CGD Brief

International Monetary Fund

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The primary role of the International Monetary Fund (IMF) is to promote stability of the international monetary system, the system of exchange rates and international payments that enables countries to transact with one another. To do so, the IMF provides financial assistance in the form of loans to help member countries address balance-of-payments problems, stabilize their economies, and restore sustainable economic growth. The IMF also carries out technical assistance and surveillance activities that help strengthen underlying economic fundamentals of member countries and the global financial systems at large.

Membership

The IMF is owned by 187 member countries. Each country is a shareholder of the institution and is assigned a quota which determines its financial contribution, voting power, and how much financing it can receive from the IMF. The size of a country's quota is based roughly on the size of its economy and (for high-income countries) the historical capital lent to the IMF.

The United States is the largest single shareholder, with 16.5 percent of votes, followed by Japan (6.2 %), Germany (5.8%), the United Kingdom (4.3%) and France (4.3%). The remaining shares are divided among the other member countries in smaller increments (see table 1). Together, all developing-country borrowers have 37 percent of the voting share. The 48 sub-Saharan African nations share less than 6 percent of the votes.

Where Does the IMF operate?

The IMF is headquartered in Washington, D.C., and employs about 2,400. IMF staff members are primarily economists with wide experience in macroeconomic and financial policies. Most work at the headquarters, but a few serve in small overseas offices around the world.

Governance

The organizational leadership structure at the IMF is made up of the board of governors, the executive board, and the managing director. The board of governors is the highest decision-making body and consists of one governor for each member country, generally a member country's minister of finance. They meet once a year at the annual meetings of the IMF and World Bank Group. The governors delegate day-to-day authority over operational policy, lending, and other business matters to members of the executive board, who work on-site at the institution's headquarters. There are 24 members on the executive board, representing all 187 member countries.

The managing director of the IMF is responsible for the overall management of the institution and serves as the chair of the executive board. Historically, selection of the managing director is based on an unwritten, informal

Table 1
Quota and Voting Shares
Top 10 IMF Shareholders

		Quota (% of total)	Votes (% of total)
1	United States	17.72	16.77
2	Japan	6.57	6.24
3	Germany	6.13	5.82
4	France	4.52	4.30
5	United Kingdom	4.52	4.30
6	China	4.01	3.82
7	Italy	73.32	3.16
8	Saudi Arabia	82.94	2.81
9	Canada	2.68	2.56
10	Russia	2.50	2.39

understanding between the United States and Europe. Under this arrangement, which dates to the creation of the two institutions in 1944, the European governments nominate the managing director of the IMF. Formally, the nominated leader is approved and appointed by the executive board to serve up to two five-year terms.

Funding

The IMF gets most of its financial resources from quota subscriptions paid in by member countries. Quota subscriptions determine the maximum financial contribution a member country is obliged to provide. The United States is currently the largest member of the IMF with a quota of about $68 billion.

Lending

The IMF provides loans through several different instruments, called facilities, which are tailored to address the different needs of borrowing countries. The main lending facilities are nonconcessional and carry market-based interest rates for short- to medium-term loans. These facilities are generally used by middle-income member countries to boost foreign exchange reserves. Other facilities provide lines of credit to countries with a track record of strong economic policies and performance to prevent or mitigate the effects of an external shock and reassure financial markets and investors (table 2).

The IMF also maintains concessional lending facilities that provide low- and no-interest loans to low-income member countries. These facilities help protect developing countries against the severe impact of the global financial crisis and events beyond their control, such as trade shocks and natural disasters.

Distinguishing the IMF from the World Bank

The IMF and the World Bank are distinct institutions with very different roles in the global community. While they share a few similarities—they are both headquartered in Washington, D.C., and they both provide financial assistance to member countries—they differ in size, scope, and mandate. The IMF focuses on maintaining and promoting global financial stability while the World Bank focuses on poverty reduction and development. The IMF offers short-term loans to financially distressed countries for general budget support while the World Bank offers long-term loans to poorer countries for development. In addition, the World Bank also offers financial assistance in the form of nonconcessional loans and grants to poorer countries while the IMF does not. See the table below for more comparisons between the two international financial institutions.

	IMF	World Bank
Membership	187 member countries	187 member countries
Headquarter	Washington, D.C.	Washington, DC
Staff	2,400	10,000
Funding	Subscribed quotas $376 billion (as of 5/25/11)	Subscribed capital of $189 billion
Recipients of Funding	All member countries	Middle- and low-income countries
Biggest Borrowers (FY2010)	Greece, Portugal, Ireland	India, Mexico, South Africa (IBRD) India, Vietnam, Tanzania (IDA)
Focus	Macroeconomics and global financial stability	Long-term poverty reduction and sustainable development
Purpose	*Oversea the international monetary systems *Maintain stability of exchange rates *Provide short-term loans for general budget support	*Provide long-term loans, technical support, and expertise for development assistance in middle-and low-income countries

Table 2
IMF Lending Facilities

Type	Terms	Duration	Use
Stand-by agreements	Nonconcessional	1–2 years	Most common nonconcessional lending to countries with short-term balance of payment problems.
Flexible Credit Line	Nonconcessional	1–2 years	For countries with strong financial track records. Used primarily for crisis prevention or mitigation.
Precautionary Credit Line	Nonconcessional	1–2 years	Only used for crisis prevention by countries with sound financial fundamentals and policies.
Extended Fund Facility	Nonconcessional	3 + years	Used for longer-term balance of payment problems and fundamental economic reform.
Extended Credit Facility	Concessional	3 years	Medium-term support to LIC's.
Standby Credit Facility	Concessional	1–2 years	Short-term support to LIC's. Can be used on a precautionary basis.
Rapid Credit Facility	Concessional	1 disbursement	Rapid financial assistance to LIC's.

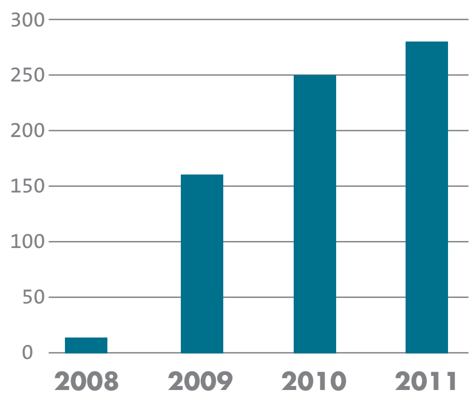
Both nonconcessional and concessional IMF loans are often linked to conditions that aim to adjust borrowing country's economic policies and correct underlying economic or structural problems.

The amount of lending the IMF provides depends on demand and varies widely from year to year. Before the 2008 global financial crisis, total IMF lending was about $14 billion, its lowest level since 1975. By 2011, lending had reached around $280 billion, the largest amount ever committed by the IMF (see figure 1).

Surveillance and Technical Assistance

The IMF does more than lending; it also carries out financial surveillance and provides technical assistance to help countries keep their financial houses in order. IMF surveillance continually monitors national, regional, and global financial developments and provides policy advice to member countries to help maintain stability and prevent crises in the international monetary system.

Figure 1
IMF Loans Committed, FY2008–2011 (billions USD)



It focuses on macroeconomic developments and provides regular assessments of global financial markets and regional economic outlooks.

The IMF also offers technical assistance and training to help member countries strengthen their capacity to design and implement effective financial policies. Technical assistance is offered in several areas, including tax policy and administration, expenditure management,

Issues for Congress

Oversight: Congress exercises oversight of U.S. participation in the IMF through legislative mandates, which can influence certain institutional policies and withhold funding unless certain institutional reforms are met.

Economic Recovery: IMF surveillance tracks economic and financial developments worldwide so that it can help policymakers with the latest forecasts and analysis of developments in the financial markets.

Effectiveness: The effectiveness of the IMF in spurring economic recovery and reform in financially distressed countries is debated, particularly issues related to transparency, efficiency, and control over leveraging of funds. As the largest single shareholder of the IMF, the United States exercises considerable influence over reforms to improve these areas.

monetary and exchange-rate policies, banking and financial-system supervision and regulation, legislative frameworks, and statistics.

Who Borrows from the IMF?

Any member country may borrow from the IMF. Governments request IMF assistance when they find themselves in an economic crisis, whether caused by or poor macroeconomic planning or a sudden shock to their economy. In FY2011, the largest borrowers were Greece, Portugal, and Ireland.

Recent Reforms and Future Outlook

The IMF is implementing a number of reforms to improve governance, enhance its lending facilities, and preserve available resources. In 2010, the IMF adjusted voting shares to increase the representation of emerging markets and developing countries. In addition, upon her appointment in 2011, managing director Christine Lagard appointed a former deputy governor of the People's Bank of China as one of four IMF deputy managing directors—the first time that a Chinese official has held such a post. The IMF has also significantly increased lending to help member countries cope with the 2008 financial crisis, including a sharp rise in concessional lending to low-income countries. To improve and sustain these efforts, the IMF created new lending facilities to better meet countries' needs and increased its lending through bilateral loans with member countries totaling over $250 billion. The IMF is also working closely with governments and other international institutions to improve risk analysis and prevent future crises. As the impact of the financial crisis continues to be weighed, the United States and other nations have a common interest in ensuring that the IMF is both well managed and well funded.

Endnotes

Jenny Ottenhoff is a policy outreach associate at the Center for Global Development. She benefitted from insights and feedback from Lawrence MacDonald, Liliana Rojas-Suarez, and Todd Moss during the drafting of this brief, which draws on previously published work, including the 2010 IMF annual report.

The ABCs of the IFIs: Understanding the U.S. Role in Shaping Effective International Financial Institutions for the 21st Century

The International Financial Institutions (IFIs) are major sources of financial and technical support for developing countries and play a critical role in promoting economic development and global stability. As the interests of high-income and developing countries become more linked, the role of the IFIs will become even more prominent.

The United States and other nations have a common interest in ensuring that the IFIs are well managed and well funded. This CGD brief is one of six on the financial and governance issues facing the IFIs. Please email publications@cgdev.org to receive any of the others:

- The World Bank
- The International Monetary Fund
- The International Finance Corporation
- The Regional Development Banks
- Leadership Selection at the IFIs
- The ABCs of the General Capital Increase

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