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Study Guide

WORLD BANK

Topic: Eradicating Poverty



ISARMUN

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Message to delegates

Greetings, delegates. Welcome to the WB committee of ISARMUN 2020.

A global pandemic brings about a series of unprecedented events, which, having lasted for an entire year, forces us as individuals and communities to think and re-think our next steps and future plans. At the same time, it is incumbent upon us to evaluate and understand issues that relate to our financial security - even after the lockdowns will have long been lifted and the travel restrictions eased. These are no doubt challenging times for each and every one of us, no matter the stage of career and personal development we may be at.

ISARMUN's WB committee will be focused on the recovery role and strategies that the WB has and will come up with leading out of these troubling times. Through this, it is hoped that we can create a light at the end of the tunnel and shed some positivity on what has been a rough 2020, and in doing so establish hope that things will improve one day.

This study guide contains information on the topic of this year's committee: Eradicating Poverty. For that, two aspects of this topic of discussion which will be covered in detail. The end goal should ideally be to form a solution paper which will collectively be passed by the committee. Each delegate should look to think out of the box in the shoes of a representative from their respective interest group in order to ensure the best possible chance of success.

All the best and see you soon!

Katja and Faizah

Meet the chairs

Faizah

Hello everyone! My name is Faizah. It is an honour and privilege to be a part of the ISARMUN 2020 journey as the chairperson of the conference's World Bank. As of 2020, I have been a part of Model UN for 12 years, chairing for the first time in 2018 at a well-known conference in Bangladesh. Having already caught the travel bug from a young age from an interest in aviation (more specifically in flying aircraft – fixed and rotor-wing alike), I have chaired conferences in Malaysia, Thailand, Sri Lanka, India, Bangladesh and now Germany.

At the present, I am actively pursuing commercial aviation and am doing so in a part of the world that is covered in mountains but very little snow. I'm also a bit of a linguist who's always looking to learn to speak the languages of the world, so feel free to teach me yours when we see each other.

Katja

I am Katja, 22-years-old and from Frankfurt, Germany. After finishing my Bachelor's Degree in Economics & Business Economics at Maastricht University this summer, I am now pursuing a Master's Degree in Economics & Finance in Tübingen. My Model United Nations journey began back in 2017, when I joined the academics team of EuroMUN (Maastricht's MUN conference). Back then, I supported the WB and the World Health Organization (WHO) and also participated myself at my first MUNs. During the second year, I joined the Maastricht's Permanent Delegation and took part in even more conferences, dabbling my feet in all kinds of committees from Crisis to NATO. Now I am happy and excited to chair at IsarMUN.

The World Bank

The World Bank (WB) is an international financial institution that provides loans and grants to the governments of low- and middle-income countries for the purpose of pursuing capital projects. It comprises two institutions: The International Bank for Reconstruction and Development (IBRD), and the International Development Association (IDA). The WB is a component of the WB Group. The WB's most recently stated goal is the reduction of poverty.

The WB was created in the aftermath of the second world war. In 1944, the allied nations created the IBRD. In 1947, this bank issued its first loan to France, which had been heavily bombed during the war, and it financed similar initiatives during the 1940's and 50's. Eventually the IBRD became known colloquially as the "World Bank". In the early 1970's, when the period post-war reconstructions were about to end, the WB shifted its focus to reducing global poverty. Instead of funding merely construction projects, like building dams and generating electricity, the bank oversaw programs related to food production, health, nutrition and development. By the early 1980's, the WB was not only made up of finance and infrastructure experts, like economists and engineers, but also society-focused experts like anthropologists and social scientists. The aim became to work with local governments on policies and institutions that would bring people out of poverty. For instance, in India, the WB has funded the construction of nearly ten thousand miles of roads that connect poor rural communities to schools, markets and clean water sources. The projects stimulated rural economies and improved quality of life for thousands of people. In the past 45 years, the WB's objectives have largely remained unchanged. The bank's two stated goals are to reduce extreme poverty, that is, people living on roughly \$2 a day, and to raise incomes of the poorest 40% of the population. It plans to do this by issuing low interest loans, and low to zero interest credits and grants to developing countries. Oftentimes, the WB funds initiatives on its own, but also partners with governments, private banks and other multilateral organizations, like the World Trade Organization or the UN. The WB gets its funds by selling bonds to investors, collecting subscription fees from member governments and net earnings from its assets. The WB was created in tandem with the International Monetary Fund, and the two financial institutions still often work hand in hand.

Discussion “Eradicating Poverty”

Topic 1: Evaluating the role of the WB in aiding the recovery of the world-economy following the COVID-19 crisis.

Extreme poverty is rising across the globe for the first time over two decades in 2020. According to the WB, 150 million people will be facing extreme poverty by 2021 as the coronavirus pandemic continues to spread. In other words, extreme poverty is to rise from 9.1% to 9.4% of the global population. 82% of the 150 million are from middle-income countries. The WB's main goal is to lower extreme poverty down to 7% by 2020 and ultimately below 3%. It is estimated, however, that this pandemic sets back the poverty reduction goal by 6- to 7-years.

Extreme poverty is defined as living by less than \$1.90 per day. Nearly a quarter of the world's population lives on less than \$3.20 per day and more than 40% on \$5.50 per day.

The new poor distinguish themselves from the existing poor. They are relatively more educated, tend to live in urban areas as opposed to the existing poor, who are more likely to live in rural areas. Furthermore, they tend to be employed in the informal sector, particularly in services and construction. Different policies are needed to respond to the needs of the existing and the new poor. Using the \$1.90 line, the new poor are mainly in South Asia and Sub Saharan Africa. When raising the line, a significant amount of new poor lives in East Asia.

Governments are trying to reach the poorest with safety net and cash transfer programs. One challenge is that the new poor are in many cases not covered by existing programs that tend to serve rural areas. Therefore, governments are innovating their programs to reach the new poor, particularly in urban areas. Many affected businesses are informal, however, many programs that governments have in place are targeted to help formal firms and businesses. Many governments are trying to support informal businesses indirectly. They do so via households, supporting entrepreneurs in certain families, and informal workers.

The potential of the Covid-19 crisis exacerbating inequality is an important consideration in the long run, having the goal of eradicating poverty by 2030 in mind. There is no doubt that the crisis has made this goal more difficult to reach and the WB's report calls for sustained policy action. Policy actions needs to be intentional and direct in tackling inequality. Helping those at the bottom of the distribution and making sure that as the recovery gets on their way, they are able to connect to economic opportunities and the growth that the recovery generates and they are able to recover from the human capital losses that they have likely suffered in this period.

Topic 2: Discussing fair and equal decision-making processes within the WB

Within the context of eradicating poverty, it is important to take the discussion beyond what concrete measures the WB can take. Beyond these measures lies the core functioning of the WB as an institution. Over the past decades, the WB has been criticized continually. Among others for the reason that it gives considerable power to a small number of western countries (WB, 2020). Since voting powers are distributed according to the amount of shares a country owns, it is self-evident that mainly wealthy countries steer the WB's funds. On the one hand, this mechanism incentivises wealthy countries to purchase WB shares. On the other hand, it furthers the notion that governments of poor countries are less capable of taking decisions that reduce poverty. In fact, it has been shown that corruption (measured

by bureaucratic inefficiency) has a significant negative effect on investment and the GDP-growth of a country and that political instability and corruption are mutually causal (Mauro, 1995).

Nonetheless, scores of perceived corruption in some wealthy countries are just as high as in their poor counterparts (Transparency International, 2019). This perception is not deceptive. The problem that arises when comparing corruption among poor and rich countries is that it takes on distinct forms. In rich countries, corruption is more subtle and “involves questionable lobbying, gaming the legislative process, or weakening environmental regulation, or subsuming occupational health and safety concerns to the profits of corporations which provide funds for politicians” (Graycar & Monaghan, 2015, p. 586). Thus, corruption in wealthy countries is not contradictory to investment and GDP-growth in the short-run as it is mainly driven by large corporations seeking to improve their economic performance. While corruption in rich countries may not harm local economies, the interests of large corporations are not necessarily aligned with the eradication of poverty in developing countries.

One example showcasing these conflicting interests is the privatization of natural resources led by WB projects. The argument for privatization is that resources are believed to be distributed more efficiently and better conserved through market mechanisms.

Privatizing drinking water services was one of the conditions imposed by the WB, the Inter-American Development Bank (IDB) and the IMF in order to renegotiate Bolivia’s foreign debt in 1998 (Peredó Beltrán, 2004). For compliance with these structural adjustment recommendations and conditionalities, the government put the *Municipal Drinking Water and Sewage Service of Cochabamba (SEMAPA)* up for public bid. The North-American multinational corporation Bechtel purchased SEMAPA and charged the water to the local community at arbitrary rates (Peredó Beltrán, 2004). The worsened conditions motivated local riots that eventually forced Bechtel to leave Bolivia. This precedent is exemplary for colliding interests of western governments and the population of developing countries.

Does the WB have what it takes to streamline converging interests? Is a reallocation of voting-rights a possible measure to give a bigger platform to the population of poor countries? Are rich countries willing to give up some of their voting rights? What are the alternatives to changing voting powers?

To answer these questions it is crucial to debate the WB’s governance so that potential shortcomings of the organization can be detected and possibly adjusted.

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Further Resources

<https://www.youtube.com/watch?v=xuXiO09LuKg>

<https://openknowledge.worldbank.org/bitstream/handle/10986/33770/Protecting-People-and-Economies-Integrated-Policy-Responses-to-COVID-19.pdf?sequence=7&isAllowed=y>

<https://www.youtube.com/watch?v=F59fF-xu-bY>

<https://www.worldbank.org/en/about/leadership/votingpowers>