International Monetary Fund and World Bank

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International Financial Institutions: The IMF and the World Bank

Introduction

Toward the end of the Second World War, in July 1944, representatives of the United States, Great Britain, France, Russia, and 40 other countries met at Bretton Woods, a resort in New Hampshire, to lay the foundation for the post-war international financial order. Such a new system, they hoped, would prevent another worldwide economic cataclysm like the Great Depression that had destabilized Europe and the United States in the 1930s and had contributed to the rise of Fascism and the war.

Therefore, the United Nations Monetary and Financial Conference, as the Bretton Woods conference was officially called, created the International Monetary Fund (the IMF) and the World Bank to prevent economic crises and to rebuild economies shattered by the war.

The Bretton Woods strategy addressed what were considered to be the two main causes of the pre-war economic downturn and obstacles to future global prosperity—the lack of stable financial markets around the world that had led to the war and the destruction caused by the war itself. The IMF would be aimed at stabilizing global financial markets and national currencies by providing the resources to establish secure monetary policy and exchange rate regimes, while the World Bank would rebuild Europe by facilitating investment in reconstruction and development.

Although intended to benefit the global economy and contribute to world peace, the World Bank and the IMF, collectively referred to as international financial institutions (IFIs), have become primary targets of the anti-globalization movement. In many countries, they are resented and are viewed as imposing Western-style capitalism on developing countries without regard to the social effects.

The following Issue Brief is designed to help you understand the history, purpose, structure, and activities of the IFIs and to describe both benefits and concerns that surround the World Bank and the IMF.

The Origins of the IFIs

At the time of Bretton Woods, there was serious concern about the stability of global economic markets. The world-wide depression of the 1930s had been deepened by the instability of international currency markets and the contraction of international trade, so that stabilization of those markets and promotion of trade were considered crucial to avoid another crisis. Likewise, the widespread destruction of Europe and uncertainty about its future also threatened to cause economic and political disruption. The countries allied to fight Nazi Germany and Japan believed that a similar collaborative effort was the only way to stabilize their economies and those of their soon-to-be-defeated enemies and to provide funds to rejuvenate the countries destroyed by the war.

The Bretton Woods conference therefore gathered together some of the world's most prominent minds in economic policy and some of its most powerful policy-makers to chart a new course. Representing the United States and serving as chairman of the conference was Henry Morgenthau, the U.S. Secretary of the Treasury. Morgenthau was accompanied by Harry Dexter White, the Assistant Secretary of the Treasury, who had laid the groundwork for the conference and originated the key ideas and policies to be discussed.

Along with them was Dean Acheson, then the Under Secretary of State, who later became Harry Truman's influential Secretary of State during the first years of the Cold War, and a number of senators and congressmen. Leading the British delegation was the famed economist John Maynard Keynes. Other delegations of notables came from China, India, Russia, and France.

Some leading economists from smaller nations were also quite influential at the conference, such as Louis Raminsky of Canada, Kyriakos Varvaressos of Greece, and Johan Beyen of the Netherlands. Morgenthau opened the conference by telling his fellow participants, "What we do here today will shape to a significant degree the nature of the world in which we are to live."[1]

The aim of the conference was to draw up plans for the IMF and World Bank (as well as a proposed International Trade Organization, which never got off the ground as a result of concerns among many countries over their economic sovereignty).

The conference was controversial, however, with the public, politicians, and media in many of the countries—especially the United States—that were wary of international control of their sovereign economic policy. Even the U.S. and British delegations, the leading countries at the conference, commented to each other that their plans had to be politically amenable to their home governments to be ultimately approved.

At the same time, the conference was largely opaque to the public. The prominent American commentator Walter Lippman said, "It has been impossible for the general public to obtain any idea of what the Bretton Wood conference is about. Though it is concerned with questions which will affect men's lives deeply, the language of monetary policy is understood by very few men in any country."[2]

Negotiations at the conference were, therefore, contentious. Although White had drawn up plans for the proposed organizations, many details, especially regarding financial contributions to the new institutions, were still to be worked out. Countries were concerned about the balance of power within the organizations as reflected in their proportions of contributions of gold to the IMF and their concomitant ability to draw from the IMF (their "quotas").

There were extensive IMF negotiations regarding how to divide the total amount of money the IMF would have among the 44 participants. India insisted on having as high a quota as China, for example, while France insisted on having more than India and more than the three Benelux countries (Belgium, the Netherlands, and Luxembourg), who were coordinating their monetary policy. The Russians insisted on a quota of not much less than the British and argued that they should have to contribute less gold to the fund than other countries because of their suffering in the war, but be able to draw a higher proportional quota than other countries. At the same time, they refused to publish accurate economic statistics.

Other disputes concerned the governance of the organizations, such as how many permanent seats the major contributors would hold and where the organizations would be located; the British unsuccessfully lobbied for the IMF to be in London. Another significant dispute revolved around whether the dollar would serve along with gold as the standard for exchange rates, which, in the end, the American delegation successfully insisted on.

Meanwhile, Keynes, leading the committee that drew up plans for the World Bank, dominated the drafting process and forged the institution largely along his preferred lines and implementing his key economic idea—that governments should spend their resources to stimulate their economies during slowdowns.

With the diplomatic wrangling completed, the conference's Final Act was signed on July 22, 1944, although the institutions did not actually start operations until the following year. In a letter read to the delegates, U.S. President Franklin Roosevelt

[1] http://www.imfsite.org/origins/confer1.html
[2] http://www.imfsite.org/origins/confer2.html

said that they had "prepared two further foundation stones for the structure of lasting peace and security."[3] How did such hope at the time result in such opposition today? The rest of this Issue Brief explains the current operations of the World Bank and the IMF and why they are so controversial.

[3] http://www.imfsite.org/origins/confer4.html

The International Monetary Fund

Governance, Organization and Purposes

Governance

The IMF is controlled by its 187 member-countries, each of whom appoints a representative to the IMF's Board of Governors. The Board of Governors, most of whom are the finance ministers or heads of the central bank of the members, meet once per year to discuss and possibly achieve consensus on major issues. In the meantime, day-to-day operations are managed by a 24-person Executive Board. The world's major economic and political powers—the United States (the IMF's largest shareholder), Great Britain, Japan, Germany, France, China, Russia, and Saudi Arabia—each have permanent seats on the executive board, while the 16 other directors are elected for two-year terms by groups of countries divided roughly by geography, e.g., Caribbean, Africa, Southeast Asia, etc. The executive board, in turn, is run by the managing director, who is elected for renewable five-year terms.

The IMF also has an International Monetary and Financial Committee of 24 representatives of the member-countries that meets twice yearly to provide advice on the international monetary and financial system to the IMF's staff.

In all of its operations, voting power is weighted based on the size of the economy and therefore the quota allocation of each country. Decisions are usually taken by consensus, but the United States, as the IMF's major shareholder, has the most influence in the institution's policy-making.

Organization

The IMF's current managing director is Ms. Christine Lagarde of France, who took office on June 28, 2011. Each members of the executive board runs a particular department of the IMF. There are offices devoted to
a) particular regions of the world, such as Europe, Africa, Middle East, Western Hemisphere, and Asia/Pacific;
b) functions, such as finance, technical assistance, **fiscal planning**, **capital markets**, research, and statistics; and,
c) administrative functions of the IMF itself.
The IMF has a total of 2,600 employees, mostly based in its Washington, D.C. headquarters.

Purposes

The Bretton Woods Conference set out six goals for the IMF in its Articles of Agreement. Those goals, as shown in the accompanying box, remain the guiding principles of the IMF today.

(i) To promote international monetary cooperation through a permanent institution that provides the machinery for consultation and collaboration on international monetary problems.
(ii) To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.
(iii) To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.
(iv) To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions that hamper the growth of world trade.

(v) To give confidence to members by making the general resources of the IMF temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.
(vi) In accordance with the above, to shorten the duration and lessen the degree of disequilibria in the international balances of payments of members.

In simpler terms, the goals are to:

1) Facilitate the cooperation of countries on **monetary** policy, including providing the necessary resources for both consultation and the establishment of monetary policy in order to minimize the effects of international financial crises.
2) Assist the **liberalization** of international trade by helping countries increase their real incomes while lowering unemployment.
3) Help stabilize **exchange rates** between countries. Especially after the global depression of the 1930s, it was considered vital to establish currencies that could hold their value, serve as mediums of international exchange, and resist any speculative attacks.
4) Maintain a **multilateral** system of payments that eliminates foreign exchange restrictions. Countries are thus free to trade with each other without worrying about the effects of interest rates and currency depreciation on their payments.
5) Provide a safeguard to members of the IMF against balance of payments crises, i.e., when governments cannot balance the money they have with the money they owe to other countries. IMF members can have the confidence to adjust the imbalances in their national accounts without resorting to painful measures that would hamper their prosperity, such as devaluing their currency in relation to other countries'.
6) Try to reduce the effects of volatility in countries' **balance of payments** accounts, the IMF helps assure that global trade and financial relationships can continue at a steady rate without the risks of global depressions like that of the 1930s.

When founded, the IMF also operated the system of international exchange on the basis of gold reserves that its member countries pledged to it. In 1971, however, the U.S. government under President Nixon eliminated the connection between the U.S. dollar and gold as a means to resolve a domestic monetary crisis. By allowing the dollar's value to "**float**" as opposed to having it **pegged** to gold, the U.S. government was able to adjust its monetary policy to deal with changes in the American economy. Subsequently, the IMF eliminated its use of gold, and all other members were allowed to "float" their currencies as well.

How Does the IMF Achieve Its Goals?

The IMF has three main activities: surveillance, financial assistance, and technical assistance.

Surveillance

Each year, the IMF sends economists to each of its member countries to analyze the country's economic situation. The team examines **fiscal** and **monetary** policy, **exchange rate**, general **macroeconomic** stability, and any related policies, such as labor policy, trade policy, and social policy (such as the pension system). This process is known as an Article IV consultation, after the section authorizing it in the Articles of Agreement. The purpose of such consultation is to provide an outside check on national decisions that might have an affect on the international economic system.

After the team finishes its analysis, the IMF executive board discusses the report and gives it to the leaders of the country in question as the official opinion of the IMF. A version of the report is also published and available as an IMF Public

Information Notice (PIN). The IMF also performs similar reviews of regional policy by such organizations as the European Union (EU), the West African Economic and Monetary Union, and the Eastern Caribbean Currency Union.

On a global level, the IMF also publishes its analysis of the world economic system in its World Economic Outlook twice per year and the Global Financial Stability Report, which focuses specifically on the international **capital markets**, also twice per year.

The IMF's June 2011 edition of the 'World Economic Outlook' can be seen here

Financial Assistance

The central activity undertaken by the IMF is financial assistance to national treasury departments. Member countries with **balance of payments** problems can receive credits and loans to pay off their obligations and readjust their economic policies so that they will not face another crisis or near-crisis. To receive assistance, however, the member-country must agree, through a "letter of intent," to implement changes in its fiscal and monetary policies that IMF experts have determined are necessary. These conditions, as explained below, are the cause of some of the most vociferous resentment toward the IMF because they often involve very detailed changes in national policies. Nevertheless, IMF assistance is considered so essential to national economic health that countries generally agree even when they have strong reservations.

The loans are disbursed in phases to ensure that the receiving country moves forward with the reforms required of it. Loans are generally granted for relatively short periods of time, for just a few months, or for as long as ten years, depending on the type of loan. The receiving country must pay back loans on time, on a rigorous schedule, because the loans are intended to be temporary assistance.

Countries are discouraged from becoming dependent on IMF loans, and, in fact, may face extra charges if too much of their government funding comes from the IMF. Rather, the IMF hopes to play a role as a catalyst for private banks to lend to governments, because the extension of an IMF loan is intended to express confidence that the receiving country is getting its financial house in order.

The IMF provides the assistance through several lending programs ("facilities"):

- Stand-by arrangements are loans granted for specific amounts over 12 to 18 months to deal with short-term problems.
- The Extended IMFs Facility is used to help a member-country deal with what are called "structural" economic problems resulting from a history of poor economic planning. The IMF attaches strong conditions to loans through this facility, which are granted for three to four year terms.
- The **Poverty Reduction and Growth Facility** is granted at low interest rates to poor countries.
- The **Supplemental Reserve Facility** grants short-term loans during crises, but adds a surcharge to discourage too much borrowing.
- **Contingent Credit Lines** are granted during waves of crises that can spread from one country to another, called "contagions."
- Emergency Assistance is granted to countries facing military conflicts or other sudden disasters.

Technical Assistance

The IMF provides technical assistance on fiscal and monetary policy, regulatory procedures, tax policy, and collection of statistics, among other issues. These programs are aimed at strengthening developing countries' abilities to reform and properly manage their macroeconomic policies. The IMF dispatches its own experts and private consultants on training missions to educate government officials and also runs the IMF Institute in Washington, D.C. to provide courses for officials.

In addition to these three main activities, the IMF also has instituted various programs to ensure the stability of financial system management on a global scale. For example, the IMF, along with the World Bank and other institutions, has drafted voluntary standards and codes for countries and financial institutions to adapt in order to increase accountability and transparency and to limit corruption. The IMF also has developed two systems of collection and dissemination of statistical information to help assess the economic viability of the domestic and international financial systems.

Why Is the IMF Controversial?

After the collapse of the Soviet Union, the western approach to market **liberalization**, **privatization**, **fiscal austerity**, and **free trade** that had produced economic growth in the developed countries—especially in the United States—was exported to **developing countries** through the IFIs. Since they were headquartered in Washington, D.C. the IFIs' strategy was called the "Washington Consensus." As summarized by the World Bank, it had ten basic points:

1. Fiscal discipline (that is, not too much government spending).
2. Redirection of public spending toward education, health, and infrastructure.
3. Tax reform (that is, broadening the tax base and cutting tax rates).
4. **Market-determined** interest rates.
5. Competitive exchange rates.
6. Trade liberalization (that is, eliminating quotas and tariffs).
7. Openness to **foreign direct investment**.
8. Privatization of state enterprises.
9. **Deregulation**.
10. Legal security for property rights.

The success of **industrialized nations** when following these practices in comparison to Communist countries' lack of economic development caused western economists and politicians to assume their infallibility and enticed many developing countries into following them. However, the way in which the Washington Consensus was uniformly presented to a wide range of national economies is said by critics to have contributed to serious problems.

Critics attack four interrelated aspects of the implementation of the Washington Consensus.

First, critics say that the conditions placed on loans are too intrusive and compromise the economic and political **sovereignty** of the receiving countries. For example, Joseph Stiglitz, a winner of the Nobel Prize in economics and former chief economist of the World Bank, writes that those conditions, often referred to as a whole as "conditionality," are not just the typical requirements that anyone lending money might expect the borrower to fulfill in order to ensure the money will be paid back. Rather, says Stiglitz, "'Conditionality' refers to more forceful conditions, ones that often turn the loan into a policy tool."[4]

[4] http://books.google.com/books?id=geN6MUthHdkC&pg=PA44&dq=forceful+conditions,+ones+that+often+turn

The IMF has used conditionality to exact major changes, called "**structural adjustments**," in borrowing countries' **fiscal** and **monetary** policies, including such issues as banking regulations, government deficits, and pension policy. He cites the example of the IMF's insistence that the Korean Central Bank focus on fighting inflation during the 1997 Asian Financial Crisis, not because monetary policy was a cause of the crisis, but rather because the IMF believed that fighting **inflation** should be the primary purpose of a central bank.

According to Stiglitz, many of these changes are simply politically impossible to achieve because they would cause too much domestic opposition. Even in the United States, he points out, the Federal Reserve Bank is not charged with just fighting inflation, but also with promoting employment and economic growth, and an attempt by a powerful senator in the mid-1990s to refocus its charter just on inflation was beaten back by the White House.

Second, critics say that the IMF imposed the policies of the Washington Consensus on countries without understanding the distinct characteristics of the countries that made those policies difficult to carry out, unnecessary, or even counter-productive. According to Stiglitz, for example, the economists of the IMF had a "one-size-fits-all" policy based on their academic training, which focused on economic models with unrealistic assumptions about how real-life economies work. They do not generally specialize in the economies of the countries whose policies they oversee, often do not live in those countries and mostly work from Washington, D.C. and have little appreciation for the political circumstances under which the governments operated. When crises arise, therefore, says Stiglitz, the IMF instinctively blames the governments of the countries suffering the crises.[5]

Third, critics say that the policies were imposed all at once, rather than in an appropriate sequence. For example, the IMF demands that countries it lends to privatize government services rapidly—that is, sell them to private investors rather than operate the services itself—such as water supply and utilities. According to Stiglitz, this is a result of the IMF's "market fundamentalism," a blind faith in the free market that ignores the fact that the ground must be prepared for privatization. Private owners are most interested in operating a company efficiently, which often means letting go of staff.

But, says Stiglitz, if a country's unemployment program and other social safety nets are not sufficiently developed, those fired staff will have no way to support their families. "Privatization needs to be part of a more comprehensive program, which entails creating jobs in tandem with the inevitable job destruction that privatization often entails. Macroeconomic policies, including low interest rates, that have helped create jobs, have to be put in place. Timing (and sequencing) is everything."[6]

Fourth, critics say that the IMF was not open to criticism or public oversight when working on these policies, leading to arrogance and a lack of connection to the reality on the ground in the affected countries. For example, Stiglitz points out that the agreements between the IMF and borrower countries were always kept secret from the general public in those countries. Sometimes, he says, the agreements were kept even from him and his colleagues at the World Bank when working on joint projects with the IMF.

At the same time, the government officials of borrowing countries often felt powerless to question the IMF's policies, believing that just to ask a question would be viewed by the IMF as a challenge to its authority and jeopardize the loans it was offering. A great lack of trust, therefore, characterized relations between the IMF and its borrowers, as the public and governments of its borrower countries felt out of the loop on the decisions that would shape their economic future.

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[5] http://www.whirledbank.org/ourwords/stiglitz.html

[6] http://books.google.com/books?id=geN6MUthHdkC&pg=PA57&lpg=PA57&dq=Privatization+needs+to+be+part+of+a+more+comprehensive+program,+which+entails+creating+jobs&source=bl&ots=f_CquhF_HT&sig=ULnbn11becS_sx6hU7p8HBeq_eE&hl=en&ei=kF06SsmOBYGqtgfljJXcDA&sa=X&oi=book_result&ct=result&resnum=1

Some opponents of the IMF, and globalization in general, go even further. They claim that the entire international financial system is corrupt and unfair. They criticize not just the implementation of the Washington Consensus, but its very existence. One group, for example, called 50 Years Is Enough, argues that the IMF, World Bank, and the **World Trade Organization (WTO)** are anti-democratic institutions, responsible for the impoverishment of the developing world and benefiting only rich countries and multinational corporations.

According to 50 Years Is Enough, "Only when the well-being of all, including the most vulnerable peoples and ecosystems, is given priority over corporate profits can we achieve genuine sustainable development and create a world of justice, equality, peace, and ecological values, where fundamental human rights, including internationally-recognized social, cultural, environmental, and economic rights, are respected."[7] This group wants an immediate end to the IMF's policies, a cancellation of all outstanding government debts in the developing world (discussed in more detail below), and reparations for the damage, in their view, that the IMF and World Bank's policies have caused.

As you can see, three views of the IMF's role are possible. First, the IMF views itself as committed to sound financial management, lending money and providing surveillance and advice to help countries avoid economic collapse. Second, however, IMF critics claim that the IMF's policies are often poorly planned, and even counter-productive. Third, the most radical critics of the IMF contend that the whole international finance system, of which the IMF is one of the leading institutions, should be dismantled for the benefit of the world’s poor.

[7] http://www.50years.org/about/

The World Bank

Structure

The World Bank is the name that has come to be used for the International Bank for Reconstruction and Development (IBRD) founded at Bretton Woods. As the World Bank expanded beyond its initial scope and purpose of rebuilding Europe after the Second World War, the World Bank grew through the creation of four additional organizations. Together, these five financial organizations comprise the World Bank Group, namely the IBRD, the International Development Association (IDA), the International Finance Corporation (IFC), the Multilateral Investment Guarantee Agency (MIGA), and the International Center for Settlement of Investment Disputes (ICSID).

The IBRD and the IDA focus mainly on public sector monetary policy and provide low-interest loans, interest-free credit, and grants to developing countries. Additionally, they work to affect the policies of governments by providing macroeconomic policy advice, research, and technical advice. The remaining three institutions that belong to the World Bank Group focus more on private market interactions, providing funding, insurance, and dispute resolution for private sector projects. The sections below discuss with each part of the World Bank Group in turn.

Governance

The governance of the World Bank is almost identical to that of the IMF. It is directed by a board of governors composed of one representative from each member country, and the governors direct the IBRD based on weighted voting rights that are determined by each country's agreed annual contributions to the World Bank. As in the IMF, the United States is the largest contributor and has the most weighted voting power, though as a practical matter, decisions are made by consensus.

Twenty-four executive directors oversee the daily operations of the World Bank, including five permanent spots given to the United States, Japan, Great Britain, Germany, and France. The remaining 19 directors are elected by all member-nations. The World Bank is led by its president, currently Robert Zoellick, former under Secretary of State and former U.S. Trade Representative. Vice presidents manage World Bank affairs in six regions—Africa, East Asia & Pacific, Europe and Central Asia, Latin America & the Caribbean, Middle East and North Africa, and South Asia—and in other functional units such as Finance, Poverty Reduction, Infrastructure, and Private Sector Development.

The World Bank also operates a World Bank Institute for training of officials in development related topics. In total, the World Bank has more than 10,000 employees, spread out over 100 offices around the world and headquartered in Washington, D.C.

The IBRD

The mission statement of the IBRD states that it "aims to reduce poverty in middle-income and creditworthy poorer countries by promoting **sustainable development**, through loans, guarantees, and non-lending-including analytical and advisory-services." The World Bank aims at issues such at building infrastructure (roads, dams, power plants), natural disaster relief, humanitarian emergencies, **poverty reduction**, infant mortality, gender equality, education, and long-term development issues. Furthermore, the World Bank tries to foster social reforms to promote economic development, such the empowerment of women, building schools and health centers, provision of clean water and electricity, fighting disease, and protecting the environment.

Since 2000, the World Bank has been devoted to helping implement the Millennium Development Goals (MDGs), drafted by the United Nations at the Millennium World Summit. The goals are as follows:

1. Eradicate extreme poverty and hunger.
2. Achieve universal primary education.
3. Promote gender equality and empower women.
4. Reduce child mortality.
5. Improve maternal health.
6. Combat HIV/AIDS, malaria, and other diseases.
7. Ensure environmental sustainability.
8. Develop a global partnership for development.

The goals also have 18 specific targets and 48 performance indicators and are considered a step forward over previous development efforts because they set specific targets and timetables for achievement, with 2015 as the major deadline. Commemorating the ten year mark of when the MDG's were set, there was a major conference held at UN headquarters in New York in September 2010 to review what progress has been made, as well as the shortcomings of these projects. There is still great concern in the international community that nearly all of these goals are quite off-target, with the prospects of "eradicating extreme poverty and hunger" looking quite dismal.

A Copy of the 2011 UN Millennium Development Goals Report can be seen here

The World Bank operates by providing loans in two different ways.

First, investment loans are granted for projects that will produce goods or services or public works to help economic and social development.

Second, **adjustment loans** are granted for programs to support reforms to government policies.

Like IMF loans, World Bank loans are conditioned on the World Bank's approval of the investment plans and schedule for the project and repayment of the loans. The World Bank funds its loans by raising money on the international **bond market**, issuing bonds in its name to large institutional international investors, such as banks and pension funds.

As a non-profit institution, however, the World Bank does not take any profit on the results of its fundraising. Instead, it uses its profits to subsidize its lending back to the countries whose projects its finances. Only about half of the World Bank's funding comes from grants by members, and the rest comes from the World Bank's own operations.

Examples of the programs the World Bank funds include:

- In Bangladesh, the World Bank provided a $59.8 million credit to provide medical services and nutritional supplements to children and their mothers.
- In Bosnia, the World Bank helps offer "**microcredit**" loans, typically less than $1,000, to individuals who wish to start small businesses and otherwise would not have access to bank credit.
- In Peru, the World Bank helped finance the Peru Rural Roads Program, which increased the connection of rural areas to each other and to urban centers as a way to increase economic activity.
- In Brazil, the World Bank has provided funds to the government to run the Rain Forest Pilot Program to reduce deforestation in the state of Mato Grasso.
- In China, the World Bank supported the Chinese government's National Iodine Deficiency Elimination Program by providing aid for upgrading physical plants for iodized salt production, packaging, and distribution, by establishing effective quality control in the salt industry, and funding the training of laboratory staff and the improvement of laboratory facilities.
- In Cote d'Ivoire the World Bank has financed an ‘emergency urban infrastructural project’ intending to improve access to and quality of facilities and services in Abidjan and other select cities. This project will support some of the country’s poorest communities.

Shift from Loans to Grants video: http://www.youtube.com/watch?v=5-T9y4ebHRQ

International Development Association (IDA)

The IDA was organized by the World Bank in 1960 to provide additional financial assistance to the poorest developing countries. In order to provide resources on better terms than those that are available from the World Bank, the IDA provides special "credits." These credits are zero-interest loans that have longer payment periods of 35 to 40 years and a grace period of ten years. These types of loans are offered to the poorest countries to help them pursue their development goals, sometimes despite disease and conflict. Currently, 169 of the UN members and Kosovo are members of the IDA.

To help developing countries with these issues, the IDA has established a framework that emphasizes six core principles.
1) The IDA seeks to promote growth through **macroeconomic** policy, especially in rural and private sector development.
2) The IDA concentrates on social issues such as gender equality and public health.
3) The IDA works to improve governance by assisting in public management and in combating corruption.
4) The IDA strives for **sustainable development** projects that help protect the environment.
5) The IDA fosters recovery efforts in post-conflict countries.

6) The IDA promotes economic integration through regional trade.

Examples of IDA projects include the following:

- In Tanzania, since 1995, the IDA has allocated US $3.2 Billion, which has caused an annual increase of an average of five and six percent in the GDP, and the GDP per capita has doubled. All of this has greatly improved the standard of living[8]
- In Bhutan, the IDA gave a 10-year, $31 million credit for construction of rural schools and curricula development.[9]

International Finance Corporation (IFC)

The IFC was established in 1956 and is now the largest public source of financial investment for private sector projects in **developing countries**. Unlike the grass-roots development efforts pursued by the IBRD and IDA, IFC investment is often used for projects such as building hotels or power plants, where finance and trade are more heavily involved. IFC provides private sector investment, helps companies acquire additional financing in international markets, and provides technical advice and assistance.

Examples of IFC work include:

- In Colombia, the IFC is financing the first stage of development of oil fields in Middle Magdalena Valley, providing loans totaling $30 million from its own account and organizing a combined loan of $25 million for a number of other private participants.[10]
- In Azerbaijan, Georgia, and Turkey, the IFC is helping finance the construction of an oil pipeline to move up to a million barrels of oil per day from Baku, in Central Asia, to Ceyhan, on Turkey's Mediterranean coast.[11]

Multilateral Investment Guarantee Agency (MIGA)

MIGA was created in 1988 to provide risk-balancing insurance services to **foreign direct investment** projects in **developing countries**. The typical service offered by MIGA is political risk insurance, which insulates investors against government expropriations, consequences of conflict, terrorism, and similar threats. This allows both investors and lenders to undertake commitments to such projects without the overwhelming downside risk that would otherwise exist. It also enables developing countries to attract and maintain private investment in their countries, which is essential to sustained development.

Membership in MIGA is offered to all member countries of the World Bank Group and currently numbers 175 countries. MIGA is operated by a Council of Governors, who recently voted to double the agency's capital stock from the current $1 billion, to $2 billion. A small amount of that ($150 million) came in the form of limited financial assistance from the World Bank, and the remaining $850 million increase was due to a capital increase.

Since it was established in 1988, MIGA has insured more than $20.9 billion of foreign direct investment in over 100 developing countries—investment that may not have otherwise happened. The result of all of MIGA's activities is that, with

[8] http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/IDA/0,,contentMDK:21303704~pagePK:51236175~piPK:437394~theSitePK:73154,00.html

[9] http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/IDA/0,,contentMDK:21271546~menuPK:3266877~pagePK:51236175~piPK:437394~theSitePK:73154,00.html

[10] http://www.ifc.org/ifcext/spiwebsite1.nsf/1ca07340e47a35cd85256efb00700cee/C0260B5D049F36A48525688E0073AD3D

[11] http://www.ifc.org/btc

the potential reduction of risks through insurance, developing countries are encouraged to adopt policies that promote investment. This combination of reform at the domestic level and insurance coverage for investors is another important tool in the drive to reduce poverty by the World Bank Group.

Examples of MIGA projects include the following:

- In Azerbaijan, MIGAs provided insurance to protect Turkish investors in a project to expand and modernize a flourmill to produce and distribute flour sold in Azerbaijan and Georgia.[12]
- In Ecuador, MIGA is supporting investors in the construction of a new airport to serve the capital of Quito to improve and expand economic development and trade. [13]

http://www.youtube.com/watch?v=EVnM8B3nMcg&feature=related (Globalization101 interview: Sebastian Mallaby on the Private Sector)

International Center for Settlement of Investment Disputes (ICSID)

The World Bank established ICSID in 1966 to encourage both investors and governments to undertake and receive **foreign direct investment** by providing a neutral dispute resolution system. The ICSID provides **arbitration** services, which are entered into on a voluntary basis, but once two parties agree to submit issue resolution to ICSID, they are required to follow ICSID procedures until the verdict is rendered. Furthermore, all member countries of ICSID are bound to recognize and enforce the rulings that are made.

Although it is technically a separate entity ICSID is chaired by the president of the World Bank, and the two organizations are well integrated, with their annual meetings being held in concert, and with ICSID's operating expenses coming from the World Bank Group's budget. Currently 143 UN member nations and Kosovo are members of the ICSID.

[12] http://www.miga.org/regions/index_sv.cfm?stid=1533&country_id=17&hcountrycode=AZ
[13] http://www.miga.org/regions/index_sv.cfm?stid=1531&country_id=61&hcountrycode=EC

Why Is the World Bank Controversial?

Like the IMF, the World Bank has been criticized for its part in promoting the **Washington Consensus** through its close participation with the IMF in lending only to programs that were heavily conditioned. For example, according to 50 Years Is Enough, the World Bank's policies are "indistinguishable" from the IMF's in that they often go to "austerity plans that 'reform' economic policies by suffocating the poor and inviting corporate exploitation."[14]

In addition, several unique factors contribute to dislike and distrust of the World Bank. The World Bank is often accused of ignoring the environmental and social impact of projects it supports. For example, the World Bank helped fund Brazil's Polonoroeste development program, inaugurated in the Amazonian state of Rondonia in 1981. By improving the main highway into the forest, subdividing the land, and granting ownership of the land to settlers, the program caused an intense migration and land rush that resulted in the wide-spread destruction of the rainforest[15].

The World Bank also funded a dam-building project in India that resulted in the forced resettlement of people the Narmada River Valley between 1978 and 1993. As dams were built on the river, territories that have been populated since pre-historic times were lost to man-made reservoirs, causing resentment and social turmoil, for which the World Bank was blamed.[16]

Similarly, the World Bank has been attacked for funding the Western Poverty Reduction Project in China that opponents of Chinese control of Tibet say will resettle 37,000 ethnic Chinese in the territory of Tibet.

Most recently, the Baku-Ceyhan pipeline mentioned above has garnered opposition because, its critics say, it will increase pollution in the region and world-wide through further use of fossil fuels, contribute to oil dependency in the economies of the countries involved, damage the forests and water supplies in the region, and contribute to human rights abuses.

Another major complaint about the World Bank (as well as the IMF) is its role in causing high debt among **developing countries**. Although the World Bank's loans are intended to help countries, they also cause those countries to take on debt that they must pay interest on and remain under the conditions of the institution. Over the last 20 years, these debts have piled up so much that, critics say, they amount to "perpetual debt" that the poor people of world are saddled with. According to 50 Years Is Enough, "External debt per capita for sub-Saharan Africa (not including South Africa) is $365, while GNP per capita is just $308."[17] Many countries, say these critics, spend more on servicing their debt obligations than on basic social services.

"Why is the world bank controversial?" Video clip

To remedy this problem, a campaign has begun to get international banks—both the public development banks such as the World Bank and private banks—to eliminate the debt. According to the Jubilee movement (named after the Biblical practice of forgiving debts every fifty years), the campaigners "want to put an end to this system of deliberate exploitation which generates external debts for our countries, impoverishes billions of people and degrades our environment. It is a system which does not allow our communities, societies and nations to develop on their own terms, democratically, without domination and exploitation by foreign interests, and dictates from the **OECD [Organization for Economic**

[14] http://www.50years.org/action/april16/april16b.html
[15] http://siteresources.worldbank.org/WBI/Resources/wbi37139.pdf
[16] http://www.whirledbank.org/environment/dams.html
[17] http://www.50years.org/factsheets/africa.html

Cooperation and Development, countries who are the world's major economic powers] governments, the IMF, the World Bank and the WTO."[18] Naturally, the IMF, the World Bank, and their private-sector allies oppose this campaign.

Debt Relief

Many of the world's poorest countries accumulated debt in the 1970's and 1980's, after suffering from worldwide oil shocks, high interest rates, weak **commodity** prices and recessions that marked this period of history. At the time, development experts recommended that governments of poor countries should borrow money from the World Bank and the IMF, among others, to industrialize their economies by investing in industry and infrastructure, and by replacing goods and services from abroad with goods and services produced within the country.

Unfortunately weak commodity prices decreased the value of poor country exports and high oil prices increased the price of imports, both further increasing debt. In addition, many low and middle income countries were living beyond their means, with high trade and budget deficits, as well as low saving rates. Weak public sector management and corruption contributed to improper or inefficient use of loans, further decreasing the capability of these countries to pay back the borrowed money. Problems, such as droughts, civil war, weak economic policies, all exacerbated the situation. Eventually poor countries were taking out new loans to pay back old ones.

The World Bank and IMF were the main lenders to these poor countries because private lenders believed that these countries were too risky. Realizing the magnitude of the problem, in 1988, the World Bank began to forgive some debt. In the 1990's, some major industrial countries started to cancel bilateral debt payments as well. By 1994, more than $15 billion of Africa debt was forgiven. Nonetheless the region still owed $235 billion to foreigners, including donor countries, regional banks and multilateral institutions.

In 1996, the World Bank and IMF created the Debt Relief for **Heavily Indebted Poor Countries (HIPC) Initiative**, recognizing the need for debt relief from **multilateral** institutions. Through this initiative, eligible countries are required to introduce specific economic reforms, such as restructuring and privatization of state-run enterprises and creating a sound legal system, in return for debt relief. The Initiative requirements were quite stringent and, by 1998, only two of the 40 eligible countries received actual debt cancellation. In 1999, the World Bank enlarged the program to encompass more countries and take into account other ongoing efforts for poverty reduction in eligible countries. Critics were still not satisfied.

Rallies, concerts and campaigns, sponsored by U2's Bono, and by NGOs, such as Oxfam, raised public awareness and pressured countries to respond. The G-8 meeting in 2005 brought 100 percent cancellations of debt owed to the African Development Fund, the World Bank, and the IMF by 18 countries who were eligible for the HIPC initiative.

"World Bank policy on Debt Relief" video segment: http://www.youtube.com/watch?v=51HvHHDF5OA

Conclusion

The IFIs are pillars of globalization. Designed to help manage the international financial system, they have taken on major roles as drivers of closer economic integration of all of the world's countries, from the advanced to the least developed. They have provided funds and advice to assist countries with their economic development and policy-making. At the same

[18] http://74.125.47.132/search?q=cache:F07ZlMy_afUJ:www.globalternatives.nl/file/87+want+to+put+an+end+to+this+system+of+deliberate+exploitation+which+generates+external+debts+for+our+countries&cd=1&hl=en&ct=clnk&gl=us&client=firefox-a

time, they are criticized on many levels—for intrusiveness into the economic and political **sovereignty** of nations dependent on their aid, lack of transparency, and impact of their policies on societies and the environment.

The IFIs have responded with new programs to address these critiques. For example, the IMF has begun publishing Public Information Notices (PINs) regarding their Article IV consultations with governments. Also, the IMF has emphasized "ownership" by client countries of the policies it recommends. Finally, the World Bank and the IMF are cooperating in the **Heavily Indebted Poor Countries (HPIC)** initiative to provide debt relief.

Whether or not these new policies will serve to mollify the IFIs critics remains to be seen. Protests continue against the IFIs, and it is likely that controversy about both them and globalization in general will continue for some time.

Glossary

Adjustment loans: loans given by the World Bank or IMF to countries to restructure their debt. These loans have strict financial and budgetary obligations and require the receiving country to open up their economy to private investment.

Arbitration: a process by which parties resolve their conflicts outside of a formal courtroom and agree for a 3rd party to help resolve the dispute amongst the parties

Balance of payments: The Balance of Payments (BOP) is a statistical statement that summarizes, for a specific period (typically a year or quarter), the economic transactions of an economy with the rest of the world.

Bond market: a financial market where participants buy and sell debt securities. Debt is owed money. Securities are instruments that have a financial value and are issued by companies, governments, and other entities.

Bretton Woods: Toward the end of the Second World War, in July 1944, representatives of the United States, Great Britain, France, Russia, and 40 other countries met at Bretton Woods, a resort in New Hampshire, to lay the foundation for the post-war international financial order. Such a new system, they hoped, would prevent another worldwide economic cataclysm, like the Great Depression, which had destabilized Europe and the United States in the 1930s and contributed to the rise of Fascism and the war. Therefore, the United Nations Monetary and Financial Conference, as the Bretton Woods conference was officially called, created the International Monetary Fund (the IMF) and the World Bank to prevent economic crises and to rebuild economies shattered by the war.

Capital markets: A market where companies, governments, or other institutions can go and raise money (capital) for their needs. Two types of capital are stocks and bonds (debt), hence two well-known capital markets are the stock market and the bond market.

Commodity: an item than has a value and can be traded; it is the same no matter where you buy and sell it. Examples of basic commodities include: crude oil, corn, ethanol, sugar, soy beans, coffee, rice, wheat, gold, and silver.

Conditionality: “Economic policies or structural reforms that [borrowing] members agree to follow as a condition for the use of IMF and World Bank resources [loans] often called performance criteria or benchmarks.” http://www.brettonwoodsproject.org/glossary/index.shtml

Contingent Credit Lines: “IMF credit line established after the financial crisis in 1997-1999. Countries are required to satisfy certain conditions in order to join the CCL to provide emergency assistance.” http://www.brettonwoodsproject.org/glossary/index.shtml

Deregulation: a process in which governments remove, reduce, or simplify restrictions placed on businesses and individuals to make it easier and more efficient to do business in that country

Developing countries: The World Bank classifies countries according to their Gross National Income (GNI) per capita as either low income, middle income, or high income. Low income and middle income economies are referred to as developing economies.

Exchange rates: is equal to how much domestic currency is equal to one unit of foreign currency

Fiscal austerity: government policies that cut budgets and reduce government spending

Fiscal discipline: careful management of a government's budget

Fiscal planning: planning financial matters and/or a government budget

Foreign direct investment: This category refers to international investment in which the investor obtains a lasting interest in an enterprise in another country. Most concretely, it may take the form of buying or constructing a factory in a foreign country or adding improvements to such a facility, in the form of property, plants or equipment.

Float: in the economic sense, to float a currency means that a country's central bank does not interfere with the value of the currency

Free trade: goods and services are bought and sold according to supply and demand (instead of governments determining the price of goods and services)

Heavily Indebted Poor Countries (HIPC) Initiative: Arrangement for reducing debt to institutions, such as the World Bank, debt to other countries, and debt in the private sector for the poorest, most indebted countries.

Industrialized nations: a synonym for developed countries, meaning the country has a high per capita income, high GDP, and developed industries

International Bank for Reconstruction and Development (IBRD): the World Bank. It aims to reduce poverty in middle-income and creditworthy poorer countries by promoting sustainable development, through loans, guarantees, and non-lending-including analytical and advisory-services.

International Center for Settlement of Investment Disputes (ICSID): The ICSID provides **arbitration** services, which are entered into on a voluntary basis, but once two parties agree to submit issue resolution to ICSID, they are required to follow ICSID procedures until the verdict is rendered. Furthermore, all member countries of ICSID are bound to recognize and enforce the rulings that are made.

International Development Association (IDA): The IDA was organized by the World Bank in 1960 to provide additional financial assistance to the poorest developing countries. In order to provide resources on better terms than those that are available from the World Bank, the IDA provides special "credits." These credits are zero-interest loans that have longer payment periods of 35 to 40 years and a grace period of ten years. These types of loans are offered to the poorest countries to help them pursue their development goals, sometimes despite disease and conflict.

International Finance Corporation (IFC): The IFC was established in 1956 and is now the largest public source of financial investment for private sector projects in developing countries.

Inflation: a sustained increase of general prices for goods and services in a specific economy over a specific period of time.

Liberalization: relaxing of government restrictions, usually in social and economic policy. It is not the same as privatization, as a market can be opened to competition, but still includes government-owned companies.

Macroeconomic: the part of economics dealing with the performance, structure, and behavior of national economies as whole. For example, macroeconomics includes studying national income, unemployment, inflation, and international trade.

Market-determined: the market decides vs. a government dictating the price or another feature

Market fundamentalism: belief that free markets (free of government interference) provide the best outcome and that government interference decreases social well-being

Monetary: refers to government or central bank management of the supply of money or trading in foreign currencies

Microcredit: the giving of very small loans to companies or individuals who cannot go to traditional banks to receive a loan

Multilateral: multiple countries working together to on a specific issue

Multilateral Investment Guarantee Agency (MIGA): MIGA created in 1988 to provide risk-balancing insurance services to foreign direct investment projects in developing countries. The typical service offered by MIGA is political risk insurance, which insulates investors against government expropriations, consequences of conflict, terrorism, and similar threats. This allows both investors and lenders to undertake commitments to such projects without the overwhelming downside risk that would otherwise exist. It also enables developing countries to attract and maintain private investment in their countries, which is essential to sustained development.

Organization for Economic Cooperation and Development (OECD): A group of the world's most advanced and wealthiest economies that is both a forum for and an active participant in debates about international economic policies. It was established in 1961 and now has 33 members, including the United States, Canada, Mexico, Japan, South Korea, and most members of the European Union.

Pegged: in financial terms, it occurs when a currency's value is tied to another country's currency value or to something of value (such as gold)

Poverty reduction: This strategy emphasizes getting countries out of what the World Bank calls "poverty traps," such as low productivity, poor infrastructure, and weak public health and education systems.

Poverty Reduction and Growth Facility: developed by the IMF to make poverty reduction and growth more central to its lending operations to the poorest countries

Political risk insurance: a type of insurance that can be taken out by companies against political risk, such as revolutions, political violence, coups, civil unrest, terrorism, or other political conditions that result in loss

Privatization: process where government-owned institutions and/or assets are sold to companies or individuals

Sovereignty: complete and exclusive control of all the people and property within a territory

Structural adjustments: reforms that are required by developing country when seeking a loan by the IMF or World Bank, which ensure a free market where goods and services are bought and sold according to supply and demand (instead of governments determining the price of goods and services)

Supplemental Reserve Facility: A facility to provide financial assistance for countries experiencing exceptional capital account problems resulting from a sudden and disruptive loss of market confidence. Source: http://www.brettonwoodsproject.org/glossary/item.shtml?x=345131

Sustainable development: development that meets the needs of the present without compromising the ability of future generations to meet their own needs.

Washington Consensus: phrase coined in 1989 by John Williamson to describe a set of 10 economic policies that are considered the standard reform package promoted by the IMF and World Bank including: 1) fiscal discipline; 2) redirecting public funds towards key growth sectors such as education, health care and infrastructure; 3) tax reform; 4) Market-determined interest rates that are moderate; 5) competitive exchange rates; 6) trade liberalization; 7) liberalization of inward foreign direct investment; 8) privatization of state enterprises; 9) deregulation, except for those institutions needed for public safety; and 10) legal security of property rights.

World Trade Organization (WTO): an international body dealing with the rules of trade between participating nations

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