

FACT & ACTION SHEET May 2009

Ensuring increased World Bank funding reduces poverty

SUMMARY: *The members of the G-20 recently committed to significant increases in finance for developing countries, to be delivered through the international financial institutions (the World Bank, the International Monetary Fund and the Asian Development Bank). Therefore, we need to ensure that the additional assistance from these institutions will contribute to genuine progress in reducing poverty as well as address short-term economic objectives. As the World Bank is the largest source of finance for development, our letters this month will ask Australia's Executive Director at the World Bank, Dr Jim Hagan, to support increased and improved Bank investment, in health, basic education and microfinance.*

The G20 Summit supports increased finance for developing countries

On 2 April 2009, the leaders of the Group of 20 countries (G-20, consisting of the larger developed and developing economies) agreed at the London Summit to increase finance for developing countries by a total of \$US 850 billion (\$A 1,175 billion) through:

- increased funding to the International Monetary fund (IMF) by \$US 750 billion (\$A 1,035 billion), and
- increased funding to the World Bank and regional development banks (such as the Asian Development Bank) by \$US 100 billion (\$A 140 billion).

This increase in funding is far greater than commitments by donor countries to increase their aid programs, so the targeting and conditions on the use of this additional assistance vital.

The role of multilateral institutions

The attachment provides details of the role of each of the major multilateral financial institutions in which Australia has a role. In brief:

- The World Bank Group, funded by wealthy member countries, provides finance (mostly loans) to developing countries for projects and programs to develop infrastructure, industry and social services.
- The International Monetary Fund provides loans to member countries having trouble meeting international debt payments or paying for imports and requires members to meet budget and economic conditions to obtain finance.
- The Asian Development Bank, funded by wealthy member countries, provides loans to developing countries in the Asia-Pacific region for infrastructure, industry and social service projects.

Key Issues for the World Bank

The World Bank is the largest single source of finance for development. It received an increase in funding from member countries in 2008 for assistance to the poorest countries. A further increase, which the G-20 agreed to, makes it even more important that the World Bank concentrates on supporting projects and programs which meet the needs of the poor directly and contribute to achieving the Millennium Development Goals. Priority areas for action by the Bank are set out below.

Health

The World Bank lent \$US 1.7 billion for health (7% of its total lending) in 2008. Until recently, the World Bank provided little direct support to combat specific diseases such as TB and Malaria, and has often focused on reorganising health service delivery (e.g., promoting decentralisation) without monitoring closely the impact of reform on health outcomes. RESULTS suggests:

- Scaling up of support for TB control.
- Better integration of support for projects reducing HIV/AIDS and TB.
- Further increases in the Bank's Malaria Booster Program.
- That the World Bank encourage poor countries to abolish user fees on basic health services, (and increase Bank funding for health to offset revenue lost through removal of these fees.¹)

Education

The World Bank lent \$US 2 billion (8% of total lending) for education in 2008. The key concern about World Bank support for education is that less than half of its education lending is for basic education. RESULTS suggests:

- Higher priority for primary education.
- Increased supporting for countries to develop national education plans.
- Encouraging country governments to abolish school fees and increased funding to facilitate this.

Microfinance

The World Bank group lends about \$US 150 million per year for microfinance. Currently, investment in microfinance occurs through International Finance Corporation (IFC), which invests in private sector projects. This raises doubts about the poverty focus of additional World Bank support. RESULTS therefore suggests the following:

- Ensure that investments in microfinance by the World Bank (including the IFC) are targeted towards the poorest countries and the poorest people and track the impact of microfinance on people's lives.

¹ User fees are charges which people using a service must pay to receive the service. For poor people, even a low user fee for basic health or education services can prevent them from using the service.

RESULTS' role with the World Bank

Over the last 20 years RESULTS in Australia and other countries has sponsored a series of letters from parliamentarians to the World Bank calling for changes in its lending policies and focus. In addition RESULTS Australia volunteers have meetings to discuss World Bank lending policies with the Executive Director for Australia each year during the RESULTS International Conference. On 23 June, following the Conference, members of RESULTS Australia will meet with our current Executive Director, Dr Jim Hagan, to discuss these issues and hand deliver *your* letter calling for increased World Bank action on health, education and microfinance.

ACTION

Write a letter direct to the Executive Director for Australia at the World Bank, Dr Jim Hagan

***Please email jhagan@worldbank.org , and copy to results@results.org.au

Include your MP in this action by either:

- Cc'ing them to your letter to Dr Hagan
 - Asking them to provide a formal endorsement of your letter.
 - Asking them to write on your behalf with your request
1. Note that the increased funding which the G-20 members have supported for the multilateral development banks creates an opportunity (and responsibility) for the World Bank to increase its support for poverty reduction.
 2. Ask that the World Bank Executive Board ensures that the Bank increases funding for AIDS, TB and malaria, basic education and microfinance, and monitors the impact of this increased funding on improved coverage and outcomes for the poorest people.
 3. Indicate that RESULTS volunteers will also be discussing these issues in Washington on 23 June, and that you look forward to receiving his response and hearing about the outcome of these meetings.

LINKS

The World Bank www.worldbank.org

The Asian Development Bank www.adb.org

The International Monetary Fund www.imf.org

Attachment – Background on the World Bank, IMF and Asian Development Bank

WORLD BANK GROUP

The World Bank was established in 1945 to help with post WWII reconstruction. According to its website, today the Bank's overarching goal is poverty reduction. The World Bank is made up of the **International Bank for Reconstruction and Development (IBRD)** and the **International Development Association (IDA)**. The IBRD focuses on middle income countries and poor countries considered creditworthy, while IDA focuses on the poorest countries in the world. Both the IBRD and IDA provide loans to member country governments for investment in education, health, public administration, infrastructure, financial and private sector development, agriculture, and environmental and natural resource management. Loans by the IBRD are interest-bearing, while IDA provides interest-free loans and some grants.

The **International Finance Corporation (IFC)**, which is also part of the World Bank group, focuses on lending and investment to the private sector (including for microfinance).

The World Bank is owned by the 185 member governments who provide its funding. Each member country has a Governor on the Board which meets annually to review operations and basic policies. The day-to-day running of the World Bank is headed by its President (currently Robert Zoëlick) and is managed by 24 full-time Executive Directors. The World Bank is based in Washington, DC and also has 100 country offices.

Australia's current Executive Director is Dr Jim Hagan, who is serving from 2007 to 2011. The role of Executive Director for Australia's grouping in the World Bank alternates between Australia, New Zealand and the Republic of Korea.

Level of Financial Support

In 2008, the IBRD and IDA combined provided \$US 24.7 billion (\$A 30 billion) in lending and grants, with the IBRD providing \$US 13.5 billion and IDA providing \$11.2 billion. These amounts will increase in the coming years, with the increased commitment by the G-20.

INTERNATIONAL MONETARY FUND (IMF)

The IMF, also established in 1945, and based in Washington DC, has the goal of promoting stability in the world economy and minimising the impact of financial crises. The three principal activities of the IMF are:

- Monitoring global, regional and national economies and advising member countries on macroeconomic policy.
- Lending to member countries to correct balance of payments problems (which is distinct from loans for development purposes). Countries require this support when their imports and debt service costs significantly exceed export revenue.
- Offering technical assistance and training for employees of government and central banks.

Similar to the World Bank, the IMF's member governments provide direction through a Board of Governors, and the responsibility for the day-to-day running of the organization to 24 full-time Executive Directors. The current Executive Director representing Australia is Mr Hi-Su Lee from Korea. The role of Executive Director for Australia's grouping in the IMF alternates between Australia, New Zealand and the Republic of Korea.

Level of Financial Support

In the year to April 2008, the IMF committed to \$US 1.3 billion in new finance to member countries, which was much lower than in earlier years. This reflected a low level of demand due to member countries being reluctant to implement the conditions associated with use of IMF credit (such as action to reduce inflation and actions to reduce budget deficits through cuts to or privatization of public services). However, the global financial crisis has led to an increase in activity by the IMF, especially in lending to middle income countries.

ASIAN DEVELOPMENT BANK (ADB)

Structure and Governance

The Asian Development Bank (ADB), established in 1966, is a regional financial institution with two funding programs for members – the ADB's ordinary capital resources, which provide interest bearing loans to middle income countries and poor countries considered creditworthy, and the Asian Development Fund which focuses on the poorest countries in the Asia-Pacific region.

The members of the ADB provide direction through a Board of Governors, consisting of one governor representing each of the 67 member countries. The governors meet once a year to review operations and basic policies. They delegate most functions and the responsibility for the day-to-day running of the organization to 12 full-time Executive Directors, who are located at the ADB's headquarters in Manila, the Philippines. Australia's current Executive Director is Mr Phil Bowen.

Level of Financial Support

The ADB provided total loans in 2008 of \$US 10.5 billion for 86 projects, including \$8.7 billion from the ordinary capital resources, and \$1.8 billion from the Asian Development Fund. In recent years, lending from the ADB's ordinary capital resources has increased much faster than Asian Development Fund lending, indicating that a smaller proportion of ADB lending is to its poorest member countries.

Following the G-20 commitment, ADB lending is likely to grow rapidly in the coming years.

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