D-Lab Development
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The Role of the International Financial Institutions in Development

Working in the Poverty Action Lab

Evaluation work on the impacts of poverty related programs

D-Lab is a very local oriented approach
    It is important to know the role of Large Institutions in development

LECTURE OUTLINE
Will tell us about the difference between the IMF and the World Bank.
    They are somewhat similar, and different
    Important to know where they came from, and what their objectives are Macro economics in 1 slide!

International Organizations
We are going to focus on the Bretton Woods Institutions
    IMF and World Bank
    They are under the UN System

IMF and World Bank
Both were established after WWII
IMF was established because of the Great Depression
    Not going to do that again, an institution created to prevent depression
World Bank create in response to desctruction of Europe after WWII
    Established to provide loans to Europe
    Not established to develop the world
They have gov't relationships
    Can only lend to Gov't
    Are owned by Gov't
    If you want something from NGOs, has to be from someone else

Started to give the people who would be lending power to the people whose money was going to be lent

Shift in banking from building things, to thinking about how markets work and creating them

IMF is about macro, exchange rate, rates, balance of payments, inflation
WorldBank is about Micro, health, education, infrastructure, regulatory systems

IMF is short term lending, for a global crisis
World Bank is a longer term

Getting all the countries in the world together to work out and balance what is going on, to prevent crisis. IMF has surveillance to watch over this. IMF can come up with reports, but has no power to enforce change. IE for US, didn't borrow money from IMF, so they didn't have to listen to IMF report that says "you're screwing up the world economy"

IMF lending is usually pretty negligible for any country

If the IMF says, you haven't met your macro conditions, all the other lenders will pull out. The lending of the IMF is about the signal it provides rather than the money. IMF doesn't have the money to prop up a country, but they can coordinate and keep everyone together, so a series of banks don't all pull out of a country, collapsing their economy.

IMF and World Bank are owned by governments

Managing Director of IMF is always European, and the President of the WB is always an American. It is something of a scandal, that the best person doesn't necessarily get it, but a person from one of these countries.

Constituencies in the IMF Executive Directors

- Single country EDs
- Multi country EDs, up the the countries to group together, and represent based upon agreement between these countries.
- China is a single ED country, but sends some flunky who doesn't speak up

This voting simple is not as simple as it is set up, but there is a bit of an imbalance

HISTORICAL GENESIS
IMF

Great depression and countries taking up individual actions to protect themselves, which only ended up spiraling downward for everyone. Led to the rise of Hitler. And everyone said, never again.

World Bank
Post WWII, massive investment needs of Europe. US realized that they needed someone to purchase their goods, so they lended money to Europe so they could.
Bank to a long germ view on investment.
The world would benefit from the rise of Europe.

The objectives of the IMF...
How does it translate into the day to day?
Article one affected how they designed policies, i) promote cooperation

Fundamental to their view of the world:
Trade is good

Keeping exchange rates stable will help trade, though this may not actually be true. There is a lot of trade between US and Europe with fluctuating rates. The main goal is to avoid competitive devaluation.

Reduce the impact of crisis on economy. Keep the trade flowing, by reducing the gate keeper aspect of a government to limit foreign transactions???

Macroeconomics 101:
a series of definitions and budget constraints

Real Sector
one definition, two behavioral constraints
Private Balance + Gov't Balance = Trade Balance
Balance of payments (budget constraint):
if you're bringing in more than you're sending out, then you have to be borrowing money

Fiscal Sector: if you're spending more than your taxes, then you need financing
Finance by borrowing from banks, sell items, issue bonds (borrow from domestic economy) or get money from abroad
Monetary Sector (reasonably predicatble relationship)
How much money we have in our pockets compared to what is going on in the economy

The IMF takes these constraints, and sets conditions on the constraints:
- Trade Balance
- Change of Reserves (keep a certain amount of savings)
- Gov't Balance (how you do it, doesn't matter, just don't have a far out deficit)
- Money Supply
    The IMF cares about relationships between economies
    The IMF comes up with gov't financing, by looking at the sources of financing
    Increasing the amount of money being lent to the gov't from the central bank, then you are just increasing the money supply, and causing inflation

The big difference between a developing country, and a rich country

The US can get away with printing bonds (in the short term) while developing countries can't do this, no one will buy them. Not a source of finance. So developing countries are left with bank financing and external

In a majority of places, if you have CB financing, then you are running up inflation.

Decisions should be made not on "do I really need the cash", but **"does it make sense for the gov't to own this?"**

90% of IMF conditionality comes from the financing of a country
getting access to money that doesn't contribute to inflation
Privatization comes out as a source of financing a lot because of difficulty in accessing other means of finance

Government says we can't meet this budget constraint IMF says no, that's it. After a few days, the IMF says, well, maybe you should try this. According to Glennerster, that is the mistake of the IMF
Not sticking to saying this is the budget constraint (this is the reality of the situation)

Borrowing in foreign currency can hit you hardest when you have a problem, because when you need to pay back, your money is devalued the most

The deal with IMF lending, you figure out how to fit in the constraints, and we'll help you ease those constraints.
Short term example of crop failure, effecting imports, and getting a loan from IMF to overcome that.

World Bank lending deal is to loan money and pay them back with long term benefits. Project lending of roads (which cost money) but which lead to higher outputs.

Up until the past 20 years, the IMF was more of a I'll put money in when I have it, and I'll pull some out when I need it. With things like what happened with Argentina, this is not so much the case anymore.

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