

International economic architecture: cleaning up the mess?

The G20 November summit in Washington failed to live up to its 'Bretton Woods 2' billing and is criticised for a closed opaque process. As the economic and financial crisis worsens, pressure for fundamental reform is growing.

The G20 group of large economies met in Washington on 15 November to discuss reform of the international economic architecture, but the summit failed to live up to the 'Bretton Woods 2' label some had given it. As the economic crisis continues to unfold, pressure for fundamental change to rebuild and repair the crumbling financial and economic architecture can only continue to grow.

Bretton Woods 2: build-up

Over the summer, pressure began building in official circles for a new Bretton Woods-style international conference to restructure the international financial architecture. A June Commonwealth statement called for such a conference, and was echoed by the draft document for the UN's Financing for Development conference in Doha, due to start on November 29 (see *Update* 62). In early October, the calls were made publicly by leaders of several big European countries, including France, the UK and Germany, as well as by Brazil and UN secretary general Ban Ki-Moon, among others.

The sudden rebirth of enthusiasm for redesigning the economic and financial architecture reflects the now mainstream view that the current crisis has highlighted the failures and weaknesses of existing institutions. As Russia's finance minister Alexei Kudrin said: "We are absolutely sure that today the current system of institutions used for crisis settlement, including the IMF, are inadequate."

G20 steps in

The week before the World Bank and IMF annual meetings in October, World Bank president, Robert Zoellick said "the G7 is not



working", but dismissed the G20, calling it valuable but "too unwieldy in moving from discussion to action."

Until recently, few people had heard of the G20. Now this group of the world's largest economies - the G8 plus some emerging markets (Brazil, India, China, Argentina, Turkey, South Africa, Mexico and Indonesia) and other OECD countries (Australia and South Korea), as well as Saudi Arabia and the EU - has been thrust into the limelight. The World Bank and the IMF leaders have been invited to join the G20

table for discussions on the financial crisis.

Calls by civil society and others for an inclusive, UN-led process have so far been resisted, with the G20 the likely locus for future international summits. Before the November summit, IFI watchers and debt activists launched a global sign-on letter to governments about the process for designing a new international financial architecture. The statement, signed by more than 850 civil society organisations, supports a UN-convened conference, but only if the meeting: is inclusive and participatory of all

governments of the world; includes external stakeholders; has a process for regional consultations; is comprehensive; and is transparent, with proposals and draft outcome documents made publicly available and discussed well in advance of the meeting.

US president Bush spurned the offer from the UN secretary general to hold the G20 conference at UN headquarters in New York. Previously only a meeting of finance ministers and central bank governors, the November G20 meeting was held at head of state level. Future meetings will follow suit.

Little concrete agreed

Despite being billed as 'Bretton Woods 2', the G20 meeting resulted in few substantial agreements, and was criticised for an opaque, closed preparation process.

Immediate and medium term actions have been proposed in the G20 statement, but most raise problems rather than proposing specific solutions. Finance ministers are tasked with coming up with additional actions in a number of areas, including: "reviewing the mandates, governance, and resource requirements of the IFIs". A revival of the Doha 'development' trade round is also promised by the end of the year.

Poverty reduction and climate change merit only a passing reference in the declaration. By addressing short-term and limited financial sector reforms first, the G20 risks a repeat of the mistake made in the wake of the Asian financial crisis, a loss of momentum. If the leaders fail to address the systemic issues now, political will may be lost after lengthy negotiations over tweaking financial regulation.

Most of the focus of the declaration for the heading "strengthening transparency and accountability" is on accounting standards. Agreement was reached to "address weaknesses in accounting and disclosure standards for off-balance sheet vehicles" and regulators were asked to "ensure that ... financial statements include a complete, accurate and timely picture of the firm's activities." The inadequacy

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International economic architecture

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of the current governance structure for accounting rule-setting – standards are set by industry body the International Accounting Standards Board – is only hinted at.

Despite “sound regulation” being the longest section, little concrete is agreed. Most ‘actions’ are really a list of issues for further examination, including on: credit ratings agencies, capital adequacy requirements, credit default swaps and over-the-counter derivatives.

Under “promoting integrity in financial markets” the focus is, indirectly, on tax havens. “Measures to protect the global financial system from uncooperative and non-transparent jurisdictions” are called for. “Lack of transparency and a failure to exchange tax information should be vigorously addressed.”

The shortest section, was “reinforcing international cooperation”. “Supervisory colleges for all major cross-border financial institutions” are proposed, though their role seems to be little more than meeting regularly with banks to discuss risk.

Under “reforming international institutions” there is support for enhanced roles for the World Bank and IMF throughout the declaration. The statement says that “the Bretton Woods institutions must be comprehensively reformed so that they can more adequately reflect changing economic weights in the world economy” and the need for “emerging and developing economies [to] have greater voice and representation.” However, even the Europeans, the most opposed to significant IMF governance reform over the past two years, have publicly proclaimed

the need for reform. Some will be sceptical about whether the statement will amount to more than rhetoric.

More money for both the Bank and IMF is hinted at: “We should review the adequacy of the resources of the IMF, the World Bank Group and other multilateral development banks and stand ready to increase them where necessary.” Through the expanded Financial Stability Forum (FSF, see page 5), the IMF is asked to “take a leading role in drawing lessons from the current crisis.” No mention is made of who will be asked to join the expanded FSF, though it is clear that it will only be large emerging markets and will exclude the smaller and poorer economies that are currently facing economic crises due to the global events.

What happens next?

G20 governments, swept off their feet by the financial crisis, were never going to be able to reach a consensus on deeper reforms within the few weeks taken to prepare the summit. Critics argue that the G20 can never tackle this agenda alone.

As Miguel D’Escoto, president of the UN General Assembly said: “Only full participation within a truly representative framework will restore the confidence of citizens in our governments and financial institutions.” He continued, “Solutions must involve all

countries in a democratic process.”

The ten member commission of experts on reforms of the international monetary and financial system, established by D’Escoto in October and led by former World Bank chief economist Joseph Stiglitz, is expected to release a report by February next year. Most of the commission members participated in a meeting chaired by Stiglitz the day before the G20 summit. The one-day conference at Columbia University included 55 regulators, policy makers and academics. Its statement established key principles for regulatory reform which included the need for comprehensive coverage of all financial activity and for a global regulator with broadly inclusive participation.

In addition, Commonwealth Ministers agreed at a meeting in St Lucia in October to establish consensus on objectives of the purpose and governance of the Bretton Woods institutions. Immediate attention now turns to the upcoming UN Financing for Development conference which begins on 29 November in Doha. Rumours that the G77 group of developing countries have threatened to boycott the conference show how angry they are about both the spillover impacts of the crisis and the efforts by rich countries to block changes they really want.

The next major dates are the follow up G20 meetings. The G20 heads of state have committed to

meet on 2 April 2009 in London as the UK holds the rotating G20 chair that year. The finance ministers have committed to meet before that, but no dates or locations have been set. There is also no public information about the promised technical working groups.

One thing is certain; as the crisis deepens, public pressure will grow across the world to fix the underlying problems, not just clean up the mess. ©

Resource page on international economic architecture reform

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UN taskforce

© www.un.org/apps/news/story.asp?NewsID=28958&Cr=financial&Cr1=crisis

Summary of outcomes of G20 meeting, Bretton Woods Project

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**solutions
must involve
all countries,
in a
democratic
process**

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Sovereign wealth funds agree voluntary code

In response to concerns over the expansion of sovereign wealth fund (SWF) investments in the western world, the IMF created an international working group to design an accountability and governance framework for SWFs. In October the working group released generally accepted principles and practices (GAPP), consisting of 24 voluntary principles, endorsed by the IMFC at the annual meetings. The principles focus on legal frameworks, risk management and investment policies, all emphasising timely disclosure and transparency of funding sources, risk management frameworks and financial statements.

GAPP principles

© www.iwg-swf.org/pubs/gaplist.htm

Inadequate implementation of IFC standards

Two new resources have been released by the Forest Peoples Programme. The first, released in October, is a community guide on the International Finance Corporation’s performance standard on indigenous people, and gives information about identifying IFC-funded projects and the standards that apply to such projects. September’s report evaluates the Lanco power station in India, focusing on impacts on indigenous people and the community engagement process of the IFC, measuring compliance with IFC standards. It is written within the context of the IFC’s new policy on social and environmental sustainability introduced in May 2006.

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People’s Tribunal slams Bank’s record in India

September’s jury verdict of the Independent People’s Tribunal on the World Bank in India found that the Bank has “caused grievous and irreversible damage to those they intend to serve.” Established to provide an unbiased forum for people affected by World Bank funded or promoted projects and policies, the tribunal heard testimonies from affected people, experts and academics from across India in 2007. The jury findings identified that, despite its action through its poverty-reduction mandate in reality the Bank’s actions exclude the poor, and even worsen their situation. The World Bank Delhi office declined an invitation to take part.

© www.worldbanktribunal.org/jury-findings.html

Bank’s aid allocation may undermine growth

An article by researcher Elisa Van Waeyenberge’s published by the Centre for Development Policy & Research in London criticises the way the World Bank allocates IDA funds. The Bank’s aid is selectively allocated based on the use of the Country Policy and Institutional Assessment (CPIA) score (see *Update* 52, 43). She argues that “selective allocation of aid based on the CPIA risks locking in an extensive policy agenda with ambiguous, if not adverse, repercussions for growth.” Van Waeyenberge also notes that the CPIA ignores need in making aid allocations and assumes that governments have full control over policy outcomes to the neglect of external and structural issues.

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Awash with cash or hard up? IFIs face increasing demands on their resources

As economies slump across the world, the World Bank and the IMF are looking to pump out cash, but while the Bank's resources are expanding, there are questions about whether the IMF has enough.

After Iceland approached the IMF for a loan (see page 6), the Fund announced that it had \$200 billion available for countries in trouble and could quickly get another \$50 billion from shareholders if needed. If large emerging markets, such as South Korea or Indonesia, who have seen speculation on their currencies, were to approach the IMF, it might quickly run out of money. Even the IMF's first deputy managing director, John Lipsky, admitted in October that the IMF might have to raise more funds.

UK prime minister Gordon Brown launched a campaign to raise money for the IMF, visiting reserve-rich Middle Eastern countries and calling on China to pitch in. US Treasury officials dismissed this idea, saying the IMF should not seek more money until needed. In the end, Saudi Arabia demurred but Japan agreed to lend the Fund an extra \$100 billion.

Ironically, developing countries have been arguing for years that the Fund's resources have become much too small compared to the size of global trade and investment flows. IMF resources are linked to voting rights, so increases could mean distributing most of the voting share increases to developing countries: something vigorously opposed by Europeans during recent IMF governance reform negotiations.

New IMF facility: yet another acronym or real help?

The financial crisis finally prompted the IMF to agree in October to a contingency financing mechanism, the Short-Term Liquidity Facility (STLF), designed to lend high volumes to emerging markets rapidly, with low conditionality. This is a replacement for the failed Contingent Credit Line facility that was closed having never being used (see Update 54).

The STLF will lend up to five times a country's IMF quota for up to three-month periods. For example, Indonesia could access about \$15 billion; much smaller than the \$40 billion loan it took in 1998 during the Asian financial crisis. The key innovation is that the IMF will determine eligibility through confi-

dential discussions with interested countries, rather than publishing a list of eligible countries.

By mid-November no countries that took out IMF loans (see page 6) had used the STLF, presumably because they did not qualify. As the IMF has said that use of the STLF will be made public after the fact, emerging markets may still worry about the stigma attached to using the Fund's resources.

Bank bonds bonanza

Meanwhile, the World Bank seems

to have more money than it knows what to do with. The jitters on international financial markets mean that investors are looking for safe places to put their money. This 'flight to quality' benefits the Bank with its top notch credit rating and implicit guarantees by the governments of the world. The Bank was paying its lowest interest rates ever when it raised money through bond issuance in October.

Market conditions have also significantly hurt developing countries' ability to raise their own

finance. Cheap Bank lending could help fill the gap, but means countries will be subject to Bank conditionality. A similar fate faces the private sector, as emerging market companies lose access to credit, they may be pushed into the arms of the IFC.

In a paper for the G20 summit (see cover article), the Bank committed to drastically increase lending saying it "has the ability to make new commitments of up to \$100 billion over the next three years, including a tripling of commitments this year. Combined with monies mobilized from others, these new facilities could provide more than \$30 billion over the next three years." ©

Short Term Liquidity Facility proposal

www.imf.org/external/np/pp/eng/2008/102708.pdf

G20: Global Financial Crisis: Responding Today, Securing Tomorrow, World Bank

go.worldbank.org/TM8VAV33PO

IFI governance reform: rumbling slowly on?

Minor changes to World Bank governance were agreed with a timetable for further reform that could stretch to 2011. As pressure grows for fundamental reform of the international financial architecture, it is unclear what will happen to this process and if reform of the IMF's governance will recommence.

The annual meetings agreed a third board chair for Africa and small increases in voting share for developing countries at IBRD and IDA. Apparently there is "considerable agreement" that the president should be selected in a "merit-based and transparent" process, with "nominations open to all board members". Cynics will argue this description would not have ruled out the European steam-rolling of their candidate for the IMF, Dominique Strauss Kahn last year (see Update 57).

The Development Committee communiqué indicates that the reform process will continue for quite some time, possibly up to the 2011 spring meetings of the World Bank and IMF. The board is tasked to undertake "an important shareholding review" that will consider "moving over time towards equitable voting power between developed and developing members."

In the run up to the annual meetings, World Bank president, Robert Zoellick also promised a commission, led by former Mexican president Ernesto Zedillo to modernise the Bank's governance structures.

Transparency reviews due

The World Bank is preparing to formally launch the review of its

disclosure policy, with external consultations expected in early 2009. A similar IMF review is expected next year. In October, the Global Transparency Initiative (GTI), a global network of NGOs, demanded a complete overhaul of the IMF's disclosure rules. A detailed GTI report found that IMF's practices on information disclosure fall far short of best practice standards, and are even worse than the World Bank's policy, previously critiqued by the GTI. ©

Development Committee communiqué

go.worldbank.org/X8BENBV4C0

How to improve the Fund's transparency policy, GTI

<http://www.ifitransparency.org/>

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New international architecture: no shortage of blueprints

The financial and economic crises have brought out a plethora of ideas for reforming the international financial architecture some of which we highlight below.

Even those responsible for creating and safeguarding the economic system should be reconsidered. Simon Johnson, former chief economist of the IMF claimed that “everything’s on the table” and the European Central Bank President Jean-Claude Trichet said “there must be no taboos.” Which ideas gain the most credence over the coming months will matter enormously.

Global Monetary Authority?

Jeffrey Garten, a professor at Yale, argues: “The current global institutional apparatus is woefully incapable of overseeing the financial system that is evolving. The International Monetary Fund is irrelevant to this crisis, the group of seven leading industrial countries lacks legitimacy... and the Bank for International Settlement (BIS) has no operational role. The US Federal Reserve is too besieged to act as a global central bank. That vacuum at the centre is dangerous for everyone.”

His proposed Global Monetary Authority (GMA) would be a “reinsurer or discounter for certain obligations held by central banks’, scrutinise the regulatory activities of national authorities with more teeth than the IMF has and oversee the implementation of a limited number of global regulations. “It would also act as ‘bankruptcy court’ for global companies.”

What to do about banks?

Others have proposed a new international institution to deal with banking regulation and oversight. This idea is supported by UK-based NGO Oxfam: “This new institution should act counter-cyclically, ensuring money is put aside during good times, and is released during slow-

downs in order to minimise boom and bust. It should also be comprehensive; new rules should cover not just banks but also the parallel financial system, including hedge funds and private equity funds.”

University of California professor Barry Eichengreen has supported this idea in a modified format – a voluntary arrangement only for those countries whose financial institutions are seeking access to foreign markets. He proposes obligations for supervision and regulation, but not hard rules, so that it would “permit regulation to be tailored to the structure of individual financial markets.”

Paul de Grauwe of the University of Lueven in Belgium advocates instead “returning to narrow banking”, meaning much stricter limits on commercial banks, preventing them from investing in equities, derivatives and structured finance products. Financial institutions not declaring themselves commercial banks would be required to ensure that the duration of their liabilities would be at least as long as the duration of their assets.

US officials have thrown cold water on such proposals, and the biggest blockers are likely to be the United States and the United Kingdom, the countries with the biggest financial sectors.

IMF to the rescue?

In September, at the height of the financial panic, former IMF managing directors Horst Kohler and Michel Camdessus called for a stronger Fund. Unsurprisingly, IMF managing director Dominique Strauss-Kahn has been an enthusi-

astic advocate. “Finance should be controlled,” he said. “We are ready to do it if someone gives us the mandate.”

UK prime minister Gordon Brown has been calling for several years for an “early warning system” to detect troubles before they start.

However, the proposal amounts to little more than ensuring national bank regulators and supervisors talk to each other, via the IMF. Such a ‘college of supervisors’ approach would do little in terms of regulating cross border action, and nothing to tackle unregulated bodies. In fact the UK was instrumental in watering down the EU joint position in advance of the G20 summit, ensuring that any mention of ‘regulation’ was modified.

However, the IMF has also been the locus of blame for developing countries and many others. Even the IMF’s former chief economist Raghuram Rajan has been critical about the IMF’s role in the crisis so far: “the Fund has been represented in absentia”. The Commonwealth finance ministers statement just before the October annual meetings blamed the IMF’s surveillance of rich economies: “It has followed its traditional role of endorsing the moves of the G7 after the fact.” Without any real power to discipline rich countries, it is unclear that the IMF would ever be able to be more effective at this.

What to do about currencies?

Vijay Joshi and David Vines of Oxford University lay the blame for the crisis at the door of the monetary system not the financial one, but their prescription is unlikely to find favour with China, a pivotal player in negotiating any new system. They call for the IMF to “determine the appropriate exchange rate values for countries” and to “be given the power to require countries not to intervene in such a way as to steer their exchange rates away from these fundamental values.” This would be coupled with the IMF having the power to create its own currency. Harold James of Princeton University has reprised his idea of the IMF acting as a manager of foreign reserves (see *Update* 62). Both

ideas would require developing countries to regain trust in the IMF, meaning, at minimum, significant governance reform.

The Asian region has moved ahead on reserve pooling, creating a de facto Asian Monetary Fund (see *Update* 61). Thailand has committed to formally launch the multilateralisation of the Chiang Mai Initiative – now being dubbed ‘self-managed reserve pooling’ – during its ASEAN presidency in 2009.

People-centred alternatives

Most mainstream ideas fail to live up to the ambitious goals of social movements and NGOs. The International Trades Union Congress (ITUC) issued its ‘Washington Declaration’ just in advance of the G20 summit, calling for “an end to an ideology of unfettered financial markets”. The ITUC takes particular aim at inequality: “The new system of economic governance ... must ensure more balanced growth in the global economy between regions, as well as within countries, between capital and labour, between high and low income earners, between rich and poor, and between men and women.”

A raft of demands have been made by NGOs including the European ATTAC network, the global BankTrack network, groups attending the peoples’ alternative event to the Asia-Europe summit in Beijing, and the global network of IFL watchers and debt activists.

They all have common messages. First the governance of the global financial system, including negotiations about its reform, must be made much more democratic, accountable and inclusive. The economic system must no longer solely be based on the profit motive, but must also focus on equality, stability, justice, and fairness. And finally, environmental sustainability must be at the core of any new architecture, so that both short-term economic stimulus and long-term investment is directed at creating low-carbon economies. ©

Attac Statement

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Critical thinking on the financial and economic crisis

🔗 casinocrash.org/?p=235

Vox EU compilation of essays on the financial crisis

🔗 www.voxeu.org/reports/G20-Summit.pdf

ITUC ‘Washington Declaration’

🔗 www.ituc-csi.org/IMG/pdf/0811t_gf_G20.pdf

NGO sign-on statements

🔗 www.choike.org/bw2/

Pushing for change: how to get involved

In addition to developing and debating ideas and proposals such as those above, NGOs and civil society organisations are actively developing strategies, lobbying, campaigning and mobilising to ensure that reform of the international financial architecture puts people and the planet first.

At international level, two global sign-on statements have been organised and supported by hundreds of organisations and networks from across the world. There are also active listservs at international, European and national levels, for sharing information and discussing strategies and ideas. Use the link below to our regularly updated web page to find out all the latest information.

🔗 www.brettonwoodsproject.org/BW2

an end to an ideology of unfettered financial markets

Inside the institutions **International financial architecture**

National and international financial bodies frequently overlap both in function and membership. Below are some of the main regulatory or influential bodies within the financial system. In most, the IMF is a participant, and in some, a central player.

The Financial Stability Forum (FSF) The FSF was created in response to the 1999 Asian financial crisis. It aims to promote financial stability, improve financial market workings and lessen the effects of contagion. It does this by assessing the vulnerabilities affecting the financial system, identifying ways to address these, improving information exchange and co-ordination amongst authorities responsible for financial stability. It has no executive authority or powers to force reform.

It is composed of the G7 (with a tripartite membership consisting of the finance ministry, the central bank and a financial regulator) and one representative from five other major financial centres (Singapore, Switzerland, the Netherlands, Australia and Hong Kong), as well as representation from the IFIs (two each from the World Bank and IMF, one each from the OECD and BIS) and from international standard and regulatory groupings (two each from the Basel committee, IOSCO, IASB and IAIS). It has in the past been chaired by the general manager of BIS. It is located at BIS offices in Basel, Switzerland.

The Bank of International Settlements (BIS) The BIS serves as a bank for central banks, and exists to foster international monetary and financial cooperation. It conducts research in areas of interest to central banks, supports the work of the Basel Committee, and assists central banks and other monetary institutions in the management of their foreign exchange and gold reserves.

Approximately 6 per cent of global foreign exchange reserves are invested by central banks with the BIS. By March 2008, total currency deposits amounted to \$348 billion. The banking services of BIS focus on stability and liquidity provision.

The BIS currently has 55 member central banks, all of which are entitled to be represented and vote in the general meetings, though voting power is disproportionate. Established in 1930, the BIS employs 557 staff, and is headquartered in Basel, Switzerland.

The Basel Committee on Banking Supervision (BCBS) As part of its monetary and financial stability services, the BIS hosts the Basel Committee, which provides a forum for regular cooperation on banking supervisory matters. Its key concern is to ensure the adequate capitalisation of banks. As banks' operations were increasingly internationalised, rich countries launched the committee in 1974 to create comparable and thus compatible systems of supervision, to prevent financial instability. The committee created the controversial Basel I and Basel II sets of capital adequacy standards.

The committee is governed independently of the BIS. Committee members are from the G10, which actually has 11 members (US, UK, Italy, Canada, France, the Netherlands, Switzerland, Germany, Belgium, Japan, and Sweden). There is no member from a developing country. The BCBS reports to a joint committee of central bank Governors and (non-central bank) heads of supervision from the G10 countries. The IMF, through its Financial Sector Assessment Programme (FSAP), monitors countries using the Basel committee's core principles.

The Financial Action Task Force (FATF) Established in 1989 after a G7 Summit, the FATF focuses on money laundering and terrorist financing. It has published a set of '40 + 9 Recommendations' as a guideline to combat the problem. It includes 34 members and is based in France. The IMF FSAP programme uses FATF principles.

The International Organisation of Securities Commissions (IOSCO) The IOSCO is a forum for securities regulators from over 100 jurisdictions. Much of IOSCO's work is descriptive; it includes rules to promote independence of stock and equities analysts and auditors, and comparative research on how hedge funds and credit agencies are regulated (or not) in different jurisdictions.

Its executive committee is more representative than the technical committee, which excludes both China and India from membership. It is in the latter that key decisions are made. The IOSCO group has established principles that form the benchmark of international regulation of securities markets, which are used by the IMF's FSAPs.

The International Association of Insurance Supervisors (IAIS) The IAIS came into being in 1994, and includes supervisors from over 130 countries and international organisations (IMF, OECD, World Bank). It aims to improve supervision of the insurance industry. It was not until the 1999 FSF meeting that the potential for disturbance of the financial system arising from the global insur-

ance and reinsurance markets was identified. IAIS objectives were supplemented with the promotion of global financial stability. The sphere of reinsurance has on the whole remained unregulated, concentrated in offshore centres. Whatever supervision does take place is on the national level and often de facto through the credit agencies which undertake it.

The IAIS general meeting with all members has ultimate authority but an elected executive committee oversees the technical and budget committees. The IMF uses the IAIS standards and codes in its FSAPs.

The Joint Forum The joint forum was established in 1996, to look at common issues arising in banking, securities and insurance sectors. 13 countries are members, and there are three institutional members: IOSCO, IAIS, and the BCBS. The forum is mandated to oversee the rise of financial conglomerates – firms who engage in all three activities – and conduct effective group-wide supervision. One member of the Basel Committee secretariats works part-time as the Forum's secretariat. The IMF participates in Joint Forum working groups.

Credit rating agencies Credit rating agencies, such as Standard & Poor's or Moody's, are private businesses providing borrowers (whether corporate or sovereign) with credit worthiness assessments, including ratings on individual debt instruments such as derivatives. These in turn are used to assess the quality of banks or securities firms' portfolios.

The agencies do not receive as much regulatory attention as banks. For example, formal requirements for US rating agencies were only reached in 2006. The three main credit ratings agencies are based in the US.

International Accounting Standards Board (IASB) The IASB aims to create a single set of international financial reporting standards for companies. Accounting standards govern how companies report their accounts. Weak accounting standards are blamed for the ease with which global companies have been able to avoid and evade tax. It is a private institution, governed by a group of 22 trustees from businesses and accounting firms in major industrialised countries. It also includes trustees from China, South Africa, Poland, Brazil and India.

What falls through the gaps? Despite the plethora of financial bodies, some issues remain unaddressed, including:

- Pockets of lightly regulated and usually low or zero tax areas called offshore financial centres
- Highly leveraged private investors such as hedge funds and private equity funds
- Interconnected and cross-border financial processes beyond the scope of one of the existing committees. ©

Institution	HQ	Created	Membership
FSF www.fsforum.org	Basel	1999	12 countries 5 international organisations 6 international standard setting bodies
BIS www.bis.org	Basel	1930	55 countries
FATF www.fatf-gafi.org	Paris	1989	32 countries 2 international organisations
BCBS www.bis.org/bcbs	Basel	1974	10 countries
IOSCO www.iosco.org	Madrid	1983	98 countries 11 independent jurisdictions
IAIS www.iaisweb.org	Basel	1994	100 + countries 10 + independent jurisdictions 4 international institutions
The Joint Forum www.bis.org/bcbs/jointforum.htm	Basel	1996	13 countries 3 international standard setting bodies
IASB www.iasb.org	London	2001	9 countries

Back from the dead: IMF pumps out loans

A few months ago pundits were calling time on the Fund, but the financial crisis' impact on emerging markets has brought it roaring back to life, with its usual dose of austerity and conditionality.

The countries in trouble have tried hard to avoid the IMF, more publicly than usual. It is not clear whether this was to avoid the stigma attached to going to the Fund, the austerity measures required, or both. Policies pursued by rich countries, such as tax cuts and looser monetary policy, will not be allowed under IMF programmes elsewhere.

Iceland's economy freezes

Iceland was the first to go cap in hand to the IMF. After bank failures in late September, Iceland approached its Nordic neighbours, then Russia in early October, to ask for loans, but negotiations failed. Other European countries refused to lend unless Iceland went to the IMF first.

The IMF austerity package, the first in Western Europe since Britain's humiliating Fund rescue in 1976, relies on standard conditions including massive interest rate hikes and lower government spending. These are similar to those used in Asia in 1997 and 1998 and, critics argue, are likely to exacerbate the recession, and increase economic insecurity and unemployment.

After initial agreement with the Fund, Iceland raised interest rates from 12 to 18 per cent, to try to bolster the currency. With trading in the Icelandic krona already halted after the collapse of Icelandic banks, it is unclear what this will accomplish. It certainly raises borrowing costs for Icelandic households and businesses, already hit hard by the devaluation, having borrowed in foreign currency in recent years.

Iceland's IMF package was held up at the Fund's executive board for more than a week in early November. The UK, the Netherlands and Germany wanted assurances from Iceland on repayment of their citizens who held money in Icelandic banks before approving the deal.

Eastern European dominoes: Hungary starts...

A crumbling housing market and a currency under severe pressure,

made it clear from early October that Hungary would turn to the Fund. The IMF concluded negotiations at the end of October for a \$16 billion programme which requires deep cuts in government spending across all departments. Additionally, all public sector employees face losing their yearly bonus, worth almost 8 per cent of pay, as well as a wage freeze. Pensions are also being slashed and the government has promised not to reduce taxes.

These pledges were made by the Hungarian government in the letter of intent to the IMF. Formal IMF conditionality is fairly minimal, including standard targets for inflation and payment of foreign debts, as well as a condition on the overall fiscal balance.

Structural conditions called for a banking bailout package, a fiscal responsibility law, and a law speeding up the process for dealing with failed banks.

The Hungarian appointed to serve on the board of the European Bank for Reconstruction and Development, László Andor, was one of few officials to speak candidly about the deal: "Where the IMF appears with its strict conditions, the requirement of consolidation inevitably leads to real economy and social consequences."

...Ukraine, Belarus follow

The Hungarian package was complemented by over \$8 billion in European Union loans: not available to other countries in the region such as Belarus and Ukraine who approached the Fund in October. Negotiations with Belarus had not been completed by mid-November, but Ukraine finalised a \$16.5 billion IMF package.

The letter of intent for the Ukraine loan was unavailable, but the IMF resident representative indicated to a Ukrainian news programme that the government's fiscal deficit would be limited to 1 per cent of GDP this year, down from original plans of 2 per cent, and

would need to be eliminated in 2009.

Serbia also entered into a Stand-by Arrangement with the IMF in mid-November, although the small \$500 million programme was viewed as precautionary. The IMF deal reportedly includes a pledge by Belgrade to keep its 2009 fiscal deficit at 1.5 per cent of GDP, down from 2.7 percent in 2008. Further rumours of IMF programmes have centred on Romania and the Baltic countries of Estonia, Lithuania, and especially Latvia.

Damage spreads

Recent political turmoil has left Pakistan's economic policy foundering. Long before the financial crisis in Western markets, commentators were expecting Pakistan to return to the IMF, but the seiz-

ing up of credit markets further battered the South Asian nation. The Pakistani currency has lost one third of its dollar value in the last year.

The "friends of Pakistan" group met in early November but refused to help. Though securing delayed payment on oil imports from Saudi Arabia the government was forced to turn to the Fund. More than \$7 billion in IMF loans was secured in mid-November, with the IMF announcing that the package will include "a tightening of fiscal and monetary policies".

Much debate has focused on Turkey (see *Update* 61, 60, 59) where the government has been keen to avoid a return to the Fund after the expiry of the Turkish IMF programme in May this year. However, the financial crisis may hit the country hard, as speculative capital, that has kept the country afloat, becomes scarcer. On the sidelines of the November G20 summit, the prime minister signalled that negotiations for a new precautionary arrangement with the Fund were near conclusion. ©

Hungary Letter of Intent

tinyurl.com/HungaryLOI

a
tightening
of fiscal and
monetary
policy

World Bank monitoring weak

The first part of the Annual Report on Development Effectiveness (ARDE) by the Independent Evaluation Group (IEG), *Tracking Bank Performance*, finds that 80 per cent of projects were moderately satisfactory or better in reaching their objectives, meeting the Bank's own performance target. However, it also finds that "very few country programmes are producing best-practice results". The IEG warns the Bank against over-optimism, finding significant differences between the Bank's self ratings and IEG's ratings, which could lead to an inability to identify and remedy problem projects quickly.

Monitoring weak

The IEG is particularly critical of the Bank's monitoring and evaluation (M&E) systems, finding that they undermined the quality of the Bank's own evaluations. A lack of evidence of actual programme achievements at the outcome level made it difficult for the IEG to ascertain the effect global programmes had on the ground. At the country level "too often such [M&E] frameworks have been poorly formulated and hence their usefulness is undermined." It "continues to be difficult to piece together the various M&E indica-

tors to form a view of the Bank's overall development results."

The IEG recommends improving the quality of M&E systems at project level, simplifying results frameworks at national level, and ensuring the Bank and partner countries learn from impact evaluations and better integrate them into country programmes.

Global public goods

The second part of the ARDE, *Shared Global Challenges*, looks at the Bank's efforts to foster 'global public goods' stating that the Bank's country-based model will come under strain "especially when global and country interests are seen to diverge significantly." Furthermore, the systems for integrating what is said at corporate level into country level action is "undeveloped". This criticism is particularly worrying as Climate Investment Fund projects start to roll out (see page 7). Another IEG concern is that nearly half of global public goods financing comes from trust funds, which may further "increase the difficulties of mainstreaming such activity alongside long-standing work financed by the Bank's own budget." ©

ARDE, IEG

go.worldbank.org/X4WTAOR1UO

Indian Ministry rejects Climate Investment Funds

The Indian ministry of environment and forests rejected the World Bank's recently finalised Climate Investment Funds (CIFs) (see *Update* 61), a snub that may prove damaging, since India would have been a significant client. However, it is unclear whether the Indian government as a whole has rejected the proposal, as the ministry of finance has also been involved in talks with the Bank, though details are yet to emerge.

This follows the G77 and China's demands at climate change talks in Accra in August that developed countries should directly transfer resources to developing countries to help them combat climate change.

Despite this, India is amongst the seven potential recipient countries listed as members of the Clean Technology Fund (CTF) board which has the remit of investing in projects and programmes in developing countries "that contribute to the demonstration, deployment, and transfer of low-carbon technologies". Trust fund committees are responsible for approving the strategic use of funds as well as programming priorities, additionally, they provide guidance to the CIF Partnership Forum.

Countries pledge support

On September 26 ten countries pledged \$6.1 billion towards the CIFs. After the US, UK and Japan, the largest contributors were Germany and France. Maria

Athena Ballesteros of the World Resources Institute said that "compared to the trillions of dollars of investment needed in the energy sector in developing countries, \$6.1 billion is a small sum of money".

At the first CIF partnership forum, in Washington in mid-October, NGOs and representatives from civil society were vastly outnumbered by officials from the World Bank and regional development banks. Time constraints meant that there was no opportunity for participants to discuss proposals or raise concerns. Janet Redman of the Institute of Policy Studies, said that "it was unclear (and still is) how the response to these questions will be integrated." The meeting ended without even a decision being made on how often the partnership forum would meet.

Climate conditionalities

Financing for the CIFs will follow the Bank's operational policies and procedures for investment lending, meaning mostly loans, not grants, with conditionalities attached. World Bank conditionalities have long been criticised for undermining democracy by reducing policy space and for pushing controversial policies (see *Update* 60, 58)

A June Friends of the Earth briefing; *Why the World Bank Climate Investment Funds should be stopped*, branded the concept of concessional loans for climate adaptation in developing countries as "unethical" given that "industrialised

countries are historically responsible for climate change."

The Bank has so far resisted calls from think tanks, academics and NGOs that it should include carbon costs when accounting for the projects it funds. David Wheeler of the Washington-based think tank, Centre for Global Development (CGD) reports that China and India have also resisted such calculations, fearing a restriction on the use of Bank funds.

At a high level consultation convened by the CGD in September experts argued that by revealing the true cost of carbon-intensive projects, the Bank would be compelled to channel resources into low-carbon renewable energy such as wind and solar power. Bank officials expressed concerns over the technical and political obstacles to carbon accounting such as determining a carbon shadow price. ©

India refuses aid to fight climate change
[W tinyurl.com/indiancifs](http://tinyurl.com/indiancifs)

World Bank rebuffs experts' call for carbon accounting
[W www.cgdev.org/content/article/detail/16707/](http://www.cgdev.org/content/article/detail/16707/)

Why CIFs should be stopped, Friends of the Earth
[W tinyurl.com/stopcifs](http://tinyurl.com/stopcifs)

CIFs will neither help nor reduce emissions, A Seed Europe
[W http://tinyurl.com/seedcifs](http://tinyurl.com/seedcifs)

World Bank page on CIFs, World Bank
[W go.worldbank.org/580VAGT860](http://go.worldbank.org/580VAGT860)

were less effective".

Less importance was placed on the issue of whether ESW and TA was requested by the client although what they termed as client "buy-in" was still important as was the need to "ensure that there is genuine client interest or needs to engender such interest".

In both IDA and IBRD countries, TA was preferred to ESW. Clients also displayed a preference for the Bank's non-lending services over its lending services. In response, Bank management broadly agreed with the recommendations of the evaluation that measuring the results of the work must be taken seriously and that country preferences must be respected. ©

IEG review of TA and ESW
[W go.worldbank.org/DDP8I2SEX0](http://go.worldbank.org/DDP8I2SEX0)

Financial and food crises: probing the links

While food commodity prices have dropped from their peaks earlier in the year, the role financial liberalisation played in causing the crisis and whether it can help resolve it are still being debated. Annie Shattuck an analyst at NGO Food First suggests that speculative trading on the scale which contributed to food price increases would not have been possible without the financial sector deregulation and free market reforms required by IMF lending conditions. She argues that "looking for safer investments, traders that may or may not be in businesses related to food at all, put their money into commodities futures." These investments in agricultural commodities and oil had a knock on effect on the price of food and farm inputs.

A report by the Institute of Agriculture and Trade Policy (IATP) published in November argues that the same deregulatory measures that played a role in the current financial crisis also contributed to the food security crisis.

Figures in the *World Trade Report* 2008 by UNCTAD show that trade in agricultural derivatives increased by 32 per cent in 2007, whilst their value has jumped up by 160 per cent in two years; there has been no correlating change in production.

The Fund, in the October 2008 *World Economic Outlook*, advocates monetary policy tightening to contain the inflation risks that it claims is still present despite recent falls in commodity prices.

Bank and derivatives

The Bank has placed renewed emphasis on risk management tools such as crop insurance and weather derivatives (financial contracts designed to pay out if production is affected by adverse weather conditions). It offered Malawi index-based derivatives in June to "provide a hedge to protect governments against financial disruption in the aftermath of adverse weather events." Despite the problems in the derivatives market related to the financial crisis, the Bank continues to have faith in market solutions.

The Bank's response to the crisis, the Global Food Response Program (GFRP) (see *Update* 62, 61) has since mid-November approved and begun disbursing \$359 million across 24 countries. A further \$541 million is proposed for programmes in 10 more countries. ©

[W www.foodfirst.org/en/node/2252](http://www.foodfirst.org/en/node/2252)

IEG evaluation of World Bank TA limited

The recently released IEG evaluation *Using Knowledge to Improve Development Effectiveness*, examining the Bank's economic sector work (ESW) and non-lending technical assistance (TA) between 2000-2006 on ESW and TA, presents a limited review. This evaluation complements the IEG's scathing review of the Bank's training programmes (see *Update* 60).

The Bank spent nearly \$1 billion between fiscal 2000 and 2006 on ESW and TA, a quarter of its spending on country services.

The evaluation found that the Bank met its objectives in ESW and TA and that "[t]he indirect effects of ESW and TA on client coun-

tries... were greater than the direct effects." However there were "substantial differences in ratings across countries and tasks". In trying to explain this variation the IEG highlights differences in the technical quality of ESW; the level of client involvement; the extent to which the services were followed up after completion; client demand for the services; government capacity and the preference for TA over ESW.

ESW was found to be positively correlated with government capacity and receptivity as well as better loan design. ESW products of a higher quality were seen to have cost more whilst "ESW and TA products of lower technical quality

Dam wrong: new World Bank book fails to convince critics of large hydropower projects

A forthcoming World Bank commissioned book on large dams stresses their purported economic benefits whilst inadequately addressing serious social and environmental costs. The book is a further indicator of the Bank's preference for large dams.

The book, entitled *Indirect economic impacts of dams: Case studies from India, Egypt and Brazil*, sets out to evaluate what the authors feel is an often neglected component of dam projects, their indirect economic impacts. It does this through four empirical case studies that measure the total economic benefits of the dams in relation to their observable direct benefits and assesses the distributional and poverty reduction impacts.

Blind spots

With only four case studies, the book is significantly narrower in scope than the World Commission on Dam's (WCD) 2000 report, *Dams and Development*, which included 10 case studies and 100 technical studies across 125 dams (see *Update* 20, 27, 47).

Unfortunately, what it lacks in scope is not made up for in depth. By simply addressing the indirect economic benefits of the dams, it fails to fully evaluate their social and environmental costs. Additionally, the dams are hailed as the primary causal factor in cases where positive results can be otherwise explained. For example, the growth in agricultural output around Bhakra in India might alternatively be explained by the industrialisation of that sector. In the mean time, agriculture is suffering due to the adverse effects of the dam such as degrading soils and falling groundwater tables.

Lessons still to be learned

Whilst a spate of new and recently revived dam and water projects suggests that the Bank's bias towards large infrastructure is here to stay, it is harder to find evidence that the motivation behind these investments lies with their poverty reduction mandate.

Private investors are likely to be the main beneficiaries of a dam in the Democratic Republic of the Congo. Inga 3 will form part of the Grand Inga Dam, a structure surpassing the Three Gorges Dam in China in scale and likely to cost

upwards of \$80 billion. However, as Washington-based NGO Bank Information Center (BIC) comments, "the development benefits of these initiatives remain unclear, as nearly all the output is earmarked for export and to ease the expansion of major mining operations in the region."

With the Nam Theun 2 hydropower project in Lao PDR (see *Update* 45, 59, 60) it seems again that the poor are not the priority. In her June report, *Damming for development: Lessons from Laos*, Shannon Lawrence of NGO International Rivers criticises the project for failing to involve the local population in a process that has so far led to the displacement of upwards of 6000 people. In June, measures were not yet in place to ensure that the needs of resettlers and communities downstream from the dam are sufficiently addressed. Furthermore, "while Nam Theun 2's engineering deadlines have been met, social and environmental programmes have stumbled ever since construction started."

The Bank's penchant for supporting large infrastructure projects extends beyond dams. On 1 September the Bank signed an agreement with the government of Egypt for \$145 million over four years to finance a new irrigation system. Whereas previously irrigation of the Nile has been under public control, this will be a public-private partnership (PPP) project. Although the project is touted to generate employment, a report by BIC argues that the introduction of new technologies is expected to limit the amount of new jobs and that "the main beneficiaries will mainly be investors with significant capital." Work is due to start in early 2009, and it is as yet uncertain whether the project will guarantee water access for the poor. ©

A product of politics on big dams, Business World Online

www.businessworld.in/index.php/Books/A-Product-Of-Politics.html

World Bank continues to push African dam
www.bicusa.org/en/Article.3822.aspx

Damming for development

internationalrivers.org/en/southeast-asia/laos/nam-theun-2/damming-development-lessons-laos

New irrigation project in Egypt

www.bicusa.org/en/Article.3897.aspx

beneficiaries will mainly be investors

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To donate by UK cheque please enclose a cheque/postal order made payable to 'ActionAid supporter payments: Bretton Woods Project' and return to: ActionAid, FREEPOST BS4868, Chard, Somerset TA20 1B.

Ama Marston joins the project

We are delighted to welcome Ama Marston as our new policy officer, taking over from Lucy Baker, who has gone to do her PhD at the University of East Anglia. Ama brings a wealth of experience from work on human rights, environment and development issues with NGOs and international organisations including those of former World Bank chief economist Joseph Stiglitz, and former UN high commissioner for human rights, Mary Robinson. She has also worked with ActionAid International, Amnesty International, the Centre for Economic and Social Rights, Greenpeace and others and has experience in Latin America and Asia. She holds a Masters from Columbia University.

New on IFlwatch.tv

Video of seminar on financial crisis

On 28 October, more than 40 representatives of NGOs, development organisations, labour unions, think tanks, academia and the media came together at a seminar in London to discuss how to take forward demands for a fundamental redesign of the international financial system.

Video footage from the event

www.brettonwoodsproject.org/art-562842#video

Other interesting footage on IFIs can be found on iflwatch.net.

www.iflwatch.tv

2008 Bankspeak and resources

The first issue of 2009 will feature 'Bankspeak of the year' – the most incomprehensible or absurd use of words in a Bank or Fund document or speech. Also, we will present your list of recommended resources – the best books, reports and articles written about the work of the Bank and Fund in 2008. Suggestions from readers for both features are very welcome.

Review last year's Bankspeak awards and resources of the year:

www.brettonwoodsproject.org/bankspeak2007

www.brettonwoodsproject.org/resources2007

Send your suggestions to

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