International Money Fund (IMF) and the World Bank

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**Introduction**

International Monetary Fund and World Bank, both are known as Bretton Wood Institutions as they were formed after a meeting of participation of 43 countries in Bretton Woods, New Hampshire in the United States of America in 1944 (Beazer & Woo, 2016). The aim of both of these international financial organizations was to help the world rebuild its shattered economy postwar and to promote international economic cooperation between all the countries of the world. IMF and WB are both the twin intergovernmental pillars that are headed on their mission to support the structure and dynamics of economic and financial order of the world. Although they were built at the same time for almost the same purpose they are distinct in their approach towards the financial development of the world. The basic difference that differentiates the two agencies other than their names is that the IMF's sole responsibility is to stabilize the exchange rates of the countries. This is not the case with the World Bank as WB is more focused towards the elimination of world poverty (Clemens & Kremer, 2016). That means that WB is a development institution whereas the IMF acts as a cooperative institution that is given the authority to maintain a stabilizing system of payments and recipients between the countries. Hence, the IMF is an international bank which gives loans to needy countries with the help of finically strong countries. IMF and WB both were established and are managed by the governments of participant countries. The participant countries consist of all the countries that are part of both the agencies. Both IMF and WB takes the economic issues of the participant countries seriously and focuses on their efforts to resolve the issues and strengthen the economies of those countries. They both also conduct international conferences together and these two also have their headquarters in Washington D.C which makes it a confusion if they both are the same. These two international institutions have many similarities and dissimilarities in them that distinct their role in structure, functions, and operations, funding, although both came into existence due to the Bretton Woods Agreement 1945 (Daoud et al.,2017). This paper will analyze all the differences and similarities of these renowned agencies that played a huge role in the economic and financial development of the world. The paper will make a comparison of the aspects of what they do and why they are different in their approach towards international relations.

**Structure**

When it comes to observing the structure of both the agencies, IMF is relatively small having only 2,300 employees that work for the agency. Whereas the World Bank is quite complex and is spread in almost all the countries due to its affiliates and subsidiaries, unlike the IMF. IMF staff members work only in their headquarters and have three offices present in Paris, New York, and Geneva. The employees are the economists and financial experts that maintain a record of financial an and economic development of all the nations (Dreher, 2018). World Bank is different in this case as WB has two broad organizations within itself which are: The International Bank for Reconstruction and the International Development Association (IDA). International Finance Corporation is yet another cooperation that is affiliated with WB but is legally and financially independent. This organization works for the assistance of funding for private enterprises in the developing nations. This is why WB cannot be considered solely as an organization but a group that has 7,000 employees, triple the figure of IMF and they are assigned to 40 different offices of WB around the world. However, like IMF almost 95 percent of WB's staff carry out operations in the headquarters located in Washington D.C. WB has a huge staff that has expertise in urban planning, portfolio management, transportation, education, rural development, population control, healthcare, and many more disciplines.

**Functions**

*World Bank*

World Bank was created to reassure the technical assistance poor countries need to develop economically and financially. The WB provides the funding for the development projects and also helps in suggesting effective policies that will boost the economic growth of the poor countries (Guven, 2017). WB gives foremost importance to the long term development and this is why plans policies for the countries that are more than five years longer to execute. Initially, when the bank came to existence, the starting policies and assistance of the agency focused more on electric power and infrastructure projects. Although WB prioritized these projects for many decades, they also expanded their operations in other development sectors as well related to food and security, water management, education, healthcare, poverty and many more. Bank gives extensive attention to the countries that have the poorest population in the world and therefore, directly involves in their economic matters by promoting agriculture and rural development (Hernandez, 2017). The purpose is to provide basic necessities and productivity to the countries that are deprived of them and lack resources to avail them. The projects are mostly specific, targeting one sector of the economy at a time and the decision of funding of those projects depends on the economic situation of that country. Mutual collaboration is made and decision-making authority is shared between the bank and the governments of those countries. WB is more active in designing and executing projects than the functions of lending. World bank does not opt for competition when it comes to providing loans to developing countries. It only supports those development projects for which the resources are not accessible from any other source on reasonable conditions.

*International Monetary Fund (IMF)*

IMF is drastically different than the World Bank in carrying out the operations and functions. IMF history can be divided into two major phases on the basis of the work undertaken by the agency until now (Kersting & Kilby, 2016). In the first phase that ended in 1973, the IMF supervised the acceptance of general convertibility among the powerful currencies of the world. It has directed a system that dealt with fixed exchange rates measured by the value of gold and assisted short term financing to economies in need of foreign exchange. The foreign exchange was needed by the countries to stabilize the value of their currencies and adjust them according to economic situations prevailing at that time. IMF faced many hurdles in the maintenance of a fixed foreign exchange rate as it gives way to unstable financial and monetary conditions all around the world. This consequence led the international community to review and revise the function of IMF related to exchange rates. The system was soon shifted to flexible exchange rates which became more effective in maintaining the monetary and financial balance in the countries. The second phase of IMF started after 1978 when the functions were broadened to suggest solutions to the challenges raised with the failure of the earlier system. IMF main functions include the role of being a mobilizer and moderator of the currencies of its member countries. IMF asks them to make their national currencies to be easily exchanged without any type of restriction of the currencies of other member states (Kilby, 2015). Till 1996, almost 115 members showed agreement to the full convertibility of their currencies without giving wat to any hurdle. The second important function of IMF includes the supervision of IMF in devising the economic policies that will help in balancing the payments under a flexible exchange rate system. This assistance helps in identifying the early warnings of any problem related to the balance of payments and exchange rates. In this aspect, the IMF has the edge to authorize and monitor the financial performance of all the countries which is done once a year. IMF keeps a close check on the economic policies and developments of the economies of its member states and keeps them updated. The member states can approach the IMF for technical and financial assistance only if the balance of payments are not roughly balanced. When there occurs major instability in the economies, only then it becomes a compulsion for the countries to ask the IMF for loans under the conditions set by the IMF. These conditions ultimately make the exports of the country more expensive and the imports relatively cheaper (Agyemang, 2018). This is because the countries take times in reorganization and improving the current economic situations and the IMF will lend money during that time of change for the countries to assist in reforms.

**Budget**

The World Bank is a bank used for investment, managing the payments between investors and recipients. It involves in the borrowing process from one to another entity. WB is owned by the government of its 180 member countries having equity shares in the Bank that were worth $176 billion in 1995. Whereas the IMF cannot be considered as a bank although it has functions similar to one. IMF does not play any part in the process of investors and recipients (Peet, 2009). However, the IMF has enough resources to assist other countries with the worth of value to be $215 billion. These resources come through the quota subscriptions or the membership fees taken from the 182 members of IMF. World Bank is a key borrower in the global capital market and the biggest non-resident borrower that is working virtually in 180 countries where its issues are traded. WB do borrow money through the selling of bonds and reports directly to the government of its member countries, their agencies and the central banks of these countries. IMF is different in this regard as IMF does not borrow and lends but acts as credit union whose members can access a common pool of resources through the sum of their own contributions. The recipients of the World Bank are not the rich countries or private entities but the governments of poor and developing countries (Polak & Boughton, 2016). The poorer the country is; the more facilitation it receives from WB in the form of financial assistance. In contrast, in the case of IMF, all the countries no matter whether they are rich or poor, have equal access to the cooperation's financial resources. As all the countries want to maintain their balance of payments, therefore each one of them has the right to go for financial help to IMF.

**Conclusion**

Although both the agencies are working effectively to assist the member countries in every way possible there are still some matters that need to be considered by them. It is seen in the context of IMF that when the poor countries borrow from the IMF, the conditions IMF impose are manipulating the economy instead of showing any improvement. Those conditions in the Structural Adjustment Programs (SAP) are not helpful enough to bring the country out of economic instability. Overvaluation in the currency becomes deviated from the trade policies and are destructive in nature. IMF should work on its role as a financial provider to assist and not as a business investor that places conditions difficult to fulfill by the developing countries. As for the World Bank, the specific project for which the agency provides its assistance, it will be very effective if the agency sends their teams to the member countries that require their help in policy implementation and project execution. Both the World Bank and IMF should closely monitor the economic performance of the countries twice a year and keeps providing constructive feedback on matters where they are required the most.

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