

Author(s): John Ciorciari, 2011

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2010-11 INTEGRATED POLICY EXERCISE: CRISIS IN IRAN

Preparatory Memo for the World Bank & IMF

Your team will represent the World Bank and International Monetary Fund (IMF) in the negotiations surrounding the UN Security Council. Neither the World Bank nor IMF has voting power on the Council, but senior officials from these international financial institutions (IFIs) sometimes appear and speak before the Council in an advisory capacity. To reduce your workload and simplify our IPE simulation, you may assume that the World Bank will speak for both organizations. You should come prepared to provide expert economic advice and to discuss your institution's possible contribution to the crisis response. This memo introduces some of the IFIs' engagement with Iran and aims to help orient and kick-start your team's background research.

Overview of the World Bank and IMF

The World Bank and IMF are organs of the United Nations, but they operate relatively independently. They provide various types of loans and policy advice to promote development and macroeconomic stability. They are governed according to a shareholder arrangement that gives members access to capital and voting rights corresponding (very roughly) to the size of their economies. The United States is the largest shareholder in both institutions, with about 16% of the voting power on each IFI's executive board. European states have roughly 30% of the votes, which reflects their historical prominence, and the Fund's voting system is only gradually being "rebalanced" to account for the rise of emerging markets in Asia and elsewhere. The IFIs are often accused of promoting the economic interests and ideological outlook of their major Western shareholders at the expense of developing country interests.

Most of the senior staff and management positions at the IFIs also go to Western officials – often from their countries' finance ministries. By tacit accord, the president of the World Bank (currently Robert Zoellick) is an American, and the managing director of the IMF is a European (currently Dominique Strass-Kahn). In the IPE simulation, you should assume the role of Zoellick, who is not a current U.S. official but has served in the U.S. government in the past.

IFI Engagement with Iran

Iran is a member of the IFIs and participates in day-to-day activities at the World Bank and IMF. It is eligible to receive unsubsidized assistance from the World Bank. The IFIs participate in UN sanctions against Iran, reviewing all projects to ensure that no funds are provided in a manner that would violate Security Council resolutions. The UN sanctions regime permits the World Bank and IMF to provide humanitarian and development assistance. However, the assistance Iran currently receives is limited.

Before the 1979 revolution, Iran was major recipient of World Bank assistance. That aid stopped until 1991 and resumed at lower levels during the 1990s. In recent years, U.S. Treasury officials have led opposition to loans to Iran, largely on the theory that multilateral development aid enables the Iranian government to divert resources to other ends. The World Bank currently

funds a pair of water-related development projects in the country. However, no new World Bank loans have been approved since 2005, and any new proposed loans to Iran would likely encounter stiff opposition from the United States and its allies on the executive board.

The IMF provides emergency loans to countries facing various types of economic crisis. It also provides policy advice, partly through annual “article IV” consultations and subsequent public reports. Iran has not borrowed from the IMF in many years but participates in the article IV process. The IMF staff thus has relatively good information about Iran’s economy. In 2010, the IMF forecast reasonably strong real GDP growth in Iran of more than 3%.

IFI Priorities in the Middle East

The IFIs generally focus on two major themes: macroeconomic stability and poverty alleviation/development. In Iran and the surrounding Persian Gulf region, poverty remains a concern. IMF and World Bank officials have said that the economic sanctions against Iran are hampering the country’s economic growth. (They have not opined on whether those sanctions are nonetheless justified.)

The IMF has consistently drawn attention to the vulnerability of both the Iranian economy and the world economy to shifts in oil prices. The IMF’s most recent reports project reasonably stable oil prices in 2010-11 but caution that both Iran and the global economy remain acutely sensitive to supply disruptions.

Key Questions

As you conduct your background research for the IPE, you should be thinking about the types of advice the World Bank and IMF might need to make in an Iranian crisis related to the nuclear program. Key questions include the following:

- What leverage do the World Bank and IMF have in Iran? To what extent could they influence its behavior?
- What types of programs could the World Bank or IMF put in place to help mitigate a crisis?
- Under what circumstances would major shareholders be likely to approve World Bank or IMF assistance to Iran?
- What would the likely economic effects be of a serious disruption to Iranian or Persian Gulf oil supply?

During our pre-IPE sessions in November, we will ask your team to answer some of these questions aloud. You should come prepared with one-minute answers to each of the questions above. One purpose of this exercise is to motivate you to prepare—which will make the IPE more interesting and useful to you. A second purpose is to inform the other teams of the types of positions you are likely to take, which can help them come prepared as well.

A Few Readings

Below are a few recent readings to help you get started. These are not meant to be at all exhaustive; you will need to undertake additional research to prepare for the simulation.

- Martin A. Weiss and Jonathan E. Sanford, “The World Bank and Iran,” *Congressional Research Service Reports* (Jan. 2008) - <http://www.fas.org/sgp/crs/mideast/RS22704.pdf>

- James Canter, "OPEC Warns Against Military Conflict with Iran," *New York Times*, July 10, 2008 - <http://www.nytimes.com/2008/07/10/business/worldbusiness/10iht-opec.4.14403619.html>
- Jad Moawad, "Iran's Ace (or Deuce): Its Oil Reserves," *New York Times*, Mar. 6, 2010 - <http://www.nytimes.com/2010/03/07/weekinreview/07moawad.html>
- World Bank, "FAQs on Iran" (April 2010) - <http://web.worldbank.org/WBSITE/EXTERNAL/EXTSITETOOLS/0,,contentMDK:20264000~pagePK:98400~piPK:98424~theSitePK:95474,00.html>