World Bank and IMF

Part of: GS-II- International organisation (PT-MAINS-PERSONALITY TEST)

The World Bank (WB) is an international organization which provides facilities related to “finance, advice and research to developing nations” in order to bolster their economic development. It plays a stellar role in providing financial and technical assistance to developing countries across the globe. It is a unique financial institution that provides partnerships to reduce poverty and support economic development. It is actually composed of two institutions namely the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). However, there are five institutions within the larger World Bank group. They are following:

The World Bank Group consists of five organizations:

1. The International Bank for Reconstruction and Development

The International Bank for Reconstruction and Development (IBRD) lends to governments of middle-income and creditworthy low-income countries.

2. The International Development Association

The International Development Association (IDA) provides interest-free loans — called credits — and grants to governments of the poorest countries. It is called the soft loan window of the World Bank. Together, IBRD and IDA make up the World Bank.

3. The International Finance Corporation

The International Finance Corporation (IFC) is the largest global development institution focused exclusively on the private sector. It helps developing countries achieve sustainable growth by financing investment, mobilizing capital in international financial markets, and providing advisory services to businesses and governments.

4. The Multilateral Investment Guarantee Agency

The Multilateral Investment Guarantee Agency (MIGA) was created in 1988 to promote foreign direct investment into developing countries to support economic growth, reduce poverty, and improve people’s lives. MIGA fulfils this mandate by offering political risk insurance (guarantees) to investors and lenders.

5. The International Centre for Settlement of Investment Disputes

The International Centre for Settlement of Investment Disputes (ICSID) provides international facilities for conciliation and arbitration of investment disputes.

Purpose and Function of the World Bank

The World Bank provides low-interest loans, interest-free credit and grants. It focuses on improving education, health, and infrastructure. It also uses funds to modernize a country’s financial sector, agriculture, and natural resources management. The Bank’s stated purpose is
to “bridge the economic divide between poor and rich countries”. It does this by turning “rich country resources into poor country growth”. It has a long-term vision to “achieve sustainable poverty reduction”.

To achieve this goal, the World Bank focuses on six areas:

- Overcome poverty by spurring growth;
- Help reconstruct countries emerging from war;
- Provide a customized solution to help middle-income countries remain out of poverty;
- Spur governments to prevent climate change;
- It helps them control communicable diseases, especially HIV/AIDS, and malaria;
- It also manages international financial crises and promotes free trade.

The International Monetary Fund (IMF)

The International Monetary Fund (IMF) is an international organization that aims to promote global economic growth and financial stability meant to encourage international trade and reduce poverty. It is working to foster global monetary cooperation, secure financial stability, facilitate international trade, and promote high employment and sustainable economic growth. The primary purpose of the IMF is to ensure the stability of the international system - the system of exchange rates and international payments. Although the IMF is an agency of the United Nations, it has its own charter, structure and financing arrangements. The IMF not only works with its 187 members, it also collaborates with the World Bank, World Trade Organization and agencies of the United Nations. To become a member of the IMF, countries must apply and be accepted by the other members. Because membership of the World Bank is conditional on being a member of the IMF, the World Bank also has 187 members. These members govern the World Bank through a Board of Governors. Apart from working with developing countries on individual projects, the World Bank also works with various international institutions, along with professional and academic bodies.

Similarities between the WB and IMF

- Both the International Monetary Fund and the World Bank were formed together at Bretton Woods, New Hampshire, in July 1944. They are called Brettonwoods twins.
- Both were created to support the world economy in their own unique ways.
- Both are headquartered in Washington D.C, the U.S.A.
- They have the same membership as no admission to the World Bank is possible without the IMF membership.
- The management structure of the World Bank is largely similar to that of the IMF. Voting rights in these institutions depend primarily on capital contribution of the member countries.

Differences between the WB and the IMF

Despite similarities, however, the Bank and the IMF remain distinct. Following differences exist between them:

- The World Bank is primarily a development institution but the IMF is a cooperative institution that seeks to maintain an orderly system of payments and receipts between nations.
- The IMF exists to preserve an orderly monetary system whereas the World Bank performs
an economic development role.

- Both have different purposes. The IMF supervises the economic policies of its members and expects them to allow free exchange of national currencies. To keep this financial order, the IMF also acts as a provider of emergency loans to members who run into difficulties, in exchange for a promise from the member to reform its economic policies.
- The World Bank finances economic development among poorer nations by funding specific and targeted projects, aimed at helping to raise productivity. The World Bank consists of two organizations: the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). The IBRD lends to developing nations at preferential interest rates, while the IDA only lends to the poorest nations, on an interest-free basis.
- They have different funding sources. The IMF raises its money through membership fees, known as quotas. Each member country pays a quota based on its relative economic size so that the larger economies pay more. The World Bank raises most of its money through borrowing by issuing bonds to investors. It also receives grants from donors.
- The IMF exists primarily to stabilize exchange rates, while the World Bank’s primary goal is to reduce poverty.

Criticism of the WB and the IMF

- The International Monetary Fund promotes monetary cooperation internationally and offers advice and assistance to facilitate building and maintaining a country’s economy. The IMF also provides loans and helps countries develop policy programs that solve balance of payment problems. However, the loans offered by the IMF are loaded with conditions.
- Critics are concerned about the ‘conditionalities’ imposed on borrower countries. The World Bank and the IMF often attach loan conditionalities based on what is termed the ‘Washington Consensus’, focusing on liberalisation—of trade, investment and the financial sector—, deregulation and privatisation of nationalised industries. Often the conditionalities are attached without due regard for the borrower countries’ individual circumstances. Additionally, the prescriptive recommendations by the World Bank and IMF fail to resolve the economic problems within the countries.
- Both the WB and the IMF have been accused of coercing poor countries to undertake structural adjustment programmes (SAPs) under the aegis of economic globalization. Sometimes, this has led to under-development of these economies bringing severe domestic crisis in multiple dimensions. This contributes to a yawning economic gap between different countries across the globe.
- The World Bank’s role in the global climate change finance architecture has also caused much controversy. Civil society groups see the Bank as unfit for a role in climate finance because of the conditionalities and advisory services usually attached to its loans.
- The WB has been accused of financing unsustainable carbon-intensive developmental projects. Hence, there is an increasing call from environmental activists that the WB and IMF should finance only carbon-neutral sustainable development projects.
- There are also concerns related with the accountability of the projects run by them especially in the Third World countries.
- The WB and the IMF have also been criticised for being western-dominated undemocratic bodies. Decisions are made and policies implemented by leading industrialised countries because they represent the largest donors without much consultation with poor and developing countries.
The IMF has a quota system which is yet to give adequate weightage to the emerging economies like India, China, and Brazil despite their increased economic importance in contemporary times. The global economic centre of gravity has shifted from the “global North” to the “global south”. But these Brettonwoods institutions are yet to realize that even though there has been the formation the BRICS bank and the AIIB.

There are also ethical issues related to the funding of types of projects by the World Bank. For example, the funding of hydroelectric dams in some countries by the WB has resulted in massive displacement of the indigenous peoples.

The WB’s propensity to privilege the private sector and market forces has brought about justifiable concerns regarding the sovereign decision-making capabilities of states getting tied funds from the World Bank.

The Bank’s private sector lending arm – the International Finance Corporation (IFC) – has also been criticized for its business model, the increasing use of financial intermediaries such as private equity funds and funding of companies associated with tax havens.

Critics of the World Bank and the IMF are also apprehensive about the role of the Bretton Woods institutions in shaping the development discourse through their research, training, and publishing activities. Their views and prescriptions may undermine or eliminate alternative perspectives on development.

Critical Role of the Bretton Woods Project

It was established in 1995 by the UK-based Bond Development and Environment Group (DEG) to support civil society to monitor the negative developmental impacts of World Bank and IMF policies and activities. The Bretton Woods Project (BWP) envisions a global economic system that operates on the basis of “primary principles of justice, equity, gender equality, human rights and environmental sustainability". It is supposed to work with “international institutions that are democratic, inclusive, transparent, accountable, and responsive to citizens, especially the poorest and most vulnerable". The Bretton Woods Project focuses on the World Bank and the International Monetary Fund (IMF) to challenge their power. It is meant to “open space for civil society and social movements to contribute to the development of policies that are gender transformative, equitable, environmentally sustainable and consistent with international human rights norms”.

Conclusion

Many of the criticisms aimed against the WB and IMF are historical and may not hold true in contemporary times. The two institutions are trying to reorient themselves as per the changed geo-economic realities and changing developmental requirements. The internal assessment has also been catalysed by the geopolitical and geo-economic impact of the BRICS bank and the AIIB as a challenge to the Bretton Woods institutions. Hence, the national governments should undertake a calibrated economic liberalization maintaining the due autonomy of their decision-making to have a win-win situation in tune with the sustainable development ethics.