Lecture 5: International Monetary and Financial Organizations

1. The World Bank Group

The World Bank Group consists of five legally separate institutions: - IBRD (International Bank for Reconstruction and Development): Provides long-term loans to member states (mostly middle-income countries) for development projects. It supplements private investment and aims to improve productivity, trade, and living standards. Loans are carefully reviewed and tied to concrete economic goals. - IDA (International Development Association): Established in 1960 to provide interest-free loans (called credits) to the world's poorest countries. Repayment begins after 10 years, over a span of 35–45 years. IDA is funded by donor contributions and supports projects focused on poverty reduction and development. - IFC (International Finance Corporation): Created in 1956 to support private enterprise in developing countries. It provides long-term financing directly to private firms, without requiring government guarantees. Projects must be profitable and beneficial to the host country. IFC also offers advisory services and helps governments with privatization and structural reform. - MIGA (Multilateral Investment Guarantee Agency): Established in 1988, MIGA provides political risk insurance to encourage foreign investment in developing countries. Risks covered include currency convertibility, expropriation, war and civil disturbance, and breach of contract. MIGA also provides technical and policy advice to governments. - ICSID (International Centre for Settlement of Investment Disputes): Founded in 1966 to mediate disputes between investors and states. ICSID offers arbitration and conciliation mechanisms and operates independently within the World Bank framework.

2. International Monetary Fund (IMF)

Founded in 1944, the IMF promotes monetary cooperation and exchange rate stability, facilitates balanced growth of international trade, and provides resources to member countries facing balance of payments problems. IMF operates as a shareholder organization. Each member country's quota determines its voting power and borrowing limits. Quotas are expressed in SDRs (Special Drawing Rights). IMF offers various financial mechanisms: - Stand-by Arrangements: Short-term loans for temporary balance-of-payment issues. - Extended Fund Facility (EFF): Medium-term support for structural problems. - Compensatory and Contingency Financing: For export shortfalls. - Poverty Reduction and Growth Trust (PRGT): Concessional loans for low-income countries. - Systemic Transformation Facility: Used in the 1990s to aid post-socialist economies. Loans come with strict conditionality. Countries must implement economic reforms, stabilize inflation, reduce fiscal deficits, liberalize markets, and improve governance. IMF also provides technical assistance and policy advice.

3. European Bank for Reconstruction and Development (EBRD)

Established in 1991, EBRD supports transition economies in Central and Eastern Europe and Central Asia. It invests in both private and public sectors to facilitate privatization, infrastructure development, and structural reforms. EBRD finances projects through loans (78% of portfolio), equity investments (21%), and guarantees (1%). Minimum financing is €5 million, with flexibility depending on the project's significance. Core principles: - Transition Impact: Projects should support market development and reform. - Additionality: EBRD fills gaps where private capital is not forthcoming. - Sound Banking: Projects must demonstrate financial viability. EBRD also mobilizes co-financing from commercial banks and investors, serving as a catalyst for broader investment.

4. Bank for International Settlements (BIS)

Although not covered in detail in the lecture, the BIS is the central bank for central banks. It fosters international monetary and financial cooperation and acts as a forum for discussion and policy analysis.