WORLD BANK SHOULD END TAX EXEMPTIONS ON ITS AID TO INCREASE DEVELOPMENT FINANCING FOR LICS

Ministerial Meeting of Low-Income Francophone Countries

Bali, 11 October 2018

Low-income Francophone country finance ministers met in Bali on 11 October, to discuss financing for development, in a meeting expanded to other members of La Francophonie. The meeting was chaired by Mrs. Vonintsalama ANDRIAMBOLOLONA, Minister of Finance and Budget of Madagascar.

Ministers focussed their discussions on three roles the IMF and World Bank should be playing to promote development financing: helping countries to collect higher and more progressive tax revenue, notably through the World Bank ending tax exemptions on all its projects; reducing costs and risks of Public-Private Partnerships; and taking more innovative measures to reduce their debt burdens. Finance ministers from low-income Francophone countries make a series of recommendations in these areas:

1) THE WORLD BANK MUST CHANGE ITS TAX POLICIES

At their press conference in 2017, Ministers suggested changes in the scale and nature of technical assistance and policy advice being provided by the BWIs, as well as in World Bank policies and practices on tax to make them fully coherent with increasing tax collection.

Ministers express their satisfaction that both of the Bretton Woods Institutions have scaled up their ***technical assistance*** to member states of the network , to help them design more progressive tax systems and collect more taxes. Among the areas covered have been reducing corporate tax exemptions; extractive industries; analysing the impact of taxes on poverty and inequality; and tax treaties. They undertake to continue to monitor the progress of this scaling up every semester in cooperation with the institutions.

However, Ministers regret the lack of progress in changing **World Bank tax policies**. In spite of earlier undertakings to explore prospects for change, there has been no progress on ending requests for tax exemptions or holidays on IFC projects including PPPs, or on reconsidering the sub-criterion in Doing Business which gives countries higher scores for lower corporate taxes, and puts pressure on governments to “race to the bottom”. These practices can cost countries 2-3% of GDP in lost tax revenues. Ministers urge the World

Bank to act immediately on these issues in order to ensure coherence with its revenue collection targets for low income countries.

2) COSTS AND RISKS OF PUBLIC-PRIVATE PARTNERSHIPS MUST FALL

Recent initiatives such as the G20 Compact for Africa and the World Bank Cascade are resulting in an enhanced push for large infrastructure projects to be financed by public-private partnership financing arrangements. To ensure these are successful:

1) The elements of these initiatives which recommend ***new laws, institutional structures, procedures and contracts*** to facilitate PPPs should be reviewed through further consultation with Finance Ministries of low-income countries, to ensure that they conform to (and do not undermine or bypass) country procedures for project design and approval, procurement, public financial management, and transparency and accountability to parliament and citizens.

2) Current ***technical assistance*** initiatives on PPPs need to be broadened so that they also help parliamentarians, audit institutions and civil society organisations, and maximise transfer of capacity to national officials, reducing dependence on external assistance.

3) The Development Financing Institutions (DFIs) such as the IFC, which support private sector operations, as well as the IMF, should analyse and ***publish the costs*** of previous PPP arrangements, set benchmarks for acceptable costs for different types of PPP financing, and set objectives for reducing these dramatically in future years.

4) To avoid additional costs, and reiterating their demand already made for all IFC projects, IFC should avoid all ***tax exemptions*** for PPP projects.

5) The DFIs and IMF should work together to design measures to guarantee and protect government budgets against market risks such as cost underestimates, revenue overestimates, and exogenous market shocks. This should include exploring ***the feasibility of a global guarantee/contingency fund to refinance PPPs.***

6) The IMF and World Bank should ensure that each country ***analyses the fiscal costs and risks*** of its large PPPs (or its portfolio of smaller PPPs), using for example the P-FRAM tool, integrates these analyses into Debt Sustainability Analyses, and publishes the analysis with the budget so as to allow a transparent parliamentary debate.

7) To promote transparency and accountability, the DFIs and IMF (in the context of its Fiscal Transparency Code) could insist on ***publishing each contract before its signature.***

8) In the context of the SDGs, it will be vital to concentrate the attention and resources of the BWIs on public investment projects which target universal access to services, in ***less high-return sectors*** such as education, health, water and energy.

3) THE BWIs MUST LEAD INNOVATIVE INITIATIVES TO REDUCE DEBT

Ministers welcome the recent acknowledgement that debt is again becoming problematic for LICs. However, they urge the international community to:

1) maximise flows of concessional assistance, and build capacity to design projects which promote inclusive growth, in order to allow low- and lower-middle income countries to finance their development with debt flows without provoking a new global debt crisis;

2) design more innovative measures to ensure rapid and comprehensive debt relief for the growing number of countries which are already in (or at high risk of) debt distress, notably Caribbean and other small island states.

Ministers agreed to launch a detailed analysis of these issues, and to present more detailed policy recommendations at their next press conference in October 2019.