Our future is public

Why the IMF and World Bank must support public services

EXECUTIVE SUMMARY

The Covid-19 pandemic exposed the failures of austerity policies and the detrimental consequences of the systemic underfunding of public services for people's lives. It also highlighted how market-based models cannot be relied upon to deliver on human rights and the fight against inequalities. The upsurge in the cost of living in 2022 and the increasingly frequent natural disasters associated with the climate crisis further highlight the failures of the current economic model and the urgency of building a different one. The World Bank and the International Monetary Fund have positioned themselves as the 'first responders' to the multiple crises of the past three years. This larger role has made more evident their often problematic approach to public services and the gap that both institutions maintain between their occasionally progressive global rhetoric on public services and their practices at country level.

The widening gap between IMF rhetoric and practice on public services

In the past decade, the IMF has been arguing that it has learned from past mistakes and that it has rectified practices to safeguard essential public spending. It points to instruments such as social spending floors and its strategies on social spending, gender and inequality. However, civil society has for years been denouncing a substantial gap between the IMF's rhetoric and its actual practice, including maintaining an arm's length approach to human rights obligations. Abundant evidence suggests that IMF policy advice and lending continue to prioritise fiscal adjustment over achieving adequate levels of public spending that guarantee universal access to quality public services.

Measures such as constraints to public sector wages, narrow targeting of social protection, cutting subsidies and increasing VAT continue to be routinely prescribed. Despite some short-term increase in health expenditure and targeted social protection at the peak of the pandemic, since late 2020 several studies have documented an aggressive and premature return to austerity, in large part instigated by the IMF. The most recent estimates by Ortiz and Cummins indicate that 143 countries (of which 94 are developing countries) will contract their spending in 2023, meaning that 85 per cent of the world population will live under austerity measures.

World Bank and public services: for profit or for the common good?

Far from using the Covid-19 and subsequent crises as an opportunity to rethink a broken economic model and put public services at the core of its response, the World Bank has continued to adhere to its blueprint for development. In the past two years, it has published (at least) four papers that set out its response to the current crises, and all reiterate a vision that is no different from that which was pursued before the pandemic.

This vision reserves a central role for the private sector and private finance in development and puts macro-economic stability and fiscal balance ahead of human rights. It favours market-oriented solutions for the delivery of public services and reflects a narrow interpretation of the role of the state, focused on minimising risk for the private sector. While the weaknesses of the state are continually highlighted, the private sector is rarely challenged. It is asked to step in to provide public services, instead of focusing on the biggest single contribution that it could make to public services: to pay their fair share of taxes, especially on the huge profits that many multinational corporations are making out of the pandemic and the war in Ukraine. Research that has analysed the WB's lending during Covid-19 *in practice*, found that it continued to advise countries to divert public resources to attracting private investment.

The place of public services in the WBG's financing and policy advice, including during the Covid-19 pandemic, is clearly reflecting this vision. Although the Bank has made significant efforts in supporting countries' health and education response to the pandemic through lending, grants and technical assistance, parts of the institution are pushing forward a market-oriented approach to service provision. The IFC continues to finance commercial private health providers despite evidence that they are not accessible to lower-income groups, and support PPPs in health despite evidence of the risks and failures of this model, such as the premature termination of the WBG-supported Queen Mamohato PPP hospital in Lesotho in full pandemic times.

In education, while much of the Bank's public sector lending provides important support to public education systems, it has increasingly supported and promoted private and market-oriented approaches to the provision of schooling, in particular PPPs and low-fee private schools. However, the IFC recently took the landmark decision to permanently end its investments in K-12 private schools, following a critical report by the WB Independent Evaluation Group (IEG). This decision calls for a broad rethinking of the WB approach to the education sector, and for a similar review to be conducted by the IEG for the WB's health sector investment.

The positive alternative: a new manifesto for public services

There is a growing consensus among policy makers about the need to 'build back better' economies and societies and that public expenditure in social sectors is the most powerful instrument available to governments to address poverty and inequalities. For these reasons, many of the propositions for change involve reaffirming the central role of public services.

The 2021 manifesto *The Future is Public,* already endorsed by more than 200 organisations from all over the world, provides an alternative vision for the future, one in which the public is key and must be at the core of the response to the existential challenges that we face. Developed collectively by a wide range of civil society organisations, the manifesto is a demand for universal access to quality public services to address the crises we face and those we will face in the future and to build more sustainable, socially just and resilient societies. It also clearly sets out how funding universal quality public services can be achieved, rejecting false solutions such as blended finance and public-private partnerships and emphasising reliance on public resources that are fairly and progressively collected and distributed.

It is time for a new approach to public services, and a break with the mistakes of the past

Policy recommendations

IFIs such as the World Bank and the IMF continue to fail to protect public services, despite their rhetoric arguing the opposite. They must adopt a rights-based approach to public services, meaning that they must unambiguously support strong, publicly provided, publicly financed, gender sensitive and democratically controlled services that provide universal access and universal coverage. This should be reflected in their financing and support to countries, as well as in their global political influence.

In particular, to close the gap between their rhetoric and practice on public services, the World Bank and the IMF should implement the following 10 points:

1. Increase support for publicly financed and delivered services, and refrain from promoting and financing the commercialisation, financialisation and privatisation of public services including PPPs. Support adequate regulatory capacities and ensure grievance redress mechanisms for citizens utilizing private services
2. Conduct comprehensive independent evaluations of World Bank Group and IMF interventions on public services, including on healthcare access, with a focus on their impact on human rights, poverty and inequalities
3. Adopt a 'do no harm' approach through systematic assessment of their policies and programmes on economic and gender inequality and on human rights, including helping countries integrate Human Rights Impact Assessments (HRIA) into their policy making
4. Support countries to abolish user fees for education and healthcare, and to address other financial barriers to accessing these and other public services, including by providing the necessary financing
5. Put an end to the use of economic policy conditionality, particularly when focused on fiscal consolidation and enhancing the role of the private sector in public services delivery
6. Support countries to increase their fiscal space to build strong, sustainable public services, including by supporting fair and progressive taxation measures and by refraining from promoting regressive tax policies, in particular VAT
7. Review their Debt Sustainability Framework and methodology, in order to evolve towards a more adequate debt sustainability concept, one that includes human rights and other social, gender, climate and development considerations at its core
8. Facilitate debt restructurings and debt cancellation of developing countries in a timely, efficient and sufficient manner and work towards the creation of a multilateral sovereign debt workout mechanism under the auspices of the UN
9. Approve a new allocation of Special Drawing Rights (SDRs), preferably targeted exclusively to developing countries, to create much needed liquidity to face the crises
10. Protect and support the financing and expansion of the public sector workforce, including by moving away from recommending overall public sector wage bill constraints

It is time for a new approach to public services, and a break with the mistakes of the past. The World Bank and IMF must do their part with a fundamental shift in their policies and practices that finally closes the gap with their rhetoric. It is imperative that these institutions set out a path for rethinking the role of the state and the private sector in development, one that puts people and the planet before profit and is aligned with international human rights obligations, including on economic, social, cultural and environmental rights, the Sustainable Development Goals and the Paris Agreement. Movements all around the world are already mobilising to build a future that is public.

Acknowledgements

This is a report written and coordinated by Chiara Mariotti, Senior Policy and Advocacy Officer at the European Network on Debt and Development (Eurodad). It is supported by the group of organisations listed at the bottom of this page.

It draws from the proceedings of an event held at the 2022 IMF/WBG Spring Meetings Civil Society Policy Forum, entitled 'The Future is Public: Prioritising public services in the light of Covid-19 and climate change', which was organised by Action Aid International, Eurodad, the Global Initiativie for Economic, Social and Cultural Rights (GI-ESCR), the Initiative for Social and Economic Rights (ISER), the International Trade Union Confederation (ITUC), Oxfam International, Public Services International, Society for International Development, Transnational Institute and Wemos. And it builds on collective civil society work to promote the Global Manifesto for Public Services "The Future is Public".

The author would like to thank the following individuals for their invaluable comments: Eurodad colleagues – María José Romero, Océane Blavot, Jean Saldanha, Iolanda Fresnillo – and Katie Malouf-Bous and Nabil Abdo, Oxfam International, Anna Marriott, Oxfam Great Britain; David Archer, Action Aid International; Lavinia Steinfort, Transnational Institute; David Boys, Public Services International; Ashina Mtsumi, GI-ESRC; Flora Sonkin, SID; Allana Kembabazi, ISER and Johnstone Shisanya, EachRights.

Report edited by Amanda Anstee.

Front page design courtesy of Public Services International (PSI).

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All opinions are Eurodad's alone, and all errors and omissions are the author's responsibility.

This briefing has been produced with financial assistance from the European Union and Open Society Foundations.

The contents of this publication are the sole responsibility of Eurodad and the author of this report and can in no way be taken to reflect the views of the funders.

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