

# & Impact



# New Rules for Global Finance

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## **About Us**

New Rules for Global Finance is a non-governmental organization, with the aim to promote reforms in the rules and institutions governing international finance and resource mobilization, in order to support just, inclusive and economically sustainable global development. New Rules is a networking, idea generating, nongovernmental organization that convenes critical actors and policymakers from developed and developing countries to identify politically feasible and technically sound solutions to systemic issues of international finance and resource mobilization which impede inclusive development. The US Internal Revenue Service recognizes New Rules as a tax exempt organization according to Section 501 (c) (3) of the US Internal Revenue Code.

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## **About this publication**

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## EXECUTIVE SUMMARY

### ***WHY A GLOBAL FINANCIAL GOVERNANCE AND IMPACT REPORT?***

In 2008, the world was hit by a massive global financial crisis, which almost everyone now acknowledges reflected an abdication by the world's leaders of their responsibilities for governing global finance. This was based on an incorrect assumption that free and liberalized financial markets would solve the world's problems and produce the best possible outcome for its citizens. Global finance was largely ungoverned, and the citizens of the world paid a heavy price for the resulting market failures.

As a result of the crisis, world leaders decided on a major reinforcement of the institutions which are supposed to govern global finance: the Group of Twenty (G20), Financial Stability Board (FSB), International Monetary Fund (IMF), Organization of Economic Co-operation and Development (OECD), the United Nations (UN) and the World Bank. But what has all this effort achieved? Are the rules for global finance achieving greater positive impact for the world and its citizens? Are the institutions setting those rules well-governed in a transparent, accountable, inclusive and responsible way? Can we be confident that finance will achieve more equitable and sustainable development?

### ***THE FINDINGS OF THE REPORT: FROM "POOR" TO "MODERATE"***

This report is the first ever attempt to assess the major institutions engaged in international financial rule-making, for the quality of their governance and their impact on the world's poorest countries and citizens. Its findings are not encouraging.

Each chapter of this report contains a detailed qualitative assessment of the governance and impact of one institution. Based on these detailed analyses, the authors have assigned "scores" to each institution (see annexes for the details of the criteria).

Overall, the results are very disappointing. On both governance and impact, the overall average score across all institutions is "Poor, Moderate Outlook" (less than 2 out of a possible 4).

#### **Governance: Overall Assessment of Global Financial Governance**

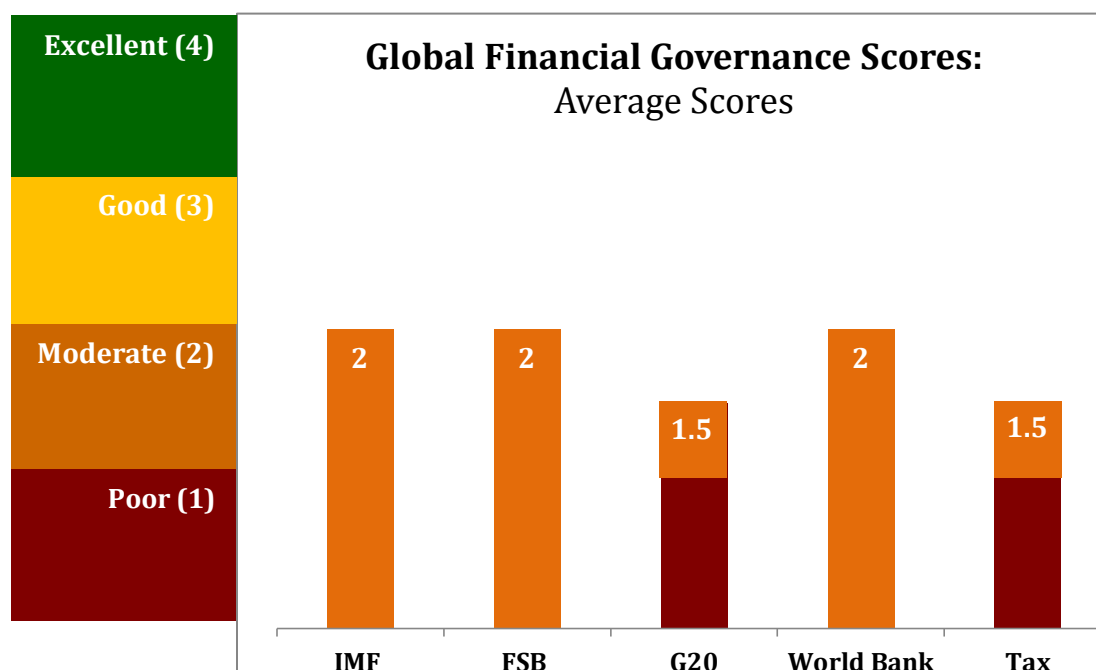


#### **Impact: Overall Assessment of Institutional Impact**



### ***GOVERNANCE: TOO MUCH AD HOCERY, NOT ENOUGH IMPROVEMENT***

The report assesses all institutions for the same four components of Governance: Transparency, Inclusiveness, Accountability and Responsibility. On these, the FSB, IMF and World Bank score slightly higher, reaching an average level across the four criteria of 2 (Moderate); the G20 and Tax Rule-Making Bodies perform less well, with only 1.5 (Poor) (See graph below).



Too much of the governance of global finance remains ad hoc, with non-transparent, non-inclusive, largely unaccountable and un-responsible institutions wielding great power: this is particularly true of the G20 and the multiple tax rule-makers. The poor governance of the G20 is particularly worrying as it now exerts inappropriate authority over the agenda and processes of the other global rule-setters, superseding their formal governance structures.

Many organizations have made considerable improvements over time, as reflected in the report's analysis: examples include: the FSB calling for public input into policy documents well before they are finalized; the G20 having consultative forums with civil society, business and think-tanks; the IMF revising its Staff handbook on CSO relations; and the World Bank's enhancement of its Independent Evaluation Group. In some cases (FSB and G20) these reforms have come reasonably rapidly, whereas in others they have been slow.

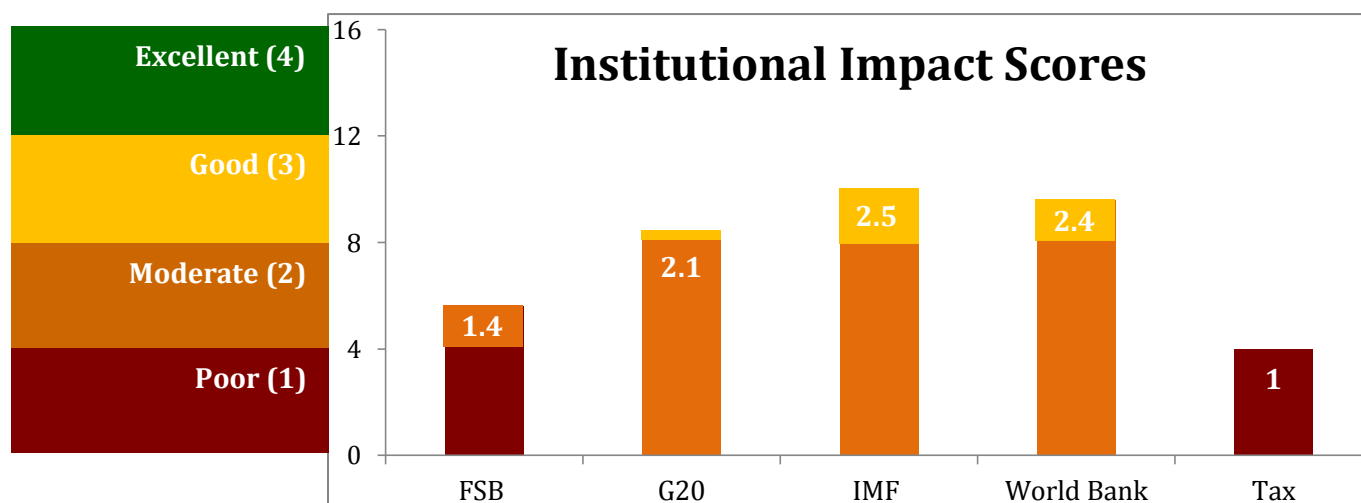
However, other "reforms" are less convincing: the FSB's Regional Consultative Groups do not constitute genuine consultation or inclusion, and the OECD's Global Forum on Transparency and Exchange of Information for Tax Purposes does not represent full participation in global tax rule-making. There remains a massive distance to travel before the institutions reach an acceptable level of basic governance standards.

#### ***IMPACT: SOME MODERATE PERFORMERS BUT A LONG WAY TO GO***

The report also assesses each institution for the impact of its actions on the poorest countries and citizens of the world. It is astonishing how little analysis has been conducted (including by the institutions themselves) of their huge overall impact, especially given their immense power. As a result of this lack of analysis, it has not been possible to use a common analytical framework. Instead, experts on individual institutions have assessed impact in different ways, taking account of the differing mandates of the institutions.

Among the institutions, the IMF and World Bank are assessed as scoring more highly at "moderate to good" levels of 2.4-2.6, the G20 just reaches the "moderate" category at 2.1, the FSB is "poor" but with a slight moderate outlook at 1.4, and the tax institutions score the poorest at only 1 (See graph below).

To some degree, as with the governance category, these low scores reflect the mandate of each institution (i.e. how much it focuses on low-income countries, or global development), as well as the amount of time for which each institution has focused on development (much longer for the IMF and World Bank). As with governance, there have also been recent



improvements, with the G20 having a Development Working Group and assessing how to improve the availability of long-term development financing; the FSB assessing the needs and impact of its recommendations on emerging and developing economies; the IMF and World Bank focusing increasingly on poverty reduction and more equitable development; and the tax institutions looking at how tax policies can be more equitable and focused on developing countries' collecting taxes from transnational corporations and tax avoiders.

Nevertheless, in all institutions, there are huge gaps between declarations and actions, and all have a very long way to go before they can confidently declare that they are having a strong positive impact on equitable and sustainable development. How seriously the institutions (especially the G20) incorporate the post-2015 development agenda into their discussions and actions will be crucial to their future success.

### ***THE WAY AHEAD: RECOMMENDATIONS, ANALYSIS AND POPULAR MOBILISATION***

This is the first ever attempt to assess the quality of the governance and impact of the institutions trying to set the rules for global finance. It provides a snapshot as of September 2013, while aiming in the text to reflect recent efforts by institutions to improve their practices. All the authors recognize that errors are likely, and improvements in our own methodology are vital. In particular, we place less importance on the numbers quoted above, than on the reality they point to, and the analysis which underlies them in each of the chapters, which we hope will provoke widespread discussion and debate.

We also welcome all efforts to improve our methodology, as well as feedback, comments and questions about the findings, and look forward to reflecting these contributions in future reports. Most of all, we welcome examples of good performance on which the institutions can build, and will celebrate future improvements by them. Based on these ideas, future reports will include priority recommendations for each organization to improve further its governance and its positive impact on the world's citizens.

Another interesting issue to examine in future will be causality between low governance scores and low impact scores. As the experts writing this report agree, the fact that the voices of low-income countries and the world's poor citizens are rarely heard in the forums governing global finance almost certainly explains why they have disappointingly low impact on improving their lives. In future reports we hope to identify which governance reforms would most change this cycle, and yield much stronger positive impacts.

We also hope that this report will provoke much greater investment in analysis on the impact of these institutions on the world's poorest people. Repeatedly when writing this report, its authors confronted a vacuum of analysis on impact on low-income countries, which means that those making decisions on global governance are operating on the basis of assumptions that what works in OECD (or emerging market) countries will work elsewhere, on preconceptions without evidence, or

don't really care about impact. This will change only when those who do care about these issues are able to conduct more analysis.

Finally, we want to make sure that this report contributes more energy to the global popular movements which have sprung from the global financial and economic crisis: those fighting for louder voices of the poor in global governance, for stronger financial regulation, for fair national and global taxes, and for fully funding basic government services needed by the poor. Only if they achieve their goals will the global community succeed in shaping a global financial system which serves the *real* economy and the people of the world.

# Introduction

## ***WHY A GLOBAL FINANCIAL GOVERNANCE AND IMPACT REPORT?***

In 2008, the world was hit by a massive global financial crisis, which almost everyone now acknowledges reflected an abdication by the world's leaders of their responsibilities for governing global finance, based on an assumption that free and liberalized financial markets would solve the world's problems and produce the best possible outcome for its citizens. Global finance was largely ungoverned, and the citizens of the world paid a heavy price.

As a result of the crisis, world leaders decided on a major reinforcement of the institutions which are supposed to be governing global finance. They transformed the Group of 20 (G20) into the key forum taking decisions on how to govern global finance, and giving instructions to the International Monetary Fund (IMF) and the World Bank on how to reinforce their roles. In 2009-10 this led to fundamental changes in the IMF's strategies and lending facilities, as well as dramatic increases in the lending capacity of the IMF and World Bank. They also transformed the Financial Stability Forum, a toothless meeting place for analysis and discussion, into the Financial Stability Board (FSB), with a mandate to develop, promote and coordinate global financial regulatory policies in the interest of financial stability. Most recently, at the G8 and G20 summits of 2013, world leaders have decided to reinforce the governance of financial flows by strengthening global cooperation on taxation, through the Organization for Economic Cooperation and Development (OECD), IMF and United Nations (UN).

For over a decade New Rules for Global Finance (New Rules) has been advocating and engaging in reform of the institutions shaping global finance. Our goal is to ensure that global finance has the maximum positive impact on the lives of the world's citizens; our belief is that this is best achieved when the voices of the excluded and affected are heard—preferably directly by sitting at the decision tables. As discussed below, this requires high standards of governance, to ensure that the institutions are transparent, accountable, inclusive and responsible. It also requires that they assess up front the potential impact of their recommendations on the world's citizens, especially the poorest; and that they are held to account for this impact. Yet progress on most of these issues has been glacial since 2009.

For this reason, New Rules (in conjunction with many like-minded organizations) is launching an annual Global Financial Governance and Impact Report, with the immodest task of assessing the governance and impact of the institutions that are supposed to write the rules for global finance: the FSB, G20, IMF, World Bank and other tax rule-making bodies (OECD and UN).

## ***HOW WE HAVE ASSESSED GLOBAL FINANCIAL GOVERNANCE AND IMPACT***

We have made every effort to be transparent in describing how we reach our conclusions. On *GOVERNANCE*, we have designed a methodology which is comparable across all institutions. Though each institution brings its own history, strengths and weaknesses, we feel that all should be aiming for the same high standards of governance New Rules has identified in earlier analysis of the IMF and FSB. For each institution we therefore consider:

- **Transparency:** Any institution making rules that affect the entire world, must be held to the highest standards of transparency, so that those who make the rules will know the interests of and the potential impacts upon those excluded from the room; while those who are rule-takers can have maximum knowledge of how rules are made, whose interests are promoted, and whose rights protected. Each institution needs to make all documentation and data publicly available at the earliest possible stage, as well as providing all information necessary to explain their functioning and put stakeholders in touch with their representatives. For international tax rule makers, we also



consider the transparency of the policies the institutions promote: the current “system” favors secrecy so that the privileged or deceitful can hide and not pay their fair share for the common good.

- **Accountability:** Each rule-setting organization must be fully accountable to member and non-member governments and to citizens and civil society, in line with its mandate, constitution and internal rules, as well as objective best practices for governance and management. All segments of the institution need to exercise responsibly the authority granted to them as limited by their charters, and not to exceed it through the exercise of raw power. This requires designing, monitoring and implementing measurable accountability frameworks; having open and merit-based selection processes for leaders and senior management; and regularly reviewing the functioning and achievements of their governance structures and meetings in holding management to account.
- **Inclusiveness:** By rights all who are impacted by rules should have a voice in how they are made, evaluated, and amended. However, in a world of billions of citizens, we must accept representative democracy. New Rules supports constituency models which make governance inclusive yet small enough to get work done. The key to an equitable constituency model is a sound, objective basis on which voice and votes are allocated. The powerful will always be represented; but the real challenge is how well each institution ensures the presence and voice of the less powerful and those in need. The representation of non-state or non-governmental interests is also vital: again, while the “for profit sector” will have resources to make its views known, the key concern should be how well each institution listens to the poor and their representatives, and the silent imperatives of the global commons.
- **Responsibility:** The external counterpart to Accountability is Responsibility. Each institution needs to ensure that its actions result in a stronger financial system that promotes more just and economically sustainable global development, especially for people in low income countries, without harm to the global commons. Responsibility requires that institutions assess ex ante for themselves whether their actions and recommendations are sure to have this positive impact; conducting independent ex post evaluations and impact assessments; and operating formal and independent complaint and anti-corruption mechanisms, with protections for complainants, and compensation for those harmed by any institutional action or inaction. It also requires that each institution learn from these assessments and change its behavior.

These four criteria are essential for good governance of any institution, especially when its actions and inactions significantly impact every country. Each governance section of this report analyses governance performance in detail, and uses a “Governance Scorecard” (available at the end of this report) to provide a summary assessment scale for each criterion, from “Poor” (1) to “Excellent” (4).

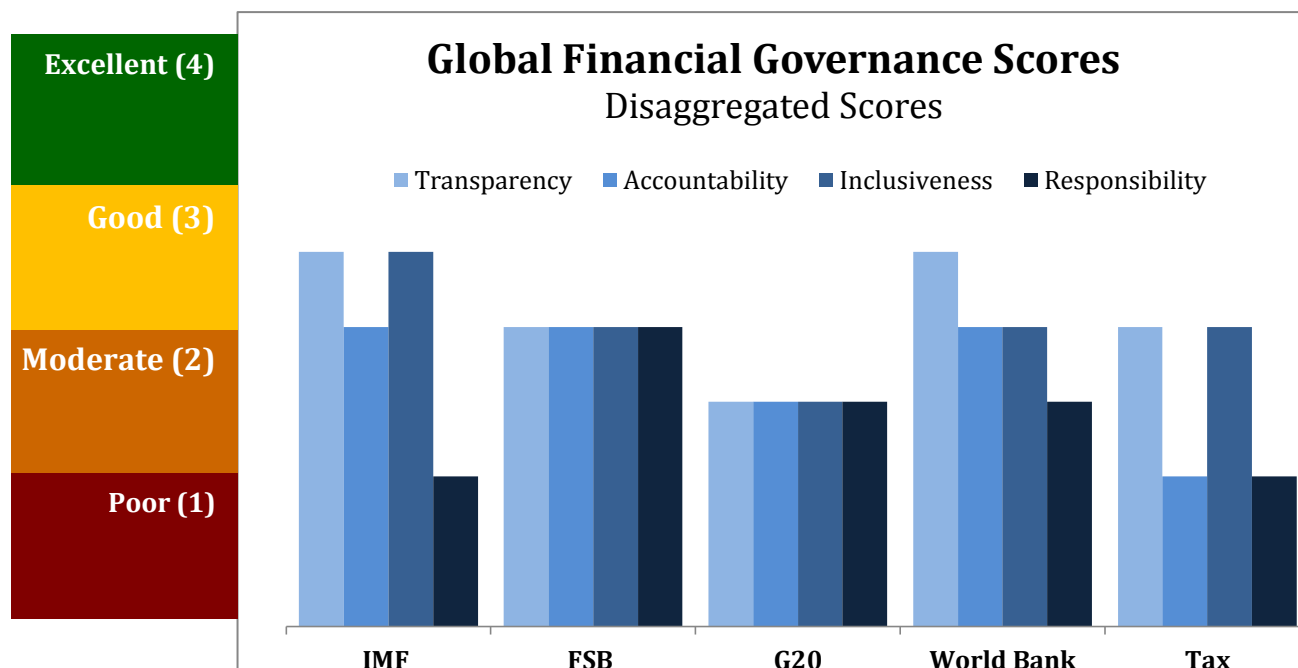
On IMPACT, we have looked at the consequences of each institution’s actions or inactions for the poorest countries and citizens of the world. It is astonishing how little analysis has been conducted of the huge impact of these institutions, and therefore not possible to use the same framework for all. Instead we have turned to experts on individual institutions, from within many excellent partner organizations, to use their own integrity, intelligence, and judgment to assess Impact. In subsequent years, we anticipate creating more standard criteria and impact measures to guide this scoring. Once again, these authors have used “Impact Scorecards” (available at the end of this report) to provide a summary assessment scale for each criterion, from “Poor” (1) to “Excellent” (4).

### ***THE AIMS OF THE FIRST GLOBAL FINANCIAL GOVERNANCE AND IMPACT REPORT***

This is the first ever attempt to assess the quality of the governance and impact of the institutions trying to set the rules for global finance. It provides a snapshot as of 2013, while aiming in the text to reflect efforts by institutions to improve their practices. All the authors recognize that errors are likely, and improvements in our own methodology are vital. In particular, we place less importance in the numbers than in the reality they point to, and the analysis which underlies them in each of the chapters, which we hope will provoke widespread discussion and debate.

We also welcome all efforts to improve our methodology, as well as feedback, comments and questions about the findings, and look forward to reflecting these contributions in future reports. Most of all, we welcome examples of good performance on which the institutions can build, and will celebrate future improvements by them. Based on these ideas, future reports will include priority recommendations for each organization to improve further its governance and impact on the world's citizens.

## Overall Assessment



### Overall Governance

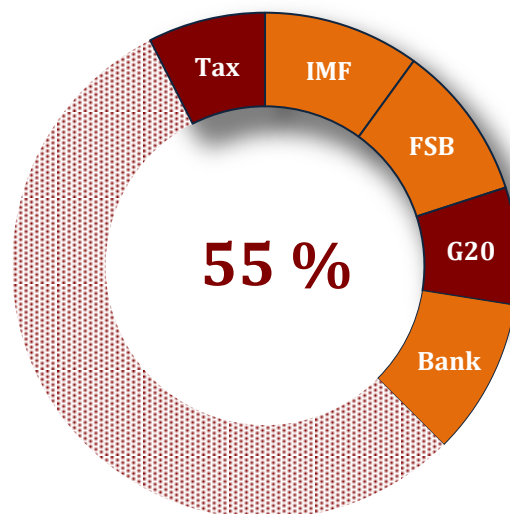
This report finds that the overall Global Financial Governance score is **1.8** (out of 4).

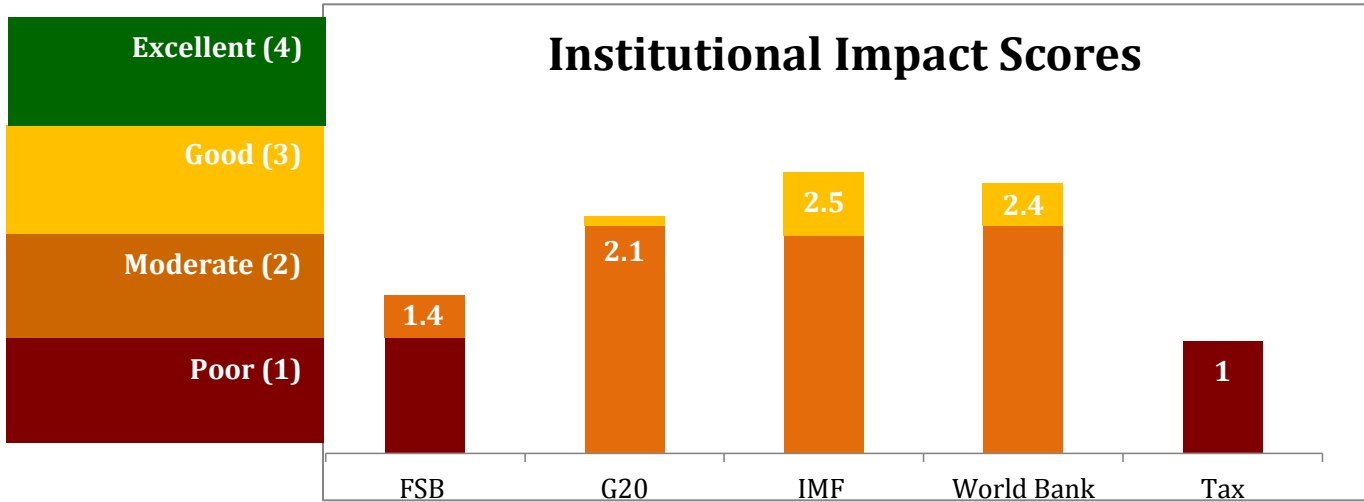
### Governance Gap

The gap in global financial governance is **55 percent** – represented by the empty space in the ring to the right. This reveals the magnitude of the current shortfalls in global financial governance.

*Each Chapter identifies the governance gaps for each institution.*

**Poor**  
**Strong Moderate Outlook**



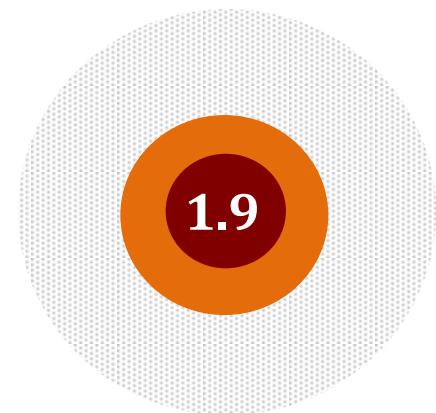


## Overall Impact

This report finds that the aggregate Institutional Impact score is 9.4 (out of 20). The average score is **1.9**. The empty space in the circle diagram to the right symbolizes the potential positive impact that is not being realized.

*Each Chapter identifies the impact for each institution.*

**Poor**  
*Strong Moderate Outlook*



# Financial Stability Board

## FSB Governance

**Eric Helleiner**  
*University of Waterloo*

The Financial Stability Board (FSB) is the newest addition to the group of international institutions concerned with global economic governance. It is not entirely new, however, because the FSB is really a successor to an earlier body - the Financial Stability Forum (FSF) - that was created by the G7 countries in 1999 to foster international financial stability. The FSF was designed to facilitate coordination among various national and international financial authorities, and to assess vulnerabilities and oversee actions needed to address them, including the development and implementation of international financial standards. In the wake of the East Asian crisis of 1997-98, the latter task was deemed particularly important by G7 policymakers who hoped worldwide compliance with international financial standards would create a “new international financial architecture” that would be less crisis-prone.

The outbreak of a new global financial crisis in 2007 highlighted the failure of that goal in a rather spectacular way. Indeed, despite its ambitious mandate, the FSF had played a very low key role in global financial governance between 1999 and 2007. The FSB’s creation in 2009 represented an explicit effort to create a stronger and more effective body to promote global financial stability. The FSB was described early on by US Treasury Secretary Geithner as “in effect, a fourth pillar” of the global economic architecture alongside the International Monetary Fund (IMF), World Bank (WB) and World Trade Organization (WTO).<sup>1</sup> But its governance is very distinctive vis-à-vis those other institutions, raising a number of unique challenges. Some of these challenges are being addressed, but many significant ones remain.

## Inclusiveness

Score

2

The first challenge concerns the FSB’s membership. Following the FSF’s model, the FSB’s membership includes a number of other international bodies, such as the IMF, WB, OECD, Bank for International Settlements (BIS), the Committee on Global Financial System (CGFS) as well as various international financial standard-setting bodies (SSBs) that have been created since the 1970s. The FSB’s country membership is also much more exclusive than that of the IMF, WB and WTO, including just the G20 countries, Hong Kong, the Netherlands, Singapore, Switzerland, Spain as well as the European Commission and European Central Bank. This membership is in fact wider than that of the FSF (which, in 2007, had included just the G7, Australia, Hong Kong, the Netherlands, Singapore, and Switzerland). Even with this expansion, however, a very large number of countries still remain “outsiders” to the institution, affected by its deliberations without having much say in them. Indeed, the FSB has openly acknowledged the

problem that many of the new international financial standards it is promoting have unintended consequences for non-members.

Partly to address this problem, the FSB has established six regional consultative groups (RCGs) for the following regions of the world: Americas, Asia, Commonwealth of Independent States, Europe, Middle East and North Africa, and Sub-Saharan Africa. These RCGs began meeting in late 2011 and each includes both members and non-members. They are designed to encourage greater dialogue between the two groups and approximately seventy non-member jurisdictions are participating in them. Some documents being discussed in the Plenary meetings, but not yet made public, are shared with the RCGs for consultation, and recommendations and papers of the latter are reported back and circulated to the FSB’s Plenary. The RCGs are

co-chaired by a member and non-member, and the latter participates in the FSB Plenary as an observer.

The role of the RCGs in providing voice for non-members of the FSB could be enhanced in a number of ways in the short-term. First, the FSB should be *required* to provide feedback on RCG recommendations. Second, non-members should be given a larger role in the FSB's decision-making. For example, the non-member co-chairs of the RCGs should be given full membership in the FSB Plenary, while other non-members could be invited on a more regular basis as observers and serve as more active participants in the FSB's various working groups, task forces and committees. Third, the RCGs could be strengthened through the provision of secretariats located in their respective regions. And finally, the FSB could do more to clarify the process of selecting invitees to the RCGs as well as to strengthen its efforts to engage in outreach to countries not included in the RCGs (as it is mandated to do under its 2012 charter).

While these initiatives would be useful, the longer-term goal should be to create a FSB with more universal membership. In the late 1990s, some proponents of the FSF's creation had urged for much wider membership of this kind for that body. Canada's finance minister at the time, Paul Martin, made the case in the following way in the summer of 1999: "it is not reasonable to expect sovereign governments to follow rules and practices that are 'forced' on them by a process in which they did not participate. Therefore, whatever form the renewed global financial architecture ultimately takes, all countries must 'buy into it' and take ownership. Only then will the

framework have legitimacy."<sup>2</sup> The same logic applies today.

One possible objection to larger FSB membership is that the FSB's charter requires that members make certain commitments relating to issues such as: the openness and transparency of the financial sector; the implementation of international financial standards; and participation in IMF/World Bank Financial Sector Assessment Programs (FSAPs). Would non-members be willing to make these commitments? The question cannot be answered without first inviting all non-member jurisdictions to consider membership.

Another common objection is that a large membership would make discussions unmanageable in the FSB's Plenary (which serves as the institution's sole decision-making body and which operates according to a consensus rule). But this problem could be addressed through the use of a constituency system similar to that used in the IMF and WB. The FSB has already accepted the principle that member countries are not all allocated the same numbers of seats in the FSB's Plenary. Some countries - the G7, Brazil, China, India, and Russia - are represented by three officials from their respective central banks, finance ministries and supervisory authorities. Others - Australia, Mexico, the Netherlands, South Korea, Spain, and Switzerland - have two representatives, while the rest (Argentina, Hong Kong, Indonesia, Singapore, Saudi Arabia, South Africa and Turkey) have just one. Introducing a constituency system would represent a further step along this line.

## Transparency & Accountability

Score

2

The FSB's governance would also be improved with greater transparency and accountability. The FSB has already made some improvements over the FSF in these areas. The G7 gave the latter a very general mandate and its activities were often obscure. By contrast, the FSB was established with a formal charter that outlined in detailed fashion the core mandate of the institution as well as its structure. In June 2012, this charter was revised to include a new section titled "accountability and transparency." That section notes that "the FSB will discharge its accountability, beyond its members, through publication of reports and, in particular, through periodical reporting of progress in its work to the Finance Ministers and Central Bank Governors of the Group of

Twenty, and to Heads of State and Governments of the Group of Twenty." In keeping with this directive, the FSB has established a website which includes its various reports, and the FSB provides detailed progress reports to the G20.

The FSB could do more, however, to improve the institution's transparency and accountability to the general public. The FSB still does not release much information to the general public about its meetings, including those of its Plenary and the RCGs. An important initiative would be to make public all meeting schedules, agendas, attendees, and minutes of meetings of the Plenary and RCGs. Greater transparency could

also be achieved by the release of more documents being discussed in these meetings and other FSB groups. The FSB Secretariat's communication with the general public could also be improved, including through the listing of more staff contact information on its website.

Greater transparency to the general public may help to reduce the risk of the "capture" of international financial standard setting processes by private sector actors. There has been much speculation in the media and among scholars about how this kind of capture may have contributed to lax regulation at the national and international level during the years leading up to the 2007-08 crisis. The importance of minimizing the risk of private capture has only been heightened by the post-crisis emphasis on "macroprudential" regulation that requires financial authorities to take a strong stand in counteracting market trends, such as cyclical booms or growing concentration and risk-taking within the financial system. Transparency can also help to reduce the risk of capture by encouraging greater public engagement in the FSB's activities in ways that offset the potential influence of private sector groups (which often have greater access to the policymakers).

In fact, the wording of the FSB's initial 2009 charter in fact seemed to confirm the privileged access of private sector groups. It stated that, when developing its medium and long-term goals, the FSB would "consult widely amongst its members and with other stakeholders including private sector and non-member authorities." By restricting its choice of societal actors to the "private sector," the FSB left itself open immediately to the charge that private financial groups would receive special treatment. This impression was only reinforced in another part of the initial charter which stated: "In the context of specific sessions of the Plenary, the Chair can also invite, after consultation with Members, representatives of the private sector."

The revised 2012 charter partially responded to this criticism. While retaining those provisions, it added a new line: "The FSB should have a structured process for public consultation on policy proposals." The FSB has indeed begun to invite public input on proposals. A further step would be to allow civil society organizations to be invited to specific sessions of the Plenary (as is true for private sector representatives) and the RCGs, as well as to provide input into the FSB's various working groups, task forces, and committees. In a June 2012

report to the G20 leaders, the FSB noted it should also "engage in dialogue with market participants and other stakeholders, including through roundtables, hearings and other appropriate events."<sup>3</sup> Those other stakeholders should include civil society organizations. More generally, the FSB should also be required to release information on all consultations it holds with the private sector and other societal actors.

The FSB could also improve its accountability to its members. In the first two years of the institution's existence, there was a widespread perception that the FSB's influential Steering Committee was dominated by central bankers, particularly those from advanced industrial countries. Prompted by the G20 leaders, the Committee's membership was reconstituted and expanded in January 2012 to include representation from the executive branch of the "G20 Troika" countries (the previous, existing and subsequent G20 chairs) and of the five countries whose financial sectors were most systemically important. Geographic regions and financial centers that had not been represented on the Committee were also included.<sup>4</sup> These reforms highlighted the need for greater transparency surrounding the selection process of the membership of the FSB's various committees, task forces and working groups.

The perception that the FSB is dominated by central bankers has been reinforced by the fact that the central bank-controlled BIS has been hosting the organization, and providing its funding (as well as many of its staff). When new Articles of Association were established for the FSB in January 2013 (see below), an opportunity to change these arrangements arose, but instead, the FSB continued to be located in the BIS and its funding was secured through a multi-year agreement with the BIS. While the latter allows the FSB to be placed on a more firm financial footing, does it make sense from an accountability standpoint to have the organization financially dependent on just one of its members (the BIS)? Wouldn't the FSB be more accountable to all its members if it was funded instead by a membership fee (an option that was considered but rejected)?



## Responsibility

Score

2

Perhaps the most serious challenge facing the FSB's governance is the question of whether it has enough influence to be effective. Unlike the IMF, WB and WTO, the FSB is not a multilateral treaty-based organization. It was created simply by an announcement of the G20 leaders at their second summit meeting in London in April 2009. Although the FSB was given a charter, that document was never ratified by any legislature. The charter also noted very clearly that it was "not intended to create any legal rights or obligations". Indeed, when it was created, the FSB did not in fact have any formal legal standing.

Just like the FSF, the FSB was thus established as a remarkably toothless organization with no ability to compel its members to abide by its decisions. The problem applies not just to the FSB's country members but also the IMF, WB and OECD which highlighted that they would not necessarily be bound by FSB's decisions when they joined the institution.<sup>5</sup> The international standard-setting bodies have also protected their independence. The FSB's charter notes that it will "undertake joint strategic reviews of and coordinate the policy development work of the international standard setting bodies to ensure their work is timely, coordinated, focused on priorities and addressing gaps." But the charter goes on to acknowledge that "the standard setting bodies will report to the FSB on their work *without prejudice to their existing reporting arrangements or their independence*." [emphasis added]

This weakness of the FSB is compounded by the nature of international financial standards. In contrast to the international trade agreements, these standards have long been non-binding "soft law" with which compliance is

entirely voluntary. Like the FSB itself, none of the SSBs that developed these standards were multilateral treaty organizations. They have no formal power and little capacity to encourage compliance. It comes as little surprise that compliance with international financial standards has often been uneven in the past.

As part of its mandate to encourage the implementation of international financial standards, the FSB has been given a few new tools. FSB member countries have agreed to undergo peer reviews as well as participate in FSAPs. In late 2011, the G20 leaders also endorsed a new FSB "coordination framework for implementation monitoring" to encourage implementation of a core group of post-crisis international standards. The framework focuses on the role of enhanced public reporting and monitoring, with the FSB Secretariat producing an annual status report on the progress of countries' implementation.

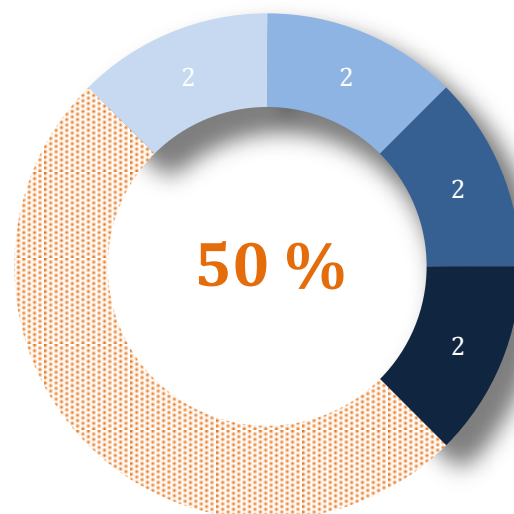
These tools and initiatives may help to encourage compliance with international standards, but a more ambitious strategy would be to transform the FSB's legal status into an organization more like the IMF, WB and WTO. This transformation was considered in 2012, but a multilateral treaty-based organization was deemed then to be "not an appropriate legal form at this juncture".<sup>6</sup> Instead, a much more limited reform was introduced in January 2013 in which the FSB was given a legal personality as an association under Swiss law. Its new Articles of Association continued to stress that the FSB's activities and decisions "shall not be binding or give rise to any legal rights or obligations".<sup>7</sup> Perhaps we will need to wait until the world has experienced one more major crisis before this core weakness of the FSB's governance will be addressed in a significant way.

# FSB Governance Assessment

**Moderate**

## Governance Gap

Governance Element	Score
Transparency	2 / 4
Accountability	2 / 4
Inclusiveness	2 / 4
Responsibility	2 / 4
<b>Total Score</b>	<b>8 / 16</b>
<b>Average Score</b>	<b>2</b>



<sup>1</sup> US Treasury. 2009. *Press Briefing by Treasury Secretary Tim Geithner on the G20 Meetings*. Pittsburgh Convention Center, Pittsburgh, Pennsylvania. September 24.

<sup>2</sup> Paul Martin, *The International Financial Architecture: The Rule of Law*. Remarks by the Honorable Paul Martin, Minister of Finance, to the Conference of the Canadian Institute for Advanced Legal Studies, Cambridge, United Kingdom. 12 July, 1999.

<sup>3</sup> FSB, *Report to the G20 Los Cabos Summit on Strengthening FSB Capacity, Resources and Governance*, June 12, 2012 (Basel: FSB) p.2.

<sup>4</sup> FSB, *Report to the G20 Los Cabos Summit on Strengthening FSB Capacity, Resources and Governance*, June 12, 2012 (Basel: FSB), p.4.

<sup>5</sup> IMF, *IMF Membership in the Financial Stability Board*. February 22, 2013 (Washington: IMF).

<sup>6</sup> FSB, *Report to the G20 Los Cabos Summit on Strengthening FSB Capacity, Resources and Governance*, June 12, 2012 (Basel: FSB), p.3.

<sup>7</sup> Financial Stability Board. 2013. *Articles of Association*.

[http://www.financialstabilityboard.org/publications/r\\_130128aoa.pdf](http://www.financialstabilityboard.org/publications/r_130128aoa.pdf), p.3.



# FSB Impact

No country – advanced or developing – was completely excluded from the consequences and hardships caused by the 2007-2008 financial crisis. Nonetheless, the reforms, standards and rules for the global financial system are agreed upon in an exclusive institution: the Financial Stability Board. This exclusion is justified by the fact that financial markets – and their regulators – are concentrated in the FSB countries, and the onus of implementing reforms is mostly theirs. Although developing countries may seem to have lesser stake in the global financial system, they are more vulnerable to instability in the global economy – face disproportionate consequences when regulations fail to maintain stability. This section considers the impact of FSB decisions for developing countries, for which some components of the global financial architecture are of particular concern, such as: Banking Regulations, Derivatives Market, Global Tax Rules, Sovereign Debt Markets and Trade and Financial Services. In this section, experts provide a brief assessment of the FSB’s work in each of these areas and how it impacts developing economies, as well as a score based on the “Impact Scorecard.”

## Banking Regulations

Eric Helleiner, *University of Waterloo*

Lesley Wentworth, *South African Institute for International Affairs (SAIIA)*

Score

2

### **Why is this issue vital?**

To date, the FSB’s bank regulatory agenda has focused primarily on Basel III. The third Basel Accord Framework sets out, *inter alia*, higher and better-quality capital requirements and a leverage ratio that should result in better risk coverage and reduce the probability and severity of future potential banking crises.

Unfortunately, Basel III only addresses financial institutions with which many people in poor countries have no relationship. Critics also argue that Basel III may have the effect of reducing international financial flows to emerging markets and developing economies (EMDEs), reinforcing the case to focus more on how local financial institutions can better serve local financial needs.

### **What should the FSB be doing?**

In this context, the FSB should devote more attention to the financial inclusion agenda that has emerged as a central goal of many international and national development institutions, as well as the G20. The exclusion of a significant section of the population in EMDEs from financial services represents a risk to the integrity of the financial system, with much higher potential for financial crimes. This raises a number of

issues that are part of the FSB’s financial stability mandate.

As part of this mandate, the FSB should:

- Improve its focus on regulation of financial institutions outside of traditional financial systems and distinguishing between ‘worthy’ community-centered institutions, like community banks vis-à-vis fraudulent and exploitative financial lenders. This is in line with the FSB’s efforts to strengthen oversight and regulation of the “shadow banking” sector.
- Support regulators in discouraging banks from discriminatory practices and focusing on pro-poor inclusivity, such that access to both banking and non-banking financial services is improved.
- Continue to establish fair and equitable standards and foster best practices across this area of focus.
- Encourage research cooperation in this area, especially across FSB Regional Consultative Groups.

**Evaluating the FSB's progress**

These recommendations build on the FSB's February 2012 RCG for Sub-Saharan Africa meeting which identified the need to enhance financial inclusion. They are also in keeping with the FSB's work on consumer finance protection and the efforts of FSB members to

explore options for strengthening consumer protection through the establishment of consumer protection authorities and implementing responsible lending practices.

An encouraging sign is that the FSB is launching a Resolvability Assessment Process in 2014 that will include authorities from countries "hosting" global systemically important financial institutions (G-SIFIs). If this includes EMDEs, beyond just the BRICS, policy outcomes are more likely to benefit developing countries and their citizens that depend on banking services provided by G-SIFIs. \*See FSB EMDE Monitoring Note, Sept 12

## Commodity Derivatives

Steve Suppan, *Institute for Agriculture and Trade Policy (IATP)*

Peter Wahl, *World Economy, Ecology and Development (WEED)*

Score

2

**Why is this issue vital?**

A major factor contributing to food insecurity in food import dependent Emerging Market and Developing Economies (EMDEs) is excessive speculation in agricultural commodities. Financialization of commodity markets has resulted in price movements and price volatility in commodities beyond what can be explained by real economy factors.

**What should the FSB be doing?**

The FSB has the mandate to monitor market developments and their effect on regulation. The FSB Over the Counter (OTC) Derivatives Working Group should analyze the effects of deregulation and regulatory avoidance on commodity derivatives prices and price volatility, for example by OTC dealer broker resistance to rules to realize the G-20 mandates.

The FSB should interpret its mandate to include, through evaluation, impacts of the financialization of commodity markets on the real economy. The FSB should study the effects of commodity indexed speculation on food and energy prices and price volatility in EMDEs affecting EMDE financial stability. The FSB OTC Derivatives Working Group and EMDEs Review Group should invite stakeholder input in the design of the study and comments on the consultation and its recommendations.

**Evaluating the FSB's progress**

The G-20 members have yet to implement OTC derivatives commitments. The FSB has recognized that better pre- and post-trade data is necessary to regulate markets effectively, and that inconsistent and incomplete reporting will prevent realization of commitments. It has recommended to the G-20 that OTC trade data should be in a standardized format to enable timely and comprehensive surveillance within and across markets. Without such surveillance, effective enforcement and planning for possible new rules cannot be carried out. However, restrictive rules on regulator access to data can frustrate fulfilling the purposes of the FSB's forthcoming feasibility study on data integration.

FSB summarizes the state of OTC legislation and regulation as reported by G-20 members, but it has not reported even synthetically on how and why implementation of regulation has been frustrated. It has alerted G-20 finance ministers to the potential risks posed by synthetic index derivatives funds. It has yet to advise the G-20 on the consequences of High Frequency Trading, particularly of OTC derivatives, for financial stability.

## Sovereign Debt

Eric LeCompte, *Jubilee USA*  
Kunibert Raffer, *University of Vienna*

Score

1

### **Why is this issue vital?**

Sovereign debts have repeatedly posed threats to financial stability, highlighting severe vulnerabilities of the financial system. While Euro-countries are presently the focus of the debate, new debt crises are brewing in quite a few developing countries. There is an urgent need to prepare for future crises.

Assessing and addressing these vulnerabilities is central to the FSB's mandate. As regulatory norms were an important cause of most severe debt crises, the problem of sovereign debts demands appropriate regulatory reforms to stabilize the system, i.e. the very activities for which the FSB was created.

### **What should the FSB be doing?**

The FSB must address the problem of sovereign insolvency by working on a sovereign debt procedure that is economically sound, based on the Rule of Law, and renders the system more crisis resistant. The advantages of such a procedure recommended by Adam Smith are proven: all national jurisdictions apply bankruptcy laws to resolve insolvency.

Learning from past sovereign debt crises, an international regulatory framework must be designed. Lower capital weights for potentially destabilizing short term lending and the strong links between capital weights and credit

rating agencies have to be reconsidered. Internal risk assessment by the regulated must be abolished. Loan loss provisioning should be more widespread.

### **Evaluating the FSB's progress**

Regarding sovereign debt vulnerabilities, the FSB has unfortunately not been very active. Regulatory changes to reform Basel II have been made, but they have not sufficiently redressed the problem of undue preference for short-term lending, nor of internal risk assessment. Loan loss provisioning plays a strong role but has yet to be adequately addressed by the FSB. The FSB should support and work to enact the UNCTAD Principles on Responsible Lending and Borrowing. The FSB should use the ratio of debt service paid to debt service due as another possible early-warning indicator of a sovereign debt crisis.

Implementing reforms to mitigate the negative impacts of excess public debt would stabilize sovereign lending and help to defuse future debt crises. The present situation of many developing countries makes this mandatory. In addition, the dependence of the world's financial system on very few credit rating agencies (CRAs) is problematic, especially for sovereign debt, and should be corrected. According to its own September 2013 Status Report, the FSB has failed to even develop policy recommendations for reducing reliance on CRAs.

## Taxation and Illicit Financial Flows

Soren Ambrose, *ActionAid*  
John Christensen, *Tax Justice Network (TJN)*

Score

1

### **Why is this issue vital?**

Taxation is crucial for EMDEs as they struggle to expand their development. Domestic resource mobilization provides the highest quality revenue streams for developing countries, both in terms of sustainability and accountability. It facilitates advances toward the end of aid dependence and the avoidance of future debt crises. In addition to providing revenues needed for public

services and infrastructure, taxation is also the most practical vehicle for establishing accountability between citizens and the state apparatus. Tax policy is a vital tool, too, for managing ecological risks like climate change by putting a price on destructive actions.

More generally, for the last 30 years or so, global economic structures and trends have been shaped by

“financialization” rooted in the manipulation of existing rules in the pursuit of tax arbitrage more than productive economic activity. Global financial stability – and ultimately a healthier form of globalization – requires a shift away from the exploitation of perverse incentives.

### ***What should the FSB be doing?***

International tax regulation has long suffered from being subject to partial coverage by a large number of entities, from the OECD to the IMF. But where everyone is in charge, no one is in charge, and jurisdictions are more inclined to engage in a regulatory race to the bottom. If the FSB takes seriously its responsibility to diagnose global financial vulnerabilities and its coordination function, it should intervene to fill the gaps and bring coherence to the multiple actors now attempting to manage the task.

The FSB should assume a coordinating function for tax regulation and perform monitoring of the effectiveness of existing regulation. In keeping with its mandate to

identify vulnerabilities, the FSB should also serve as an advance warning agency that can flag the potential for instability resulting from, for example, the widespread use of derivatives for tax arbitrage. It should set standards for minimum levels of transparency, including public registry of ownership information (including trusts, fiduciaries, and foundations).

### ***Evaluating the FSB's progress***

The Financial Stability Forum (FSF) – the FSB’s predecessor – issued a high-quality report from its Working Group on Offshore Centers in April 2000. Since then, we cannot identify much relevant activity. To evaluate future FSB’s progress in this area, attention could focus on criteria such as: improved transparency of ownership information; improved access for non-OECD jurisdictions to automatic information exchange processes; setting standards for international cooperation to counter harmful tax competition; and adoption of accounting standards to enhance corporate transparency

## **Trade and Financial Services**

Andrew Cornford, *Counsellor with the Observatoire de la Finance*

Myriam Vander Stichele, *Center for Research on Multinational Corporations (SOMO)*

Score

1

### ***Why is this issue vital?***

GATS/FTA rules are, in principle, often in contradiction with, and constrain, current financial reforms. The rules of GATS/FTAs facilitate circumvention of financial regulation and its reforms.

Foreign banks are not interested in inclusive finance, which is important everywhere but especially vital in EMDEs. Foreign control of domestic banks in developing countries, which is favored by the rules of the GATS and FTAs, is often an obstacle to policies promoting financial inclusion.

Liberalization of financial services in accordance with GATS/FTA rules increases vulnerability to financial instability from external sources, i.e. the home countries of the foreign banks and international markets.

Controls over the liberalization of trade in financial services through GATS/FTAs are vital because:

- International trade in financial services is capable of undermining global financial stability.
- International trade in financial services institutionalizes the overbearing power of the financial sector.
- Such power can undermine democracy by narrowing the policy space and constraining the implementation of enacted laws on financial regulation.

### ***What should the FSB be doing?***

Although the rules of GATS/FTAs are relevant to the introduction and implementation of international standard for financial regulation, they are currently not part of the agenda of the bodies setting international financial standards, a gap that the FSB should address. Particular attention should be devoted to: 1) the deregulation of capital movements under the rules of GATS/FTAs; 2) constraints on, and prevention of, macro-prudential regulations; and 3) measures of cross-border crisis

management still largely untested under GATS /FTA rules. Given its mandate to coordinate a wide-range of the financial policies at both the international and national levels, the FSB should include these issues.

#### *Evaluating the FSB's progress*

FSB is not currently addressing the relation between its policy agenda and the rules regarding international trade in financial services of the GATS/FTAs. The FSB's

future impact in this area should be judged according to its eventual willingness to extend the coverage of its agenda to include the GATS/FTA rules on international trade in financial services. In particular, the FSB should proactively identify instances of the incompatibility of the standards for financial sector regulation and other policies that it promotes, on the one hand, and GATS/FTA rules and country commitments in the World Trade Organization (WTO), on the other.

## FSB Impact Assessment

**Poor**

*Slight Moderate Outlook*

Impact Criteria	Score
Banking Regulations	2 / 4
Commodity Derivatives	2 / 4
Global Tax Rules	1 / 4
Sovereign Debt	1 / 4
Trade-Financial Services	1 / 4
<b>Total Score</b>	<b>7 / 20</b>
<b>Average Score</b>	<b>1.4</b>



#### Understanding the Scores:

1	<ul style="list-style-type: none"> <li>Has <b>not</b> taken sufficient, if any, action to address relevant issues and/or has taken actions which have led to negative impacts for developing countries</li> </ul>
2	<ul style="list-style-type: none"> <li>Has taken action to address relevant issues</li> <li>Actions have <b>neither</b> improved or degraded outlook for real economies of developing countries</li> </ul>

## An Encouraging Sign from the FSB:

### Transparency in Global Finance: The global Legal Entity Identifier (LEI)

Navin Beekarry, *Center for Law, Economics & Finance (C-LEAF)*

The financial crisis demonstrated the extreme complexity of the global financial system and that risks can spread rapidly. Lack of accurate identification of legal entities engaged in financial transactions raised significant challenges for regulators and private sector managers responsible for evaluating and mitigating these risks. A Legal Entity Identifier (LEI) system addresses this challenge. An LEI is a unique code that identifies a legally distinct entity that engages in a financial transaction. The Global LEI System (GLEIS)<sup>2</sup> – initiated by the Financial Stability Board (FSB) per the request of the G20 – is designed to be the first global and unique entity identifier with free and open access for regulators, industry, NGOs and the public.

A primary objective of the GLEIS is to help global regulators to better measure and monitor systemic risk across financial entities across jurisdictions. The GLEIS will help regulators in identifying entity, group, business line, or geographical risk concentrations to gain a more complete and accurate picture of risks than ever before. Such a framework will provide a transparent, open and fair system, that protects against the risk of abuse of dominant market positions, and that facilitates quick adoption.

The LEI is also expected to provide greater transparency into the beneficial owners (the person(s) who actually own and reap profits from a trust or corporation) of legal entities (LEs). Relationships data that is compiled by the GLEIS will facilitate the tracking of relationships among LEs, their affiliates across jurisdictions and the ultimate beneficial owner. In the financial collapse of 2008 no one knew Lehman Brothers' or AIG's connections. The GLEIS will make it much more difficult to engage in money laundering, tax evasion and other illegal financial transactions. Developing economies, which are disproportionately affected by illicit financial flows, will be a major beneficiary of a global LEI system.

However, as the GLEIS system is by nature a public good, there is a need to make sure that the gains for the broader public are captured and that provision of the GLEIS is not exploited in ways that will harm the public. Incentives for suppliers of the LEI to exploit their privileged position and overcharge registrants, restrict access, cut corners on data quality, or to use a position of privileged access to LEI information to supply other revenue-generating services on non-competitive terms, constitute serious challenges to the public nature of the LEI. These arguments provided the motivation for the FSB mandate to produce recommendations for a governance framework for the LEI that identifies and provides strong protection of the public interest.

<sup>1</sup> The G20's decision of November 4, 2011 provides the basis for the development of the LEI.

<sup>2</sup> GLEIS comprises three organs: the Regulatory Oversight Committee (ROC), which governs the global LEI system; the Central Operating Unit (COU), which ensures the application of uniform global operational standards and protocols and the Local Operating Unit (LOU), which will provide the primary interface for entities wishing to register for LEIs.



# Group of Twenty

## G20 Governance

Nancy Alexander

*Heinrich Boell Foundation, North America*

### Introduction

As “the premier forum for international cooperation”, the Group of 20 (G20) is comprised of the 19 most economically powerful nations, plus the European Union (EU). The G20 member countries represent 90% of global GDP, 80% of international global-trade, two-thirds of the world’s population, and 84% of all fossil fuel emissions.

This section presents information and perspectives about governance of the G20 – specifically its track record in terms of inclusiveness, transparency, accountability and responsibility. Although these are desirable values, particularly for a relatively new global governance body, the G20’s capacity to excel in these areas is limited by its nature.

Specifically, the G20’s accountability is limited by the fact that:

- **Member countries were not selected according to objective criteria. Rather, they were selected based on the subjective judgment of the U.S. and Canadian Finance Ministers in the aftermath of the East Asian Financial Crisis.** The member countries were chosen to represent their own interests – not the interests of their region, although some regional consultative practices have emerged over the years. In other words, from the outset, the G20 was not intended to be an inclusive or representative body.
- **The G20 is an informal entity that lacks any charter or articles of agreement setting forth its purpose and designating where its powers begin and end. Moreover, it is not accountable to any other, more representative body, such as the United Nations.** Therefore, the G20 can only be held accountable to its own policy frameworks, such as:
  - 1) The Framework for Strong, Sustainable and Balanced Growth, which sets out the economic goals and objectives for G20 member countries, themselves, together with some collective goals;
  - 2) Development Action Plans (DAPs), which sets out the goals and objectives of the G20 countries, particularly relative to low-income countries; and
  - 3) The Anti-Corruption Working Group’s Action Plan.

Meanwhile, the G20’s power is expanded by:

- **Its dominance in international organizations.** The G20 countries make up the membership of the Financial Stability Board (FSB) and often hold sway in international organizations. Indeed, its member countries hold the vast majority of votes in the international financial institutions (IFIs). As a result, the G20 – as a non-representative body – can direct the workings of the IFIs – which are imperfect, but still representative, institutions.
- **The G20 as a Network.** The global financial architecture is altered, not only by the existence of the G20, but also by the multiplicity of G20 collaborations, which creates the effect of a global “cabinet”. For instance, in addition to its Finance Ministers and Central Bank Governors Meetings, the G20 has convened its Labor, Agriculture, Energy, Tourism, and Foreign Ministers.

The G20 also networks through initiatives, such as its “Financing for Investment” initiative to mobilize long-term infrastructure finance. In this effort, the G20 collaborates with the World Economic Forum and regional bodies and

initiatives, such as the Association of Southeast Asian Nations (ASEAN) Infrastructure Fund; the Program for Infrastructure Development in Africa (PIDA); and the Initiative for the Integration of the Regional Infrastructure of South America (IIRSA). This effort also involves an exploration of how to change the mandates of national and international development banks to promote public-private partnerships (PPPs), particularly in infrastructure.

## Inclusiveness

Score

1.5

The G20 membership includes 19 countries and one region:

- The G8: Canada, France, Germany, Italy, Japan, Russia, U.K., U.S.;
- The “Rising 9”: Argentina, Brazil, China, India, Indonesia, Mexico, South Africa, South Korea, and Turkey;
- Australia and Saudi Arabia; and
- The European Union.

In an attempt to address the fact that its membership excludes 173 countries, the G20 invites the participation of non-member countries at the Leaders’ Summit and Sherpa, Ministerial and Working Group discussions. In addition to Spain, which is a permanent observer, the G20 President invites four non-member countries taking into account geographical representation and including countries which preside over regional fora (African Union [AU], NEPAD, APEC, ASEAN) and the Global Governance Group (3G), which is described below).<sup>1</sup>

To its Summit, the Russians invited Ethiopia (Chair, AU), Senegal (Chair, NEPAD), Kazakhstan (Commonwealth of Independent States), Brunei Darussalam (Chair, ASEAN) and Singapore (Chair, 3G<sup>2</sup>). In addition, representatives of international organizations attend: the International Monetary Fund,

the World Bank, the World Trade Organization, the Financial Stability Board, the Organization for Economic Cooperation and Development (OECD), the United Nations, and the International Labor Organization (ILO).

**Non-State Actors.** The President of the G20 determines the type of relations the body maintains with non-state actors, including business, labor, civil society, youth, young entrepreneurs, and women. During the U.S. G20 Presidency, there were few interactions between the G20 and such groups. The Canadian G20 Presidency was not much better. The level of ambition is increasing with regard to the Russian outreach strategy<sup>3</sup> and early indications of the Australian strategy.<sup>4</sup>

In general, G20 relations with Think Tanks and Civil Society are not as regular and transparent as they are with the Business 20 (B20). The Civil 20 met with Sherpas during the South Korean Presidency. Meetings with G20 officials were more regular under the Russian Presidency, although many actors considered this a charade. That is, while it engaged in extensive repression of domestic civil society activities, the Russian government used Civil 20 consultations to polish its image. During the Australian Presidency, Think Tanks – led by Australia’s Lowy Institute – promise to play the strongest role in any summit process to date.

## Transparency

Score

1.5

Three types of transparency are important:

### (1) Disclosure of information by the G20 Presidency.

In recent years, when the Presidency of the G20 has rotated, the website of the outgoing G20 President disappears and the incoming G20 President usually constructs a new website. In an era when so much research and communication occurs via the internet, this practice is disruptive. The G20 website should be a

permanent fixture, but maintained by the G20 Presidency with assistance from its Troika<sup>12</sup> partners.

Regarding Summits, Ministerial groups (i.e., Finance Ministers and Central Bank Governors), and its working and expert groups, the G20 Presidency should disclose the lists of members, meeting agendas, background papers, commissioned papers, and minutes of meetings in a timely and proactive manner for public access. This does not currently occur. The G20 does not disclose the membership list for its sub-groups or meeting agendas. It



discloses often-cursory summaries subsequent to some meetings, which may or may not contain the decisions made. Commissioned papers are not routinely published on the website of the G20 or the organization (e.g., the World Bank, the OECD, etc.) that prepares the papers.

**(2) Disclosure of G20 Commitments.** There is a great deal of opacity about the inner functioning of the G20 Ministerial groups and working groups (e.g., Framework Working Group; Anti-Corruption Working Group; Energy Sustainability Working Group; International Financial Architecture Working Group; Financing for Investment Study Group; Climate Finance Study Group). However, there are vehicles by which the G20 discloses its commitments, such as:

- In 2009, the G20 set up a “Framework for Strong, Sustainable and Balanced Growth,” which is a multilateral process through which the G20 identifies objectives for the global economy and the policies that member countries need to implement to achieve the objectives. The policy commitments by G20 Members are appended to each G20 Summit Declaration.
- In 2010, the G20 launched a three-year Development Action Plan (DAP), which set forth the nine objectives for G20 relations with non-member countries, particularly low-income countries.
- The Anti-Corruption Working Group sets out its commitments in Action Plans.

**(3) Disclosure by each G20 member country, the EU, as a region, and routine observers** (Spain, ASEAN, AU, NEPAD, 3G). Each participant should also maintain a website that provides a comprehensive view of its engagement in the Group, including points of contact for external stakeholders. Democratization of the G20 depends upon citizens and their elected officials having decisive input to G20 officials at the national level. Government contact points, or liaisons, should conduct regular meetings and exchanges so that citizens’ groups can not only make their positions known, but engage in decision-making processes, and learn about final decisions made.

It is also important that Major Groups disclose their activities and recommendations; this includes the Business 20 (B20), Civil 20, Think Tank 20, Youth 20, Young Entrepreneurs 20, and G(irls)20. However, when the G20 Presidency rotates annually, it is not always the case that civil society groups (which are, by definition, diverse) have the will and capacity to organize themselves and present a common front. While most civil society groups would prefer to self-select and organize a common front with international partners, the G20 Presidency in Russia and Australia has selected and/or funded domestic citizens’ groups to perform this function.

## Accountability

Score

1.5

**Relations with Non-Member Countries:** The G20 member countries should exercise “upward” accountability to the entire community of nations for the policy actions they undertake and “outward” accountability to groups of non-member countries and other stakeholders. In addition, it is important to assess the G20’s compliance with its commitments.

**Upward Accountability:** It would be ideal if a body, such as the G20, comprised a Global Economic Coordination Council, as recommended by a 2009 Report of a Commission of Experts on Reforms of the International Monetary and Financial System.<sup>13</sup> Then, it would be accountable to the world community rather than it itself. Although such a proposal is a political non-

starter, the G20 can and should strengthen its communications with the UN.

At the UN, a liaison group – the Global Governance Group (3G) – was created in 2010. Led by Singapore, the 3G is comprised of about 30 small- to medium-sized non-G20 member countries. It set out the process by which the G20 should be accountable to the community of nations: “Strengthening the Framework for G20 Engagement with Non-Members.”<sup>14</sup> Speaking on behalf of the Global Governance Group at the United Nations in April 2013, Albert Chua stated:

*“In the 3G’s view, the United Nations must continue to lead the effort in shaping the global governance framework. As the only global body with universal*

*participation and unquestioned legitimacy, the United Nations has a central role in global governance.”<sup>15</sup>*

The International Financial Institutions (IFIs) – namely the International Monetary Fund and the World Bank – are nearly-universal forums. Yet, the G20 is not accountable to the IFIs; in some respects, these bodies are accountable to the G20. For instance, the G20 has mandated that the IFIs conduct analysis and research on its behalf. In some instances, the G20 acts like a caucus inside the IFIs – for instance, with regard to reform of the IMF governance and voting system.

**Outward Accountability:** Since regional bodies, such as the AU and ASEAN, are G20 observers, they could facilitate consultation in the run-up to a G20 Summit. Sometimes, the regional consultation mechanism may be formalized. For instance, the “Committee of 10” (C10) comprised of African Finance Ministers and Central Bank Governors was created in 2008 to, among other things, identify strategic economic priorities for Africa and develop a clear strategy for Africa’s engagement with the G20. At its last meeting in Washington DC in April 2014, the C10 encouraged diversification to overcome economic vulnerability and call for strong support for the African Development Fund.

In addition, some types of consultations are becoming a tradition, such as the G20 engagement with the Commonwealth countries.

**Compliance with Commitments:** Compliance is measured by the G20 itself, through peer review; by international organizations; and by outside groups.

For the September 2013 G20 Summit, the G20 produced its Accountability Assessment (AA), describing its (non) compliance with the AA’s framework goals. Through a “Mutual Assessment Process” (MAP), the IMF works with G20 member countries to assess compliance with their framework commitments (e.g., financial, fiscal, monetary and exchange rate, structural policies) in the context of the “Framework for Strong, Sustainable and Balanced Growth” which contains the most important commitments made by the G20.

In the future, the G20 will utilize a peer review methodology to assess each other’s implementation of the commitment to remove fossil fuel subsidies. Its 2013

Progress Report assesses the Anti-Corruption Working Group’s performance.

It is commendable that the G20 has produced the St. Petersburg Accountability Report on G20 Development Commitments for the September 2013 Summit, but many observers would question its conclusion that the implementation of only one commitment out of 67 has stalled. The St. Petersburg Development Outlook includes the development actions that the G20 intends to undertake in the next three year period. (See below)

In terms of non-state actors, the International Chamber of Commerce releases an annual “G20 Scorecard,” that ranks G20 performance according to the priorities of member country businesses. The G20-B20 Dialogue Efficiency Task Force Report found that, of the total of 262 business recommendations, 93 or (35.5%) have been reflected in the G20 documents as commitments or mandates. Civil society recommendations to the Russian G20 Presidency were developed with difficulty, in part because the Russians chose co-chairs from the business community for three of the seven working groups that developed these recommendations. Efforts by civil society to assess G20 accountability are *ad hoc* in nature.

The International Trade Union Confederation (ITUC) provides clear recommendations for policy discussions at G20 Leaders’ Summits as well as Summit evaluations.<sup>16</sup> The G20 sometimes makes more progress on modest “asks,” such as those relating to youth apprenticeships than to weightier “asks,” such as to “Take targeted action to support aggregate demand and employment in those countries facing a serious slowdown in growth or slipping into recession; and put an immediate halt to austerity measures and corresponding cuts in public spending in areas that provide social support...”<sup>17</sup>

The University of Toronto and the Higher School of Economics (Moscow) attempt to rank G20 performance objectively in seven areas: 1) implementation of structural reforms, 2) overcoming imbalances, 3) international financial institutions reform, 4) financial market regulation, 5) protectionism, 6) phase out of inefficient fossil fuel subsidies, and 7) development. Their 2012 report entitled, “Mapping G20 Decisions Implementation: How G20 is delivering on the decisions made” (the “Mapping... document) suffers from methodological problems in identifying actual

commitments and instances when they are implemented. Yet, there are deeper problems:<sup>18</sup>

- All commitments are not created equal. The methodology provides equal weight to performance with regard to commitments.
- Implementation of some development-related commitments could undermine the sovereign will of low-income countries that have not participated in the design of those commitments. For instance, West African countries rebuffed the G20's attempts to pilot a regional food security reserve.
- Implementation of G20 commitments to cut minimum wages, job protections, and

unemployment insurance can short-circuit domestic laws and bargaining rules.

- Implementation of some commitments can undermine other commitments. For instance, as the authors of the "Mapping..." document recognize, there are trade-offs between fiscal consolidation and creating jobs and growth. Commitment to trade liberalization can conflict with its commitment to job creation; commitment to infrastructure could potentially undermine its commitment to "green growth;" and commitments to business climate reform can conflict with its commitment to create quality jobs and financial stability.

## Responsibility

Score

1.5

While it is beyond the scope of this article to provide an agenda to improve the G20's effectiveness, measures in three areas are proposed:

**Austerity vs. Growth and Jobs:** The ultimate test of G20 effectiveness is its contribution to economic recovery and sustainable development. In 2008, when the G20 began meeting at the 'heads of state' level, it resolved to promote global economy recovery and rebalancing. In 2008-2009, the G20's global stimulus program helped avert depression, yet in 2010-2013, the G20 prematurely promoted too much fiscal contraction in too many places. Expansionary monetary policy by the U.S. and other advanced economies may have reached its limits, yet the world economy remains precarious.<sup>19</sup>

**Financial Institutions and Flows:** Today, financial power is more centralized in bigger and fewer financial institutions than at the time the global financial crisis erupted. The "shadow economy" remains largely unregulated with little progress toward achieving greater transparency of the over-the-counter (OTC) market in derivatives – a market that is so large and opaque that it destabilized the world economy. To safeguard the future of the global economy, the G20 should both strengthen and implement its roadmap on oversight and regulation of shadow banking, which was adopted at the St. Petersburg Summit. Arguably the most impressive outcome of this Summit was the G20's call to rein in illicit financial flows by, among other things, ensuring that policies relating to automatic disclosure of (tax) information are implemented. Without such steps,

corporations will enjoy "double non-taxation" and governments will be deprived of the revenues needed for development.

**Development:** At the 2010 South Korea G20 Summit, a Development Action Plan was launched with nine pillars: infrastructure, food security, financial inclusion, human resource development, trade, private investment and job creation, growth with resilience, domestic resource mobilization and knowledge sharing. In practice, the primary focus has been on the first three pillars, but the results are not highly consequential. Indeed, one former member of the G20 Development Working Group calls the DAP invertebrate, flabby, and toothless.<sup>20</sup>

During the next three years, 2014-2016, the G20 will implement five development priorities relating to food security, financial inclusion and remittances, infrastructure, domestic resource mobilization and human resource development. While the G20 will continue its own performance with regard to commitments in these areas, more non-state actors should provide independent assessments.

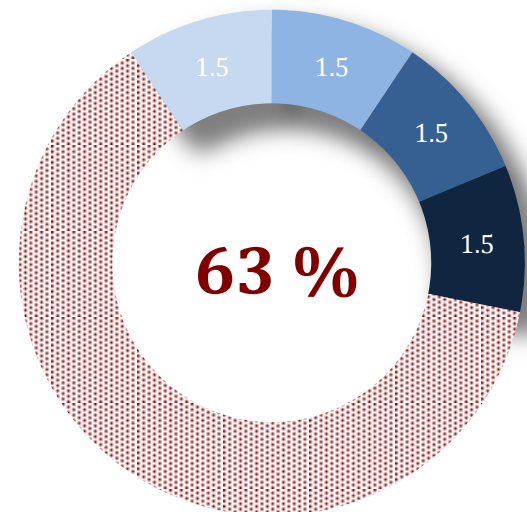
The G20 should ensure that the entire gamut of its policies have positive consequences for poor people and low income.<sup>21</sup> This requires using UN channels to engage the 173 countries excluded from G20 membership, especially low income countries, in re-shaping the agenda to suit their purposes. It also entails tackling inequality, including gender inequality, and climate change as key cross-cutting issues.

# G20 Governance Assessment

**Poor**
**Moderate Outlook**

Governance Element	Score
Transparency	1.5 / 4
Accountability	1.5 / 4
Inclusiveness	1.5 / 4
Responsibility	1.5 / 4
<b>Total Score</b>	<b>6 / 16</b>
<b>Average Score</b>	<b>1.5</b>

## Governance Gap



<sup>1</sup> NEPAD is the New Partnership for Africa's Development; APEC is the Asia Pacific Economic Cooperation

<sup>2</sup> A 23-member informal coalition, known as the Global Governance Group or 3G, was formed in 2010 to ensure that the legitimacy of the United Nations is not hijacked by the G20.

<sup>3</sup> The Russian G20 Presidency Outreach Strategy; G20, (2013). *Outreach Strategy of the Russian G20 Presidency*. Retrieved from website: [http://g20.org/docs/g20\\_russia/outreach\\_strategy.html](http://g20.org/docs/g20_russia/outreach_strategy.html)

<sup>4</sup> Early developments of the Australian Outreach Strategy; Australian Government, Department of the Prime Minister and Cabinet. (2013). *Non-Governmental Engagement*. Retrieved from website: <http://www.dpmc.gov.au/g20/engagement.cfm>

<sup>12</sup> G20 Troika refers to the past, present and future G20 hosts. In this case: Mexico (2012), Russia (2013) and Australia (2014)

<sup>13</sup> The Commission reported to the President of the UN General Assembly.

<sup>14</sup> Gopala Menon, V. Permanent Representative of the Republic of Singapore to the United Nations, Global Governance Group. (2010). *Strengthening the Role of the UN in Global Economic Governance*. Retrieved from website:

[http://www.un.org/esa/ffd/events/2010GAWGFC/7/Stmt\\_Singapore.pdf](http://www.un.org/esa/ffd/events/2010GAWGFC/7/Stmt_Singapore.pdf)

<sup>15</sup> Statement by Mr. Albert Chua, Permanent Representative of Singapore to the UN on behalf of the Global Governance Group (3G) at the High-Level Thematic Debate on the UN and Global Economic Governance, 15 April 2013.

<sup>16</sup> International Trade Union Confederation, (2013). *L20 Trade Union Statement to the G20 Finance and Labour Ministers' Joint Meeting*. Retrieved from website: <http://www.ituc-csi.org/l20-trade-union-statement-to-the-13507?lang=en>

<sup>17</sup> L20 Trade Union Statement to the G20 Finance and Labor Ministers' Joint Meeting, Moscow, 18-19 July 2013.

<sup>18</sup> Alexander, N., & Caliri, A. Heinrich Böll Stiftung - North America, Economic Governance. (2013). *Commentary on the Report "Mapping G20 Decisions Implementation"*. Retrieved from website: [http://www.boell.org/web/group\\_of\\_20-Alexander\\_Caliri\\_Commentary-Mapping-G20-Decisions.html](http://www.boell.org/web/group_of_20-Alexander_Caliri_Commentary-Mapping-G20-Decisions.html)

<sup>19</sup> Brookings Institution, Research. (2013). *Think Tank 20: The G-20 and Central Banks in the New World of Unconventional Monetary Policy*. Retrieved from website: <http://www.brookings.edu/research/reports/2013/08/g20-central-banks-monetary-policy>

<sup>20</sup> Callaghan, M., O'Keeffe, A., & Davies, R. Lowy Institute for International Policy, Publications. (2013). *Development and the G20*. Retrieved from website: <http://lowyinstitute.org/publications/development-and-g20>

<sup>21</sup> Carin, B. Centre for International Governance Innovation, Publications. (2013). *Development in the G20: White Elephant or Cornerstone*. Retrieved from website: <http://www.cigionline.org/publications/2013/7/development-g20-white-elephant-or-cornerstone>

# G20 Impact

Nathan Coplin

*New Rules for Global Finance*

Actions taken by the G20 – which represents more than 90 percent of global GDP and 80 percent of global trade – **have significant implications for non-G20 countries, especially developing countries which are more vulnerable to external factors and oscillations in the global economy.** Despite this impact, most developing countries are excluded from the G20 decision-making process, making it all more important to assess the impact of G20 actions on such countries.

Currently, there is no solid framework for assessing G20 impact. Most evaluations of the G20 process focus primarily on compliance with commitments [see G20 Governance Chapter]. A 2012 report admits that its review of compliance “does not attempt to estimate the impact or effectiveness of the G20 actions.”<sup>1</sup> Other observers have labeled the G20 process, particularly in its development efforts, a failure or suggested that the G20 should not even be involved in the development agenda.<sup>2</sup> Nevertheless, given the collective economic influence of the G20, their actions *will* have an impact – positive or negative – on developing countries.

Although a comprehensive assessment is beyond the scope of this chapter, the goal of this evaluation is to develop a preliminary assessment of G20 impact. First, it is difficult to link G20 actions and impact, particularly because its actions are actually implemented by member countries, the private sector and international institutions and organizations. To account for the various linkages between G20 actions and their impacts in developing countries, this evaluation considers three approaches: 1) identifying the actual “products” attributable to the G20 and their observable outcomes [i.e. what it has done]; 2) evaluating G20 priorities [i.e. what it is doing]; and 3) evaluating G20’s Development Action Plan (DAP) [i.e. what it is doing on development].

## Products of the G20

Score

2.6

This section evaluates the “products” of the G20, defined as: *tangible* and recognizable actions attributable to the G20. An example of a G20 product is the coordinated fiscal stimulus package in 2009.

**Coordinated Stimulus Package:** Arguably the greatest achievement of the G20 to date is its coordinated stimulus package at the 2009 London Summit. The G20 mobilized \$1.1 trillion to withstand the global financial crisis, with \$50 billion directly allocated towards low-income countries through multilateral development banks (MDBs). This fiscal injection helped suppress an impending global economic depression – and was instrumental in safeguarding the economies of many developing countries, especially small export-driven economies dependent on external demand. However, the stimulus was insufficient to alleviate the suffering from the subsequent food crisis.<sup>3</sup> The continuation of weak economic growth, high rates of unemployment and income inequality means the suffering continues, especially in LICs. Nevertheless, the G20 coordinated stimulus is largely viewed as preventing this damage from being much worse. [Good: 3]

**Establishment of the Financial Stability Board (FSB):** The expansion and institutionalization of the FSB has strengthened the development and promotion of reforms in the global financial system, such as the Basel III Accords. To date, the implementation of these reforms has been insufficient. However, the formalizing of the FSB<sup>4</sup> institutional framework improves the outlook for regulatory cooperation and early identification of systemic vulnerabilities. Enhanced coordination on regulations for issues such in OTC derivatives, shadow banking and Systemically Important Financial Institutions (SIFIs) should improve the resilience against future financial crises and mitigate the costs developing economies suffer in their aftermath. [Good: 3]



**Remittance Transaction Costs:** In 2011, the G20 committed to lowering the transfer costs of remittances by 5 percent globally. Since then, the G20 has launched the G20 Remittance Toolkit, increased funding to the World Bank Remittances Trust Fund and the AfDB Migration and Development Initiative which support capacity building of local remittance operations. These efforts resulted in an additional USD 1 billion going to poor families in developing countries each year.<sup>5</sup> Despite this progress, reductions in global average remittance costs have been meager. According to a 2013 World Bank report, average remittance costs have only declined to 8.85 percent from 10 percent in 2011.<sup>6</sup> Any decrease has a positive impact, but at this rate, remittance costs will not reach 5 percent until 2020 – meaning that recipient families will essentially forfeit an estimated USD 19 billion.<sup>7</sup> [Moderate: 2.5]

**Delegating and Mandating to International Institutions:** The G20 facilitated implementation of the 2008 IMF Reforms and 2010 World Bank Reforms, which improved the representation of emerging market and developing economies in the IMF and World Bank. The G20 was also instrumental in tripling IMF resources in 2009 to \$750 billion, which proved beneficial for developing countries facing balance of payment problems in the aftermath of the financial crisis. Further increases in resources followed the Los Cabos commitments.<sup>8</sup> However, the G20 has failed to deliver on the 2010 IMF governance reforms.<sup>9</sup> This means the IMF has more resources at its disposal, but the decisions for using these resources will be made by an Executive Board where developing countries are underrepresented. Furthermore, there is concern that the additional IMF resources (which includes funds from developing countries) will be used to bailout EU countries facing debt crises. Greece and Cyprus have already received close to US \$40 billion from the IMF.<sup>10</sup> [Slightly Negative: 2]

A major impact of G20 delegating tasks to the IFIs is that it undermines the voice and power of developing countries in these institutions (see G20 Governance chapter). Undermining these governance arrangements erodes the ability of developing countries to influence decisions (that will most likely impact them the greatest).

*Other Products:* The G20 launched a pilot project for regional emergency food reserves in West Africa in 2011. However, the pilot project failed as it was actually rejected by West African countries. Since most developing countries are excluded from the G20, its efforts in these countries will often risk failure. Nevertheless, there are a number of other G20 efforts that could emerge as “G20 products”, such as the AgResults Initiative, Agricultural Market Information System (AMIS) or MDBS Infrastructure Action Plan (MIAP).

## G20 Priorities: Consistent and Meaningful Actions

Score

1.5

Unlike the “G20 products” above, G20 priorities do not necessarily result in tangible and observable actions. Therefore, it is even more difficult to draw correlations between G20 priorities and their impact in developing countries. The rhetorical priority of the G20 is “Strong, Sustainable and Balanced Growth”. Despite this commitment, income inequality has risen in nearly every G20 country since 1990.<sup>11</sup> According to its own 2013 St. Petersburg Report, the G20 admitted that growth is not strong, not balanced, and has slowed down in emerging markets; and market volatility has increased.<sup>12</sup> The G20 has failed to deliver on this commitment.

It is important to understand what led to this failure. At each Leaders’ Summit, the G20 makes a plethora of commitments. The 2013 St. Petersburg Summit alone produced 113 commitments.<sup>13</sup> Many of these commitments are formalities, political rhetoric or inconsequential pledges; however, some lead to meaningful and consistent G20 efforts. Given the G20’s collective economic power, where the G20 decides to concentrate its efforts matters greatly. These efforts reveal the *genuine priorities* of the G20 and can help explain this failure and the real impacts of the G20.

**Determining G20 Priorities:** For this evaluation, a policy area is considered a G20 priority if it meets the following two criteria: commitment to policy area is consistent (committed to in 4 of 6 last Summits); and commitments are implemented (highest rates of compliance in 4 of 6 last Summits). Table 1<sup>14</sup> shows the policy areas with the highest levels of implementation for each Summit, of which only two can be considered G20 priorities: Reducing Protectionism; and Macro Policy. The G20 has continually pursued action (or finds it easier to act) in these policy areas. An assessment of how these policy positions impact developing countries follows:

**Table 1. Commitment Compliance: Top 3 per year**

<b>2009 London:</b> Trade/Reduce Protectionism; Macro Policy/Growth; Recovery for All
<b>2009 Pittsburgh:</b> Climate Change; Trade/Reduce Protectionism; Corruption
<b>2010 Toronto:</b> IFI reform; Macro Policy/Growth; Development
<b>2010 Seoul:</b> Infrastructure; Macro Policy/Fiscal Consolidation; Climate Change
<b>2011 Cannes:</b> Trade/Reduce Protectionism; Climate Change; Financial Reform
<b>2012 Los Cabos:</b> Investment/Reduce Protectionism; Macro Policy/Growth

**Reducing Protectionism:** Despite evidence that there is no systematic relationship between tariff or non-tariff restrictions and economic growth,<sup>15</sup> the G20 has made it a priority to reduce or eliminate these restrictions. However, G20 countries have rarely adjusted their own trade barriers. This G20 priority, instead, manifests itself in trade agreements and in the rules promulgated through international institutions such as the World Trade Organization. This has considerable negative implications for the negotiating positions of developing countries in international trade agreements, particularly for countries trying to protect infant industries<sup>16</sup> or the stability of their financial system.<sup>17</sup> [Poor: 1]

**Macro Policy:** Reports from the G20 Research Group, the 2013 G20 Mutual Assessment Process (MAP)<sup>18</sup> and the 2013 St. Petersburg Accountability Assessment<sup>19</sup> affirm that “Fiscal Balance” is the G20’s greatest priority. The coordinated stimulus was a net plus for advanced and developing economies alike, but the recent emphasis on fiscal consolidation<sup>20</sup> has had (and will continue to have) significant consequences for developing countries in two ways.

1) *Policies in G20 countries:* Fiscal consolidation in advanced economies slows growth and reduces global demand for developing country exports. It is worth noting that a 2013 survey by the Center for International Governance Innovation (CIGI) finds that Macro Policy cooperation has actually regressed.<sup>21</sup> This means that the negative effects of concentrated fiscal consolidation may be less likely, but it also means that future coordination for fiscal stimulus packages may be less feasible as well.

2) *Policies in International Institutions:* Like other G20 priorities, the emphasis on fiscal consolidation manifests itself in international institutions, particularly IFIs, through their policy advice and loan conditions. As a result, fiscal austerity has become practice in developing countries and led to direct impacts for the real economy: reduced job creation, reduced spending on education, public health, infrastructure, etc. A 2013 South Centre report – based on IMF data – found that government spending in developing countries contracted nearly triple the rate of high-income countries from 2010-2012.<sup>22</sup> The report projects that 68 developing countries will contract even further during the 2013-2016 period. [Moderate: 2]

According to the most recent G20 Research Group report, compliance has been highest for Fiscal Consolidation, IFI Reforms, and Development commitments.<sup>23</sup> It is discouraging to see that fiscal consolidation remains a key priority for the G20. Regarding IFI reform, the G20 has struggled to implement significant reforms. Development has become a greater focus since the 2010 Seoul Summit, but the results of these efforts have been unclear and even counterproductive.<sup>24</sup>

## Development Action Plans

Score

2.3

While the G20’s Development Action Plans (DAPs) should provide the best insight into the impact of G20 actions on developing countries, there has been little observable impact to date. In an August 2013 article, Steve Price-Thomas and Sabina Curatolo find that so far the “G20’s actions have failed to match its ambitions.”<sup>25</sup> Nevertheless, the G20 has claimed that it can deliver “tangible development outcomes.”<sup>26</sup> The 2010 Seoul Multi-Year Action Plan (MYAP) on Development

outlined 9 areas or “pillars” where the G20 believes it can deliver these outcomes. Among these 9 pillars, commitments have been concentrated in three: infrastructure, food security and financial inclusion<sup>27</sup>, the focus of this section.

**Infrastructure:** The key achievement under this pillar has been the High-Level Panel for Infrastructure Investment (HLP), which has unlocked some binding constraints for infrastructure finance and improved strategies for project preparation. Given the enormous need for infrastructure in developing economies, this could have a significant positive impact. Since the majority of financing will be facilitated by MDBs, the main concern is whether MDBs have adequate safeguards for economic, social and environmental impacts. In 2011, the HLP and MDBs agreed on criteria for selecting infrastructure projects to finance. One of the criteria was that projects must have “high development impact on a large number of people and promote environmental and social sustainability.”<sup>28</sup> This is commendable, but must be put into practice to achieve its intended positive impacts. According to its own 2013 Accountability Report on Development (ARD) report, the G20 has failed to do this. The report found that the G20’s commitment to “assess how to integrate environmental safeguards into its MIAP” has completely “stalled” (Among the G20’s 67 development commitments, this is the only one with this status). Furthermore, safeguards for social sustainability are not even considered in the G20 MIAP.

Further analysis of the G20 ARD brings into question the accuracy and legitimacy of the report itself. For example, the commitment to ensure that the MIAP has “a sharper focus on environmental sustainability” is considered to be “complete”. This is puzzling since the same report finds that “No specific recommendations appear to address this [environmental sustainability] in the MIAP or the HLP report.”<sup>29</sup> It seems the G20 is overlooking the social and environmental impacts of infrastructure projects, yet it has endorsed 11 projects that continue to move forward. [Moderate: 2]

**Food Security:** There have been three major food price hikes in the last five years. Given the need for greater stability in global food prices, it is commendable that the G20 has made this a priority in its MYAP. Regarding the G20’s commitments, there has been some moderate progress – such as the development of the AgResults Initiative, Agricultural Market Information System (AMIS), Rapid Response Forum (RRF), the Platform for Agricultural Risk Management (PARM) and other initiatives.<sup>30</sup> The AMIS initiative, which aims to increase transparency in agricultural markets, reported that the supply situation for AMIS crops (wheat, maize, rice, soybeans) improved<sup>31</sup> but is difficult to attribute causality to the AMIS initiative. The AgResults initiative has USD 100 million in *pledged* funds and established a secretariat, but its three pilot projects for Kenya, Nigeria and Zambia have yet to launch. The impact of AMIS and AgResults is difficult to determine at this time, but the outcomes of these initiatives may help reveal the micro-level impacts of G20 actions and warrant close monitoring (AgResults promised to track its outcomes with an “external impact evaluator”). A key concern is that these initiatives are established without input from developing countries, which threatens their success and may contribute to the failure of the pilot project in West Africa.

The area where the G20 has the most potential to improve food price stability – mitigating excessive speculation in commodity markets<sup>32</sup> – has been disregarded. Instead the G20 has focused on mitigating risks *associated* with price volatility. This is also important, but impactful programs requires participation and cooperation from developing countries (as noted earlier, this is not how the G20 process works). Since financial markets and regulatory authorities are concentrated in G20 countries, implementation of new rules to curb excessive speculation should be more feasible, but this has not happened. The G20 should mandate an FSB review of relevant regulation in commodity markets. [Moderate: 2]

Another area where the G20 has a similar comparative advantage is on Domestic Resource Mobilization (Pillar 8). If the G20 does not take adequate and meaningful action to address tax evasion and avoidance, it should be considered an enormous failure for both global economic cooperation and development.

**Financial Inclusion:** The major achievement under this pillar is the establishment of the Global Partnership for Financial Inclusion (GPFI) in 2010. Brazil and Nigeria have both launched national strategies for financial inclusion; and according to the G20 ARD, Chile, Tanzania, Mexico, and Rwanda are also preparing strategies. This could be partly attributed to the G20’s efforts on this issue. In addition, the G20 launched the SME Finance Challenge in 2010 to stimulate innovative models



for financing SMEs. So far, 13 winners have received grants – US \$23 million in total – and as of December 2012, the grantees had assisted over 1000 SMEs in receiving loans.<sup>33</sup> This initiative has proven somewhat effective, albeit on a small scale, and could lead to truly positive impacts for SME loan recipients. For the most part, the G20 is simply raising the profile of financial inclusion issues, not pushing particular actions or initiatives onto developing countries. This in itself may have a positive impact. [Slightly Positive: 3]

**Overall Assessment:** This evaluation outlined a framework for assessing G20 impact on developing countries by evaluating three areas of G20 action. It identified the G20's key "products": the 2009 Coordinated Stimulus Package, the FSB, Delegation to IFIs, and Remittance Cost Reductions. This evaluation finds that the overall impact of these products has been slightly positive. In regards to the G20's priorities – Macro Policy and Reducing Protectionism – the overall impact and outlook is slightly negative. The G20's efforts on development, particularly on infrastructure, food security and financial inclusion, have not had any meaningful and observable impact. However, some G20 actions on infrastructure and food security could lead to potential consequences for developing countries. There are some positive developments as well, such as enhanced engagement with non-G20 members; and acknowledgement by the G20 that it should consolidate its development efforts to a few key areas. The overall assessment is that G20 actions are having a moderate impact on developing economies, with a marginally good outlook at this time.

## G20 Impact Assessment

*Moderate*

Impact Criteria	Score
G20 Products	2.6 / 4
G20 Priorities	1.5 / 4
Development Action Plans	2.3 / 4
Total Score	6.4 / 20
Average Score	2.1



### Understanding the Scores:

1	<ul style="list-style-type: none"> <li>Has <b>not</b> taken sufficient, if any, action to address relevant issues and/or has taken actions which have led to negative impacts for developing countries</li> </ul>
2	<ul style="list-style-type: none"> <li>Has taken action to address relevant issues</li> <li>Actions have <b>neither</b> improved or degraded outlook for real economies of developing countries</li> </ul>

- <sup>1</sup>National Research University and University of Toronto, (2012). *Mapping G20 Decisions Implementation - How G20 is Delivering on the Decisions made*. Retrieved from website: [https://www.hse.ru/data/2012/12/13/1301054564/Mapping\\_G20\\_Decisions\\_Implementation\\_full\\_report.pdf](https://www.hse.ru/data/2012/12/13/1301054564/Mapping_G20_Decisions_Implementation_full_report.pdf)
- <sup>2</sup> Callaghan, M., O'Keeffe, A., & Davies, R. Lowy Institute for International Policy, Publications. (2013). *Development and the G20 Monitor*, (5), Retrieved from website: <http://lowyinstitute.org/publications/development-and-g20>
- <sup>3</sup> *ibid.*
- <sup>4</sup>The FSB incorporated under Swiss Law in April 2013
- <sup>5</sup>G20 Summit 2013, (2013). *Saint Petersburg Accountability Report on G20 Development*. Retrieved from website: <http://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&ved=0CC4QFjAA&url=http://www.g20.org/load/782787543&ei=b45EUszrDpKn4AOSx4DACA&usq=AFQjCNH05bQ0GORYEPOR00uFtHceqCWyA&bvm=bv.53217764,d.dmg>
- <sup>6</sup>(2013). An Analysis of Trends in the Average Total Cost of Migrant Remittance Services. *World Bank - Remittance Prices Worldwide*, (6), Retrieved from [http://remittanceprices.worldbank.org/sites/default/files/RPW\\_Analysis\\_Q2\\_2013\\_final.pdf](http://remittanceprices.worldbank.org/sites/default/files/RPW_Analysis_Q2_2013_final.pdf)
- <sup>7</sup>The G20 St. Petersburg Accountability Report on Development estimated that 1 percent reduction in remittance costs was equal to a value of USD 1billion. This estimate was used to calculate total value of remittances costs between 10 and 5 percent.
- <sup>8</sup>G20 Summit 2013, (2013). *Saint Petersburg Accountability Report on G20 Development*. p. 14
- <sup>9</sup> US Congress has not yet approved the 2010 IMF reforms
- <sup>10</sup>Statistics were retrieved from International Monetary Fund, (n.d.). *Index*. Retrieved from website: <http://www.imf.org/external/country/index.htm>
- <sup>11</sup> Left behind by the G20 - How Inequality and Environmental Degradation Threaten to Exclude Poor People from the Benefits of Economic Growth. *Oxfam Briefing Paper*, (157), 2012. Retrieved from: <http://www.oxfam.org/sites/www.oxfam.org/files/bp157-left-behind-by-the-g20-190112-en.pdf>
- <sup>12</sup> G20 Summit 2013, (2013). Saint Petersburg Accountability Report on G20 Development. p. 5
- <sup>13</sup> G20 Summit 2013, (2013). G20 Leaders' Declaration at St. Petersburg Summit
- <sup>14</sup> Compliance scores are taken from the University of Toronto G20 Research Group's Compliance Reports. Their methodology to measure compliance used contains some flaws, but is the only independent and comprehensive source for G20 compliance.
- <sup>15</sup>Rodrik, D. Social Development Group, The Governance of Trade as if Development Really Mattered. p. 23-4 *Bureau for Development Policy*. (2001). Retrieved from United National Development Programme website: [http://files.wcfia.harvard.edu/529\\_Rodrik5.pdf](http://files.wcfia.harvard.edu/529_Rodrik5.pdf)
- <sup>16</sup>A large pool of literature demonstrates that infant industry protection measures have been instrumental for economic development. See Chang, H. (2002). *Kicking Away the Ladder: Development Strategy in Historical Perspective*. (1st ed.). London, UK: Anthem Press. or Reinert, E. (2008). *How Rich Countries Got Rich and Why Poor Countries Stay Poor*. New York, NY: Public Affairs.
- <sup>17</sup>Financial service measures have become commonplace in trade agreements, almost always requiring unrestricted movement of capital.
- <sup>18</sup>International Monetary Fund, (2013). Imbalances and Growth: Update of Staff Sustainability Assessments for G-20 Mutual Assessment Process. Retrieved from website: <http://www.imf.org/external/np/g20/pdf/map2013/map2013.pdf>
- <sup>19</sup>G20 Summit 2013, (2013). Saint Petersburg Accountability Report on G20 Development. p. 3
- <sup>20</sup>G20 commitment to at least halve 2010 government deficits as a share of GDP by 2013.
- <sup>21</sup>Carin, B., & Lombardi, D. (n.d.). CIGI Survey: Progress of International Economic Governance. *The Centre for International Governance Innovation*, Retrieved from <http://interactive.cigionline.org/survey-of-progress>
- <sup>22</sup>Ortiz, I., & Cummins, M. (2013). The Age of Austerity: A Review of Public Expenditures and Adjustment Measures in 181 Countries. *Initiative for Policy Dialogue and the South Centre - Working Paper*, Retrieved from [http://policydialogue.org/files/publications/Age\\_of\\_Austerity\\_Ortiz\\_and\\_Cummins.pdf](http://policydialogue.org/files/publications/Age_of_Austerity_Ortiz_and_Cummins.pdf)
- <sup>23</sup>National Research University and University of Toronto, (2012). *Mapping G20 Decisions Implementation - How G20 is Delivering on the Decisions made*. Retrieved from website: [https://www.hse.ru/data/2012/12/13/1301054564/Mapping\\_G20\\_Decisions\\_Implementation\\_full\\_report.pdf](https://www.hse.ru/data/2012/12/13/1301054564/Mapping_G20_Decisions_Implementation_full_report.pdf)
- <sup>24</sup>Callaghan, M., O'Keeffe, A., & Davies, R. Lowy Institute for International Policy, Publications. (2013). *Development and the G20 Monitor*, (5), Retrieved from website: <http://lowyinstitute.org/publications/development-and-g20>
- <sup>25</sup>*ibid.*
- <sup>26</sup>G20 Summit 2013, (2013). Saint Petersburg Accountability Report on G20 Development.
- <sup>27</sup>Infrastructure, food security and financial inclusion account for 38 of 67 total development commitments. See G20 Summit 2013, (2013). Saint Petersburg Accountability Report on G20 Development.
- <sup>28</sup>G20 Summit 2013, (2013). *Saint Petersburg Accountability Report on G20 Development*. p. 18
- <sup>29</sup> *ibid.* p. 22
- <sup>30</sup>Noteworthy is the G20 commitment to not tax or restrict food exports for humanitarian purposes. This commitment is not yet tested, but serves mostly as a last resort for food crises and does not necessarily improve "food security."
- <sup>31</sup>*Agricultural Market Information System - Market Monitor*. (2013, September). Retrieved from <http://www.amis-outlook.org/amis-monitoring#.UkSdIBYp3JA>
- <sup>32</sup>Most analysts agree that increased participation by non-commercial actors in financial markets has probably amplified short term price swings and price bubbles. See: (2011). Price Volatility in Food and Agricultural Markets: Policy Responses. *International Fund for Agricultural Development*, Retrieved from <http://www.ifad.org/operations/food/documents/g20.pdf>
- <sup>33</sup>G20 Summit 2013, (2013). *Saint Petersburg Accountability Report on G20 Development*. p. 44

# International Monetary Fund

## IMF Governance

**Jo Marie Griesgraber**  
*New Rules for Global Finance*

**Purpose:** To inform the public and the persons and governments responsible for the actions of the IMF regarding New Rules' assessment of the quality of IMF governance and of its actions, both to praise where it has performed well and to encourage improvement in the future where it has not performed well, using a metric similar to that which the Financial Stability Board (FSB)<sup>1</sup> designed to publically evaluate its own work in its reports to the G20.<sup>2</sup>

New Rules for Global Finance believes that finance needs to serve the real economy in a stable manner. Reforming the rules and institutions governing international finance and public finance can support just, inclusive and economically sustainable global development. New Rules will assess IMF governance by considering four core elements, with their corresponding purposes:

*A. Transparency: To ensure that the deliberations, decisions and documentation of the IMF are fully transparent to all stakeholders, and that the policies they endorse promote transparent global and national financial policies and regulations.*

*B. Inclusion/Participation: To enable those affected by IMF actions to maximize their voice in the decisions the IMF makes, while promoting universal representation through a fair constituency mechanism.*

*C. Accountability: To strengthen the IMF's adherence to its own highest standards, answering to member governments and through them to their citizens, by rewarding best policies and practices and rooting out inappropriate and even harmful institutional policies and practices.*

*D. Responsibility: To ensure that IMF actions result in financial governance and regulations which promote more equitable and economically sustainable global development, especially for the most vulnerable populations.*

The IMF's highest body, the Board of Governors, is comprised of one representative from each member-country who is either a Finance Minister or head of the Central Bank. The Board meets annually and in the time between meetings the International Monetary and Finance Committee advises the Executive Board through its biannual meetings. The Executive Board, comprised of 24 resident Executive Directors (ED), at the IMF headquarters in Washington, DC, conducts most of the business of the Fund meeting several times each week. It carries out its work largely on the basis of papers prepared by IMF management and staff.

Under current rules, the five largest economies (and therefore the 5 largest shareholders)<sup>3</sup>, each appoint one ED, as do China, Russia and Saudi Arabia. The remaining 16 seats are divided among the remaining 180 countries. Western Europe has a total of 8 chairs (9 when Spain is representing the constituency of Mexico and Venezuela), while 46 Sub-Saharan countries have 2 chairs. The Managing Director (MD) is the Chair of the Board and the Employee of the Board and the Chief Executive Officer. S/he is selected by the major Western European countries, approved by the United States (U.S.) and formally elected by the Executive Board. The MD selects the Deputy Managing Directors, who chair the Board when the MD is absent.

Voting shares and chairs all derive from the measurement of a country's "economic size", through a quota formula. These shares tend to determine how much each country contributes to the common capital of the Fund and how much each country may borrow from the Fund. The U.S. is the only single country with sufficient votes to block a Board decision when the issue requires an 85% majority. Ordinarily the Board decides matters by consensus.

## Transparency

Score

2.5

Despite the increase in IMF transparency through the public release of key documents, and the opening of the archives to researchers, the Executive Board discussions remain hidden, even with the release of Public Information Notices (PINs, now included under the general name of “Press Release”). Indeed, in response to complaints regarding the obtuse language of in PINs, the IMF provided a guide to “translating” them, explaining the significance of bland words that actually carried significantly different meanings, such as “some” versus “several” versus “many” that indicated the number of Executive Directors expressing certain positions. The Minutes of Board meetings are released after 5 years and are available through the archives; there are no verbatim transcripts of Board meetings.<sup>4</sup> The citizen of a member country still cannot know what their Executive Director has said on any particular issue. Some EDs release their formal prepared speeches to national audiences; but not what is said in the context of a Board discussion.

The Board recently agreed that IMF publications should be released in a more timely way, and while it still allows countries to exclude material, the newer standards seem to restrict such exclusions to genuinely “market sensitive” information<sup>5</sup>. The bottom line is that material released by the IMF is sanitized, despite being characterized as a public, intergovernmental institution, funded by governments and therefore by taxpayers, that makes decisions that directly impact the lives of citizens in areas long regarded as the exclusive reserve of national legislatures.<sup>6</sup>

## Inclusiveness

Score

2.5

Participation must be assessed on four different levels:

- 1) In terms which include all member-states while retaining relative efficiency, the Executive Board constituency **model** is one deserving of replication in other international organizations.
- 2) However, its execution has many failings: The IMF uses a façade of technical neutrality when discussing the quota formula used to allocate voting shares—and voice—commensurate with economic size of each member state. In fact, the formula groans under the weight of all the political goals it must serve, such as: not reducing any member’s share without their agreement, therefore tolerating quota factors that are inappropriate and/or duplicative; ensuring England and France are equal; recognizing that China is fast becoming the second largest if not the first largest economy, which the U.S. will not recognize for it would remove the U.S. veto and relocate the institution; mouthing support for the low-income countries without delivering. These tensions were evident in the outcomes of the 2010 Korean G-20 Summit<sup>7 8</sup> which offered platitudes about protecting low income countries, insisted on European reduction of chairs by 2, and promised to double the income of the Fund. To date, the U.S. Administration has failed to secure Congressional approval for changes to the status quo, thereby putting IMF governance in a long-term stall, despite U.S. leadership in pushing for all of these changes in Korea<sup>9</sup>. Ironically, these quota reforms emerged in large parts because of persistent complaints about the IMF’s *democratic*<sup>10</sup> deficit, but always exclude population, or people, when calculating the size of an economy and thereby the corresponding voice of the member state.
- 3) Participation also must consider management and staff: As noted above, the Managing Director has always been European and the First Deputy Managing Director an American. The remainder of staff and management are frequently of diverse nationalities, with a heavy emphasis on Europeans; their common denominator is orthodox economic education from select schools. Mid-level entry from other institutions is becoming less rare. Diverse thinking is also beginning to surface in Fund analytics; less so in Fund practice.<sup>11</sup>
- 4) Direct participation by Parliaments and affected peoples does not happen but new efforts are afoot to reach out more effectively to civil society organizations. To date, the Fund sets the agenda and the timing.

## Accountability

Score

2

In order to ensure that Board, Management and Staff adhere to the goals and best practices of the IMF, regular and reliable evaluations must occur. Fund managers evaluate the performance of staff and the IMF as an institution evaluates the performance of member states. However, once an Executive Director is selected (appointed by the largest economies; elected within constituencies which usually select the nominee of the largest member of the constituency), the Articles of Agreement and By-Laws provide no means whereby that ED can be removed for his/her two-year term, regardless of private or professional conduct. The EDs appointed by the 5 largest member states can be removed rather simply by a political decision, not necessarily the result of performance evaluation. There is no job description for an ED, nor criteria for selection or for assessing the execution of their tasks.

Since the selection of Dominique Strauss-Kahn in 2007, the Managing Director has an Executive Board-prepared description of the qualifications the person should bring, and a stipulation that the MD is bound by the rules of ethics for senior management and staff. In practice, those stipulations have no bearing on the selection or removal of an MD. Despite many promises that MD selection would be purely merit based, independent of nationality considerations, the fact remains that all MDs have been chosen from and by major European economies, with the approval of the U.S. There is no periodic performance evaluation of the MD by the Executive Board; the person remains MD so long as his/her political sponsors are satisfied with the person's performance.

The Board of Governors exercises little oversight of the Executive Board as a body. Its meetings are largely ceremonial. The single committee of the Board of Governors is the International Monetary and Finance Committee (IMFC) which meets twice a year, and is allegedly an advisory committee but has powers well beyond advice. The G7 and now the G20 act as the *de facto* executive committee of the Governors, setting the agenda of the IMFC.

A positive aspect in IMF accountability is the Independent Evaluation Office (IEO), which the Executive Board established after the Asian Financial Crisis in 2001. The IEO is genuinely independent of Management, reports directly to the Executive Directors, sets its own agenda provided it does not review ongoing work. Regrettably, the Executive Board has not exhibited substantial oversight over implementation of the IEO recommendations – which are approved by the Board itself. Management periodically reports generally that all Board-approved recommendations have been accomplished or are on schedule for a timely completion, even when recommendations are repeated in subsequent evaluations.<sup>12</sup>

In sum, the Governors do not evaluate the IMF as a whole, nor does the Executive Board; the Executive Board does not evaluate the MD and ignores Management's undercutting of the IEO, the single independent entity set up to evaluate programs and activities. Occasional internal self-evaluations by the Strategic Planning and Review Department are self-critical, but do not seem to result in policy or behavior changes nor rarely in punishment for any responsible individuals and never in compensation for those negatively impacted by wrongful policies or actions.

## Responsibility

Score

1

The IMF maintains it is not possible to determine any causal connection between the policy conditions associated with receiving IMF funds and any subsequent pain or suffering endured by the residents of the country in question. This rationale rests first on the assertion that the chain of causality is too complex to be reliable. Second, the Fund cannot be held responsible for policies that are “formally” set by the government, in tandem with the IMF, but never as a contractual arrangement. Third, countries approach the IMF when they are already *in extremis*. They are in desperate economic straits, unable to receive help from any other source, and according to this rationale, are largely responsible for problems of their own making. If the country has been profligate in previous spending, and the IMF has them balance their budget, it is the prior profligacy that is to blame, not any austerity or other policy measures imposed by the Fund.

The Fund could be expected to conduct research on possible linkages, given the many complaints over the years about its programs from people and countries living with them. In 2002 the Boards of the IMF and World Bank jointly agreed on Poverty and Social Impact Assessments (PSIA).<sup>13</sup> However, the IMF Board allocated minimal funding for this purpose,



choosing to rely on World Bank research. The World Bank conducted extensive (taking about 18 months and costing roughly \$100k each) in-country research by sector where there were Development Policy Loans, i.e., budget support. The IMF was largely dissatisfied with World Bank research as inappropriate (sectoral, not whole economy macro-economic, policies), too time-consuming, and too expensive. To its credit, the IMF Research Department has assessed the poverty consequences of large extractive industries in low income countries. Yet to be studied systematically are the poverty and distributional consequences of IMF tax advice to low income countries through advice accompanying regular Article IV Surveillance, loan agreements, or the technical assistance where the IMF is the international community's lead organization, operating on the ground through regional Technical Assistance Centers.

Others take a different approach. Bradlow, for example, maintains that conditions associated with Fund programs are increasingly intruding on domestic policies, the classic terrain of national policies and national legislatures.<sup>14</sup> Further, if the Fund "encourages" all its borrowers to reduce spending there is a cumulative effect, reducing the economic activity across borders. But the Fund traditionally has only considered the macro-economic activity of one country at a time. The Fund is beginning to conduct multi-country surveillance, primarily among advanced countries, in order to assess the cross-border effects of domestic policies. The Fund is also beginning to recognize the utility, if only as the last and temporary measure, of employing capital controls to manage inflows of hot money and to manage outflow of illicit money. Also, beginning with advanced economies, the Fund has suggested that austerity measures may be excessive and further stimulus may be needed. While the Fund is reversing its advice, is there no liability for the harm resulting from earlier advice.

Under current arrangement there is no option for individuals, communities, or countries that may have suffered harm from Fund promoted policies to register their complaints. Nor can they expect any compensation. The Fund maintains that everything is the government's responsibility. An intergovernmental body, the IMF and its staff enjoy full legal immunity.

#### Overall Assessment:

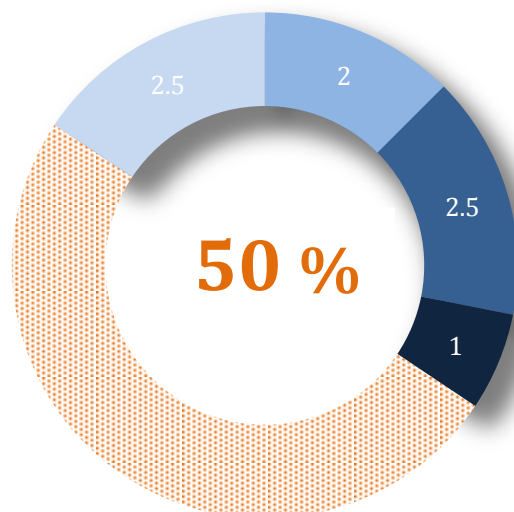
*Transparency:* The IMF release of information has increased over time but its basic decision making remains secret, as well as much that is related to its technical assistance [2.5]. *Inclusiveness:* Changes to the quota formula in 2010 still left low income countries under-represented with Western Europe over-represented; despite the lack of progress with the U.S. Congress and the miles yet to be covered, progress has been made [2.5]; *Accountability:* IMF Accountability requires significant reform; however over the years it has seen improvements [2]; *Responsibility:* There are no mechanisms for affected people to complain, nor does the IMF track complaints from injured parties, arguing causality cannot be proven. This is unacceptable. [1]

## IMF Governance Assessment

**Moderate**

### Governance Gap

Governance Component	Score
Transparency	2.5 / 4
Accountability	2 / 4
Inclusiveness	2.5 / 4
Responsibility	1 / 4
<b>Total Score</b>	<b>8 / 16</b>
<b>Average Score</b>	<b>2</b>



<sup>1</sup> The FSB was established to coordinate at the international level the work of national financial authorities and international standard setting bodies and to develop and promote the implementation of effective regulatory, supervisory and other financial sector policies. It brings together national authorities responsible for financial stability in significant international financial centres, international financial institutions, sector-specific international groupings of regulators and supervisors, and committees of central bank experts.

<sup>2</sup> Group of Twenty Finance Ministers, Central Bank Governors and, since 2008, Heads of State, whose economies account for approximately 80 percent of the gross world product (GWP), 80 percent of world trade (including EU intra-trade), and two-thirds of the world population.

<sup>3</sup> In order of voting shares held: the United States, Japan, Germany, France and the United Kingdom.

<sup>4</sup> The 2013 IMF Transparency Review provided for the archives to be prepared for electronic sharing on the Fund's website. The timeline for such disclosure was not provided.

<sup>5</sup> International Monetary Fund, (2013). *IMF Executive Board Reviews the IMF's Transparency Policy* (No. 13/270). Retrieved from website: <http://www.imf.org/external/np/sec/pr/2013/pr13270.htm>

<sup>6</sup> Bradlow, D. G24 Technical Committee Singapore, (2006). *The Governance of the IMF: The Need for Comprehensive Reform*. Retrieved from website: <http://www.g24.org/TGM/brad0906.pdf>

<sup>7</sup> Group of Twenty Finance Ministers, Central Bank Governors and, since 2008, Heads of State, whose economies account for approximately 80 percent of the gross world product, 80 percent of world trade, and two-thirds of the world's population.

<sup>8</sup> "In some instances, the G20 acts like a caucus inside the IFIs – for instance, with regard to reform of the IMF governance and voting system." By Nancy Alexander, "Governance of the G20," in this publication.

<sup>9</sup> Bradford, C., Linn, J., & Bryant, R. (2008). Experts Critique Proposal for International Monetary Fund Quota Reform. *Brookings Institution*, Retrieved from <http://www.brookings.edu/research/opinions/2008/04/09-imf-linn>

<sup>10</sup> Demos, the Greek work for "people" being the foundational concept in "democracy".

<sup>11</sup> Independent Evaluation Office of the International Monetary Fund, (2011). *IMF Performance in the Run-Up to the Financial and Economic Crisis - IMF Surveillance in 2004-07*. Retrieved from website: [http://www.ieo-imf.org/ieo/files/completedevaluations/crisis-main report \(without moises signature\).pdf](http://www.ieo-imf.org/ieo/files/completedevaluations/crisis-main%20report%20(without%20moises%20signature).pdf)

<sup>12</sup> Abrams, A., & Larndany, R. (2011). Independent Evaluation at the IMF: Understanding the Evaluation Cycle. In R. Larndany & H. Edison (Eds.), *Independent Evaluation of the IMF: The First Decade* Retrieved from [http://www.ieo-imf.org/ieo/files/books/Independent\\_Evaluation\\_IMF.pdf](http://www.ieo-imf.org/ieo/files/books/Independent_Evaluation_IMF.pdf)

<sup>13</sup> In 2001, a framework operationalizing this [PSIA] vision was set out in a joint paper, "Strengthening IMF-World Bank Collaboration on Country Programs and Conditionality," together with a corresponding staff guidance note. The IMF Board formally approved this work in 2002.

<sup>14</sup> Bradlow, D. G24 Technical Committee Singapore, (2006). *The Governance of the IMF: The Need for Comprehensive Reform*. Retrieved from website: <http://www.g24.org/TGM/brad0906.pdf>

# IMF IMPACT

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## Introduction

The IMF's mandate is to: promote international monetary cooperation, maintain relatively stable exchange rates, and balanced growth of international trade. The combined results are expected to be the promotion and maintenance of high levels of employment and real income. The IMF is also to provide member countries with financial resources to correct payments' imbalances and ensure that the programs adopted do not adversely affect the poorest sectors of society.<sup>1</sup>

Through its economic surveillance, the IMF tracks the economic health of its member countries, alerting them to risks and providing policy advice. It also lends to countries in difficulty, and provides technical assistance and training to help improve economic management. This work is backed by research and statistics.<sup>2</sup> *In this way, it helps the international monetary system serve its essential purpose of facilitating the exchange of goods, services, and capital among countries.*

This assessment of IMF impact focuses on its relations with low-income countries (LICs) through lending programs and policy advice.<sup>3</sup>

The IMF lending facility for LICs, the Poverty Reduction and Growth Facility (PRGF) was established in September 1999 to make the objectives of poverty reduction and growth more central to lending operations in its poorest member countries.<sup>4</sup> Several reviews of the PRGF have taken place since 1999, but in 2010, in the aftermath of current financial crisis, the PRGF was revamped and renamed the Poverty Reduction and Growth Trust (PRGT). Its three types of loans [the Extended Credit Facility (ECF), the Rapid Credit Facility (RCF) and the Standby Credit Facility (SCF)] are to promote poverty reduction and growth.<sup>5</sup> The IMF's Policy Support Instrument (PSI) can also endorse policies — thereby giving those policies the “IMF seal of approval” so important to donors and investors — without lending funds. As of August 2013, the IMF had lending programs with 21 LICs, and PSIs with a further 5.

One of the biggest problems for LICs is that the IMF has had woefully insufficient funds to help them with balance of payments difficulties. Its resources for low-income countries were doubled by the G20 in 2009, allowing it to lend US\$3.8 billion a year, but that has gone back to the pre-crisis US\$2 billion a year. **The problem for individual countries remains that loans to them are limited to a percentage of their membership quotas in the IMF. Quotas have fallen increasingly behind growth in world GDP, trade or capital flows, and are now only a very small part (often under 10%) of the amount an individual country needs to combat a crisis, not at all commensurate with the high influence the IMF has on country policies since many donors make their aid flows dependent on an IMF “seal of approval”.**

Under ECFs, RCFs, SCFs, and PSIs, the IMF and the country agree to a set of “policy conditions” or “conditionalities” to improve economic policies. These have been narrowed somewhat in recent years to focus on the IMF's core mandates (fiscal issues [tax, spending and debt]; monetary policy and credit availability; financial sector reform and stability; and balance of payments/external sector) while removing other conditions such as privatizations and trade liberalizations. In what follows, the IMF is assessed on its overall achievement of the “growth” and “poverty reduction” aims of the PRGT, as well as its main areas of conditionality.

## Growth, Poverty Reduction and Inequality

Score

3

The way the IMF helps countries design macroeconomic policy has a key impact on growth, and on reducing poverty and inequality. The IMF sets specific growth targets in its programs, based on what it regards as achievable given the level of financing available to the country, the potential impact of large growth-oriented projects, and possible trade-offs between growth and inflation.



Recent analysis by Oxfam<sup>6</sup> has shown that **real GDP growth** in IMF program countries increased sharply between 2001 and 2008, after the introduction of the Poverty Reduction and Growth Facility, though it was only slightly higher than in non-program countries. However, it has slowed since the global economic crisis, and is now below levels in non-IMF program countries. In addition, these growth rates (averaging 5% from 2001 – 2008, but only 4% since 2009) are considerably below the 7% levels which the UN has said countries need to halve poverty and thereby reach Millennium Development Goal (MDG)-1.<sup>7</sup>

IMF and independent assessments have indicated that IMF programs have also been associated with **poverty reduction**. Poverty has fallen almost twice as fast in IMF program countries (by 20 percentage points) compared to non-program countries, with accelerating progress during the PRGF period. Data are not recent enough to assess progress since the crisis.

However, IMF programs have managed to assist only marginally with **inequality**. Gini coefficients<sup>8</sup> stayed high in IMF program and non-program countries, and rose in both groups in 1990-2000. Although they fell slightly in program countries after the PRGF was introduced, the difference with other countries was marginal.

Overall, IMF programs are not consistently correlated with significantly higher growth, or (in the last decade) with faster falling inequality, than non-IMF program countries. IMF program countries do seem to show faster poverty reduction, though this advantage has diminished in the last decade. As a report for a Norwegian Coalition of NGOs has indicated, there is “only very limited evidence of an enhanced focus on growth and poverty reduction”<sup>9</sup> under the PRGT since 2009, compared to its predecessor PRGF.

This analysis is only an initial assessment, because data for poverty and inequality remain very poor. However, it is striking that the IMF has not done any in-depth multi-country analysis of these issues, and has acknowledged that its analysis of growth and anti-poverty/inequality strategies in LIC programs and surveillance is insufficient.<sup>10</sup> Much more needs to be done to ensure IMF programs produce faster growth and reduced poverty and inequality – as intended by the “enhanced focus on growth and poverty reduction” mandated by the IMF Board when the PRGF and PRGT were established. These efforts represent a major challenge for the IMF in the post-2015 (MDGs) global development agenda.

## Fiscal Policy (revenue and tax; spending; and debt and aid)

Score

1.6

On **tax**, the IMF has invested much policy advice and technical assistance on increasing revenue collection levels as a proportion of gross domestic product (GDP), with some success. However, it has been criticized for focusing excessively on “efficiency” to mobilize maximum revenue, and not considering the “equity” of its policy advice (i.e., whether the tax is progressive; or is a level playing field for foreign and domestic enterprises). In addition, it has had a strong preference for reducing revenues from trade taxes, in line with broader global trends towards trade liberalization. As a result of these two factors, there has been an increase in LIC reliance on “indirect” taxes on consumption (sales taxes and value-added taxes), which are likely (unless goods consumed by the poor are exempted) to be regressive – i.e., to hit poorer citizens harder. In some countries, the IMF has also suggested reducing higher rates of “direct” taxes (corporate and individual income tax), which has reduced revenues from these sources. However, this latter trend has been moderating in more recent programs, with some countries increasing the share of revenue coming from direct taxes.<sup>11</sup>

During the 1990s, the IMF often agreed with encouraging low-income countries to provide tax holidays or exemptions for investors, in order to encourage investment. However, over the last decade, especially for countries which have become established investment destinations, the IMF has been increasingly suggesting abolishing exemptions and holidays, and renegotiating contracts which provide these, especially for extractive industries (mining and petroleum). Yet it has not adjusted its conditionality or tax technical assistance, and has been reluctant to criticize other agreements such as bilateral tax and investment treaties, or exemptions for donor or NGO funds, which are also reducing developing country revenues.

On national **spending programs**: There has been a marginal increase in education and health spending under IMF programs between 1985-2009, largely due to the Fund’s requirement that debt relief funds be spent on these sectors.<sup>12</sup> The IMF has

monitored levels of social spending, though there are major problems with the methodology.<sup>13</sup> However, several recent independent reports<sup>14</sup> have demonstrated that since the global economic crisis, spending on MDG-related sectors (which range from halving extreme poverty to halting the spread of HIV/AIDS and providing universal primary education) has not performed as well for countries with IMF programs compared to other countries. This is partly due to the fact that after an initial stimulus response to the crisis in 2009-10, overall spending levels in IMF programs has stagnated or fallen as a proportion of GDP. Given that spending levels in most countries are also far short of those needed to attain the MDGs, the IMF will need to dramatically increase its focus on mobilizing additional revenue and financing and enhancing MDG-related spending, if LICs participating in IMF programs are to meet the MDGs and post-2015 goals.

Another key spending issue has been the balance between investment and recurrent spending, and especially a tendency by IMF missions to recommend reductions in recurrent spending, through cuts in real wages, or reductions of staffing levels, including in the social sectors. The IMF made a specific undertaking not to include **wage bill cuts** as **specific** performance criteria in programs except in exceptional circumstances, yet continues to suggest them as part of policy discussions in almost all countries, resulting in a predominance of wage bill cuts in recent programs.<sup>15</sup>

However, the major current labor issue (provoked in part by greater public discussion by IMF management of the need for “job creation and inclusive growth”) is the lack of a clear IMF policy to promote employment, balancing this with the objective of reducing inflation. Critics (and the Fund itself) have noted the IMF’s past and current preference for labor market “structural reforms” and greater flexibility, which is also reflected by its systematic use of the controversial World Bank “Doing Business” labor policy index in its programs, and measures in 32 current programs. Critics and the Fund have also indicated that there is no evidence or consensus in analysis that such reforms work to increase employment or income of workers.

The most recent IMF analysis of these issues recommends “more systematic diagnostic analysis of growth and employment challenges and identification of the most binding constraints to inclusive growth and jobs so as to provide more tailored and relevant policy advice; more systematic integration of policy advice on reforms of tax and expenditure to create conditions to encourage more labor force participation, including by women, more robust job creation, more equity in income distribution, and greater protection for the most vulnerable; and enhanced advice on labor market policies based on empirical evidence and greater collaboration with the World Bank, OECD and ILO on the impact of these policies on growth, productivity, job creation, and inclusion.”<sup>16</sup> However, though the Fund has prepared a “toolkit” for work on growth, labor and inclusion issues for country teams, there is little evidence yet of a change in policy recommendations to country authorities.

**Debt:** From a low-income country perspective, relief on debt to the IMF, agreed in 2005 under the Multilateral Debt Relief Initiative (MDRI), was very welcome. There has since been a lengthy discussions with the Fund (and the World Bank) about its conditionality on borrowing by LICs, as reflected in the LIC Debt Sustainability Framework (DSF) and the IMF program borrowing ceilings. Both the DSF and the borrowing limits policies have been improved and made somewhat more flexible. However, many low-income countries still feel that they are too constraining in the context of massive infrastructure financing needs and shortages of aid financing.

The IMF has also been playing a key role in coordinating efforts at international debt relief, especially through the Enhanced Heavily Indebted Poor Countries Initiative (HIPC) and MDRI initiatives, in advising other creditors on how much relief is needed to make LIC debt sustainable. HIPC processes represented a vast improvement over earlier practices, in that the relief was based more on country needs, and involved a wider range of creditors. However, Civil Society Organizations (CSOs) and some creditor and debtor governments have long called for a more comprehensive debt resolution mechanism which would be independent, fair and transparent, and more clearly legally binding on all creditors.<sup>17</sup>

The IMF made some initial efforts in 2003 to place itself at the head of such a process through a Sovereign Debt Restructuring Mechanism (SDRM), but failed to receive majority Board support for such an initiative, and has since backed away from such fundamental reforms. A recent IMF analysis<sup>18</sup> acknowledged that debt restructurings have often been too

little and too late, thus failing to re-establish debt sustainability and market access in a durable way, but indicated that an SDRM would not command support, and recommended only improved analysis, exploring ways to avoid having Fund resources bail out other creditors, and measures to reduce restructuring costs and increase commercial and non-Paris Club government creditor participation.

Many independent sources also question whether the IMF should lead on this issue, given that in many cases it is itself a creditor of the debt-burdened country, and argue that the UN is better placed to host such initiatives and consider fully the impact of the debt burden on reducing MDG-related spending.<sup>19</sup>

## Monetary and Counter-Inflation Policy

Score

2.5

IMF programs have historically targeted inflation rates in all program countries; for LICs the rate has been well below 5% over the medium-term, which many argued was excessively deflationary and compromised chances for growth.<sup>20</sup> In recent years there has been some evidence of greater flexibility, with most programs aiming for between 3% and 7%, allowing greater flexibility for monetary and fiscal expansion. However, there remain widespread criticisms of excessively restrictive monetary policy, resulting in insufficient credit for the private sector and high interest rates. For intense, heated debate see writings by Action Aid and the Center for Economic Policy and Research (CEPR).<sup>21</sup>

## Financial Sector Reform and Stability

Score

2.5

The IMF plays two roles in financial sector reform and stability. At the global level, it produces analysis (and provides advice to the G20) on potential risks to global macroeconomic and financial stability from financial developments – principally through the “Global Financial Stability Report” (GFSR). It was heavily criticized for its failure to foresee the global financial crisis and has since beefed up its analytical and surveillance capacities. Its reports and speeches by the Managing Director regularly criticize the slow pace of G20 agreement and implementation on financial sector regulations, and place more stress on potential downside risks. For example, the last GFSR warned of a scenario in which “a global financial crisis could morph into a more chronic phase, marked by a deterioration of financial conditions and recurring bouts of financial instability,” and spoke strongly of the need to reinvigorate the regulatory reform agenda, especially on banking, over-the-counter derivatives, accounting and shadow banking, and to ensure coherence rather than fragmentation among new national-level regulatory measures.<sup>22</sup>

At the national level, the IMF is the main organization responsible for assessing financial development and stability in LICs, through its Financial Sector Assessment Program (FSAP), and for seeing that Financial Stability Board (FSB) recommendations and global regulatory standards and codes (such as Basel III) are implemented in LICs. However, as discussed in the chapter on the FSB, this agenda is set by developments emanating from the global level, leading to over-emphasis on banking sector reform and concerns about access to banking services, and insufficient emphasis on other non-bank financial institutions with a longer-term and more stable investment perspective, such as insurance, pension funds, micro-finance, or community-based financial systems. The Fund’s work is also moving at the same slow speed as FSB global discussions in terms of adapting recommendations to the post-crisis environment, especially in LICs.

## Balance of Payments Policies/Capital Controls

Score

2.5

*Note: This issue overlaps with inflation, given inflation results from capital inflows from US especially (QE2, QE3)*

A final controversial issue has been the IMF’s attitude toward controls by LICs on capital flows. The Fund’s Articles of Agreement ensure that “Members may exercise such controls as are necessary to regulate international capital movement.”<sup>23</sup> Efforts to amend the Articles of Agreement to require financial liberalization failed in the aftermath of the current financial crisis.<sup>24</sup> During the 1990s and early 2000s, through its own research,<sup>25</sup> the Fund began to urge caution in the scale, speed, and sequencing of capital account liberalization, even as most country programs supported relatively rapid liberalization,

and underplayed its risks. It also largely failed to provide any advice to source countries providing private capital flows to introduce policies which might have reduced their volatility.<sup>26</sup>

Since 2005 and especially after the global financial crisis, there has been a gradual redefinition of the IMF position. This culminated in a new “institutional view” in November 2012 and staff guidance note in April 2013, which indicated that the IMF would not include conditions on capital account liberalization in its programs. On the other hand, these have been criticized by developing countries and CSOs for: emphasizing the need for a continued strategy in most countries of capital flow liberalization, while conceding that “staff advice should not presume that full liberalization is an appropriate goal for all countries at all times”; putting severe limits on both the circumstances and the design of any controls or other measures to reduce volatility; and advocating only limited discussions with source countries.<sup>27</sup> In practice, however, for most low-income countries, this is no longer a burning issue, as they have already liberalized capital flows. Instead, they need advice on when and how they should re-introduce controls. Paradoxically, when they seek IMF advice, they still encounter opposition to any use of capital controls.

**OVERALL ASSESSMENT:** The overall assessment of IMF impact should be seen as slightly positive on growth and poverty reduction; negative on inequality and inclusion; negative on spending; negative on tax; positive on reducing debt; mixed on broader debt resolution; and mixed on financial and external sectors. In all of these areas, the Fund appears to be making efforts at improvement and therefore its future impact has a positive outlook at this time.

## IMF Impact Assessment

**Moderate**

**Good Outlook**

Impact Criteria	Score
Growth, Poverty Reduction...	3 / 4
Fiscal Policy	1.8 / 4
Monetary Policy	2.5 / 4
Financial Sector Reform	2.5 / 4
Balance of Payments	2.5 / 4
<b>Total Score</b>	12.3 / 20
<b>Average Score</b>	<b>2.6</b>



### Understanding the Scores:

<b>1</b>	<ul style="list-style-type: none"> <li>Has <b>not</b> taken sufficient, if any, action to address relevant issues and/or has taken actions which have led to negative impacts for developing countries</li> </ul>
<b>2</b>	<ul style="list-style-type: none"> <li>Has taken action to address relevant issues</li> <li>Actions have <b>neither</b> improved or degraded outlook for real economies of developing countries</li> </ul>
<b>3</b>	<ul style="list-style-type: none"> <li>Has taken action to address this issue</li> <li>Actions have led to outcomes which have improved <b>outlook</b> for real economies of developing countries</li> </ul>



- <sup>1</sup> IMF Articles of Agreement, Article I, Purpose; International Monetary Fund, (n.d.). *Articles of Agreement*. Retrieved from website: <http://www.imf.org/external/pubs/ft/aa/pdf/aa.pdf>.  
See also footnotes 5 and 6 below for role of IMF in reducing poverty and promoting growth.
- <sup>2</sup> For more details, see *International Monetary Fund - Overview*. (n.d.). Retrieved from <http://www.imf.org/external/about/overview.htm>
- <sup>3</sup> Although the Fund currently has 16 lending programmes with high-income and middle-income countries
- <sup>4</sup> For more information, see International Monetary Fund, Policy Development and Review Department. (2000). *Key Features of IMF Poverty Reduction and Growth Facility (PRGF) Supported Programs*. Retrieved from website: <http://www.imf.org/external/np/prgf/2000/eng/key.htm>
- <sup>5</sup> For more details, see *Lending by the IMF: Lending to Low-Income Countries*. (n.d.). Retrieved from see <http://www.imf.org/external/about/lending.htm>; or *The Poverty Reduction and Growth Facility (PRGF) - Operational Issues*. Retrieved from website: <http://www.imf.org/external/np/pdr/prsp/poverty2.htm>
- <sup>6</sup> Martin, M., & Watts, R. unpublished Report to Oxfam, (2012). *The Impact of the IMF on Growth, Poverty and Inequality*
- <sup>7</sup> *United Nations Millennium Development Goals - Goal 1: Eradicate Extreme Poverty & Hunger*. (n.d.). Retrieved from <http://www.un.org/millenniumgoals/poverty.shtml>
- <sup>8</sup> Gini coefficient is the statistical value that represents income inequality. Higher values are associated with higher levels of income inequality.
- <sup>9</sup> Save the Children, (2012). *A Chance to Grow: How Social Protection Can Tackle Child Malnutrition and Promote Economic Opportunities*. Retrieved from website: <http://www.governmentspendingwatch.org/research-analysis/social-protection>
- <sup>10</sup> Kochhar, K., Loungani, P., Salgado, R., & Clemens, B. International Monetary Fund, (2013). *Jobs and Growth: Analytical and Operational Considerations for the Fund*. Retrieved from website: <http://www.imf.org/external/np/pp/eng/2013/031413.pdf>
- <sup>11</sup> See Action Aid, forthcoming, *Reducing Aid Dependence through Revenue Mobilization*.
- <sup>12</sup> Clements, B., Gupta, S., & Nozaki, M. International Monetary Fund, Fiscal Affairs Department. (2011). *What happens to social spending in imf-supported programs* (SDN/11/15). Retrieved from website: <http://www.imf.org/external/pubs/ft/sdn/2011/sdn1115.pdf>
- <sup>13</sup> Martin, M., & Watts, R. Report by Development Finance International for Save the Children Norway, Norwegian Church Aid and the Norwegian Forum for Environment and Development, (2012). *Enhancing the IMF's Focus on Growth and Poverty Reduction in Low-Income Countries*. Retrieved from website: <http://www.governmentspendingwatch.org/research-analysis/health>
- <sup>14</sup> Kyrili, K., & Martin, M. Report for Oxfam by Development Finance International, (2010). *The Impact of the Global Economic Crisis on the Budgets of Low-Income Countries*. Retrieved from website: <http://www.governmentspendingwatch.org/research-analysis/overall-spending>
- <sup>15</sup> Save the Children, (2012). *A Chance to Grow: How Social Protection Can Tackle Child Malnutrition and Promote Economic Opportunities*. Retrieved from website: <http://www.governmentspendingwatch.org/research-analysis/social-protection>
- <sup>16</sup> Kochhar, K., Loungani, P., Salgado, R., & Clemens, B. International Monetary Fund, (2013). *Jobs and Growth: Analytical and Operational Considerations for the Fund*. Retrieved from website: <http://www.imf.org/external/np/pp/eng/2013/031413.pdf>
- <sup>17</sup> See also Financial Stability Board (FSB) chapter in this publication.
- <sup>18</sup> Chensavasdijai, V. International Monetary Fund, (2013). *Sovereign Debt Restructuring - Recent Developments and Implications for the Fund's Legal and Policy Framework*. Retrieved from website: <http://www.imf.org/external/np/pp/eng/2013/042613.pdf>
- <sup>19</sup> See *Bretton Woods Update*. (n.d.). Retrieved from <http://www.brettonwoodsproject.org/update/index.shtml>; and Ellmers, B. (2013, May 30). Imf acknowledges failure of recent debt restructurings, proposes new reforms. *European Network on Debt and Development*, Retrieved from <http://www.eurodad.org/1545535/>. Additional recent work is available Gitlin, R., & House, B. (2013). *The Sovereign Debt Forum: Expanding our Tool Kit for Handling Sovereign Crises*. *Centre for International Governance Innovation - Policy Brief*, (28), Retrieved from [http://www.cigionline.org/sites/default/files/CIGI\\_PB\\_28.pdf](http://www.cigionline.org/sites/default/files/CIGI_PB_28.pdf) and Sovereign Debt Workout Mechanism First UNCTAD Working Group Meeting: Toward an Incremental Approach 2.07.2013. (2013, July 15). *UNCTAD - Debt Portal*, Retrieved from <http://www.unctad.info/en/Debt-Portal/News-Archive/Our-News/Debt-Workout-Mechanism-First-Working-Group-meeting--Toward-an-Incremental-Approach-2072013-/>
- <sup>20</sup> For earlier analysis of these characteristics see Martin, M. & Bargawi, H., 2005. *A Changing Role for the IMF in Low-Income Countries*. In Jan Joost Teunissen and Age Akkerman, eds., *Helping the Poor? The IMF and Low-Income Countries*. The Hague: FONDAD.  
or Adam, C., & Bevan, D. (2005). *Fiscal Deficits and Growth in Developing Countries*. *Journal of Public Economics*, (89), Retrieved from <http://www1.worldbank.org/publicsector/pe/pfma07/AdamBevan2005.pdf>.
- <sup>21</sup> Rowden, R. (2009, December 11). Concern over imf impact on health spending. *IMF Survey Magazine: What readers say*, Retrieved from <http://www.imf.org/external/pubs/ft/survey/so/2009/REA121109A.html> and CEPR's Scorecard Series tracking growth of income, mortality, etc. in IMF program countries since 1980, see *CEPR's Scorecard Series*. (n.d.). Retrieved from <http://www.cepr.net/index.php/ceprs-scorecard-series>
- <sup>22</sup> International Monetary Fund, World Economic and Financial Surveys. (2013). *Global financial stability report: Old risks, new challenges*. Retrieved from website: <http://www.imf.org/external/pubs/ft/gfsr/2013/01/pdf/text.pdf>
- <sup>23</sup> Articles of Agreement, Art VI, Section 3; International Monetary Fund, (n.d.). *Articles of Agreement*.
- <sup>24</sup> Chwieroth, J. (2010). *Capital Ideas: The IMF and the Rise of Financial Liberalization*. New Jersey, NY: Princeton University Press.
- <sup>25</sup> International Monetary Fund, Independent Evaluation Office. (2005). *Evaluation Report: The IMF's Approach to Capital Account Liberalization*. Retrieved from website: <http://www.ieo-imf.org/ieo/files/completedevaluations/04202005report.pdf>
- <sup>26</sup> *Report on the Evaluation of the IMF's Approach to Capital Account Liberalization*. (n.d.). Retrieved from <http://www.ieo-imf.org/ieo/pages/IEOPreview.aspx?img=i6nZpr3iSlU=&mappingid=wDzQh8NzlmC=>
- <sup>27</sup> Bretton Woods Project Updates 82, 83 and 86; *Bretton Woods Update*. (n.d.). Retrieved from <http://www.brettonwoodsproject.org>

# World Bank

## World Bank Governance

**Jo Marie Griesgraber**  
*New Rules for Global Finance*

### Introduction

*As intergovernmental bodies, the World Bank and IMF are models of inclusion in that all member states are represented through the innovative arrangement of the constituency system. However, that same system set up a permanent conflict: the Executive Directors are BOTH officers of the institution (according to the Article of Agreement, their “only” duty), and de facto representatives of specific countries/groups of countries.*

The governance structure of the World Bank mirrors that of the IMF. Indeed, the 1944 Bretton Woods Conference spent much time designing the IMF, and as the time drew near to close the conference they simply assigned the same general structure to the World Bank. The allocation of votes among the Executive Directors (ED) remains tied to the allocation within the IMF.<sup>1</sup> The principal differences in governance structures between the IMF and World Bank derive from the latter’s various facilities and the funding sources.

The World Bank Group is formally a group of five institutions: the International Bank for Reconstruction and Development (IBRD), the International Association for Development, the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and the International Centre for Settlement of Investment Disputes (ICSID). This article will focus on IBRD and IDA, with occasional reference to IFC. The same Executive Board and President govern all the facilities. The IBRD is funded by a small amount of paid in capital from all member countries, commensurate with the size of their economy as measured by the IMF; then each country also pledges “callable capital”, which serves as a guarantee for the World Bank which secures most of its funds by borrowing on the private capital markets. It provides loans to middle income countries at slightly above the market rate for AAA bonds. The IDA loans to low income countries and its funds come from: 1) any excess the IBRD earns from interest payments beyond that needed for Bank administration, and 2) directly from the budgets of the donor or Part I countries who meet every four years to approve funding targets and new policies. The voting power of IDA member countries is based on their *total* of country donations, thereby continually providing the US with a veto within IDA. The IFC borrows money on the private markets to on-loan to private sector as partners in development; IFC is required to make a profit on these “investments”.

## Transparency

Score

2.5

The World Bank, like the IMF, should be modeling best behavior for its member-countries in all areas of governance, but especially in transparency, where it frequently advises borrowing countries to adjust their own performance. The Bank’s own practice is uneven. The World Bank has become the standard setter with its open data platform policy. Conversely, access to archival documents is sub-standard, whether considering the ideal (prompt, comprehensive, multi-lingual and electronic), the performance of the World Bank or that of the US Federal Reserve Board.<sup>2</sup> Moreover, the World Bank exempts virtually all of its corporate information from disclosure, including, information about its own direct vendors, senior managers’ financial assets, procurement, contracts. Ironically, a number of the serious scandals affecting the Bank in recent years have involved its corporate operations.



The Bank Information Center (BIC), a non-governmental organization in Washington, tracks public access to World Bank documents.<sup>3</sup> Regarding the Bank's current Access to Information Policy, BIC finds that "it continues to limit public access in a number of serious ways:

- **Overly Broad Exceptions:** While the new transparency policy does recognize a presumption of disclosure, the exceptions are too broad. This is particularly true for the provisions pertaining to the deliberative process, third-party information, and Executive Directors' communications.
- **Public Interest Override Has Limited Application:** The Bank successfully established a public interest override for information requests, but the override only applies to information restricted by only three of the ten exceptions.
- **Opaque Board Meetings and Board Communications:** The new policy does not call for open board meetings and rejected timely access to meeting transcripts and Executive Directors' statements.
- **Weak Simultaneous Disclosure Provision:** All draft information considered deliberative is not subject to simultaneous disclosure. Countries can veto simultaneous disclosure and there is no commitment to disclose draft Country Assistant Strategies, which outline the Bank's long-term development goals for a country.

These limitations in the new policy lead civil society observers to restrain judgment until practices change.<sup>4</sup>

BIC concludes the Bank must "embrace [a] transparency culture" targeting citizens and affected communities so that they may take on an increased role in the development process. The Bank must consider that among the various stakeholder groups, affected people are the hardest group to reach. Thus the Bank must continue to develop initiatives to engage affected communities.<sup>5</sup>

## Inclusiveness

Score

2

The World Bank has the same constituency arrangement and vote distribution as the IMF, with its corresponding strengths and weaknesses. In 2010 the World Bank Executive Board introduced a major advance with the addition of a third seat for Sub-Saharan Africa. Regrettably, the three largest economies of the region (South Africa, Nigeria and Angola) claimed the seat as their own, leaving the other two African EDs still representing in excess of twenty countries each.<sup>6</sup>

Within the Executive Board, there is a dramatic imbalance between developing countries (the borrowers, or Part II countries) and the advanced economies (the donors, or Part I countries) and correspondingly serious tensions because of the *real politik* operating beneath the surface but shaping formal decisions and practices.

Many Executive Board policies are determined in the IDA Deputies meetings every three years. Over the past decades, civil society organizations (CSOs) have used this framework to advocate for safeguard mechanisms for displaced persons, indigenous peoples and the environment. But emerging market economies (EMEs), those straddling the donor-borrowing divide, have come to resent these safeguards as unnecessary intrusions on their sovereignty that add costly delays and complexities to World Bank loans. Further, the IDA replenishment negotiations do not include EME Deputies even though significant shares of IDA resources have come from interest payments made by EMEs on IBRD loans. Those interest rates could have been reduced, saving the EMEs money, instead interest payments support LICs through IDA and cover the majority of the World Bank administrative costs, all without any corresponding credit in terms of voice and votes for EMEs on IDA decisions.

Serious unresolved participation issues for World Bank governance also extend to the roles for Parliaments, especially in borrowing countries, and for civil society whether from the "North" or the "South". If World Bank policies, reflecting the priorities largely of Part I countries, and the practice of borrowing governments fail to protect vulnerable citizens or the common good (e.g., the environment), then what options do affected peoples and the global public have to protest and protect their countries? In turn, the EMEs insist that the inevitable tradeoffs such as those between the needs for growth (e.g., water issues and electricity generation) and survival of endangered species should be theirs to make exercising their right of eminent domain.

These tensions are in the forefront of the World Bank's current (July 2012-June 2014) review of its safeguard policies. The Bank's process for consulting on these policies is well-designed.<sup>7</sup> The external stakeholders include "representatives" of borrowers, UN agencies, multilateral and bilateral development agencies, the private sector, foundations, universities and think tanks, labor, indigenous peoples, affected communities and various levels of civil society organizations. The question for future analyses is the quality of feedback to stakeholders, including the impact of these entities on outcomes.

## Accountability

Score

2

The World Bank's Articles of Agreement<sup>8</sup> draw a clear line of internal accountability within the Bank: staff are accountable to management, management to the Board, and the Board to the Governors. However this clear line only operates in practice between staff and management. The gravest institutionalized problem with World Bank is that *actual* power resides in the G7 countries, and increasingly with the G20. The President is chosen by the United States, with the rest of the G7 having the power to strongly oppose. The President is then answerable, *de facto*, to these external powers, not to the Board.

Each time the new World Bank President is to be chosen commitments are made all round the world that *this* Presidential selection process will be merit-based alone and nationality-blind. And each time, the White House proposes and the rest agree. The deal is done. In the last selection process, the Board interviewed two eminent Southern Candidates: Jose Antonio Ocampo of Colombia<sup>9</sup> and Ngozi Okonjo-Iweala of Nigeria<sup>10</sup>. Of course the US candidate, Jim Kim, was selected. This selection process has endured for 60+ years, and no US President (nor European leader vis-à-vis the IMF) is willing to take the domestic political heat for "losing" the World Bank Presidency.

The Executive Board itself is accountable to no one. The Board of Governors, neither as a whole nor through the Development Committee, does not evaluate the performance of the Board as a corporate entity nor of the individual Executive Directors, nor of the Bank's President.

## Responsibility

Score

1.5

The Executive Board, management and staff all pay close attention to project preparations. However, once the Board approves a project loan, the Bank only checks progress in terms of release of funds. Staff promotions continue to be closely tied to "amount of money out the door." Corruption or shoddy work or any similar action is likely to go unreported, noticed only upon project completion or if loud public attention is called to it during the course of project implementation.

The Bank does have mechanisms to register staff and affected peoples' complaints. It has a Vice President for Integrity, and an "integrity app" to download to a personal phone, and mechanisms for guaranteeing privacy. However, in the lead up to the resignation of former Bank President Wolfowitz, these mechanisms were found to be severely lacking.

In design, the World Bank's whistleblower protection policies are "state of the art." But in practice these are only a "cardboard shield"<sup>11</sup> since it does not allow access to external arbitration in retaliation complaints, and whistleblower protections therefore suffer from an institutional conflict of interest. Although a whistleblower may request external mediation, he or she must choose a mediator from a list pre-selected by the Bank.

Even this protection does not apply within an Executive Director's office. All staff work at the pleasure of the ED, and anyone wishing to disclose corruption can report quietly to their own home government, or go to an outside organization such as the Government Accountability Project or GAP. In following either course, however, a whistleblower still risks summary dismissal and any future prospects at home, at the Bank or in the IMF.

The World Bank was the first international financial institution to organize an Inspection Panel to receive and investigate complaints directly from adversely affected individuals. The Panel reports directly to the Board, not to management. Complaints must come from a group (minimum of three people) seriously and negatively affected, or about to be seriously and negatively affected, by the World Bank's failure to follow its own procedures, and while the project is not yet completed. To date, the Inspection Panel has not received complaints related to non-project lending. The Panel cannot provide restitution or recompense for harm already done.

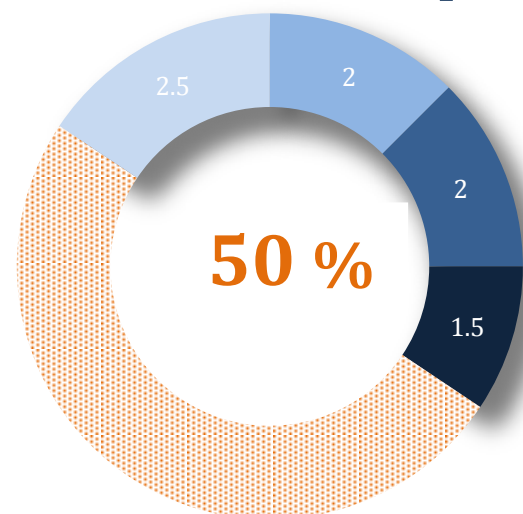
The Independent Evaluation Group (IEG), formerly the Operations Evaluation Group, now reports directly to the Executive Board through the Board Committee on Development Effectiveness. Management of the World Bank (IBRD and IDA), IFC and MIGA can neither censor nor delay IEG studies. This author could find no assessment of the extent to which the World Bank, IFC and MIGA implement IEG recommendations. IEG undertook an extensive self-evaluation in 2011 but Johannes Linn, a former World Bank Vice President for Europe and Central Asia and now a Non-resident Senior Fellow at the Brookings Institution, identified several gaps in the self-evaluation which might have been corrected through an independent external evaluation, such as those the IMF conducts on its own Independent Evaluation Office.<sup>12</sup>

In summary, the World Bank is well on its way to good performance on Transparency (2.5). For Inclusiveness, the Bank shares the strengths and weaknesses of the IMF, namely all member states are represented but the Eurozone is over-represented, and in IDA calculations the IMF is over-represented; with affected peoples and Parliaments sorely absent (2). The Accountability is modest, with the bottom of the bureaucracy answerable to their superiors, and rewarded for the outflow of funds, but the Executive Board is answerable to no one. Further, internal whistleblowers receive no effective protection (2). On Responsibility, the World Bank took a major step forward with the establishment of the Inspection and with the greater independence of the Independent Evaluation Group. However, while the Inspection Panel may improve future Bank behavior, it can offer no compensation to negatively affected people. For the IEG, not even a mechanism to track implementation of its recommendation (1.5).

## World Bank Governance Assessment **Moderate**

### Governance Gap

Governance Component	Score
Transparency	2.5 / 4
Accountability	2 / 4
Inclusiveness	2 / 4
Responsibility	1.5 / 4
<b>Total Score</b>	<b>8 / 16</b>
<b>Average Score</b>	<b>2</b>



<sup>1</sup>Cafaro, S. (2013). *Democratizing the Bretton Woods Institutions*. Kindle Direct Publishing. Retrieved from <http://www.amazon.com/Democratizing-Institutions-Tentative-Solutions-ebook/dp/B00F1SWK0Y>

<sup>2</sup>The minutes of the Federal Reserve's Open Market Committee Meeting are released within three weeks and four times a year the Chair gives a press conference. Transcripts are released after five years but because only one year at a time, meaning the average is 5-1/2 +years -six+ for January meetings and five+ for December meetings. Thanks to Edwin "Ted" Truman of the Petersen Institute for International Economics for this detailed information. See also: *Board of Governors of the Federal Reserve System*. (n.d.). Retrieved from <http://www.federalreserve.gov>

<sup>3</sup>Danforth, V. Bank Information Center, (2011). *Unlocking the World Bank's Access to Information Policy - Your Key to the Vault*. Retrieved from website: <http://www.bicusa.org/wp-content/uploads/2013/01/Final.pdf>

<sup>4</sup>*Access to Information at the World Bank*. (n.d.). Retrieved from <http://www.bicusa.org/issues/wbtransparency/>

<sup>5</sup>Ibid.

<sup>6</sup>The 3 argue that their interests are so different from the other SSA states that they were lost in the larger constituencies, and now the EDs are able to focus on the common interests of the remaining states.

<sup>7</sup>World Bank, (2012). *Review and Update of the World Bank Environmental and Social Safeguard Policies - Consultation Plan*. Retrieved from website: [http://siteresources.worldbank.org/EXTSAFEPOL/Resources/584434-1306431390058/SafeguardsREVIEW\\_ConsultationPlan.pdf](http://siteresources.worldbank.org/EXTSAFEPOL/Resources/584434-1306431390058/SafeguardsREVIEW_ConsultationPlan.pdf)

<sup>8</sup>For details see International Bank of Reconstruction and Development, (2012). *Articles of Agreement*. Retrieved from website: [http://siteresources.worldbank.org/EXTABOUTUS/Resources/IBRDArticlesOfAgreement\\_links.pdf](http://siteresources.worldbank.org/EXTABOUTUS/Resources/IBRDArticlesOfAgreement_links.pdf)

<sup>9</sup>*Columbia University SIPA - Faculty*. (n.d.). Retrieved from <http://new.sipa.columbia.edu/faculty/jos-antonio-ocampo>

<sup>10</sup>*Federal Ministry of Finance - Honourable Minister*. (n.d.). Retrieved from <http://www.fmf.gov.ng/the-ministry/management-team/honourable-minister.html>

<sup>11</sup>Devine, T., & Walden, S. (2013). International Best Practices for Whistleblower Policies. *Government Accountability Project*, Retrieved from [http://www.whistleblower.org/storage/documents/Best\\_Practices\\_Document\\_for\\_website\\_March\\_13\\_2013.pdf](http://www.whistleblower.org/storage/documents/Best_Practices_Document_for_website_March_13_2013.pdf)

<sup>12</sup>Linn F., J. (2012). Evaluating the evaluators: Some Lessons from a Recent World Bank Self-Evaluation. *Brookings Institution*, Retrieved from <http://www.brookings.edu/research/opinions/2012/02/21-world-bank-evaluation-linn>

# World Bank Impact

**Matthew Martin**

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## Introduction

According to the World Bank, its overarching mission is “a world free of poverty”. The Bank fulfills these goals by providing i) loans, interest-free credits, and grants to developing countries to support a wide array of investments in education, health, public administration, infrastructure, financial and private sector development, agriculture, and environmental and natural resource management; and ii) policy advice, research and analysis, and technical assistance/capacity-building to developing countries. Development research and statistics support its work.<sup>1</sup> This assessment of World Bank impact places particular emphasis on low-income countries (LICs) (though it also lends to virtually all middle-income countries).<sup>2</sup>

World Bank loans and grants for LICs come largely via the International Development Association (IDA), which is funded by a combination of donor contributions, repayments of past loans, and World Bank Group net income from other loans and investments.<sup>3</sup>

In what follows, the World Bank is assessed on the adequacy of its resources and the way in which they are allocated; on its policy and impact on poverty and inequality (its main mission and goals); its policies on various sectors and cross-cutting themes; its record of delivery including conditionality; and its private sector activities.

## Resources & Allocation

Score

3

World Bank funding overall is very large – for example making it the largest global funder of education, HIV/AIDS and water and sanitation projects – having peaked at US\$58.8 billion of commitments in 2010 (responding to greater country need as a result of the global economic crisis) before falling back to US\$31.6 billion in 2012. Its IDA resources are much lower, at US\$16.5 billion a year. Though they were increased by 18% for the last three year replenishment period covering 2012-14, they look unlikely to rise significantly in the next few years given cuts in OECD aid budgets: indeed the latest IDA replenishment discussions have agreed a real stagnation or fall.<sup>4</sup> Nevertheless, IDA remains a major actor in official development financing across the world (around 20% of multilateral flows or 10% of total flows) and could therefore have a strong potential influence on setting new rules for development finance.

LICs would like to see IDA funding levels rise significantly given massive MDG financing needs (though they also have major criticisms of how IDA funds are allocated and delivered as discussed later in this section), and therefore perceive IDA funding as inadequate. They have made several proposals for more flexibility in using World Bank funds, with greater use of IBRD (or combined IBRD and IDA) money for high-return infrastructure projects rather than their current focus on “enclave” high-return natural resource projects. They also oppose any hardening of lending terms of IDA recipients, which looks likely to be agreed as part of the latest IDA replenishment. CSOs are somewhat divided on whether IDA should have more resources, with most preferring higher funding for UN agencies and regional development banks, especially in relation to climate change.

The second main problem perceived by LICs and CSOs with World Bank resources is the system through which they are allocated. This has been based largely on country “performance” as assessed through the Country Policy and Institutional Assessment (CPIA), which has been heavily criticized for making the Bank much less able to respond to country needs in terms of low human development or high poverty, or to the particular circumstances of countries which are more vulnerable to economic or climatic shocks, or emerging from conflict or in other fragile situations.<sup>5</sup> These characteristics of the CPIA will become increasingly problematic in future years as many non-fragile and less poor countries graduate from using IDA funds, leaving a very high percentage of its funds going to higher need, more vulnerable, “lower-performing” countries.

As a result of these factors and the delivery issues discussed in Issue 3 below, IDA flows to fragile and conflict-affected states have stagnated over the last 10 years, even though they have become a more important proportion of the beneficiary countries. IDA 17 intends to tackle this problem with a five point reform agenda to increase its effectiveness in fragile states, and higher allocations to these countries in 2014-17.

The CPIA has also been criticized for the lack of transparency and subjectivity of its country ratings, and for the detailed content of its rating system, including many criteria which appear to take little account of environmental, inequality/equity, or decent work objectives.

An additional problem has been seen by LICs in sectoral allocation – especially the lack of sufficient funds for regional “transformational” infrastructure projects. This has been a particular focus of African governors of the World Bank, and such financing has already been increased slightly with 10 priority projects in energy and agriculture launched in 2012. Funding for such transformational projects will probably be scaled up slightly during 2014-17 in the new IDA replenishment. On the other hand, CSOs have been opposing a greater focus on large-scale infrastructure; especially if it is at the cost of social sector investments or delivered through PPPs (see also Issue 3 below). They have been instead urging IDA to spend more on health and nutrition, and the Bank to make universal free health care a primary goal.<sup>6</sup>

## Policy Impact on Poverty & Inequality

Score

2

The Bank has long been criticized for not placing enough emphasis on directly combating poverty and inequality<sup>7</sup>, and seeming to rely on an assumption that income will “trickle down” to the poor via accelerated growth. However, the Bank has recently reinterpreted and reinforced its interpretation of its mission as being to “virtually end extreme poverty in a generation” (because this will take time and 3% of poverty will be impossible to end due to exogenous shocks); and to “push for greater equity” by using a new “shared prosperity indicator” to ensure there is income growth for the bottom 40% in each country.<sup>8</sup>

Many in civil society and developing countries have criticized the Bank for a lack of ambition in these goals – for tackling only “extreme poverty” (income of below US\$1.25 a day) rather than poverty more broadly defined (e.g. below US\$2 or more); and for failing to measure progress to shared prosperity more comprehensively through inequality indicators such as Gini or Palma. They have also criticized the Bank for ignoring a rights-based approach to development, and are worried that drafts of the Bank’s strategy for attaining the goals imply excessive reliance on growth and private-sector led development.<sup>9</sup>

However, others have welcomed the Bank’s new focus on inequality and shared prosperity which was not among its previous goals. They see it as potentially a major step forward in focusing on outcomes instead of only equality of opportunity in terms of access to markets, resources, and an unbiased regulatory environment and individuals”. In addition, these goals look likely to be in line with those to be adopted in a UN post-2015 global development framework.

It is extremely hard to assess World Bank impact on poverty or inequality. Unlike the IMF, it has been very little involved in designing the macroeconomic framework in LICs in recent years, and lends to virtually all LICs, so it is not possible to ascribe major macroeconomic impacts to World Bank projects or to compare countries with and without World Bank programs. However, the Bank in common with the broader donor community has seen acceleration of growth and reduction of poverty in most LICs, but much less progress on inequality. It has also conducted very little in-depth analysis of how its policy recommendations, programs and projects are impacting on these issues – and will need to scale up such analysis dramatically.

It is intended under division of labor agreements with the IMF that the World Bank should play a key role in such aspects as the distributional consequences of tax and spending policies, as well as providing policy advice on social protection, job creation and financial inclusion to fight against inequality. The Bank acknowledges that these have not been at the center of



its policies and intends to scale up focus on them in the next few years, as also stressed in the World Development Report 2013.

## Policies on Sectors & Cross-Cutting Issues

Score

3

*Social and Environmental Policies:* LIC governments and CSOs have welcomed the renewed commitment to universal education and health care by the new Bank President during 2012-13, and some of the President's own speeches in which he emphasized that user fees for such services should be eliminated or minimized to avoid excluding the poor. However, CSOs and education/health experts have been highly critical of some proposals made by the Bank for delivering these goals through the private sector, on the grounds that they are typically less cost-effective and exclude the poorest, undermining equity and rights to education and health.<sup>10</sup>

The Bank has been seen by LICs and CSOs until recently as insufficiently committed to combating **climate change** in its actual lending policy, continuing to make large investments in fossil fuels and not routinely assessing its projects and programs in depth for their potential impact on climate change. However, this appears to have been changing somewhat in 2013, with much greater focus on mainstreaming climate change, disaster risk management and low-carbon development in IDA countries, and an announcement that it will in general avoid financing coal projects.<sup>11</sup>

There is generally seen to have been some progress on “**gender** mainstreaming” and monitoring gender impact of Bank projects over the last decade. However, there is not nearly enough analysis of gender impact of country strategies and operations, or emphasis on measuring the achievement of project gender equality objectives and collecting gender disaggregated data. In addition, the Bank needs to do much more on maternal health care, on women's economic empowerment, and on gender-based violence, and to make its policies, strategies and projects respond to women's needs and rights, especially in providing high-quality jobs.<sup>12</sup>

## Delivery & Conditionality

Score

3

Another key question is whether the World Bank is delivering its mandate efficiently and in line with global agreements on what constitutes “effective aid”. In other words, to what degree is it living up to new agreed rules for global development finance in the way it delivers its funding?

Recent assessments by low-income countries<sup>13</sup> indicate IDA performs well compared with other multilateral development financing institutions in terms of

- Channeling its assistance via the recipient government budget;
- Aligning its assistance with priority sectors and programs in national development and poverty reduction strategies;
- Programming commitments and disbursements over a multiyear period;
- Untying its assistance from any link to exports of individual countries; and
- Being fully engaged in national and sectoral policy dialogue with countries.

However, it performs less well in terms of:

- Low quality and capacity-building content of much of its technical assistance;
- Complex and slow disbursement and procurement procedures;
- Failure to channel its support via government public financial management and procurement systems, or to use government-led results tracking systems; and
- High levels of policy and procedural conditionality which delay disbursements. IDA has been making some recent efforts to streamline procedures and reduce delay, including through greater use of national procurement systems, and decentralization.

Most Bank programs and projects have some form of **policy conditions** attached to them, but this is most prevalent in “development policy loans” (DPLs) – which have fallen from 25% to only 12% of IDA lending in recent years. The Bank



has somewhat reduced the use of policy conditionality in recent years, in particular reducing duplication with IMF macroeconomic policy conditions. However, a 2012 internal review of DPLs found that operations still contained 10 “prior actions” before funds could begin to be disbursed. Concerns also remain among LICs and CSOs about the use of ‘one size fits all’ conditionalities remain, restricting the pursuit of democratically chosen policies appropriate to national contexts; and about the Bank’s lead role in the formulation of extremely lengthy conditionality matrices which guide budget support disbursements by multiple donors in many countries.<sup>14</sup>

LICs also found IDA to be only average in terms of its **flexibility** to respond to economic or climatic shocks, including during the global economic crisis of 2009-11.<sup>15</sup> Extensive discussions among donors and recipients about how to improve this aspect of its performance resulted in the creation of a more flexible Crisis Response Window in 2012, but this has not been used much, has yet to be tested by a major global crisis affecting LICs, and looks likely to be set at only 3% of IDA resources for the 2014-17 period (which would probably be an inadequate response to major crisis).

Overall, LICs have assessed IDA as performing less well than the better-delivering UN agencies on both policies and procedures; and worse than the EU and regional multilateral development banks on policies. These assessments are consistent with those conducted under the evaluations and surveys of donor compliance with the Paris Declaration on Aid Effectiveness in 2008-11.<sup>16</sup>

## Private Sector Engagement & Lending (IFC)

Score

1

A final way in which the World Bank might be expected to be creating new rules for global finance is through its engagement with the private sector, principally via its private sector lending arm, the International Finance Corporation (IFC). This is particularly important given that one primary goal of IDA’s strategy for the next few years is to “leverage” greater private sector resources for development given that its own funds will be stagnating or falling in real terms.

LICs have repeatedly recognized that the World Bank’s provision of private sector support is useful and countries have benefited from IFC instruments. However, they have indicated that IFC has not been as good at policy or delivery as IDA: in particular, IFC facilities have tended to be tailored towards countries with better capacity to access the funds, and there has been minimal differentiation of interventions according to country circumstances. There has also been overconcentration on highly profitable sectors such as mining, petroleum, tourism and finance, as well as a tendency to partner with large transnational investors.<sup>17</sup> CSOs and independent analysts have also pointed to its very limited impact on poverty.<sup>18</sup>

The Bank’s assessment of private sector “investment climate” through the “Doing Business” report, which underpins many of its private sector investments, has also been highly criticized by civil society for its focus on reducing taxes and promoting “flexible” labor markets by minimizing labor regulations. This publication is to undergo a fundamental review in 2013-14 including consultations with LICs and CSOs.<sup>19</sup>

There has also been strong criticism from CSOs of the IFC’s growing move into public-private partnerships or private financing for what have previously been mainly publicly-funded infrastructure and social sector investments. This is presented as logical given shortages of public funding and massive infrastructure needs, and follows leadership given in G20 communiqués on efforts to increase investment financing, which has caused similar trends in all development financing institutions. However, these types of projects are much more expensive than public sector funding such as bonds, and are even being extended in a growing number of cases to health, public or low-cost housing, and education. The 2012 IEG report on the “Results and Performance of the World Bank Group,” showed that Bank effectiveness was lowest in infrastructure and public-private partnerships.<sup>20</sup>

IFC has also been criticized (including by the World Bank ombudsman) for its failure to track the environmental and social impact of its interventions, notably those which operate indirectly via financial intermediaries such as banks and investment funds. This is because it relies on client self-monitoring and self-assessment, and very limited reporting, way behind some

other lenders to the private sector including the Asian Development Bank and US Overseas Private Investment Corporation, and is seen as a much weaker system of social and environmental safeguards than those of the World Bank itself. One area highlighted recently has been the failure of such safeguards to prevent “land grabs” from LIC citizens with little or no consultation, resulting in a commitment from the Bank to use stronger guidelines in this area. CSOs have therefore been particularly worried in 2013 that the World Bank has been conducting a consultation on its safeguards policy with one possible option being that safeguards might be revised to match those used by the IFC.<sup>21</sup>

A final area in which the World Bank has not taken significant action is in maximizing tax collection for LICs through its investments. It could for example insist that it would not do business with corporations which are based in tax havens, or are failing to report all their accounts disaggregated by country, or are failing to pay full tax in host countries on projects they are executing with IFC funding. Overall, the World Bank seems to be doing little to promote new rules for private finance.

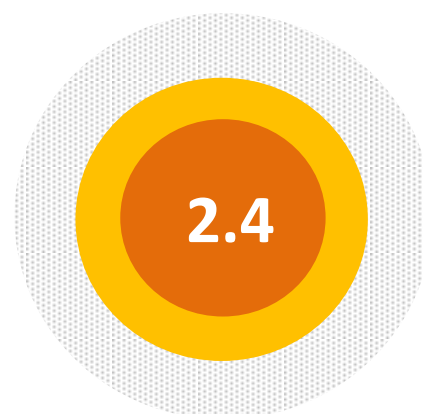
**OVERALL ASSESSMENT:** The overall assessment of World Bank impact should be seen as: Insufficient resources and poor allocation (though with efforts by management to fight for more resources and make some improvements in allocation [3]; Progress on goals but unclear on impact on growth and poverty reduction, inequality and inclusion, and pro-poor spending/tax/labor [2]; Progress but continuing problems/doubts on education, health, climate change, gender [3]; Progress but continuing concerns on delivery, conditionality and flexibility [3]; Poor and showing few signs of improvement on private sector investments [1].

## World Bank Impact Assessment

**Moderate**

**Good Outlook**

Impact Criteria	Score
Resources & Allocation	3 / 4
Poverty & Inequality	2 / 4
Sectoral Issues	3 / 4
Delivery & Conditionality	3 / 4
Private Sector Engagement	1 / 4
<b>Total Score</b>	<b>12 / 20</b>
<b>Average Score</b>	<b>2.4</b>



### Understanding the Scores:

<b>1</b>	<ul style="list-style-type: none"> <li>Has <b>not</b> taken sufficient, if any, action to address relevant issues and/or has taken actions which have led to negative impacts for developing countries</li> </ul>
<b>2</b>	<ul style="list-style-type: none"> <li>Has taken action to address relevant issues</li> <li>Actions have <b>neither</b> improved or degraded outlook for real economies of developing countries</li> </ul>
<b>3</b>	<ul style="list-style-type: none"> <li>Has taken action to address this issue</li> <li>Actions have led to outcomes which have improved <b>outlook</b> for real economies of developing countries</li> </ul>

<sup>1</sup> For more details, <http://www.worldbank.org/en/about/what-we-do>

<sup>2</sup> Future editions of GFGIR may also examine World Bank technical assistance, research and statistics.

<sup>3</sup> A few creditworthy low-income countries (such as India, Indonesia and Pakistan) also receive more expensive loans from the IBRD window of the Bank, which funds its operations from borrowings on international capital markets, underwritten by capital contributions from its member states.

<sup>4</sup> <http://www.brettonwoodsproject.org/art-573343>

<sup>5</sup> For examples of such critiques, see Alexander, Nancy (2010), The Country Policy and Institutional Assessment (CPIA) and Allocation of IDA Resources: Suggestions for Improvements to Benefit African Countries, report to the African Caucus of the IMF and World Bank, available at ; Kanbur, Ravi (2005), Reforming the Formula: A Modest Proposal for Introducing Development Outcomes in IDA Allocation Procedures, CEPR Discussion Paper 4971; Patrick Guillaumont and Sylviane Gullaumont-Jeanneney (2009), Accounting for Vulnerability of African Countries in Performance Based Aid Allocation,” African Development Bank Group Working Paper 103; and Severion, Jean-Michel and Moss, Todd (2012), Soft Lending without Poor Countries: Recommendations for a New IDA, available at [international.cgdev.org/sites/default/files/1426547\\_file\\_Moss\\_IDA\\_FINAL\\_web.pdf](http://international.cgdev.org/sites/default/files/1426547_file_Moss_IDA_FINAL_web.pdf). The World Bank’s own Independent Evaluation Group also concluded in 2009 that use of the CPIA for allocation of funds should be eliminated.

<sup>6</sup> See <http://www.brettonwoodsproject.org/art-572263>

<sup>7</sup> The Bank is about to announce a new strategy at the October 2013 Annual Meetings, and next year’s GFGIR will assess the adequacy of that strategy.

<sup>8</sup> See <http://www.worldbank.org/content/dam/Worldbank/document/WB-goals2013.pdf>

<sup>9</sup> <http://www.brettonwoodsproject.org/art-572637>

<sup>10</sup> See <http://www.brettonwoodsproject.org/art-572728> on education and <http://www.brettonwoodsproject.org/art-572644> on health.

<sup>11</sup> See [www.worldbank.org/ida/papers/IDA17\\_Replenishment/IDA17ManaguaSummary.pdf](http://www.worldbank.org/ida/papers/IDA17_Replenishment/IDA17ManaguaSummary.pdf)

<sup>12</sup> See [www.worldbank.org/ida/papers/IDA17\\_Replenishment/IDA17ManaguaSummary.pdf](http://www.worldbank.org/ida/papers/IDA17_Replenishment/IDA17ManaguaSummary.pdf) and

<http://www.genderaction.org/publications/assessingeffectiveness.pdf>

<sup>13</sup> See Development Finance International 2010 submission to the UK DfID Multilateral Aid Review, based on the views of 33 HIPCs, available at <http://www.development-finance.org/en/news/420-28-february-dfid-multilateral-aid-review.html>

<sup>14</sup> See also <http://www.brettonwoodsproject.org/art-572689>

<sup>15</sup> See communiqués issued by LICs in 2009, available at <http://www.development-finance.org/en/services/advisory-advocacy-services/advocacy-services/g20.html>

<sup>16</sup> For more details of their findings, see <http://www.oecd.org/dac/effectiveness/>

<sup>17</sup> For an example of this see the LIC communiqués cited in footnote 14 above.

<sup>18</sup> <http://www.brettonwoodsproject.org/art-572001>

<sup>19</sup> <http://www.brettonwoodsproject.org/art-572701>

<sup>20</sup> <http://www.brettonwoodsproject.org/art-572003>

<sup>21</sup> See <http://www.oxfam.org/en/grow/pressroom/pressrelease/2013-02-08/world-banks-private-sector-doesnt-know-environmental-impact>; <http://www.oxfam.org/en/grow/policy/risky-business>;

## Case Study: Impact of World Bank Policy and Programs in Egypt

*\*This is a summary of March 2013 study by the Bank Information Center and the Egyptian Initiative for Personal Rights (EIPR), researched and written by Yahia Shawkat.*

Despite billions of Egyptian pounds in infrastructure investment both from national and international sources, Egypt's cities, towns and villages continue to grow and function in much the same way they have over the last three decades, namely through self-reliance. There are varying degrees of deprivation such as shortages in housing, municipal services and transport --the three main ingredients of functioning communities -- while on the other hand, a minority is very well served. It is no surprise then that the main call of the January 25<sup>th</sup> revolution was “*Bread! Freedom! Social justice!*”

One significant partner the Government of Egypt has had in the development of Egypt's built environment has been the World Bank, which has invested heavily in infrastructure projects such as electricity, waste water and natural gas, as well as in transportation and affordable housing. These investments come along with the Bank's policy recommendations and technical assistance which have included championing private sector involvement and phasing out government subsidies, while taking the stance that government should be an “enabler” rather than a “provider” of such services.

In July 2012, the Bank's portfolio of built environment-related projects was \$3,180 million, roughly 81 percent of the total \$3,945 million portfolio of active WB projects in Egypt. This long-term interest in Egypt puts the World Bank in a position to shoulder some of the responsibility for the state of the built environment in Egypt.

Why has the large amount of foreign and national funding not succeeded in solving or substantially addressing the many built environment challenges faced by Egypt's citizens? Have the Bank's efforts played a positive role in promoting pro-citizen built environment policies and projects? Analyzing the World Bank's **Egypt 2006-2009 Country Assistance Strategy (CAS)**, which was extended until May 2012, provides answers to these questions. The strategy's main objectives were; facilitating private sector development, enhancing the provision of selected public goods, and promoting equity. The CAS is also analyzed in light of the Bank's investments in policy programs and development projects during the same period.

**On developing the private sector and in using the PPP model:** While the 2006-2009 CAS finds that the “*GoE is conscious of the need to ensure resulting [privatization] arrangements do not create private monopolies and that they are embedded within a regulatory and supervisory framework that protects the public interest,*” it is clear from the way the solid waste management sector has performed since it has been formalized that there is a need for greater focus on regulation.

**On regional disparities:** Only a comprehensive built environment policy, along with representative local government, will balance regional disparities and promote the equitable distribution of services and investments, something that the 2006-2009 CAS largely failed to achieve and where investment remained highly centralized in the Greater Cairo region.

**On stakeholder consultation:** The lack of true representation and consultation of stakeholders was another area in which the 2006-2009 CAS was weak. “Stakeholder participation” in the CAS was largely limited to central government and private sector affiliates, rather than including a broader range of affected stakeholders. In order for a comprehensive built environment policy to be formulated, local community participation must be mainstreamed into both the policy development and project development frameworks.

**On promoting equity and the poor:** Just less than a quarter of the WB portfolio of investments was themed as “urban services for the poor”, and even then the “poor” were not well defined. For example the Affordable Housing Mortgage program's target was middle and lower middle income groups – between the 75<sup>th</sup> to 45<sup>th</sup> percentiles - and not the low income groups.

**On involuntary resettlement:** Half of the 14 built environment-related projects triggered the Bank's involuntary resettlement safeguard policy, indicating that there was a risk of people being displaced from their lands, homes, or livelihoods as a direct or indirect result of the project.

Taking an in-depth look at the 2006-2009 CAS has demonstrated several areas in which the World Bank in coordination with the GoE failed to address the true needs of Egypt's citizens in the built environment. In the coming 18 months of the Bank's new interim strategy, there is a great opportunity for the World Bank and the Government to work with citizens and all stakeholders to develop a comprehensive plan for the built environment. This will in turn help to guide the Bank, GoE, and stakeholders in the development of a new, post-revolution CAS that will reflect the needs of the built environment and the Egyptian citizens who have kept it running for the past several decades.

*The full text of the study can be found on EIPR's website: <http://eipr.org/sites/default/files/pressreleases/pdf/wbegypt-en.pdf>*

# Tax Rule-Making Bodies

## Tax Governance

**Jo Marie Griesgraber**  
*New Rules for Global Finance*

### Abstract

*International tax rule-making has become a controversial topic as the United States and the Eurozone both cut programs and begin to prosecute tax avoiders and evaders<sup>1</sup>. The increased public awareness of multinational corporations' (MNCs) ability to transfer profits to tax havens increased pressure on politicians to act. Development organizations have put the human face on people who are harmed by these arrangements. This paper describes the status quo non-system that prevails where three international organizations--the OECD, the IMF, and the UN Tax Committee—all claiming leadership of the international tax "system." John Christensen's words apply: where everyone is in charge, no one is in charge.<sup>2</sup> The paper is organized as follows: the first section presents a short introduction to each of the three actors, followed by a scrutiny of the three institutions' levels of transparency, inclusion, accountability, and responsibility. The conclusion assigns scores for the quality of governance at each of those levels.*

### Introduction

The principal institutions for international tax rule-making are: the OECD, the IMF, and the UN Committee of Experts on International Cooperation in Tax Matters (UN Tax Committee).

**OECD:** Since 1956, the Committee on Fiscal Affairs (CFA) of the Organization for European Economic Co-operation (OEEC) (now called the Organization for Economic Co-operation and Development or OECD) has managed international tax policy coordination. Currently the OECD has 34 member-states, expanding beyond the original Western European members, to the US, Canada, Chile, Japan, Mexico, South Korea and several Eastern European members. The OECD claims partnerships with all the BRICS (Brazil, Russia, India, China and South Africa), although other than Russia, have to date declined to join<sup>3</sup>. The OECD has developed a "Model Tax Treaty" plus commentary to guide countries in their bilateral tax treaties. Treaties based on this Model are the only legally binding international tax agreements.

For international tax matters, the OECD's key role is in transfer pricing. The basic theory supporting the OECD's work in this area is that the subunits of a multinational corporation (MNC) are independent entities and the transactions between them can be valued at market prices. This fictive underpinning has led to continued evolution in made-up data bases to estimate "true market prices", and 5 methods for determining market prices. These complex methods facilitate the ability of MNCs to hide or transfer their costs and profits to avoid paying taxes anywhere.<sup>4</sup>

The OECD and G20 refer to the Global Forum on Transparency and Exchange of Information for Tax Purposes (Global Forum) as "the premier international body for ensuring the implementation of the internationally agreed standards of transparency and exchange of information in the tax area." A creation of the OECD, Global Forum's original members of the Global Forum were tax havens and OECD countries seeking common ground on transparency and information exchange. They produced the Tax Information Exchange Agreement, which provides for information on request. The



Global Forum was restructured in September 2009 in response to the G20 call to strengthen implementation of these standards. It now has 120 members.<sup>5</sup>

Most recently, in response to G20 requests, the OECD has outlined actions to address the problem of “Base Erosion and Profit Shifting (BEPS),” and has proposed a 3-year program of study leading to recommendations to repair the ineffective international system, but not to overhaul it.<sup>6</sup>

**IMF:** The IMF’s governance is described in detail in the IMF Governance essay in this report. Its role in international tax policy processes is largely in research and capacity building. The IMF co-authored with the OECD, UN and World Bank, “Supporting the Development of More Effective Tax Systems,” A Report to the G-20 Development Working Group.<sup>7</sup> In response to the G20 BEPS agenda, the IMF prepared an outline of its own role and agenda in the field of international tax policy.<sup>8</sup>

**UN Tax Committee:** The UN International Conference on Financing for Development (Monterey, Mexico, 2002) agreed to elevate the Ad Hoc Committee of Experts on International Cooperation in Tax Matters<sup>9</sup> to a more permanent Committee of Experts (UN Tax Committee) under the UN’s Economic and Social Council (ECOSOC), with a small Secretariat in the new Financing for Development Office located in the UN Department of Economic and Social Affairs (DESA). Under this Committee of Experts, UN countries nominate tax experts who serve in their personal capacity for a 5-year term; the UN Secretary-General selects individuals from among those nominated. Experts tend to be evenly distributed among OECD and non-OECD countries, men and women, North and South. On the basis of the 39 nominations presented by Member States in July 2013, the Secretary-General appointed 25 new individuals to the UN Tax Committee for a term beginning on the date of notification of such appointment and expiring on 30 June 2017.<sup>10</sup> English is the Committee’s working language. The Committee meets once a year for 5 days in October in Geneva; meetings are open to observers, who may be recognized by the chair to raise questions or comment on the Committee discussion, as well as to serve on Committee subcommittees. The Committee has a budget for only this meeting; all other expenses must be borne by the individual or by the sending country, even though the individual does not formally represent any government and agreed documents are not inter-governmental agreements.

## Transparency

Score

2

In the discussion of Transparency the focus will first be on the transparency of the institutions themselves, and then on the quality of transparency of the policies each designs. Of the three institutions--the OECD, with the Global Forum, the IMF, and the UN Tax Committee--the best performer is the UN Tax Committee. The following provide brief summaries in support of this conclusion:

The OECD is relatively transparent. Research and policy papers are generally announced ahead of time. However, non-member-governments have limited opportunity to participate in the generation of papers; staff are accessible; the for-profit private sector seems to have greater access and influence than the non-profit sector. Draft documents are not public, nor are public comments solicited. In turn, the Global Forum itself seems to be transparent in its agenda and meeting announcements.

The IMF is the lead almost-global institution charged with capacity building in tax policy. The IMF maintains it responds to the demands of its clients: whatever help governments request, the IMF provides, so long as it is within the mandate of the Fund. Little data, if any, exists to substantiate that claim. There are catalogs of IMF technical assistance offerings with short course descriptions. However, there are limited public assessments of the quality and utility of the courses.

The UN Tax Committee meetings are open to anyone who registers; its annual meeting dates and agenda are publicly available through the UN website. All papers and decisions are available online. Membership is formally available to all tax experts, provided they are nominated by a UN member government, and selected by the UN Secretary-General, on the advice of the Secretariat technical staff. The UN Tax Committee could become more transparent by establishing criteria for



nomination and if the nominating process could be open to all, not just member states. The subcommittee meetings are announced beforehand.

Apart from institutional transparency, do these institutions promote policies that encourage transparency?

The OECD attempted to tackle the international tax haven problem by “blacklisting” offenders. This initiative halted with the opposition of the new US President, George W. Bush. The OECD then did an about-face, inviting those same tax havens to design a treaty on information collection and exchange. This became the Tax Information Exchange Agreement (TIEA), a non-binding instrument whereby governments can request information about their citizens, but must specify the name of the individual and the institution within the tax haven, and the nature of the “offense.” Since tax havens cooperate in hiding the identity of the actual or “beneficial owner”, such treaties rarely provide information leading to prosecutions. Furthermore, any country that signs 12 treaties, is off the “blacklist”.<sup>11</sup>

Both the OECD itself and its creation, the Global Forum, rely on peer reviews, and it is peer pressure that leads to countries implementing OECD and Global Forum standards.

Paradoxically, the OECD and Global Forum continue to promote the TIEAs to combat tax haven abuse, and the G20 has endorsed TIEAs as the standard for information exchange. However, under the TIEA, information exchange is not automatic.

“Any request for information under a TIEA must provide:

- (a) the identity of the person under examination or investigation;
- (b) what information is sought;
- (c) the tax purpose for which it is sought;
- (d) the grounds for believing that the information requested is held within the jurisdiction to which request is made; and
- (e) to the extent known, the name and address of any person believed to be in possession of the requested information.”<sup>12</sup>

Despite accepting the TIEA (which provides information upon request), the US has launched its own Foreign Account Tax Compliance Act (FATCA) program to require information from all foreign banks on all US citizens and green-card holders having accounts in those banks; the European Union moves ahead with its proposal for a Common Consolidated Corporate Tax Base; the G8 endorsed automatic exchange of information relating to taxes and endorses disclosure of Beneficial Owners<sup>13</sup>; and the September, 2013, Tax Annex to the St. Petersburg G20 Leaders’ Declaration, endorsed the development of a new global tax standard, namely, automatic exchange of information.

## Inclusion

Score

2

OECD has engaged with civil society through the Tax and Development Taskforce, since 2010.<sup>14</sup> Those CSOs who have participated, usually as representatives of a broader collective of CSOs, repeatedly express frustration that their interventions are not listened to and there is scant evidence that the OECD has considered, much less incorporated, any CSO proposal.

*Global Forum* membership now stands at 120, and membership is expanding. Members pay dues based on the size of their economies. Despite assertions regarding its independence, the Global Forum is strongly tied to the OECD. Its Secretariat is staffed by both OECD and non-OECD personnel, but remains part of the OECD secretariat, answerable ultimately to the OECD Secretary-General.<sup>15</sup>

IMF Staff and consultants provide technical assistance to member-government staff, in addition to fiscal policy advice that is part of every regular Article IV surveillance report, and of every review associated with an IMF lending arrangement.

Developing country tax experts have expressed resentment toward the IMF, which asserts its power so forcefully, leaving many feel they have no option but to follow along or lose their jobs—or waste their time protesting.

As discussed above, formal participation in the UN Tax Committee is open to all who have expertise in tax administration and policy; but is limited by the number of seats (25), and to the nomination of a government and selection by the UN Secretary General for Tax Committee with the advice of the Secretariat in the Financing for Development Office. Representation by geography and gender has been generally balanced. Any interested person willing to commit the time and energy to participating is generally welcome so long as they are knowledgeable, courteous, and can cover their own costs. Observers have been involved in writing reports and doing research used by the Committee or any of its subcommittees. This openness therefore benefits those with access to independent resources, and results in extensive and intensive participation by the for-profit sector. Even members from developing countries without access to travel funds are *de facto* excluded from subcommittee meetings. Participation is also restricted because of the exclusive use of English.

## Accountability & Responsibility

Score

2

Given the decentralized, ad hoc nature of international tax rule-making and implementation, there are no firm rules made by the consensus of the governed, for the common good, to which all conform. Instead:

- all implementation depends on decisions at the national level;
- the rules, such as they are, depend on institutions dominated by the largest economies (IMF and OECD), and those rules protect their national interests;
- the most powerful private enterprises have shaped national laws, and permeate the OECD processes to minimize their tax payments;
- secrecy jurisdictions or tax havens exist by the design of the major financial centers, and enable funds to return to the market without paying taxes, or revealing who benefits from the wealth.
- Tax bureaucrats are out-numbered and under-paid compared to the armies of professionals (lawyers, accountants, lobbyists) who work to establish and maintain the current system.

Challenging these arrangements are:

- The declaration of the G8 in support of greater transparency of Beneficial Ownership
- The clear preference of the G20 for automatic exchange of information
- The assignment to the OECD by the G20 to work on Base Erosion and Profit Shifting
- The commitment by the IMF to research Unitary Taxation, as a frontal challenge to the “Arms-Length Principle” of OECD transfer pricing chaos.

Indeed, the IMF, has worked with developing countries to renegotiate contracts with corporations involved in the extractive industries (mining, oil, gas, sometimes forestry). In the Annual Meetings of the Bank and Fund for October 2013, the Fiscal Affairs Monitor will detail the large gap between the taxes claimed by advanced countries from extractive industries, compared to the tiny share received by developing countries.

The Swiss Bankers Association apologized for facilitating tax fraud. Could this be a harbinger of things to come?

There is no conversation yet about a World Tax Authority where common regulations can be designed—except at a recent event sponsored by Tax Justice Network at London City University in July 2013. Ten years ago a similar group articulated the need for automatic exchange of information, transparency of beneficial ownership, making a tax offense grounds for criminal prosecution under international anti-money laundering treaties. The 2013 TJN meeting also declared the need to replace transfer pricing with unitary taxation, perhaps even utilizing formulary apportionment to allocate where that *de facto* single corporation owed taxes.

In considering the total absence of Accountability and Responsibility of the OECD and IMF and their lead shareholders, any changes will come from public protest, and the articulation of viable and ethical alternatives from the think tanks and universities that work with the protesters.

The only place where developing countries have a voice is the UN Tax Committee. The major status quo powers need to empower this committee to become the embryo of a World Tax Authority, or to change the structure of the OECD tax units to become a constituency-based institution, where need and population as well as wealth and military might, constitute the bases for voice and votes.

At the same time, it behooves developing countries to come together to set their own priorities for tax policies and tax capacity building, possibly through regional or continental arrangements. By working more with neighbors and peers, and less with former clientalist arrangements, South-South learning can increase.

**Overall Assessment:** *Transparency:* since the IMF is scarcely transparent on its tax training, and the OECD is modestly transparent, and the UN is wholly transparent [2]. *Inclusiveness:* The IMF and the Global Forum are inclusive of or provide representation for most governments, in practice the IMF Board and the OECD, the parent organization of the Global Forum, are controlled by the major powers for their agendas, with the smallest participation of civil society. The UN Tax Committee, not being an inter-governmental body but a gathering of experts in their individual capacities, does not have a representative function; it does permit all interested and competent parties to attend, inadvertently favoring those with access to independent funding [2]. *Accountability:* There are neither mandates nor institutional arrangements that ensure that institutions or their leaders are answerable for their performance [1]. *Responsibility:* Without formal procedures for holding any of the institutions to answer for the consequences of their actions or inactions, nor any arrangements for compensating those harmed, nor even procedures to receive complaints, this score would itself be too generous. However the promised work on BEPS by the IMF and the OECD, plus the IMF's promotion of greater tax fairness from the proceeds of extractive industries to developing countries are hints of redeeming behavior [1].

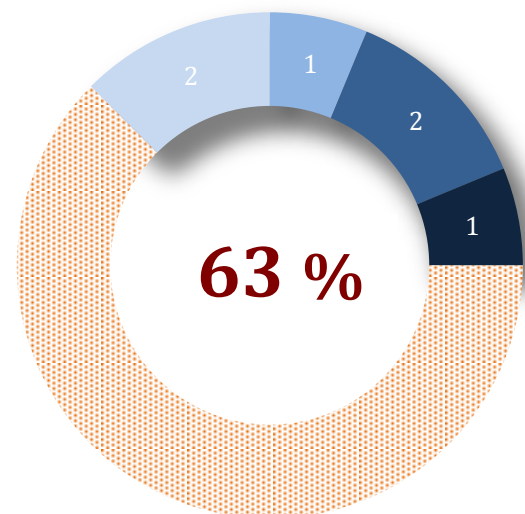
## Tax Governance Assessment

**Poor**

Moderate Outlook

### Governance Gap

Governance Component	Score
Transparency	2 / 4
Accountability	1 / 4
Inclusiveness	2 / 4
Responsibility	1 / 4
Total Score	6 / 16
Average Score	1.5



<sup>1</sup> Houlder, Vanessa, and Matt Steinglass. "G20 leaders ratchet up pressure on tax avoidance." *Financial Times*, September 06, 2013. <http://www.ft.com/intl/cms/s/0/099eb084-1704-11e3-9ec2-00144feabdc0.html>

<sup>2</sup> See FSB Impact statement on Taxation in this document.

<sup>3</sup> Come 2014, the OECD will have a new member – Russia. For more details see:

<http://www.globalpolicyjournal.com/blog/24/01/2013/thinking-russian-choice-brics-vs-oecd>

<sup>4</sup> Sol Picciotto, "Taxing TNCs: What is wrong and how to fix it," for a detailed history of the evolution of international tax-policy. For his extensive research see: <http://www.ictd.ac/en/unitary-taxation-transnational-corporations-special-reference-developing-countries>

<sup>5</sup> <http://www.oecd.org/tax/transparency/>

<sup>6</sup> For detailed information on BEPS see: <http://www.oecd.org/tax/beps.htm>.

<sup>7</sup> <http://www.imf.org/external/np/g20/pdf/110311.pdf>

<sup>8</sup> "Issues in International Taxation and the Role of the IMF," June 28, 2013 <http://www.imf.org/external/np/pp/eng/2013/062813.pdf>

<sup>9</sup> For additional information regarding the Committee and its activities see: <http://www.un.org/esa/ffd/tax/>

<sup>10</sup> [http://www.un.org/ga/search/view\\_doc.asp?symbol=E/2013/9/Add.10&Lang=E](http://www.un.org/ga/search/view_doc.asp?symbol=E/2013/9/Add.10&Lang=E)

<sup>11</sup> <http://www.oecd.org/ctp/harmful/43775845.pdf>

<sup>12</sup> Christensen and Murphy, p. 29

<sup>13</sup> 2013 Lough Erne G8 Leaders' Communique, paras 23-42, <https://www.gov.uk/government/publications/2013-lough-erne-g8-leaders-communique>

<sup>14</sup> <http://www.ictd.ac/en/third-plenary-meeting-oecd-task-force-tax-and-development>

<sup>15</sup> John Christensen and Richard Murphy, "Tax Us If You Can," 2nd Edition (Chesham, Buckinghamshire, UK: Tax Justice Network,

# Tax Impact

**Jo Marie Griesgraber**  
*New Rules for Global Finance*

*“They say that the Ancien regime in France fell in the 18<sup>th</sup> century because the richest country in Europe, which had exempted its nobles from taxation, could not pay its debts. France had become ... a failed state. In the modern world the nobles don’t have to change the laws to escape their responsibilities: they go offshore.” Nicholas Shaxson <sup>1</sup>*

*The subjects of every state ought to contribute toward the support of government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state. Adam Smith<sup>2</sup>*

## Introduction

The governance structure of the separate institutions that collectively formulate “global tax policy” misses a core element of the world’s taxation system: the “offshore” tax havens or secrecy jurisdictions. Typically these are small nation-states that have structured their tax policies to maximize secrecy, to facilitate hiding the true origins, destinations, and ownership of funds that can then be recycled to the major finance centers or returned to their countries of origin, free of any identifying markers. Nicholas Shaxson documents the origins and purposes of this system in his eminently readable *Treasure Islands*,<sup>3</sup> while Tax Justice Network’s (TJN) Financial Secrecy Index (FSI) documents the number and opacity of “the usual suspects” as well as such on-shore facilitators as the states of Delaware and Nevada.<sup>4</sup> These webs of secrecy must be included in any comprehensive and candid assessment of how the global tax system actually operates. These arrangements place formal rule-making in the hands of defenders of the status quo, while enveloping the actual machinery in fog and darkness. The size of these shadow monies is astounding:

A significant fraction of global private financial wealth...at least **\$21 to \$32 trillion**—has been invested virtually tax-free *through* the world’s still-expanding black hole of more than 80 ‘offshore’ secrecy jurisdictions.”<sup>5</sup>

## Impact of Tax-Rule Making Bodies<sup>6</sup>

The international tax rule-making bodies that are either controlled by status quo powers (OECD, IMF) or deliberately weakened by them (UN Tax Committee), plus the network of secrecy jurisdictions, combine to:

- 1) damage global financial stability;
- 2) erode political stability by worsening social inequalities;
- 3) undermine the legitimacy of national governments, even long-standing democracies; and
- 4) reduce the quality of lives of a majority of the world’s population, while cutting short the lives of the most vulnerable.

## Global Financial Stability

Score

1

### Box 1. Financial secrecy and global markets

*\*Except taken from “Financial Secrecy Index,” Tax Justice Network*

Fair international trade has the potential to generate tremendous economic growth and spread benefits across global society – but it has failed to live up to its promise. Cross-border finance has been revealed, especially since the latest crisis, to be especially problematic. Secrecy is among the most important reasons for these giant failures: capital flows in ever greater volumes around the globe, but the necessary information about that capital is blocked.

Secrecy jurisdictions are at the heart of the global economy. The top 12 “dirty dozen” jurisdictions that the FSI [Financial Secrecy Index] identifies as the most important providers of financial secrecy hold a staggering four fifths of the share of the global market of trade in financial services. Over half of banking assets and liabilities are routed through secrecy jurisdictions, more than half of world trade passes (on paper) through them; virtually every major multinational company uses secrecy jurisdictions for a variety of unspecified purposes, and well over US\$10 trillion of private assets are held in offshore structures to evade and avoid taxes worldwide.

Secrecy jurisdictions are not a peripheral issue but one of the most important facets of globalized financial markets. It has long been held that free market capitalism requires the free flow of information to reduce risk and strengthen efficiency. Investors, regulators, tax authorities, economists, civil society, and many other groups and classes of people require this information for markets to work effectively. The FSI, however, suggests that *secrecy* is at the heart of contemporary global financial capitalism.

Secrecy distorts markets by shifting investments and financial flows not to where they will be most productive, but to where they can acquire the greatest gains from secrecy, such as the ability to engage in tax avoidance and evasion, say, or to escape financial regulation or criminal laws. It hinders effective regulation and law-making of all kinds, and enables insiders to reap the gains from global markets while shifting the costs and risks on to the shoulders of others. The result of such distorted and corrupted markets is a world of steepening inequality, rampant crime and impunity for elites in rich and poor countries alike. ...

Despite regular protestations to the contrary, secrecy jurisdictions played a central role in fostering the conditions for the latest global financial crisis. They have also served as the main cross-border transmission belts for shocks and contagion during the various stages of crisis.<sup>2</sup>

*\*Footnotes within the text of this box were added by J.M. Griesgraber*

<sup>1</sup> Switzerland, Cayman Islands, Luxembourg, Hong Kong, USA, Singapore, Jersey, Japan, Germany, Bahrain, British Virgin Islands, Bermuda.

<sup>2</sup>“Significance the 2011 Financial Secrecy Index,” Retrieved at: <http://www.financialsecrecyindex.com/significance.html>

## Social Inequality & Political Instability

1

Increasing global inequity involves unequal distribution of wealth between and among countries, as well as within countries; between the financial sector and the real economy, and between those who make their money moving and those who earn salaries or wages that can be tracked and taxed readily with every weekly or monthly paycheck. TJN describes the connections between political (in)stability and social (in)equalities:

With the bottom half of the world’s population together possessing barely 1% percent of global wealth while the top 10% owns 84%, economic inequality is widely and increasingly recognized as a problem in its own right. Research shows that more unequal societies tend to experience slower growth, higher political instability, and a wide range of negative health and social outcomes, as [explained below]:

### Box 2 [W]hy inequality is a problem and causes problems

*\* Except taken from “Inequality: You Don’t Know the Half of It,” John Christensen, Nicholas Shaxson, Nick Mathiason*

A number of recent studies have focused on correlations between income inequality and a range of social and economic problems. Perhaps the best known is *The Spirit Level* by Kate Pickett and Richard Wilkinson. They found that people in more equal societies are likely to live longer, to achieve higher grades at school, to enjoy social mobility, and to suffer lower rates of teenage motherhood, and to enjoy child well-being. [They are also] less likely to experience mental illness, to use illegal drugs, to be imprisoned, to suffer obesity, and to suffer violence. This study has been widely referenced.<sup>1</sup>

A 2011 study by Isabel Ortiz and Matthew Cummins for UNICEF found that for 141 countries where inequality could be measured, those with rising inequality tended to grow more slowly over the period studied (1990-2008), and this



“strong negative correlation between high inequality and high growth” remains intact for developing countries alone. They also found that inequality is strongly associated with political instability.<sup>2</sup>

There is also evidence that inequality was a causal factor behind the global economic and financial crisis since 2007/8. Much of the ‘subprime’ borrowing patterns of low-income households, for instance, was driven by economic inequality stimulating consumption and higher borrowing among lower income levels. This chimes with research by the U.S. economist James Galbraith:

*“The evidence in the U.S. shows that the rise in inequality is associated with credit booms, which are often periods of sometimes great prosperity. One was in the late 1990s with information technology and one in the 2000s with housing, before everything fell apart. But this is also a sign of instability — the crash that follows is very ugly business. If we’re going to go forward with growth on a more sustainable basis, then controlling inequality and controlling instability are the same issue. One is an expression of the other.”<sup>3</sup>*

Stewart Lansley takes a similar view, focusing on what happens when a gap opens up between wages and productivity, when benefits from greater productivity flow to the richest section of society. This throws economies out of balance: purchasing power and consumer spending fall and the demand gap is filled by rising debt, which postpones the problem.<sup>4</sup>

Power follows money, and extreme concentrations of wealth at the top of the income scale lead inevitably to disproportionate power and influence for the wealthiest members of society. So some of the most malign political effects of inequality stem from changes at the very top of the income and wealth distribution....

[T]he ability of the wealthiest members of society to put their money offshore gives them great power: the oft-heard cry of ‘don’t tax or regulate us too much or we will move to Geneva or London or the Cayman Islands’ has been wielded to potent effect in recent decades in eviscerating financial regulations, forcing tax cuts on capital, and more.<sup>5</sup>

*\*Footnotes within the text of this box were added by J.M. Griesgraber*

<sup>1</sup> Phrases rearranged for consistency.

<sup>2</sup> Ortiz and Cummins, “Global Inequality: Beyond the Bottom Billion—A Rapid Review of Income Distribution in 141 Countries,” UNICEF, April 2011. [http://www.unicef.org/socialpolicy/files/Global\\_Inequality.pdf](http://www.unicef.org/socialpolicy/files/Global_Inequality.pdf)

<sup>3</sup> “How economists have misunderstood inequality: An interview with James Galbraith” Brad Plumer, Wonkblog, Washington Post online, May 3, 2012. [http://www.washingtonpost.com/blogs/wonkblog/post/how-economists-have-misunderstood-inequality/2012/05/03/gIQAOf5yT\\_blog.html](http://www.washingtonpost.com/blogs/wonkblog/post/how-economists-have-misunderstood-inequality/2012/05/03/gIQAOf5yT_blog.html)

<sup>4</sup> Stewart Lansley, author of “The Cost of Inequality: Why Economic Equality is Essential for Recovery,” London: Gibson, 2012.

<sup>5</sup> “In addition to the many ways in which inequality has contributed to the financial and economic crisis, we have also outlined a number of ways in which tax havens and the offshore system have themselves contributed to the crisis.” see: “Inequality: You don’t know the half of it.”

But how do *tax policies* contribute to social inequality? The simplest explanation was uttered by Leona Helmsley before she was arrested for tax fraud: “only little people pay taxes.” This neatly captures the attitude of the largest corporations and wealthiest individuals, who have the wealth and the will to hire armies of lawyers and accountants to hide their wealth from the national tax collectors, and to provide a patina of legalism on their stratagems to evade or avoid tax payments. Some corporations maintain it is their responsibility to “their shareholders” to minimize tax payments.<sup>7</sup> In the United States, but not unique to the U.S., lobbyists by the hundreds, even thousands, are paid by interested parties to meet with Congressional members and staff to support loopholes or tailored concessions for specific interests, or to block the closure of such loopholes.<sup>8</sup>

The decisions of the OECD as well as national legislatures protect the wealth of those who already enjoy it. The ongoing discussion of “Base Erosion and Profit Shifting,” a G20 task handed to the OECD, persists in supporting the “Arms-Length Principle” (ALP) for determining the taxes paid by various branches (i.e., part of the same legal entity) of a multinational corporation. The Governance section of this publication will allude in depth on ALP and transfer pricing.

Money and profits are then routed to and through secrecy jurisdictions so the true beneficial owner cannot be identified, and end up usually back in the same financial centers whence they originated. Of course legitimate businesses are not the only ones using these machinations. So too are drug lords and human traffickers. Astoundingly, when U.S. banks are used for

these purposes, entire Congressional delegations, such as for the state of Florida, protest stronger regulations and greater transparency. The Members of Congress depend on the banks for financial contributions and the banks depend on drug money for their profits.

## Legitimacy of National Governments

Score

1

When the wealthy do not pay their fair share of taxes, the tax bill is left to the less wealthy and the poor to cover the costs of government, public goods and the management of global commons—everything from defense, police, clean air and water, to schools and roads, and the earth's shared natural resources. Without sufficient income, Detroit goes bankrupt and schools close, while its rich suburbs have wealth aplenty.<sup>9</sup> These outcomes cause many to distrust governments, from the Right and from the Left.<sup>10</sup>

This arrangement is not inevitable nor is ever increasing inequality inevitable. Different policies can lead to different outcomes. As Paul Krugman recalls,

*The great divergence:* Since the late 1970s the America I knew has unraveled. We're no longer a middle-class society, in which the benefits of economic growth are widely shared: between 1979 and 2005 the real income of the median household rose only 13 percent, but the income of the richest 0.1% of Americans rose 296 percent.

Most people assume that this rise in inequality was the result of impersonal forces, like technological change and globalization. But the great reduction of inequality that created middle-class America between 1935 and 1945 was driven by political change; I believe that politics has also played an important role in rising inequality since the 1970s. It's important to know that no other advanced economy has seen a comparable surge in inequality – even the rising inequality of Thatcherite Britain was a faint echo of trends here.<sup>11</sup>

## Quality of Life & Life Expectancy

Score

1

Assuming James S. Henry and his reliance on International Monetary Fund, World Bank, United Nations, central banks and national accounts data, is even close to accurate, the impacts identified here must be only the beginning of the story. The costs and inconveniences of lost tax income for advanced economies are obviously serious for their citizens. For people in the developing world, especially the most vulnerable citizens, the scale of losses from such resources can be life threatening. Obviously, the actual amounts – and the corresponding costs – can only be estimated. In 2008, Christian Aid's research estimated the loss to developing countries at a mere US\$160 billion annually, or over 1.5 times the global aid budget. And what of the impact of this loss?:

Imagine the difference US\$160 billion a year would make to the fight against world poverty: to health, education, sanitation, clean water and other services in the world's poorest countries. It could fund the United Nations' Millennium Development Goals several times over, eradicate malaria and other deadly diseases, or it could help to build people's resilience to ever more frequent drought and floods in the face of climate change.<sup>12</sup>

In another 2008 publication, their estimate of the consequences was more specific:

The situation is stark and urgent. We predict that illegal, trade-related tax evasion alone will be responsible for some **5.6 million deaths** of young children in the developing world between 2000 and 2015. That is almost 1,000 a day. Half are already dead.<sup>13</sup>

More recently the Dutch Centre for Research on Multinational Corporations, also known as SOMO after its Dutch acronym, said "this year that the use of the Dutch tax system by multinational companies had cost €771 m in annual lost tax revenue for 28 developing countries."<sup>14</sup>

The public outrage against this non-system for international tax policy-making has been seen in boycotts in London (Amazon, Google and Starbucks), Occupy Wall Street, and the collapse of the Romney Campaign after his 47% comments<sup>15</sup>, and now the formal apology of the Swiss bankers over facilitating tax avoidance and evasion.<sup>16</sup>

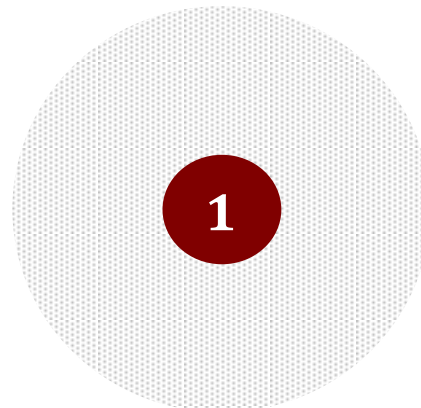
**Overall Assessment:** Will we see a comprehensive global tax code mitigating the negative effects of tax havens around the world in the near future? Probably not. The regulatory framework continues to be too unspecified and regulatory institutions like the OECD, UN Tax Committee or IMF are unable to create a homogenous tax code and speak with a unified voice. Furthermore, as national tax codes are so diversified stemming from different kinds of influences of history, culture, and country-specific aspects, the probability to establish a global tax code in the manner of a one-fits-for-all approach will be rather unrealistic.

However the increasing public outcry and protest against MNC like Starbucks exploiting tax holes, are promising examples that a bottom-up approach might be more effective in the first step than a top-down. As MNC are dependent on consumers to purchase their goods and products, MNC will be more apprehensive to the public opinion and under pressure to implement fair and concise tax codes under the umbrella of Corporate Social Responsibility. However, on a policy level, international institutions have to foster further cooperation among national governments to establish a regulatory framework to close global loopholes.

## Tax Impact Assessment

*Poor*

Impact Criteria	Score
Financial Stability	1 / 4
Social Inequality & Political Instability	1 / 4
Government Legitimacy	1 / 4
Quality of Life	1 / 4
<b>Total Score</b>	<b>4 / 20</b>
<b>Average Score</b>	<b>1</b>



### Understanding the Scores:

**1**

- Has **not** taken sufficient, if any, action to address relevant issues and/or has taken actions which have led to negative impacts for developing countries

<sup>1</sup> Nicholas Shaxson, *Treasure Islands*, 2011, as quoted in John Christensen and Richard Murphy, *Tax Us If You Can*, 2<sup>nd</sup> edition, (UK: Tax Justice Network, 2013), p. 21.

<sup>2</sup> As quoted by Christensen and Murphy, p. 11.

<sup>3</sup> Shaxson, *Op. cit.*

<sup>4</sup> TJN Financial Secrecy Index <http://www.financialsecrecyindex.com/>

<sup>5</sup> James S. Henry, “The Price of Offshore Revisited: New estimates for ‘missing’ Global private wealth, income, inequality, and lost taxes,” (Tax Justice Network, July 2012). p. 5. The author maintains this range is a conservative estimate.

<sup>6</sup> Based on excerpts from publications by Christian Aid and Tax Justice Network (TJN).

<sup>7</sup> The law UK law office of Farrer&Co was asked by Tax Justice Network “to advise whether a person may be said to be under a ‘fiduciary duty’ to avoid tax.” Their opinion, written by David Quentin and delivered July 5, 2013 at a conference at the City University of London, was a resounding “No.” The opinion is available upon request from John Christensen of Tax Justice Network.

<sup>8</sup> Mark Gongloff, “U.S. Companies Lobbying Furiously to Save Corporate Loopholes: Study,” Huffington Post, August 29, 2013. [http://www.huffingtonpost.com/2013/06/18/companies-lobbying-corporate-tax-loopholes-study\\_n\\_3461044.html](http://www.huffingtonpost.com/2013/06/18/companies-lobbying-corporate-tax-loopholes-study_n_3461044.html)

<sup>9</sup> See for example West Bloomfield Township, Michigan: [http://en.wikipedia.org/wiki/West\\_Bloomfield\\_Township,\\_Michigan](http://en.wikipedia.org/wiki/West_Bloomfield_Township,_Michigan)

<sup>10</sup> The Tea Party opposition is well known; on the left examples would include: <http://ourfuture.org/20130829/summers-time-the-record-that-should-keep-him-off-the-fed> and [HTTP://WWW.VICE.COM/EN\\_UK/READ/LARRY-SUMMERS-AND-THE-SECRET-END-GAME-MEMO](http://WWW.VICE.COM/EN_UK/READ/LARRY-SUMMERS-AND-THE-SECRET-END-GAME-MEMO)

<sup>11</sup> [http://krugman.blogs.nytimes.com/2007/09/18/introducing-this-blog/?\\_r=0](http://krugman.blogs.nytimes.com/2007/09/18/introducing-this-blog/?_r=0)

<sup>12</sup> Helen Collinson, “Tax Haven Secrecy—Keeping the Poor Poor, Christian Aid,” p. 1, July 2011,

<sup>13</sup> Christian Aid, “Death and taxes: the true toll of tax dodging,” A Christian Aid report, May 2008, p. 1. Emphasis in the original.

<sup>14</sup> Javier Blas, “Offshore centres race to set up tax deals for investors in Africa, Financial Times, August 20, 2013, p.3.

<sup>15</sup> Romney claimed that voters supporting Obama refused to take personal responsibility.

<sup>16</sup> <http://www.nbcnews.com/business/swiss-banks-say-theyre-sorry-assisting-tax-cheats-8C11062055?ocid=twitter>

## Governance Scorecard

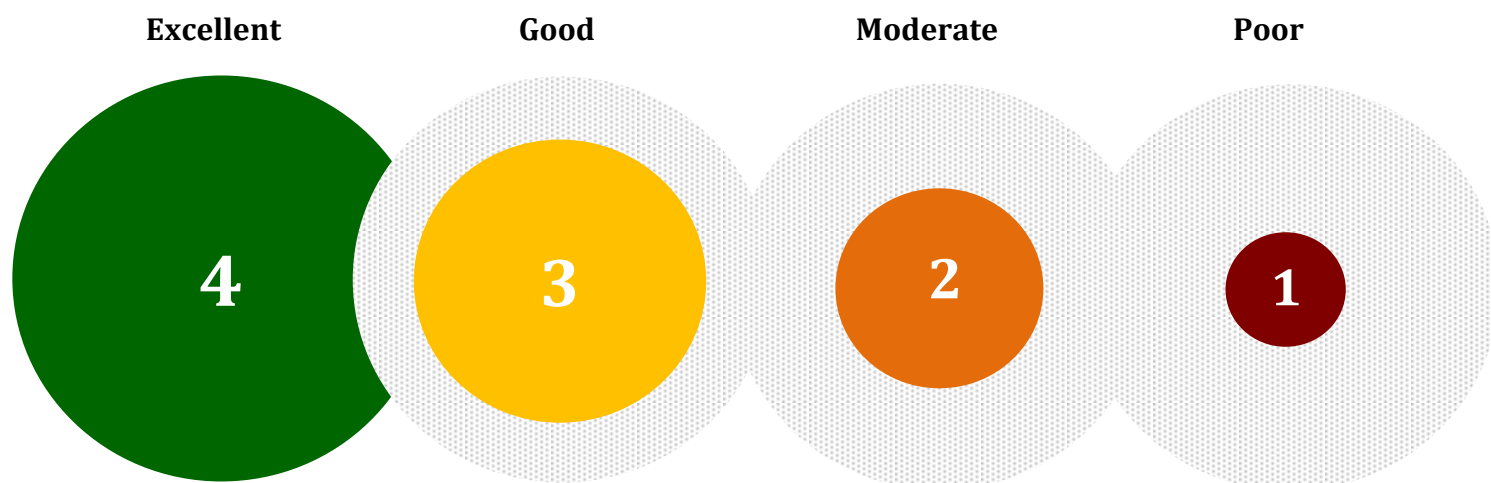
	Poor (1)	Moderate(2)	Good (3)	Excellent (4)
Transparency	<ul style="list-style-type: none"> <li>Limited access to basic information and documents</li> <li>Information disclosure is not timely or comprehensive</li> <li>External stakeholders have no information regarding decision-making</li> <li>Member countries have limited information regarding decision-making</li> <li>There is no channel to request information</li> <li>There is no official transparency policy</li> <li>No documents are translated</li> </ul>	<ul style="list-style-type: none"> <li>Moderate access to basic information and documents</li> <li>Information disclosure is fairly comprehensive but not timely</li> <li>External stakeholders have limited information regarding decision-making</li> <li>Member countries have full information regarding decision-making</li> <li>There is no channel to request information</li> <li>There is an official transparency policy, but not reviewed</li> <li>Only basic documents are translated; 2-3 languages</li> </ul>	<ul style="list-style-type: none"> <li>Full access to basic information and documents</li> <li>Information is fully disclosed in a timely manner</li> <li>External stakeholders have full information regarding decision-making</li> <li>Member countries have access to all information and documents regarding decision-making</li> <li>There is a channel to request information</li> <li>There is an official transparency policy which is reviewed regularly</li> <li>Major policy and country documents are translated; 6 UN languages</li> </ul>	<ul style="list-style-type: none"> <li>Full access to basic information and documents</li> <li>Information is fully disclosed in a timely manner</li> <li>External stakeholders have full information regarding decision-making</li> <li>Meetings of decision-making bodies are announced in advance</li> <li>Member countries have access to all information and documents regarding decision-making</li> <li>There is a channel to request information</li> <li>There is an official transparency policy which is reviewed regularly</li> <li>All policies and country documents are translated; 6 UN languages</li> </ul>
Accountability	<ul style="list-style-type: none"> <li>There is no internal oversight body</li> <li>There is no external oversight body established</li> <li>There is no internal complaint mechanism</li> <li>No official whistleblower policy or protections</li> <li>The structure and roles of internal bodies are unclear</li> <li>No review/report of accountability</li> <li>No formal institutional constitution</li> </ul>	<ul style="list-style-type: none"> <li>Internal oversight body is weak</li> <li>External oversight body is established, but is weak</li> <li>Internal complaint mechanism is informal or ineffective</li> <li>Whistleblower policy and protections are weak</li> <li>The structure and roles of internal bodies are poorly defined</li> <li>No review/report of accountability</li> <li>There is a basic institutional constitution</li> </ul>	<ul style="list-style-type: none"> <li>Internal oversight body is strong</li> <li>External oversight body is strong</li> <li>Internal complaint mechanism is formalized</li> <li>Whistleblower policy and protections are enforced</li> <li>The structure and roles of internal bodies, executives, staff, etc. are clearly defined</li> <li>There is a periodic review/report of accountability</li> <li>There is an advanced institutional constitution</li> </ul>	<ul style="list-style-type: none"> <li>Internal oversight body is strong</li> <li>External oversight body is strong; and has leverage</li> <li>Internal complaint mechanism is formalized</li> <li>Whistleblower policy and protections are enforced</li> <li>The structure and roles of internal bodies, executives, staff, etc. are clearly defined</li> <li>There is a periodic review/report of accountability</li> <li>There is an advanced institutional constitution with well-defined actions/procedures for errors or wrong-doing</li> </ul>



Inclusiveness	<ul style="list-style-type: none"> <li>• Distribution of power (seats and votes) is arbitrary; with no clear criteria</li> <li>• Member countries have limited access to decision-making</li> <li>• Non-members have no access to decision-making</li> <li>• Criteria for membership is unclear; and there is no review of membership</li> <li>• There is no engagement with external stakeholders</li> <li>• There are no public consultations</li> <li>• External views are not acknowledged and/or incorporated into institutional policies</li> </ul>	<ul style="list-style-type: none"> <li>• Distribution of power has clear criteria but is skewed or disproportionate</li> <li>• Distribution of power criteria is reviewed irregularly</li> <li>• Member countries have moderate access to decision-making</li> <li>• Non-members have limited access decision-making</li> <li>• Criteria for membership is clear; but there is no review of membership</li> <li>• There is limited engagement with external stakeholders</li> <li>• Public consultations are irregular; privileged access for certain groups; short time frame for participation</li> <li>• External views are rarely incorporated into institutional policies or practices</li> </ul>	<ul style="list-style-type: none"> <li>• Distribution of power has clear criteria; and is proportionate</li> <li>• Distribution of power is reviewed and updated regularly</li> <li>• Member countries have full access to decision-making</li> <li>• Non-members have moderate access to decision-making</li> <li>• Criteria for membership is clear and reviewed</li> <li>• There is deep engagement with all external stakeholders</li> <li>• Public consultations are regular; accessible for all groups; reasonable time frame for participation</li> <li>• External views are incorporated into institutional policies or practices</li> </ul>	<ul style="list-style-type: none"> <li>• Distribution of power has clear criteria; and is proportionate and equitable</li> <li>• Distribution of power is reviewed and updated regularly</li> <li>• Member countries have full access to decision-making</li> <li>• Non-members have levers for influencing decision-making</li> <li>• Criteria for membership is clear and reviewed regularly</li> <li>• There is deep engagement with all external stakeholders</li> <li>• Public consultations are regular; accessible for all groups; consultation agenda shared in advance</li> <li>• External views are incorporated into institutional policies or practices</li> </ul>
Responsibility	<ul style="list-style-type: none"> <li>• There is no <i>ex-ante</i> impact assessment of actions</li> <li>• There is no <i>ex-post</i> impact assessments of actions</li> <li>• There is no external complaint mechanism</li> <li>• Parties negatively affected by actions are not compensated or acknowledged</li> <li>• There is no accountability mechanism for harm or wrong-doing</li> </ul>	<ul style="list-style-type: none"> <li>• There is no <i>ex-ante</i> impact assessment of actions</li> <li>• There is an <i>ex-post</i> assessment of actions to consider economic impacts</li> <li>• There is an informal external complaint mechanism</li> <li>• Parties negatively affected by actions are acknowledged but not compensated</li> <li>• There is limited accountability mechanism for harm or wrong-doing</li> </ul>	<ul style="list-style-type: none"> <li>• There is an <i>ex-ante</i> assessment of actions to consider economic and social impacts</li> <li>• There is an <i>ex-post</i> assessment of actions to consider economic and social impacts</li> <li>• There is a formal external complaint mechanism</li> <li>• Parties negatively affected by actions are acknowledged and compensated</li> <li>• There is a strong accountability mechanism for harm or wrong-doing</li> </ul>	<ul style="list-style-type: none"> <li>• There is an <i>ex-ante</i> assessment of actions to consider economic, environmental and social impacts</li> <li>• There is an <i>ex-post</i> assessment of actions to consider economic, environmental and social impacts</li> <li>• There is a formal and tested external complaint mechanism</li> <li>• Parties negatively affected by actions are acknowledged and fully compensated</li> <li>• There is a strong legally binding accountability mechanism for harm or wrong-doing</li> </ul>

Score	Impact Scorecard
Excellent (4)	<ul style="list-style-type: none"> <li>Has taken significant action to address this issue</li> <li>Actions have led to outcomes which <i>have improved</i> real economies of developing countries</li> </ul>
Good (3)	<ul style="list-style-type: none"> <li>Has taken action to address this issue</li> <li>Actions have led to outcomes which have improved <i>outlook</i> for real economies of developing countries</li> </ul>
Moderate (2)	<ul style="list-style-type: none"> <li>Has taken action to address relevant issues</li> <li>Actions have <i>neither</i> improved or degraded outlook for real economies of developing countries</li> </ul>
Poor (1)	<ul style="list-style-type: none"> <li>Has <i>not</i> taken sufficient, if any, action to address relevant issues and/or has taken actions which have led to negative impacts for developing countries</li> </ul>

## IMPACT RANGE



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