Critics plan offensive as IMF-World Bank crisis deepens

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WASHINGTON, DC, APRIL 24: The spring meetings of the World Bank and International Monetary Fund took place this weekend with police barricades ringing the two institutions in the heart of Washington, DC. There were almost no protesters in sight.

The action was indoors, a few blocks away, at the Institute for Policy Studies. There, the opposition was putting the final touches to a global campaign to "disempower" the two institutions. To the 70 activists from different parts of the world attending the two-day strategy meeting, the relative absence of street protests was deceptive. They knew that, in fact, the two institutions were in the midst of their most serious crisis in years, one that provided the opportunity for weakening their hold on the governance of the world economy.

CRISIS OF LEGITIMACY AT THE IMF

The crisis is more evident at the International Monetary Fund. The IMF never recovered from the Asian financial crisis in 1997, according to former IMF and World Bank official, Dennis de Tray, vice president of the Center for Global Development. *"It lost its legitimacy then,"* he said at a lunch forum sponsored by the Carnegie Endowment for International Peace. Since the crisis, key Asian countries such as Thailand, Philippines, China, and India have refrained from new borrowings from the IMF, mindful of the consequences of disastrous financial liberalization programs that many Asian countries adopted at the behest of the Fund in the early 1990s.

To the Asian countries' reluctance to get into more debt with the Fund has now been added a conspicuous move among Latin American countries, led by Brazil and Argentina, to completely pay off their debts to the IMF in order to declare independence from an institution that is much hated in the region.

What is, in effect, a boycott by some of its biggest borrowers is creating a budgetary crisis owing to

the fact that over the last two decades, the IMF's operations have been increasingly funded from loan repayments by its developing country clients rather than contributions from the wealthy Northern governments, which deliberately shifted the burden of sustaining the institution to the borrowers. But with key client countries now ending their financial ties, where will the Fund get its resources?

Speaking at the same event as de Tray, Ngaire Woods, an Oxford University specialist on the IMF and World Bank, revealed that the IMF projects that payments of charges and interest to the organization would more than halve from US$3.19 billion in 2005 to US$1.39 billion in 2006 and halve again to US$635 million in 2009, creating what she described *"a huge squeeze on the budget of the organization."*

PROBLEMS AT THE BANK

While it does not have the aura of controversy and failure that surrounds the IMF, the World Bank is also in crisis, say informed observers. A budget crisis is also overtaking the Bank, according to Woods: Income from borrowers' fees and charges dropped from US$8.1 billion in 2001 to US$4.4 billion in 2004, while income from the Bank's investments went from US$1.5 in 2001 to US$304 million in 2004. China, Indonesia Mexico, Brazil and many of the more advanced developing countries are going elsewhere for their loans.

The budgetary crisis is, however, only one aspect of overall crisis of the institution. The policy prescriptions offered by Bank economists is increasingly seen as irrelevant to the problems faced by developing countries, says de Tray, who served as the IMF's resident officer in Hanoi and the World Bank's representative in Jakarta. The problem, he said, lies in the emphasis at the Bank's research department on producing "cutting edge" te
chnical economic work geared to the western academic world rather than coming out with knowledge to support practical policy prescriptions. The Bank is currently staffed by some 10,000 professionals, most of them economists, and de Tray claims that "there is nothing wrong at the World Bank that a 40 per cent staff reduction would not fix."

Woods supports de Tray, writing in a recent report that the "most common complaint in the field is that the Fund and Bank staff have no policy experience. Having completed doctorates in economics or finance, the staff are ill-equipped for the complex and messy work of the political systems in which they work."

The disdain for politics that incapacitates many staff in dealing with the developing world is often coupled with a blind eye to the fact that politics of a more consequential kind than complex developing country politics also influences the policy prescriptions of the Bank and the Fund. "Politics has always influenced the advice offered by the IMF and World Bank," writes Wood. "South Korea's first standby agreement with the IMF in 1997 was clearly decorated with conditions which had been added at the behest of the United States. In Russia through the 1990s, political pressures in the G7 pushed the Bank to make loans, which were never used (but for which Russia had to pay charges), and pushed the IMF to turn a blind eye to failures to meet its targets. World Bank projects are sometimes covertly shaped by preexisting agreements for contracts between large companies backed by powerful governments and borrowers."

HOW TO HIDE A CRISIS

One of those present at the meeting of non-governmental organizations at the Institute for Policy Studies was Robin Broad, an associate professor at American University. A long-time student of the World Bank whose book Unequal Alliance: the World Bank and the Philippines is regarded as a classic case study of the institution's relations with its client countries, Broad claims that the World Bank is, in fact, in more of a crisis than the IMF but that this is less visible to the public.

"The IMF's response has been to withdraw behind its four walls, thus reinforcing the public perception of its being besieged," she notes. *"The Bank's response, however, has been to engage the world to hide its mounting crisis."*

She identifies three elements in the Bank's offensive. *"First, it goes out and tells donors that it is the institution best positioned to do lending to end poverty, for the environment, for addressing HIV-AIDS, you name it … when in fact its record proves that it's not. Second, it has the world's largest 'development' research department — funded to the tune of about $50 million — whose raison d'etre is to produce research to back up predetermined conclusions. Third, it has this huge external affairs department, with a budget of some $30 million — a PR unit that feeds these so-called objective research findings to the press and fosters the image of an all-knowing Bank.."*

But, she concludes, *"This can't last. Inside the Bank, they know they're in crisis and are scrambling. And sooner or later, if we do our work, the truth will come out."*

REACTION TO NEW INITIATIVES

At the NGO meeting, people dismissed World Bank President Paul Wolfowitz's much publicized anti-corruption campaign as another public relations stunt designed to shore up the Bank's faltering legitimacy. *"Talk about being hypocritical. He was the US ambassador to Indonesia in the mid-eighties, when corruption involving World Bank projects was rife, and he never did anything about it,"* said Shalmali Guttal of the Bangkok-based Focus on the Global South. "*About one out of every three dollars that the Bank gave Suharto government over a 30 year period from the mid-sixties to the mid-nineties went to the pockets of Suharto's people. This came to about $10 billion of the $30 billion World Bank lending program. Wolfowitz, in fact, was known as a great friend of the Suharto regime.*"

Deep skepticism also met the plan to increase the voting power of some the big developing countries, such as China and Brazil, and the announcement that a few more poor countries would be made eligible for debt reduction under the Bank-managed "Highly Indebted Poor Country Initiative" (HIPC). The latter was seen as a PR effort to shore up a faltering program while the former was seen as a desperate attempt to head off the move of many developing countries to move away from dependence on the two institutions.

END OF REFORM?

There was little talk at the meeting about reforming the Fund's and the Bank's lending and project policies, the preferred approach of many of the bigger international NGO's in the 1990s. Sameer Dossani, coordinator of the 50 Years is Enough! Campaign expressed the meeting's doubts about the viability of a reformist approach: "We criticized structural adjustment programs, and they came up

with PRSP's [Poverty Reduction Strategy Papers]. We called for debt cancellation, and they came up with HIPC. With these initiatives now mired in failure, isn't it time for another approach?"

With the deepening crisis of the two institutions, the critics sense an opportunity for putting in place a more radical strategy. *"We've united around a strategy of disempowering the Bank and the Fund,"* Lidy Nacpil of Jubilee South, a global coalition demanding debt cancellation, at the conclusion of the two-day meeting. Instead of attaching conditions to IMF and Bank operations in order to reduce their negative impacts, the new approach would identify the most vulnerable operations or divisions of the two institutions and wage global campaigns to shut them down with the strategic goal of eventually rendering the two institutions with radically reduced power and influence.

"It's like cutting off the tentacles of an octopus," Dossani said. *"You start with the most vulnerable parts, then move on."*

Among two initiatives considered by the new campaign are international mass mobilizations at the time of the World Bank-IMF Fall Meeting in Singapore during the third week of September and an international conference on "Alternatives to the World Bank and the IMF" timed to coincide with the Fall meeting.

P.S.

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