

An Economy of Life: How transforming the economy can tackle inequalities, bring climate justice and build a sustainable future

Introduction

At Christian Aid, we are driven by a fundamental belief that the world can be made a better place. We believe that we need a radically different and rebalanced financial system, which ensures that the very poorest are included and actively supported to thrive, and the environment is protected. This can only happen when the interests of poor and marginalised people in the global South are given an equal weight in the rules governing the global economy.

Our vision is that global institutions genuinely represent and are accountable to the interests of everyone, not just the rich and powerful.

In more than 70 years of working alongside some of the world's poorest people, we have witnessed how the health of an economy has an enormous impact on our ability to transform lives. But this is never the full story.

The current global economic system and its governance structures reinforce a vicious cycle of inequalities by keeping political and financial power in the hands of a small elite. Meanwhile, the unfairness of deep inequality is not only felt by the economically marginalised, but increasingly shared by ordinary people across the globe.

Poverty and environmental destruction have not developed in a vacuum. Unless we understand and acknowledge the roots of current inequality, we cannot create just solutions. Changing this situation means confronting the institutional structures, including the World Bank and International Monetary Fund (IMF), cultural norms and power imbalances that work together to maintain the status quo.

These reflections have encouraged us to continue to look for new expressions of economic life, whether that means modifying the nature of our economic relationships to be more inclusive, or decoupling our economies so they can continue to grow without exacting such a heavy toll on the natural world and people.

It is time to re-evaluate how our politics reflects a values system which currently centres around the unquenchable thirst for growth and financial gain ahead of people and planet – particularly

marginalised populations who disproportionately bear the effects of this flawed system. Measures of economic growth overlook human and environmental wellbeing. It is time to confront the legacy of colonialism, slavery and resource extraction that has elevated the voice and power of wealthy countries above all.

This briefing challenges the World Bank and IMF to be part of this change and to become of a progressive and positive force in an economic future that leaves no one behind and is beneficial for nature and the climate.

Transformation in our global governance of the institutions of power

The World Bank and IMF must review their regressive and anti-democratic leadership conventions if they are to stay relevant.

The IMF has a key role to play in rebalancing our global financial architecture, and it needs to start at the top. There is an unwritten gentlemen's agreement that the IMF is headed by a European and the World Bank led by a US citizen. Those with an interest in how, and for whom, the global economy is run have long been deeply unhappy about this cosy arrangement.

After Christine Lagarde announced she was stepping down as IMF managing director, the IMF failed to take the opportunity to introduce a new selection process that was democratic and, crucially, included candidates from the global South. An all-European shortlist was once again drawn up by the EU, and a sole nominee was put forward. The announcement of Bulgarian national Kristalina Georgieva as the new managing director highlights the politicised selection process, undermining the legitimacy of multilateralism.

Surely now is the time for such regressive and anti-democratic conventions to be scrapped, and the World Bank and IMF to take an inclusive, merit-based approach to what ought to be a diversified recruitment process.

It simply is not right that the leadership of the institutions with the greatest power to tackle the climate crisis excludes applicants from countries

where that crisis is wiping out the lives and livelihoods of millions of people.

Gentlemen's agreements among rich nations have no place in a world of diverse economies, communities, people races and nations. They are certainly not fit for purpose in a global institution that serves 189 countries and works to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, uphold human rights and reduce worldwide poverty.

The IMF needs to transform or it is in danger of outliving its usefulness. We need global institutions that are fit for where we are going and not for where we have come from. Let us safeguard the future with the right values and actions.

The IMF's rhetoric on the Sustainable Development Goals is not transformative

The IMF must bring an end to the privileges and power imbalances that perpetuate inequalities, and promote a greater focus on global justice and the interests of regions and countries in the global South.

The world is not on track to achieve the Sustainable Development Goals (SDGs). Instead, it faces a triple emergency of poverty, climate and nature, driven by an economic system that places profit before the planet, widens inequality and encourages high levels of unsustainable consumption by a privileged few. The 2030 Agenda for Sustainable Development encapsulates this emergency.

The IMF has a significant influence over global macroeconomic conditions, such as debt management, fiscal policy, budget expenditure and labour regulation, and, therefore, the enabling environment for sustainable development. It has massively increased its rhetoric about the SDGs.

Harsh loan conditionality is still being placed on countries undergoing a debt crisis, from Mozambique to Somalia and Argentina. The latter is the largest emergency lending programme that the institution has made, worth \$57 billion. The IMF should use its influence to improve debt transparency, so that all government debt, whether public or private, is listed in an open registry. This would enable us to audit government debt based on SDG and human rights principles, and consider all options, including debt relief and restructuring.

SDG 10 aims to reduce inequality within and among countries and includes a target to reduce inequality through policies on social protection, and fiscal and labour markets. The IMF claims to support SDG 10, through 'strong, inclusive and sustainable growth with poverty eradication', and 'gender equity and inclusion', yet its focus on private finance, loan conditionality and austerity in the public sector has had a heavy human rights toll on the poorest and most disadvantaged groups, including women.^{1,2} The IMF must address extreme inequalities through redistribution and measures to end the capture of wealth by elites, including progressive taxation.

SDG 10 includes a target to 'ensure enhanced representation and voice for developing countries in decision-making in global international economic and financial institutions in order to deliver more effective, credible, accountable and legitimate institutions.' However, the IMF does nothing to tackle the unequal power relations in economic decision making (such as the gentlemen's agreement above), which are at the root cause of global inequalities.

The IMF has also failed to address the rules of the global tax system that, by its own research estimates, drains \$200bn from developing countries every year. Its paper on financing the SDGs almost completely ignores the possibility of progressive tax reforms, but instead continues to promote regressive tax systems, flexible labour markets and extractive economic models that only deepen inequalities and narrow the policy space for governments to take appropriate action to address poverty and inequalities in their contexts.³

The spirit and intention of Agenda 2030 is to bring an end to the privileges and power imbalances that perpetuate inequalities. This is reflected in regional agendas, such as Africa's Agenda 2063, which emphasises the need to overcome colonial and economic subjugation; the UN Financing for Development agenda that foresees aligning the global financial system with human rights and the SDGs; the Forum of the Countries of Latin America and the Caribbean on Sustainable Development, which emphasises participatory and South-South approaches; and Asia-Pacific civil society calls for development justice.^{4,5}

It is time for the IMF to step up and respond to the new global reality.

'The IMF needs to transform or it is in danger of outliving its usefulness'

Critiques of IMF's work on gender

The IMF must provide an institutional and systematic response to gender inequalities.

Since 2015, the IMF has been very vocal about its commitments to gender equality, recognising it as a 'macro-critical' issue. However, its case for gender equality has continued to be a business one, with an overwhelming focus on increasing female labour force participation and removing legal obstacles to get more women into formal employment.

The IMF has done little to address the critical structural issues that perpetuate gender inequalities, such as unpaid care work and quality, gender-responsive public services. Despite commitments to mainstream the gender advice, there are very few examples of it tackling these structural issues. Any work that it has done to address gender inequality has been on an ad hoc basis and without a systematic approach. It continues to peddle conventional macroeconomic policy advice that severely undermines gender equality and women's rights. The IMF still seeks to provide global leadership on gender and macroeconomic policy, yet it refuses to look at economics with a broader feminist lens.

The policy recommendations that the IMF provides in its Article IV consultations encourage reduced tax burdens on corporations and wealthy individuals, which severely limits the public purse. This has a direct impact on women (in their gendered role as household managers), when purchasing staple goods that are subject to value added tax.

Meanwhile the World Bank, in particular its *Doing Business* report, has long been an influential tool for measuring investment attractiveness in developing countries.

The *Doing Business* report continues to give high scores to countries that offer lower rates of corporation tax and more flexible labour market policies, thus encouraging a 'race to the bottom' among developing countries. This restricts funding for vital gender-responsive public services (such as care services, health and social protection systems), which are critical for women's self-empowerment.

In 2018, the IMF released a note on gender issues in country work.⁶ It continues to push for country teams to focus on themes and issues that advance economic growth

and stability, and gender issues are only expected to be addressed selectively – when they impact on growth and stability. It recognises that there might be some occasions where country staff consider 'an alternative policy mix' to prevent negative externalities, suggesting there may be situations where alternative macroeconomic policies may be deemed acceptable, contrary to IMF orthodoxy. However, there is no information about what an 'alternative policy mix' might look like in areas such as unpaid care work, equal pay, and public service provision from a gender lens. Critically, it reinforces the understanding that the IMF continues to fail in taking an institutional and systematic response to gender inequalities.

The current tokenistic approach at the IMF is not working for gender self-empowerment and is making the situation worse in many cases. To end entrenched gender inequalities needs a systemic feminist approach, which the IMF must embrace.

A triple crisis of climate change, inequitable and unsustainable development

The World Bank Group needs to ensure that its 2018 pledge to be consistent with the Paris Agreement's 1.5°C goal is put into action through a transparent and consultative process in terms of its policies and projects.

Institutions like the World Bank Group (WBG) have not yet aligned themselves to respond to the triple crisis of climate change, inequitable and unsustainable development and the precipitous loss of nature. As a major distributor of public finance, the World Bank Group has a duty to change this, and to be part of the solution for the world's poorest people.

In order to allow sustainable development, a vital intervention is needed to limit anthropogenic climate change. The Intergovernmental Panel on Climate Change's 2018 report is clear about the terrible extent of climate impacts, even if average global warming is limited to a 1.5°C rise. As ever, it is the poorest people who are most affected by climate impacts and have the least capacity to build resilience to them.

The WBG has recently made a number of positive policy announcements on making its investment portfolio more climate

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coherent, including an end to funding upstream oil and gas, but this clearly does not remove all fossil fuel projects from its lending portfolio.

Despite a pledge to make its lending consistent with the 1.5°C goal, the WBG continues to fund fossil fuels. One justification used is that fossil fuels can provide the world's energy needs, especially in the global South, where demand is growing most rapidly and need is greatest. However, the climate impacts of burning fossil fuels are greatest on the very people used as the argument for their continued use. There should be no further WBG support for any use of fossil fuels (extraction, transportation and use). Distributed renewable energy would better serve the needs of communities that have been left behind, because it is expensive to build grid infrastructure to reach remote communities.

This fossil-free lending principle should define the use of new climate change finance (the \$175bn annually by 2025 the the multilateral development banks including the World Bank, announced at September's United Nations Climate Action Summit). It is disappointing that there was no such fossil moratorium announcement at the Summit (other than the African Development Bank's welcome announcement that it was ending funding for coal), particularly since the multilateral development banks have announced the intention of making their lending portfolios 1.5°C compatible, which requires an end to fossil fuel investments. The finance announcement is a step forward, but does not represent the ambitious climate action that we need to see the multilateral development banks taking in the face of the climate crisis – in fact, it represents a slowdown, with recent years have seen an annual increase in climate spending of \$3.7bn, but this new pledge will only give an annual increase of \$3.1bn on average.

The European Investment Bank is taking a lead with its draft energy policy, which has the stated goal of ending all investment in all fossil fuel energy. This sets a bar for the WBG and for the other multilateral development banks.

The economics of peace and leaving no one behind

International institutions need to restate a clearer vision of peacebuilding – one that puts those living in conflict, particularly local peace actors, at the heart of their approaches.

Economics must be at the core of peacebuilding. Economic recovery is not only the means to transition out of wars and violence, but sustainable and equitable economics also increase the depth, quality and longevity of peace. Furthermore, it is a source of moderation and can be a powerful incentive for cooperation among competing actors.

The economics of peacebuilding is not simply about the application of development solutions to tackle conflict and violence. As some scholars have noted, war today has increasingly become the continuation of economics by other means. In this regard, it is essential for peacebuilding to monitor and track the geo-economics of war. At a global level, the industries profiting from wars and instability need to be flagged and challenged.

The World Bank has played a key role in many versions of peace through reconstruction projects over the years.

Another approach to economic intervention in the aftermath of war is to privilege macroeconomic stabilisation, ie, aligning currency to market levels, managing inflation, establishing foreign exchange facilities, developing a national budget, generating revenue, creating a transparent system of public expenditure, and preventing predatory actors from controlling the country's resources – while mobilising donors and the private sector for reconstruction.

While these are necessary policies, they are often implemented at the expense of other critical issues that need to be equally addressed, such as reversing the fuelling of conflict, protecting assets of the poorest, or dealing decisively with the changed demographics caused by displacement.

Hence, there are no single, time-immutable solutions or formulas. What appears necessary is developing a more context-driven and focused approach that aligns economic reforms with justice and long-term peacebuilding.

'There should be no further World Bank Group support for any use of fossil fuels'

Recommendations

Christian Aid believes there is a way out of our broken economic system, and that a future is possible where the economy is run for the benefit of all people and the planet. Economic justice can be a force for good, reducing the inequalities that keep people on poverty, delivering a route out of conflict, protecting our natural environment, and halting climate change. This is what is required to deliver the SDGs and the Paris Agreement.

To play their part in this new economy will require the transformation of the World Bank and IMF from within, including:

- A full overhaul of the governance of the World Bank and IMF to ensure a fair and democratic system. This needs to start with an open election for the heads of both organisations, ending the duopoly of the US and Europe.
- The declaration of a triple emergency of inequality, nature and climate. We need a reassessment of all policies and investments to ensure they will drive the economic transformation needed to put the world on track to a thriving and sustainable future.
- The rhetoric of transformation must be turned into real world action, ensuring there is systemic change with human rights at the centre. This means an end to the unequal power relations at the heart of our current economic system, giving true voice to the most marginalised and ending gender imbalances.

The world needs a transformative change to policy and practice of the World Bank and IMF to deliver targeted positive outcomes:

- The World Bank and IMF should end their support for inherently regressive economic policy. For example, they should support truly progressive taxation, which explicitly rebalances wealth and fairly benefits women and the most marginalised groups, ensuring domestic spending on access to public services and enhancing their economic power. When a country is in a debt crisis, they should consider all options to resolve it, including debt restructuring.
- No one should profit from war. Much more investment is needed from the World Bank and other development banks in long-term, sustainable peacebuilding. Economic transformation must be at the heart of moving from an economy of war to an economy of peace.
- There is no longer any case for the World Bank to support fossil fuels. The economic system needs to be completely delinked from the coal, oil and gas sectors. The World Bank has pledged to work with the other multilateral development banks to deliver the Paris Agreement. This means an end to all investments in fossil fuels from 2020, active promotion of renewable energy and energy efficiency, and a focus on decentralised energy access in order to deliver SDG 7 on affordable and clean energy for all.

We need democratic and participative analyses of economic reality to find alternatives that allow us to make social justice a reality and not exact a heavy burden on the planet and its people. The World Bank and IMF only have relevance if they can transform to support this new reality.

Endnotes

- ¹ Egypt's new IMF deal comes with a huge price tag for human rights, Mahinour el-Badrawi and Allison Corkery, Brettonwoods Project, 2017, <https://www.brettonwoodsproject.org/2017/02/egypts-new-imf-deal-comes-huge-price-tag-human-rights/>.
- ² Evidence suggests that the IMF is complicit in rights violations: Effects of foreign debt and other related international financial obligations of States on the full enjoyment of human rights, particularly economic, social and cultural rights A/74/178
- ³ *Fiscal Policy and Development: Human, Social, and Physical Investments for the SDGs*, IMF Staff Discussion Note, IMF, 2019, <https://www.imf.org/en/Publications/Staff-Discussion-Notes/Issues/2019/01/18/Fiscal-Policy-and-Development-Human-Social-and-Physical-Investments-for-the-SDGs-46444>
- ⁴ Agenda 2063, African Union, 2015, <https://www.un.org/en/africa/osaa/pdf/au/agenda2063.pdf>
- ⁵ *Keeping the Sustainable Development Goals on Track*, Christian Aid, 2019, <https://www.christianaid.org.uk/sites/default/files/2019-09/keeping-SDGs-on-track-briefing-sept2019.pdf>
- ⁶ *How to Operationalize Gender Issues in Country Work*, IMF, 2018, <https://www.imf.org/en/Publications/Policy-Papers/Issues/2018/06/13/pp060118howto-note-on-gender>