Our future is public

Why the IMF and World Bank must support public services
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 Initiative 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-ESCR; Flora Sonkin, SID; Allana Kembabazi, ISER and Johnstone Shisanya, EachRights.


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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.

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.
1. Introduction

The Covid-19 pandemic exposed the failures of austerity policies and of the systemic underfunding of public services and revealed the limitations of relying on privatisation and market-oriented service provision models. These measures have greatly undermined the right to high quality and universal public services — such as education, healthcare, water and sanitation, and housing — and more broadly the achievement of the Sustainable Development Goals (SDGs). They have eroded the state’s capacity to deliver in the public interest, while placing an excessive burden on unpaid care and domestic work, borne disproportionately by women.

The upsurge in the cost of living in 2022 and the increasingly frequent natural disasters associated with climate change are further highlighting the failures of the current economic model and the urgency of building a different one.

There is a growing consensus among policy makers about the need to ‘build back better’ economies and societies. New transformative policies are needed to respond to mounting inequalities and ensure fully inclusive and resilient societies that are able to respond to the pressures arising from the climate and ecological crises. Based on the recognition that public expenditure in social sectors is the most powerful instrument available to governments to address poverty and inequalities and to promote inclusive development, many of the propositions for change involve reaffirming the central role of public services, rethinking how they are financed and governed in future. Movements all around the world are already pushing for this and many came together to draw up the 2021 manifesto The Future is Public. The manifesto 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.

However, the practices of the World Bank and the International Monetary Fund risk undermining this. The two institutions positioned themselves as the ‘first responders’ to the multiple crises of the past three years, further widening and deepening their influence on countries’ fiscal and policy space, often with dire consequences for the financing and delivery of public services.

This larger role has made more evident than ever the gap that both institutions maintain between their occasionally progressive global rhetoric on public services and their practices at country level. The rhetoric has evolved substantially, to the point where both institutions now acknowledge the importance of state-provided public goods and services in their external communication. However, the practical advice they offer to governments has largely remained the same, squeezing the financing of public services and the public sector workforce and continuing to recommend the privatisation of services and/or the use of public-private partnerships to deliver them — despite the mounting evidence against these.

This briefing paper reviews the often problematic approach to public services displayed by the World Bank and the IMF, including during the recent Covid-19 crisis and beyond. It calls on civil society and likeminded actors to demystify the rhetoric of these IFIs and demand the adoption of a radically different way of understanding public services, one that actually contributes to delivering high quality public services for all.

The following sections review the more problematic aspects of the WB and the IMF in relation to public services. In the case of the IMF, the focus is on the gap between its rhetoric and its practice, especially as seen in lending conditionalities that continue to perpetuate a state of semi-permanent austerity and undermine countries’ ability to build equitable public service systems. In the case of the WB, the emphasis is on its inadequate response to Covid-19 and subsequent crises. The brief shows that far from using these crises as an opportunity to put public services at the core of its response, the WB continued to adhere to its existing blueprint that reserves a central role for the private sector and private finance in development, favours market-oriented solutions for the delivery of public services and puts macro-economic stability and fiscal balance ahead of human rights.
Historically, the IMF has been criticised for undermining countries’ social spending, including in essential services such as health and education, as a result of the binding conditions on fiscal balances attached to its structural adjustment programmes (SAPs).

In the past decade, the institution has been arguing that it has learned from past mistakes and that it has rectified its surveillance and lending practices to safeguard essential public spending. This evolution has been associated with two interrelated conceptual shifts within the institution. On one side, the decade following the 2008 global financial crisis was characterised by a ‘rediscovery’ of the critical importance and usefulness of fiscal policy to tackle a number of economic problems. This happened alongside the recognition that its mandate was to include all macro-economic issues that had a bearing on global stability.

On the other side, having acknowledged that issues such as inequality, gender and climate change are ‘macro-critical’, the IMF also came to recognise that these are all matters that benefit from state intervention and public expenditure. Crucially, IMF research produced evidence that government spending on infrastructure, health, education and social protection enhances both equality and growth, making them relevant for the IMF’s mandate. This trend culminated with the October 2017 Fiscal Monitor, which explicitly recommended more public spending in health and education and wealth taxation as measures to tackle extreme inequality.

However, civil society for years has been denouncing a substantial gap between IMF’s rhetoric on social spending, inequality and gender and its actual practice, arguing that the policies prescribed in country surveillance and in loan programmes continue to prioritise fiscal adjustment over achieving adequate levels of public spending that guarantee universal access to quality public services. The measures supposedly designed to operationalise the concern for macro-critical issues, including social spending, well illustrate the persistence of this gap.

Social spending floors have long been included in IMF programmes in the form of non-binding ‘indicative targets’ or ‘quantitative performance criteria’ for social spending. However, the efficacy of these floors in protecting public goods and services is arguable (see Box 1).

**Box 1: IMF social spending floors: evidence of their impact**

A recent evaluation by the IMF’s Independent Evaluation Office (IEO) on Growth and Adjustment in IMF-Supported Programs found that many programmes relied heavily on spending cuts to achieve adjustment; efforts to protect low-income and vulnerable groups often fell short of their goals, and health and education spending did not increase significantly. Surprisingly, the report also argued that it found ‘no evidence of a consistent bias towards excessive austerity’. A background study done for the report found that social spending floors helped to shield education and health spending from budget cuts in the short term, but not in the long term. By contrast, research by three scholars associated with Oxford and Cambridge universities found that, since 2000, social floors had been implemented in only about half of the IMF’s programmes, while fiscal conditions had been implemented in the majority of cases.

Overall, the inclusion of social floors in programme agreements does not in itself guarantee their implementation. They are weak instruments to prevent countries from adopting dangerous austerity measures. This is because countries are often confronted with conditions (in the case of loans) or influential policy advice (in the case of surveillance) that involves potentially conflicting targets: typically, cutting budgets or maintaining fiscal stability while preserving expenditure in critical areas. As the former is a binding condition, it is often prioritised at the expense of the latter. Finally, social spending floors are insufficient and lack ambition (especially when there is rising demand – for example owing to significantly increased school enrolments). The IMF must give policy advice that unambiguously encourages countries to adopt social spending as their chief weapon against poverty and inequality and for the achievement of the SDGs.
In 2019, a **Strategy for IMF Engagement on Social Spending** was adopted, formalising the IMF official position on the need to safeguard social spending in loan programmes with the aim of protecting the poor and promoting inclusive growth. The strategy identifies three channels through which social spending can become macro-critical and therefore relevant for IMF work: fiscal sustainability; spending adequacy; and spending efficacy. However, it does not discuss equity and fairness and does not touch on social spending as a critical tool to address the massive challenges of the next few decades. There is also no discussion on the macro-criticality of social spending in relation to other potentially macro-critical issues such as economic and gender inequality and climate change.

**Staff guidance notes on how to operationalise macrocritical issues** (such as gender and inequality) in policy advice at country level have also been developed in recent years. This guidance has subsequently been integrated into the staff guidance note for country surveillance. Overall, these documents mark progress in the way in which the IMF deals with inequality, gender, social spending and related issues, but – as outlined below – they fail to address the most problematic aspects.

First, there continues to be no clear definition of what makes an issue ‘macro-critical’ and how this should be determined. In practice, this means an **ad hoc**, unsystematic approach to gender, inequality, social spending and climate change that relies on the interest and expertise of individual staff members and the willingness of countries to engage.

Second, the concern for macro-critical issues remains focused on the impact of inequality, social spending, etc., on stability and growth. The equally problematic impact of IMF policy advice, lending and conditionality on these issues appears to be of limited concern. Civil society has long argued that the IMF must do a better job at supporting its members by strengthening the assessment of the impact of its policy advice on gender and economic inequality, so that the true human cost of such trade-off is actually acknowledged when policy decisions are made.

A recent report of the IMF’s Independent Evaluation Office (IEO) argues that “Documents should provide more systematic coverage of the quality dimensions of growth, including the distributional consequences of adjustment and reform policies such as how low-income and vulnerable groups are affected and how they would share in growth over time.” The new IMF Gender Strategy is a step in this direction, arguing: “If recommended or implemented measures (for example, eliminating fuel subsidies, cutting other public expenditure, introducing a value-added tax) widen gender disparities or lead to other adverse distributional effects, a comprehensive policy package should include an assessment of the gender and distributional impacts of these policies and mitigating measures.” It remains to be seen whether the IMF Gender Strategy will deliver change in practice, as already highlighted in critical analysis by civil society and women’s rights organisations.

Finally, the IMF maintains an arm’s length approach to human rights obligations. It argues that given its mandate, it is only bound to promote (social and economic) human rights indirectly, by helping create an economic environment that is supportive of human rights. This argument is at odds with the UN’s **Guiding Principles on Human Rights Impact Assessments of Economic Reforms**, which clearly attributes responsibility to IFIs for the preventable human rights harms caused by regressive economic policies. A report of the Independent Expert on the effects of foreign debt on human rights argues that there are solid legal bases on which to say that, in principle, austerity policies during times of recession are incompatible with obligations to guarantee the enjoyment of human rights. The implementation of more systematic impact assessment analysis, and their use to shape policy and programme design, would at least commit the IMF to a do-no-harm approach and design policies that are more compatible with the safeguards of human rights.
2.1 IMF’s role in building back austerity

Beyond the rhetoric, the strategic frameworks and the staff guidance notes, the stark reality is that IMF policy advice and lending in practice continues to contribute to creating an economic policy environment in which public services are left underfunded.

As documented by the work of Isabel Ortiz and Matthew Cummins in a series of five studies published over the past 10 years, fiscal austerity has become the ‘new normal’ since the 2008 global financial crisis. Their research documents that between 2010 and 2019 around 100 governments cut spending annually by around 2.1 per cent of GDP on average. In most cases, this was achieved through policy reforms that undermined the capacity of the state to provide public goods and services to the most vulnerable sections of the population, such as cuts in the public sector wage bill, elimination of subsidies, labour flexibilisation, etc.

Similarly, research by the Boston University Global Development Policy Centre (GDPC), tracking the level of fiscal consolidation required in each IMF programme in the period 2008-2018, found that austerity continued to be practiced in the wake of the financial crisis. Another paper by the GDPC found that IMF-required austerity is significantly associated with an increase in poverty and rising inequality, by increasing the income share to the top 10 per cent at the expense of the bottom 80 per cent.

A variety of studies have revealed the uneven distribution of the burden of austerity, which is more likely to be shouldered by women, low-income households and vulnerable groups, while the wealth of the richest people increases. Women are triply disadvantaged when public services are left underfunded as women and girls are the first to lose access to reduced services, women lose access to decent work in frontline public sector roles and women disproportionately assume the burden of unpaid care and domestic work, which increases as public services decline.

Unsurprisingly, this period has also seen an increase in social unrest. Since 2006, popular protests have steadily increased, with peaks in 2012-2013 following the adoption of austerity cuts worldwide and again in 2016, often becoming ‘omnibus protests’ (protesting on multiple issues) against the political and economic system. In 2020, the coronavirus pandemic accentuated social unrest and the current spike in the cost of living and the widening impact of the climate crisis are predicted to increase protest in more than half the world’s countries.

For a short period of time at the beginning of the pandemic, the fiscal consolidation trend was reversed, with the Financial Times claiming that the global economy was witnessing “the funeral of austerity.” However, the reversal mostly took place in rich countries, while low and middle income countries struggled to get access to capital markets and started to turn to the IMF for financial assistance. The IMF obliged, providing about US$170 million of financial assistance, but it did so while demanding countries ‘keep the receipts’ and increasingly imbuing its loans with the logic of austerity. During the pandemic, the gap between rhetoric and practice increased: while speeches by the Managing Director Kristalina Georgieva recommended avoiding premature policy withdrawal and emphasised the benefits of health and social spending, the IMF was also pushing for early fiscal consolidation and ‘deleveraging plans’, namely debt reduction plans centred on fiscal rules that constrain public spending. The October 2021 Fiscal Monitor encouraged governments to signal such commitment by improving their compliance with fiscal rules, entering IMF-supported programmes, or legislating fiscal policy changes before tightening public finances.

Since late 2020, several studies have been warning that the brief Covid-19-related fiscal expansion is being followed by an aggressive and premature return to austerity, in large part instigated by the IMF. A study by Eurodad in October 2020 found that out of 80 countries receiving Covid-19 emergency financing from the IMF, 72 were projected to begin a process of fiscal consolidation as early as 2021, with fiscal consolidation representing 4.8 times the amount of resources allocated to Covid-19 packages in 2020. In 2021, research by Oxfam found that 85 per cent of Covid-19 loans were associated with commitments to return to austerity. 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’s population will live under austerity measures. The fiscal tightening is going to have deep consequences for public spending, reducing budgets to less than the (already low) pre-pandemic levels.
It is outrageous (and brings a sense of a deja-vu) that this is the universal policy of choice at a time when many parts of the world are experiencing new surges of Covid-19; economic growth is stagnating or declining; and millions of people are experiencing a dramatic increase in the cost of living. The current status of the global economy – with high levels of public debt, high inflation and rising interest rates – risks leading to an explosion of poverty and inequality while eroding spending on public goods and services, which in fact are needed more than ever. The IMF’s insistence on austerity in its country-level policy discussions is making it impossible to achieve the SDGs by 2030 or a future where high quality universal public services is the norm.

2.2 The impact of IMF policy advice and lending on public services

Despite the rhetoric and reassurance that safeguards are applied to essential public services in IMF programmes requiring fiscal tightening, the persistent push for austerity measures has damaging effects on public goods and spending all around the world, including on social protection. Oxfam and Development Finance International’s latest Commitment to Reducing Inequality Index shows alarming trends of low spending on health and social protection, regressive tax policies and the undermining of labour rights. Despite the worst health crisis in a century, half of low- and lower-middle-income countries cut the share of health spending in their budgets during the pandemic. Almost half of all countries cut the share going to social protection, while 70 per cent cut the share going to education. Even before the pandemic, only 1 in 6 countries was spending enough on health. Countries such as Guinea, Sierra Leone and Liberia were ill-prepared to face the Ebola crisis in 2014-2015 following IMF programme conditionalities that limited the number of health workers they were able to hire and the wages that they could pay them.

Despite some short-term increase in health expenditure and targeted social protection in some countries at the peak of the pandemic, most developing countries have already cut back in their public services provision and redirected their resources to pay back their mounting debt. In fact, the detrimental impact of the debt crisis on public services had been documented even before the pandemic started. A recent report by Debt Justice found that public spending in the most indebted countries has been falling or stagnating. Using IMF data from 41 low-income countries where information is available, the report noted that the countries with highest debt payments of over 15% of government revenue are expected to face a drop in public spending between 2019 and 2023, compared to an increase of 14% for the countries with the lowest debt payments. In Africa, in 2021 debt servicing represented 2.7 times as much as education spending, 5.9 times health spending, and 22 times social protection spending.

The gap between rhetoric and practice also creates a short circuit in policy advice, so that in order to appear to be safeguarding some targeted public spending, IMF policy recommendations tend to have a punishing effect on the lower-middle income. This is the case with measures such as constraints on public sector wages, narrow targeting of social protection, cutting subsidies, increasing VAT. Incidentally, all these measures are especially harmful for women, as has been widely documented.

One of the most damaging policy measures recommended by the IMF for pursuing fiscal consolidation are cuts to the public sector wage bill. A 2021 study by Action Aid found that across 15 countries cuts to the public wage blocked recruitment of 3 million essential workers and were sustained across many years (and not temporary, as often claimed by the IMF). No clear rationale explains the cuts, which were recommended to countries with rather different shares of GDP spent on public sector wages: from 17 per cent in Zimbabwe, to 8.7 per cent in Ghana to 2 per cent in Nigeria. If a logic is to be found, it is the attempt to drive every country below the global and regional average for spending on public sector wage bills as a percentage of GDP. This creates a long-term spiral downwards – an apparently never-ending reduction in resources available to pay for teachers, nurses and other public sector workers, who are in fact essential to deliver high quality public services. In Ecuador, the austerity conditions imposed with the September 2020 loan included cuts to the public wage bill that hit women the most: as employees within and users of the public health system, as care workers in the unpaid and paid care economy, and as debtors of informal and private providers of credit.
Why the IMF and World Bank must support public services

IMF and social protection

The International Monetary Fund has become a critical global player on social protection, which raises several concerns. The main concern is the Fund’s bias for narrowly targeted approaches to social protection at the expense of universal approaches.

This bias is caused by fiscal-related motives: the IMF’s priority remains fiscal consolidation, and this still determines the boundaries of its policy advice. Targeted cash transfers are often advocated by the IMF as a ‘magic bullet’ that can deliver increased efficiency at lower costs as well as compensating the poor for the introduction of regressive measures such as an increase in VAT or the removal of food and energy subsidies.

In July 2017, the IMF’s Independent Evaluation Office (IEO) published a report that concluded that the IMF’s targeting approach to social protection did not “mesh well” with the universal human-rights based approach. In response, the IMF adopted the aforementioned strategy on social spending, which has been criticised as not taking a decisive step to align the IMF with the goal of social protection floors and the achievement of the SDGs on universal health coverage and free, equitable and quality education. In fact, the strategy does little to address the IMF’s bias towards targeted social assistance.

Before the pandemic, in Egypt, Jordan and Tunisia, the IMF strongly encouraged reliance on targeted social protection programmes to cushion the impact of fiscal consolidation and subsidy removals. These targeted programmes proved to be inadequate to prevent inequality and impoverishment, especially for women. The trend has continued during the pandemic in these three countries and beyond. A Human Rights Watch review of the 19 IMF loan programmes approved between March 2020 and December 2021 found that all policy advice and social protection measures were for targeted programmes.

The IMF argues that it relies on the World Bank’s advice and leadership on social protection. This collaboration makes it even more difficult for countries to reject the targeting approach. In fact, although the World Bank has signed up to universal social protection as a ‘vision’, it continues to promote a poverty-targeted approach with governments, often at the expense of the gradual introduction of universal lifecycle programmes. This is despite Covid-19 showing once again that targeted social safety nets leave large segments of the population vulnerable to hunger, homelessness and other problems.
3. World Bank and public services: for profit or for the common good?

The multiple crises triggered by the outbreak of the Covid-19 pandemic sharply exposed how inadequate the World Bank’s approach to public services is. While the pandemic demonstrated the critical importance of the state investing in high quality and universal public services, including health and education, and strengthening public systems, the World Bank kept pushing its private-finance-first approach to development while offering no structural solutions. Instead of taking lessons from failed practices and proposing something new, it has remained faithful to its 2017 Maximising Finance for Development (MFD) Agenda, which reserves a central role for the private sector and private finance in development, favours market-oriented solutions for the delivery of public services and puts macro-economic stability and fiscal balance ahead of human rights.

3.1 The World Bank’s approach to public services and the role of the state

The World Bank’s approach to public services reflects a narrow interpretation of the role of the state, focused on minimising risk so that economic growth can occur along a pre-established path that is beneficial to the private sector. The state as creator of public value for the common good is not considered as a relevant analytical category. This approach, which is at the core of the WB’s Human Capital Project and Index, recognises the importance of public spending in social services – health, education, water, social protection – but frames them as investment in “human capital”, which “is a key driver of growth that comes with substantial positive externalities”. This framing is part of the Bank’s efforts to make the case to ministries of finance that public services are a worthwhile investment that generates economic returns. While the notion of “human capital” can help to demonstrate the value of social expenditure for economies and societies, it also instrumentalises human development in the function of economic growth. This can distort investment priorities and open the door to the commodification of public services, which then become either a generator of direct profit or a facilitator of private profit.

This understanding of public services is one that suits a state focused on ‘de-risking’ private investments. This means attracting private investors by providing guarantees and enabling the (business) environment to make development projects more appealing – and profitable – for investors. The state is defined by its capacity to protect investors’ profits from demand risks attached to commodified infrastructure assets, from political risks attached to policies that would threaten cash flows (including higher minimum wages and climate regulation) and from liquidity and currency risks. But these risks do not disappear; they are all too often transferred to the balance sheet of the state, which is very evident in the case of PPPs. In practice, risks are socialised and profits privatised.

This instrumental approach to public services is seen for instance in the World Bank’s new Business Enabling Environment (BEE) project (replacing the controversial Doing Business Report – DBR), which conceptualises regulations and state provision of public services such as physical infrastructure and health and education as merely functional to the expansion of the private sector, rather than a generator of public value in themselves. It also suggests that key services including education and healthcare should be subject to market competition and suggests that regulations that limit market entry for commercial providers of such services – or that limit the for-profit nature of organisations that provide services – should be reduced or eliminated. The BEE threatens to pave a dangerous road that will undermine the financing of public services and increase their privatisation.

Finally, according to the WB’s approach, the state is limited in what it can accomplish on its own, aside from the provision of public goods and services, for two reasons: it suffers structurally from weak governance, and it lacks sufficient resources. The argument is that global finance can deliver where the fiscally constrained state cannot, as long as concessional lending and scarce fiscal resources are directed to mobilise private finance for development by de-risking development assets.
Unlikely the state, the private sector is rarely challenged. There is no recognition that our economic model is broken and that the way in which businesses operate, often enabled by inadequate regulations, is a big part of the problem, starting with their focus on short-term profits at the expense of long-term gains for people and the environment. The WB’s efforts to improve governments’ regulatory business environments rarely focus on how to improve their accountability towards people, planet and human rights. While millions of people around the world are facing a cost-of-living crisis due to the continuing effects of the pandemic and the rapidly rising costs of essential goods and services, multinational corporations in the food, pharma, energy, and tech sectors are making huge profits. Yet, increasingly, the private sector is asked to step in to provide public services, instead of focusing on the biggest single contribution that the private sector could make to public services: to pay their fair share of taxes. Taxing corporate super profits, and especially windfall profits driven by the pandemic and the war, could generate the additional revenues needed to ensure that basic public goods and services remain affordable and available to all.

Far from signalling the intention of the WB to learn the lessons of the Covid-19 pandemic and the debt, energy and food price crises, these four papers all reiterate a vision of development that is no different from that which was pursued by the WB before the pandemic. They reveal that the WB has, despite this prolonged era of multiple crises, continued to pursue its development blueprint, rather than starting to do things differently and play its part in building a more just and sustainable global economy. This is made explicit in both the GRID and the Navigating Multiple Crises papers through the emphasis on strengthening policies and institutions as part of the WB’s contribution to the crisis response. Such strengthening is necessary because governments suffer from weaknesses such as “coordination failures, weak institutional capacity, ineffective and inefficient use of limited fiscal resources, weak regulation and compliance, insufficient accountability and transparency, and patronage and corruption”, as put in the GRID paper. While most governments do need to strengthen their capacity and accountability, this kind of emphasis is never placed on the failings of the private sector, for instance in highlighting the pharmaceutical sector’s role in causing a delayed and unequal response to Covid-19 in lower-income countries and making extreme profits from Covid-19 vaccines on the back of public spending. In Navigating Multiple Crises, it is argued that: “The public sector in any case is not special: Support to the private sector is key to recovery. […] Domestic market development helps improve the capacity to deal with external shocks. The financial sector also plays a critical role in creating fiscal and monetary policy space.” In fact, both papers identify the mobilisation of capital at scale, especially from the private sector to maximise finance for development, as a necessary ingredient to reach development goals.

By contrast these papers attribute a limited role to the public sector in supporting the recovery and using the crisis to design a different model. For example, the words ‘public sector’ appear respectively 10 and 4 times in the paper that presents the GRID approach and in the more recent Navigating Multiple Crises report, usually in discussions that concern its relationship with the private sector. The words ‘public services’ appear less often – respectively 4 and 3 times, and ‘public good(s)’ 5 and 4 times, usually in reference to the provision of “global public goods”. Finally, while ‘health’ appears 64 and 71 times, ‘public health’ appears only once and twice respectively; ‘education’ appears 25 and 16 times but ‘public education’ never appears in either document.

### 3.2 The place of public services in the WB’s crisis response

Since the beginning of the Covid-19 pandemic, the World Bank has published four papers that set out its approach to responding to the multiple crises that have been unfolding globally. In June 2020, the WB published the report Saving Lives, Scaling up Impact and Getting Back on Track, which proposes a four pillar approach to respond to the health emergency and shape the recovery phase. This was followed by the paper From COVID-19 Crisis Response to Resilient Recovery – Saving Lives and Livelihoods while Supporting Green, Resilient and Inclusive Development (GRID), which, in March 2021, focuses on the Bank’s long-term vision for the recovery path. In April 2022, the World Bank published the World Bank Group Response to Global Impacts of the War in Ukraine. A Proposed Roadmap, which, in turn was followed in July 2022 by yet another framework paper: Navigating Multiple Crises, Staying the Course on Long-term Development: The World Bank Group’s Response to the Crises Affecting Developing Countries.
Research that has analysed the World Bank Group’s lending during Covid-19 \textit{in practice}, found that it continued to advise countries to divert public resources to attracting private investment. For example, programmes supported through Development Policy Financing, the Bank’s version of general budget support, have continued to include unquestioned support for public-private partnerships (PPPs) and privatisation of public utilities – without adequate consideration of the fiscal risks and the impact on human rights, poverty or gender and income inequality.\textsuperscript{61} For instance, in Benin, the Covid-19 development policy operation aimed at ensuring the continued implementation of the reforms previously prescribed to increase the efficiency and sustainability of the energy sector. This included government compensation of the public utility distribution company (SBEE, managed by a private Canadian company) for its loss from the suspension of the rise in the electricity tariff by 5 per cent during the Covid-19 crisis. In several instances, the World Bank Covid-19 response projects lacked transparency and participation in decision making at national and local levels.\textsuperscript{62} For instance, in Egypt, the World Bank financed two health projects totalling US$57.2 million. While World Bank documents assert that the government “is intensifying its information sharing process and the engagement with stakeholders”, a number of doctors were reported to have been arrested for speaking out and filming was banned inside Covid-19 medical facilities.\textsuperscript{63} An early analysis of 11 of the 80 WB COVID-19 Fast Track Facility projects found significant gaps in how documents covered the identification of marginalised groups, meaningful stakeholder engagement, and grievance redress mechanisms.

\textbf{Health privatisation and pandemic response}

The World Bank has made significant efforts in supporting countries’ health response to the pandemic through lending, grants and technical assistance, which has been focused on supporting the public sector. It has also done important analytical and advocacy work on health financing, to raise the alarm bells on future worrying trends of budget cuts for health post Covid-19.\textsuperscript{64}

Yet, these efforts cannot discount the fact that the WB’s legacy has in many cases weakened countries’ public systems with its policy advice and lending that in the past recommended limits on public sector investment, including for health workers, encouraged health care user fees as a method of ‘cost recovery’ and favoured an active role for the private sector in health. While the Bank has broken with its past positions on user fees, raising concerns about out-of-pocket spending through its work on universal health coverage, it has not done enough to support countries to reverse previous policies in this area, and parts of the institution continue to push for private sector involvement in the provision of healthcare.

For example in Kenya, national policies intended to increase private sector participation in healthcare, largely encouraged by the WB, alongside chronic underinvestment in the public system, have contributed to an explosion of for-profit private actors who often provide poor value for money, neglect public health priorities, and push Kenyans into poverty and debt.\textsuperscript{65} Chronic underinvestment and a shortage of health workers have also made countries ill-equipped to face the pandemic and increased its devastating impact on the poorest people.\textsuperscript{66} For example, Uganda faced a medical oxygen crisis in the 2021 Covid-19 wave due to underinvestment in its public health system.\textsuperscript{67} Research on the WB’s initial pandemic response found that very few of their Covid-19 projects (only eight out of 71) supported any action to remove financial barriers to accessing healthcare, including user fees, and two-thirds lacked any plans to increase the number of healthcare workers.\textsuperscript{68} This trend has also characterised the WB’s Covid-19 response in India (see Box 2 overleaf).

The insistence on private involvement in healthcare provision is even more misplaced in light of the poor performance of private health providers in ensuring equitable access to quality healthcare during the Covid-19 pandemic. Countries that relied more on private health financing tended to do worse in reducing Covid-19 mortality.\textsuperscript{69} In some countries, patients were refused by private hospitals when they could not afford the costs, while others were overcharged.\textsuperscript{70} During the 2021 surge in Uganda, private actors charged exorbitant prices before providing emergency care, and held patients and dead bodies hostage until fees were cleared, undermining the country’s overall Covid 19 response.\textsuperscript{71} Multiple cases of rights violations and overcharging by private hospitals were also documented in India.\textsuperscript{72} But it is in the case of the Covid-19 vaccine development and distribution that the inefficiency, malpractice and greed of the private sector has been most evident (Box 3 on p16).
Why the IMF and World Bank must support public services

Box 2: IFI’s Covid-19 response to the health crisis in India

In India, between January 2020 and July 2022, 16 health projects were approved by IFIs, including the World Bank, Asian Development Bank, New Development Bank and Asian Infrastructure Investment Bank. This included support for immediate health responses during the pandemic and more long-term measures like pan-national system support and Covid-19 vaccination.

The projects enabled the adoption of positive measures like developing health infrastructure, strengthening prevention, building staff and management capacities and augmenting vaccination among others. However, most projects did not focus on strengthening India’s public health system in the long term, by augmenting the public primary health system, filling staffing gaps, addressing working conditions of frontline health workers or expanding treatment facilities.

Despite evidence of overcharging and patient exploitation by the private sector during Covid-19, the World Bank set a target that 40 per cent of early detections of disease outbreaks should be in private hospitals under its PHSPP (Transforming India’s Public Health Systems for Pandemic Preparedness Program). There is also a lack of effort to address the catastrophic impact of user fees and other out-of-pocket payments across the country, particularly in the private sector, and insufficient emphasis on ensuring the availability of adequate personnel in the public health system, given India’s chronic shortage of health workers.

Moreover, the IFC has continued to support PPPs in the health sector despite evidence of the risks and failures of this model. One of the most emblematic examples of this failure is the WB-supported Queen Mamohato PPP hospital in Lesotho. The project first came to the spotlight for the rapid escalation of its initial cost, to the point that the hospital PPP ended up consuming more than half of the country’s health budget. In 2021, at the height of the Covid-19 pandemic, all nurses at the hospital were sacked for their strike action demanding equal pay to government employed nurses. This and numerous other disputes, and financial challenges led to the premature termination of the PPP contract. Netcare, the biggest company in the PPP consortium, was accused of sabotage and looting equipment as the hospital was being transferred back to government. The significant financial and health sector ramifications of the PPP collapse remain uninvestigated. Yet, the IFC shows no signs of publicly questioning this model.

Finally, the World Bank’s bias towards business interests and privatisation raises serious questions about its role in the new Financial Intermediary Fund (FIF) for Pandemic Prevention, Preparedness and Response. The FIF, announced in the G20’s Spring Meetings, will leverage a range of public and private resources to support countries to invest in pandemic preparedness, with the Bank providing financial intermediary services as trustee and hosting the Secretariat. While investment in preparedness is sorely needed, civil society organisations have raised questions and concerns about the initiative, such as how it will determine its priorities, the involvement of the private sector, and its financing. Given the trends in the WBG’s health financing, it is even more important that the FIF advances universal public healthcare and ensures the establishment of parameters and guidelines with regards to receiving funds from private entities and engaging or funding any private sector activities.

The strongest drive towards commercialisation and private provision of public services is coming from the WB’s International Financial Corporation (IFC), especially in health. A recent study found that the IFC’s investment in health increased significantly between 2017 and 2021, focusing on the quality and availability of health services and products, but almost never considering whether everyone could access them. Out of 88 projects examined, only one mentioned equitable access as an expected development impact. One of a number of examples of IFC direct investments during the pandemic, the IFC lent US$4m to the largest private hospital in Uganda to address its cash flow constraints, arguing that this will help support subsidised medical aid to low-income communities. However, the charging of fees in private hospitals means they are out of reach for the majority of the population.
Why the IMF and World Bank must support public services

Box 3. The private sector and vaccine inequality

At the beginning of the pandemic, governments ploughed $100 billion into pharmaceutical companies to fast-track the development and manufacturing of Covid-19 vaccines and treatments. Big pharma companies have been very successful at converting this public investment into private wealth: Pfizer, BioNTech and Moderna, the most profitable vaccine companies, are together making over $4 million an hour in pre-tax profit from the vaccines. They have been selling vaccines at a much higher price than their cost of production, privileging countries that could afford to pay a higher price. In early 2022, for every dose of mRNA vaccine delivered to low-income countries, 56 were delivered to rich countries. COVAX, the scheme set up to ensure equitable access for poorer countries to Covid-19 vaccines and supported by the WB and IMF, failed to achieve this due to vaccine hoarding by rich nations and its own systematic failure to challenge the pharmaceutical monopolies restricting supply and inflating prices. With weaker purchasing power the scheme was pushed to the back of the vaccine queue. COVAX has also been heavily criticised for its transparency failures and for its exclusion of low and middle-income countries and civil society from decision making. Moreover, research by the Transnational Institute demonstrates that the COVAX scheme has been coordinated outside the multilateral system, with substantial influence from big pharmaceutical companies. As such, COVAX should be understood as a multistakeholder initiative that protects commercial markets. This is reflected in its granting of ‘stakeholder’ status to big pharma but not to those in need of health services of those who might advocate for an alternative public sector response. The big pharma companies also vehemently opposed the multilateral proposal to waive intellectual property protections and share the vaccine technology as a global public good, further deepening inequality in vaccine access: by September 2022, only 23 per cent of people had received at least one vaccine dose in low-income countries and the Covid-19 death toll has been four times higher in lower-income countries than rich ones.

World Bank’s support for private sector involvement in education

The education sector has not been immune from creeping privatisation. While much of its public sector lending provides important support to public education systems, the World Bank has increasingly supported private and market-oriented approaches to the provision of schooling, in particular through support for public-private partnerships (PPPs) and low-fee private schools. During the period 2013-2018, over one-fifth of World Bank education projects included a component of support to governments for private provision of education. It actively advised countries to expand private education provision through PPPs, reduce regulations and encourage the expansion of for-profit schools, in particular through its policy advice framework Systems Approach for Better Education Results (SABER). This has increasingly become an influential tool to benchmark country education systems against international “best practice”, including countries’ ability to promote “diversity of provision”. This is despite a growing body of evidence showing that education PPPs are too often failing the most vulnerable children and risk deepening inequality. For example, secondary schools relying on the PPP model in Uganda were found to be unaffordable for the poorest children, and students in PPP schools were found to perform poorly on assessments compared to their counterparts in government schools and other private schools. Educational PPPs in the Philippines turned out to be unaffordable for poor families and to accentuate school segregation and stratification. Cross-country research also highlights that there is no evidence that PPP schools perform better than public schools, and a study of 17 countries found that in the majority of countries, PPP schools were reinforcing social disparities by disproportionately serving students in upper income quintiles.
While the Bank did important work during the height of the pandemic to help countries implement remote learning and re-open schools and more generally to support public education systems, evidence from India suggests that its approach to private sector involvement in education has broadly remained the same. The WB funded five major education projects between 2020 and 2022 in the country, four of which included some role for non-state actors in the delivery of core functions of education. These projects failed to provide essential safeguards for engagement of the private sector like ensuring that all projects are not-for-profit in practice by strengthening the regulation of private schools. They also failed to address financial barriers to accessing education and, in most instances, to commit to hiring additional teachers in government schools.

However, the WB has recently taken an important decision that could mark an important shift in its approach to public education and a step forward in reclaiming the right to education. In June 2022, it announced that the IFC will permanently end its investments in K-12 (kindergarten through grade 12) private schools. The decision followed a critical report by the World Bank’s Independent Evaluation Group (IEG) arguing that the IFC’s business model as applied to schools overlooked important measures of education access, equity and quality. This WBG decision followed the IFC announcement that it was also divesting from Bridge International Academies, recently rebranded as New Globe Schools, a chain of for-profit schools operating in five African countries and India.

These decisions were welcomed by civil society organisations that for years have been monitoring and raising awareness about the negative impact of for-profit commercial schools on the achievement of the right to education, especially for the most disadvantaged and vulnerable groups and for girls. The resolution of this process, albeit later and slower than would have been desirable, represents a victory for advocates of public education worldwide. Importantly, it calls for a broad rethinking of the WB approach to the education sector, and for a similar review exercise to be conducted by the IEG for the WB’s health sector investment.
4. The positive alternative: a new manifesto for public services

The new manifesto on public services, *Future is Public: Global Manifesto for Public Services*, offers a positive alternative and should be one that the IMF and World Bank positively engage with to reassess their engagement with public services in the future, especially when designing their response to the ongoing crises.

Developed collectively by a wide range of civil society organisations and actors over a ten-month period in 2021, the global manifesto on public services is a demand for strong, good quality public services to address the crises we are currently facing and those we will face in the future and to build more sustainable, socially just and resilient societies. Since its launch, it has already been endorsed by more than 200 organisations from all over the world, reflective of a growing consciousness regarding the crucial role of public services in our economy and society.

The manifesto positions public services as the foundation of a fair and just society, a social pact that implements the core values of solidarity, equality and human dignity. It outlines how public services are critical in achieving inclusive equality between groups, and how they are decisive in tackling the ongoing climate and broader ecological crisis while respecting people’s dignity.

The manifesto advances a series of 10 principles for universal quality public services in the 21st century. These include:

- **Accessibility**: everyone must be able to access public services to live in dignity and realise their rights, irrespective of social or economic status and geographic location.
- **Non-retrogression**: there should never be any reduction in the reach or quality of services, in fact quality should increase over time.
- **Public services should be built on a solid foundation of long-term public financing, reflective of the state’s redistributive function.**
- **They must be protected from the profit-driven logic of the market economy, commercialisation and financialisation. Decisions about public services should be entirely guided by the realisation of human dignity and the fulfilment of human rights.**

In addition to articulating why public services matter and the principles that should guide their organisation, governance and delivery, the manifesto clearly sets out how funding universal quality public services can be achieved. The manifesto highlights that mechanisms that are increasingly promoted as solutions to limited public services funding, such as blended finance and public-private partnerships, are expensive, opaque, short-term and unreliable financing models; they escape transparency and democratic accountability mechanisms, pose liabilities to the public purse, risk undermining democratic public control and do not generate the funding required for public services. On the contrary, the manifesto explains that domestic mobilisation of public resources is essential for states to provide financing for universal quality public services. Public resources fairly and progressively collected and distributed are indispensable for funding public services, as this is the only way to ensure that everyone can access quality services irrespective of their ability to pay.

The manifesto positions public services as the foundation of a fair and just society, a social pact that implements the core values of solidarity, equality and human dignity.
5. Conclusion and policy recommendations

The systemic underinvestment in, and the privatisation of, public services has deepened poverty and exacerbated existing structural inequalities. The Covid-19 pandemic has laid bare the devastating consequences of systematically weakening investment in public services and has highlighted how market-based models cannot be relied upon to ensure a dignified life for all. As this brief has shown, IFIs such as the World Bank and the IMF continue to fail to protect public services, despite their rhetoric arguing the opposite. In practice, they favour market-oriented solutions for the delivery of public services and put macro-economic stability and fiscal balance ahead of human rights.

Worryingly, this approach is persisting even in the face of the compounded crises: the IMF is increasing its lending while demanding countries engage in fiscal consolidation and the World Bank is unable to propose a response that moves away from the usual private-first approach. They are amplifying the conditions for a new wave of austerity that would mean harsh cuts to health, education, social protection and pension systems and sharp increases in poverty, hunger and inequalities. This must be avoided at all costs. At a critical time like this, governments should be spending more, not less. More public investment is needed to train and employ doctors and nurses, to create green jobs and adapt to climate change, to expand social protection, and to keep everyone warm and well-fed.

The World Bank and IMF must do their part with a fundamental shift in their policies and practices so that they finally match their rhetoric. 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 owned services. 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, and a break with the mistakes of the past. 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.
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