Research Report

Leiden Model United Nations 2015
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Forum: *Second committee of the general assembly*
Issue: *The participation of LEDCs and developing countries in the IMF and the World Bank*

Position: *Chair*

Introduction

Both the IMF and World Bank have grown enormously since they were established in 1944. With this growth, the purpose of both institutions has also changed over time. Where they were first established to help rebuild the world economy and international payment system, both institutions now spend millions a year acting as international loan banks and watchdogs. Over the past decades, there has been strong criticism directed towards both institutions. Most of this criticism is regarding the terms and conditions both institutions require of countries that are in debt to them. The IMF has been criticised to be anti-development and to push its debt holders to such lengths that the national health and basic infrastructure of the nations are damaged. Because of how the voting systems for both institutions work, LEDCs and developing countries have little to say as opposed to the "richer" MEDCs. Seeing that both organizations were established to encourage and facilitate development, this is a problem that must be dealt with to ensure that both the IMF and the World Bank reach their intended goals.

Definition of Key Terms

MEDC
An MEDC is a more economically developed country, a country with a relatively high level of wealth.

LEDC
An LEDC is a less economically developed country, a country with a relatively low level of wealth.

Developing country
A developing country is a country having a standard of living or level of industrial production well below that possible with financial or technical aid; a country that is not yet highly industrialised. It may also be described as a poor agricultural country that is seeking to become more advanced economically and socially.

General Overview

Due to the fact that voting power in both the IMF and the World Bank are decided, for a large part, by the monetary contribution of each member nation, both institutions are dominated, in large part, by MEDCs. Especially the United States of America and large European countries hold great voting power in both institutions. It is these MEDCs that have developed most of the policy and regulations for IMF and World Bank loans. Many LEDCs and developing nations regard the conditions for loans from both organizations as unfair and detrimental to the long-term growth and development of their economies and living standards. Some of these conditions require nations to cut spending on healthcare and education and to privatise large parts of their public sector. The dominance of the United States and European countries is also prevalent in the appointment of the president of the World Bank and the managing director of the IMF: these have historically always been US citizens for the World Bank and European citizens for the IMF.

Acting as loan banks, the IMF and World Bank consist of different "creditor" and "borrower" nations, it is this divide that creates a tension between different member nations. This is also the chief argument for the higher voting power of MEDCs, as some nations provide more funds they are also given more say in what is done with these funds. Although this may seem fair, this does in fact lead to a situation where developed nations have the power to decide which policies developing nations must follow or implement, thus in a way interfering with the sovereignty of these nations. Currently the voting system of the IMF and World Bank are comparable to that of a publicly held company; votes are decided by the amount of money invested.

Over time, many LEDCs and other developing countries have grown to dislike the manner in which the IMF and the World Bank operate, some nations publicly criticising these institutions and others showing their discontent through the creation of their own multilateral development banks (see NDB under BRICS). For the IMF and World Bank to remain in existence and regain their purpose, it is vital that LEDCs and developing nations partake in its funding and remain invested in its goals. The IMF and World Bank have made a great change in regard to dealing with climate change and food security issues but has not changed significantly in the way they are governed and there is still not enough focus on actually realising development rather than ensuring loans are returned as fast as possible. As the goal of both organisations is development, changes must be made in the structure and policy of both organisations.

Major Parties Involved

IMF

The IMF, or International Monetary Fund, is an international organisation whose goals are to foster global monetary cooperation, to secure financial stability, facilitate international trade, promote high employment and

sustainable economic growth, and to reduce poverty around the world. It was established in 1944 together with the World Bank, during the Bretton Woods conference. In 1945, it first came into existence with only 29 member countries and the goal of reconstructing an international payment system after the Second World War. Since then, the IMF has grown substantially, now having 188 member nations and a fund of over 476.8 billion XDR or special drawing rights, the IMF's own international currency. This amount is worth approximately 668.31 billion US dollars at the current exchange rate. The IMF has now adopted a more active role in the world economy, acting not only as a watchdog by analysing and collecting data from all member nations but also participating in bailouts such as the recent Greek bailout that totalled over 100 billion dollars. All member nations receive the same number of basic votes (5,2% of the total vote) as well as one additional vote for each special drawing right of 100,000 of a member nations quota. Because of this voting system, more economically developed countries have more power within the IMF.

World Bank

The World Bank is an international financial organisation whose main goal is to provide loans to developing countries for capital programs. It is part of the World Bank group and it consists of two institutions: the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). It is also part of the United Nations Development Group. The World Bank strives to reduce poverty, through promoting foreign investment and international trade and facilitating capital investment. Since its establishment in 1944, the World Bank has grown exponentially, with 188 member countries at the moment and as one of the leading international loan banks it is now one of the leading international finance organisations. Because its voting system is dominated by MEDCs the World Bank is often criticised as unfair towards LEDCs and developing countries.

BRICS states

An association of five developing or newly industrialised countries, including **Brazil, Russia, India, China** and **South Africa**. The 5 BRICS nations are all major economies, with a combined nominal GDP equivalent to 20% of the gross world product. In 2013, these nations took the first steps towards the creation of their own multilateral development bank, the **New Development Bank (NDB)**, as an alternative to the - in their eyes- American and European-dominated IMF and World bank. As of July 2015, the NDB has gone into effect.

United States of America and European nations
These nations hold most power within the IMF and the World Bank. It is because of this that they are heavily invested in the continuance of both institutions. The amount of power they hold within both institutions is regrettably also the reason that the participation of LEDCs and developing countries in the IMF and the World Bank is an issue. These nations must strive to find a balance as to how they can maintain power but also encourage LEDCs and developing nations to remain active members of both the IMF and the World Bank.

Timeline of Events

1944	The IMF and World Bank are called into life at the Bretton woods conference
1945	The IMF and World Bank officially come into existence
1952	The IMF Executive board introduces the concept of conditionality; requiring policy reform for nations seeking financial resources.
1979	The global energy crisis prompts the IMF to set up its structural adjustment policies
1980s	Structural adjustment policies are shown to be failing in developing countries, weakening the position of the poor and regressing development.
1980	The Overseas Development Institute (ODI) research includes criticisms of the IMF regarding policy and the unfair advantage of developed countries in making policy.

1990	The IMF and the world bank create the Washington consensus, a policy set to promote development. This policy is strongly criticised for its strong focus on GDP growth, and lack of attention for the permanence of growth and living standards.
1999	The World Bank and the IMF introduced the Poverty Reduction Strategy Paper approach as a replacement for the structural adjustment policies.
2010	The G20 votes in favour of voting reform within the IMF to grant more voting power to emerging economies, unfortunately the reforms have not been approved by the United States and cannot pass without this approval
July 2015	The agreement on the new development bank entered into force, creating the New development bank, also referred to as the BRICS development bank.

Previous Attempts to solve the issue

Both the IMF and the World Bank have had a slight restructuring of voting power and the way in which the allocation of votes is made but this is not close to the significant restructuring that is needed. After criticism concerning the lack of attention to health and environmental issues, the World Bank decided to attract relevant NGOs to help restructure their policies towards these institutions, this might also be a possibility for dealing with the current issues.

Another action that could be seen as a previous attempt to solve the issue has been the creation of the new development bank, seeing that this has stirred up debate and this has shown the IMF and the World Bank that if they do not act quickly they may soon lose relevance.

Possible Solutions

There are many possible solutions; it of course differs per nation or organisation which is seen as most favourable. One possible solution is the formation of a closer partnership between the IMF, the World Bank, UNICEF, the FAO and the UNDP so as to widen the areas of concern the IMF and World Bank recognise.

Another possible solution, that may prove more difficult to realise in practice, is sweeping voting reform within the IMF. The problem with recognising this reform however is that the United States, the leading member of both institutions, is not willing to lose its power and leadership role.

Other than these solutions there is also the option of moving towards alternatives for the IMF and the World Bank. Besides the creation of the BRICS new development bank, the China-led Asian Infrastructure Investment Bank has also been established in 2014 as a rival to the IMF and the World Bank. The Minister of Economy and Finance of the African Union has also recently proposed to establish an African Monetary Fund.

Useful documents

http://www.imf.org/external/about.htm

http://www.worldbank.org/en/about

http://www.imf.org/external/np/exr/facts/conditio.htm

DeVries, Barend A. (1996). "The World Bank's Focus on Poverty".

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http://www.dandc.eu/en/article/how-voice-reform-came-about-world-bank

http://www.imf.org/external/pubs/ft/weo/2012/01/weodata/co.htm

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http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/EXTARCHIVES/0,,contentMDK:20035661~menuPK:56317~pagePK:36726~piPK:437378~theSitePK:29506,00.html

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