INTERNATIONAL MONETARY FUND
(IMF)

- **The International Monetary Fund (IMF)** is an organization of 189 countries, working to:
- foster global monetary cooperation,
- secure financial stability,
- facilitate international trade,
- promote high employment and sustainable economic growth, and
- reduce poverty around the world.

- **Background:**
  - During the Great Depression of the 1930s, countries attempted to shore up their failing economies by:
  - ❖sharply raising barriers to foreign trade;
  - ❖devaluing their currencies to compete against each other for export markets; and,
  - ❖curtailing their citizens' freedom to hold foreign exchange.
  - These attempts proved to be self-defeating.
  - World trade declined sharply and employment and living standards plummeted in many countries.

- This breakdown in international monetary cooperation led the IMF's founders to plan an institution charged with overseeing the international monetary system
- A system of exchange rates and international payments that enables countries and their citizens to buy goods and services from each other.
- The new global entity would ensure exchange rate stability and encourage its member countries to eliminate exchange restrictions that hindered trade.

Quick Details

- **Formation:** Adopted: July 22, 1944 (1944-07-22) (72 years ago)
  Entered into force: December 27, 1945 (1945-12-27) (71 years ago)
- **Type:** International Economic Organization
- **Headquarters:** Washington, D.C.
- **Membership:** 189 nations (to date)
- **Official languages:** English, French, and Spanish
- **Managing Director**: ***Christine Lagarde***
- **Main organ:** Board of Governors

Issues in the Membership of IMF

- All members of the ***IMF*** are also members of the ***World Bank.***
- Some countries have chequered membership history:

  \- The former Czechoslovakia was expelled in 1954 for "failing to provide required data" and was readmitted in 1990, after the Velvet Revolution.

  \- Poland withdrew in 1950—allegedly pressured by the Soviet Union— but returned in 1986.

- Former members are Cuba (which left in 1964) and the Republic of China, which was ejected from the UN in 1980 after losing the support of then U.S. President Jimmy Carter and was replaced by the People's Republic of China. However, "Taiwan Province of China" is still listed in the official IMF indices.
- Apart from Cuba, the other states that do not belong to the IMF are North Korea, Andorra, Monaco, Liechtenstein, Nauru, Cook Islands, Niue, Vatican City.
- Kosovo has limited recognition

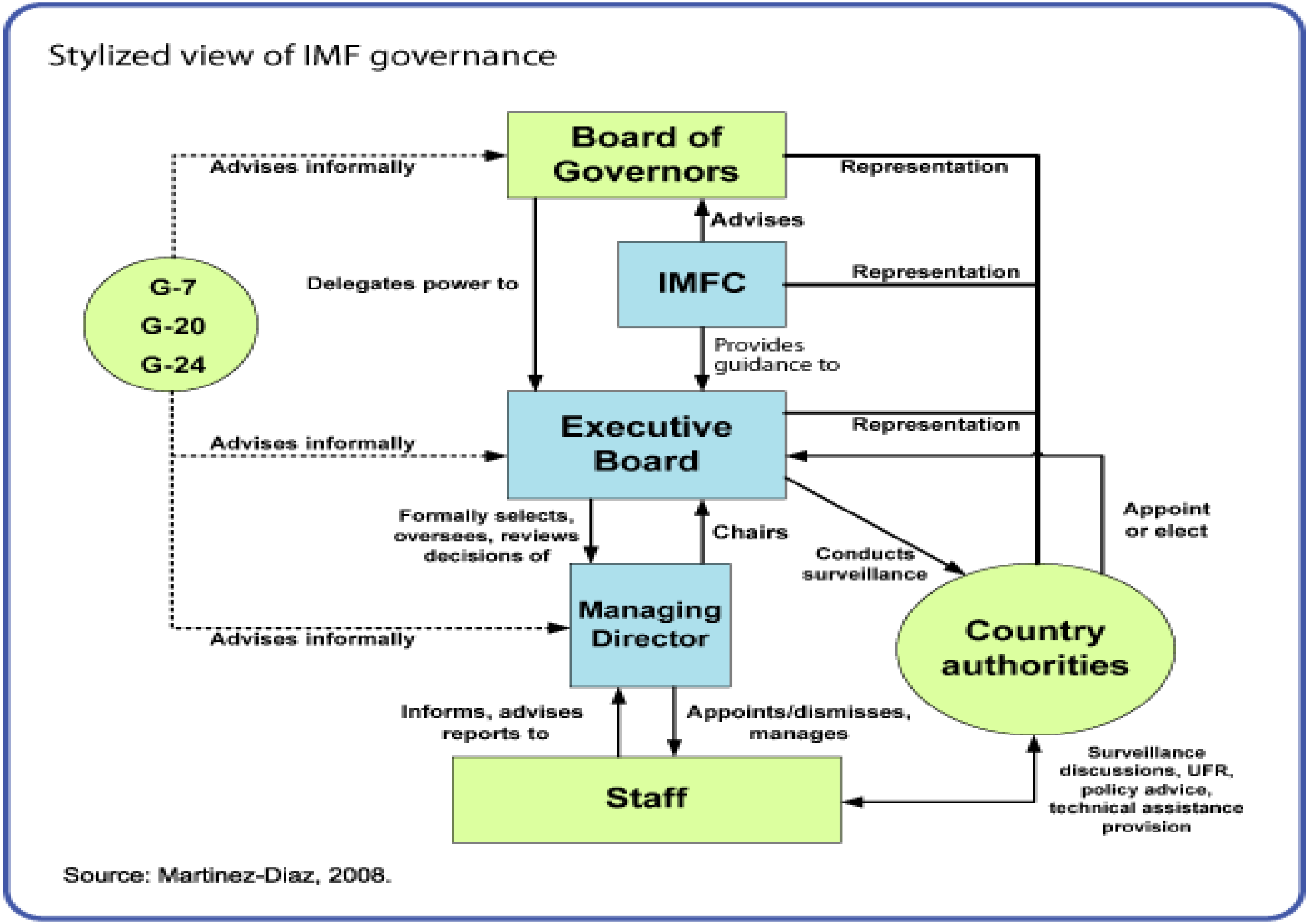
- **Mission of IMF**
- The IMF’s fundamental mission is to ensure the stability of the international monetary system.
- It does so in three ways: keeping track of the global economy and the economies of member countries; lending to countries with balance of payments difficulties; and giving practical help to members.

- ***1) Surveillance***
- The IMF oversees the international monetary system and monitors the economic and financial policies of its 189 member countries.
- As part of this process, which takes place both at the global level and in individual countries, the IMF highlights possible risks to stability and advises on needed policy adjustments.

- ***2) Lending***
- A core responsibility of the IMF is to provide loans to member countries experiencing actual or potential balance of payments problems.
- This financial assistance enables countries to rebuild their international reserves, stabilize their currencies, continue paying for imports, and restore conditions for strong economic growth, while undertaking policies to correct underlying problems.
- Unlike development banks, the IMF does not lend for specific projects.

- ***3) Capacity Development***
- IMF capacity development—technical assistance and training—helps member countries design and implement economic policies that foster stability and growth by strengthening their institutional capacity and skills. The IMF seeks to build on synergies between technical assistance and training to maximize their effectiveness.

IMF Governance Structure



Operational Modalities of the IMF

Board of Governors (BOG)

- The highest decision-making body of the IMF.
- It consists of one governor and one alternate governor for each member country. The governor is appointed by the member country and is usually the **Minister of Finance or the Head of the Central Bank**.
- While the BOG has delegated most of its powers to the IMF's Executive Board, it retains the **right to approve quota increases, special drawing right (SDR) allocations, the admittance of new members, compulsory withdrawal of members, and amendments to the Articles of Agreement and By-Laws.**

- The BOG also elects or appoints Executive Directors and is the ultimate arbiter on issues related to the interpretation of the IMF's Articles of Agreement.
- Voting by the BOG may take place either by holding a meeting or remotely (through the use of courier services, electronic mail, facsimile, or the IMF's secure online voting system).
- The Boards of Governors of the IMF and the World Bank Group normally meet once a year, during the IMF-World Bank Annual Meetings, to discuss the work of their respective institutions.
- The Annual Meetings, which take place in September or October, have customarily been held in Washington for two consecutive years and in another member country in the third year.

Ministerial Committees

- The Board of Governors is advised by two ministerial committees, the *International Monetary and Financial Committee (IMFC)* and the *Development Committee*.
- The IMFC has 24 members, drawn from the pool of 189 governors, and represents all member countries. Its structure mirrors that of the Executive Board and its 24 constituencies.
- The IMFC meets twice a year, during the IMF-World Bank Spring and Annual Meetings. The Committee discusses matters of common concern affecting the global economy and also advises the IMF on the direction of its work.

- At the end of each meeting, the Committee issues a joint communiqué summarizing its views. These communiqués provide guidance for the IMF’s work program during the six months leading up to the next Spring or Annual Meetings. The IMFC operates by consensus and does not conduct formal votes.
- The Development Committee is a joint committee, tasked with advising the Boards of Governors of the IMF and the World Bank on issues related to economic development in emerging and developing countries. The committee has 25 members (usually ministers of finance or development).
- It represents the full membership of the IMF and the World Bank and mainly serves as a forum for building intergovernmental consensus on critical development issues.

The Executive Board

- The IMF's 24-member Executive Board conducts the daily business of the IMF.
- The current configuration of the Board dates from **1992**, following the expansion of the IMF's membership to include many former Soviet Union countries.
- Five Executive Directors are appointed by the member countries holding the five largest quotas (currently the United States, Japan, Germany, France, and the United Kingdom), and 19 are elected by the remaining member countries.
- Under reforms currently being finalized, all 24 Directors will be elected by the member countries, starting in 2012.

- The Board discusses all aspects of the Fund’s work, from the IMF staff's annual health checks of member countries' economies to policy issues relevant to the global economy.
- The board normally makes decisions based on consensus, but sometimes formal votes are taken.
- At the end of most formal discussions, the Board issues what is known as a ***Summing Up***, which summarizes its views.
- Informal discussions may be held to discuss complex policy issues at a preliminary stage.

IMF Management

- The IMF’s Managing Director is both chairman of the IMF’s Executive Board and Head of IMF staff.
- The Managing Director is assisted by four Deputy Managing Directors.
- The Managing Director is appointed by the Executive Board for a renewable term of five years.
- The IMF’s Governors and Executive Directors may nominate nationals of any of the Fund’s member countries.
- Although the Executive Board may select a Managing Director by a majority of votes cast, the Board has in the past made such appointments by consensus.
- For the 2011 selection, the Executive Board adopted a procedure that allowed the selection of the next Managing Director to take place in an open, merit-based, and transparent manner. The Executive Board adopted the same procedure to govern the 2016 selection.

IMF Reform Initiatives

- **Governance Reform**
- In order to be effective and legitimate, the IMF must be seen as representing the interests of all of its 189 member countries. Reform of the IMF’s governance structure is currently under way in response to rapid changes in the global economy that have seen large emerging market countries take on greater importance.
- Reform of the IMF’s governance began in earnest in 2006, when a process to realign members’ quotas and voting power received the backing of the membership.
- The 2008 quota and voice reform—which provides for ad hoc quota increases for a group of dynamic emerging market countries, as well as measures to enhance the voice of low-income countries—became effective on March 3, 2011.

- In October 2009, the IMF's policy steering committee, the International Monetary and Financial Committee, endorsed a call by G-20 leaders to aim for an even more ambitious reform effort, while protecting the voting share of the poorest member countries. On December 15, 2010, the IMF Board of Governors approved the 14th General Review of Quotas which will double members' quotas and will result in a further shift of more than 6 percentage points in quota share to dynamic emerging and developing countries, exceeding what the IMFC had called for.
- Further, there was also agreement to preserve the gains in the voting power of the poorest member countries achieved in the 2008 reforms.
- Once in effect, India and Brazil will join China and Russia as part of the top 10 shareholders of the IMF.

- The 24-member Executive Board also agreed on a restructuring of the way it operates, paving the way for an increase in the representation of dynamic emerging market and developing countries in the day-to-day decision-making at the IMF.
- There will be two fewer Board members from advanced European countries, and all Executive Directors will be elected rather than appointed, as some are now. The size of the Board will remain at 24, and its composition will be reviewed every 8 years.
- The Board of Governors has called on member countries to ratify these reforms by the time of the 2012 Annual Meetings

- **Reform of IMF governance to better reflect the global economy**
- A top priority for the IMF's legitimacy and effectiveness has been the completion of governance reform.
- On December 15, 2010, the Board of Governors approved far-reaching governance reforms under the 14th General Review of Quotas. The package included a doubling of quotas, with a more than a 6 percentage point shift in quota share to dynamic emerging market and developing countries while protecting the voting shares of the poorest member countries. The reform also included a move to a more representative, fully elected Executive Board and advanced European countries committed to reduce their combined Executive Board representation by two chairs.

- The reforms became effective on January 26, 2016, with the entry into force of the amendment to the IMF's Articles of Agreement that created an all-elected Executive Board, after it had been accepted by three-fifths (or 113) of the 189 member countries having 85 percent of the total voting power.
- The 2010 reforms built on quota and voice reforms agreed in April 2008 and became effective on March 3, 2011. Under these reforms, 54 members received an increase in their quotas—with China, Korea, India, Brazil, and Mexico as the largest beneficiaries. Another 135 members, including low-income countries, saw an increase in their voting power as a result of the increase in basic votes, which will remain a fixed percentage of total votes. Combined with the 14th Review, the shift in quota share to dynamic emerging market and developing countries is 9 percentage points.

- **Elements of the Governance Reform**
- The Fund’s governance structure must keep pace with the rapidly evolving world economy to ensure it remains an effective and representative institution of all of its 189 member countries. To secure this objective, in December 2010 the Board of Governors of the IMF approved a package of far-reaching reforms of the Fund's quotas and governance. These reforms, which became effective on January 26, 2016 represent a major realignment in the ranking of quota shares that better reflects global economic realities, and a strengthening in the Fund’s legitimacy and effectiveness.

- The elements of the reform include
- **i) A quota increase and shift in shares.** The 14th General Review of Quotas resulted in an unprecedented doubling of quotas and a major realignment of quota and voting shares to emerging and developing countries (with a more than 6 percent quota shift to dynamic emerging market and developing countries and under-represented countries).
- **ii) Protecting the voting power of the poorest.** The quota shares and voting power of the poorest members were preserved.
- **iii) Quota formula and next review.** A comprehensive review of the current quota formula and bringing forward the completion of the 15th General Review of Quotas to January 2014.

- **iv) A new composition and more representative Board.**
- The 2010 reforms also included an amendment to the Articles of Agreement that facilitates a move to a more representative, all-elected Executive Board.
- Following the 2016 regular election of Executive Directors all 24 Executive Directors will be elected, and take office as of November 1, 2016. The size of the Board will remain at 24, and its composition will be reviewed every 8 years. The European members are committed to reducing by two the number of Board members representing advanced European countries in favor of emerging market and developing countries, and have made significant progress.

- **The Bretton Woods agreement**
- The IMF was conceived in July 1944, when representatives of 45 countries met in the town of Bretton Woods, New Hampshire, in the northeastern United States
- These countries agreed on a framework for international economic cooperation, to be established after the Second World War.
- They believed that such a framework was necessary to avoid a repetition of the disastrous economic policies that had contributed to the Great Depression.
- The IMF came into formal existence in December 1945, when its first 29 member countries signed its Articles of Agreement.

- It began operations on March 1, 1947. Later that year, France became the first country to borrow from the IMF on May 8th and May 9th 1947 respectively. .
- The IMF's membership began to expand in the late 1950s and during the 1960s as many African countries became independent and applied for membership.
- But the Cold War limited the Fund's membership, with most countries in the Soviet sphere of influence not joining.
- More recently, with the 1991 dissolution of the Soviet Union most countries in the Soviet Sphere of influence joined the IMF.
- IMF currently has 189 countries.

Purpose of IMF

- The purposes of the IMF are set in Article 1 as follows:
- To promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems
- 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
- To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation

- 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
- 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
- In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members

- **Historical Examination of the Metamorphosis of the Influence of the IMF**

- **Cooperation and reconstruction (1944–71)**
- **The IMF adopted Par value system**
- The 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 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 par value system—also known as the Bretton Woods system—prevailed until 1971, when the U.S. government suspended the convertibility of the dollar (and dollar reserves held by other governments) into gold.

The End of the Bretton Woods System (1972–81)

- By the early 1960s, the U.S. dollar's fixed value against gold, under the Bretton Woods system of fixed exchange rates, was seen as overvalued.
- A sizable increase in domestic spending on President Lyndon Johnson's Great Society programs and a rise in military spending caused by the Vietnam War gradually worsened the overvaluation of the dollar.
- The system dissolved between 1968 and 1973. In August 1971, U.S. President Richard Nixon announced the "temporary" suspension of the dollar's convertibility into gold.

- While the dollar had struggled throughout most of the 1960s within the parity established at Bretton Woods, this crisis marked the breakdown of the system. An attempt to revive the fixed exchange rates failed, and by March 1973 the major currencies began to float against each other.
- Since the collapse of the Bretton Woods system, 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,
  - participating in a currency bloc, or
  - forming part of a monetary union.

- **Debt and Painful Reforms (1982–89)**

- 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 led to an international debt crisis.
- During the 1970s, Western commercial banks lent billions of "recycled" petrodollars, getting deposits from oil exporters and lending those resources to oil-importing and developing countries, usually at variable, or floating, interest rates.

- So when interest rates began to soar in 1979, the floating rates on developing countries' loans also shot up. Higher interest payments are estimated to have cost the non-oil-producing developing countries at least $22 billion during 1978–81. At the same time, the price of commodities from developing countries slumped because of the recession brought about by monetary policies. Many times, the response by developing countries to those shocks included expansionary fiscal policies and overvalued exchange rates, sustained by further massive borrowings.
- When a crisis broke out in Mexico in 1982, the IMF coordinated the global response, even engaging the commercial banks. It realized that nobody would benefit if country after country failed to repay its debts.
- The IMF's initiatives calmed the initial panic and defused its explosive potential. But a long road of painful reform in the debtor countries, and additional cooperative global measures, would be necessary to eliminate the problem.

Societal Change for Eastern Europe and Asian Upheaval (1990-2004

- The fall of the Berlin wall in 1989 and the dissolution of the Soviet Union in 1991 enabled the IMF to become a (nearly) universal institution. In three years, membership increased from 152 countries to 172, the most rapid increase since the influx of African members in the 1960s.
- In order to fulfil its new responsibilities, the Executive Board increased from 22 seats to 24 to accommodate Directors from Russia and Switzerland, and some existing Directors saw their constituencies expand by several countries.
- The IMF played a central role in helping the countries of the former Soviet bloc transition from central planning to market-driven economies.

- By the end of the decade, most economies in transition had successfully graduated to market economy status after several years of intense reforms, with many joining the European Union in 2004.

- **Asian Financial Crisis**
- In 1997, a wave of financial crises swept over East Asia, from Thailand to Indonesia to Korea and beyond. Almost every affected country asked the IMF for both financial assistance and for help in reforming economic policies.
- From this experience, the IMF drew several lessons:

  - First, it paid more attention to weaknesses in countries' banking sectors and to the effects of those weaknesses on macroeconomic stability. In 1999, the IMF/World Bank launched the Financial Sector Assessment Program for national assessments on a voluntary basis.

Second, the Fund realized that the institutional prerequisites for successful liberalization of international capital flows were more daunting than it had previously thought.

- Third, the severity of the contraction in economic activity that accompanied the Asian crisis necessitated a re-evaluation of how fiscal policy should be adjusted when a crisis was precipitated by a sudden stop in financial inflows.

- **Debt relief for poor countries**
- During the 1990s, the IMF worked closely with the World Bank to alleviate the debt burdens of poor countries through the Heavily Indebted Poor Countries (1996) and the Multilateral Debt Relief Initiative (MDRI). (2005)

Functions

- Upon initial IMF formation, to oversee the fixed exchange rate arrangements between countries, thus helping national governments manage their exchange rates and allowing these governments to prioritize economic growth.
- To provide short-term capital to aid balance of payments. This assistance was meant to prevent the spread of international economic crises.
- The IMF’s role was fundamentally altered after the floating exchange rates post 1971 as it shifted to examining the economic policies of countries with IMF loan agreements to determine if a shortage of capital was due to economic fluctuations or economic policy.

- To research what types of government policy would ensure economic recovery. The new challenge is to promote and implement policy that reduces the frequency of crises among the emerging market countries, especially the middle-income countries that are open to massive capital outflows.
- Rather than maintaining a position of oversight of only exchange rates, their function became one of “surveillance” of the overall macroeconomic performance of its member countries. Their role became a lot more active because the IMF now manages economic policy instead of just exchange rates.

- To foster global growth and economic stability.
- To provide policy advice and financing to members in economic difficulties.
- Works with developing nations to help them achieve macroeconomic stability and reduce poverty. The rationale for this is that private international capital markets function imperfectly and many countries have limited access to financial markets. The IMF can provide other sources of financing to countries in need that would not be available in the absence of an economic stabilization program supported by the Fund.

- **The Process Of IMF Lending**
- Upon request by a member country, IMF resources are usually made available under a lending —arrangement, which may, depending on the lending instrument used, stipulate specific economic policies and measures a country has agreed to implement to resolve its balance of payments problem.
- The economic policy program underlying an arrangement is formulated by the country in consultation with the IMF and is in most cases presented to the Fund's Executive Board in a —Letter of Intent.
- Once an arrangement is approved by the Board, IMF resources are usually released in phased installments as the program is implemented. Some arrangements provide strong-performing countries with a one-time up-front access to IMF resources and thus not subject to the observance of policy understandings.

- **IMF Lending Instruments**
- Over the years, the IMF has developed various loan instruments that are tailored to address the specific circumstances of its diverse membership.
- These are categorized as :
  - Concessional Loans
  - Non-concessional Loans
  - Emergency Assistance

1) **Concessional Loan** :

- a) **The Extended Credit Facility (ECF)**

  - The Fund's main tool for providing medium-term support to LICs with protracted balance of payments problems. Financing under the ECF currently carries a zero interest rate, with a grace period of 5½ years, and a final maturity of 10 years.

- **b) The Standby Credit Facility (SCF)**

  - Provides financial assistance to LICs with short-term balance of payments needs. The SCF can be used in a wide range of circumstances, including on a precautionary basis. Financing under the SCF currently carries a zero interest rate, with a grace period of 4 years, and a final maturity of 8 years.

- **c) The Rapid Credit Facility (RCF)**
- provides rapid financial assistance with limited conditionality to LICs facing an urgent balance of payments need. The RCF streamlines the Fund's emergency assistance for LICs, and can be used flexibly in a wide range of circumstances. Financing under the RCF currently carries a zero interest rate, has a grace period of 5½ years, and a final maturity of 10 years.
- Concessional loans carry zero interest rates until the end of 2013 (2012 for SCF loans).

II: Non-concessional Loans :

- **a) Stand-By Arrangements (SBA)**

  - The bulk of non-concessional IMF assistance is provided through SBAs. The SBA is designed to help countries address short-term balance of payments problems. Program targets are designed to address these problems and disbursements are made conditional on achieving these targets (‘conditionality‘). The length of a SBA is typically 12–24 months, and repayment is due within 3¼-5 years of disbursement. SBAs may be provided on a precautionary basis—where countries choose not to draw upon approved amounts but retain the option to do so if conditions deteriorate—both within the normal access limits and in cases of exceptional access.

- **b) The Flexible Credit Line (FCL)**

  The FCL is for countries with very strong fundamentals, policies, and track records of policy implementation and is useful for both crisis prevention and crisis resolution.
- FCL arrangements are approved, at the member country‘s request, for countries meeting pre-set qualification criteria.
- The length of the FCL is one or two years (with an interim review of continued qualification after one year) and the repayment period is the same as for the SBA.

- Access is determined on a case-by-case basis, is not subject to the normal access limits, and is available in a single up-front disbursement rather than phased.
- Disbursements under the FCL are not conditional on implementation of specific policy understandings as is the case under the SBA because FCL-eligible countries are trusted to be able to implement appropriate macroeconomic policies.
- There is flexibility to either draw on the credit line at the time it is approved or treat it as precautionary.
- In case a member country draws, the repayment term is the same as that under the SBA.

- **c) Precautionary and Liquidity Line (PLL).**

  - The PLL can be used for both crisis prevention and crisis resolution purposes by countries with sound fundamentals and policies, and a track record of implementing such policies. PLL-eligible countries may face moderate vulnerabilities and may not meet the FCL qualification standards, but they do not require the same large-scale policy adjustments normally associated with SBAs. Duration of PLL arrangements can be either six months or 1-2 years. Access under the six-month PLL is limited to 250 percent of quota in normal times, but this limit can be raised to 500 percent of quota in exceptional circumstances where the balance of payments need is due to exogenous shocks, including heightened regional or global stress. 1-2 year PLL arrangements are subject to an annual access limit of 500 percent of quota and a cumulative limit of 1000 percent of quota. The repayment term of the PLL is the same as for the SBA.

- **d) Extended Fund Facility (EFF).**
- This facility was established in 1974 to help countries address medium- and longer-term balance of payments problems reflecting extensive distortions that require fundamental economic reforms.
- Arrangements under the EFF are thus longer than SBAs—normally not exceeding three years at approval, with a maximum extension of up to one year where appropriate.
- However, a maximum duration of up to four years at approval is also allowed, predicated on the existence of a balance of payments need beyond the three-year period, the prolonged nature of the adjustment required to restore macroeconomic stability, and the presence of adequate assurances about the member‘s ability and willingness to implement deep and sustained structural reforms.
- Repayment is due within 4½–10 years from the date of disbursement.

III: Emergency Assistance Loan

a) Rapid Financing Instrument (RFI).

- The RFI was introduced to replace and broaden the scope of the earlier emergency assistance policies. The RFI provides rapid financial assistance with limited conditionality to all members facing an urgent balance of payments need. Access under the RFI is subject to an annual limit of 50 percent of quota and a cumulative limit of 100 percent of quota. Emergency loans are subject to the same terms as the FCL, PLL and SBA, with repayment within 3¼–5 years.

- **NOTE:**
- All non-concessional facilities are subject to the IMF‘s market-related interest rate, known as the —rate of charge, and large loans (above certain limits) carry a surcharge. The rate of charge is based on the SDR interest rate, which is revised weekly to take account of changes in short-term interest rates in major international money markets. The maximum amount that a country can borrow from the IMF, known as its access limit, varies depending on the type of loan, but is typically a multiple of the country‘s IMF quota. This limit may be exceeded in exceptional circumstances. The Stand-By Arrangement, the Flexible Credit Line and the Extended Fund Facility have no pre-set cap on access.

- ***Benefits of IMF Membership***
- i) Member countries of the IMF have access to information on the economic policies of all member countries.
- ii) The opportunity to influence other members' economic policies.
- iii) Technical assistance in banking, fiscal affairs, and exchange matters.
- iv) Financial support in times of payment difficulties, and;
- v) Increased opportunities for trade and investment

- **Voting and Quota Powers**
- Voting power in the IMF is based on a quota system.
- Quota subscriptions are a central component of the IMF's financial resources. Each member country of the IMF is assigned a quota, based broadly on its relative position in the world economy. A member country's quota determines its maximum financial commitment to the IMF, its voting power, and has a bearing on its access to IMF financing.
- When a country joins the IMF, it is assigned an initial quota in the same range as the quotas of existing members of broadly comparable economic size and characteristics. The IMF uses a quota formula to help assess a member's relative position.

- The current quota formula is a weighted average of GDP (weight of 50 percent), openness (30 percent), economic variability (15 percent), and international reserves (5 percent). For this purpose, GDP is measured through a blend of GDP—based on market exchange rates (weight of 60 percent) and on PPP exchange rates (40 percent). The formula also includes a “compression factor” that reduces the dispersion in calculated quota shares across members.
- Quotas are denominated in Special Drawing Rights (SDRs), the IMF’s unit of account. The largest member of the IMF is the United States, with a current quota (as of September 12, 2016) of SDR 82.99 billion (about US$116 billion), and the smallest member is Tuvalu, with a quota of SDR 2.5 million (about US$3.5 million).

- **Key Roles of Quotas in the IMF**
- A member's quota determines that country’s financial and organizational relationship with the IMF, including:

  i) **Subscriptions** . A member's quota subscription determines the maximum amount of financial resources the member is obliged to provide to the IMF. A member must pay its subscription in full upon joining the Fund: up to 25 percent must be paid in SDRs or widely accepted currencies (such as the U.S. dollar, the euro, the yen, or the pound sterling), while the rest is paid in the member's own currency.

- **ii) Voting power** . The quota largely determines a member's voting power in IMF decisions. Each IMF member's votes are comprised of basic votes plus one additional vote for each SDR 100,000 of quota. The 2008 reform fixed the number of basic votes at 5.502 percent of total votes. The current number of basic votes represents close to a tripling of the number prior to the implementation of the 2008 reforms.

  iii) Access to financing . The amount of financing a member can obtain from the IMF (its access limit) is based on its quota. For example, under Stand-By and Extended Arrangements, a member can borrow up to 145 percent of its quota annually and 435 percent cumulatively. However, access may be higher in exceptional circumstances.

- **Effects of the quota system**
- The IMF’s quota system was created to raise funds for loans.
- Each IMF member country is assigned a quota, or contribution, that reflects the country’s relative size in the global economy.
- Each member’s quota also determines its relative voting power. Thus, financial contributions from member governments are linked to voting power in the organization.
- This system follows the logic of a shareholder-controlled organization: wealthy countries have more say in the making and revision of rules.
- Since decision making at the IMF reflects each member’s relative economic position in the world, wealthier countries that provide more money to the fund have more influence in the IMF than poorer members that contribute less; nonetheless, the IMF focuses on redistribution.

- **Special Drawing Rights (SDRs)**
  The SDR is an international reserve asset, created by the IMF in 1969 to supplement its member countries' official reserves. Its value is based on a basket of four key international currencies, and SDRs can be exchanged for freely usable currencies. With a general SDR allocation that took effect on August 28 and a special allocation on September 9, 2009, the amount of SDRs increased from SDR 21.4 billion to around SDR 204 billion (equivalent to about $310 billion, converted using the rate of August 20, 2012).
- **The role of the SDR**
- The SDR was created by the IMF in 1969 to support the Bretton Woods fixed exchange rate system. A country participating in this system needed official reserves—government or central bank holdings of gold and widely accepted foreign currencies—that could be used to purchase the domestic currency in foreign exchange markets, as required to maintain its exchange rate.

- But the international supply of two key reserve assets—gold and the U.S. dollar—proved inadequate for supporting the expansion of world trade and financial development that was taking place. Therefore, the international community decided to create a new international reserve asset under the auspices of the IMF.
- However, only a few years later, the Bretton Woods system collapsed and the major currencies shifted to a floating exchange rate regime. In addition, the growth in international capital markets facilitated borrowing by creditworthy governments. Both of these developments lessened the need for SDRs.

- The SDR is neither a currency, nor a claim on the IMF. Rather, it is a potential claim on the freely usable currencies of IMF members.
- Holders of SDRs can obtain these currencies in exchange for their SDRs in two ways:
  - first, through the arrangement of voluntary exchanges between members; and,
  - second, by the IMF designating members with strong external positions to purchase SDRs from members with weak external positions.
- In addition to its role as a supplementary reserve asset, the SDR serves as the unit of account of the IMF and some other international organizations.

- **Criticisms of IMF**
- IMF has been a subject of criticisms on a wide range of issues.
- We shall be looking at some of these criticisms.
- 1) **Conditions of IMF Loans**
- IMF has been criticized for creating an immoral system of modern day colonialism that SAPs the poor.
- On giving loans to countries, IMF makes the loan conditional on the implementation of certain economic and structural adjustment policies (SAPs) that entail:
  – cutting down on government spending on education and health;
  – Reducing government borrowing which involves higher taxes and lower spending;

  - removing basic food and transportation subsidies;
  - devaluing national currencies to make exports cheaper;
  - Privatizing and commercializing national assets;
  - freezing wages;
  - Higher interest rates to stabilize the currency; and,
  - Allowing failing firms to go bankrupt.
- The problem is that these policies of structural adjustment and macro economic intervention make the situation worse.

- Such belt-tightening measures:
  - increase poverty;
  - reduce countries' ability to develop strong domestic economies; and,
  - allow multinational corporations to exploit workers and the environment
- A recent IMF loan packages for indebted countries often insist on cutting salaries and allowances of public sector workers as well as freezing salaries and decreases in social security payments.

- 2) **Imposition of Flawed Development Model**
- IMF has been accused of imposing a fundamentally flawed development model.
- Unlike the path historically followed by the industrialized countries, the IMF forces countries from the Global South to prioritize export production over the development of diversified domestic economies.
- Nearly 80 percent of all malnourished children in the developing world live in countries where farmers have been forced to shift from food production for local consumption to the production of export crops destined for wealthy countries.

- The IMF also requires countries to eliminate assistance to domestic industries while providing benefits for multinational corporations -- such as forcibly lowering labor costs making it difficult for small businesses and farmers to compete.
- Sweatshop* workers in free trade zones set up by the IMF and World Bank earn starvation wages, live in deplorable conditions, and are unable to provide for their families.
- The cycle of poverty is perpetuated, not eliminated, as governments' debt to the IMF grows.
- ***Sweatshop** *is a workplace with overworked, underpaid employees; that is, a small factory or other establishment where employees are made to work very hard in poor conditions for low wages*

- 3) **IMF bailouts deepen, rather then solve, economic crisis**
- During financial crises -- such as with Mexico in 1995 and South Korea, Indonesia, Thailand, Brazil, and Russia in 1997 -- the IMF stepped in as the lender of last resort.
- Yet the IMF bailouts in the Asian financial crisis did not stop the financial panic -- rather, the crisis deepened and spread to more countries.
- The policies imposed as conditions for these loans were bad medicine, causing layoffs in the short run and undermining development in the long run.
- In South Korea, the IMF sparked a recession by raising interest rates, which led to more bankruptcies and unemployment.
- Under the IMF imposed economic reforms after the peso bailout in 1995, the number of Mexicans living in extreme poverty increased more than 50 percent and the national average minimum wage fell 20 percent.

- 4) **IMF Policies Hurt the Environment**
- IMF loans and bailout packages are paving the way for natural resource exploitation on a staggering scale.
- The IMF does not consider the environmental impacts of lending policies, and environmental ministries and groups are not included in policy making.
- The focus on export growth to earn hard currency to pay back loans has led to an unsustainable liquidation of natural resources.
- For example, the Ivory Coast's increased reliance on cocoa exports has led to a loss of two-thirds of the country's forests.

- **5) Loss of National Sovereignty**
- IMF conditionalities result in the loss of a state's authority to govern its own economy as national economic policies are predetermined under IMF packages.
- IMF packages have also been associated with negative social outcomes such as reduced investment in public health and education.
- **6)**
- With the World Bank, there are concerns about the types of development projects funded. Many infrastructure projects financed by the World Bank Group have social and environmental implications for the populations in the affected areas and criticism has centred on the ethical issues of funding such projects. For example, World Bank-funded construction of hydroelectric dams in various countries has resulted in the displacement of indigenous peoples of the area.

- **7) IMF policies promote corporate welfare**
- To increase exports, countries are encouraged to give tax breaks and subsidies to export industries.
- Public assets such as forestland and government utilities (phone, water and electricity companies) are sold off to foreign investors at rock bottom prices.
- In Guyana, an Asian owned timber company called Barama received a logging concession that was 1.5 times the total amount of land all the indigenous communities were granted. Barama also received a five-year tax holiday.
- The IMF forced Haiti to open its market to imported, highly subsidized US rice at the same time it prohibited Haiti from subsidizing its own farmers. A US corporation called Early Rice now sells nearly 50 percent of the rice consumed in Haiti.

- **8) IMF lending encourages "moral hazard“**
- "Moral hazard" is a term that denotes the idea that insurance makes people incautious. In other words, it is the tendency of people who are insured against a specific hazard to cease to exercise caution to avoid the hazard.
- With regards to IMF lending, critics argue that the knowledge that IMF financing will be made available in the event of a financial crisis makes the crisis more likely to occur.
- Put differently, the possibility of getting bailed out encourages countries to borrow more.
- The idea is that creditors know that IMF financing helps crisis-prone countries stave off default and are therefore willing to lend to such countries at lower interest rate spreads than would prevail if the IMF did not exist.

- IMF's presence thus weakens pressure on governments to pursue policies—such as sustainable fiscal policies and sound financial supervision and regulation—that could help prevent crises.
- Associated with this view is the suggestion that moral hazard may have increased in recent years. It has been argued, in particular, that the IMF's response to Mexico's crisis in early 1995 signaled a new era of massive "bailouts" that inspired higher levels of risk taking and set the stage for crises in East Asia, Russia, and Brazil just a few years later.

- **9) The IMF serves wealthy countries and Wall Street**
- Unlike a democratic system in which each member country would have an equal vote, rich countries dominate decision-making in the IMF because voting power is determined by the amount of money that each country pays into the IMF's quota system.
- It's a system of one dollar, one vote. The U.S. is the largest shareholder with a quota of 18 percent. Germany, Japan, France, Great Britain, and the US combined control about 38 percent. The disproportionate amount of power held by wealthy countries means that the interests of bankers, investors and corporations from industrialized countries are put above the needs of the world's poor majority.

- **10) Criticisms of the Neo Liberal basis of IMF**
- Critics contend that the neoliberal basis of IMF has far-reaching implications, namely:
  - critics point out the contradiction between ‘free market reforms’ and attempts to influence exchange rates.
  - Critics argue that IMF hurts workers. The IMF and World Bank frequently advise countries to attract foreign investors by weakening their labor laws -- eliminating collective bargaining laws and suppressing wages, for example. The IMF's mantra of "labor flexibility" permits corporations to fire at whim and move where wages are cheapest.

– Critics also contend that IMF policies hurt women the most. SAPs make it much more difficult for women to meet their families' basic needs. When education costs rise due to IMF-imposed fees for the use of public services (so-called "user fees") girls are the first to be withdrawn from schools. User fees at public clinics and hospitals make healthcare unaffordable to those who need it most. The shift to export agriculture also makes it harder for women to feed their families. Women have become more exploited as government workplace regulations are rolled back and sweatshops abuses increase.