



International Monetary Fund

What Is the IMF?

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What does the International Monetary Fund do?

The IMF is the world's central organization for international monetary cooperation. It is an organization in which almost all countries in the world work together to promote the common good.

The IMF's primary purpose is to ensure the stability of the international monetary system—the system of exchange rates and international payments that enables countries (and their citizens) to buy goods and services from each other. This is essential for sustainable economic growth and rising living standards.

To maintain stability and **prevent crises** in the international monetary system, the IMF reviews national, regional, and global economic and financial developments. It **provides advice** to its 184 member countries, encouraging them to adopt policies that foster economic stability, reduce their vulnerability to economic and financial crises, and raise living standards, and **serves as a forum** where they can discuss the national, regional, and global consequences of their policies.

The IMF also makes **financing** temporarily available to member countries to help them address balance of payments problems—that is, when they find themselves short of foreign exchange because their payments to other countries exceed their foreign exchange earnings.

And it provides **technical assistance and training** to help countries build the expertise and institutions they need for economic stability and growth.

Why was it created?

The IMF was conceived in July 1944, when representatives of 45 governments meeting in the town of Bretton Woods, New Hampshire, in the northeastern United States, agreed on a

framework for international economic cooperation. They believed that such a framework was necessary to avoid a repetition of the disastrous economic policies that had contributed to the Great Depression of the 1930s.

During that decade, attempts by countries to shore up their failing economies—by limiting imports, devaluing their currencies to compete against each other for export markets, and curtailing their citizens' freedom to buy goods abroad and to hold foreign exchange—proved to be self-defeating. World trade declined sharply, and employment and living standards plummeted in many countries.

Seeking to restore order to international monetary relations, the IMF's founders charged the new institution with overseeing the international monetary system to ensure exchange rate stability and encouraging member countries to eliminate exchange restrictions that hindered trade. The IMF came into existence in December 1945, when its first 29 member countries signed its Articles of Agreement. Since then, the IMF has adapted itself as often as needed to keep up with the expansion of its membership—184 countries as of June 2006—and changes in the world economy.

Box 1

Exchange rate stability

Countries that joined the IMF between 1945 and 1971 agreed to keep their exchange rates (the value of their currencies in terms of the U.S. dollar and, in the case of the United States, the value of the U.S. dollar in terms of gold) pegged at rates that could be adjusted only to correct a "fundamental disequilibrium" in the balance of payments and only with the IMF's agreement. This so called par value system—also known as the Bretton Woods system—prevailed until 1971, when the U.S. government suspended the convertibility of the U.S. dollar (and dollar reserves held by other governments) into gold. Since then, IMF members have been free to choose any form of exchange arrangement they wish (except pegging their currency to gold): allowing the currency to float freely; pegging it to another currency or a basket of currencies; adopting the currency of another country; or participating in a currency bloc.

The IMF's membership jumped sharply in the 1960s, when a large number of former colonial territories joined after gaining their independence, and again in the 1990s, when the IMF welcomed as members the countries of the former Soviet bloc upon the latter's dissolution. The needs of the new developing and transition country members were different from those of the IMF's founding members, calling for the IMF to adapt its instruments. Other major challenges to which it has adapted include the end of the par value system and emergence of generalized floating exchange rates among the major currencies following the United States' abandonment in 1971 of the convertibility of U.S. dollars to gold; the oil price shocks of the 1970s; the Latin American debt crisis of the 1980s; the crises in emerging financial markets, in Mexico and Asia, in the 1990s; and the Argentine debt default of 2001.

Despite the crises and challenges of the postwar years, real incomes have grown at an unprecedented rate worldwide, thanks in part to better economic policies that have spurred the growth of international trade—which has increased from about 8 percent of world GDP in 1948 to about 25 percent today—and smoothed boom-andbust cycles. But the benefits have not flowed equally to all countries or to all individuals within countries. Poverty has declined dramatically in many countries but remains entrenched in others, especially in Africa. The IMF works both independently and in collaboration with the World Bank to help its poorest member countries build the institutions and develop the policies they need to achieve sustainable economic growth and raise living standards.

The IMF has continued to develop new initiatives and to reform its policies and operations to help member countries meet new challenges and to enable them to benefit from globalization and to manage and mitigate the risks associated with it. Cross-border financial flows have increased sharply in recent decades, deepening the economic integration and interdependence of countries, which has been beneficial overall although it has increased the risk of financial crisis. The emerging market countries—countries whose financial markets are in an early stage of development and international integration—of Asia and Latin America are particularly vulnerable to volatile capital flows. And crises in emerging market countries can spill over to other countries, even the richest. Particularly since the mid-1990s, the IMF has made major efforts to help countries prevent crises and to manage and resolve those that occur.

In 2004, the year the IMF marked its 60th anniversary, its Managing Director initiated a broad strategic review of the organization's operations in light of the new macroeconomic challenges posed by 21st century globalization. The emergence of new economic powers, integrated financial markets, unprecedented capital flows, and new ideas to promote economic development required an updated interpretation of the mandate of the Fund as the steward of international financial cooperation and stability.

Globalization, poverty, the inevitability of occasional crises in a dynamic world economy—and, no doubt, future problems impossible to foresee—make it likely that the IMF will continue to play an important role in helping countries work together for their mutual benefit for many years to come.

Box 2

The IMF and the World Bank have different mandates

The World Bank was established at the Bretton Woods Conference at the same time as the IMF. Its purpose was to help war-ravaged countries rebuild. The earliest recipients of its loans were the European countries and Japan. By the early 1960s, these countries no longer needed World Bank assistance, and its lending was redirected to the newly independent and emerging nations of Africa, Asia, Latin America, and the Middle East, and, in the 1990s, to the transition countries of Central and Eastern Europe.

The IMF and the World Bank complement each other's work. While the IMF's focus is chiefly on macroeconomic and financial sector issues, the World Bank is concerned mainly with longer-term development and poverty reduction. Its loans finance infrastructure projects, the reform of particular sectors of the economy, and broader structural reforms.

Countries must join the IMF to be eligible for World Bank membership.

How does the IMF serve its member countries?

The IMF performs three main activities:

- monitoring national, global, and regional economic and financial developments and advising member countries on their economic policies ("surveillance");
- lending members hard currencies to support policy programs designed to correct balance of payments problems; and
- offering technical assistance in its areas of expertise, as well as training for government and central bank officials.

Advice on policies and global oversight

When a country joins the IMF, it agrees to subject its economic and financial policies to the scrutiny of the international community. And it makes a commitment to pursue policies that are conducive to orderly economic growth and reasonable price stability, to avoid manipulating exchange rates for unfair competitive advantage, and to provide the IMF with data about its economy. The IMF's regular monitoring of economies and associated provision of policy advice—known as surveillance—is intended to identify weaknesses that are causing or could lead to trouble.

Country surveillance takes the form of regular (usually annual) comprehensive consultations with individual member countries, with interim discussions as needed. The consultations are referred to as "Article IV consultations" because they are required by Article IV of the IMF's Articles of Agreement. During an Article IV consultation, an IMF team of economists visits a country to collect economic and financial data and to discuss the country's economic policies with government and central bank officials. IMF staff missions also often reach out beyond their official interlocutors for discussions with parliamentarians and representatives of business, labor unions, and civil society. The team reports its findings to IMF management and then presents them to the IMF's Executive Board, which represents all of the IMF's member countries, for discussion. A summary of the Board's views is transmitted to the country's government. In this way, the views of the global community and the lessons of international experience are brought to bear on national policies. Summaries of most discussions are released in Public Information Notices and are posted on the IMF's Web site, as are most of the country reports prepared by the staff.

Box 3

Crisis prevention

Since the Mexican crisis of 1994–95 and the Asian crisis of 1997–98, the IMF has intensified its efforts to help countries prevent financial crises. It has emphasized the importance of countries' incorporating "shock absorbers" into their policies—such as adequate foreign exchange reserves, efficient and diversified financial systems, social safety nets, and a fiscal policy that allows governments to run higher deficits during difficult times, if necessary. And it has introduced several initiatives designed to make countries less vulnerable to crisis.

- In collaboration with the World Bank, the IMF conducts in-depth assessment of countries' financial sectors under the Financial Sector Assessment Program.
- It has developed, sometimes in cooperation with other organizations like the World Bank and the Bank for International Settlements, standards and codes of good practice in economic policymaking, financial sector regulation and supervision, statistical collection and dissemination, and other areas. It issues reports on its members' observance of these standards and codes (known as ROSCs). The IMF's Data Standards Initiatives encourage members to make reliable, timely, and comprehensive statistics available to the public, thereby enabling investors to make well-informed decisions, improving the functioning of financial markets, and reducing the likelihood that shocks will precipitate crises. The IMF launched the Special Data Dissemination Standard (SDDS) in 1996 to provide guidance to member countries that have, or wish to gain, access to international capital markets on the dissemination of data. The General Data Dissemination System (GDDS) was established in 1997 to help countries that are not yet in a position to subscribe to the SDDS and need to improve their statistical systems. Participation in both systems is voluntary.
- It has developed vulnerability indicators and early warning system models to improve its ability to identify countries at risk.
- It has stepped up its efforts to promote good governance, particularly in the public and

- financial sectors.
- It participates in international efforts to combat money laundering and the financing of terrorism.

Box 4

Crisis resolution

By far the greater part of international financial flows are private flows. This points to the importance of the role that the private sector can play in helping to prevent and resolve financial crises.

Crises may be prevented, and the volatility of private flows reduced, by improved risk assessment and closer and more frequent dialogue between countries and private investors. Dialogue can also foster greater private sector involvement in the resolution of crises when they do occur, including through the restructuring of private debt, benefiting both creditors and debtors.

And the involvement of the private sector in crisis prevention and resolution should help limit "moral hazard"—that is, the possibility that the private sector may engage in risky lending if it believes that potential losses will be limited by official rescue operations.

The IMF has strengthened its dialogue with market participants, for example, through the establishment of the Capital Markets Consultative Group in 2000. The Group provides a forum for regular communication between international capital market participants and IMF management and senior staff on matters of common interest, including world economic and market developments and measures to strengthen the global financial system.

In some crises, coordinated debt restructuring by private creditors may be needed. To facilitate debt restructuring, the IMF has promoted the inclusion of Collective Action Clauses in international bond issues. The use of these clauses, which is the norm under U.K. law and has become the market standard for bonds issued under New York law, is designed to prevent a small minority of creditors from blocking a restructuring deal to which the majority of creditors agree. The IMF also supports the Principles for Stable Capital Flows and Fair Debt Restructuring drafted by the Institute for International Finance in 2004, and the Paris Club's Evian Approach to debt relief for countries that have unsustainable debt but that do not qualify for assistance under the HIPC Initiative.

Global surveillance entails reviews by the IMF's Executive Board of global economic trends and developments. The main reviews are based on World Economic Outlook reports and the Global Financial Stability Report, which covers developments, prospects, and policy issues in international financial markets; both reports are normally published twice a year. In addition, the Executive Board holds more frequent informal discussions on world economic and market developments.

In 2006, the IMF introduced a new tool, multilateral consultations, designed to bring small groups of countries together to discuss a specific international economic or financial problem that directly involves them and to settle on a course of action to address it.

Regional surveillance involves examination by the IMF of policies pursued under regional arrangements such as currency unions—for example, the euro area, the West African Economic and Monetary Union, the Central African Economic and Monetary Community, and the Eastern Caribbean Currency Union.

The growing interdependence of national economies, and the potential impact of national economic policies on the world economy and vice versa, have prompted the IMF increasingly to integrate the three levels of surveillance. Through its Article IV consultations, the IMF pays close attention to the impact of the larger economies' policies on smaller economies. It also studies the impact of global economic and financial conditions on the economic performance of individual countries and the repercussions of national policies at the regional level.

Box 5

The IMF's main business: macroeconomic and financial sector policies

In its oversight of member countries, the IMF focuses on the following:

- macroeconomic policies relating to the government's budget, the management of money and credit, and the exchange rate;
- macroeconomic performance—government and consumer spending, business investment, exports and imports, output (GDP), employment, and inflation;
- balance of payments—that is, the balance of a country's transactions with the rest of the world;
- financial sector policies, including the regulation and supervision of banks and other financial institutions; and
- structural policies that affect macroeconomic performance, such as those governing labor markets, the energy sector, and trade.

The IMF advises members on how they might improve their policies in these areas so as to achieve higher rates of employment, lower inflation, and sustainable economic growth.

Box 6

Terminology

Technically, countries do not receive loans from the IMF—they "purchase" foreign exchange from the IMF's reserve assets, paying with their own currency. The loan is considered repaid when the borrower "repurchases" its currency from the IMF in exchange for reserve assets.

Lending to countries in difficulty

Any member country—rich or poor—can turn to the IMF for financing if it has a balance of payments need—that is, if it cannot find sufficient financing on affordable terms in the capital markets to make its international payments and maintain an appropriate level of reserves. The IMF is not an aid agency or a development bank. Its loans are intended to help its members tackle balance of payments problems, stabilize their economies, and restore sustainable economic growth. Unlike the World Bank and other development agencies, the IMF does not finance projects.

In the first two decades of the IMF's existence, over half of its lending went to the industrial countries, but, since the late 1970s, these countries have been able to meet their financing needs in the capital markets. At present, all IMF borrowers are developing countries, countries in transition from central planning to market-based systems, or emerging market countries. Many of these countries have only limited access to international capital markets, partly because of their economic difficulties.

In most cases, IMF loans provide only a small portion of what a country needs to finance its balance of payments. But, because IMF lending signals that a country's economic policies are on the right track, it reassures investors and the official community and helps generate additional financing. Thus, IMF financing can act as a catalyst for attracting funds from other sources.

Box 7

IMF lending facilities

Most of the IMF's lending falls into three different categories:

- **Stand-By Arrangements** are designed to deal mainly with short-term balance of payments problems. The IMF's largest loans fall into this category. In 1997, the IMF introduced the **Supplemental Reserve Facility**, under which it can quickly provide large loans with very short maturities to countries going through a capital account crisis.
- The IMF introduced the **Extended Fund Facility** to help countries address balance of payments difficulties related partly to structural problems that may take longer to correct than macroeconomic imbalances. A program supported by an extended arrangement usually includes measures to improve the way markets and the supply side of the economy function, such as tax and financial sector reforms, privatization of public enterprises, and steps to make labor markets more flexible.
- Under its **Poverty Reduction and Growth Facility**, the IMF provides concessional loans—loans with an annual interest rate of 0.5 percent and a maturity of 10 years—to its poorest member countries. The majority of the IMF's loans now fall into this category. In 2005, it approved the establishment of the **Exogenous Shocks Facility**, under which it can give low-income countries that are not receiving funds under the Poverty Reduction and Growth Facility, and that are suffering a balance of payments problem because of a shock beyond their control, quick access to funds on a concessional basis.

The IMF also provides **Emergency Assistance** to countries coping with balance of payments problems caused by natural disasters or military conflicts. The interest rates are subsidized for low-income countries.

The **Trade Integration Mechanism** allows the IMF to provide loans under one of its facilities to a developing country whose balance of payments suffers because of multilateral trade liberalization, either because its export earnings decline when it loses preferential access to certain markets or because prices for food imports go up when agricultural subsidies are eliminated.

What is an IMF-supported program?

When a country approaches the IMF for financing, it may be in or near a state of economic crisis, with its currency under attack in foreign exchange markets and its international reserves depleted, economic activity stagnant or falling, and a large number of firms and households going bankrupt.

The IMF provides the country with advice on the economic policies that may be expected to address its problems most effectively. The IMF and the government agree on a program of policies aimed at achieving specific, quantified goals. For example, the country may be expected to reduce its fiscal deficit or build up its international reserves. Loans are disbursed in a number of installments over the life of the program, with

each installment conditional on targets' being met. A program may range from 6 months to 10 years, depending on the nature of the country's problems. Program details are spelled out in "**letters of intent**" from the governments to the Managing Director of the IMF, which can be revised if circumstances change.

Instruments of IMF lending

The IMF provides loans under a variety of "facilities" that have evolved over the years to meet the needs of its membership. The duration, repayment terms, and lending conditions attached to these facilities vary, reflecting the type of balance of payments problem and circumstances they address.

Countries that borrow from the IMF's regular, nonconcessional lending windows—all but the low-income developing countries—pay **market-related** interest rates and service charges, plus a refundable commitment fee. A surcharge can be levied above a certain threshold to discourage countries from borrowing large amounts ("exceptional access," as it is called in the IMF). Surcharges also apply to drawings under the Supplemental Reserve Facility. Low-income countries borrowing under the Poverty Reduction and Growth Facility pay a **concessional** fixed interest rate of 0.5 percent a year.

The foreign exchange provided by the IMF is subject to limits determined partly by a member's quota in the IMF and is deposited with the country's central bank to supplement its international reserves. To strengthen **safeguards** on members' use of IMF resources, in March 2000 the IMF began requiring assessments of central banks' compliance with desirable practices for internal control procedures, financial reporting, and audit mechanisms. At the same time, the Executive Board decided to broaden the application, and make more systematic use, of the tools available to deal with countries that borrow from the IMF on the basis of erroneous information.

Technical assistance and training

The IMF is probably best known for its policy advice and its loans to countries in times of economic crisis. But the IMF also shares its expertise with member countries by providing technical assistance and training in a wide range of areas, such as **central banking, monetary and exchange rate policy, tax policy and administration, and official statistics**. The objective is to help improve the design and implementation of members' economic policies, including by strengthening skills in institutions such as finance ministries and central banks.

The IMF began providing technical assistance in the mid-1960s, when many newly independent countries sought help setting up their central banks and finance ministries. Another surge in technical assistance occurred in the early 1990s, when countries in Central and Eastern Europe and the former Soviet Union began shifting from centrally planned to market-based economic systems. More recently, the IMF has stepped up its provision of technical assistance as part of the effort to strengthen the architecture of the international financial system. Specifically, it has been helping countries **bolster their financial systems, improve the collection and dissemination of economic and financial data, strengthen their tax and legal systems, and improve banking regulation and supervision**. It has also given considerable advice to countries that have had to reestablish government institutions following severe civil unrest or war and has stepped up trade-related technical assistance since the launch of the Doha Round of trade negotiations in 2004.

More than 75 percent of the IMF's technical assistance goes to low-income and lower-middle-income countries, particularly in sub-Saharan Africa and Asia. Postconflict countries are major beneficiaries, with Timor-Leste, the Democratic Republic of the Congo, Iraq, and Afghanistan among the top recipients in the early 2000s.

Box 8

The IMF provides technical assistance and training mainly in four areas:

- monetary and financial policies (monetary policy instruments; banking system supervision, and restructuring; foreign management and operations; clearing settlement systems for payments; and structure development of central banks);
- fiscal policy and management (tax and customs policies and administration, budget formulation, expenditure management, design of social safety nets, and management of domestic and foreign debt);
- compilation, management, dissemination, and improvement of statistical data; and
- economic and financial legislation.

Technical assistance is delivered in a variety of ways. IMF staff may visit member countries to advise government and central bank officials on specific issues, or the IMF may provide resident specialists on a short- or a long-term basis. Since 1993, the IMF has provided a small but increasing part of its technical assistance through regional centers—AFRITAC, serving eight countries in central Africa and based in Libreville, Gabon; West AFRITAC, serving western Africa and based in Bamako, Mali; East AFRITAC, serving eastern Africa and based in Dar es Salaam, Tanzania; CARTAC, serving 20 Caribbean islands and territories and based in Barbados; METAC, serving the Middle East and based in Beirut, Lebanon; and PFTAC, serving the Pacific region and based in Fiji.

The IMF offers training courses for government and central bank officials of member countries at its

headquarters in Washington, D.C., and at regional training centers in Austria, Brazil, China, India, Singapore, Tunisia, and the United Arab Emirates.

Supplementary financing for IMF technical assistance and training is provided by several countries, of which Japan is the biggest donor, and international agencies such as the African Development Bank, the Arab Monetary Fund, the Asian Development Bank, the European Commission, the Inter-American Development Bank, the United Nations, the United Nations Development Program, and the World Bank.

How does the IMF help poor countries?

Most of the IMF's loans to low-income countries are made on concessional terms, under the Poverty Reduction and Growth Facility. They are intended to ease the pain of the adjustments these countries need to make to bring their spending into line with their income and to promote reforms that foster stronger, sustainable growth and poverty reduction. An IMF loan also encourages other lenders and donors to provide additional financing, by signaling that a country's policies are appropriate.

The IMF is not a development institution. It does not—and, under its Articles of Agreement, it cannot—provide loans to help poor countries build their physical infrastructure, diversify their export or other sectors, or develop better education and health care systems. This is the job of the World Bank and the regional development banks.

Some low-income countries neither want nor need financial assistance from the IMF, but they do want to be able to borrow on affordable terms in international capital markets or from other lenders. The IMF's endorsement of their policies can make this easier. Under a mechanism introduced by the IMF in 2005—the **Policy Support Instrument**—countries can request that the IMF regularly and frequently review their economic programs to ensure that they are on track. The success of a country's program is assessed against the goals set forth in the country's **poverty reduction strategy**, and the IMF's assessment can be made public if the country wishes.

Box 9

Collaborating with other institutions

The IMF collaborates with the World Bank, the regional development banks, the World Trade Organization, United Nations agencies, and other international bodies. Each of these institutions has its own area of responsibility and specialization and its particular contribution to make to the world economy.

The IMF's collaboration with the World Bank on poverty reduction is especially close because the Bank is the leading international institution promoting economic development. Areas in which the IMF and World Bank collaborate include social policies, assessments of member countries' financial sectors, development of standards and codes, and improvement of the quality, availability, and coverage of data on external debt.

The IMF is also a member of the Financial Stability Forum, which brings together government officials responsible for financial stability in the major international financial centers, international regulatory and supervisory bodies, committees of central bank experts, and international financial institutions. It also works with standard-setting bodies such as the Basel Committee on Banking Supervision and the International Association of Insurance Supervisors.

Collaboration with the World Trade Organization takes place formally as well as informally. The IMF has observer status at WTO meetings and IMF staff contribute to the work of the WTO Working Group on Trade, Debt, and Finance. The IMF is also involved in the WTO-led Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries, whose other members are the International Trade Commission, UNCTAD, UNDP, and the World Bank.

The IMF also participates in **debt relief** efforts for poor countries that are unable to reduce their debt to a sustainable level even after benefiting from aid, concessional loans, and the pursuit of sound policies. (A country's debt is considered sustainable if the country can easily pay the interest due using export earnings, aid, and capital inflows, without sacrificing needed imports.)

In 1996, the IMF and the World Bank unveiled the **Heavily Indebted Poor Countries (HIPC) Initiative**. The initiative was enhanced in 1999 to provide broader, deeper, and faster debt relief, to free up resources for investment in infrastructure and spending on social programs that contribute to poverty reduction. Part of the IMF's job is to help ensure that the resources provided by debt reduction are not wasted: debt reduction alone, without the right policies, might bring no benefit in terms of poverty reduction.

In 2005, the finance ministers and heads of government of the G-8 countries (Canada, France, Germany, Italy, Japan, Russia, the United Kingdom, and the United States) launched the **Multilateral Debt Relief Initiative (MDRI)**, which called for the cancellation of the debts owed to the IMF, the International Development Association of the World Bank Group, and the African Development Fund by all HIPC countries that qualify for debt reduction under the HIPC Initiative. The IMF implemented the MDRI in January 2006 by cancelling the debt owed to it by 19 countries. Most of the cost is being borne by the IMF itself, with additional funds coming from rich member countries to ensure that the IMF's lending capacity is not

compromised.

Box 10

UN Millennium Development Goals

In 2000, the international community agreed on a set of development targets known as the UN Millennium Development Goals, which range from halving extreme poverty to halting the spread of HIV/AIDS and providing universal primary education, all by the target date of 2015. They have been agreed by all countries and the leading development institutions. The financial assistance and advice the IMF offers to its poorest members are geared partly to helping them achieve these goals.

1. Eradicate extreme poverty and hunger
2. Achieve universal primary education
3. Promote gender equality and empower women
4. Reduce child mortality
5. Improve maternal health
6. Combat HIV/AIDS, malaria, and other diseases
7. Ensure environmental sustainability
8. Develop a global partnership for development

To ensure that developing countries reap full benefit from the loans and debt relief they receive, in 1999 the IMF and the World Bank introduced a process known as the **Poverty Reduction Strategy Paper (PRSP)** process. To qualify for loans under the Poverty Reduction and Growth Facility and debt relief under the HIPC Initiative, countries must draw up their own strategies for reducing poverty, with input from civil society. The IMF and the World Bank provide an assessment of the strategies, but the latter are "owned" by the countries that formulate them.

Economic growth—rising average income—is necessary for the sustained reduction of poverty, and a considerable body of research has shown that **international trade** stimulates growth. Developing countries face many obstacles, however, to expanding their trade with other countries. Access to the industrial countries' markets is restricted by barriers such as tariffs and quotas, and developing countries themselves have barriers that prevent them from trading with each other. The IMF and the World Bank have been urging their members for years to eliminate barriers to trade.

Even if their access to other markets is increased, however, many developing countries may not be able to benefit from trade opportunities. Their export sectors may be weak because of policies that discourage investment or trade, and they may lack appropriate institutions (like customs administration) and infrastructure (for example, electricity to run plants, and roads and ports to get products to markets).

In 2005, the IMF and the World Bank introduced the concept of **Aid for Trade** for the least developed countries. Aid for Trade includes analysis, policy advice, and financial support. The IMF provides advice to countries on such issues as the modernization of customs administration, tariff reform, and the improvement of tax collection to compensate for the loss of tariff revenues that may follow trade liberalization. The IMF also participates in the **Integrated Framework for Trade-Related Technical Assistance**, a multi-agency, multi-donor program that helps the least developed countries by identifying impediments to their participation in the global economy and coordinating technical assistance from different sources.

Who runs the IMF?

The IMF is governed by, and is accountable to, its member countries through its Board of Governors. There is one Governor from each member country, typically the finance minister or central bank governor. The Governors usually meet once a year, in September or October, at the Annual Meetings of the IMF and the World Bank.

Key policy issues related to the international monetary system are considered twice a year by a committee of Governors called the **International Monetary and Financial Committee**, or the IMFC. A joint committee of the Boards of Governors of the IMF and the World Bank—the **Development Committee**—advises and reports to the Governors on development policy and other matters of concern to developing countries.

The day-to-day work of the IMF is carried out by the **Executive Board**, which receives its powers from the Board of Governors, and the IMF's internationally recruited staff. The Executive Board selects the IMF's Managing Director, who is appointed for a renewable five-year term. The Managing Director reports to the Board and serves as its chair and the chief of the IMF's staff and is assisted by a First Deputy Managing Director and two other Deputy Managing Directors.

Box 11

Evaluating the IMF's operations

In 2001, the IMF's Executive Board established the Independent Evaluation Office (IEO), which reviews selected IMF operations and presents its findings to the Board and to IMF management. The IEO operates independently of management and at arm's length from the Board, although the

Board appoints the IEO's director. The IEO establishes its own work program, selecting operations for review based on suggestions from stakeholders inside and outside the IMF. Its recommendations strongly influence IMF policy and activity. In recent years, it has reviewed the IMF's role in Argentina in 1991–2001, the Poverty Reduction Strategy Paper process, IMF technical assistance, and IMF global surveillance, among other things.

The Executive Board usually meets three times a week, in full-day sessions, and more often if needed, at the IMF's headquarters in Washington, D.C. Of the 24 Executive Directors on the Board, 8 are appointed by single countries—the IMF's 5 largest quota-holders (the United States, Japan, Germany, France, and the United Kingdom) and China, Russia, and Saudi Arabia. The other 16 Executive Directors are elected for two-year terms by groups of countries known as "constituencies."

Unlike some international organizations (such as the United Nations General Assembly) that operate under a one-country-one-vote principle, the IMF has a weighted voting system. The larger a country's quota in the IMF—determined broadly by its economic size—the more votes the country has, in addition to its "basic votes," of which each member has an equal number. But the Board rarely makes decisions based on formal voting; most decisions are based on consensus. In the early 2000s, in response to changes in the weight and role of countries in the world economy, the IMF began to reexamine the distribution of quotas and voting power to ensure that all members are fairly represented.

IMF employees, who come from over 140 countries, are international civil servants. Their responsibility is to the IMF, not to the national authorities of the countries of which they are citizens. About one-half of the IMF's approximately 2,700 staff members are economists. Most staff work at the IMF's Washington, D.C., headquarters, but the IMF also has over 85 resident representatives posted in member countries around the world. In addition, it maintains offices in Brussels, Paris, and Tokyo, which are responsible for liaison with other international and regional institutions and civil society organizations, as well as in New York and Geneva, which focus on liaison with institutions in the UN system. The Geneva office is also responsible for liaison with the World Trade Organization.

Box 12

What is the SDR?

The SDR, or Special Drawing Right, is an international reserve asset that member countries can add to their foreign currency and gold reserves and use for payments requiring foreign exchange. Its value is set daily using a basket of four major currencies: the euro, Japanese yen, pound sterling, and U.S. dollar.

The IMF introduced the SDR in 1969 because of concern that the stock and prospective growth of international reserves might not be sufficient to support the expansion of world trade. (The main reserve assets at the time were gold and U.S. dollars.) The SDR was introduced as a supplementary reserve asset, which the IMF could "allocate" periodically to members when the need arose, and cancel, as necessary.

IMF member countries may use SDRs in transactions among themselves, with 16 "institutional" holders of SDRs, and with the IMF. The SDR is also the IMF's unit of account. A number of other international and regional organizations and international conventions use it as a unit of account, or as the basis for a unit of account.

Where does the IMF get its money?

The IMF's resources come mainly from the quotas that countries deposit when they join the IMF. Quotas broadly reflect the size of each member's economy: the larger a country's economy in terms of output, and the larger and more variable its trade, the larger its quota tends to be. For example, the United States, the world's largest economy, has the largest quota in the IMF. Quotas are reviewed periodically and can be increased when deemed necessary by the Board of Governors.

Countries deposit 25 percent of their quota subscriptions in Special Drawing Rights or major currencies, such as U.S. dollars or Japanese yen. The IMF can call on the remainder, payable in the member's own currency, to be made available for lending as needed.

Quotas, together with the equal number of basic votes each member has, determine countries' voting power. Quotas also help to determine the amount of financing countries can borrow from the IMF, and their share in SDR allocations.

Most IMF loans are financed out of members' quotas. The exceptions are loans under the Poverty Reduction and Growth Facility, which are paid out of **trust funds** administered by the IMF and financed by contributions from the IMF itself and a broad spectrum of its member countries.

If necessary, the IMF may **borrow** from a number of its financially strongest member countries to supplement the resources available from its quotas. It has done so on several occasions when borrowing countries needed large amounts of financing and a failure to help them might have put the international monetary system at risk.

Like other financial institutions, the IMF also earns income from the interest charges and fees levied on its loans. It uses this income to meet funding costs, pay for administrative expenses, and maintain precautionary balances. In the early 2000s, there was a decline in the demand for the IMF's nonconcessional loans, reflecting benign global economic and financial conditions as well as policies in many emerging market countries that had reduced their vulnerability to crises. To diversify its income sources, the IMF established an investment account in 2005. The funds in the account are invested in eligible marketable obligations denominated in SDRs or in the securities of members whose currencies are included in the SDR basket. The Fund also began to explore other options for reducing its dependence on lending for its income.

Learn more about the IMF

The IMF posts a vast amount of information on its own activities and policies, as well as on its member countries, on its Web site, www.imf.org. It also publishes *Finance & Development*, a quarterly magazine; a series of pamphlets called *Economic Issues*; a biweekly newsletter, the *IMF Survey*; the semiannual *World Economic Outlook* and *Global Financial Stability Report*; various statistical publications; and a wide array of working papers, occasional papers, and books. Some of these materials and the IMF's *Annual Reports* are available free of charge on the Web site; others can be ordered from IMF Publication Services (1-202-623-7430; publications@imf.org).

Articles of Agreement of the International Monetary Fund

Article I

Purposes

The purposes of the International Monetary Fund are:

- i. To promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems.
- ii. To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.
- iii. To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.
- iv. To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.
- v. 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.
- vi. In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members.

The Fund shall be guided in all its policies and decisions by the purposes set forth in this Article.

Highlights in the Evolution of IMF Lending

| 1944 | 1945 | 1947 |
|---|--|---|
| The Articles of Agreement of both the IMF and the World Bank are drawn up at the Bretton Woods Conference. | The IMF's first 29 members sign the Articles of Agreement. | France is the first country to draw funds from the IMF, followed in the same year by the Netherlands, Mexico, and the United Kingdom. |
| 1952 | 1962 | 1969 |
| Members agree on procedures for annual consultations on exchange restrictions and for Stand-By Arrangements, drawings, and charges. Belgium is the first country to enter into a Stand-By Arrangement with the IMF but makes no drawing until 1957. | To ensure that it has enough cash on hand should an industrial country need a loan to cover a balance of payments problem, the IMF introduces the General Arrangements to Borrow. These arrangements enable it to supplement its financial resources by borrowing from the governments of a group of member countries. | In response to the threat of a shortage of international liquidity, the Articles of Agreement are amended to create Special Drawing Rights. |
| 1971 | 1973-74 | 1975 |
| The United States suspends the convertibility of the dollar into gold, ending the par value system of fixed exchange rates, under which countries defined their currencies in terms of U.S. dollars or gold and were obligated to get IMF approval to change the "par value" by more than 10 percent. | On December 23, 1973, oil-exporting countries announce a steep increase in crude oil prices to take effect on January 1, 1974. To help oil importers deal with anticipated current account deficits and inflation in the face of higher oil prices, the IMF sets up the first of two oil facilities. | The <i>Extended Fund Facility</i> is established in 1974 to provide medium-term assistance to developing country members that need several years to address the economic weaknesses leading to their balance of payments problems. In 1975, Kenya is the first country to benefit from an Extended Fund Facility arrangement. |

| 1982 | 1986 | 1987 |
|--|---|---|
| The oil shocks of the 1970s, which forced many oil-importing countries to borrow from commercial banks, and the interest rate increases in industrial countries trying to control inflation lead to an international debt crisis. Throughout the 1980s, the IMF plays a central role in helping resolve the crisis. | The <i>Structural Adjustment Facility</i> , one of the predecessors of the Poverty Reduction and Growth Facility, is established, enabling the IMF to lend at below market rates to poor countries. | To increase the resources available for concessional lending to developing member countries, the IMF introduces the <i>Enhanced Structural Adjustment Facility</i> . |
| 1992 | 1995 | 1996 |
| The Russian Federation and 13 of the 14 other states of the former Soviet Union join the IMF. | An \$18 billion loan is negotiated for Mexico to help the country recover from a capital account crisis. | The IMF and the World Bank jointly launch the <i>Heavily Indebted Poor Countries (HIPC) Initiative</i> with the aim of reducing the external debt of the world's poorest and heavily indebted countries to sustainable levels in a reasonably short period. |
| 1997-98 | 1999 | 2000 |
| Financial crisis erupts in Thailand, followed by crises in other Southeast Asian countries. The IMF provides loans totaling more than \$36 billion to Indonesia, Korea, and Thailand in support of stabilization policies and structural reforms. The crisis spills over to countries in other areas, such as Russia, whose currency is devalued. Russia defaults on its debt. | The IMF replaces the <i>Enhanced Structural Adjustment Facility with the Poverty Reduction and Growth Facility</i> , which gives explicit attention to poverty reduction, and the HIPC Initiative is enhanced to provide faster, broader, and deeper debt relief. | The <i>UN Millennium Development Goals</i> are agreed by world leaders at the UN Millennium Summit. |
| 2001 | 2005 | |
| Argentina suffers a financial crisis and a deep recession, defaults on its debt, and is forced to abandon its currency board pegging the peso to the U.S. dollar. | The G-8 launch the <i>Multilateral Debt Relief Initiative</i> , and the IMF agrees to forgive 100 percent of the \$3.3 billion debt owed to it by 19 of the world's poorest countries. | |