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The G20 and the IMF and World Bank: Don't just give them more money, fundamentally reform them!

By Korinna Horta and Barbara Unmüßig

The world is pinning great hopes on the G-20, the new club of industrial and developing nations: At their summit in London in early April, they were expected to create the foundations for a new global financial architecture. Under intense pressure caused by the crisis, the summit was supposed herald a new phase in cooperative multilateralism – so it was hoped.

Yet divergences among the industrial nations had already been revealed in the run-up to the summit. The extent and range of supervision and monitoring of the financial markets remains contentious. And while the EU wanted to focus the Summit on tighter regulation, the Obama Administration viewed an increase in global liquidity as the highest priority – even if this goes hand-in-hand with larger deficits and rising inflation rates.

What has been new about this summit was the participation of the developing nations. In contrast to the 1944 conference of allied nations at Bretton Woods, a resort location in the U.S. state of New Hampshire, and the G-8, where only the major industrial nations are represented, emerging economy countries such as China, India, South Africa, Brazil, South Africa, and Mexico were able to participate in the G-20 summit. They are urgently needed to help overcome the worst crisis since 1929. The British host, Prime Minister Gordon Brown, was at least endeavoring to give the summit more political legitimacy: The British government had invited regional alliances such as the Organization of African Unity (OAU) and the Association of Southeast Asian Nations (ASEAN), thereby ensuring that poor developing nations were represented. It remains to be seen what type of political say they will be afforded beyond their representation.

IMF and World Bank: Boosting the War Chest

Despite all controversies, there has been a great deal of consensus: The Bretton Woods organizations, the International Monetary Fund (IMF) and the World Bank, are to be elevated in stature. Approaches to reform plans dealing with future competencies, an appropriate division of labor between the two institutions, new decision-making structures, and the economic and financial goals of lending, were, however, not on the table. This represents a yawning gap in reform efforts because, at the same time, there was a consensus on allocating much more new funds to the twin Bretton Woods organizations. The two organizations are to provide new

liquidity, above all, to the financially strapped East European countries and all other emerging economy and developing nations hard hit by the crisis.

Boosting the IMF “war chest” was seen as done deal even before the Summit. Its lending resources are to be doubled or tripled from the current \$250 billion. However, the IMF is an unloved crisis manager, particularly in the emerging economy and developing countries. All too often, it has pushed through neo-liberal economic programs which made the economic crises even worse. From Indonesia to Argentina, from South Korea to Brazil, and, of course, also China – all those who could afford it, have endeavored to protect themselves by accruing foreign exchange reserves in order to avoid becoming a customer of the IMF. As of 2008, the IMF was present in Latin America with just one percent of its loan portfolio. That is now changing without a thorough political debate occurring on the economic and financial goals of the new IMF loans. It is clear that the emerging economy and developing countries will make their consent to an elevation of the IMF and World Bank contingent on reform of the voting rights within the various executive councils. This long overdue reform of voting rights proportions, originally planned for 2013, will now most likely be moved up to 2011. Yet it does not go far enough — not by a long shot. If the IMF is to play a prominent global financial governance role, then it needs, above all, more competencies and a “robust” mandate to deal with the economic imbalances and risks of the financial markets. Moreover, there must be lending-conditions reform which is also based on social and economic criteria. The current IMF packages to assist the Baltic states, for example, do not reveal any such new plans.

Dawn of a Green New Deal?

The UN Climate Council and the IMF come to a similar conclusion independent of each other: The poorest states and poorest population groups have been hardest hit by the climate and global economic crisis, which they did not share in creating. The World Bank, which would like to triple its loans to middle-income countries in 2009, is also coming to the rescue and striving to achieve a loan volume of \$100 billion over the next three years. World Bank President Robert Zoellick is calling on nations to pay one percent of all stimulus programs into a rescue fund. Yet, also in the case of the World Bank, one must ask, What are its goals in making the new loans available? The World Bank has long been criticized for a failed development policy. The balance sheet on its poverty-fighting policies and, even more so, on its environmental policies is sobering.

This fact is supported even by internal reports of the World Bank Independent Evaluation Group (IEG), whose results have so far had little influence on reorienting or changing lending practice.

In 2008, the IEG published an evaluation on the World Bank’s stewardship of the environment. World Bank investments in the period from 1990 to 2007 were examined and given thoroughly poor marks. Loans to the public and private sectors mutually undermine each other. This

problem occurs especially frequently in sectors such as energy, transport, and industrial agriculture in tropical countries.

For example, the International Finance Corporation, the private sector subsidiary of the World Bank, invests in industrial palm oil and soybean plantations, thereby contributing to the erosion of tropical forests. At the same time, the World Bank warns against the consequences of deforestation. Commenting on this situation, Vinod Thomas, General Director of the IEG recently said, “They [the World Bank staff] absolutely have to start to see the unavoidable connection between environmental protection and overcoming poverty.” The World Bank, however, had been taking up the cause of “sustainable development” since the Rio Earth Summit in 1992. Its institutional learning is extremely weak, as evidenced by numerous evaluation reports which attest to contradictions and mistakes.

\$750 Million for an Indian Coal-Fired Power Plant

The gap between well-meaning rhetoric and institutional practice is a long-known phenomenon. World Bank loans are transacted without much consideration of social and ecological consequences. With more money in its portfolio, this trend is growing – as is also shown in the history of World Bank lending. That notwithstanding, the World Bank is mentioned time and again as the first stop when it comes to financing global challenges. For example, it is currently preparing to become the main source of funding for climate projects. Last summer, the World Bank announced a whole host of new climate investment funds with which climate-friendly technologies in developing countries and climate change adjustment programs are to be promoted. Almost simultaneously, the International Finance Corporation approved a loan worth \$750 million for a coal-fired power plant of the Tata Power Corporation in the Indian state of Gujarat, which will become India’s third largest source of carbon emissions. Here, it is not about arguing whether India should continue to build coal-fired power plants but whether investing in increased emissions is the best application of public development aid funds. Since – as the World Bank itself has recognized – the poorest population groups, their supposed clientele, suffer soonest and most from climate change, the answer to this question must be “no”.

Donor nations have so far made available more than \$6 billion for the climate funds. These funds should clearly be used for climate-friendly investments, such as renewable energies and energy efficiency, to thus pave the way for an environmentally and socially responsible energy policy. To that end, it is absolutely necessary to bring the entire World Bank loan portfolio in line with climate protection. Yet the latest investigation by the Washington nonprofit organization the World Resources Institute shows how far off we still are from this goal. It documents that nearly 50 percent of all World Bank energy projects in 2007 devoted absolutely no attention to the issue of the climate. This most likely applies to other climate-sensitive

sectors such as agriculture, extractive industries (mining, oil, and gas), and major infrastructure projects.

The World Bank Independent Evaluation Group has found that the World Bank can “talk the talk,” when it comes to sustainable environmental policy, but gives little consideration to the environmental affects of its own activities. In light of growing environmental risks and new streams of financing intended to serve climate protection, the IEG recommends that the World Bank and its partners concentrate on quantifiable environmental protection.

Understandably, the G-20 in London will mainly focus on stabilizing the global financial markets. But they must also not pass up the opportunity to steer the IMF and the World Bank, as influential global lenders and development institutions, on a green course to ensuring that public funds help overcome multiple crises and assist the poor and poorest populations.



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