IMF Study Guide

Welcome Message

Dearest delegates, congratulations! By fate or not, you have somehow ended up to be a part of the best committee at WARMUN! Here at the IMF, other than being the best committee -which will be constantly reminded to you over the course of the weekend-, our focus is to try to help you leave the weekend as better delegates than when you came in. We will try our best to help guide you in exploring the correlations between corruption and poverty, and leave it up to you to decide which way the causation arrows face (if any!). You will also be making very important decisions involving transparency and how it can impact the 10th United Nations sustainable development goal - Reduced Inequalities! Think hard and find the perfect balance of rights and responsibilities. We look forward to an exhilarating weekend!

Introduction to the Committee

The International Monetary Fund (IMF) works to achieve sustainable growth and prosperity for all of its 190 member countries. It does so by supporting economic policies that promote financial stability and monetary cooperation, which are essential to increase productivity, job creation, and economic well-being. The IMF is governed by and accountable to its member countries.

Introduction to the Dais

Hello! My name is Mohammed and I will be the Head Chair of the IMF Committee. I am a second-year student studying Economics, Finance and management - hence why IMF is my go-to committee choice! I'm a Pakistani, was born in Kuwait, and moved to London for my A levels, so was surrounded by different cultures my entire life. It was really around my high school years that the surrounding cultures sparked an interest in MUN. I look forward to meeting you all!

Hey, my name is Alma. I'll be one of your Deputy Chairs in the IMF Committee 2022. I'm Portuguese Croatian but I was born in Canada. Yet, I have never lived in any of those countries. Exposure to many global issues sparked my love for politics and economics which I want to pursue as my master's degree in 2 years after I finish my bachelor's in business administration. I am so excited to meet you all and see what you have in store for the debate.

Fun Fact About Me: I lived in North Korea for a year.

Hey, I'm Alizeh. Originally from Pakistan, I'm currently studying Law at Warwick, in hopes of climbing the corporate ladder. During high school, I gravitated towards MUN and debates, drawn to the exciting challenges they pose. My memories from those conferences and debates are some of my fondest, so as your Deputy Chair in the IMF Committee 2022, I hope we can create similar memories for you.
Less boring information about me: I will make obscure music and film references to explain my thoughts, and I WILL express my displeasure if you don't get them

What does the IMF do?

The IMF has three critical missions: furthering international monetary cooperation, encouraging the expansion of trade and economic growth, and discouraging policies that would harm prosperity. To fulfil these missions, IMF member countries work collaboratively with each other and with other international bodies.

Topic A: The question of mitigating loss of funds in to high corrupt index countries

How do we define **Corruption**? A standard definition is "the abuse of public power for private gain." The IMF must regularly confront corruption, both among the nations it funds and within its own ranks.

Tremendous amounts of money flow through the IMF; in 2020 alone, the organisation committed 165 billion dollars in loans to new projects. With such large checks, monitoring the distribution of funds can be extremely difficult. Remote loan destinations, language barriers, and dishonest or nonexistent reporting practices add to this difficulty. Critics complain that IMF-funded projects are often left incomplete or finished inadequately, their funds having been syphoned off by corrupt officials or contractors. These funding leaks can be dangerous if rogue militias or terrorist groups end up with the money intended for an honest program.

Further fueling the fire, comparable international organisations including the World Bank and the United Nations (UN) have received criticism for promising aid or loans in exchange for political favours. Donors are watching closely to see if the IMF conducts similar practices.

Historical Background of The Topic

Since the 1950s, the IMF produced reports indicating concerns about corrupt nations receiving low-interest loans and other financial support from the group. But those concerns were largely kept quiet, avoiding words like "corruption" because of their stigma. The United States and other western nations were in the grips of the Cold War with the Soviet Union and communism. They were willing to allow some funds to be lost to corruption as long as the receiving nations continued to favour Capitalism. With the end of the Cold War in the early 1990s came the beginning of a new reckoning for the World Bank and other international relief organisations, especially due to the rise of terrorism and concerns about funds lost to dangerous groups. But acknowledging corruption is a problem is only the first step in solving the complex problem of the lost funds.

Corruption comes in many forms, including but not limited to, bribes to the government or non-government entities, stolen funds, or misreported budgets. First, we will look at the difficulties the World Bank faces in combating corruption even if it is detected.

Inherent Losses

Substantial research has explored the role of corruption in economic development. Some researchers have noticed a negative relationship between corruption and development; countries with high levels of corruption, as measured by surveys of foreign businesspeople, generally have lower incomes per person. This relationship is called a **correlation**. A fundamental rule of statistics is that correlations, or relationships between variables, do not imply causation. We cannot say that just because corrupt countries have a low income that corruption causes poverty. We could just as easily argue the reverse, that poverty leads people to corrupt behaviour. Regardless of the mechanism, this relationship is important. The IMF frequently allocates funds to the poorest nations in the world, many of which have very high rates of corruption. It is obviously more difficult for the IMF to avoid corruption when their projects are established in some of the most corrupt places.

Bribery is a major problem with IMF projects. In certain regimes, government officials - from administrators to generals, to the police - may demand payment for services provided. Some funds allocated from the IMF for the construction of a new road or dam, for example, might actually go to these corrupt officials, who then provide the requisite permits and permissions for the IMF for, in effect funding corrupt regimes, it has little choice. The IMF's Articles of Agreement forbid overtly political work, meaning the organisation can not change the regimes with which they do business. If they want to avoid bribery, they have to convince those who take bribes not to do so, a difficult feat, or stop funding projects in that area entirely.

Some World Bank lenders have attempted to fight corruption through the latter measure. Paul Wolfowitz, who served as president of the World Bank from 2005 - 2007, came under fire from donor nations for advocating stern sanctions on countries that misused Bank loans. These donors were concerned the Bank was punishing those it is charted with helping - the impoverished - to prove a point about corruption.

Personal Scandals

Executives at the World Bank have come under fire for abusing their power or prioritising domestic, as opposed to international, goals. Paul Wolfowitz, the aforementioned former president of the World Bank, was a famously controversial appointment. Prior to assuming the role, Wolfowitz was Secretary of defence under George W. Bush. Other donor nations feared he would use his position within the bank to further American defence interests or aid President Bush in his political goals. For example, the World Bank executive board complained that Wolfowitz was foisting Bush's agenda on the world by reducing support for family planning programs. He resigned merely two years into his posting, following the hiring and promotion of a woman with whom he had a relationship.

The Focus of this Debate

Indian Subcontinent

In recent years there has been an increase in the political instability in countries in the Indian subcontinent. Much of which sparked due to external factors and global intervention. However, more often than not, the instability is caused by internal factors. Examples of said internal factors can be many, for example, self-motivated politically powerful individuals causing a societal welfare loss as a result of actions purposed for personal gain. Such instability gives birth to corruption, and further to the misallocation of resources, which critics argue could be used better elsewhere, highlighting how certain cases and countries are considered a lost cause. On the other hand, from the perspective of the respective governments', these unfortunate incidents and an increase in corruption are accelerated only because of the initial poverty. They argue that if member states, increased their contribution towards financially struggling countries, then there would be a lesser need for individuals involved in bureaucracy to be corrupt.

Conservative View

We define conservatives as those who are sceptical of the World Bank's mission in general. Conservatives generally disfavour large bureaucracies with little accountability, and they view the World Bank as such. Conservatives worry that donor nations' money is being wasted on elaborate projects that encourage corruption and may even indirectly bolster terrorist or rogue militia groups. They also grow frustrated at how often the World Bank forgives the loans of its debtors when they cannot repay in time. This encourages them to ask for more money with no intention of repayment since the Bank has little power over debtor nations.

Aside from supporting a smaller World Bank, conservatives favour strict punishments for corruption. If a program has false cost inflation among its contractors, or if funds should not be issued to that nation. Critics argue that this leads to a dangerous situation in which the developed world labels entire areas as corrupt or not corrupt, harming those who live there and suffer at the hands of a few corrupt individuals. Nations caught defrauding the Bank would lose many valuable humanitarian and economic reform programs, increasing poverty and loss.

Liberal View

Liberals favour a powerful IMF with a more nuanced reaction to corruption. While liberals obviously do not support corruption, they favour more lenient punishments than hardline conservatives do. These people generally fear the consequences of stringent punishments aimed at entire regions or countries, rather than corrupt individual actors. Liberals worry less about lost funds than lost lives and human rights violations. They wish to pursue moderate anti-corruption measures but may be willing to accept a degree of corruption when it is seen as a cost of doing business in the process of helping people.

Interest Group Perspectives

Committee for the Abolition of Illegitimate Debt

The Committee for the Abolition of Illegitimate Debt (CADTM) is an interest group that believes foreign lending to developing nations from other nations and groups, such as the IMF, is predatory and puts developing nations in a cycle of indebtedness. These activists call for the cancellation of all external public foreign debt in developing nations.

They also advocate for locally-controlled development funds, provided by developed nations. CADTM argues that aid to developing nations is being used for political sway and economic gain. The group believes that corruption can be mitigated by giving those receiving foreign aid more control over the end uses of the funds.

Human Rights Watch

Human Rights Watch is a humanitarian group that seeks to publicise human rights violations and achieve justice for those whose rights have been violated. In 2015, the group released a report "At Your Own Risk: Reprisals Against Critics of World Bank Group Projects." The report is extremely thorough and details several cases in which opponents of the World Bank projects faced harassment and threats from private companies and governments who supported them. For example, a group of women in India protested the building of a hydroelectric dam, funded by the World Bank, that would displace many in their community. These women allege that the group charged with building the dam did not comply with the Bank policies set forth to ensure local communities and environments are consulted and protected during project construction and operation. They argue that they were harassed by the construction team and ignored by the Bank officials. It seems that the World Bank was concerned about interfering in local affairs and disrupting their programs. While there are many cases of the organisation acting effectively to safeguard communities like the one mentioned in India, it is certainly upsetting that such complaints exist.

This group recommends that the World Bank consult more with the Local communities directly to ensure protection needs are met, pay closer attention to marginalised groups affected by Bank programs, and publicly denounce agents involved in reprisals. In your research, you should be sure to investigate the other recommendations that Human Rights Watch makes to shareholder governments and the World Bank Compliance Advisor.

Fortune 500

While the Fortune 500 is not typically considered an interest group, it effectively acts like one. The fortune 500 is a list of the 500 largest United States companies by revenue. Companies on the list are known to coordinate on specific issues. Many of them are multinational and receive revenues from contracting for projects. The extent of their interests in the World Bank is detailed in Malik and Stone's paper "Corporate influence in the World Bank Lending".

The fortune 500 wants the World Bank to lend as much as possible for construction and issue contracts to companies on the list, instead of local contractors. This means they likely favour sanctions on local contractors who may be corrupt since that means less competition for them; however, if they themselves are guilty of corruption then such anti-corruption measures could harm them. As previously mentioned, the Fortune 500 is not a unified interest group with an organised platform. But, the degree of the Fortune 500's involvement in World Bank programs merits the group's position on the list.

Transparency International

Transparency International (TI) is a global non-governmental organisation that fights corruption and crime. It publishes corruption indexes and is one of the world's most respected think tanks, according to a number of rankings. TI recently released a memo calling for the IMF to increase its anti-corruption a priority but suggested the organisation go further. Some of the specific recommendations within the ten-point agenda included sharing anti-corruption work with other civil and governmental agencies, reconsidering lending levels in countries without convincing anti-corruption programs, and issuing more surveys to determine if funds were actually received by intended beneficiaries.

Possible Points and Questions to Address In Your Resolution

1. Aspire to find ways to continue lending to those who need with minimal or decreased corruption to increase efficiency and effectiveness of intended lending.
2. For additional research, look to specific donor nations' perspectives on corruption and the IMF's accountability for it. Are there some countries that have been particularly critical of the IMF's handling of corruption in its lending or operation?
3. How could the IMF Reform?
4. Would its reformation be negatively impactful to developing countries?
5. Would a IMF Accountability Bureau be within the budgetary position of member states?
6. How fruitful could dissolving the IMF be in this context?
7. How would famous economists like Adam Smith, David Ricardo, Karl Marx and others approach corruption?

Further Readings

- “Combating Corruption” by The World Bank
- “Corruption in Empirical Research, A Review” by Dr. Johann Graf Lambsdorff
- “Enhancing Government Effectiveness and Transparency- The Fight Against Corruption” by Rajni Bajpai and Bernard Myers
- “Corruption in Economic Development” by Shang-Jin Wei

**Note: links are connected*

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Topic B: The question of prioritising funding for sustainable energy alternatives

Introduction to Topic

Renewable energy, as defined by the UN Climate action, is "energy derived from natural sources that are replenished at a higher rate than consumed". The most common renewable energy resources to date are; solar, wind, geothermal, hydropower, ocean, and bioenergy. The access to sources of renewable energy are dependent on each nation's natural environment. Further, since 2021 the demand for energy reached 595 exajoules, and is steadily increasing, a main concern is that renewable energy will not supply the demanded amount. The discussion for renewable energy became prominent in the modern day in 2007 and since then has been discussed as a sustainable development goal but has yet to be truly undertaken on a mass scale.

Historical Background of the Topic

Energy is at the heart of the climate challenge. A large chunk of the greenhouse gases that blanket the Earth and trap the sun's heat are generated through energy production, by burning fossil fuels to generate electricity and heat. Fossil fuels, such as coal, oil and gas, are by far the largest contributor to global climate change, accounting for over 75 percent of global greenhouse gas emissions and nearly 90 percent of all carbon dioxide emissions.

The science is clear: to avoid the worst impacts of climate change, emissions need to be reduced by almost half by 2030 and reach net-zero by 2050.
To achieve this, we need to end our reliance on fossil fuels and invest in alternative sources of energy that are clean, accessible, affordable, sustainable, and reliable. Renewable energy sources – which are available in abundance all around us, provided by the sun, wind, water, waste, and heat from the Earth – are replenished by nature and emit little to no greenhouse gases or pollutants into the air. Fossil fuels still account for more than 80 percent of global energy production, but cleaner sources of energy are gaining ground. About 29 percent of electricity currently comes from renewable sources.

Hence, accelerating the transition to clean energy is the necessary pathway to a healthy, livable planet today and for generations to come.

A good way to understand the development of sustainability in energy production is to track the decisions made in the COP conferences, going backwards from this year's COP 27 Egypt conference.

Why do sustainable energy alternatives need to be prioritised ?

1. Renewable energy sources are in abundance.
About 6 billion people are dependent on fossil fuels from other countries, which makes them vulnerable to geopolitical shocks and crises. In contrast, renewable energy sources are available in all countries, and their potential is yet to be fully harnessed. The International Renewable Energy Agency (IRENA) estimates that 90 percent of the world's electricity can and should come from renewable energy by 2050. Renewables offer a way out of import dependency, allowing countries to diversify their economies and protect them from the unpredictable price swings of fossil fuels, while driving inclusive economic growth, new jobs, and poverty alleviation.

2. Renewable energy is cost-efficient.
Renewable energy is the cheapest power option in most parts of the world today. Prices for renewable energy technologies are dropping rapidly. The cost of electricity from solar power fell by 85 percent between 2010 and 2020. Costs of onshore and offshore wind energy fell by 56 percent and 48 percent respectively. Falling prices make renewable energy more attractive all around – including to low- and middle-income countries, where most of the additional demand for new electricity will come from. With falling costs, there is a real opportunity for much of the new power supply over the coming years to be provided by low-carbon sources. Cheap electricity from renewable sources could provide 65 percent of the world's total electricity supply by 2030. It could decarbonize 90 percent of the power sector by 2050, massively cutting carbon emissions and helping to mitigate climate change.

Although solar and wind power costs are expected to remain higher in 2022 and 2023 then pre-pandemic levels due to general elevated commodity and freight prices, their competitiveness actually improves due to much sharper increases in gas and coal prices, says the International Energy Agency (IEA).

3. Renewable energy is healthier.
According to the World Health Organization (WHO), about 99 percent of people in the world breathe air that exceeds air quality limits and threatens their health, and more than 13 million deaths around the world each year are due to avoidable environmental causes, including air pollution. Switching to clean sources of energy, such as wind and solar, thus helps address not only climate change but also air pollution and health.

4. Renewable energy creates jobs
The IEA estimates that the transition towards net-zero emissions will lead to an overall increase in energy sector jobs: while about 5 million jobs in fossil fuel production could be lost by 2030, an estimated 14 million new jobs would be created in clean energy, resulting in a net gain of 9 million jobs. In addition, energy-related industries would require a further 16 million workers,

for instance to take on new roles in manufacturing of electric vehicles and hyper-efficient appliances or in innovative technologies such as hydrogen. This means that a total of more than 30 million jobs could be created in clean energy, efficiency, and low-emissions technologies by 2030. Ensuring a just transition, placing the needs and rights of people at the heart of the energy transition, will be paramount to make sure no one is left behind.

5. Renewable energy is economically viable.
About $5.9 trillion was spent on subsidising the fossil fuel industry in 2020, including through explicit subsidies, tax breaks, and health and environmental damages that were not priced into the cost of fossil fuels. In comparison, about $4 trillion a year needs to be invested in renewable energy until 2030 – including investments in technology and infrastructure – to allow us to reach net-zero emissions by 2050. The upfront cost can be daunting for many countries with limited resources, and many will need financial and technical support to make the transition. But investments in renewable energy will pay off. The reduction of pollution and climate impacts alone could save the world up to $4.2 trillion per year by 2030.
Moreover, efficient, reliable renewable technologies can create a system less prone to market shocks and improve resilience and energy security by diversifying power supply options.

Learn more about how many communities and countries are realising the economic, societal, and environmental benefits of renewable energy:
https://www.un.org/en/climatechange/how-communities-are-embracing-renewable-energy

Mobilising Private Climate Financing in Emerging Market and Developing Economies

Even with the rapid increase in private sector investments in recent years, climate finance needs remain large, notwithstanding considerable uncertainty around the size of mitigation and adaptation needs. Estimates of global investments required to achieve the Paris Agreement's temperature and adaptation goals range between US$3 to $6 trillion per year until 2050. Global climate finance currently adds to about US$630 billion annually, with debt being the main source of funding for these investments. Green bonds represent less than 3 percent of global bond markets, and most of them are issued in developed markets and China. Estimates of financing needs vary because of large data gaps in the tracking of climate finance data, especially in sectors other than renewable energy, energy efficiency, and transport. In addition, data on climate finance are partial, as data collection and disclosures at present are not required in several countries.

This section discusses ways and policies for attracting domestic and foreign private sector capital in climate-related products by overcoming existing constraints. Starting from first principles, we first draw attention to existing constraints and risks, including absence of carbon pricing and business models for infrastructure projects. Although there is no consensus that public policies would necessarily "crowd-in" private sector funds, the public funding and policies influence private sector investments.

Climate finance policies can complement mitigation and adaptation policies. Such policy options include (1) adopting carbon pricing paths to ensure well-functioning market and prices; (2) increasing public investment in infrastructure, R&D, and renewable energy technologies that will support and incentivize inflow of private sector climate capital; (3) implementing policies to complement carbon pricing (sectoral policies; feebates, where political support for adequate carbon pricing is lacking); (4) addressing climate data gaps, data disclosure standards, and developing taxonomies for sustainable financing; (5) elevating commitments and coordination of all participants; (6) enhancing regulations for sustainable finance; and (7) creating clear transition pathways. Regulations may encompass three areas: prudential regulation, reallocation of capital across industries, and enhancing market practices through transparency. In Europe, Asia, and parts of Latin America, all three areas are covered. Transition in this note covers mitigation and adaptation, or simply stated, the move toward a low- carbon, climate-resilient economy.

The IMF's role in climate finance through its policy advice

The IMF can mitigate macroeconomic risk by providing advice through bilateral and multilateral surveillance, conducting Article IV consultations, performing risk assessments in FSAPs, providing climate macro-financial country assessments, and enhancing capacity development in countries. Where countries, particularly EMDEs, have limited fiscal space, the IMF Resilience and Sustainability Trust (RST) financing could help, as it focuses on longer-term structural changes, including climate change, that entail macroeconomic risks and where policy solutions have a strong global public good nature. The RST could play a catalytic role by helping to develop a conducive investment climate through reforms that address hurdles to private sector investment and improve the regulatory environment and infrastructure-resilience policies. The IMF is also playing a leading part in advocating carbon pricing and in identifying data gaps, promoting climate- related disclosures, and developing guidelines for taxonomies of sustainable finance. The measures discussed in this note are complements to carbon pricing, as they can help internalise public benefits of low-carbon climate-resilient investment—measures in addition to carbon pricing can increase societal welfare. The need for private climate financing, however, is to some extent conditional on the degree to which climate mitigation and adaptation policies are implemented.

The global macroeconomic context plays a determining role in climate finance

Higher energy prices have sparked energy security concerns, delaying efforts to spur the low-carbon transition in some countries, and exposed many EMDEs to high fossil fuel prices, and some to energy rationing. Several minerals that are critical for the transition have seen further sharp price increases since the onset of the war in Ukraine. In the context of monetary policy tightening in advanced economies (AEs), high sovereign bond yields in some EMDEs can raise hurdle rates in project finance to very high levels, jeopardising projects with high upfront capital costs, such as solar and wind projects.

It is also important to monitor balance of payments vulnerabilities that could arise from large capital inflows associated with climate finance. If the de-risking of climate-friendly infrastructure assets is not accompanied by increased domestic capabilities in low-carbon manufacturing (for example, renewable energy technology) or large critical minerals endowments, capital inflows could drive current account deterioration, and could lead to financial imbalances if future returns are overestimated, generating macroeconomic vulnerabilities.

Constraints for Climate Financing to Address

1. Multiple constraints preclude attracting and scaling up private sector climate finance. These include supply and demand factors, macro-financial and microeconomic impediments, unattractive risk-return profiles in unproven markets, high fossil fuel investments, and data-related constraints. Key market failures include knowledge spillovers, high risk perceptions because of uncertainties about future climate policies, technological costs, and the economic effects of climate impacts; and high upfront costs and risks associated with mitigation and adaptation investment projects, which imply insufficient returns given risks.

2. Some important impediments include unattractive risk-return profiles in unproven markets and lack of scalable quality projects. This suggests that pooling projects through structured financial instruments could help in some cases. Pooling several projects in a structured fund would attract more institutional investors and large investment funds into less developed economies, which may not even have an investment grade, as well as diversify risks. This would raise global climate financial flows and bring them closer to required levels, as currently only about a half of such flows come from the private sector and only about a half goes to developing countries. However, it is critical to address risks associated with scaling up cross-border climate finance, including through risk management practices.

3. An important constraint for enhancing climate finance is high fossil fuel investments, which need to be scaled down. Phasing out fossil fuel assets to replace them with low-carbon energy sources requires managing the macro-financial consequences of asset stranding, including the reallocation of capital and labour. However, some international investment treaties, such as the Investor State Dispute Settlement system and the Energy Charter Treaty (ECT), which are legally binding, protect fossil fuel investments which can lock in large amounts of emissions, or alternatively expose authorities to legal action for breach of that protection when seeking to adopt regulatory measures to curtail fossil fuel activity.

Possible Questions to Address

1. How much funding is allocatively efficient?
2. Where can funds be moved from and reallocated into sustainable energy?
3. How can private climate financing be mobilised ?
4. What measures are necessary to ensure climate financing is initiated practically in developing countries ?
5. How should sustainability be valued in the context of other fiscal dilemmas, specifically for developing countries ?
6. How can funding for fossil fuels be discouraged without direct interference with domestic markets and their laws/customs ?

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