HEIDELBERG
NATIONAL MUN

Heidelberg National Model United Nations Conference 2017

World Bank Board of Governors

Study Guide

UNITED NATIONS

"Financing Development"

I. Introduction

Honourable Delegates,

We would like to welcome you to the World Bank Board of Governors at Heidelberg National Model United Nations Conference 2017.

This year, the World Bank Board of Governors will be debating two highly interesting and complex topics. Aid conditionality and aid fungibility, both contrasted with national sovereignty. This committee will be set up as a hybrid between a normal debate and a crisis committee. You may have to respond to a changing situation in real time. The goal is to discuss one topic a day in the setting of a case study that needs urgent resolution. This means you will pass at least one resolution per day.

This study guide should serve as an overview and an introduction to our debate. Due to the setup of this committee, it is important that you have a good understanding of your countries general position, as you may have to react spontaneously to new information coming to light. It is also recommended you have a look at the Articles of Agreement, especially Article I and Article IV.

We are very much looking forward to the conference. We are sure this weekend will be an exceptional experience for all of you, with interesting debates, great speeches, and of course meeting delegates from different backgrounds.

We are looking forward to meeting you all!

Best,

Your chairs Laura Obenauer and Leonhard Küntzle

II. Committee overview: World Bank Board of Governors

The two main goals of the world bank are stated as ending extreme poverty and promoting shared prosperity. It aims to achieve these goals through granting low-interest loans, zero- to low-interest credit and grants to developing countries, assisting them in funding projects in areas such as education, infrastructure, healthcare, public administration, agriculture and environmental resource management.[1]

The Board of Governors is the main decision making body of the International Bank for Reconstruction and Development (IBRD). Although the IBRD is only one of two divisions of the World Bank (the other being the International Development Association IDA), the IBRD is the more prominent of the two, comprising of 189 member countries, as opposed to the IDA, which only has 173 members. If a country is a member of the IDA as well, the governors appointed to the Board of Governors of the IBRD also serve as Governors of the IDA.

All powers of the Bank are vested in the Board of Governors. However, the Board of Governors has delegated the day to day Business to the Executive Directors, a group of 25 directors, each representing various countries.[2] In special cases the Board of Governors will convene to discuss specific issues. This committee will be such a convention.

III. Topic I: Aid conditionality in the DR Congo

Almost all loans from the World Bank are coupled to conditions for the country receiving them. These can range from anti-corruption statutes to specifications in regards to the realization of the funded project. In the case of structural adjustment loans, the loan can even be tied to far-reaching structural adjustments on the national level, such as the privatization of a certain sector.[3]

Even though the number of conditions imposed on World Bank loans has continued to decrease over the past years and their focus has shifted from privatization efforts to questions of public administration the World Bank is still under critique for inferring strongly with national sovereignty with many conditions imposed. Furthermore, studies suggest, that aid conditionality clearly favors better-performing countries over the poorest that would need the loan most.[4][5]

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[1] http://www.worldbank.org/en/about/what-we-do

[2] http://www.worldbank.org/en/about/leadership/governors

[3] http://siteresources.worldbank.org/PROJECTS/Resources/ALR06_20_01.pdf

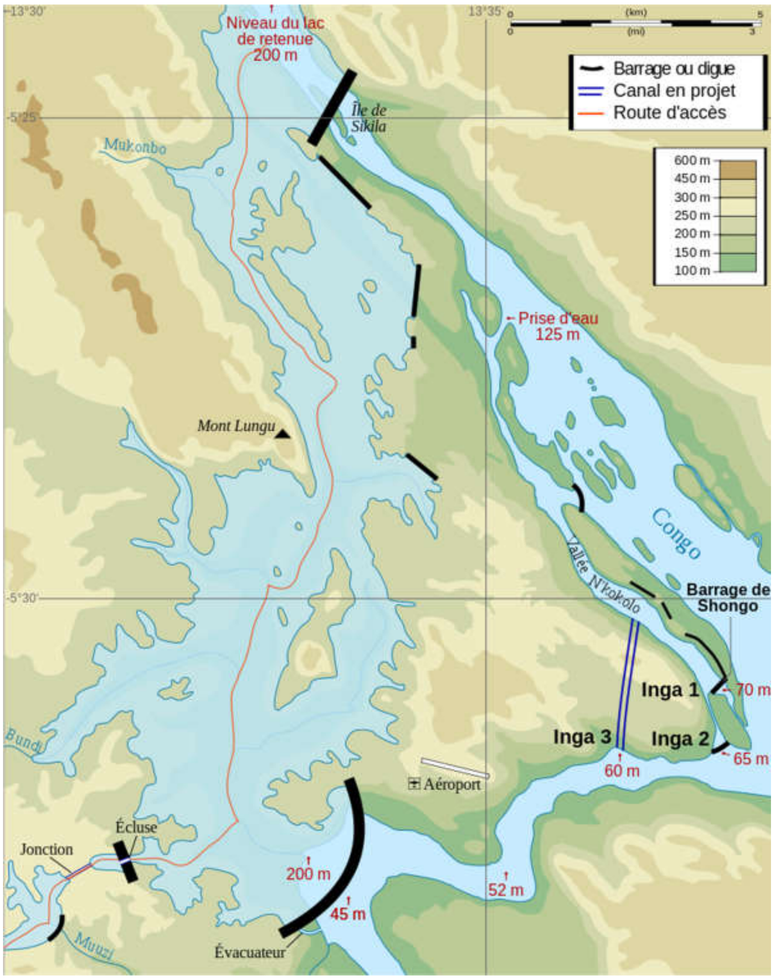
[4] http://www.eurodad.org/uploadedfiles/whats_new/reports/eurodad_world_bank_and_imf_conditionality_report.pdf

a. Scenario

The World Bank has agreed to co-finance the construction of the Inga III dam. Currently, the power plant, which is the largest water power plant in sub-Saharan Africa, consist of the Inga I and Inga II dams. The final goal of this construction project will be the Grand Inga dam, which will form a new basin and is planned to be the largest water power plant in the world. If completed, this project could not only supply energy to the DRC, but could cover the energy demand for large parts of the African continent.

As a condition for co-financing the Inga III project, the World Bank requires that the national power grid of the DR Congo be privatized.

The project has been criticized by various advocacy groups for its potential ecological impact, the significant national debt the DRC will have to face, the corruption potential and the inevitable consequences to the local population.



The planned Grand Inga project[6]

Furthermore, recently there have been an increasing number of reports indicating that the corporation that acquired a majority of the national power grid is planning to build various substation in ecologically fragile environments. Furthermore, there has been a drastic price increase for end users of electricity.

This raises the question whether the associated conditions to the World Bank investment were legitimate and whether the investment was justified in the first place.

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[5] http://siteresources.worldbank.org/PROJECTS/Resources/40940-1114615847489/Conditionalityrevisedpublication.pdf

[6] https://de.wikipedia.org/wiki/Inga-Staudamm#/media/File:Inga_2006-projet.svg

b. Question that should be addressed during the session

- How can aid conditionality be restructured in a fairer way without significantly increasing financial and legal risks for the World Bank?
- To what extent should and can the World Bank ensure the conditions are met in a sustainable way?
- How could such an alternative be implemented in the World Bank system?

IV. Topic II: Aid Fungibility in the Ukraine

Ukraine is a country in eastern Europe which has been plagued by civil conflict ever since the Ukrainian Revolution and the subsequent Russian annexation of the Crimean Peninsula in March 2014. In the eastern part of Ukraine, two regions have declared independence from the Ukrainian central government, the self-declared Donetsk and Luhansk Peoples Republic. The Ukrainian Government has sent in its military to regain control of these two regions, with fighting coming to a deadlock and a ceasefire being in place as of September 2016. The World Bank has been actively involved in Ukraine before the conflict and is currently still active in the peaceful regions.

Economist.com

a. Scenario

The World Bank finances various projects in the Ukraine, the renovation of a railway line between Dnipro and Mariupol and a Cadaster project in the region of Kharkov. These projects are high priority projects, so in a scenario where the World Bank wouldn't exist, the projects would be financed by the Ukrainian Government. Since the World Bank is stepping in to finance the projects, the funds allocated to them under the other scenario are now at the disposal of the Ukrainian government. This is what is known as aid fungibility.

WHAT IS AID FUNGIBILITY?

In the 1950'S, when asked to explain aid fungibility, the World Bank chief economist described it in the following words:

"It's when we think we're financing a power plant, and we're really financing a brothel."

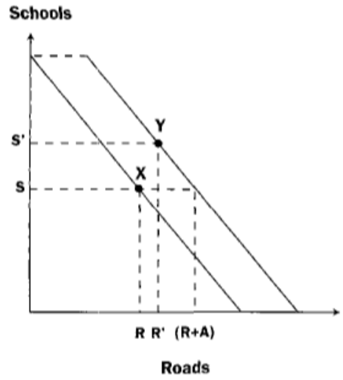
Consider the following simple scenario. A donor gives a government aid for Good Thing A and refuses to fund Bad Thing B. The government then reduces its own spending on Good Thing A one for one with the aid, so that total spending (donor + government) on Good Thing A is unchanged. The government uses its savings on A to spend more on Bad Thing B. So de facto, compared to the pre-aid situation, the Donor really has no effect on A and only has the effect of increasing total spending on Bad Thing B.[6]

Fungibility does not necessarily concern only spending on "Bad things". Another example would, taken from the World Bank publication "Assessing Aid. What Works, What Doesn't and Why" involves Roads and Schools.[7]

[6] http://www.nyudri.org/aidwatcharchive/2010/10/reader-exercise-please-explain-aid-fungibility-to-our-secretary-of-state

[7] World Bank (1998): Assessing Aid. What Works, What Doesn't and Why, New York: Oxford University Press p.63

A simple diagram helps illustrate three points about the fungibility of foreign aid (figure 3.2). Suppose that a government spends on only two goods, roads and schools, and in its budget it chooses to spend *R* on roads and *S* on schools (point X on the budget line). Now suppose that a donor is willing to make a grant of amount *A* to finance roads. If donor money is not at all fungible, this entire amount would be spent on roads. Thus the government would spend *R+A* on roads, and the same amount as before on schools (*S*). But if the money is completely fungible, the government's new budget is effectively the pre-grant budget plus *A* (as long as the government meets the condition of spending more than *A* on roads). In this example the government would then spend *R'* on roads (more than the pre-grant *R* and more than *A* but less than *R+A*) and *S'* on schools. This illustrates three points.



Source: Hypothetical illustration.

The previous example concerned aid fungibility with respect to direct budget aid. When looking at aid in form of funding different project, the picture is slightly different.

Assume a government can finance finance 11 different projects (Project A-K) each costing 10 million, but having different rates of economic return, with A having a rate of return of 100%, B of 90% and so on down to a so called white elephant project K, with a rate of economic return of 0% but strong political gains for the ruling government. The government has own funds of 50 million, thus the ability to finance 5 project. If a donor steps in with another 10 million, enough to finance one project, the following scenarios can happen.

Table 3.2 Evaluating the Effect of Projects with Fungibility

		Apparent effect of aid-financed project		*Actual effect of aid financing*	
	Projects undertaken	*Project*	*Return*	*Project*	*Return*
Base case	ABCDE				
Donor finances A, the highest-return project, freed resources finance F, the marginal project	ABCDE, F	A	100 percent	F	40 percent
Donor finances marginal project chosen by the government	ABCDE, F	F	40 percent	F	40 percent
Donor finances A, the highest-return project, and freed resources finance K, a low-return project	ABCDE, K	A	100 percent	K	0 percent
Donor finances A, the highest-return project, and freed resources finance consumption spending, or reduce taxes	ABCDE	A	100 percent	None	Unknown, could be large or small

Note: Based on an entirely hypothetical example in which there is a set of possible projects (each costing $10 million) with different economic rates of return—and in the absence of aid financing, the government chooses to implement five projects.
Source: Hypothetical illustration.

In the paper cited in the box above, the World Bank states there is no simple solution to fungibility. Donors should come to terms with the fact that their aid is and will remain fungible. Thus donors should form a view on the spending of the recipient government and stick to this view. This is what will be the task of the delegates in this session.

Due to the World Bank being very active in the Ukraine, the Ukrainian government now possesses more funds than originally anticipated. Since the Ukraine is currently plagued by civil conflict, the government is tempted to use these extra funds weapons, armor and military training. In other drastic words, due to aid fungibility, the World Bank is indirectly financing the military activity of the Ukrainian government.

The Board of Governors now has to decide how to proceed. Should the World Bank pause its aid projects in Ukraine for the duration of the conflict, potentially denying civilians of uninvolved regions the right to a better life? Or should the World Bank continue on with its operations, potentially fueling a conflict by enabling further expenditures on weapons?

b. What do the Articles of Agreement say?

Article I paragraph (i) of the Articles of Agreement states the purposes of the Bank are among others "[…] the restoration of economies destroyed or disrupted by war, the reconversion of productive facilities to *peacetime* needs […]". Yet Article IV Section 10 states that "[t]he Bank and its officers shall not interfere in the political affairs of any member […]". The delegates have to decide to what extent aid fungibility is compatible with peacetime needs and when the border to interference in the political affairs is crossed.

c. Question that should be addressed during the session

- To what extent should the World Bank consider the problem of aid fungibility when financing projects?
- What measures can the World Bank take to prevent aid fungibilty?
- Are the actions of the concerned countries government of concern to the World Bank? To what extent does this fall under national sovereignty?

V. Voting and Resolutions

Voting in the World Bank Board of Governors will not adhere to the one country one vote principle that is normally used in UN Assemblies. Votes in the World Bank are dependent largely upon the amount of money contributed by each member country. Hence some countries have more Votes than others.

The exact shares of votes can be found here:
http://siteresources.worldbank.org/BODINT/Resources/278027-1215524804501/IBRDCountryVotingTable.pdf

Since this committee will feature a Board of Governors reduced to only 40 countries, we have calculated the amount of Voting power for each country. A table of this can be found at the very end of the study guide under Voting Weights.

All procedural votes will be held according to the ordinary MUN principle, one country, one vote. Votes on the final resolutions on the other hand will be held according to the World Bank principle. Unless the Resolution contains a change to the articles of agreement, a simple majority will suffice. To change the Articles of Agreement, a resolution will need four fifths of the votes.

Furthermore, resolutions of the Board of Governors take a different form than UN resolutions. The do not have perambulatory clauses. They rather have the following form:

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
BOARD OF GOVERNORS

Resolution No. [XXX]

[Title]

RESOLVED:

1. THAT […]

2. THAT […]

3. THAT […]

(Adopted on [Month] [D], [YYYY])

An example of such a resolution can be found here:
http://documents.worldbank.org/curated/en/121291476289322163/pdf/109000-BR-PUBLIC-IBRD653-AllocationofFY15NetIncome.pdf

VI. References and further research

On the World Bank

http://www.worldbank.org/en/about

http://www.worldbank.org/en/about/leadership/governors

- *World Bank Articles of Agreement*

http://siteresources.worldbank.org/BODINT/Resources/278027-1215526322295/IBRDArticlesOfAgreement_English.pdf

On Aid Conditionality

http://documents.worldbank.org/curated/en/docsearch?query=aid%20conditionality

On the DR Congo

https://en.wikipedia.org/wiki/Inga_dams

http://www.gtai.de/GTAI/Navigation/DE/Trade/Maerkte/suche,t=die-dr-kongo-benoetigt-dringend-einen-energiemix,did=1392622.html

https://www.theguardian.com/environment/2016/may/28/construction-of-worlds-largest-dam-in-dr-congo-could-begin-within-months

On Aid Fungibility

World Bank (1998): Assessing Aid. What Works, What Doesn't and Why, New York: Oxford University Press. Can found online under http://documents.worldbank.org/curated/en/612481468764422935/pdf/multi-page.pdf

On Ukraine

http://www.bbc.com/news/world-europe-27308526

http://www.nytimes.com/interactive/2014/02/27/world/europe/ukraine-divisions-crimea.html

All sources were last reviewed on the 16th of December 2016.

VI. Voting Weights

Country	Votes	Percentage
Algeria	12408	0,76%
Argentina	18864	1,15%
Australia	32276	1,97%
Brazil	43005	2,62%
Cambodia	898	0,05%
Central African Republic	1659	0,10%
China	107278	6,54%
Congo (DRC)	3327	0,20%
Ecuador	3455	0,21%
Egypt	11366	0,69%
France	91088	5,55%
Germany	97258	5,93%
Greece	2368	0,14%
India	70607	4,31%
Iran	35647	2,17%
Israel	6703	0,41%
Japan	166128	10,13%
Kazakhstan	4633	0,28%
Kenya	3395	0,21%
Malaysia	11131	0,68%

Country	Votes	Percentage
Mali	2193	0,13%
Mexico	34058	2,08%
Nigeria	13458	0,82%
Philippines	10587	0,65%
Poland	17813	1,09%
Russia	67189	4,10%
Saudi Arabia	67189	4,10%
Senegal	3006	0,18%
Singapore	6253	0,38%
South Africa	18063	1,10%
South Korea	38208	2,33%
Spain	44843	2,73%
Sweden	20517	1,25%
Switzerland	35344	2,16%
Turkey	26327	1,61%
UK	91088	5,55%
Ukraine	11661	0,71%
USA	384362	23,44%
Uzbekistan	3177	0,19%
Venezuela	21045	1,28%