

Macroeconomic Literacy Training

by
Health Gap, ActionAid, Partners in Health
and Physicians for Human Rights

Introduction to the IFIs

By
Rick Rowden

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Intro to the IFIs

- The World Bank



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- The World Bank
- The IMF



Intro to the IFIs

- The World Bank
- The IMF
- The regional multilateral development banks (MDBs)



Intro to the IFIs

- The World Bank
- The IMF
- The regional multilateral development banks (MDBs)
 - Asian Development Bank (ADB)
 - African Development Bank (AfDB)
 - Inter-American Development Bank (IDB)
 - European Investment Bank (IEB)



IMF and World Bank Boards of Executive Directors



IMF and World Bank Boards of Executive Directors

– 24 seats



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The Rich Countries Call the Shots

- 24 seats
- 8 held by single countries
(US, Japan, Germany, France, UK, China, Russia, Saudi Arabia)



IMF and World Bank Boards of Executive Directors

The Rich Countries Call the Shots

- 24 seats
- 8 held by single countries
(US, Japan, Germany, France, UK, China, Russia, Saudi Arabia)
- 16 held by groups of other countries:
“constituencies”



World Bank Group



The World Bank Group

- The IBRD – International Bank for Reconstruction and Development



The World Bank Group

- The IBRD – International Bank for Reconstruction and Development
 - designed to give big development loans for financing the rebuilding of European markets after WWII



The World Bank Group

- The IBRD – International Bank for Reconstruction and Development
 - IBRD loans are for middle-income countries (MICs)
 - have near-market interest rates



The World Bank Group

- IDA – International Development Association



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 - gives low-cost, long-term development assistance for projects, budget support and policy reform loans



The World Bank Group

- IDA – International Development Association
 - gives low-cost, long-term development assistance for projects, budget support and policy reform loans
 - IDA loans are for low-income countries (LICs)
 - have subsidized low-interest rates



The World Bank Group

- IFC – International Finance Corporation



The World Bank Group

- IFC– International Finance Corporation
 - gives subsidized loans to private companies in developing countries, usually in partnerships with foreign investors



The World Bank Group

- MIGA – Multilateral Investment Guarantee Agency



The World Bank Group

- MIGA– Multilateral Investment Guarantee Agency
 - gives loan guarantees to international private companies as incentives for them to invest in developing countries



The World Bank Group

- ICSID – International Center for Settlement of Investment



The World Bank Group

- ICSID – International Center for Settlement of Investment
- serves as private “court” that settles investment disputes between foreign investors and their host countries.



The World Bank Group

The World Bank Group has 5 Parts:

- IBRD
- IDA
- IFC
- MIGA
- ICSID



IMF

- International Monetary Fund
 - designed to give short-term loans to countries with trade deficits



IMF

- International Monetary Fund
 - designed to give short-term loans to countries with trade deficits (importing more than they are exporting)



IMF

- IMF Loan Conditions
 - in return for loans, borrowing countries must agree to “structurally adjust” (adopt policies designed to export more & import less)



IMF

- usually this is done by devaluing the exchange rate to make exports more competitive (cheaper) on world markets



IMF

- a devalued currency will help a country to increase its exports (used to pay back foreign creditors), and will make imported goods more expensive, thereby reducing imports



IMF

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- Increased exports and reduced imports are supposed to correct the trade imbalance



Third World Debt Crisis 1980s



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- 2 economic recessions (70s & 80s)
 - countries sell less exports to rich countries



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 - countries pay more for imported energy



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- Commodity Boards broken up
 - prices fall /export earnings collapse



Third World Debt Crisis 1980s

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 - countries sell less exports to rich countries
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 - countries pay more for imported energy
- Commodity Boards broken up
 - prices fall /export earnings collapse
- Interest rates increase on previous development loans



Debt Restructuring & Structural Adjustment

- Rich countries agreed to reschedule debts of developing countries



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- Debts held by private banks would be socialized



Debt Restructuring & Structural Adjustment

- Developing countries would have to agree to “structurally readjust” their economies along neoliberal policy reforms to get IMF-led debt rescheduling



Debt Restructuring & Structural Adjustment

- Developing countries would have to agree to “structurally readjust” their economies along neoliberal policy reforms to get IMF-led debt rescheduling
- Debt rescheduling and new foreign aid became contingent upon adopting neoliberal policies



Neoliberal Policies

- reduce government intervention in the economy



Neoliberal Policies

- reduce government intervention in the economy
- orient the economy towards export promotion to the neglect of the domestic economy



Neoliberal Policies

- reduce government intervention in the economy
- orient the economy towards export promotion to the neglect of the domestic economy
- trade liberalization



Neoliberal Policies

- financial sector liberalization



Neoliberal Policies

- financial sector liberalization
 - market-based interest rates
 - capital account liberalization (CAL)
 - entrance of foreign banks



Neoliberal Policies

- financial sector liberalization
 - market-based interest rates
 - capital account liberalization (CAL)
 - entrance of foreign banks
- exchange rate liberalization



- financial sector liberalization
 - market-based interest rates
 - capital account liberalization (CAL)
 - entrance of foreign banks
- privatization of public companies



Neoliberal Policies (cont.)

- unnecessarily low inflation/deficit targets



Neoliberal Policies (cont.)

- unnecessarily low inflation/deficit targets
- reduce government employees



Neoliberal Policies (cont.)

- unnecessarily low inflation/deficit targets
- reduce government employees
- reduce or eliminate of government subsidies for domestic companies



Neoliberal Policies (cont.)

- imposition of health and education user fees



Neoliberal Policies (cont.)

- imposition of health and education user fees
- wage bill ceilings



Neoliberal Policies (cont.)

- imposition of health and education user fees
- wage bill ceilings
- weaker labor laws



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IMF Structural Adjustment

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- PRGF - Poverty Reduction & Growth Facility (LICs)



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- PRGF - Poverty Reduction & Growth Facility (LICs)
- PSI - Policy Support Instrument



The IMF “Signal Effect”

- Satisfactory compliance with implementing IMF policies (“on track”) is essential



The IMF “Signal Effect”

- Satisfactory compliance with implementing IMF policies (“on track”) is essential
- Receiving a new IMF loan, or extension of an existing loan is seen as a “Green Light” by World Bank & all other major multilateral and bilateral creditors and donors



The IMF “Signal Effect”

- The real power of the IMF is this role as de facto head of the aid cartel



The IMF “Signal Effect”

- Annual Article IV Reports
- Visiting IMF Mission Teams
- Technical Assistance
- Finance Ministry as Interlocutors



World Bank Structural Adjustment



World Bank Structural Adjustment

- SAL – Structural Adjustment Loan



World Bank Structural Adjustment

- SAL – Structural Adjustment Loan
- SECAL – Sectoral Adjustment Loan
- PRSC - Poverty Reduction Support Credit



World Bank Structural Adjustment

- SAL – Structural Adjustment Loan
- SECAL – Sectoral Adjustment Loan
- PRSC - Poverty Reduction Support Credit
- DPL - Development Policy Loan



IMF and World Bank Structural Adjustment Loans

1980s to Today

The names change but the policies remain the same

IMF

SAF

ESAF

SBA

PRGF

PSI

World Bank

SAL

SECAL

PRSC

DPL



Debt Cancellation

- HIPC - Highly-Indebted Poor Countries
 - debts owed to bilateral creditors



Debt Cancellation

- HIPC - Highly-Indebted Poor Countries
 - debts owed to bilateral creditors
- MDRI – Multilateral Debt Relief Initiative
 - Debts owed to multilateral creditors



Debt Cancellation

- Both HIPC & MDRI offer too little debt cancellation and for too few countries



Debt Cancellation

- Both HIPC & MDRI offer too little debt cancellation and for too few countries
- Both HIPC & MDRI require that countries still implement structural adjustment policies in order to get any debt cancellation



“Poverty Reduction”

- 1999 began new rhetorical discourse



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- HIPC debt cancellation



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“Poverty Reduction”

- 1999 began new rhetorical discourse
- HIPC debt cancellation
- ESAF changed to PRGF
- SECAL changed to PRSCs
- PRSP is required to get debt relief



PRSPs

- PRSP – Poverty Reduction Strategy Paper



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- do not waste time on - distraction



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- by-passes national processes



PRSPs

- PRSP – Poverty Reduction Strategy Paper
- do not waste time on - distraction
- by-passes national processes
- does not address actual economic policies



PRSPs

- a wish-list of priorities for insufficient budgets



PRSPs

- a wish-list of priorities for insufficient budgets
- but we want to ask why the budgets are insufficient, and what are the alternatives?

