

A Brief Introduction to the World Bank and the International Monetary Fund (IMF)

The language of development and the notion of a “Third World” are products of the post-WWII mood / era.

This means that, in a way, as an idea development is inherently contemporary.

Two key, interrelated institutions of development are the World Bank and the IMF.

The World Bank

The World Bank was established in 1945, with ratification of policy developed at Bretton Woods.

Bretton Woods is the nickname for the United Nations Monetary and Financial Conference, held in 1944 in Bretton Woods, New Hampshire. Its goal was to find ways to rebuild Europe and solidify international financial cooperation after the destruction wrought by WWII.

The World Bank is comprised of two bodies: 1. the [International Bank for Reconstruction and Development](#) (IBRD) – this used to be synonymous with the World Bank itself; 2. the [International Development Association](#) (IDA), added in 1960.

The World Bank’s first loan was to France for post-war reconstruction, but after decolonization, and as the European countries got back on their feet, the bank’s lending has been more focused on poorer nations.

“Development” wasn’t overly important to the Bank’s early years, but from the 1960s, once it turned attention to poverty alleviation, it did much to make development – both as a notion and as a set of economic priorities – central to our times.

The germ of this idea was there from the start, however. In a speech supporting the initial proposal for the Bank, John Maynard Keynes stated that “as soon as possible, and with increasing emphasis as time goes on, there is a second duty laid upon [the Bank], namely to develop the resources and productive capacity of the world, with special attention to the less developed countries.”

Keynes was a driving force behind Bretton Woods and helped draft the initial policy documents. His economic theories still inform the Bank’s operations (sort of).

Keynesian economics promote a mixed economy, with the **state** and the **private sector** intermingling. Keynes found flaws in the notion that markets operate best without state intervention. He argued governments should: influence consumer demand to control the nature of production; combat high levels of **unemployment** and **deflation**; actively stimulate the economy by reducing interest rates and investing in infrastructure.

Keynesian economics are part of the structure of the World Bank itself. Membership for nations is by purchase of shares. So it is a financial institution, but its “shareholders” are governments. Their buy-in supplies some capital, but most comes from private investment in bonds and securities.

The Bank’s membership changed a lot with decolonization. For instance, in 1947 there were 44 member countries, 2 of which were African (Ethiopia and South Africa), but by 1971 there were 116 members, 40 of which were African.

The Bank’s response to the changing membership structure was the IDA, which offered below-market interest rates and long-term loans to poorer countries otherwise unable to borrow from the Bank or other private sources. The IDA also expanded the types of projects the Bank would lend to, to include what is sometimes called “social lending”: education, health care, agriculture, housing, etc., instead of roads and dams and the like.

Social lending is what the Bank now emphasizes in its public image campaigns. Before the 1960s the Bank was rarely associated with words like “poverty” and “inequality,” but since the IDA was initiated poverty alleviation has become its main stated goal.

The IBRD lends to relatively okay “middle-income” countries, at interest rates slightly higher than its own borrowings; the IDA provides low or no interest **loans** and **grants** to very poor countries with fitful access to any other credit.

The IBRD is market based – its funds come from private bond sales, etc.; the IDA is funded primarily by replenishment grants contributed by affluent member countries. Of course, loan repayments also go back into the pool of capital.

Today, the Bank’s stated mission is to help **countries** reduce poverty through economic growth via a healthy business environment. They emphasize five factors:

1. Capacity Building
2. Infrastructure creation – this includes legal systems that encourage business and protect individual property rights
3. Development of financial systems
4. Combating **corruption**
5. Research, consultancy and training

It offers two basic types of loans: investment loans and development policy loans. Investment loans support economic and social development projects; development policy loans support policy and institutional reforms.

The Bank also distributes grants for:

- Debt relief
- Sanitation and water
- Vaccination / immunization programs
- Combating **HIV/AIDS**
- Support for **civil society** organizations
- Environmental initiatives

None of these are simple disbursements of money, however. They come with advisors and experts who handle education and training, and facilitate implementation of the projects the funds are meant to go to.

No surprise, the World Bank has faced staunch critique.

- Is poverty reduction or support for US business interests its real agenda? Are these two things even different? The Bank's president is always an American, nominated by the US President, though subject to the approval of member countries. An aside: in 1947 a Soviet representative to the UN called the Bretton Woods institutions "branches of Wall Street."
- Has the Bank increased poverty and been bad for the environment, public health and **cultural diversity**?
- Has it pushed a "neo-liberal" agenda, imposing policies on developing countries which have been destructive and have actually impeded or reversed development?
- Is it an instrument for promotion of "Western" interests? The decision-making structure is inherently undemocratic, since it is the wealthier countries that contribute more resources and thus have a greater share in the Bank and greater voting power. The most powerful countries can even veto decisions of the whole.
- The Bank finances large infrastructure projects, including dams, mines, and road construction. Bank-funded projects have required destruction of rainforests and rivers, and have resettled upwards of 3 million people.
- While the Bank emphasizes that the developed nations have a global responsibility, this doesn't entail admitting any role in causing the conditions they aim to rectify. Remember the dependency theory of development? Well, that the wealth of Europe was built via imperial exploitation of colonial labor and resources is not the sort of responsibility we're talking about. Rather, the Bank "discovers" poverty and sets about alleviating it through lending money that has to be paid back (often with interest; see Escobar); it also privileges projects that will eventually benefit shareholders (see Benjamin). In this critique, the World

Bank needs underdevelopment; and it uses the language of crisis to grant itself unending relevance.

- To insure ongoing funding for IDA projects, the Bank's marketers and image-makers have found it useful to produce and disseminate images of blight and narratives of crisis, images that emphasize the possibility that the peril might be "contagious," slipping across the divide between the developed and the developing world. If the cause of the crisis is poverty, its alleviation requires continual "growth" and permanent structures of development (see Escobar).
- Poverty doesn't just exist out there, somewhere "outside" of our construction of it, or of our narratives about it. Instead, as experts came to see conditions in parts of Asia, Africa, and Latin America as a problem, the domain of thought and experience called "development" arose as a strategy to deal with the discovered problems (see Escobar).
- The World Bank doesn't just "see" or diagnose poverty; it defines what it means to be poor. In 1948 it defined poor countries as those with an annual per capital income below \$100. The language of development implies certain kinds of subjects: powerless, passive, poor, ignorant, lacking historical agency, hungry, illiterate, and oppressed by tradition (see Escobar).

The International Monetary Fund (IMF)

Same origins as the World Bank. Member states are always in both.

Three main stated objectives:

1. International monetary cooperation
2. Expansion of international trade
3. Exchange rate stability

The IMF calls itself "an organization of 185 countries [...] working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty."

The IMF advises members on economic policy and provides assistance to member countries with "balance of payments problems" (ie. inability to pay international debts).

So the IMF helps with debt (and other fiscal issues) while the World Bank funds development projects.

These loans come with requirements for reform or "conditionalities" – meaning, the performance targets set up as a condition for the loan; attaining these targets often involves applying [Structural Adjustment Programs \(SAPs\)](#).

SAPs are sets of policy required for getting new loans or obtaining lower interest rates on existing loans. They are meant to ensure the desired reduction in borrowers' **fiscal imbalances**. They typically – and notoriously – involve, internally, **privatization** and **deregulation**, and, externally, reduction of **trade barriers**.

In recent years, borrowers have taken to writing **Poverty Reduction Strategy Papers** themselves. These take the place of Structural Adjustment Programs with something that increases local input. Still, they have turned out to be rather like their predecessor.

Sources

Benjamin, Bret. *Invested Interests: Capital, Culture, and the World Bank*. University of Minnesota Press, 2007.

Escobar, Arturo. *Encountering Development: the Making and Unmaking of the Third World*. Princeton University Press, 1995.