The successfulness of the programs of the IMF and the World Bank

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1. **Introduction**

The IMF, international monetary fund, and the World Bank are two international institutions who try to help countries who face economic problems. They were established in 1945 at the end of the Second World War. The IMF has it focus on countries that have troubles with their balance of payment and international transactions. The World Bank has put its focus on the more structural problems. Next to economical programs they also provide programs on the more social side, e.g. health, nutrition, and sanitarian facilities.

The IMF and the World Bank are not only available for the poor countries but also for the richer ones. Everyone who is member of these institutions can ask them for a loan, but of course the majority of all their funds goes the poorest countries. These loans are tied to reforms and severe criteria of how to improve the situation. Since there go enormous amount of money (billions per loan) to these countries, this thesis is concerned whether these loans do really help. Do they really make a difference? To focus lies on the low income countries and the research question will therefore be: *can the IMF and the World Bank help low-income countries out of poverty?*

The outline for the thesis will look as follows. First the literature will be reviewed together with the theoretical framework. The third chapter will be about the IMF and the fourth chapter about the World Bank. The fifth chapter about the differences between the IMF and the World Bank. Followed by the case studies of the IMF and of the World Bank in the sixth and seventh chapter respectively. The eighth and last chapter will be the conclusion.

1. **Theoretical framework and review of the literature.**

Before statements can be made about the programs of the IMF and the World Bank clear criteria are needed on which the conclusion will be made. All the countries chosen are countries classified as low income countries and most of them are or used to be on the HIPC list[[1]](#footnote-1). Low income countries are countries that have a GNI per capita of $1025 or less (World Bank, 2013)[[2]](#footnote-2).

The criteria in this thesis are set on whether a country has made the transition to a higher income group or not. I have chosen for this because it makes it easier to compare. It would be harder to make conclusions and comparisons if the criteria would be based on e.g. GDP (growth), inflation reduction, government deficit reduction etc. since every country has a different starting point in these indicators. When they are to be compared on income levels, like now, they all start from the same point, low income country. Eventhough the economic indicators are not the criteria, there will still be looked at since they are important and influential for the transition to a higher income group.

All the data and information will be collected from the IMF and World Bank websites and data bases, the CIA fact book, and the UN data base. Additional information is retrieved from smaller news articles and lectures about the IMF and the World Bank.

1. **The IMF**

*3.1 History*The International Monetary Fund is an international institution who works to foster global growth and economic stability (IMF, 2013). The IMF was established in 1945 together with the Bretton Woods[[3]](#footnote-3) and had 29 members at the time. After the great depression and the Second World War the economy was a mess and the IMF was charged with the task to rebuild it. They monitored the international monetary system to make sure that there was exchange rate stability and more free trade. As the years passed more and more countries started to join the IMF. Among these were many African countries who became independent.

Until 1971 all member countries were obliged to keep their currency pegged to the US Dollar as was stated in the Bretton Woods agreements. After the collapse of the Bretton Woods the countries were free to choose their own exchange rate regimes. The majority of the countries choose to have a floating system. People feared that this wasn’t a good choice but after the oil shocks in 1973 it turned out to be quite useful. Countries could more easily adjust to shocks than with a fixed or pegged exchange rate regime. This didn’t apply only for oil shocks, but for all kind of external shocks.

When the Berlin Wall fall in 1989 the communist dominance become less and more countries were able to join the IMF. In three years time the membership increased from 152 to 172 countries. It was the first time the IMF needed to help countries to transfer their planning economies into market driven economies. Therefore it didn’t went that smooth but they succeeded.

The next event that made countries ask for help was the Asian crisis that started in 1997. The countries dragged each other into the crisis. During the crisis the IMF came under heavily criticism and they decided that they needed some huge reforms when preventing and helping countries form poverty. The main lesson they have learned was that they needed to look more to a country’s banking sector and macroeconomic situation.

The last time that the IMF needed to reform its lending rules was during the 2008 financial crisis. Suddenly wealthy countries who used to have a strong economy came asking for help. The lending fund was tripled because more and more countries came asking for help and IMF was obliged to give the funds more easily. The world needed a global boost. Right now the IMF is still busy with it.

*3.2 How do they work*

At the moment the IMF has 188 member countries. To become a member you need to apply and the other members need to approve. Each member is assigned a quota, which is based on the relative size of the member in the world economy. The quota defines the relationship between the country and the IMF and includes the following: Subscriptions, voting power, access to financing and SDR allocations. Every now and then the quotas are revised and changed if necessary to the current economic circumstances. The subscription is the maximum amount of financial resources the member country has to pay to the IMF. 75% of the amount can be paid in their own currency; the other 25% must be paid in the IMF’s own currency (SDR) or in widely accepted currencies. The votes a member state can have consist of basic votes, this is 5.502% of all votes, and of additional votes, a member can get an extra vote for each 100.000 SDR they pay for the quota. The access to financing states how much you can borrow from the IMF, this amount is a certain percentage of the quota the member state paid to enter the IMF. The percentage depends on the type of the loan. The SDRs, special drawing rights, act as a foreign exchange rate reserve and are actually a claim of the member states currencies to IMF. The SDRs can only be exchanged for Euros, US dollars, pound sterling or Japanese yens. The votes can be used when decisions have to be made that concern several or all countries. Recently there has been a shift in the votes of the countries to make sure that the emerging and developing countries still have a vote and are not overrun by the big economies. It gives especially more voting power to the BRIC countries (Brazil, Russia, India and China).

Most people know the IMF of giving loans to countries with economic problems but this is only one of their activities. As stated before the IMF strives for international monetary cooperation, a stable exchange rate regime, tries to facilitate growth, and gives loans to member states to reduce poverty and help them with problems with their balance of payments. They have several means to achieve this. First of all they give advice to governments and central banks about economic trends and cross country experiences to prevent possible upcoming problems. This is also known as bilateral and multilateral surveillance. To be able to give these advices they do a lot of research, statistics and economic forecasts based on all the information provided by the member states and other institutions. They try to facilitate the growth of international traded by providing these countries of information, promoting job creation and reducing poverty. The latter is done by giving concessional loans to developing countries, normal loans to countries with economic problems and by providing trainings and technical assistance. The training and technical assistance are given in four main areas: fiscal policy and management, monetary and financial policies, economic and financial legislation, and management and improvement of statistical data. The main focus here will be put on the lending programs to the developing countries.

*3.3 Lending*

According to the IMF the purpose of lending is*”...to give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.”[[4]](#footnote-4)* **This purpose can be divided in three categories. First to smoothen the adjustment to various shocks, to protect against sovereign default and contagion of other surrounding countries. Second, to make other ways of financing and lenders accessible. The third purpose of lending is to prevent crises.**

Any member country that has balance of payments difficulties, is unable to pay international bills or faces problems of stability can ask the IMF for a loan if and only if the country otherwise is not able to find sufficient financing with affordable terms in the capital markets. The country specific needs to ask for it, because the IMF is not providing the loans by oneself. The IMF has two different types of loans. A normal loan, which is designed to restore macroeconomic stability, international reserves and other factors needed to stimulate growth again. This is not only for the poor countries, any member country can ask for it. The second is a concessional loan, which is designed to help low income countries to reduce poverty and improve their economies.

The type of loans the IMF provided to the different countries has been changing a lot over time. In the beginning the majority of the loans went to industrial countries, but after the oil crisis’s in the 1970s many low and low-middle income countries needed loans of the IMF. During the 1990s the loans shifted to Eastern Europe to the emerging market economies. In 2004 there was a sharp drop in demanding loans, more and more countries were repaying instead of lending, but this came to an end in 2008. The financial crisis started and over 50 countries already asked for help.

After a country has asked for help the government and the IMF will discuss the situation and the problems the country is facing, based on that they will agree on a program of aims they want to achieve and policies they want to use to strengthen the economy. Normally these programs last for 3 years and every time the country achieves one of the targets/goals they receive another part of the loan. If after 3 years the program was not sufficient there is the possibility to start with a new program.

When countries asked for loans the Stand-By Arrangement (SBA) has been used many times. The SBA is used for middle income, advanced and emerging economies and meant to respond quickly to help them out of a crisis and restore growth. The SBA normally takes 12 to 24 months, with a maximum of 36 months. The accessibility a country has to the financial resources of the IMF depends on their records with the IMF, the capacity to repay and the financial amount needed. Before the member receives the funds it needs to agree on solving the problems that caused the need for financial help. These agreements are written down in the letter of intent and the IMF will periodically control the progress of the country. They do this by quantitative control on e.g. targets for reserves and government deficit, by structural measures and by frequent reviews who, if necessary, can modify the targets. The repayment of the loan has to be done in 3.25 to 5 years after the date of disbursement. The interest rate the IMF is asking is lower than the market interest rate but is still linked to it. Every week the IMF computes the interest rate they are asking, as the short term rates of the major international markets are changing rapidly as well. The rate for this quarter equals 0.06. The maximum a country can lend depends on the type of the loan and on the quota for that specific country, most of the time it is a multiple of the quota. In exceptional cases the limit can be exceeded.

Within the SBA there exist several different lending programs. The Flexible Credit Line (FCL) is used for countries that have strong policies and policy implications and deal with strong fundamentals. Since the countries have strong records and policies, they can draw funds any time after they have asked for this loan. The FCL is normally held for two years. The Precautionary and Liquidity Line (PLL) is designed to prevent and overcome balance of payments difficulties which can be caused by a broad range of circumstances. The Rapid Financing Instrument (RFI) is used for urgent causes and consists of small funds. It assists countries who have financial problems due to smaller problems like a price shock or natural disaster, but which are not severe enough to apply for a full program. The Extended Fund Facility (EFF) is used for countries who have structural problems and need to reform institutions and/or markets. The last program, Trade Integration Mechanism, is meant for developing countries who face trade problems after the multilateral aid has stopped.

The loans granted to low income countries are concessional and consist three different programs. The Standby Credit Facility (SCF) is used for countries who have short term balance of payments difficulties. It applies for a wide range of circumstances and places a greater emphasis on the poverty reduction and growth. It bears a zero interest rate and has a maturity of 8 years. The Extended Credit Facility (ECF) works the same but is designed for countries who face persisting balance of payments difficulties. It carries a zero percent interest rate and has a maturity of 10 years. The Rapid Credit Facility (RCF) has the same structure as the Rapid Financing Instrument but since it is for low income countries is has significantly more concessions.

Some of the low income countries who really face a lot of difficulties fall under the program of the HIPC. The Heavily Indebted Poor Countries have too much debt and will receive debt relief for a part of their debt. The main goal with aid for these countries is to restore sustainability on all fronts.

*3.4 Cooperation with other institutions*

To achieve its goals the IMF does not work alone, they cooperate with the World Bank, the World Trade organization, UN agencies, the G-20, regional development banks, and several think tanks and the media. The fact that all these organizations and institutions are specialized on different fields makes it better and easier to work together. The IMF and the WTO work together on the field of trade, debt and finance. Also the information about the Balance of Payments is important to the WTO because that determines partly the trade restrictions the WTO will impose. The IMF and the UN attend each other meetings and work together on quite some areas. The IMF has joined some programs of the UN like the UN children’s fund, the World food program and the UN environment program. Together with the G-20 they try to boosten economic growth. The IMF provides them also with an analysis on the global economic conditions and how the G-20 can achieve their goals. Next to the big international companies, they work also together with the more local and regional organizations. The reason for this is the maintenance and growth of employment levels and job creation. The IMF has no expertise in this field but it is included in the all lending programs they provide and therefore they need the help of regional experts. At last the IMF has regularly contact with the media and with civil society organizations. Every now and then they organize think tanks to receive new ideas.

The main actor with who the IMF works together is the World Bank. Even though they differ a lot they can complement each other easily. They do not only complement each other but also need each other while helping a country. If a country asks for help and the IMF provides loans and manages to improve the balance of payments, exchange rate stability, etc. to perfect levels, but the situation on the country side and in the city is still really bad w.r.t. infrastructure, irrigation, production techniques, energy, etc. then the program does not have much use. It is exactly the same the other way around. If the World Bank manages to improve the living situation, sanitarian conditions, health, infrastructure etc. but the international exchange system just does not work, then the country is doomed to keep the status of low income country with a bad economy.

*3.5 Critics on the IMF*

Not everyone praises the IMF and the way they work. A well know criticism is about the voting power. The voting power is based on the amount a country pays to the IMF and not based on the population. According to the critics they therefore serve the interests of the more powerful western countries. Another criticism is on the loans. First of all you to have to apply for the loan yourself, the IMF will never provide aid by oneself. When you receive a loan the IMF poses many restrictions and conditions on the loan you have to follow otherwise they will call in the loan. They also say that these conditions haven’t really helped the countries but only served big corporations to exploit new opportunities, workers and natural resources (2000). There is also a big criticism about neoliberal onslaught, neoliberalism “ *refers to the policies and processes whereby a relative handful of private interests are permitted to control as much as possible of social life in order to maximize personal profit”.* they don’t accuse the IMF of doing this but they accuse the IMF of serving many companies who do this. Their prove: a characteristic of neoliberalism is deregulation and less government in the economy, this is exactly what the IMF does in all its programs it has in the countries to whom they provided loans .

1. **The World Bank**

*4.1 History*

Also the World Bank was established in 1944 with the Bretton Woods. The objectives of the World Bank as stated by the Bretton Woods are: the promotion of development, the promotion of private international investment, the promotion of the expansion of international exchanges and the financial contribution to the most urgent and useful projects. This all fell under the main objective, rebuilding and reconstructing. This was an urgent need right after the Second World War. Their first loan, just like the IMF went to France for post war rebuilding. In 1971 the Bretton Woods collapsed, but the World Bank did not. The reason that they did not collapse was that their projects were based on long term contracts and that they moved away from their original objectives. Today’s focus is mainly on poverty reduction.

During the years the main focus of the projects has differed a lot. It started with debt and macroeconomic problems and ended with social and environmental problems. Both periods were intertwined with projects for natural disasters and humanitarian aid. Some examples follow. In 1950 they invested in reconstruction and modernization of the steel industry in Luxembourg, France and Belgium. In 1964 there went a great amount of money to develop an advanced railroad network. In 2000 they started the war against aids and have reduced it with 19% since then. Recurring projects are water programs, agriculture programs and food programs in 1948, 1960, 1974; 1971, 1973; 1985 and 2008 respectively.

*4.2 How do they work*

The World Bank consists of five different institutions who all work together for the same objectives. The international bank for reconstruction and development provides the loans to the low- and middle- income countries and to the governments. The international development association established in 1960 provides interest free loans to the governments of the poorest countries. The international finance corporation gives loans, equity and technical assistance to strengthen and stimulate investment in the private sector in developing countries. The multilateral investment guarantee agency provides guarantees for investors in developing countries against non-commercial risks. The international centre for settlement of investment disputes established in 1966 provides international facilities for conciliation and arbitration of investment disputes (World Bank, 2013).

Fighting against poverty and improving the living standards in the developing and low income countries are the main objectives of the World Bank. At the moment they are involved in 1800 projects in many different sectors and countries. The most common and important actions the World Bank carries out in those projects are: funding education, fighting against HIV and AIDS, finance water supply, finance sanitary, finance biodiversity projects and fight against world corruption.

*4.3 Lending*

The resources the World Bank has available for reducing poverty can taken from of the standard loans and credit just like the IMF or it can be advisory services and technical/capacity building assistance. The amount of which the loan will consist depends on the objective of development, the results, the performance of that specific country and the plan of implementation.

*4.4 Cooperation with other institutions*

Just like the IMF the World Bank cooperates with many other international institutions, the civil society and donors, both at the regional and global level. The World Bank works together with the Multilateral Development Banks on all continents, they provide the development countries of professional advice and financial support. Next to these big banks they also cooperate with multilateral financial institutions like the European Investment Bank and the OPEC Fund for International Development and some smaller sub-regional banks who were established for development aid. Many development groups specialized on one particular field have a partnership with the World Bank as well. Another big player in the partnership are the United Nations. They have many meetings on climate change, human development and fragile states and interchange information to make the projects successful as possible. And of course they also collaborate with the IMF.

In 2000 the Millennium Development Goals were set up. This is a global partnership between an enormous group of organizations. They adopted seven targets to reduce hunger, illiteracy, hunger and poverty. The World Bank works together with many of these organizations. Some of them are: Joint United Nations Programme on HIV/AIDS, Stolen Asset Recovery Initiative (against laundering and corruption), Harmonization for Health in Africa, The Carbon Fund (to reduce greenhouse gas emissions), Roll Back Malaria, Water and Sanitation Program, Infodey (innovation, technology and entrepreneurship) and many more.

* 1. *Critics on the World Bank*

Also on the World Bank some critics have been raised. One of them is about the improvement of economic growth. The problem they say is about the definition of economic growth, it is defined in western concepts and they don’t look at the local and cultural values of not western countries (2000). An example of this is the “Green Revolution” it refers to industrialization and a large use of expensive machinery, fertilizers and chemicals. The consequence and another point of critic of this is that it opens new markets for the richer countries who coincidentally sell all these products.

1. **Differences between the IMF and the World Bank**

The main actor with who the IMF works together is the World Bank. They complement each other a lot, but they have also many differences. The two main differences are based on the target of the loans and the financing of them. Both the IMF and the World Bank were created during the Bretton Woods to promote international trade and financial stability, but the IMF is focused on the short run and macroeconomic stabilization, while the World Bank is focused on the long run, development and structural adjustments to reduce poverty. This comes back into the target zones of the loans. The IMF loans are designed for assistance in paying imports, stabilizing currencies and restoring economic growth. The World Bank loans are designed for long term projects like financing the infrastructure, reforming sectors of the economy and broader structural reforms. The other main difference between the two is that all the money the IMF has in its funds comes from the member countries (paid by their quota when they enter), while the money the World Bank has available comes from the different banks of all the member countries. Not only the banks attribute to the funds of the World Bank, the larger part is obtained by engaging in loans on the financial market and by selling bonds and notes, the funds for the concessional loans come most of the time from donor countries (Discoll, 1995). Because the World Bank gets most of its funds from the private market it provides loans easier to those who can pay back (Dreher, 2004). The IMF’s main object is not being a lending institution as the World Bank is. The main priority of the IMF is to oversee the international monetary system. While the World Bank really provides loans the IMF is more providing credit. Also the repay conditions of the loans differ for both institutions. The maturity date for the IMF loans are three to five years while the maturity for the World Bank loans are 12 to 15 years, this is also due to the difference in the purpose of their loans, short term and long term respectively. The interest rates the IMF poses on loans are a little bit below the market rates. The rates of the World Bank for the middle income countries and higher are just above the market rate, but the interest rates for the low income countries are 0% and they even have a maturity date of 35 to 40 years (Discoll, 1995). Another difference between the two institutions, also due to their purpose for the loans, is the focus on the countries. The IMF assists all countries that are a member, the World Bank does this too, but gives priority/has a larger focus on the developing countries. To become a member of the World Bank you first need to be a Member of the IMF. Because they both have the same member countries is it easier to collaborate and share information.

1. **Case studies IMF**

The two countries chosen for the IMF are Bosnia and Herzegovina, and Croatia. The reason for the first country is not quite clear, it was the first low income country to find information about easily. The choice for the second country is more reasonable, by choosing a country with relative similar circumstance makes the comparison easier, since some possible influential factors are now excluded because both countries have them.

*6.1 Bosnia and Herzegovina.*

Bosnia and Herzegovina is country in the south east of Europe and exists since 1992 when Yugoslavia fell. They have been at war until 1995 with some other regions from the former Yugoslavia. The signing of the Dayton Agreement[[5]](#footnote-5), which divided the country in two parts, the Federation of BiH[[6]](#footnote-6) and the Republika Srpska, ended the war. There economy based on agriculture and minerals industry was heavily damaged during the war. Before the war they had a GDP per capita of US$2446,- and after the war it had declined to US$665,-. Right after the signing of the Dayton Agreement they joined the IMF and started constructing central banks and other economic institutions. Even though the country wanted to improve their economy, the first 2 years after the war there were no plans or programs to do so at all.

From 1998 to 1999 some donor countries (Italy, Sweden, Switzerland and Turkey) started to help Bosnia and Herzegovina with their economic situation. Plans and strategies were made for the statistical level. Bosnia and Herzegovina gave a list of what they thought was very important to improve right now. Some examples of what was on the list are: English training for all staff, demographic statistics, statistics for trade, labor force, employment, etc. and computer training. The donor countries gave their support on these areas and they also offered visits to their own country so that they could learn how it was done elsewhere. They had some successes, there came a proper balance of payments with its statistics, there was an improvement of their monetary statistics (mostly done by the IMF), a small development of the national accounts and many meetings were planned with experts. But the only problem was, there were still no strategies and plans on country level to improve their economy.

From 2000 until 2003 there was a new period of development aid from the donor countries and the IMF. The main objectives of the donor countries were excessive training for statisticians, better coordination and new collections of data. The latter one was done by holding many surveys of all different kind of topics. The two most important surveys were the Household Budget Survey and the Living Standards Measurement Survey.

The IMF focused on the improvement of the macroeconomic situation, but also on the statistical part. They supported the development of more statistical laws, more coordination with other countries on macroeconomic statistics, etc. They quite succeeded in it, new statistical laws were established, many changes have been made in the banking sector which greatly improved the quality, organization and efficiency, and also the monetary statistics experienced a great improvement.

Unfortunately, Bosnia and Herzegovina also rejected many changes and transformations the IMF proposed.

In 2004, 6 years after the war, a comparison has been made to see what has been achieved so far. The IMF has seen many improvements in: the government, the political economic setting, there has finally been peace in the country, the economic growth rates has been increasing and inflation been falling to normal levels. With the new legislation in the bank sector there is a stable and confidential fiscal environment by now. The country has even started with making foreign investments. Even though Bosnia and Herzegovina has grown a lot, they are still below European standards on several aspects. E.g. their GDP per capita is the still the lowest of Europe and there is a high unemployment rate.

The following years the economy continues growing as well as the export of the country. They have joined more international institutions and their aims are acceleration of integration in the European Union, being more competitive and strengthening their fiscal system. Only in 2009 the economy goes down due to the financial crisis in Europe. The problems that rise are high unemployment, poverty and a current account deficit. Their main object afterwards was to reduce spending on public sector wages and social benefits so that they will meet the criteria of the IMF to obtain loans for a new program. The new program is based on reducing governmental spending and strengthen the revenue collection. Economist have already a positive look on it again.

When we look back on what the IMF (and the donor countries) has (have) done, we can say that they have helped the country. After the war the country started with nothing, everything was heavily damaged and there were no information or statistics whatsoever available. The IMF had actually to build from scratch on. As said above there have been many changes and reforms with nice results. The most important ones are the increase in economic growth rates and the achieved high standards for monetary statistics. Of course they had a drop in their economy as well during 2009, but almost every European has suffered/is suffering under the financial crisis. The country is again receiving aid from the IMF and also the future looks bright again for them. At the moment they are classified as middle income country.

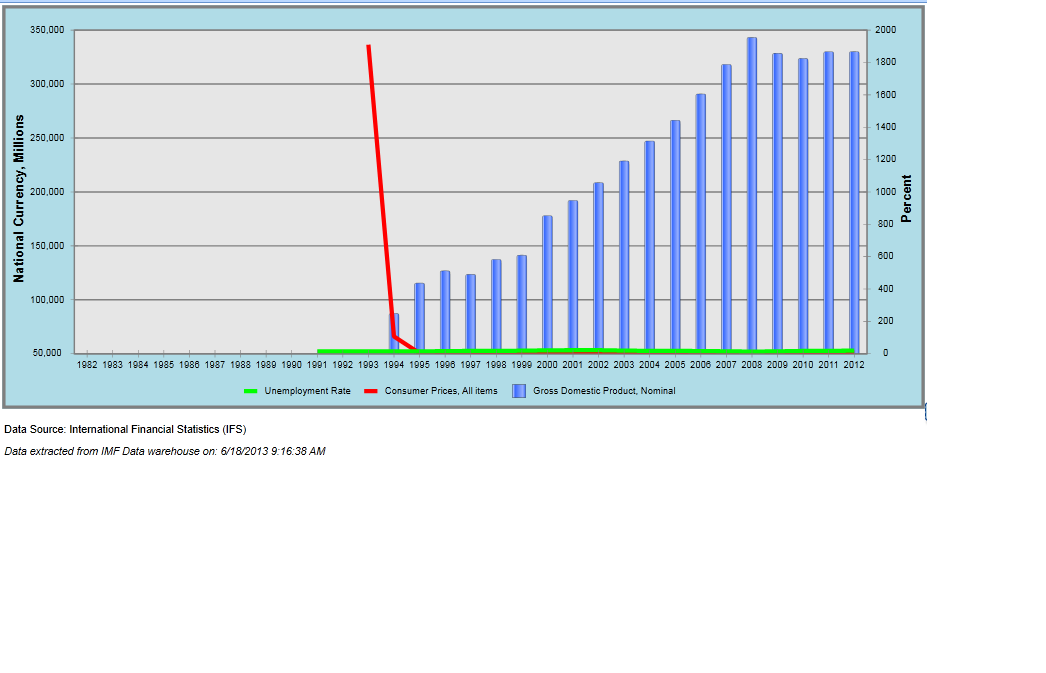
*6.2 Croatia.*

Croatia is a country in the east of Europe and lies north to Bosnia and Herzegovina. Croatia was also part of former Yugoslavia, but declared independence in 1991. Just like Bosnia and Herzegovina they have been at war for several years during that period. In the period from 1991 till 1993 Croatia faced a huge decrease of 30% in their real GDP; “ *Croatia began the transition to a market economy with high and rising rates of inflation, economic disruption owing to the break-up of the former Socialist Federal Republic of Yugoslavia, and the unsettled regional security situation”* (IMF, 1995; 1997). In 1993 they received the first loan of the IMF, by the stand-by agreement (about US$103 million). They managed to reduce inflation, have an emerging private sector and surpluses on the budget and current account, but the program and structural reforms progressed slowly due to safety problems in the region.

The program from 1995 onwards had three main objectives: establish a continuing GDP growth, an inflation target of 2.6% and a deficit of 0.5% of GDP. Next to this they wanted a tight monetary policy and increased spending on military, salaries, reconstruction projects and social safety (IMF, 1995). Many businesses in Croatia are state owned, a ministry of privatization was established to reform most of them to private owned. Also the reform of the banking sector was an important activity for the government. Unfortunately they obtained only one out of the three programmed goals. They achieved the inflation target, it was set at 2.6% and Croatia had a rate of 2% but GDP growth was 1,5% instead of 4,5% and the deficit was 1% instead of 0.5% (IMF, 1995). But it is not all bad news, they managed to increase the reserves, make structural reforms at an increased pace and implement new laws that strengthen the economy.

In 1997 they received another three year program, this time via the extended fund facility[[7]](#footnote-7). This time the focus lies on strengthen the stabilizations and improvements they have made so far, provide postwar reconstruction, both material and mental related, and create a strong external competitive market. IMF had imposed new targets as well, GDP growth of 5,5%, inflation rate of 3,5%, deficit 3% or less of GDP and reserves high enough to cover three months of imported goods and services (IMF, 1997). There are quite some structural reforms that need to be made: privatizing and restructuring banks and stated owned businesses, develop financial markets and improve fiscal management, and reduce trade disruptions.

In 2001 there has been a review on the stand-by agreement given to Croatia. Anne Krueger (managing director) stated in the review: “*The Croatian authorities are likely to either meet or exceed the original growth, inflation and international reserve objectives under their program. The authorities’ reform program, improved the access to foreign markets, and the strengthened regional security situation have contributed to this strengthening of macroeconomic performance”*(IMF, 2001)*.* The improvement of Croatia can be seen in graph 1 below as well.[[8]](#footnote-8)

**Graph 1. Unemployment, Inflation and GDP of Croatia.**

A second review in 2002 states (again) that the country has continued with growing. More and more investments have been made, GDP has a stable growth of 4% average annually. They continue to keep inflation rates low and the exchange rate stable. Croatia benefits mainly from its large tourism sector, which keeps increasing. But they face a weak fiscal position and structural reforms have slowed down which caused an efficiency level lower than that it could have been. Still Croatia has transformed itself from a poor country to a relative wealthy country in Europe and is also classified as high income country. The change in some economic indicators can be seen in table 1 below.

**Table 1. Economic indicators of Croatia.**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | 1995 | 1997 | 1999 | 2000 | 2005 | 2010 |
| GDP growth | 6.8% | 6.6% | -0.4% | 3.8% | 4.3% | -1.2% |
| Inflation rate | 3.5% | 3.5% | n.a. |  |  |  |
| GNI per capita US$ |  |  |  | 4881.7 | 10370.2 | 14388.0 |

Source: IMF news on Croatia.

1. **Case studies World Bank**

The three countries for the World Bank are Uganda, Democratic Republic of Congo and Zambia. The choice for the first country, Uganda, was because this country showed up quite often in the news part of the World Bank webpage. The reasoning for the other two countries is the same as for the IMF countries, id est., looking for countries with similarities to exclude possible influential factors.

*7.1 Uganda.*

Uganda is a country in the east of Africa and has Kenya, Tanzania, Rwanda, South Sudan and Congo as its neighbors. Uganda used to be a British colony and became independent since 1962. After a military coup by Idi Amin in 1971 the whole economy collapsed. This was followed by more coups and civil conflicts. Uganda became one of the poorest countries in the world with an inflation rate of 240%, GDP per capita lower than US$300 and a poverty rate above the 60%. There is a huge inequality between men and women, as a consequence women have problems finding a job and end up staying at home or in the prostitution. In the latter case it are mostly younger girls and without protection the majority has HIV.

Since 1961 the World Bank has had projects in and with Uganda to improve the situation. There have been 188 projects in total of which 129 are closed by now (World Bank, 2013). Uganda has a really fertile ground with a lot of natural resources, the majority of their economy is therefore based on agriculture, with coffee as the main product for export. Therefore many of the projects were based on the agriculture sector. The agriculture credit projects aimed to improve the production techniques and effectiveness. The cotton/beef/tea/etc projects were implemented to increase the food production and the living standards of the farmers.

Next to this, there were also many other projects, not solely based on agriculture but also on other aspects necessary to improve the situation. Many road projects have been implemented, not only to improve/constitute highways but also to improve the roads from the countryside to the markets. The water projects financed (better) irrigation systems and also better water and sanitarian facilities in general and flood protection. The education programs built schools, trained more and more teachers and provided textbooks, library book and typewriters for both primary and secondary education. The health programs continued the fight against HIV/AIDS, provide better health centers and provide better prevention by supplying vaccines. The Energy projects look for possibilities to make use of renewable energy by e.g. strengthening dams, but they also try to provide more households with electricity. There are also smaller programs that focus on less big but still important fields, e.g. general administration for healthcare, education, personal details etc.

After the 1990’s the huge improvements Uganda had made become now visible. The poverty rates have been decreasing drastic. They started with a rate over 60%, decreased this to 56% in 1992, 31% in 2005 and 24.5% in 2009. They only had a small increase in the year 2002, but continued decreasing afterwards again. This can also be seen in the table below. Also the inflation rates have experienced an enormous drop. While they started with a rate of 204% in 1987 they decreased it to 42% in 1992 and 5.1% in 2003. It only increased to 18.7% in 2011, but has now been decreasing again. GDP has been growing again for many years. During the 1990’s the average growth was 6.5% and from then until 2011 the average has been a growth rate of 7,1%.

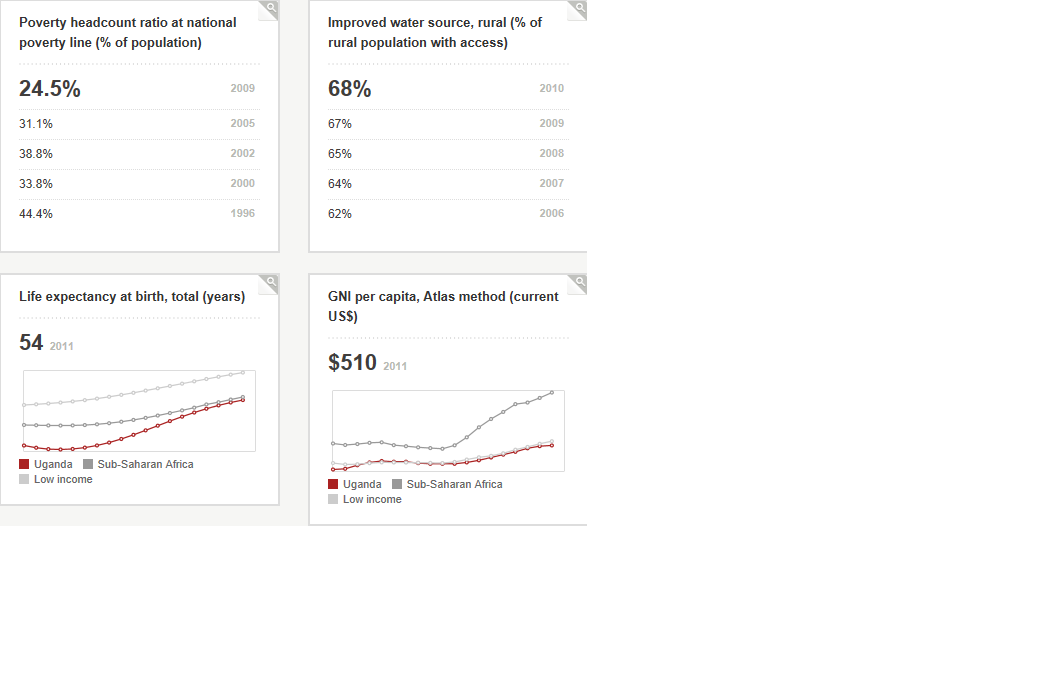
Unfortunately there is also some bad news. Eventhough Uganda faces good growth rates for GDP, the GDP per capita of US$506 is still very low and below the Sub-Saharan average of US$600. This is due to an increasing population. In 2000 they had accumulated so much debt (US$ 2 billion) that they were on the list of the HIPC[[9]](#footnote-9). In 2006 they got off the list, but in 2010 they showed up again on the list. There have been many power projects but in 2009 there was only 12% of the households who used electricity. They are of track with their programs for health and primary education (especially on reading and mathematics (World Bank, 2013)). Uganda still has a long way to go before they can reach the status of middle income country. Some redeeming features are the parity reached in school enrollment for boys and girls, a growing importance of the service sector and the discovery of gas and oil.

The results can also been seen in table 2 and graph 2 below.

**Table 2. Macroeconomic indicators for Uganda.**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | 2011 | 2012 | 2013 | 2014 |
| Real GDP growths | 5.9 | 4.4 | 4.9 | 5.5 |
| Real GDP per capita growth | 2.7 | 1.2 | 1.8 | 2.4 |
| CPI inflation | 18.7 | 14.6 | 10.2 | 7.8 |
| Budget balance % of GDP | -3.6 | -3 | -4.9 | -6.2 |
| Current account % of GDP | -10.9 | -11.6 | -13.3 | -14.6 |

Source: OECD data Uganda. Figures for 2012 are estimates; for 2013 and later are projections.

**Graph 2. Social indicators of Uganda.**

Source: World Bank data Uganda.

*7.2 The Democratic Republic of the Congo.*

DR Congo is situated in the middle of Africa and surrounded by Angola, Zambia, Congo and South Sudan for instance. The DR Congo used to be a Belgium Colony and became independent on the 30th of June in 1960. The years after were marked by instability. In 1965 Joseph Mobutu claimed the country by a coup and changed the name into Zaire. He stayed at his position for 32 years and the country has known many civil wars. In 1997 his regime was ended by Laurent Kabila who took power afterwards and renamed the country to The Democratic Republic of Congo. The country was attacked in 1998 by rebellions from Rwanda and Uganda, who had supported Mobutu, but they got help from their other surrounding countries. Kabila was killed 3 years later and his son became the new leader.

The first program the World Bank made in DR Congo was in 1951, it was a development project. The projects that followed were agriculture projects, educational projects, health projects, infrastructure projects, water projects, administration projects and some smaller projects of subgroups of these main objectives. They were actually quite the same as for Uganda. In 1992 they stopped with all their projects because of heavy corruption and much insecurity in the country, but they continued again in 2001. The new president was eager to improve the situation in the country. He signed peace contracts with the surrounding countries, held national referendums and presidential elections, created parliamental institutions and assemblies and wants to cooperate with the World Bank to improve the situation. The programs were focused on the government itself, decentralization, more transparency and public finance management were main targets, and on the three main sectors, mining, security and public enterprises. Because of the restored peace it became easier to implement these reforms. The hyper inflation has been brought down, growth and reserves have been increasing. The numerical results can be seen in table 3 below. Unfortunately there is not much data know of the previous periods.

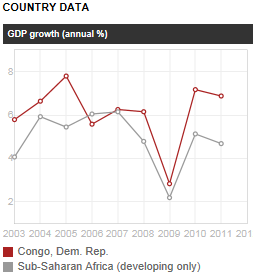
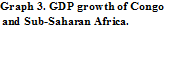
**Table 3. Economic indicators of The Democratic Republic of Congo.**

|  |  |  |  |
| --- | --- | --- | --- |
|  | 2000 | 2005 | 2010 |
| GDP US$ (million) | 5268 | 7166 | 13230 |
| GDP growth | -6.9% | 7.8% | 7.2% |
| GDP per capita US$ | 106.1 | 124.8 | 200.6 |
| GNI per capita US$ | 96.6 | 118.8 | 186.4 |

Source: UN data bank

Not only the economic situation was their aim, the World Bank has also helped to improve the social aspects. More and more people have access to clean water and sanitation facilities, the literacy has increased to about 67% of the population, proper hospitals have been built and doctors have been trained, and more children are able to go to a good school and finish it.

The World Bank was not the only one who provided loans and programs; they did it together with the IMF and some donor countries.

Eventhough they do better than average[[10]](#footnote-10) on growth, (which can be seen from the graph,) and inflation, 2.7% in 2012, they are still behind on other indicators. The poverty rate for example is still 71% (CIA fact book, 2013) and the GDP per capita is very low. The country still deals with some irregularities in safety which slows down the whole reforming process. Some smaller conflicts that have occurred damaged the economy and human rights.

The Democratic Republic of the Congo will still need many years to change their status from low income country to middle income country. They are still on the list of the HIPC and the World Bank needed to give them a debt relief of 12.3 billion to be able to continue with the new programs they have for the years 2013 till 2016.

*7.3 Zambia.*

Zambia is a country in the south of Africa with DR Congo, Angola, Zimbabwe and Mozambique as some of the surrounding countries. Also Zambia was made to a European colony, this time by the UK, but in 1964 they became independent. The economy is mainly based on the copper industry, which is good because it brings in a lot of money but also dangerous since a small change in this industry can damage the economy badly. Due to changing prices and changing presidents with different views their economy has suffered a lot. Before and during these periods they received help from the World Bank and the IMF.

The World Bank implemented the first programs in 1953 and they were focused on infrastructure, power and education. These were the main problem sectors at that point. Some smaller projects ware to support the water supply, agriculture and telecommunication. In 1990 the copper prices faced an enormous drop which hurt the economy a lot. The focus of the aid programs immediately switched to buying credit, more development and privatization. Together with Chiluba, the sitting president, they privatized many businesses and decentralized many government tasks. Next to this they are trying to reduce the dependence on copper and try to focus on other industries as well like agriculture, tourism and gemstone mining.

Despite a recover the country faces many problems. In 2000 the foreign debt was higher than $6 billion and they were eligible for the debt relief program of the HIPC. All the reforms made are still not enough and there is much corruption in the country. Not only the economy was doing bad, but also living standards and people’s health became worse.

In the last decade they managed to improve the economy and face a huge growth. The average annual growth of GDP was 5,7% and inflation has been decreased from 30% in 2000 to 7.2% in 2011 (World Bank, 2013) This was due to several reasons. In 2004 the copper prices started to rise again and one year later the debt relief of the HIPC was approved and was followed by more programs of the World Bank and the IMF. There was a special focus on agriculture so to be able to provide more food, be less independent of the copper mines and create more jobs, which were heavily needed. More infrastructure programs came to improve the transportation of goods from the farmers or mines to the markets. With help of the IDA program[[11]](#footnote-11) Zambia implemented a huge malaria program. Malaria is the largest cause of death and needed to be tackled. Due to the program, death by malaria has decreased with 31% in the overall population and decreased with 30% in child deaths (World Bank, 2013). Climate programs were be implemented since Zambia suffers a lot from floods and droughts. Next to the loans they also received technical assistance and advisory services to improve the political environment.

Zambia has also made its own developments plan next to the programs of the World Bank and the IMF. The goals are broadly the same. The sixth development plan, the recent one, has the objectives to increase jobs, decrease hunger, decrease the enormous gaps between the rural and urban areas and become a middle income country. They have done a good job considered the latter one. In 2011 they received the status of lower middle income country from the World Bank[[12]](#footnote-12) (World Bank, 2013).

In spite of this change to a higher statues Zambia still faces many problems. Eventhough the economy grows, “ *the effect of economic growth on overall poverty reduction has been small, because most of the benefits of growth have accrued to those already above the poverty line”* as stated by the World Bank, 60% of the population still lives in poverty. Due to the increased population the number of people living in poverty has only increased. The biggest problem are the rural areas, there lives 90% of the people in poverty. Poverty is not the only remaining problem. The malaria program made a huge difference but it is still not enough. The general health is very low, the same goes for the life expectancy, in 2011 it was only 49 years (World Bank, 2013). Another problem is the energy, in the urban areas only a small group has excess to electricity and in the rural areas it is almost no one.

**Table 4. Economic indicators of Zambia.**

|  |  |  |  |
| --- | --- | --- | --- |
|  | 2000 | 2005 | 2010 |
| GDP US$ (million) | 3239 | 7271 | 16201 |
| GDP growth | 3.6% | 5.2% | 7.1% |
| GDP per capita US$ | 317.5 | 634.4 | 1237.8 |
| GNI per capita US$ | 302.1 | 589.8 | 1102.2 |

Source: UN data bank

1. **Conclusion.**

The countries investigated for the IMF were Bosnia Herzegovina and Croatia. Both countries were situated in Europe and in a period of war after they had declared themselves independent from the former Yugoslavia. After the war the economic situation worsened a lot and they asked for help at the IMF. During the years both countries have made quite some improvements. Bosnia and Herzegovina made a huge jump in economic growth and Croatia managed to suppress their giant inflation rate for example. But when looked at the criteria stated in the beginning they were both a low income country and Croatia is right now a high income country and Bosnia and Herzegovina has become a middle income country. So the IMF did help these countries and did help them improve the situation, therefore these programs did pass the criteria of being successful.

The countries investigated for the World Bank were Uganda, Democratic Republic of Congo and Zambia. All three countries were in situated in Africa and used to be colonies of European countries. The countries already received aid programs of the World Bank before they declared themselves independent, but after their independency they had to face conflicts, corruption, an enormous high poverty rate and economic downturn and needed more help from the World Bank. The World Bank provided them also with programs not directly focused on the economy but on factors that have indirectly influence in the economy like education, health and provision of clean water, (which were drastically low compared to other countries). Again the programs have made a difference in the situation, the economy and GDP has started growing again, inflation has been brought down to more acceptable levels. At the moment 2 out of the 3 countries still have the status of low income country, only Zambia made the change to the middle income in 2011. Based on the criteria the programs of the World Bank have failed in 2 out of 3 cases.

Since 3 out the 5 cases succeeded in meeting the criteria there can be concluded that the majority of the programs of the IMF and the World Bank do help low income countries out of poverty. But when looking at the data, in Uganda, the Democratic Republic of Congo and Zambia the poverty rates are still 24%, 71% and 60% respectively, there needs to be taken in consideration that improving the economy of a country does not necessarily mean that it’s poverty will decrease. Despite the high poverty rate Zambia is classified as lower middle income.

Off course this research has been done on a small number of countries, it could still be done more in depth when focused on more countries or on specific programs of the IMF and/or the World Bank. When research is done on other criteria, like targets on changes in GDP, unemployment, inflation, literacy, poverty rate etc. different results can/might be obtained.

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1. Heavily Indepted Poor Countries. [↑](#footnote-ref-1)
2. Low income countries, GNI per capita less than $1026; lower middle income countries, GNI per capita between $1026 and $4035; upper middle income countries, GNI per capita between $4036 and $12475; high income countries, GNI per capita more than $12475 [↑](#footnote-ref-2)
3. The Bretton Woods was established in 1944 and was a new exchange rate regime until 1971. It was a fixed regime with all currencies pegged to the US dollar or to gold. [↑](#footnote-ref-3)
4. http://www.imf.org/external/about/lending.htm [↑](#footnote-ref-4)
5. The Dayton agreement states that the three countries, Bosnia and Herzegovina, Croatia and the Federal Republic of Yugoslavia, respect and recognize each other sovereignty, settle disputes peacefully and fulfill the commitments made. [↑](#footnote-ref-5)
6. Bosnia and Herzegovina. [↑](#footnote-ref-6)
7. See IMF lending [↑](#footnote-ref-7)
8. USD/HRK = 0.17843 [↑](#footnote-ref-8)
9. Heavily Indepted Poor Countries. [↑](#footnote-ref-9)
10. Compared to the other African countries. [↑](#footnote-ref-10)
11. See World Bank lending [↑](#footnote-ref-11)
12. GNI per capita was US$ 1299 [↑](#footnote-ref-12)