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FACT SHEET

WHAT IS THE IMF?

NAME

International Monetary Fund (IMF)

ESTABLISHED

1945 (operational 1947)

LOCATION(HQ)

Washington DC, USA

AIM

To promote international monetary co-operation and exchange stability that will facilitate the expansion of world trade.

To prevent crises by practising the following policies

- Monitoring economic and financial development and policy at the global level
- Lending money to member countries to provide 'temporary' funding for reform.
- Providing technical assistance and training (eg. help establish a treasury)

ROLE

The IMF is the central institution for the international monetary system. The IMF assists with facilitating international payments, and sets national exchange rates to enable trade to take place. The IMF works in co-operation with the International Bank of Reconstruction and Development (an affiliate of the World Bank) to expand world trade. This is done by providing temporary financial assistance to countries that need assistance to meet balance of payment deficits.

The IMF reviews and assesses the performance and structure of national economies and evaluates how well individual governments manage their money and credit. They also examine a country's industrial, social, labour, governance and environmental policies.

HISTORY

The IMF was established in 1944 at the Bretton Woods Conference. It was established to avoid the economic problems created prior to, and during, the Great Depression, and to provide finance for the post-war economy. The initial focus was to provide finance to reconstruct the economies of post-war Western Europe.

Exchange rates were tied to the gold standard & US currency but are now linked to the US dollar (\$), British pound (£), the EU currency –the Euro (€) and the Japanese Yen (¥). The IMF provides short term financing designed to overcome balance of payment deficits.

FINANCE

The money loaned by the IMF to member countries comes from each country's *quota* (subscription) that they pay on joining the IMF. 25% of country's quota must be paid in the currency of the IMF known as *Special Drawing Rights* (SDR),¹ and 75% is payable in the country's own currency.

If a member country has balance of payment difficulties, they can apply for a loan for a period of up to five years at below market interest rates. The money is based on the member country meeting IMF conditions and must be repaid promptly.

¹ Special Drawing Rights: Are an international reserve established in 1969 to supplement gold and US \$ reserves. SDRs are a theoretical currency within the IMF that can be traded between members. The current [March, 2005] exchange rate US \$1.51=SDR 1 (Source: www.imf.org)



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MEMBERSHIP

The IMF is an organisation whose membership is made up of participating sovereign states. At present, 184 countries belong to the IMF. An Executive Board of 24 (whose power is delegated by the Board of Governors, of which all member countries are represented) controls the IMF. Members are bound to the policies of the IMF to avoid manipulation of the exchange rate by individual governments.

The largest shareholders in the IMF (US, Japan, Germany, France, UK) have permanent seats on the board, as do China, Russia & Saudi Arabia.

Other members elect the additional 16 representatives for a two-year term. The quota determines the voting proportion a member will have in IMF decisions. The quota also determines how much foreign exchange the member country may withdraw from the fund.

Economic size determines a country's vote in the IMF. The US, which has the world's largest economy, controls approximately 18% of the vote.

The Seychelles, the smallest contributor, have 0.004% of the vote. Membership is open to independent countries who, on joining, contribute their financial quota which corresponds to their relative position in the world economy.

RELATIONSHIP WITH DEVELOPING COUNTRIES

At present, the countries borrowing from the IMF are all either developing countries or those countries that are moving from a central state planned economy to market based systems. The IMF currently has 78 'low-income' countries borrowing money on a scheme called the 'Poverty Reduction and Growth Facility'.

The IMF lends hard currency for economic adjustment and reform, and to pay for financial expertise. Financial assistance is provided to a country's central bank. Low income, developing countries pay below market interest rates for their loans; they pay a fixed interest rate of ½ percent per year.

The IMF admits that their assistance has not allowed these countries to achieve gains that would lead to a permanent reduction in poverty.²

Policies at present are related to debt relief.

In 1996 the Heavily Indebted Poor Countries (HIPC) Initiative was launched by the IMF and World Bank, with the aim of ensuring that no poor country faces a debt burden it cannot manage. The Initiative entails coordinated action by the international financial community, including multilateral organizations and governments, to reduce to sustainable levels the external debt burdens of the most heavily indebted poor countries. Following a comprehensive review in September 1999, a number of modifications were approved to provide faster, deeper and broader debt relief and to strengthen the links between debt relief, poverty reduction and social policies.

To date, debt reduction packages have been approved for 27 countries, 23 of them in Africa, providing \$32 billion (net present value terms) in debt service relief over time.

Source: www.imf.org

CRITICISMS AGAINST THE IMF

- That the original goals of the IMF no longer apply and that the IMF has failed to keep pace with global fiscal policies. In particular the increasing number of private corporations involved in lending to sovereign states.
- The IMF voting and decision-making process is directly linked to a country's financial contribution to the fund. Inevitably this leads to domination of the IMF by the wealthy and powerful states.
- IMF policy is narrow and short sighted and that balance of payment concerns are given priority without full consideration of the long-term impacts.
- The IMF lack expertise to deal with social and environmental issues and are not able to accommodate the complexities of individual economic situations. They lack country specific policies and therefore long-term sustainability is sacrificed.

² www.imf.org/external/pubs



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WHAT IS THE IMF? FACT SHEET

- The IMF policy concentrates on debt reduction as opposed to debt cancellation for developing countries. At present the debt of the poor nations in sub-Saharan Africa is approximately US\$200 billion – three times more than these countries earn annually in exports.³

The IMF reply, 'that cancellation of debt is not the answer, as the money would be squandered on corruption, military expenditure, and grandiose projects that would have little impact on reducing poverty or developing sustainable economic growth.'⁴

- That the conditions imposed by the IMF (structural adjustment programmes) in exchange for financial assistance exacerbate internal problems and poor living standards within the developing states. IMF (and World Bank) policy requires cuts in government spending of debtor nations, while opening up their vulnerable economies to foreign investment.⁵
- The IMF rescue packages have been questioned in that billions of dollars have been spent on economic recovery in SE Asia and the former Soviet Union. Consequently, other economies in danger of collapse (eg. Brazil) do not have access to necessary funding. A dwindling reserve and lack of funding has led to the raising of quotas.
- Servicing of debt has led to countries neglecting social spending. The IMF has been criticised for supporting private health care systems.

RELEVANT LINKS

www.imf.org

www.globalexchange.org

³ <http://www.50years.org>

⁴ <http://www.imf.org/external/np/hipc/res.htm>

⁵ <http://www.50years.org>