks may offer cheaper and more equitable means of disbursing IFC loans.
  - Strengthening IFC due diligence procedures, as a way of combating international tax avoidance, by demanding public country-by-country reporting and public beneficial ownership registration for all its clients, partners and business relations.
- The WBG needs to work to upscale the Debt Service Sustainability Initiative (DSSI) to include debt cancellation by all multilateral development banks, including the WBG, and to work towards restructuring sovereign debt across all creditors.
- The WBG needs to anchor its activities in inclusive civil society engagement throughout all phases of the project cycle so as to ensure a high degree of citizen accountability, an area which has been weakened during the crisis response.

In line with the WBG approach, these changes are long-term but also need to be incorporated into current activities. Interventions today need to have a line of sight to future economic and social structures. The pandemic does offer an opportunity to rebuild better, but this means rebuilding fairer. Global social equity needs to be at the heart of the long-term plan in order to reset, reshape, rebuild and recover better.

The above is the executive summary of the Eurodad (European Network on Debt and Development) briefing paper "'Rebuilding better', but better for whom?: A review of the WBG response to the COVID-19 crisis" (April 2021, https://www.eurodad.org/rebuilding_better). The briefing was written by ***Kate Bayliss****, Research Associate at SOAS University of London, and* ***María José Romero****, Eurodad Policy and Advocacy Manager and PhD candidate in Development Economics, SOAS University of London.*