## The IMF and World Bank

Both conceived in 1944 at United Nations conference held at Bretton Woods, New Hampshire

## The International Monetary Fund (IMF)

- the IMF is responsible for ensuring the stability of the international financial system
- the IMF promotes the balanced expansion of world trade, stability of exchange rates, avoidance of competitive devaluations, and orderly correction of balance of payments problems
- This is done by
  - Surveillance of its members' domestic economic and exchange rate policies, Financial Assistance and Technical Assistance.

## The International Monetary Fund (IMF)

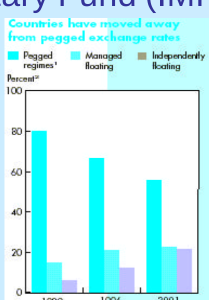
Growth in IMF Membership, 1945-2002


184 Member Countries in 2002

## The International Monetary Fund (IMF)

- Member countries from 1945-1971 agreed to keep their exchange rates pegged to the US Dollar. Thereafter, members are free to choose their exchange system- floating, pegging to one or a group of currencies, adopting another countries currency or to participate in a currency bloc. (ie- Euro)

## The International Monetary Fund (IMF)




## The International Monetary Fund (IMF)

In order to borrow from the IMF, a member country must meet certain conditions regarding its economic and financial policies. The country must adopt policies which:

- resolve balance of payments difficulties
- contribute to strong and sustainable economic growth
- enable the government to repay the Fund

# The International Monetary Fund (IMF)

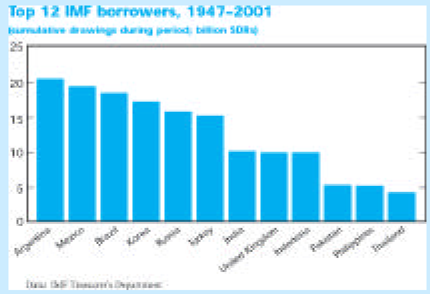
IMF loans feature phased disbursements. Countries are monitored to verify their adherence to economic policies before receiving their next installment.

They are evaluated by the IMF based on two criteria:

Quantitative Criteria- macroeconomic policy variables such as international reserves, fiscal balances or gov't borrowing

Structural Criteria- restructuring key sectors of gov't such as social security systems or energy department.

# The International Monetary Fund (IMF)




## The International Monetary Fund (IMF)

Table 6.1
IMF Financial Assistance Approved in FY2002

| Member | Type of Financial Arrangement | Date of Approval | Amount Approved² (in millions of SDRs) |
|---|---|---|---|
| Argentina | Augmentation of Stand-By | September 7, 2001 | 6,201.3 |
| Armenia | Three-year PRGF | May 23, 2001 | 69.0 |
| Azerbaijan | Three-year PRGF | July 6, 2001 | 80.5 |
| Brazil | 15-month Stand-By | September 14, 2001 | 12,144.4 |
| Bulgaria | Two-year Stand-By | February 27, 2002 | 240.0 |
| Cape Verde | Three-year PRGF | April 10, 2002 | 8.6 |
| Chad | Augmentation of PRGF | January 16, 2002 | 5.6 |
| Côte d'Ivoire | Three-year PRGF | March 29, 2002 | 292.7 |
| Ethiopia | Augmentation of PRGF | March 18, 2002 | 13.0 |
| Ghana | Augmentation of PRGF | June 27, 2001 | 37.0 |
| Guatemala | One-year Stand-By | April 1, 2002 | 84.1 |
| Guinea | Three-year PRGF | May 2, 2001 | 64.3 |
| Kyrgyz Republic | Three-year PRGF | December 6, 2001 | 73.4 |
| Lithuania | 18-month Stand-By | August 30, 2001 | 86.5 |
| Mali | Augmentation of PRGF | July 26, 2001 | 4.7 |
| Mongolia | Three-year PRGF | September 28, 2001 | 28.5 |
| Pakistan | Three-year PRGF | December 6, 2001 | 1,033.7 |
| Peru | Two-year Stand-By | February 1, 2002 | 255.0 |
| Romania | 18-month Stand-By | October 31, 2001 | 300.0 |
| Sierra Leone | Three-year PRGF | September 26, 2001 | 130.8 |
| Turkey | Augmentation of Stand-By | May 15, 2001 | 6,362.4 |
| | Three-year Stand-By | February 4, 2002 | 12,821.2 |
| Uruguay | Two-year Stand-By | April 1, 2002 | 594.1 |
| Yugoslavia, Fed. Rep. of | One-year Stand-By | June 11, 2001 | 200.0 |

[1]For augmentations, only the amount of the increase is shown.
[2]Amount agreed includes commitment and amounts remaining available under the SRF.

## The International Monetary Fund (IMF)

Table 6.3
Commitments and Disbursements of HIPC Initiative Assistance, as of April 30, 2002
(In millions of SDRs)

| Member | Amount¹ Committed | Amount¹ Disbursed | Member | Amount¹ Committed | Amount¹ Disbursed |
|---|---|---|---|---|---|
| Benin | 18.4 | 7.4 | Malawi | 23.1 | 2.3 |
| Bolivia | 65.5 | 65.5 | Mali | 44.4 | 17.2 |
| Burkina Faso | 44.0 | 33.0 | Mauritania | 34.8 | 16.8 |
| Cameroon | 28.5 | 2.5 | Mozambique | 108.0 | 108.0 |
| Chad | 14.3 | 2.9 | Nicaragua | 63.0 | — |
| Côte d'Ivoire² | 16.7 | — | Niger | 21.6 | 1.1 |
| Ethiopia | 30.0 | 4.0 | Rwanda | 33.8 | 0.1 |
| Gambia, The | 1.8 | 0.1 | São Tomé and Príncipe | — | — |
| Ghana | 90.1 | 9.9 | Senegal | 33.8 | 8.2 |
| Guinea | 24.2 | 2.4 | Sierra Leone | 98.5 | 23.6 |
| Guinea-Bissau | 9.2 | 0.5 | Tanzania | 96.4 | 96.4 |
| Guyana | 56.2 | 31.7 | Uganda | 121.7 | 121.7 |
| Honduras | 22.7 | 4.5 | Zambia | 468.8 | 117.2 |
| Madagascar | 16.6 | 2.1 | | | |
| Twenty-seven members, of which 26 are under the enhanced HIPC framework² | | | | 1,282.9 | 688.7 |

[1]Amounts may include interest on assistance committed but not disbursed during the interim period.
[2]Côte d'Ivoire reached its decision point under the original HIPC Initiative.

# The World Bank

The World Bank's overarching goal is poverty reduction

It is one of the world's largest sources of development assistance. In fiscal year 2002, the institution provided more than US$19.5 billion in loans to its client countries

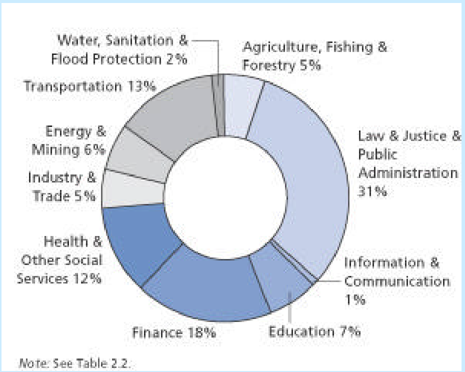
The World Bank Group, encompasses five development institutions: the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and the International Centre for Settlement of Investment Disputes (ICSID)

# The World Bank

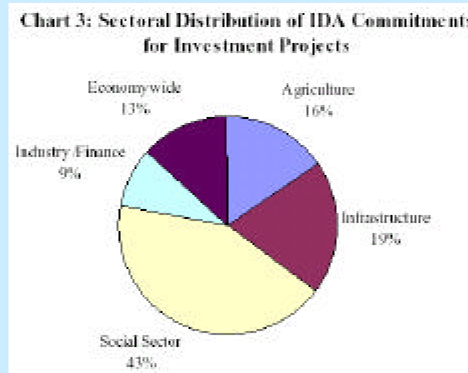
- IBRD aims to reduce poverty in middle-income and creditworthy poorer countries by promoting sustainable development, through loans, guarantees, and nonlending.
  FY2002 lending = $11.5 billion.

- IDA helps the world's poorest countries reduce poverty by providing "credits," which are loans at zero interest with a 10-year grace period and maturities of 35 to 40 years.
- Disbursements in FY2001 reached $5.5 billion.

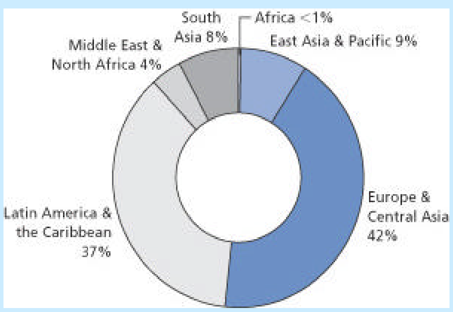
IBRD Lending by Sector, Fiscal 2002




IBRD Lending by Sector, Fiscal 2002

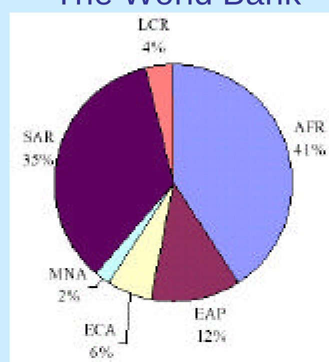



## The World Bank




IBRD Lending by Region FY2002

## The World Bank




IDA Disbursements by Region FY01

## The World Bank

The World Bank Lending Project - refers to regular IBRD/IDA lending and represents the majority of the World Bank's lending portfolio.

Two basic types of lending instruments:

• Investment loans -long-term focus (5 to 10 years), and finance goods, works, and services in support of economic and social development projects in a broad range of sectors.

• Adjustment loans -short-term focus (1 to 3 years), and provide quick-disbursing external financing to support policy and institutional reforms.

## The World Bank

Investment Loans:

• Eligibility: available to IBRD and IDA borrowers not in arrears with the Bank Group

• Disbursement: Funds are disbursed against specific foreign or local expenditures related to the investment project, including pre-identified equipment, materials, civil works, technical and consulting services, studies, and incremental recurrent costs

## The World Bank

Adjustment Loans:

• Eligibility: available to IBRD and IDA borrowers not in arrears with the Bank Group. Also requires agreement on monitorable policy and institutional reform actions, and satisfactory macroeconomic mgmt. (Coordinated w/IMF)

• Disbursement: Funds are disbursed in one or more stages contingent upon borrower complying with release conditions, such as the passage of reform legislation, the achievement of certain performance benchmarks, or other evidence of progress toward a satisfactory macroeconomic framework.

## The IMF and World Bank, recap

The IMF and the World Bank Group complement each other's work.

While the IMF's focus is chiefly on macroeconomic performance, and on macroeconomic and financial sector policies, the World Bank is concerned mainly with longer-term development and poverty reduction issues.

World Bank activities include lending to developing countries and countries in transition to finance infrastructure projects, the reform of particular sectors of the economy, and broader structural reforms.

The IMF, in contrast, provides financing not for particular sectors or projects but for general support of a country's balance of payments and international reserves while the country takes policy action to address its difficulties.

## In plain English

- What does IMF do?
- Lends money to countries that have BP difficulties
  - What are BP difficulties?
    - country's central bank may have fixed exchange rate
    - but does not have enough reserves
    - maybe has to shell out more dollars for oil
    - maybe export crop was damaged by frost
    - maybe foreign investors slowed investment in economy

## In plain English

- So get into BP difficulties, and need forex, IMF lend
- As condition of loan, IMF suggests ways to correct BP problem
- If don't correct problem, don't get second disbursement
- What are these conditions?
  - policies to promote exports, to earn dollars
  - reduce demand for imports

## IMF pros

- helps address/resolve problem of contagion, where financial crisis in one country spreads to other countries
  - financial crises as self-fulfilling prophecies
- lead lender (since there is no workout arrangement for sovereign bankruptcy, mitigates cramdown)
- financial statistics collection essential for transparency

## IMF cons

- enables corruption?
- moral hazard: does IMF lending encourage too much risky lending?
- conditionality/wrong advice: does IMF prestige and role lead countries to adopt wrong advice?
- note: reducing moral hazard can only be achieved by more conditionality- dilemma!