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IMF and World Bank are losing clout in developing countries

Developing nations are organising within the IMF and World Bank to counter their neoliberal policies

Mark Weisbrot
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'Jim Yong Kim is an anomaly at the World Bank: the first president with real, positive development experience after more than six decades of bankers at the helm.' Photograph: Denis Balibouse/Reuters

There is a battle going on within and outside the World Bank right now over its flagship Doing Business report and index. This may not appear to be exactly a household issue, but the fight is a very significant one for a number of reasons.

The index ranks countries according to the "ease of doing business", including such things as starting a business, enforcement of contracts, paying taxes and other indicators. It has been under attack for years because it has a built-in bias against many regulations that people who care about the progress of humanity might see as important: employment protections; necessary taxation; health, safety and environmental regulation; and of course most state-led development policies.

As noted recently, the fact that the Bank gives higher marks for "fewer restrictions on permits for construction" means it ignores the safety and environmental concerns that can contribute to disasters such as last month's Bangladesh factory collapse.

There is evidence that countries have deregulated in harmful ways in order to get a better ranking. And despite years of controversy and a 2008 internal evaluation critical of the index, the Bank still uses it as a criterion for lending to low-income countries.

Now comes Jim Yong Kim, president of the World Bank since last July, appointing a panel to evaluate Doing Business. Never mind that he chose the South African finance minister, Trevor Manuel, well-trusted in neoliberal circles, to head it. Or that the panel did not contain a single member from the numerous, and in some cases quite large, civil society organisations critical of the index. Important people are worried.

Dan Runde of the Centre for Strategic and International Studies describes the concerns of Washington's foreign policy establishment rather nakedly: "Doing Business was incubated with strong support from the Bush administration through contributions to the methodology from USAid, funding from USAid, and political support from state and treasury ... "Because the World Bank should be a force multiplier of American influence in the world, Republicans supported (and rightly so) the renewal of the general capital increase of the World Bank ... the US should be expected to retain its 'big seat' at the table and exercise that influence with Jim Kim and bring in allied shareholders in favour of strengthening Doing Business."

The financial press has inaccurately portrayed the fight as "China seeks to water down key World Bank report" – the headline of the Financial Times's report on the controversy. But China is just one of many countries, and a latecomer at that, which have opposed the index within the Bank. Opposition has come from Brazil, Argentina, India and other developing countries.

And that is perhaps the greatest significance of this fight: developing countries are beginning to organise within the World Bank and the International Monetary Fund in order to change policies. These two institutions have been controlled by Washington, with varying amounts of input from other rich countries, since their founding nearly seven decades ago. Many of their policies have been harmful to developing countries. But in contrast to the World Trade Organisation – where developing countries form blocs and fight for their interests – the world's majority has mostly let the rich countries run the show in the IMF and World Bank.

Over the past decade the IMF has lost most of its power in developing countries and, as a result, Washington has also lost its most important avenue of influence over their policies. The middle-income countries of Asia, most of Latin America, Russia and others all made sure that they would never have to borrow again from the fund.

The World Bank has exercised much of its influence in conjunction with the IMF, but this arrangement too has been weakened. So now, the Bretton Woods twins have most of their power in weaker and poorer developing countries. (Ironically, the vast majority of the IMF's loans are now in Europe, but the fund is not the main decision maker there.)

Jim Yong Kim is an anomaly at the World Bank: the first president with real, positive development experience after more than six decades of bankers at the helm (with a couple of war criminals thrown in). It remains to be seen how much he can change the institution. But it's a good sign that developing countries are beginning to put up a fight.

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