Committee: Economic and Financial Committee

Issue: Reform of the IMF and the World Bank

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INTRODUCTION

The International Monetary Fund (IMF) and the World Bank are institutions of the United Nations. Both were created during the summer of 1944 at an international conference held in Bretton Woods, New Hampshire, United States. Its main objective was the formation of a globally stable and prosperous economy through the establishment of a framework, which would enhance economic cooperation and development. This, up until today, remains the central objective to both institutions, though through time their work has differentiated due to the appearance of new economic challenges and developments.

Figure 1: The IMF's and World Bank's coat of arms

To be more specific, the IMF focuses on promoting global monetary cooperation, securing financial stability, facilitating international trade, promoting high employment and sustainable economic growth and reducing poverty around

the world. Such aims are achieved though policy advice and policy program planning along with capacity development support and the issuing of loans. The IMF has a total of 189 members and its staff mostly consists of economists with experience in macroeconomics and financial policies.[1]

The World Bank's primary missions are the development of the economy in the long-term, and the reduction of poverty. The World Bank tries to combat such problems through technical and financial support and in general by providing long term assistance. The World Bank too has 189 members; however, its staff comprises mostly of specialists on particular issues, sectors or techniques.

Ever since their creation, both the IMF and the World Bank have been heavily criticized for their decisions and structure. More specifically, it has been argued that their policies are anti-developmental reflecting mostly the finance-related beliefs of the Western World, and that the way the votes are shared among the member-states give the founding members higher decision-making powers. This results in LEDCs, as well as emerging economies not being able to voice their opinion as much as MEDCs, despite of the countries' involvement and contribution.

DEFINITION OF KEY TERMS

International monetary system

A global payment system that consists of a series of agreed rules and standards with the aim of enabling countries transact with each other. [2]

Exchange Rate

The value of a country's currency in terms of another currency. Some of the factors that influence the exchange rate are: a) interest rates, b) inflation rate, c)

[1] "The World Bank Group and the International Monetary Fund (IMF)." World Bank, www.worldbank.org/en/about/history/the-world-bank-group-and-the-imf.

[2] "What Is International Monetary System? Definition and Meaning." BusinessDictionary.com, www.businessdictionary.com/definition/international-monetary-system.html.

trade balance, d) political stability, e) internal harmony, f) high degree of transparency in the conduct of leaders and administrators, g) general state of economy, h) quality of governance.[3]

Economic Stability

A term that characterizes the financial system of a country. There is economic stability when a country's economy shows low inflation rate and small alterations in the output growth.[4]

Balance of Payment

Data that records a country's transactions with other countries. These transactions can be made by residents, firms, and government bodies.[5]

Economic Liberalization

The reduction of government regulations and restrictions in an economy so as to support the participation of private entities and encourage economic growth.

BACKGROUND INFORMATION

International Monetary Fund (IMF)

Stabilizing the international monetary system is the IMF's purpose and it is done through tracking members states' economy, as well as the global economy, lending loans to countries with balance of payment difficulties and giving practical help.

Surveillance: Nowadays, problems, and in general policies, of one country can affect other countries due to the globally integrated economy, so attentive monitoring is critical for the stability of the economies. The IMF, in order to prevent any severe

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[3] Picardo, CFA Elvis. "Exchange Rate." Investopedia, Investopedia, 31 Oct. 2017, www.investopedia.com/terms/e/exchangerate.asp.
[4] "What Is Economic Stability? Definition and Meaning." BusinessDictionary.com, www.businessdictionary.com/definition/economic-stability.html.
[5] "Balance of Payments." Economics Help, www.economicshelp.org/macroeconomics/bop/.

damages to the economies and to achieve its primary purpose, oversees the financial system of the countries, so as to identify stability and growth risks and provide countries with any necessary policy adjustments. Such surveillance includes bilateral and multilateral monitoring.

Lending: The aim of lending is to give countries time and room to implement adjustment policies in order to help them recover from any damages that might have occurred in their economy. Such financial support is provided upon request by a country. Before reaching an agreement about the size of lending, IMF staff discuss with the government, in order to evaluate the financing and economic needs of the country and thus reach an agreement of the appropriate policy response. These measures "enable countries to rebuild their international reserves, stabilize their currencies, continue paying for imports, and restore conditions for strong economic growth, while undertaking policies to correct underlying problems."[6]

Capacity Development: Capacity Development, and in other words technical assistance and training, is critical to a country's development. The IMF aims on combining technical assistance and training to maximize their effectiveness and thus strengthen a country's institutional capacity and skills. These skills and assistance can help the country increase their public revenue, update their banking systems, establish a strong legal framework and improve the reporting of macroeconomic and financial data.

World Bank

The World Bank is one of the "largest sources of funding and knowledge for developing countries."[7] It consists of five institutions that all have a shared

[6] "IMF Lending." Picture This -- Girl Power -- Finance & Development, March 2017, www.imf.org/en/About/Factsheets/IMF-Lending.
[7] "The World Bank Group and the International Monetary Fund (IMF)." World Bank, www.worldbank.org/en/about/history/the-world-bank-group-and-the-imf.

commitment of eliminating poverty, improving shared prosperity and encouraging sustainable development.

The institutions of the World Bank are:

International Bank for Reconstruction and Development (IBRD): IBRD focuses mainly on helping middle- and low-income countries. It does so by issuing loans, guarantees, rich management products and advisory services along with coordinating responses to regional and global challenges.

International Development Association (IDA): IDA's main purpose is to help poor countries by providing them with loans and grants, for programs that increase economic growth, ameliorating the living conditions and eliminating inequalities. IBRD and IDA are provided with the same staff and headquarters and assess projects with the same meticulous standards.

International Finance Corporation (IFC): The IFC's focal point is the private-sector development in developing countries, in order to improve the people's living condition and provide them with opportunities. This goal is achieved by "mobilizing financial resources for private enterprise, promoting accessible and competitive markets, supporting businesses and other private-sector entities, and creating jobs and delivering necessary services to those who are poverty stricken or otherwise vulnerable."[8]

Multilateral Investment Guarantee Agency (MIGA): MIGA is an institution that promotes foreign direct investment (FDI) to developing countries. It provides political risk insurance and credit enhancement guarantees.

[8] "About IFC." Ifc.org, www.ifc.org/wps/wcm/connect/corp_ext_content/ifc_external_corporate_site/about ifc_new.

International Centre for Settlement of Investment Disputes (ICSID): The main goal of ICSID is the settlement of international investment dispute through conciliation, arbitration or fact finding. The process followed carefully maintains a balance between the interest of the investors and the host States.

Criticism

As previously mentioned, both the World Bank and the IMF have been heavily criticized for their policies and voting system, especially in the aftermath of globalization and the rise of countries, such as the BRICS.

Policies

It has been argued that both of the institutions' policies are anti-developmental and lack a clear economic rationale due to the varying opinions, departmental rivalries and differing economic circumstances that they have to deal with. It was stated that some of these programmes "led to losses of output and employment in economies where incomes were low and unemployment was high."[9] It has also been claimed and these policies focus more on applying loans rather than trying to meet a certain concrete development results. Lastly, others have advocated that the IMF and the World Bank ignore the social and environmental impacts of their policies.

More specifically, critics believe that both the IMF and the World Bank are constantly applying new loans, in order to help economies re-stabilize. However, these loans come with significant conditions, which are very hard to meet and require serious sacrifices. For example, economic liberalization is one factor that supplements countries repaying their loans; however, governments have to implement significant long-term cuts when it comes to their spending and strict banking regulations. This, not only impacts a country's economy, but its social welfare as well. It has also been claimed that these institutes reflect the finance-related beliefs of the Western World, arguably jeopardizing the economic and social structure of countries at the receiving end. Furthermore, people consider such

[9] "International Monetary Fund." Wikipedia. Wikimedia Foundation, n.d. Web. 29 Jan. 2017.

policies too intrusive, as they sometimes compromise the political structure of the country. Lastly, it is noticed that the IMF and the World Bank implement these policies in an inappropriate order. In particular, they put them into practice all at once, resulting in the privatization of government services and other similar effects. Such results as privatization "undermine the role of the state as the primary provider of essential goods and services, such as healthcare and education, resulting in the shortfall of such services in countries badly in need of them."[10]

Apart from the economic, social and political consequences that these policies and loans can have on the receiving country, there is also the question of the environmental aspects. Particularly, environmentalists assert that while designing the policies, the IMF and World Bank do not take into consideration the natural and environmental aspects. As a result, some environmentalists claim that these polices might be "paving the way for the exploitation of the natural resources, which are depleting at a very fast pace."[11] An example of such repercussions is that of the construction of several hydroelectric dams that resulted in many indigenous tribes being displaced.

Governance

Another very critical criticism that has been raised is that of the way the two institutions are governed. In particular, people believe that the decision-making is guided mostly by political and economic concerns and thus MEDCs seem to have a dominant role over LEDCs and even emerging economies . "These countries choose the leadership and senior management, and so their interests dominate, despite the fact that the main borrowers from the World Bank and IMF are developing countries."[12]

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[10] "What Are the Main Concerns and Criticism about the World Bank and IMF?" *Bretton Woods Project*, 4 Feb. 2014, www.brettonwoodsproject.org/2005/08/art-320869/.

[11] "Who Is the IMF?" 50 Years, 15 Nov. 2014, www.50years.org/who-is-the-imf/.

[12] "IMF & World Bank Decision-Making and Governance." Bretton Woods Project, 25 Nov. 2016, www.brettonwoodsproject.org/2016/03/imf-world-bank-decision-making-and-governance-existing-structures-and-reform-processes/.

In particular, in the IMF, the voting power of a member state is determined by the quota system. The IMF, every 5 years assigns a quota/contribution to each member state based on their country's economic size and openness. The size of the quota is decided based on the country's GDP (50%), openness (30%), economic variability (15%) and international reserves (5%). The quota also indicates the voting power of the countries, with a significant portion of the decision-making held by MEDCs.

Apart from the quota system, the executive board is another controversial aspect of the IMF. Specifically, the executive board is led by the managing director and 24 executive directors, which represent member countries through constituencies. The downside though, is that the 5 largest shareholders are not only privileged to directly appoint their own Executive Director (ED), but they also represent only themselves (this is also the case in some other members with high quotas), whereas other EDs represent a group of countries. So, once again we can see the clear distinctions between LEDCs' and MEDCs' power over the decision-making.

The World Bank's structure is similar to that of the IMF. The votes are divided by shares, and the 5 biggest shareholders have their own ED. The president of the World Bank has no power over the decisions of the Executive Directors, unless there is a tie.

Response of IMF and World Bank

Despite the strong criticism that surround both of the institutes, the World Bank and the IMF fail to address them. In particular, they do not accept the fact that the policies they advocate have caused severe damage to the political, economical, environmental and social structure of the countries, as well as inadequate and unequal growth.

New Development Bank

Emerging economies (Brazil, Russia, India, China and South Africa) being dissatisfied by the fact that economically developed countries (United States and Europe) pick up key roles at both the IMF and the World Bank and accusing the World

Bank and the IMF of supporting Europe and the United Nations to apply protectionist policies, established a rival institution named "New Development Bank." Its objective is to encourage and strengthen the participation and representation of such countries in major economic institutions and provide any type of assistance in projects supported by both the IMF and the World Bank.

MAJOR COUNTRIES AND ORGANISATIONS INVOLVED

United States of America, Japan, Germany, France, United Kingdom, China

Country	Quota Shares 2008	Quota Shares 2015
United States of America	17.660	17.398
Japan	6.552	6.461
China	3.994	6.390
Germany	6.107	5.583
France	4.502	4.225
United Kingdom	4.502	4.225

Figure 2: Distribution of Quotas in the IMF (in percent)

Being some of the largest economies in the world, these countries have the largest quotas and shares in both institutions, and hence the biggest influence in the decision-making. For example, in 2010 certain reforms to give more power to emerging economies where proposed and agreed by the G20, but not ratified by the US. Hence, since the US has more than 16% of voting power, the reforms could not pass until 2015 when the US finally agreed.

Country	Percentages of Total Voting Power

United States of America	15.98
Japan	6.89
China	4.45
Germany	4.03
France	3.78
United Kingdom	3.78

Figure 3: Voting Power in the World Bank until 2018 (in percent)

Less Economically Developed Countries (LEDCs)

These countries have the smallest shares, quotas and voting power and thus their opinion and beliefs are not voiced as much as the ones of the MEDCs. Though, because these are the countries that are requesting loans and in general aid from the IMF and the World Bank, they believe they should have a bigger role when in comes to decision making. Thus, due to their dissatisfaction the past couple of years new reforms are being proposed.

For example, Zambia in the beginning of 2018 requested a $1.3 billion loan from the IMF. Though, it has taken too long for the IMF to create the action plan and thus their debt has accelerated and the Kwacha currency has reached the lowest level since the beginning of the year.

Sub-Saharan Africa

Due to the fact that the countries that are part of the Sub-Saharan Africa are less economically developed countries, they have small shares and quotas and thus voting power. The 46 countries of this region are represented by two Executive Directors.

More information about the voting power of each country in the IMF and the World Bank can be found in these sites:

- https://finances.worldbank.org/Shareholder-Equity/Top-8-countries-voting-power/udm3-vzz9/data
- http://www.imf.org/external/np/sec/memdir/members.aspx
- http://www.imf.org/external/np/fin/quotas/2017/0817.htm
- https://finances.worldbank.org/fr/browse?tags=voting+power

TIMELINE OF EVENTS[13]

Date	Description of Event
July 1-22, 1944	At the International Monetary and Financial Conference, Bretton Woods, New Hampshire, USA, the IMF and World Bank Articles of Agreement are developed.
December 27, 1945	With 29 government signatures, which represent 80% of original quotas, the Articles of Agreement enter into force
September 27-October 5, 1946	The Board of Governors of the IMF and the World Bank attend the first annual meeting in Washington DC, USA
March 1, 1947	IMF begins operations
November 15, 1947	The World Bank and the United Nations formalize relationship with an agreement that names the Bank as a specialized agency of the UN, it defines it as an independent organization and highlights its freedom in lending and financial management.
October 1, 1952	The proposals for the Stand-By Arrangements are approved by the Executive Board.

[13] "World Bank Group Timeline." *World Bank*, timeline.worldbank.org/.

1985	"IMF and World Bank support debt initiative calling for adjustment by debtors, greater and more effective lending by multilateral development banks, and more lending by commercial banks."
1996	The Heavily Indebted Poor Countries Initiative, which helps poor countries avoid debt burden that cannot be managed, is launched by the IMF and World Bank.
26 September, 1999	The IMF and the World Bank put into practice an new debt-relief initiative that aims at poverty reduction.
2003	A monitoring project for policies and actions that try to achieve the Millennium Development Goals is approved by both the IMF and the World Bank.
October 2, 2004	"IMF and World Bank officials in Washington DC failed to resolve their differences over debt relief for the world's poorest countries."
November 18, 2004	Th quarterly External Debt Database is set into motion by the IMF and World Bank
September 25, 2005	"The International Monetary and Financial Committee and the Development Committee reached agreement on a Group of Eight proposal to provide 100 percent debt relief on all debt incurred by the world's heavily indebted poor countries (HIPCs) to the IMF, the World Bank, and the African Development Fund (AfDF)."
2008	The World Bank started a "voice reform" which tried to increase the representation of developing countries.

2010-2015	In 2010, the US didn't approve the reforms that were proposed until 2015. These reforms included: • Shift of 6.2% of quota share to developing countries, and • Increase of the contributions to the IMF Fund from 238.5 billion SDR to 477 billion SDR. In 2010 the World Bank also adjusted the shares of developing countries, increasing them from 44.06% to 47.19%.
September 2015	The World Bank recognized the growing share of developing countries and expected that their voting share would increase to 52.76%
April 20-22 2018	The 2018 Spring Meetings of the World Bank Group and the IMF. Such meetings are held twice each year and are attended by central bankers, ministers of finance and development, parliamentarians, private sector executives, representatives from civil society organizations and academics. There they discuss global issues such as poverty, economic development and aid effectiveness.

UN INVOLVEMENT: RELEVANT RESOLUTIONS, TREATIES AND EVENTS

The World Bank and the United Nations are working together in almost every region and sector, in order to insure a better future for all. Their relationship "is governed by the agreement entered into by the two organizations in 1947"[14] which recognized the World Bank as an independent international organization and a specialized agency of the UN. Their work is branched off to three levels:

- Intergovernmental: The World Bank participates in the UN operations and engages with its member states under the supervision of the General Assembly, Security Council and Economic and Social Council.
- Interagency: The World Bank and the UN agencies, funds and programs work together at the headquarters and in the field so that they maximize synergies and complementarities.
- Country: The UN and the World Bank cooperate with governments and development partners in order to ensure the development efforts.

The IMF, like the World Bank, is a specialized agency of the UN but also an independent international organization. The IMF and the UN work together in sectors with interests on issues such as taxes and statistical services. Nonetheless, different UN experts and members have called on the IMF and World Bank to reform and better align itself to the changing reality, key position of emerging economies within this, as well as to the different approaches to development.

PREVIOUS ATTEMPTS TO SOLVE THE ISSUE

2010 Reforms

In 2010, the IMF proposed a series of reforms regarding the governance of the institution. These reforms included:

- Better distribution of quotas shares: Emerging economies and developing countries would now be provided with 6.2% of the quota shares so as to have

[14] "THE WORLD BANK GROUP AND THE UNITED NATIONS Working Together for Development." *United Nations University*, www.un.org/esa/ffd/ffd3/wp-content/uploads/sites/2/WBG-UN-Brochure.pdf.

a bigger say in the decision-making in the IMF. This also results in the US and the EU combined having less than 50% of the quota shares.

- Increasing the resources of the IMF: Countries would have to contribute more to IMF's Fund so as to (almost) double its resources. Specifically, the fund will increase from 238.5 billion SDR to 477 billion SDR.
- The four emerging economies of Brazil, China, India and Russia would be included to the ten largest members of the IMF.
- Alterations in the IMF's lending structure: The IMF tries to introduce new lending facilities so as to be enhance its ability to "avert financial crises and to respond more flexibly to borrowers' needs."[15]

These reforms where not put into action until 2015 because the US hadn't agreed upon them and thus they couldn't be endorsed.

During the same year, the World Bank also proposed certain reforms concerning its financial resources, voting power, post-crisis strategy and operational reforms. These included:

- An $86.2 billion increase of the IBRD's capital and an $200 million increase of IFC's capital.
- An increase of the developing countries' shares from 44.06% to 47.19%.
- A shift in the strategic focus of the Bank and more specifically emphasizing on:
    - Targeting the poor and vulnerable, especially in Sub-Saharan Africa;
    - Creating opportunities for growth with a special focus on agriculture and infrastructure;
    - Promoting global collective action on issues from climate change and trade to agriculture, food security, energy, water and health;
    - Strengthening governance and anti-corruption efforts;
    - Preparing for crises.

[15] "2010: The Year of IMF Reform." IMF Blog, 15 Apr. 2017, blogs.imf.org/2010/12/28/2010-the-year-of-imf-reform/.

- New reforms regarding its operation:
  - A new Access to Information Policy, inspired by the Indian and U.S. freedom of information acts, which makes the Bank a world leader among multilateral institutions on information disclosure.
  - The Bank's Open Data Initiative, launched last week, puts the World Bank at the forefront of giving free and easy access to information on developing countries.
  - Investment lending reform that will improve the focus on results, increase speed and delivery, and strengthened risk management.
  - Strengthened governance and anti-corruption efforts that will provide more resources for prevention and coordinated sanctions to fight corruption -- including the new cross-debarment agreement announced this month with multilateral development banks.[16]

G-20 Summit in London (2009)

The G-20 summit, that was held in London during 2009, was the second meeting of the G-20 heads of government/state. During the summit the leaders agreed on implementing new measures so as to help the strengthening of the IMF. For example, they agreed on doubling the IMF's funds and helping emerging and developing countries through the IMF.

POSSIBLE SOLUTIONS

Reforming the IMF and the World Bank is no easy task, as many countries have different opinions on the types of reforms that these institutes have to undergo based on their interests. For example, while some LEDCs would recommend a series of proposals concerning the voting shares, MEDCs would probably condemn them.

[16] "World Bank Reforms Voting Power, Gets $86 Billion Boost." World Bank, www.worldbank.org/en/news/press-release/2010/04/25/world-bank-reforms-voting-power-gets-86-billion-boost.

Though, the United Nations can help resolve these issues through the enhancement of discussions and negotiations.

In order to combat this issue, first of all, there must be changes in the quota system and the distribution of the shares. Particularly, LEDCs countries and emerging economies need to increase their shares so that they can have more power over the final decision, since in most cases these are the countries that ask for help. This can be achieved by changing the criteria when it come to the division of the shares. In addition, there should be alterations when it comes to the representation of the countries/ Executive Directors.

Apart from that, changes in the policies that both of the institutes propose and implement is deemed necessary. In particular, the IMF and the World Bank should try to find supplementary reforms, so that they can reduce the number of loans they issue. They should also try to cooperate with other organizations, with similar or different goals, when designing the policies so that they can equally take into account all possible aspects and effects (social, economic, political, environmental, humanitarian etc.).

Furthermore, the IMF and the World Bank should expand their funds and resources in order to be more flexible when it comes to helping LEDCs. There should also be a more transparent way of monitoring the financial system of the countries, and lastly, MEDCs and LEDCs should be more open to reforms.

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