Are the Multilateral Organizations Fighting Inequality?

2018 Financial Impact Report on IMF and World Bank

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- The Financial Impact Reports make an ongoing assessment of the role of the international financial rule-making organizations in reducing economic inequalities. The present report reviews 2018 policies of International Monetary Fund (IMF) and World Bank Group (WBG) and scores them on a scale of 1–5 on their efforts and performance.

- The IMF's performance shows overall improvement over last year's performance, especially in the areas of taxation, social spending and policy, and in its overall focus on inequality.

- The performance of the World Bank is mixed: the authors note improvement in its work in the areas of tax policies and social policies, but regression in its work on labor and its flagship goal of shared prosperity.

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Content

1. Overview

In October 2015, all member states and agencies of the United Nations endorsed the 2030 Agenda and the Sustainable Development Goals (SDGs), challenging all who are committed to sustainable development to get serious about making these promises a reality. Inequality is recognized as a major obstacle in Sustainable Development Goal 10 – Reducing Inequality Within and Among Countries – as well as throughout the broader 2030 Agenda.[1] This is because, since 2010, inequality has been at the forefront of global discussion. Piketty's magnum opus *Capital* has been published, along with books by Anthony Atkinson, Joseph Stiglitz, and Branko Milanovic.[2] Global meetings of the G20, the IMF, the World Bank Group (WBG), and the World Economic Forum have been dominated by discussions about extreme inequality.

In this context, in 2013 a group of academic and civil society organization (CSO) experts, led by New Rules for Global Finance and Development Finance International (DFI), launched an initiative to judge the performance of the major financial rule-making organizations[3] principally by their impact on inequality and thereby reverse the negative consequences of inequality for the poorest peoples and countries. They published the first two *Global Financial Governance and Impact Reports* (GFIRs) in 2013 and 2014. In 2016, they were joined by the Friedrich-Ebert-Stiftung New York Office (FES/NY), which convened a wider range of academic and civil society peers, plus senior staff from the six organizations, to refine the report's methodology by discussing how each organization's mandate relates to reducing inequality, how each organization measures inequality, and the transmission mechanisms each organization uses to tackle inequality. In Fall 2017, we released a comprehensive set of reports analyzing each of the institutions' impacts on inequality. Those reports were posted on the DFI and New Rules websites. Public seminars were held at the 2017 Spring and Fall Meetings of the IMF and World Bank and the 2017 Summer UN Meetings on the SDGs.

Since then, we have continued this iterative process. As we learn from publicly accessible data and private meetings with key officials, we write reports, we invite feedback from citizens and peers, and we meet again with staff from the relevant organizations. Continuing this process, we have in 2018 decided to focus on the IMF and the WBG, inviting feedback on where our previous reports might have been inaccurate, where each institution has improved, and what information is publicly accessible to support the views expressed in these reports. We appreciate the generosity of IMF and WBG staff in sharing their valuable time and analyses, and in directing us to many relevant documents and datasets.[4] The commitment of Staff such as these to reducing inequality and achieving sustainable development is the best hope for the WBG and the IMF to achieve their goals.

The analysis of the World Bank Group is primarily by Jo Marie Griesgraber of New Rules. The analysis of the IMF is primarily by Matthew Martin of DFI. Peter Bakvis of the International Trade Union Confederation (ITUC) provided substantial information on labor issues for both institutions. The review of the WBG contains a box by Christopher Williams of Rtpay.org on reducing the risks and costs associated with remittances, the last element of SDG 10.

Scoring System

The »scoring« of the organizations' policies and activities is as follows:

1 = Regressive: exacerbating economic inequality;

2 = Neutral: lacking consideration of impact on inequality;

3 = Slightly Progressive: Integrates inequality into research, analysis, and policy, but not systematically;

4 = Progressive Impact: systematic analysis but limited in scope or coverage and not achieving systematic inequality reduction;

5 = Reducing Inequality: quantitative and qualitative evidence showing that policy analysis and advice is systematically reducing inequality. *Scores between whole numbers may reflect unsystematic progress or a mixture of progressive and regressive.*

1. See https://www.un.org/sustainabledevelopment/sustainable-development-goals/.

2. Thomas Piketty, *Capital: in the Twenty-First Century*, Belknap Press, Cambridge, MA,2014; Anthony Atkinson, *Inequality: What can be done?*, Harvard University Press, Cambridge MA, 2015; Joseph E. Stiglitz, *The Price of Inequality*, W.W. Norton, 2013, and Branko Milanovic, *Global Inequality: A New Approach for the Age of Globalization*, Belknap Press, Cambridge MA, 2016.

3. The Financial Stability Board, Group of 20, International Monetary Fund, OECD, United Nations, and World Bank Group.

4. World Bank policy mandates that every project has a Poverty and Social Impact Analysis, but this is not comprehensive analysis of impact on inequality/shared prosperity. See http://pubdocs.worldbank.org/en/420441457100264616/DevelopmentPolicyRetrospective2015.pdf.

During 2018–2019, at appropriate times for the institutions concerned (notably around the High-Level Political Forum of the United Nations in July, the Development Forum of the OECD, the ministerial meetings of the G20, and the plenary meetings of the FSB), we will review the performance of the remaining four organizations.

2. International Monetary Fund Update

2.1 The Mandate of the International Monetary Fund

As indicated in GFIR 2017, the IMF's core mandate is to promote financial and monetary stability with the aim of achieving sustained growth and full employment. The IMF has since 2000 interpreted its mandate more broadly, focusing increasingly on policies to promote growth and reduce poverty. With its own research showing that lower inequality and redistribution enhance growth, it has begun to focus on reducing inequality.

IMF – Overall Score 2.85 (2.7)

2018 Findings	**2018 Recommendations**	**2018 Score (2017 Score)**
1. Inequality Focus Continued focus on inequality in leadership speeches and policy documents, and in research. Inequality analysis mainstreamed with guidelines, but only where »macro-critical,« and not clear all policies have been systematically assessed.	Conduct systematic ex ante analysis of impact of country policies on income, wealth, and gender inequality in all countries, and recommend targets for reducing inequality sharply in each country by 2030.	3.75 (3.5)
2. Labor Little evidence of anti-inequality policy recommendations or analysis to support higher minimum wages, decent work or greater unionization. Recommendations on gender equality are more systematic.	Systematically assess impact of labor policy proposals on inequality and decent jobs, and levels of minimum wages, labor rights, decent work, and gender equality, and set targets to reduce »labor market inequality« substantially by 2030.	2.5 (2.5)
3. Taxation Excellent global analysis in Fiscal Monitor. Scaling up technical assistance (TA) on tax collection, focus on progressive income taxes. Welcome country-specific analysis of impact of tax policies on inequality but few countries and most limited to mitigating regressive value-added tax (VAT) impact.	Analyze impact of all taxes on inequality for all countries (including potential of higher collection of income and wealth taxes) and focus programs and TA on making tax systems more progressive, and increasing property and wealth taxes.	2.75 (2.5)
4. Social spending & policy Welcome analysis of impact of social spending on inequality, but mostly used to increase targeting of spending or to offset subsidy cuts. Progress on making low income developing country (LIDC) »spending floors« broader to include social protection (SP). Continue to favor targeted SP over universal SP. Some (especially non-LIDC) programs still cutting social spending.	Analyze the impact of spending policies on inequality (including potential of universal education, health, social protection, water, and social housing); include all such spending in floors; establish floors for non-LIDCs to ensure protection of all such spending; and monitor spending levels annually in all countries.	2.75 (2.5)
5. Development Finance Initial strong research and pilot studies supporting financial inclusion and regulation to reduce inequality only rarely followed up. Strong analysis of women's exclusion from finance.	Conduct studies of financial exclusion/inclusion and supporting regulation in all countries with low financial inclusion, especially for women, and recommend measures to make finance reduce inequality.	2.5 (2.5)

The IMF is for many countries the most influential organization analyzed in the GFIR, because it provides loans to help them out of macroeconomic and financial crises, in return for implementing policy measures or »conditionalities« to enhance stability and growth.[5] For all other countries, it produces annual Article IV surveillance reports which analyze policies and make recommendations. As last year, we have assessed the IMF on five sets of issues: overall inequality focus; labor policy; progressive taxation; social spending and policy; and financial inclusion and regulation.

Inequality Focus

There has continued to be a focus on the need to reduce inequality in speeches by IMF leadership,[6] as well as in new research.[7] But the most important step forward has been in policy documents, notably a policy paper providing guidelines to operationalize and mainstream inequality issues in all Fund country work.[8] This is a huge step forward, building on 43 »country pilots« to analyze inequality issues, especially because it will cover all types of inequality, including income, wealth, and gender inequalities; and all levels of income, including the wealthiest.

However, there are several caveats to welcoming these new guidelines:

- It is not clear exactly how »macro-critical« will be defined so as to be able to decide whether inequality should be analyzed and whether measures should be recommended to reduce it. One guideline might be the Fund's own study which showed that a Gini coefficient above 0.27 is likely to damage growth[9] – implying that this criterion should be defined as »macro-critical« in virtually all countries. Clearer ex ante guidance is needed from the Fund's internal advisory group on inequality, rather than relying on the judgement of mission chiefs and country authorities.

- If inequality is macro-critical, then reducing it could well be the key way to accelerate growth and financial stability in many countries. Yet there is no intent specified in the guidelines to analyze whether this is the case, and, if so, whether or not to place an analysis of key drivers of inequality (e. g., labor market, land, finance, gender, or other forms of discrimination) at the core of designing all policies in a program.

- It is not clear that all policies will be systematically assessed for inequality impact, rather than (as in almost all of the inequality pilots) choosing one or two which might exacerbate inequality and designing ways to mitigate this. Inequality analysis should cover all key policy areas where the IMF provides advice (fiscal, financial, and structural), identify any that have a major potential to cut inequality, and recommend appropriate policies.

For these reasons, we have increased the IMF's impact score only marginally this year in this policy area, from 3.5 to 3.75, pending a demonstration of the scale of impact that the mainstreaming will have in terms of country coverage, centrality of anti-inequality analysis as a key driver of growth, and coverage of all important policies. To improve this score, the IMF should conduct systematic ex ante analysis of the impact of all key country policies on income, wealth, and gender inequality in all countries, and recommend policies to reach targets for reducing inequality sharply in each country by 2030.

Labor Policies

Labor policies are a key area in which the IMF could do more to reduce inequality, yet they have not been a core focus of its work – perhaps because, unlike in the case of fiscal and financial/monetary issues, there is no department with labor policy as its core focus. So the discon-

5. See http://www.imf.org/external/np/fin/tad/extarr11.aspx?memberKey1=ZZZZ&date1key=2020-02-28 for current agreements.

6. See for example https://www.ft.com/content/19ed6640-f9ec-11e7-9bfc-052cbba03425; https://uk.reuters.com/article/uk-global-economy-outlook/message-from-the-imf-bridge-full-speed-ahead-mind-the-inequality-idUKKBN1CB1J8; https://www.imf.org/en/News/Articles/2018/07/25/sp072518-mining-the-future-new-growth-model-for-botswana.

7. See for example http://www.imf.org/en/publications/fm/issues/2017/10/05/fiscal-monitor-october-2017; http://www.imf.org/en/Publications/WP/Issues/2017/10/03/Lessons-from-the-Old-Masters-on-Assessing-Equity-and-Efficiency-A-Primer-for-Fiscal-45289; http://www.imf.org/en/publications/reo/meca/issues/2017/10/17/mreo1017.

8. http://www.imf.org/en/Publications/Policy-Papers/Issues/2018/06/13/pp060118howto-note-on-inequality.

9. See https://www.imf.org/en/Publications/WP/Issues/2017/03/28/Inequality-Overhang-44774.

nect between research and policy which was underlined in the GFIR 2014, and which has been somewhat closed in other policy areas, remains notable on labor issues. Despite its own research showing how national or sector-level collective bargaining has played a key role in achieving more equal income distribution, the Fund has in the past encouraged many countries to weaken or dismantle such bargaining.[10]

As indicated by the ITUC in its statements to the IMF and World Bank Spring and Annual Meetings in April and October 2018, the IMF needs to focus much more closely on reducing »market-produced inequality«, of which one main facet is the declining labor share of national income. This indicator (together with »pre-fiscal« Gini and Palma indicators) should be used as a key factor to be used in judging whether the labor market is a key driver of inequality and whether policy recommendations should focus on anti-inequality labor market measures.

One priority area for changing advice should be on wages (both minimum wages and public-sector wage bills). On the former, the IMF's research has found that increasing minimum wages is a powerful tool to reduce inequality – yet its country analyses often continue to emphasise efficiency and employment effects rather than advantages for reducing inequality and promoting decent work. On the latter, the IMF has frequently promoted limits on wage growth to reduce budget deficits, without examining their impact on inequality.

In addition, having found in its own research that reduced labor rights and falling unionization have been major factors reducing labor's share of income and exacerbating inequality, the IMF needs to broaden its analysis to look systematically at labor rights and collective bargaining systems. To ensure comprehensive labor market analysis, it should also address precarious, informal, and unpaid work (especially by women).

Overall, the IMF should systematically assess impact of the labor market and legislation (including minimum wages and labor rights) on inequality and decent jobs, and define policies and set targets to reduce »labor market inequality« substantially by 2030. Given our doubts about whether this is happening yet, we have kept the Fund's score at 2.5, reflecting a positive intent undermined by regressive policies in some programs.

10. See for example https://documents-dds-ny.un.org/doc/UNDOC/GEN/G16/441/36/PDF/G1644136.pdf?OpenElement.

Progressive Domestic Resource Mobilization (DRM)

Tax is perhaps the area in which the IMF is making most progress, with three major steps since the last GFIR:

- The IMF Fiscal Monitor in October 2017 focused on using tax policies to reduce inequality, and recommended more progressive income taxes, universal basic incomes, and increased education and health spending. It promoted widespread global discussion on these policy tools, and more work is continuing to broaden its analysis to cover a wide range of developing countries.

- The IMF has dramatically scaled up its technical assistance (TA) to countries on tax collection. Most of this has focused on strengthening progressive anti-inequality taxes, including helping many more countries to reduce corporate and personal tax exemptions, to collect taxes from large corporations and high net worth individuals, and to fight tax-dodging, as well as on introducing or broadening property taxes. On the other hand, some assistance has focused on more regressive sales and excise taxes – and while this has often reduced exemptions for large corporations or tax-exempt (e.g., financial) sectors, it has also often raised rates or broadened bases to cover more ordinary citizens – making tax systems more regressive.

- The Fund has joined the World Bank in conducting country-specific analysis of the incidence (impact) of tax policies on inequality. It has implemented this program rapidly, but so far in less than 20 countries. A major shortcoming of most analyses is that (in contrast to the World Bank) they publish not an analysis of the whole tax system, but one looking only at specific indirect taxes and how to mitigate the potential regressive impacts of increasing them. The lack of broader analysis of the potential for reducing inequality by increasing the collection and the progressivity of income, property, and wealth taxes is a big missed opportunity.

At country level, the Fund has continued to recommend value-added tax and goods and services tax (VAT/GST) increases as the quickest fix to fill budget holes in countries faced by austerity, rather than turning to more progressive income taxes. There is also no evidence that the Fund is looking systematically and proactively at how to make country tax systems more progressive, by either i) changing the design of existing taxes; or ii) introducing or broadening property and wealth taxes. For these reasons, we are only increasing the MF score on tax marginally from 2.5 to 2.75. To improve this score, the IMF should analyze the impact of all taxes on inequality for all countries, and focus programs and TA on making tax systems more progressive, and increasing property and wealth taxes.

Progressive Social Spending and Policy

In this area, there have also been two important steps forward since last year:

- The Fund has begun to analyze the incidence (impact) of social spending on inequality. This is welcome, but most studies have not been used to recommend major increases in overall social spending. Instead they have been focused on reorienting social spending (for example to primary and secondary from tertiary education) or on increasing the targeting of spending (especially on social protection) to the poorest.

- The review of IMF »social safeguards« ended with the positive steps of enhancing attempts to standardize »social spending floors« in low-income developing country (LIDC) programs around common sectors (subject to national government agreement); and broadening these beyond education and health to include social protection. On the other hand, it is not obvious that any progress has been made in making the analysis of these floors more prominent in IMF Board papers; and the definition excludes other key anti-inequality sectors like water and social housing.

On the other hand, some of the negative factors highlighted last year have continued:

- The Fund continues to favor targeted rather than universal social protection. This position has caused much controversy in 2017–18,[11] resulting in the intended design by Q1 2019 of a »social spending framework« to define Fund policy guidelines for spending on education, health, and social protection. It is hoped that this will mark a major change for the Fund, endorsing universal social services for all and assisting governments to plan sustainable paths involving a move away from targeted, and towards universal, social protection.

- Some (especially non-LIDC) programs have been continuing to cut social spending, for example in Greece and Portugal. This may well be easier in higher-income countries because there are no social safeguards in their programs, and no systematic monitoring of social spending levels.[12] The Fund needs to end this duality by introducing social safeguards in non-LIDC programs.

Given this mixed picture, we give the Fund only a small increase in its score since last year, from 2.5 to 2.75. To improve its score further, the Fund needs to: analyze the impact of all social spending policies on inequality (including universal education, health, social protection and water, and social housing); include all such spending in floors; establish floors for non-LIDCs to ensure protection of social spending in all countries.

Anti-Inequality Financial Sectors

Following up earlier research mentioned last year, the IMF has continued to work on financial inclusion, especially for women,[13] and to cover financial inclusion in two pilot inequality studies. However, it is not clear that this is being systematically followed up in country Board papers in terms of the issues raised in last year's GFIR. In particular, it is not clear that the IMF is looking systematically at how financial liberalization impacts inequality, or how enhanced regulation could help channel more finance at lower cost to community-based financial systems, micro-enterprises, SMEs, or other non-bank institutions, as opposed to commercial banks.

Given the limited evidence of systematic financial-sector analysis, we are leaving the IMF's score at the same level as 2017 (2.5 – implying only weak commitment to reduce finance-driven inequality and no widespread

11. See http://www.ieo-imf.org/ieo/pages/EvaluationImages279.aspx; and https://www.brettonwoodsproject.org/2017/12/csos-express-concern-imfs-strongly-divergent-social-protection-approach/.

12. See http://www.social-protection.org/gimi/RessourcePDF.action?ressource.ressourceId=53192.

13. https://www.imf.org/en/Publications/WP/Issues/2018/03/05/What-is-Driving-Womens-Financial-Inclusion-Across-Countries-45670.

evidence of country impact), until there is more evidence that this is genuinely mainstreamed into IMF work. To improve its scores in this area, the Fund needs to conduct studies of financial exclusion/inclusion, and of how to support more broadly anti-inequality financial systems in all countries that have low financial inclusion.

3. World Bank Update

3.1 The Mandate of the World Bank Group

As detailed last year, the World Bank Group (WBG) mandate since 1944 has been to promote reconstruction and development. From 2000, the Bank focused on reducing

World Bank – Overall Score 2.3 (2.4)

2018 Findings	2018 Recommendations	2018 Score (2017 Score)
1.Shared Prosperity Little evidence of focusing on broader inequality indicators as well as shared prosperity. The Independent Evaluation Group (IEG) says staff knowledge/inclusion of Shared Prosperity in key country documents remains inadequate, as do data to assess impact. IDA still uses the inappropriate Country Policy and Institutional Assessment (CPIA) to allocate funds. IFC's new Anticipated Impact Measuring and Monitoring (AIMM) may focus on Shared Prosperity.	Comprehensive regular research and data, and better staff training, to ensure broader analysis of inequality and inform decisions on policies. Staff performance assessment should be linked to impact on shared prosperity. Change CPIA and structure AIMM to make main focus policies to reduce poverty and share prosperity.	2.75 (3)
2. Labor WBG adoption of project labor safeguards welcome, but needs close monitoring. »Doing Business« »semi-indicator« on labor continues to undermine efforts to improve workers' rights, and WDR 2019 dramatically undercuts their future. No evidence recommending progressive labor policies in programs.	WBG should remove »Doing Business« from its report portfolio and work closely develop an alternative approach from that presented in WDR 2019 with ILO and trade unions. Needs to internalize that labor deregulation worsens inequality or will derail prospects of shared prosperity. IFC should ensure all supply chains respect best practices in workers' rights.	1.5 (2)
3. Tax Policies Dramatically expanding analysis of impact of tax policies, and has demonstrated progress in helping some to reduce negative fallout from regressive taxes and to make income taxes more progressive. The WBG continues to collaborate with the Platform for Collaboration on Tax, helping countries to collect more (especially progressive income) taxes.	WBG should recognize power of progressive taxes to meet shared prosperity goal and put them at the forefront of its strategy. Impact analysis and recommendations to enhance income, wealth, and property taxes should become the norm. IFC corporate partners should pay fair tax and avoid using tax havens.	2.75 (2.5)
4. Social Policies Accepting ILO social policy standards welcome. WDR suggests ending social contributions and funding via regressive sales taxes. Analyzing impact of spending is mainly being used to promote spending reallocation and targeted social protection. Policies support universal, free public education and health, but practice does not, notably in IFC for-profit projects.	WBG should support a universal social protection floor for all, which even low- income countries have demonstrated is feasible. Analysis of spending impact should be used to advocate large increases to reach shared prosperity targets. Adherence to the WGB's policies for universal, free, and public education and health care is also essential.	2.25 (2.5)
5. Development Finance Continues to promote financial inclusion but not clearly analyzing inequality impact. IFC continues to stress large enterprises and not to analyze impact on inequality. New mechanism and working group to reduce costs of remittances much more likely to cut them to three per cent G20 target.	Need to assess impact of financial inclusion work on inequality, and enhance work on affordable microfinance and non-bank financial institutions. IFC should channel far more funds via MSMEs. New remittance and working group on remittances should accelerate work to reach G20 target.	2.25 (2)

extreme poverty in line with the Millennium Development Goals (MDGs). While it recognized that tackling inequality would be vital to reducing poverty (for example in the 2000 World Development Report), no goals were set until its April 2013 strategic plan, in which it aimed to »Promote shared prosperity by fostering the income growth of the bottom 40 per cent for every country.« This was a major step forward in acknowledging that inequality is a key development issue, even if the plan was inadequate in that it did not focus on the growing concentration of wealth and income in the richest ten per cent in every country.[14]

In this review we focus on the five ways in which the WBG impacts inequality: its overall focus on inequality, including via the »Shared Prosperity« goal; and its policies and practices on Labor, Taxation, Social Policy, and Development Finance.

Overall Inequality Focus

The most encouraging period showing WBG commitment to reducing inequality was in 2016, with the publication of the Taking on Inequality report,[15] which examined trends in a wide range of inequality indicators (including Gini and Palma coefficients, which cover all levels of income in a country) and highlighted key policy solutions as those promoting early childhood development and nutrition; universal health care and education; social protection via conditional cash transfers; rural development infrastructure; and progressive taxation. However, since 2016 published analysis has been limited to a consideration of whether the shared prosperity goal is being achieved, without looking at trends in the population receiving above the average income. Progress on even this limited metric is disappointing: the WBG IDA17 evaluation finds that the income of the bottom 40 per cent is growing by only 3.2 per cent, so it will take centuries to reduce inequality substantially, and this situation might become worse if the income of the richest quintiles continues to rise faster than the average.[16] Another report analyzing trends in poverty and inequality is planned for 2018, with only one on intergenerational mobility for 2018[17]. The analysis of inequality trends and policies should be made annual and should assess policy progress.

In 2018 the Independent Evaluation Group (IEG) evaluated the implementation of the WBG's Support for Shared Prosperity.[18] It explored how deeply and broadly staff understand the goal and how it appears in key papers such as Country Strategy Documents. It concludes dishearteningly that, while there is an operative staff »theory of change« to achieve the goal, and in spite of major efforts by the core advisory teams on poverty and inequality, there is little evidence of a coherent chain of results linking all programs and projects to the poverty and shared prosperity goals, and that inadequate data preclude accurate assessment of the WBG's impact on increasing shared prosperity. Efforts are underway in the Bank to remedy this and we look forward to seeing the results in future years.

As discussed in 2017, the Country Policy and Institutional Assessment (CPIA) which determines how to allocate IDA funds continues largely to ignore poverty reduction and shared prosperity goals, with only Section C (one of five) focusing on Social Inclusion and Equity. The CPIA must have a major overhaul to base it around the demonstrated contribution of policies and institutions to poverty reduction and shared prosperity goals: for example, revenue mobilization should prioritize progressivity and whether it is reducing inequality and poverty, not just efficiency.

One possible positive sign is the IFC's introduction in July 2018 of a new system to measure its impact. Anticipated Impact Measurement and Monitoring (AIMM) will set

14. World Bank (2014): *Global Monitoring Report 2014/15 – Ending Poverty and Sharing Prosperity Overview*. DC21014-0009/1, Washington, DC; available at http://ieg.worldbankgroup.org/Data/reports/ap-shared-prosperity-0916.pdf (last accessed on 25.6.2017). There is lack of consensus within the WBG regarding this definition of Shared Prosperity.

15. World Bank. 2016. Poverty and Shared Prosperity 2016: Taking on Inequality. Washington, DC: World Bank. doi:10.1596/978-1-4648-0958-3. License: Creative Commons Attribution CC BY 3.0 IGO, Chapter 6, Reductions I Inequality: a Policy Perspective.

16. It concluded that IDA countries made modest progress toward reducing extreme poverty and increasing shared prosperity, but intensified effort will be required to achieve the goals. The average income of the bottom 40 per cent grew faster than that of the total population in 64 per cent of IDA countries in 2012 (compared to 62.1 per cent in 2011), while the median income growth rate of the bottom 40 per cent fell slightly from 3.5 per cent to 3.25 per cent. The World Bank Corporate Scorecard 2017 reports 3.1 per cent as the »median of growth rates of average real per capita income of the bottom 40 per cent«. However, it should be borne in mind that such analysis is based on household surveys (which are likely severely to underestimate top incomes).

17. http://www.worldbank.org/en/news/video/2017/10/17/creating-mobility-across-generations-will-help-end-poverty.

18. https://ieg.worldbankgroup.org/evaluations/scd-cpf.

targets for helping the »Bottom of the Pyramid« (BOP) in the design of each project,[19] rather than waiting for ex post analysis during the project, for which it has been criticized by the IEG. Hopefully, this new process will lead to the IFC's corporate partners paying a fair share of corporate income taxes (rather than requesting tax exemptions or channeling money through tax havens), as well as respecting labor standards and making social protection contributions; but the details remain to be seen.

Labor Policy

The WBG scored low on labor policy last year because there is a long history of evidence of the Bank encouraging labor deregulation, undermining unionization, and not supporting minimum wages. Labor unions across the globe have worked closely with the WBG to reverse this position in terms of its projects, and the adoption of strong labor safeguards for World Bank project implementation is an important step forward.[20] Nevertheless, based on past experience, strong transparency, close monitoring by unions, and clear accountability via the ombudsman and complaint mechanisms will be essential to ensure these safeguards are applied.

Unfortunately, more broadly, there is evidence that the WBG is moving backwards on labor policies. In early 2019 it issued a draft World Development Report on the »Future of Work« which openly opposed organized labor and collective bargaining, discouraged labor regulations to protect decent working conditions, suggested abandoning minimum wages, and suggested social protection should be paid for by highly regressive sales taxes rather than through contributions by employers and employees. This report has caused huge controversy with the ITUC, UN rapporteurs on human rights, CSOs and many other experts, and its policy recommendations fly in the face of almost all ILO, IMF, OECD, UN, and independent analysis. The revised version due to be published shortly has softened its opposition to minimum wages but maintains its central message that work should adjust to changing markets, regardless of the fact that following these policy recommendations will dramatically exacerbate inequality.

The »Doing Business« report also continues to be at odds with shared prosperity. This »flagship« publication, which is not a WBG Board approved report, contains labor criteria that undermine unionization and decent work. Even if these labor criteria are not used to calculate a country's rank as »business friendly«, they are included as its 11th criterion, and frequently cited by anti-labor advocates in developing countries to reduce labor rights. Its labor (and tax) criteria are entirely incompatible with WBG poverty reduction and shared prosperity goals, and Doing Business should be either terminated or reformulated to advocate global labor standards and fair taxpaying – »Doing Business Differently«.

Progressive Taxation

As discussed in detail last year, the World Bank's Doing Business corporate tax rate sub-criterion is encouraging a global race to the bottom on corporate tax rates. In addition, IFC projects regularly seek tax exemptions, even though they are highly profitable. Both of these negative aspects of WBG policy and practice, which are totally incoherent with increasing tax collection by governments, continue to keep its score low in this area.

On the other hand, the Bank has been increasing its cooperation with the Commitment to Equity (CEQ) Institute[21] to conduct impact (»incidence«) analyses of taxes on inequality. These analyses cover all aspects of the tax system and are made public, allowing other experts and citizens to assess what could be done to make taxation more progressive. Based on them, the Bank has begun in a few countries to play a more active role in supporting governments to make tax systems more progressive. In Latvia a flat tax was replaced by a progressive income tax; similar changes have been recommended in Kazakhstan and Uzbekistan, and Ethiopia has made income tax more progressive. There have also been efforts to make VAT and excise duties less regressive (for example in Armenia, Kenya, and Vietnam), and to help India introduce a comprehensive General Sales Tax. Neverthe-

19. See https://www.devex.com/news/ifc-s-new-way-to-measure-development-impact-an-art-as-much-as-a-science-91258; http://www.brettonwoodsproject.org/2017/10/measuring-impact-overview-ifcs-new-approach-measuring-development-impact/.

20. See http://www.worldbank.org/en/projects-operations/environmental-and-social-policies.

21. See http://globalpractices.worldbank.org/gsg/FSPPRSP/Pages/SitePages/CEQ.aspx.

less, this program could benefit from more funding to be extended to more countries, and from the conducting of a more systematic analysis of the potential to reduce inequality via income and wealth taxes with simulations of rate changes or of higher collection.

Another encouraging initiative is the growing WBG participation with the IMF, the OECD, and the UN in the work of the Platform for Collaboration on Tax. For example, the Bank is now funding a global database on tax treaties to help countries analyze which aspects of their treaties they could renegotiate to enhance income tax collection. It has also continued to help countries collect more tax by reducing tax exemptions, for example in Colombia.[22]

In spite of these very positive steps, the Bank has yet to become an institution assisting all countries to adopt more progressive tax measures as suggested in *Taking on Inequality.*[23] It is also striking that the IEG 2018 Evaluation on Shared Prosperity reports that few WBG staff regard tax policies as a tool for reducing inequality.[24] The Bank needs to have one coherent policy to encourage progressive taxation in all its country programs and projects.

Social Policy

As in 2017, this encompasses Education, Health, and Social Protection policies. WBG policies formally support universal free, and publicly funded health and education. However, the WBG continues to support privately-funded »low« fee education, including through IFC for-profit projects. But, as many independent analyses and evaluations have shown, these projects have the negative side effects of excluding the poorest and most marginalized children, and of favoring male children over their sisters. We would welcome more evidence from the WBG showing that it is prioritizing reducing poverty and inequality in health and education delivery. For now, it is impossible to find a clear and consistent focus on anti-inequality results in World Bank social-sector policies and projects. If the World Bank wants to show progress, it needs to report directly on this issue, linking sectoral results to overall poverty and shared prosperity goals, as the IEG has suggested.[25]

Regarding Social Protection, the CSO-originated concept calls for a minimum floor of services for all, regardless of social situation. The WBG recently took the welcome step of supporting universal Social Protection in principle. However, as discussed last year, in practice it continues to recommend very targeted social protection systems which reach small numbers of citizens and often fail to reach the poorest.

As with tax, the WBG has expanded its work on analyzing the impact of social spending on inequality in cooperation with CEQ. In contrast to those of the IMF, these reports tend to make public assessments of most types of anti-inequality spending (though not necessarily covering water or social housing). However, in most cases the main policy recommendations have not been substantial increases in overall social spending. Rather they have led to reallocations of spending within sectors – to primary and secondary education or among social protection programs; and especially to replacing subsidies on food or energy with much more targeted social protection. While these measures are likely to increase the marginal impact of social spending on inequality, they are less effective than social protection floors in ending poverty and reducing inequality across the whole population.

One seriously negative development comes from the 2019 World Development Report. The Report suggests that social protection should no longer be funded by contributions from employers and employees, but that governments should instead fund it from increased in-

22. See http://documents.worldbank.org/curated/en/945121468022751656/El-Gasto-Tributario-en-Colombia-una-propuesta-de-evaluacion-integral-y-sistematica-de-este-instrumento-de-politica-publica.

23. Taking on Inequality, BOX 6.1 Tax Reform and Fiscal Consolidation, pp 150-151.

24. World Bank Group, 2018, at p. xi.

25. The IEG recommends the following: 1. Where there are knowledge and data gaps on the characteristics of the bottom 40 per cent or the drivers of their income growth, the IEG and WBG should provide sufficient funding for analytical diagnostic work to close them during the next CPF cycle, and encourage country clients to ensure greater availability, quality, and comparability of distributional data. 2. WBG management should ensure that strategies and projects include clear results chains linking them to outcomes for bottom 40 per cent. 3. WBG strategies and projects should have clear results frameworks with indicators to facilitate progress on shared prosperity outcomes. 4. For projects where it identifies geographical location of beneficiaries, WBG should monitor whether this matches location of bottom 40 per cent. 5. WBG management ensure that operational staff have a clear understanding of the shared prosperity goal and possess the skills needed for effectively incorporating and tracking shared prosperity–related objectives in strategies and projects. *Growth for the Bottom 40 Percent:* The World Group's Support for Shared Prosperity. IEG, World Bank Group, 2017, p. xiii.

direct taxes. This is a recipe for increased inequality in three ways: 1) it allows corporations and wealthy shareholders to escape any obligation to fund social protection through progressive contributions; 2) it places the funding burden on consumption taxes, which are always less progressive than income taxes and in many countries are very regressive; and 3) it could undermine the perception of a »social contract« between companies, workers, and the state to fund social protection and thereby in the longer term reduce public support (especially among wealthier citizens with private provision) for publicly-funded social protection. For these reasons, it is a major backward step and has been strongly criticized by the ILO, the ITUC, and academic experts, and, insofar as it could have a major influence on future WBG policy, it leads us to reduce the WBG score in this policy area.

Development Finance

Box 1 discusses one major WBG initiative on remittances which has led us to revise our score in this area upwards. Our 2017 Report called on the WBG to assess its own impact on inequality through its work on financial inclusion and enhance its work on affordable microfinance and non-bank financial institutions to ensure that a higher share of domestic private-sector finance reaches the poor and micro-enterprises. We also challenged the IFC to channel a larger portion of funds to medium-sized and small enterprises. We repeat these calls in light of a lack of evidence that this work has been scaled up or rigorously evaluated.

Finally, the growing focus of the IFC on mobilizing private capital for large infrastructure projects risks exacerbating inequality in two ways. First and foremost, it can divert government and WBG attention onto projects which (while maybe increasing growth) may exacerbate inequality if poorer citizens are excluded from them by cost recovery measures such as road tolls or higher water and electricity prices. Second, the very high costs and risks of these projects can lead countries rapidly into debt crises, crowding out government expenditure on social sectors and necessitating sudden rises in indirect taxes. To prevent this, the IFC needs to intensify efforts to assess the impact of projects on shared prosperity and on potential indebtedness, and concentrate on anti-inequality low-debt projects.

Box 1: Potential Progress on Reducing Remittance Costs

Christopher Williams, Real Time Pay (rtpay.org)

One very positive WBG initiative on development finance has been taking place largely out of public view. A small group of staff with external volunteers and advisors has been working to reduce the costs and risks of sending remittances. The worldwide remittance market is currently $1 trillion per annum, of which $450 billion is in the official market and US$550 million flows through informal and frequently illegal routes. One major reason for informal routes is the high cost of the official market. The SDGs have set a target of reducing costs to 3 per cent, but current costs average 7.5 per cent and previous efforts to cut costs via traditional remittance service providers have stalled.

However, new technology, primarily blockchain and smart contracts, is offering new cost-cutting possibilities, with the WBG adding knowledge and expertise for commercial developers to concentrate on this market, and a number of large non-bank financial institutions wanting to compete with traditional money service providers. The new entrants to the remittance market are trying not to exceed the 3 per cent fees/costs on remittances set as the SDG 10 target in their products, and some are setting even lower costs. Payments into electronic bank accounts, mobile phone accounts, and debit cards are all being tested as channels to simplify transactions and reduce costs.

To support these trends and encourage further competition among commercial providers, the WBG reporting of total remittance flows and costs should be updated to a virtual real-time facility, splitting the costs of FX margin and administration fees, to show what should be the best rate available at any time for remitters to choose. This would be done by posting daily rates for each service provider in any one channel and allowing individual providers to update during each day so clients can take advantage of currency trends during the day.

A WBG service of this type could show the true costs of remittances – and drive them down closer to the three per cent SDG target.

In addition, the WBG could help the international community to manage Anti-Money Laundering (AML) and Know Your Customer (KYC) regulations in a more market-friendly manner. Many remittance service providers blame high fees on the high costs of complying with these regulations and on the risk of fines if any transaction proves to be noncompliant. In extreme cases they have even severed remittances via correspondent banks due to high costs. The WBG is exploring whether to lead a cohesive approach to structuring smart contracts, enabling the regulators of the two countries involved in any remittance to set the approval (or referral) process for automatic action. For example, some regulators, notably in the USA, may move to a softer line on family transfers below $1,000. Having centralized reporting for all remittance providers would help regulators to identify any suspicious grouping or frequency of connected trades and allow regulators to provide approvals in real time.

Finally, the WBG has been particularly effective in educating central banks and developing country governments on the value created by encouraging remittances to flow through formal channels: they add directly to countries' GDP, increasing credit ratings and lowering borrowing costs of hard currency loans. As a result, many central banks are looking at adding incentives via better FX rates, to encourage remitters to use formal channels. The technology is there to be tested as soon as possible, so remittances can be made more secure and MUCH more cost-effective.

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