

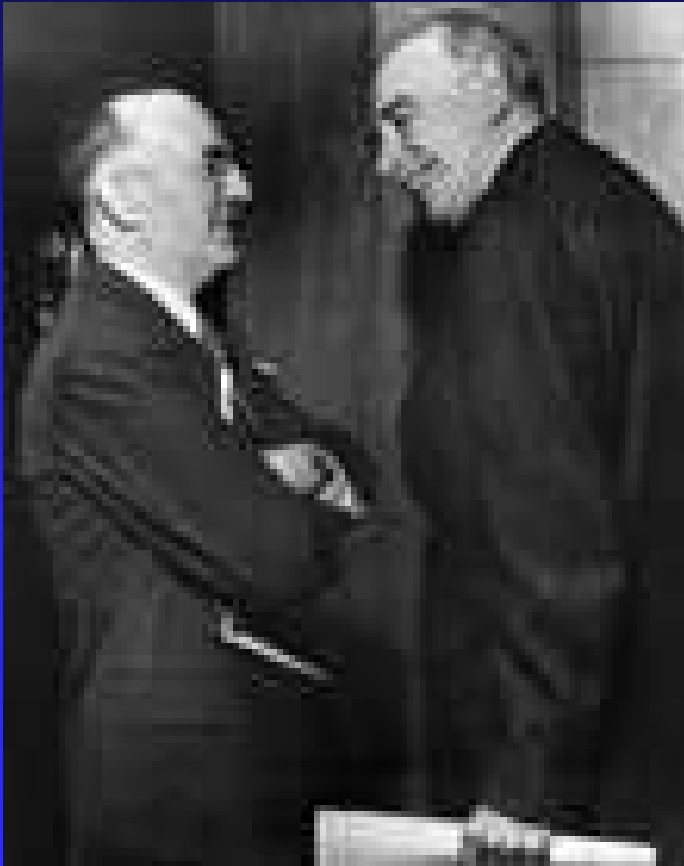
What are the IMF and the World Bank?

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Wonderlust

Winter 2003

IMF: Ensuring Global Stability



White (left) and Keynes, 1946.

- After WWII: Bretton Woods Conference 1944
- Make sure the Depression did not reoccur
 - ◆ Capitalism's greatest failure
- Keynes: lack of aggregate demand explains economic downturns
 - ◆ Government policies can stimulate demand
- Market forces do not always help the market return to full employment

Stiglitz: The IMF's Charge



- Prevent another global depression
- Countries attempted to conserve FE:
 - ◆ Limited imports
 - ◆ Devalued currencies
 - ◆ Restricted citizen rights to hold foreign exchange

- Put pressure on governments who were not doing their part to stimulate demand
- When necessary provide loans to ensure liquidity to prevent a downturn
- Based on a recognition that markets don't always work!!!!!!!!!!!!!!!!!!!!!!!!!!!!

The IMF:

- Central institution of the international monetary system: a system of international payment and exchanges rates that enable business to take place between countries
- Attempts to prevent crises by encouraging adoption of “sound” economic policies, and by providing funds to address balance of payments problems.

Balance of Payments

- Simply a summary statement of our transactions with the outside world.

What the IMF Does:

- Monitors economic and financial developments and policies
 - ◆ Urged the Japanese government to stimulate growth by keeping interest rates low, encouraging corporate and bank restructuring and promoting deregulation
- Gives policy advice
 - ◆ Commended Mexican authorities for prudent economic management, supported the move toward gradual inflation targeting

- Lends to countries with balance of payments problems, and tries to prevent “contagion” – spread of financial crises
 - ◆ In 1997-98, IMF swiftly helped South Korea bolster its reserves with \$21 billion to restructure its financial and corporate sectors, and recover from recession
 - ◆ Approved \$52 million loan for Kenya to cope with a severe drought, under the IMF’s Poverty Reduction and Growth Facility

- Provides technical assistance
 - ◆ Helped Baltic nations set up treasury systems for their central banks.
- Provides a forum for discussion of policies
 - uniquely placed as the only international organization “involved in active dialogue with virtually every country”

IMF: Lending is “Conditional”

- Not an aid agency or development bank
- Lending conditional on policies:
 - ◆ Prescribe policies that recipient must adopt to correct its balance of payments problem
 - ◆ IMF disburses funds in stages linked to schedule of policy changes

- “In 2000-01 the IMF worked to streamline its conditionality – making it more sharply focused on macroeconomic and financial sector policies, less intrusive into the countries choices, more conducive to country ownership of policies and thus more effective.”
- Lending is also temporary: 6 months to 10 years

Where Does IMF Get Its Money?

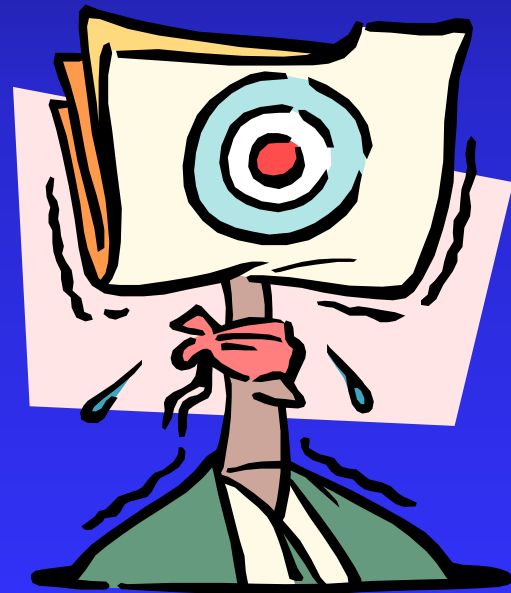
- From quota (capital) subscriptions that countries pay when they join the IMF (183 member countries)
- Quotas determine:
 - ◆ Countries' payments
 - ◆ Voting power
 - ◆ How much they can borrow
- U.S. has 17.6%, Seychelles is 0.004 % of quotas

IMF: Decision Making

- Board of governors – all member countries represented – but in proportion to their quota
- IMF gets their money from quota subscriptions paid by members
- Day-to-day work – executive board, 183 members

IMF Staff:

- International civil servants (responsible to the IMF)
- 2,800 employees from 13 countries
- 2/3 are economists!



Other Examples of IMF Activities

- Strengthen legal, regulatory and supervisory framework of banks
- Review minimum capital requirements for banks
- Core set of international accounting standards

IMF and Poverty Reduction

- 1986-1999: 56 countries drew on structural adjustment facility
- 1999 policy ensures the poor are served first
“poverty reduction strategies can put countries in the *driver’s seat*” of their own development
 - ◆ New strategy involves a comprehensive approach to poverty
- IMF still does macro but works with the World Bank

Initiative for Heavily Indebted Poor Countries (HIPC)

- Introduced in 1996, and increased in 1999, to reduce debt of the world's poorest countries to sustainable levels
 - ◆ “Unsustainable” debt when countries can't service it even with rescheduling and reduction
 - ◆ Debt relief is given to countries to support policies that reduce poverty
 - ◆ Debt relief in nominal terms of \$6 billion by 1999
 - ◆ In 1999 broader and deeper debt relief

- 23 low income countries – 19 in sub-Saharan Africa, have received debt relief

The World Bank

- Also founded in 1944
- Helped rebuild Europe after the war
 - ◆ First loan of \$250 million was to France in 1947 for post-war reconstruction
 - ◆ Reconstruction has remained an important focus of the Bank's work
 - ◆ Natural disasters, humanitarian emergencies, and post-conflict rehabilitation needs.

World Bank Today

- One of the largest sources of development assistance: \$17.3 billion in loans in 2001
 - ◆ Largest external funders of education, against HIV/AIDS, health and one of the largest funders of biodiversity
- Now working in 100 countries
- Owned by 180 member countries
 - ◆ Members are shareholders who make decisions
 - ◆ Could not find information on processes

What the World Bank Does

- International Bank for Reconstruction and Development: 2002 \$11.5 billion
 - ◆ IBRD does not maximize profit but has earned a net income each year since 1948.
 - ◆ Profits fund several developmental activities and ensure financial strength, which enables low-cost borrowings in capital markets, and good terms for borrowing clients.

International Bank for Reconstruction and Development

- Owned by member countries, IBRD links voting power to members' capital subscriptions – in turn based on a country's relative economic strength.
- Raises most funds in financial markets
- IBRD sells AAA rated bonds and other debt securities
- Charges interest that reflects its cost of borrowing

International Development Assistance

- Established 1960 to provide concessional assistance to countries unable to borrow at commercial rates
- Uses interest free loans
- Borrowers pay 1% administration fee
- 40 countries contribute to funding
- \$8.1 billion – lending to Africa and South Asia, in education, health, social services, water and sanitation

Examples: HIV/AIDS in Guinea

- Empowers communities to address HIV/AIDS prevention, care, mitigation, and support. Grant resources will support a broad range of community, civil society, and private sector initiatives.

HIV/AIDS in Guinea

- Supports annual action plans prepared by ministries at the central and regional levels and by other public agencies. It is expected that about half of the funds for this component will go to the Ministry of Health.
 - ◆ Third component strengthens the capacity of government agencies, civil society, rural organizations, and the private sector to prepare and implement HIV/AIDS prevention and care projects

Mauritania

- Aims to restructure the legal and institutional framework of the water, sanitation, and energy sectors to create an environment for private sector participation
- To prepare future investments in the water, sanitation, and energy sectors (urban and rural)
- Create the legal and regulatory framework for electricity and water, sanitation sector and for the services of an investment bank to prepare the water and electricity's sector restructuring