UN Financing for Development: the Fund and Bank's role & influence

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This briefing describes recent developments in the negotiations leading up to the UN's Financing for Development (FFD) conference to be held later in July in Addis Ababa. It also reflects upon the often problematic role played by the IMF and World Bank in the negotiations. Kicking off three critical UN summits held in 2015, the FFD summit has the potential to shape positive reforms for years to come, but that prospect still hangs in the balance.

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A great deal is at stake as the Third Financing for Development (FFD) Conference is scheduled to take place 13-16 July in Addis Ababa, Ethiopia. The conference follows up on two previous conferences held in Monterrey, Mexico (2002) and Doha, Qatar (2008).

A longstanding hope of civil society organisations in the FFD process has been to recover a more democratic and open space for consensus-building on certain matters such as debt or reform of the monetary system, on which decision-making rests solely with the Bretton Woods Institutions (BWIs), where their capital-laden voting structure denies the poorest countries a fair say. Civil society organisations (CSOs) see FFD as a potential lever to secure better policies from the World Bank and IMF and for their overall positioning within the architecture of international organisations. Additionally, this Third Conference happens in the same year as the UN summit that will inaugurate, in September, the Sustainable Development Goals (SDGs). They feature at the centre of a post-2015 development agenda that is supposed to catalyse the world's efforts in the next 15 years, as the Millennium Development Goals (MDGs) have done for the previous 15 years.

The BWIs in Financing for Development

FFD was from its origins conceived as an International Conference, rather than a "UN Conference", designed to bring together all the main global economic institutions with an impact on development. The World Bank, IMF and World Trade Organization (later on the UN Conference on Trade and Development - UNCTAD was added to this roster) have the status of "institutional stakeholders," and participate in the negotiations. This is because FFD has been, since its origins, unique in its intention to provide a forum within the UN for a holistic tracking and coordination of all sources of development finance, including discussing what international financial architecture is required for successful development.

In spite of the special status that the BWIs occupy in FFD, how to refer to issues that affect them in the Outcome Document (OD, the output of the negotiations) has always been tricky. At the time of writing, the OD is nearing completion. The following analysis reflects on the issues under discussion not just in the latest draft (25 June), but also the previous drafts developed by the co-facilitators.

A number of countries – especially those favoured by the voting regime in the BWIs - want to zealously preserve the independence of the BWIs and try to limit how much the FFD OD can go into areas within their mandate, which they see as an infringement on BWIs' "special governance regime." However, those meeting at the conference are not representatives of a UN body but the same governments that own the BWIs, a point often raised by developing countries.

Infrastructure finance, safeguards and sustainable development

With estimates placing the infrastructure finance required to meet the SDGs in developing countries alone at $1 trillion a year, the draft addresses the role of multilateral development banks in contributing to such finance. It fudges a heated issue in earlier drafts over whether initiatives by new banks, as well as established institutions, should be included. Among these, the draft now specifically endorses the World Bank Global Infrastructure Facility. This represents a risky gamble given that the Facility, an experimental approach to a new way to finance infrastructure, was only launched last October and there is, therefore, no evidence on which to base a positive assessment.

Another key issue was whether to resolve to have a new initiative on infrastructure, a move opposed by the World Bank and major developed countries, or whether only efforts to coordinate existing initiatives should be strengthened. The draft calls for a "new infrastructure forum … building on existing multilateral collaboration mechanisms." This forum will "meet periodically to improve alignment and coordination among established and new infrastructure initiatives, multilateral and national development banks, UN agencies, and national institutions, development partners and the private sector". The forum will also "encourage a greater range of voices to be heard, particularly from developing countries, to identify and address infrastructure and capacity gaps . . . and work to ensure that investments are environmentally, socially and economically sustainable. "

Equally troubling for a document that is expected to herald a new paradigm for financing that supports the three dimensions (social, economic and environmental) of sustainable development, was a call to have the BWIs, among other international financial institutions, undertake "coherence checks," and regularly publish reviews of the impact of their operations on the SDGs. Ultimately this was watered down further to merely "align business practices with the post-2015 development agenda." This could have been a more promising idea if the assessments were guaranteed to be done by a third party or, even better, reviewed in a process at the UN. However this proposal came under attack not least from the World Bank which at recent sessions claimed that it already carries out such assessments.

Likewise, earlier drafts included language suggesting development banks should "alleviate internal constraints" to infrastructure investment and avoid "unduly burdensome" safeguards; code words for diluting such safeguards. Although this was dropped in the draft, the language only encourages them to "establish or maintain social and environmental safeguards systems, including on human rights, gender equality and women's

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empowerment that are transparent, effective, *efficient, and time-sensitive*" (emphasis added). These qualifications could also signal a need to water down safeguards. Interestingly, the draft also separately addresses new development banks, in references to the recently established BRICS (Brazil, Russia, India, China and South Africa) Bank and Asian Infrastructure Investment Bank, and welcomes efforts by them to "develop safeguard systems in open consultation with stakeholders on the basis of established international standards."

Language that could have called for transparency and accountability in blended finance (projects that combine public and private finance and are increasingly carried out by the international financial institutions [IFIs]) was ultimately diluted, although a commitment to such projects having to meet "environmental and social standards" remained. A vague commitment to "hold inclusive, open and transparent discussion when developing and adopting guidelines and documentation for the use of public-private partnerships, and to build a knowledge base and share lessons learned through regional and global fora" offers, however, a glimmer of hope for influencing safeguards in future blended finance.

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Governance reform and the international monetary system

Text addressing the status of governance reform in the BWIs was nervously watched and for good reason. Though the steps taken to increase voting power of developing countries in the World Bank and the IMF since 2002 are relatively limited, it is unlikely they would have been included at all had the Monterrey Consensus not taken on this hitherto taboo subject. The Addis Ababa gathering comes at a moment when reforms already agreed in 2010 that would, among other things, transfer two IMF executive directors positions currently occupied by European countries to developing countries, are blocked by the US Congress's failure to ratify them. Another item on the agenda is the reform of the formula that determines participation by countries in the funding and governance of the IMF. Developed countries' opposition to adding these references to the document as "too prescriptive" for the BWIs finally carried the day.

The draft acknowledges the impact of the global financial crisis but it is a far cry from recognising the IMF's failures in surveillance and early warning that played at least a partial role in the lead up to the crisis. The IMF receives the equivalent of a slap in the wrist in the draft: "We call on the relevant international financial institutions to further improve early warning of macroeconomic and financial risks." The document even contains praise for the IMF's role: "IMF membership bolstered its lending capacity and multilateral and national development banks also played important countercyclical roles during the crisis." This praise is unwarranted given the pro-cyclical conditionalities attached to lending, which were soon resumed after a short easing during the aftermath of the crisis as the IMF's own Independent Evaluation Office report identified in October 2014. The draft goes further with a full vote of confidence in the Fund: "we recognise the importance of strengthening the permanent international financial safety net. We remain committed to maintaining a strong and quota-based IMF, with adequate resources to fulfill its systemic responsibilities."

The proposed measures to reform the international monetary system are especially weak. The impact of monetary policies on developing countries by countries that issue reserve currencies, such as the US and the Eurozone, whose introduction and withdrawal of quantitative easing has been especially conspicuous in the last few years, barely registers in the draft. Moreover, proposals to recognise the disproportionate impact of reserve-issuing countries' policies was removed from the draft, in what represents a significant step backwards compared to references in the Monterrey Consensus .

Perhaps the most surprising debate relates to an aspect of the monetary system that seemed settled after the crisis: the desirability and usefulness of capital controls. After the global financial crisis and the new consciousness it brought about, the desirability of capital account liberalisation as a policy objective became clouded by skepticism. In what was widely reported as a "change of position" in 2012 the IMF, traditionally reluctant to support capital controls, issued an "institutional view" that offered qualified recognition by saying they were "part of the toolkit and their use is appropriate under certain conditions, but they should not substitute for warranted macroeconomic adjustment."

During the ongoing negotiations, earlier references such as recognition of "the importance of capital account and macro prudential regulations" faced criticism. Developing countries requested a concrete commitment to remove obstacles to capital account management while developed countries tried to have the reference deleted altogether. Disappointingly, the draft ultimately aligns its proposal with the IMF position, which still places many constraints on the use of capital controls that in practice makes them hard to implement and ineffective. Experts note that it is precisely before countries are facing such disruptive inflows or outflows that the controls can be most effectively applied. But the draft places capital flow management measures as a last resort saying that the response to volatile capital flows are "necessary macroeconomic policy adjustment" that "could be supported by macro-prudential and, as appropriate, capital flow management measures." A related proposal on "removing obstacles to capital account management and regulations" was erased.

Negotiations on the debt chapter have seen a clash of strong views, as they touch upon the contentious process negotiating a multilateral legal framework for sovereign debt restructuring that begun last year at the UN General Assembly. That process was a direct result of what many countries see as a refusal by the IMF to consider such solutions, only possible because of the large vote held by some developed countries at its board, limiting itself to work on contractual solutions. Since the mandate of the conference is to assess progress in the implementation of the Monterrey Consensus, developing countries' argument that the General Assembly process should be mentioned alongside the work at the IMF seems fair. But developed countries are attempting to prevent not only balanced references to all the sources of progress in addressing sovereign debt restructuring, but any reference to work by the UN on debt.

The Monterrey Consensus had called for debt sustainability assessments to take into account countries' needs to finance the MDGs. Though an earlier version of the text for Addis intended to mirror that proposal in regards to the SDGs, the current text features only a reference to SDGs as part of considerations during sovereign debt restructurings.

BWIs' interference in FFD

Can the FFD process have a real impact on the behaviour of the BWIs? In practical terms, FFD strikes a careful compromise formula. The integral role of the BWIs in FFD assuages developed countries' concern that an "unruly" majority of developing countries can steer the outcomes too far from the path that the BWIs would have agreed themselves. The tone of the discussion reported above reveals how the BWIs' presence in the process has gained them a level of access and impact on the negotiations that can safely see away any challenge or criticism. On the other hand, it can be said that their presence is, in the *realpolitik* of the day, a perhaps unavoidable price to pay to enable rich countries' support for serious discussion on financial policy issues at the UN.

By offering the political opportunity for such discussion, the FFD process represents perhaps the only chance within formal, universal-membership institutions for developing countries and civil society to make some financial policy issues political and realise some focused wins. The narrative which emerges from the conference, with the authority that only the UN's lustre can provide, is a key prize. In a year of agenda transformation contextualised by the definition and adoption of the SDGs, the importance of getting such a narrative right with regards to the actions of the BWIs should not be underestimated.

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