

IMF: An Overview

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World Bank

The World Bank is one of the two major financial institutions created as a result of the Bretton Woods Conference in 1944. It was formed on 27 December, 1945, in Washington D.C. The World Bank provides technical and financial assistance to underdeveloped nations for development schemes like building roads, schools, hospitals, etc. The main aim is to eliminate poverty from the world. A total of 185 countries are members of the World Bank, which is currently headed by Robert B. Zoellick. The World Bank Group is the parent organization of the World Bank.

International Monetary Fund (IMF)

The IMF was formally organized on 27 December, 1945, and as in the case of the World Bank, is headquartered in Washington D.C. Keeping in mind the economic crisis that the world has experienced during the Great Depression and World War II, the representatives of 45 countries assembled in Bretton Woods, New Hampshire in the United States to create a new economic framework to avoid such crisis in future. The new monetary system initiated at the conference became known as Bretton Wood system. International Monetary Fund, the brain child of this conference came into being in July, 1944, and started its operation in 1947 with the membership of 30 countries. Though Bretton Wood system collapsed, IMF is still instrumental in carrying out its financial operation, and is headquartered in Washington, D.C., USA.

The main goal of the IMF is to foster global monetary cooperation, improve international trade, promote employment, secure financial stability and reduce poverty. It looks after the macroeconomic policies, particularly the impact on exchange rates and balance of payments. The IMF, like the World Bank, offers financial assistance to poor countries, making it an international lender of last resort. Presently, the International Monetary Fund is headed by Dominique Strauss-Kahn.

Some Important Differences are as follows

International Monetary Fund	World Bank
Oversees the monetary system of the world.	Promotes economic development in underdeveloped countries.
Promotes exchange relations and stability among its member countries.	Helps underdeveloped countries by providing long-term financing for development projects.
Adds to the currency reserves of its member countries through allocation of special drawing rights (SDRs).	Encourages private enterprises in developing countries through International Finance Corporation (IFC), which is a sub-part of the IMF.
Assists all its member countries that are in temporary balance of payments difficulties by providing them short- to medium-term credits.	Provides special finances to poor countries that have a per capita Gross National Product (GNP) less than \$865 a year.

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Financial resources come from the fixed quota subscriptions of its member countries.	Financial resources are acquired by borrowing on the international bond market.
Has about fully paid-in quotas totaling \$215 billion.	Has authorized capital of \$184 billion, of which members pay in 10 percent.
Has a total staff of 2,300 from 185 countries.	Has a staff of 7,000 from 185 countries.

Both these institutions were formed with two aims in mind: one, to help underdeveloped countries and two, to eradicate poverty from the world. They have been working closely together to achieve these aims since their inception.

Purpose of IMF

The main purpose of International Monetary Fund is to create an economic system that can instill stability and growth in the world economy by economic cooperation among the nations. It aims at establishing exchange rate stability, and elimination of the shortage of international liquidity. For ensuring exchange rate stability, it discourages the practice of competitive depreciation of exchange rates. IMF also acts as an institution for ensuring international monetary cooperation.

Another important purpose of IMF is the expansion of global trade, which in turn will not only promote high level of employment and income, but would also be able to sustain it. IMF also intends to promote international trade by removing foreign exchange restrictions. It aims at maintaining balanced growth of the world economy.

IMF provides assistance to its member countries for correcting BOP or balance of payment disequilibrium. It provides liberal assistance to the countries, especially to the less developed countries to overcome BOP difficulties.

Besides, IMF also provides technical assistance to the member countries for promoting their economic growth and stability. It implements lending operations for helping the countries for overcoming economic crisis.

Groups such as the G-20 will not replace the Fund - they are fora, not institutions, and lack a mandate or the resources to intervene in the international financial system in the manner of the IMF. However, they can play an important role in bringing together IMF member countries to consult on issues that are both relevant for and go beyond, the IMF.

Notwithstanding the Fund's advantages, it cannot always easily play a consultative role, in part because issues fall outside its mandate but also because its membership is large and its processes for coordinating the views of such a broad membership are inherently unwieldy. The Fund should not expect, or try, to be expert on all issues or represent all the needs of regional groups. The emergence of bodies such as the G-20 and FSF reflect an understanding in the international community that the Fund cannot do all these things and that its governance mechanisms are relatively unwieldy and unrepresentative. Pressures for regional bodies have arisen for similar reasons. A key challenge for the Fund moving forward is to ensure that these bodies help to reinforce its role rather than seek to supplant it.

Groups such as the G-20 and the OECD would appear better suited to facilitate the exchange of views between member countries than the IMF with its diffused membership and rigid institutional structures. Similarly, the FSF and other specialist bodies are able to harness technical expertise on a range of issues outside the Fund's traditional areas of expertise. In recent times, such bodies have made an important contribution to developing accepted practices for strengthening domestic financial systems. The presence of such consultative and technical support mechanisms can reinforce the IMF's role by shoring up support for, promoting ownership of, and enhancing the technical basis of, the types of policies it pursues. They can also help constrain the development of 'mission creep', whereby the Fund's resources are continually stretched outside its traditional areas of expertise and ensure that issues do not 'fall between the cracks' of the mandates of the Fund and other international financial institutions.²⁰

But to maximise the benefits of a larger and more diverse group of players in the international financial architecture, these other fora need the support, not hostility, of the IMF. With respect to the relationship among the G-20, IMF and the World Bank, it would seem that the Bank has been the quicker of the two institutions to recognise the potential synergies and influence to be gained from extensive interaction with the G-20.

The IMF and the international financial architecture

Resources of IMF

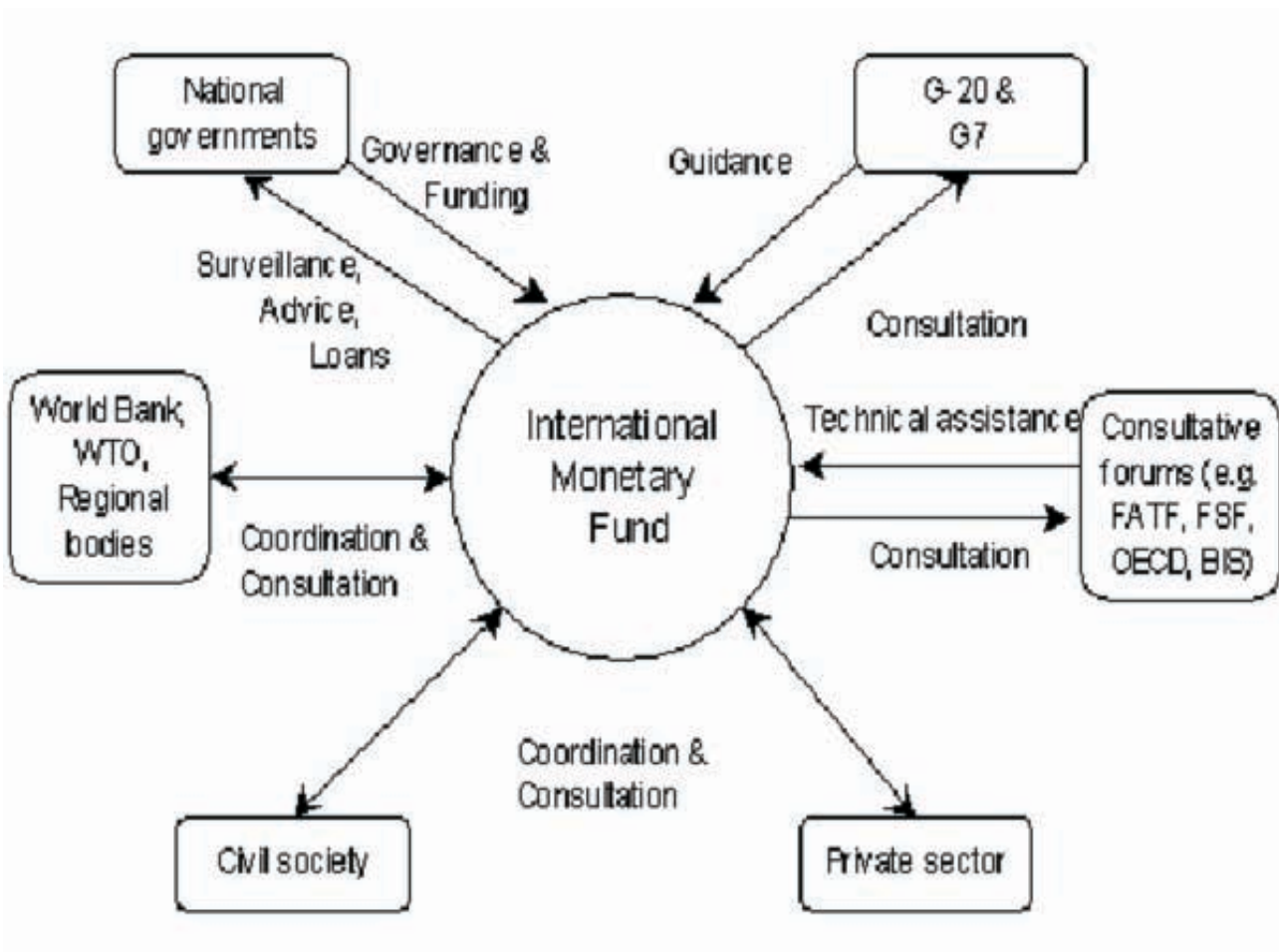
The IMF's resources are held in General Department which consists of three separate accounts :

1. General Resources Account (GRA)
2. Special Disbursement Account (SDA)
3. Investment Account (IA)

General Resources Account (GRA)

IMF derives its resources from the member countries. Its resources consist of gold and the money contributed by the member countries according to their respective quota. Quotas are the basic building blocks of the IMF. They broadly reflect each member's relative economic size, taking into account the quotas of similar countries. A quota is assigned to a member country on the basis of its economic strength or national income, and its relative position in the international trade. Out of the total quota, a country can pay 75% in its own currency, while the remaining 25% has to be paid in the form of Special Drawing Rights (SDR) or international reserve assets. Quotas determine the maximum amount of financial resources that a member is obligated to provide to the IMF, voting power in IMF decision making and a member's share of SDR allocations. The financial assistance a member may obtain from the IMF is also generally based on its quota.

Reserve assets are those that are readily available and accepted for international payments, such as the four currencies currently recognized as "freely usable" by the IMF: the U.S. dollar, euro, Japanese yen, and pound sterling. A freely usable currency is one that the IMF determines is widely used to make payments for international transactions and is traded in the principal exchange markets. Prior to the Second Amendment of the IMF Articles on April 1, 1978, the reserve asset portion was paid in gold, and after that, in SDRs or "usable" currencies of other members as determined by the IMF.



Currencies held by the IMF are of two types, usable and unusable. A currency is usable if the issuing member's external payments position is strong enough for it to be called upon to finance IMF credit to other members. Other currencies, that is, the currencies of borrowers or financially weak members, are considered unusable. Thus, a portion of the GRA's pool of resources consists of currencies that cannot be used leaving the IMF's effective lending capacity at about half of total quotas.

Special Disbursement Account (SDA)

The Special Disbursement Account (SDA) is the vehicle for receiving and investing profits from the sale of IMF's Gold and for making transfers to other accounts for special purposes authorized in the articles in particular for financial assistance to low income members of the IMF.

Investment Account (IA)

The IMF is authorized to establish an Investment Account in the General Department to date however no decision has been taken to this effect.

Financial assistance is typically made available in installments that are linked to the borrowing country's observance of specific economic and financial policy conditions that must be met before the next installment is released. These conditions are agreed with the member under agreements called "arrangements." Members using IMF resources pay a market-based rate of interest on their outstanding use of credit from the IMF.

The first is that developing countries bear too much of the risk of interest rate and exchange rate fluctuations. The second is that the global reserve system is deeply flawed. Together these institutional weaknesses contribute to the magnitude of global volatility, which is felt particularly strongly by developing countries. The IMF should be trying to work for global financial stability through reforming the reserve system and shifting risk away from developing countries to those more able to handle it.

Criticism

IMF is often criticized for providing financial assistance on the condition of structural adjustment, which involves change of economic policy of the particular country. It is believed that the structural adjustments can be a cause of hindering social stability. Many experts also attribute the economic crisis witnessed by Argentina in 2001 to the budget restrictions prescribed by IMF, which caused a general resentment against IMF in South American countries. Some critics also point out that many members of IMF have gone through banking collapse, and reduction in Gross Domestic Product (GDP).

However, IMF has taken many reformatory measures since its inception to eliminate some of its inherent weaknesses. By acting as an international financial institution with a membership of 185 countries, it is playing an important role in the world economy. It has also succeeded in ensuring economic growth and stability to an extent by providing financial aid, stabilizing exchange rate and maintaining international liquidity.

References:

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