E3 | The World Bank and the International Monetary Fund

The World Bank and the International Monetary Fund were set up at a meeting of 43 countries in Bretton Woods, New Hampshire, US in July 1944. The reform of these 'Bretton Woods institutions' and the establishment of systems to hold them accountable to civil society are vital public health challenges. This chapter describes how they are managed and governed, within the broader political and economic context detailed in part A, and proposes reforms.

What are the Bretton Woods institutions?

The World Bank Group is the second largest public development institution in the world, lending around US$25 billion a year to reduce poverty and facilitate economic growth in developing countries. (Only the European Investment Bank is larger, but much of its lending is to European Union countries.) The World Bank was initially established to improve the capacity of countries to trade by lending money to war-ravaged countries for long-term reconstruction and development projects. It now exerts the single largest influence over policy-making through the conditions attached to its loans, and the research and advice it provides to governments. It has become a much bigger influence than the WHO in the health sector.

The IMF also influences the health sector through its ability to dictate countries' macroeconomic and fiscal policies. It was established to create a stable climate for international trade by harmonizing its country members' monetary policies and maintaining exchange-rate stability. It was designed to provide temporary financial assistance to countries encountering difficulties with their balance of payments.

Governance of the World Bank Group The World Bank Group comprises five institutions. The original institution was the International Bank for Reconstruction and Development, often simply known as the World Bank. Led by a president appointed by the US government, it employs nearly 10,000 staff including 4000 in its country offices. Its board of governors is largely ceremonial, while its executive directors are appointed civil servants who meet regularly in Washington, using voting power based on one dollar, one vote. The US holds 17% of the vote, giving it a veto over any decisions requiring a super-majority of

85%, and is represented by its own director. In contrast, 47 sub-Saharan African countries have only two directors (out of 24) and 7% of the vote.

According to a now outdated formula, each member country is assigned a capital quota of which it pays in 2% in hard currency (gold or US dollars) and 18% in national currency. The remaining 80% is kept callable (to be paid in the event of unusually high demands placed on the Bank's lending capacity). This guarantee acts as a form of collateral allowing the Bank (or more precisely the IBRD) to raise most of its loan money through the sale of bonds to private investors. In contrast, funding for the interest-free loans and grants of the International Development Association (the World Bank Group's public-sector lending facility) is raised from the rich countries every three years.

Loans were originally supposed to be given to specific projects – usually infrastructure projects such as the construction of highways, dams and telecommunications facilities. Many of these loans contributed to the debt crisis that emerged in the 1980s. Developing countries were encouraged to borrow heavily to invest in infrastructure when interest rates were low, but corruption, poor project design and a sharp rise in interest rates played havoc with their ability to repay. Today, approximately 15% of the debt of the poorest, most heavily indebted countries is held by the Bank and the Fund. Estimates vary as to how much of this is 'odious' debt, i.e. funds knowingly lent to regimes where the probability of misuse was high – perhaps as much as US$ 100 billion.

In 1980, the Bank began to do more than just lend money and introduced structural adjustment programmes (SAP), long-term loans to countries experiencing recurrent balance of payments problems. These came with a variety of conditions aimed at restructuring their economies so they could earn the foreign currency needed to repay outstanding loans. Restructuring consisted of reducing public expenditure; liberalizing trade, investment and capital controls; deregulation; and the privatization of state-owned enterprises. The priority was debt repayment – often at the cost of people's lives and health.

Governance of the IMF When countries join the Fund, they deposit a quota subscription that determines both how much they can withdraw in a crisis, and voting rights. The Fund employs about 2700 staff, virtually all in Washington. Like the Bank's structural adjustment lending, it lends money to countries with balance of payments problems for short-term measures to restore financial health. Borrowers must implement a set of economic reforms. Loans are disbursed in instalments, each tied to compliance with structural adjustment policies. They are granted to low-income countries at a concessional interest rate while others are provided at market rates. Typically, member countries

22 World Bank: the centre of world health policy?

are allowed to borrow over a period of 1–4 years to support macroeconomic stabilization programmes, and repayments are made in 3–10 years. Less often countries can access very short-term financing in an economic crisis, requiring repayment in 1–2 years with a heavier surcharge.

The influence of Bretton Woods

'The belief that the Bank forces its agenda on developing countries is consistent and overwhelming in all regions and virtually all countries,' according to a survey of 2600 opinion leaders in 48 countries (World Bank 2003). The Bank and Fund can influence government policy choices in a surprising number of ways, most obviously through 'hard' conditions – certain policy reforms which must be implemented before any funds are handed over. This type of conditionality reached its peak in the late 1990s: the average number of Fund structural conditions rose from three in 1988 to 16 in 1998, while the average Bank loan was accompanied by dozens of conditions.

In 2000 the Bank renamed its deeply unpopular structural adjustment programmes. Poverty Reduction Support Credits are supposed to emphasize recipient country ownership and fund programmes identified in Poverty Reduction Strategy Papers developed by governments. There is widespread dissatisfaction that major economic decisions remain in the hands of finance ministry officials in consultation with Bank and Fund economists (Stewart and Wang 2003). A review of African PRSPs concluded that their elements of policy were strikingly similar to those pursued under structural adjustment (UNCTAD 2002).

A second type of influence is the 'signalling' function to other donors. The Fund sits at the top of the donors' pecking order. A country cannot borrow from the Bank if it does not have a Fund programme, and no Fund and Bank programme means no bilateral donor will lend. This power over the on-off switch is being consolidated through efforts towards donor harmonization, which, although intended to provide relief from the procedural burden of maintaining multiple donor relationships, risks giving the Bank and Fund more influence over aid and debt relief (Bretton Woods Project 2003a).

Bank economists use the Country Policy and Institutional Assessment to rank the policy performance of low-income countries to determine the amount of lending they may receive. This score is then used by the Bank and other donors in making decisions on aid allocation and debt sustainability. Some of the 16 indicators are subjective and highly politicized (CNES 2004), while the data used are not available to the public or governments. What is obvious to governments is the policy mix that will score high and therefore turn on the donor tap.

A third way of influencing government policy is the provision of 'analytical, advisory and assessment' services. Since 1996 the Bank's president has emphasized its role as a 'knowledge bank', framing development debates and influencing civil servants' thinking.

Criticisms of the Bank and Fund

Effects of structural adjustment The package of liberalization, deregulation and privatization, known as the Washington Consensus, has failed to achieve the promised economic growth (SAPRIN 2004). Imposition of these conditions has often led to the destruction of entire sectors of the economy and severely undermined social services. Many countries have experienced 'IMF riots' after conditions requiring wage freezes or the removal of price controls pushed vulnerable citizens over the edge (Kruse 2003).

The use of explicit conditions tied to specific loans is simply ineffective (see, for example, Killick et al. 1998). They are often imposed without regard to the country's historical, social, economic and institutional characteristics. They undermine the accountability of policy-makers to their citizens and erode the sustainability of the reforms and the institutions that implement them. The approach to conditionality is being softened in response to pressure: the Bank has acknowledged the need to understand the impacts of policy changes on the most vulnerable *before* the policies are implemented. A 2003 Fund review resulted in a reduction in the number of overt conditions, while the Bank's use of conditionality is to be reviewed in 2005.

Impact of mega-projects The types of development project funded by the Group are a cause for concern. Many infrastructure projects have negative social and environmental consequences. Bank-funded construction of hydro-electric dams has resulted in the displacement of Indigenous peoples without proper compensation and destroyed fragile ecosystems. There is particular concern over continued support for oil, gas and mining projects, and the conflict between Bank rhetoric on climate change and the reality of its lending programmes. The Bank has yet to provide evidence that support for extractive industries fulfils its mandate to reduce poverty; local people subjected to the pollution of their air, land, and drinking water enjoy few – if any – of the benefits.

Undermining state provision The Bank, working in partnership with the private sector, is accused of undermining the role of the state as the primary provider of essential goods and services. Corporate pressure exerted via major shareholding countries has resulted in an ideological bias towards privatization, and maintains support for loans to transnational corporations that amount to little more than corporate welfare (see part A, and part D, chapter 2 for example).

Shrinking the Bank and shunning the Fund

Reform is long overdue. However, the most influential players are the finance ministers of the G7 countries, above all the US Treasury which sees no need for reform. Their financial support of the Bank and Fund fails to generate debate in parliament, leaving key decisions in the hands of civil servants. Similarly, investors in World Bank bonds floated to finance the IBRD have yet to really make their presence felt: a new campaign, the World Bank Bonds Boycott, is attempting to change this. The citizens of rich countries have little opportunity to debate, let alone influence their actions. The greatest impact of civil society has been through direct action – protests in the streets of borrower countries under austerity programmes; decades-long battles against ineffective and unjust projects; long campaigns against the privatization of services.

The reform agenda

Many critics say the Bank and Fund are unreformable. Those who advocate reform call for different kinds of actions from many sections of civil society: activists generating pressure for change in the streets; academics providing evidence; public servants defending the right to essential services; parliamentarians reclaiming national sovereignty over policy-making; and NGOs carrying all these messages to governments and the institutions. Reform should address a number of issues, as follows:

Organizational structure The Bank must be governed and managed by directors and senior staff appointed through open and meritocratic rules. The composition and voting power of the boards must reflect fairer representation of the recipient countries, rather than the rich countries' influence and corporate interests. The staff of the Bank and the Fund must become more diverse.

Decision-making and transparency Voting procedures on the board must become transparent and formalized and key documents published. Final authority for national development strategies must rest with sovereign parliaments, not with the board (Bretton Woods Project 2004).

Public accountability Greater powers must be given to independent evaluation bodies. The Bank and the Fund must become subject to international law.

Reform measures specific to the Fund include:

Mandate Create regional monetary funds to encourage a tailored response to financial imbalances; eliminate loan conditions other than those relating to repayment and transparency.

Lending Return to original mandate to provide short-term finance to address short-term crises; remove the 'seal of approval' function.

Surveillance and monitoring The same discipline should apply to all member countries, including powerful actors; surveillance should be exercised by independent evaluators, not Fund staff.

Reform measures specific to the Bank include:

Mandate Roll back the Bank's 'mission creep' into national policy-making and issue areas for which other specialized agencies have a mandate, e.g. health.

Projects The repayment terms of credit instruments should be suited to the revenue-generating potential of the project funded. Social and environmental policies should explicitly refer to international standards and the Bank should respond to judgements by international treaty bodies. Private sector arms should not subsidize transnational corporations and instead should assist small and medium enterprises from developing countries. Independent arbitration should ensure that when Bank projects fail because of poor design, the costs are shared with the borrower government.

Structural adjustment Eliminate all conditions except those relating to transparency and the prevention of corruption in public spending. Introduce peer review mechanisms for countries. Respond to the analysis of UN specialized agencies on broader governance issues, rather than conduct such analysis.

Knowledge End role as global think-tank on all development policy issues; subject all Bank research to peer review; end pretensions to leadership on global public goods; and stop training and capacity-building of journalists, parliamentarians etc.

Resources and further information

The *Bretton Woods Project* is a UK-based watchdog of the World Bank and IMF (http://www.brettonwoodsproject.org).

IFIwatchnet connects organizations worldwide monitoring the international financial institutions (http://www.ifiwatchnet.org).

World Bank Bonds Boycott (http://www.worldbankboycott.org).

References

Bretton Woods Project (2003a). Harmonisation and coherence: white knights or Trojan horses? (http://www.brettonwoodsproject.org/article.shtml?cmd%5B126%5D=x-126–16735, accessed 25 February 2005).

Bretton Woods Project (2003b). US, Europeans trade blows over lack of progress on Bank, Fund governance reform (http://www.brettonwoodsproject.org/article.shtml?cmd[126]=x-126–16567, accessed 25 February 2005).

Bretton Woods Project (2004). Parliaments reign in IFIs: international campaign gains momentum (http://www.brettonwoodsproject.org/article.shtml?cmd[126]=x-126-72225, accessed 25 February 2005).

CNES (2004). Judge and jury: the World Bank's scorecard for borrowing governments. Citizen's Network for Essential Services (http://www.servicesforall.org, accessed 28 February 2005).

Killick T, Gunatilaka R, Marr A (1998). *Aid and the political economy of political change*. London and New York, Routledge.

Kruse T (2003). *The IMF and the Bolivian crisis* (http://www.ifiwatchnet.org/doc/boliviaimf.pdf, accessed 26 February 2005).

Stewart F, Wang M (2003). *Do PRSPs empower poor countries and disempower the World Bank, or is it the other way round?* Working paper 108, May, Queen Elizabeth

House, University of Oxford (http://www.eurodad.org/uploadstore/cms/docs/WbevalMay03.pdf).

Structural Adjustment Participatory Review Initiative Network (SAPRIN) (2004). *Structural adjustment: the policy roots of economic crisis, poverty and inequality*. London, Zed Books.

UNCTAD (2002). *Economic development in Africa: from adjustment to poverty reduction, what is new*? Geneva, UNCTAD.

World Bank (2003). *The Global Poll: multinational survey of opinion leaders 2002.* Washington DC, World Bank.