Finance ministers in Washington fail to deliver on G20 promises

Finance ministers from around the world met in Washington at the Spring Meetings of the World Bank and the International Monetary Fund this weekend with the promise to pin down the details of the G20 agreements made in London on 2 April. From the point of view of the millions of people in low-income countries suffering from inequitable economic policies compounded by the effects of the current crisis the meetings in the last two days made very little positive progress. The small clarifications on gold sales, Special Drawing Rights and other issues indicate that there is very little or no concessional, low condition money available and considerable policy and procedural obstacles to getting what little there is.

World Bank U-turn on investment signals labour standards and tax breakthrough

On my only visit to Singapore I was horrified to read scrolling text on TV channels announcing “Singapore top in governance league table – World Bank”. Especially as several colleagues from our network and other NGOs we work with had just been banned by the Singaporean authorities from entering the territory at the time of the World Bank and IMF annual meetings.

European Parliament resolution on G20 conclusions

On April 24 the European Parliament approved a resolution on the conclusions of the April 2 G20 London summit. While the text generally welcomes all the outcomes of the summit, there are a few issues on which the European Parliament calls for stronger measures at the European and global levels.

IMF emergency loans: Greater flexibility to overcome the crisis?

Despite promising IMF rhetoric about greater flexibility in fiscal and monetary policies because of the current crisis, IMF loans in Romania, Latvia and Armenia show that practice is not in line. The Fund is still pushing tight fiscal policy and single-digit inflation.

In late March the IMF executive board agreed to phase out the use of one type of IMF structural conditionality. Sources from within the IMF recently stated in private conversations that the instructions received from senior management are clear: advice to member states should clearly point at swiftly increasing fiscal stimulus, higher public spending, and flexible monetary policy.
Why has the World Bank changed its views on tax and labour standards?

The World Bank has just announced a major change of policy on investment. It produces every year an influential annual report and ranking exercise which emphasises minimising costs to business. That those costs fall on workers, ordinary citizens, the environment did not seem to bother the Bank until now.

Liberia's new debt deal, or: Just cancel it!

The World Bank announced last week that Liberia reached an agreement with creditors to buy back outstanding debt with a face value of USD 1.2 billion at a price of USD 38 million. The discount rate of 97% is impressive, and the deal is an important step towards the completion of Liberia’s HIPC debt relief process.

IMF does not deserve more power

On 25-26 April the IMF/World Bank spring meeting takes place. At the G20-summit in April it was decided to considerably reinforce the position of the IMF in the international economy. The Dutch government as other European governments is a proponent of this. There is however a need for more international democracy and an explicit mandate for development. Even if the IMF would be given $7.5 trillion instead of the planned $750 billion; the problems of the poorest countries will not be solved and no substantial improvement in reaching the Millennium Development Goals will result from this.

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April 27, 2009

Finance ministers from around the world met in Washington at the Spring Meetings of the World Bank and the International Monetary Fund this weekend with the promise to pin down the details of the G20 agreements made in London on 2 April. From the point of view of the millions of people in low-income countries suffering from inequitable economic policies compounded by the effects of the current crisis the meetings in the last two days made very little positive progress. The small clarifications on gold sales, Special Drawing Rights and other issues indicate that there is very little or no concessional, low condition money available and considerable policy and procedural obstacles to getting what little there is.

At the beginning of the month the leaders of the twenty biggest world economies agreed to make available more than $1 trillion to help countries meet their immediate financial needs arising from the crisis and to boost economic activity worldwide. The IMF was the definitive winner of the London April 2 G20 deal, with the promise to quadruple its resources - from $250 billion up to $1 trillion. The meeting of the finance ministers in Washington was expected to clarify how and how much of this money would help poorer countries counter the effects of the crisis, and how International Financial Institutions would be reformed. Despite the urgency of the moment and the promise for resolute action, Finance Ministers
managed to do little more than restate the London commitments. Impoverished
countries don’t know yet on how much they will count and the extent to which the
IMF will grant this finance at reasonable terms and avoid making past mistakes.

No clarity on funding for poorer countries

Initial calculations by Eurodad earlier this month suggested that only $24 billion, a
mere fortieth of the $1 trillion promised in London, was earmarked for low-income
countries. African and other leaders, plus civil society groups, have been calling for
increased grant or highly concessional resources for low-income countries. Using
proceeds from IMF gold sales is one option agreed in principle by the G20. Another
that found its way into the G20 communiqué was increasing the concessionality of
Fund resources for low-income countries by issuing Special Drawing Rights (which
have a non-concessional interest rate attached).

The IMFC Communiqué of 25 April 2009 simply restates the intention to “double
the Fund’s concessional lending capacity for low-income countries, while ensuring
debt sustainability, and exploring scope for increased concessionality.” This actually
means that low-income countries will be able to access only some $4 billion extra
IMF resources at below market interest rates. To obtain more poor countries would
have to borrow at market interest rates, which are presently very low, but may rise
in the near future and trap them into new spirals of unsustainable debt.

However even if low-income countries want to obtain this money to stimulate their
economies they may not be able to. Their borrowing is limited by thresholds of
what the Bank and the Fund consider to be sustainable debt levels (calculated
using the controversial Bank/Fund Debt Sustainability Framework). And the latest
Fund programmes for low-income countries that Eurodad has analysed prohibit
poor countries from borrowing at market interest rates. Therefore the $19 billion
for low income countries from the SDR increase is more of a mirage than a real
funding option. The Fund is also being silent on the possibility of providing grants
to low income countries.

Europeans block progressive deal on IMF gold sales

Civil society organisations are calling to use a greater share of the gold sales
proceeds to fund poor countries’ needs. In 2007 the IMF decided to sell a tiny share
of its huge gold reserves to meet their administrative costs, which were not met by
the Fund’s low lending activity at the time. Due to the increase in the gold price,
this plan will generate much more resources than expected in 2007. The G20 has
now recommended that up to US$1 billion of these unforeseen additional profits be
used to support the poorest countries in the face of the financial and economic
crisis. Some CSOs suggest that the full additional profit from the gold sales –
US$5.2 billion – should be used to help the poorest countries weather the financial
storm and fight poverty.

The IMF Executive Board had a heated discussion on this issue last week, where
some European countries – including Belgium and the Nordic constituency –
expressed strong objections to using a sizeable share of proceeds from the gold
sales for poor countries. Arguments range from the need to “protect the Fund’s
capital base”, to the “unfairness of using gold sales for poor countries when
emerging economies are paying higher market interest rates to meet Fund’s
operational needs that will be not covered if more gold sales proceeds are
channelled to low income countries”, according to the Nordic Baltic constituency.
However, preliminary CSO calculations show that channeling US$5.2 billion
generated from gold sales to the poorest countries will not have any impact on the
plan to use part of the proceeds from gold sales for the Fund’s new income model
to cover its administrative and operating costs.

Unfortunately, due to the strong split in the Executive Board, the IMFC
Communique only mentions that IMF "subsidies (for low income countries) could be
financed through a combination of bilateral contributions—possibly by new donors—
and the Fund’s resources and income, including the use of additional resources
from agreed gold sales.” The Board asked the Fund’s management last week to
draft a second paper to spell out the options available in an attempt to take a
decision which is being painfully delayed.

Size matters: how expansionary the Fund can be?

But cheap lending – or even grants – is only half of the picture. Conditions attached
to these loans will also determine the extent to which this lending will do any good
to low income countries. The IMFC Communiqué echoes recent changes in IMF
conditionality, including the creation of the new Flexible Credit Line (FCL), which
provides precautionary finance for higher middle income countries such as Mexico
which the Fund considers to have strong macroeconomic performance. The
Communiqué also calls “on the IMF to ensure the successful and evenhanded
implementation of this new lending and conditionality framework, and ask the
Managing Director to report on progress at our next meeting.”
Although the FCL is an improvement from past Fund’s facilities for its lighter conditionality framework, this facility is only available for a very reduced group of countries. This concern is echoed in the G24 Communiqué. This developing country grouping “encouraged the IMF to apply in its LIC lending the same flexibility and streamlined and review-based conditionality, as agreed for other lending facilities.” According to a senior developing country official “the Flexible Credit Line has opened Pandora’s box. There is no way other developing countries are going to agree that only a few benefit from lighter conditionality frameworks. Probably this is the beginning of better times for streamlining IMF’s conditionality.”

Yet the Fund still has a long way to go to allow generous expansionary fiscal and monetary policies in its programmes. Recent speeches by IMF Managing Director Strauss-Kahn, and the IMFCCOMmuniqué call to “maintain expansionary monetary policies (and) deliver the scale of sustained fiscal effort necessary to restore growth”. However, a Eurodad discussion paper circulated in Washington – and reports by Third World Network (TWN) and Center for Economic Policy Research – show that IMF programmes still do not include resolute countercyclical policies. Eurodad also organised a workshop in Washington with TWN, Oxfam and ActionAid to discuss the extent to which the IMF was changing its stance in the context of the crisis. Despite claims to have flexibilised fiscal and monetary targets in its programmes for poor countries, the IMF’s baseline is so stringent that current programme targets are still far from the types of countercyclical policies that rich countries are implementing. Even if the Fund claims to have clear instructions to consistently advice expansionary policies to all countries without exception the reality is that changing deep-rooted policy convictions is rarely achieved overnight in large institutions unless strong guidelines are adopted and closely monitored by the Board of Governors.

Europeans also an obstacle on IMF governance reform

Not much has happened either on governance reform. The Communiqué merely records the need to “complete the quota reform by 2011 ... (which will result in) increases in the quota shares of dynamic economies.” Once again the poorest countries are left out of the deal. On this issue, the growing split between low income countries and emerging economies – particularly those that have been accepted into the selective Group of Twenty – is increasingly apparent. Middle income countries which feel that they have a change to be included in the circles that matter when it comes to global economic and financial governance are less and less interested in uniting with the world poorest in a common front.

European governments also played a less than helpful role on this issue. Public comments and proposals were raised by governments from other regions. Brazilian Finance Minister Guido Mantega said, for example: “the IMF repented from many of its past sins. But it still has to address the original sin: its democratic deficit.” US Treasury Secretary Timothy Geithner called for emerging nations to be given more voting shares in the IMF. He also suggested slimming the the Fund’s 24-member board to 22 representatives by 2010 and just 20 by 2012, while maintaining the number of seats for developing countries, thereby strengthening their position. However Belgian Finance Minister Didier Reynders, whose small government has as many votes on the Fund’s board as China and fields a representative there, told Reuters that he supports the status quo: “I think for the moment the representation around the table is attractive. The European countries are having to finance the Fund very strongly”.

The way forward

The lack of progress at the Spring Meetings leaves a lot of homework to be done in the next few weeks. The Fund will struggle to get a deal on gold sales and pin down the details for the SDR increase. It will rush to complete before the Annual Meetings the reform of its low-income country facilities and the flexibilisation of the Debt Sustainability Framework. It will also have to speed up work on voice and quota reform. These piecemeal internal reforms might deliver significant change if coalitions are built to push much further than most IMF staff want.

Despite the recent headlines about a $1 trillion deal for the Fund, the general sense Eurodad staff and members picked up in Washington was not that supportive of a long term role for the Fund. CSOs have for a long time advocated that the Fund should fully withdraw from, or seriously limit, its role in low income countries. However, according to the former Turkish Finance Minister Kemal Dervis now researcher at the Brookings Institution, rich countries have only turned to the Fund now because it was the only institution available. This does not indicate a desire to perpetuate a prominent role for the Fund once the crisis is over. Seriously limiting the role of the Fund to macroeconomic surveillance; creating a panel to monitor its performance; and increasing its linkages to the UN system were some of the proposals put forward by Dervis in a seminar organised by the Frederich Ebert Foundation. UN DESA Under-Secretary General Jomo Sundaram went further, suggesting a World Central Bank to eventually phase-out the need for an IMF.
have an appetite to re-balance power between the UN and the IFIs. So far the lack of progress to detail the IMF reforms in a progressive direction, as well as the dramatic lack of interest in the UN conference seems to show that we will not get the necessary shake up of global economic and governance institutions.

See also:

IMF emergency loans: Greater flexibility to overcome the crisis? (Eurodad, April 2009)
Partial victory: the IMF abolishes one conditionality type (Eurodad, March 2009)
IMF loans for food crisis still too burdensome and too expensive (Eurodad, September 2008)
Critical conditions: The IMF maintains its grip on low-income governments (Eurodad, April 2008)

**World Bank U-turn on investment signals labour standards and tax breakthrough**

April 30, 2009

On my only visit to Singapore I was horrified to read scrolling text on TV channels announcing “Singapore top in governance league table – World Bank”. Especially as several colleagues from our network and other NGOs we work with had just been banned by the Singaporean authorities from entering the territory at the time of the World Bank and IMF annual meetings.

At that time (2006) it seemed almost impossible that the World Bank would change its controversial “Costs of Doing Business” annual report and ranking exercise. But this week it did. Two key elements of the methodology are being reviewed and changed: the “Employing Worker” indicator and “Paying Taxes”.

This is important because the World Bank’s publication is a best-seller and enshrined a dominant view of how to create a pro-business “investment climate”. Also because the Bank has been using this analysis as a basis for allocating funding to low-income countries through its Country Policy and Institutional Assessments, which are also at the heart of its Debt Sustainability Framework.

The World Bank’s climb-down is described in a memo on its Doing Business website (PDF). Not before time the Bank agrees that “In the current global economic crisis ... it is important that government actions focus on the needs of the labor force and lower income households as well as those designed to help businesses to survive and grow. During this period of economic crisis, we are also scaling up our work on social safety nets through lending and analytical work. Issues of access to benefits such as unemployment insurance and social security are a key part of this work”. Critics, especially the labour unions who are rejoicing this week, have for years been pointing out that the Bank was leaning too far in favour of business, at the expense of workers and impoverished people (the Bank’s supposed focus “clients”).

The International Trade Union Congress has issued a release on the World Bank’s change of heart, It cites Secretary General Guy Rider: “it is significant that an important development institution like the World Bank is turning the page on a one-sided deregulatory view on labour issues and proposing to adopt a more balanced approach where adequate regulation, improved social protection and respect for workers’ rights will be given a higher profile.” The unions point out that they first raised concerns about the Bank’s index and report in 2003. The unions have trying to get the World Bank Group to explicitly take account of the International Labour Organisation’s Core Labour Standards, something which the Bank now claims it will do.

The second change the Bank has announced is on tax policy. Its previous stance was to welcome almost any cut in corporate income tax, an analysis carried out by PriceWaterhouse Coopers. Richard Murphy of Tax Research UK has regularly picked holes in that research and yesterday blogged his approval of the Bank distancing itself from the PWC methodology and pledging to re-examine the Paying Taxes Indicator.

The review will be carried out by “a working group including representatives from the ILO, as the international standard setting body, trade unions, businesses, academics and legal experts”.

This week’s shift in Washington bears out what former World Bank staffer now influential Financial Times columnist wrote recently in the FT’s Future of Capitalism series “Another ideological god has failed. The assumptions that ruled policy and politics over three decades suddenly look as outdated as revolutionary socialism”.

See also:

Why has the World Bank changed its views on tax and labour standards? (Eurodad blog, 30 April 2009)
On April 24 the European Parliament approved a resolution on the conclusions of the April 2 G20 London summit. While the text generally welcomes all the outcomes of the summit, there are a few issues on which the European Parliament calls for stronger measures at the European and global levels.

Need to address global imbalances

The Parliament points out that global imbalances are at the root of the financial crisis and deplores the fact that this key issue was not addressed at the G20 Summit. The Parliament “considers that an effective multilateral response to the crisis must involve addressing the causes of exchange rate imbalances and commodity price volatility within multilateral frameworks” and urges the European Council “to adopt a common position in order to tackle those issues before the next G20 Summit in New York”.

Need to go further in terms of financial supervision and regulation

The Parliament considers that the decisions taken and commitments made at the G20 Summit represent a minimum and not a maximum and raises some concerns on regulating hedge funds and other financial instruments and institutions. Without giving clear measures, the resolution points that “further measures are needed to stamp out speculative excesses and that regulation and supervision must include those activities which collectively represent a potential risk to financial stability”.

It also insists, but without giving specific measures, “on the need to develop efficient cooperation and information-sharing mechanisms between national authorities in order to ensure effective cross-border supervision”. This impulse from the parliament comes at a time when the European Commission has just issued draft proposals on hedge funds and private equity which many see as too weak. In a separate initiative leaders of the Socialist group wrote to José Manuel Barroso, the Commission president, condemning the proposal as so “filled with loopholes” that it would be “highly ineffective” in regulatory terms.

Tackling tax evasion and abolishing tax havens

On tax evasion and tax havens, the Parliament’s resolution calls on the next G20 Summit in September to go much further on banking secrecy and tax haven reform. They say it should “agree on coordinated and concrete action both to close down all tax and regulatory havens and to close ‘onshore’ tax and regulatory loopholes which permit widespread tax avoidance even in major financial centres”. The latter is an interesting point since it directly links financial centres like the City of London to the tax avoidance problem, which was completely ignored by the G20 and OECD subsequent blacklist.

Without making a strong call to the EU, the text “lauds automatic exchange of information as the most effective tool to tackle tax avoidance” and “recommends that the European Union should adopt its own appropriate legislative framework regarding tax havens and calls on its international partners to do the same”.

The resolution adds some stronger wording against tax havens by supporting the request made by the Europe Latin America (EUROLAT) Parliamentary Assembly on 8 April 2009 to the EU-LAC countries “to act at once to abolish all tax havens on their territory and to work at international level for the abolition of the rest and for sanctions against companies and individuals resorting to their services”.

Reforming International financial institutions and reviewing conditionalities

On this issue, the European Parliament gives some general language on the need to reform global financial governance, “expects a far-reaching reform of global economic and financial governance, which must promote democracy, transparency and accountability and ensure coherence between the policies and procedures of the international economic and financial institutions”. It also “urges a review of the conditionalities applied to most IMF and World Bank lending”.

On IFI governance reform, the European Parliament simply reiterates the need for “the representation of developing countries in international financial institutions to be improved” and urges the European Union to speak with one voice. This was not the case at the World Bank/IMF Spring Meetings this week, as our separate article on the Spring Meetings explains.

See also

- European Parliament resolution on the G20
IMF emergency loans: Greater flexibility to overcome the crisis?

April 21, 2009

Despite promising IMF rhetoric about greater flexibility in fiscal and monetary policies because of the current crisis, IMF loans in Romania, Latvia and Armenia show that practice is not in line. The Fund is still pushing tight fiscal policy and single-digit inflation.

In late March the IMF executive board agreed to phase out the use of one type of IMF structural conditionality. Sources from within the IMF recently stated in private conversations that the instructions received from senior management are clear: advice to member states should clearly point at swiftly increasing fiscal stimulus, higher public spending, and flexible monetary policy.

At an International Labour Organisation meeting in Geneva at the end of March, IMF head, Dominique Strauss-Kahn said, “I’m especially concerned by the fact that our forecast, already very dark ... will be even darker if not enough fiscal stimulus is implemented.”

Olivier Blanchard, IMF chief economist, has been even bolder: “I would put it more starkly. What is needed is not only a fiscal stimulus now, but a commitment by governments that they will follow whatever policies it takes to avoid a repeat of a Great Depression scenario.” He added: “monetary and fiscal policies need to become even more supportive of aggregate demand.”

Rhetoric versus reality

Preliminary research by the Third World Network (TWN) on the Fund’s advice to countries that seek assistance to cope with the effects of the crisis is not promising. According to TWN “the documentation on the IMF’s current loan conditionalities and policy advice demonstrate that the traditionally contractionary nature of the IMF’s fiscal and monetary policy framework has not changed.” The old recipes of tight fiscal policies, cuts in government spending, and single-digit inflation seem to be at the top of the Fund’s conditions and advice to countries that it has bailed out.

In March it was announced that Mexico will become the first country seeking IMF support from the newly created Flexible Credit Line (FCL), which provides precautionary support to what the IMF considers strong performing countries.

This follows a series of arrangements with low-income countries and Romania, the third EU country to seek IMF support in the past few months. Although most of the loan documents have not yet been published, the information so far disclosed by the IMF suggests that all these programmes push pro-cyclical policies.

According to the declarations made by the IMF mission chief for Romania to the Financial Times, the country will receive about $17.5 billion from the IMF in exchange for bringing “its budget deficit below 3 per cent of gross domestic product by 2011”. Moreover, he said, “there will be specific reforms in the fiscal area to make sure the deficit stays low over time - restructuring wage policies, recalibrating the pension system to make it sustainable, improving the control and monitoring of public enterprises.” The Fund will also seek to ensure that bringing down inflation is a core goal of the country’s monetary policy.

Guatemala will also have to follow stringent monetary policies in exchange for their $950 million IMF loan, with requirements that “monetary policy [be] focused on anchoring inflation at low levels combined with a flexible exchange rate system.” In Mongolia, the programme envisages tightening fiscal policy to ”restore the deficit to a sustainable range”.

Although Armenia will also need to cut expenditures to meet the target of 1 per cent deficit in 2009, the newly approved Poverty Reduction Growth Facility (PRGF) grants small concessions as “the zero limit on contracting/guaranteeing new nonconcessional external debt was replaced by a small positive amount [$50 million], making room for the authorities’ debt issuance plans and projects financed
by the World Bank and Asian Development Bank. However, monetary policy is as
gentle as in the other loans, including a transition to inflation targeting and a
tightening of the target to below five per cent.

The Exogenous Shocks Facility (ESF) loan for Malawi shows a slightly higher degree
of flexibility, and does not include structural conditions. However, the programme
still aims at a rather low inflation rate, "converging gradually toward the medium-
term goal of 5 per cent."

The ESF for Ethiopia, although slightly more flexible in its conditionality framework,
still pushes for the "elimination of domestic fuel subsidies and for "significantly
tightening fiscal policy." It also includes removal of some taxes, including on basic
food items, as well as increased cash transfers in the safety net programmes.

In March, the IMF approved yet another ESF agreement with the Democratic
Republic of Congo, where the Fund will require "keeping monetary policy tight".
This will somehow need to be reconciled with one of the key objectives of the
programme; "redirecting spending to activities that would prop up domestic
demand."

A substantial change from previous loan agreements is that the IMF consistently
suggests sustaining expenditure in the social sector, including on safety nets to
protect the most vulnerable. Unfortunately, possible changes towards greater
flexibility in some of the programmes are so minimal that it is hard to tell whether
this is change in policy by the IMF.

In the meantime, the IMF reported that the first review of the Latvian loan,
originally approved in December, has not been completed. According to the
Financial Times, the Fund "has suspended lending to Latvia until it sees more
progress in cutting public spending" and "Latvia is racing to prepare more cuts to
keep its $9.9 billion stabilisation plan on track ... [as] the budget deficit threatens
to overshoot the target of 5 per cent of gross domestic product agreed with the
IMF."

Ongoing negotiations over an IMF loan are heating up in Sri Lanka. In early March,
the president Mahinda Rajapaksa said that "We will not pawn or sell our
motherland to obtain any monetary aid." However, according to the Sri Lankan
newspaper the Sunday Times, opposition politicians and some economists fear that
the IMF loan that the government now hopes to get will include stiff conditions.

Practice what you preach

In words of the Thai prime minister, "When the G20 talks about reform of
international financial institutions, it is not just a question of increasing capital, but
also of how that capital is used ... that means making sure there are new facilities
for fiscal stimulus, continued development and social safety nets for developing
economies ... one of the lessons of the 1997 financial crisis in Asia was that the
conditions enforced by the IMF had caused unnecessary pain."

G20 leaders decided to increase IMF resources up to $750 billion (see see Update
65). The main downside of the agreement is that there is little mention of the need
to reform IMF terms of lending and advice. Southern civil society groups, such as
TWN, fear that "additional resources to the IMF would give it the means by which
to discipline crisis-hit countries the wrong way, worsening the crisis for them."

At the spring meetings, the executive board is expected to discuss and agree
higher access for low-income countries. Over the summer, the board will discuss
the terms of lending of IMF facilities, including the issue of conditionality. Southern
governments, civil society and other actors are likely to put pressure on the board
to ensure that recipient countries get the necessary fiscal and policy space to
decide the best measures to overcome the crisis, and that they will not be
constrained by stringent IMF policy advice and conditions.

Now that the IMF has recognized the merits of Keynesian policies in times of crisis,
the need for counter-cyclical measures, and the need for greater monetary and
fiscal flexibility, it is just a matter of practicing what it preaches.
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