A DISCUSSION PAPER FOR EMERGING MARKETS: THE ROLE OF IMF AND THE WORLD BANK

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Abstract

While both the World Bank and International Monetary Fund, are two separate entities, often not clear the role of each of them is therefore that this paper seeks to consolidate diverse information reviewed from both entities with the purpose of being able to understand the functioning and scope of each of these important institutions that have had successes and setbacks and ultimately have an active role in global finance and economy, despite the many detractors who are at levels world.

There is an anecdote which is worth mentioning. "John Maynard Keynes, recognized at the inaugural meeting of the International Monetary Fund was confused by the names he thought the Fund should be called a bank, and the World Bank should be called a bottom. Confusion has reigned ever since. The Bank and the IMF are two intergovernmental pillars supporting the structure of economic and financial world".

The fundamental difference between the two is understood as: the Bank institution primarily for the development, while the IMF is a cooperative institution that seeks to maintain an orderly system of payments and receipts between nations.

The manner followed to choose the head of each organization has a different procedure, but the important thing is that in the next few years, several countries such as Brazil, India have more active participation and Latin America as a group may perhaps lead some of them.

Keywords: International Monetary Fund, World Bank, Funding, Cooperation, Differences

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1. Size and Structure

Some experts believe that the IMF is an organization smaller and, unlike the World Bank, has a not active affiliate or subsidiaries. It is important to note that most members of its staff working in offices in Washington, DC, despite three small offices are held in Paris, Geneva and United Nations in New York.

The World Bank's structure is more complex. The World Bank itself has within its structure, two major organizations: the International Bank for Reconstruction and Development and the International Development Association (IDA).

"Moreover, associated with, but legally and financially separate from the World Bank are the International Finance Corporation, which mobilizes funding for private enterprises in developing countries, the International Center for Settlement of Investment Disputes, and the Multilateral Guarantee Agency.

With over 7,000 staff members, the World Bank Group is about three times as large as the IMF, and maintains about 40 offices throughout the world, although 95 percent of its staff works at its Washington, D.C., headquarters. The Bank employs a staff with an astonishing range of expertise: economists, engineers, urban planners, agronomists, statisticians, lawyers, portfolio managers, loan officers, project appraisers, as well as experts in telecommunications, water supply and sewerage, transportation, education, energy, rural development, population and health care, and other disciplines"[1].

The World Bank and IMF are considered financial providers of key loans to countries unable to borrow elsewhere, consider this comment to realities of the 90s but, in the 21st century this situation has change and more countries could access to capital markets. Rich or wealthy governments and private banks are the main source of loans to poor countries, this redistribution under the concept of "optimal

1 David D. Driscoll, 1996

resources" to "interest rates" affordable represents a positive aspect to mention in this paper.[2] [3].

2. Source of Funding

The World Bank is an investment bank, intermediating between investors and recipients, borrowing from the one and lending to the other. Its owners are the governments of its more than 180 member nations with equity shares in the Bank. The IBRD obtains most of the funds it lends to finance development by market borrowing through the issue of bonds (which carry an AAA rating because repayment is guaranteed by member governments) to individuals and private institutions in more than 100 countries. Its concessional loan associate, IDA, is largely financed by grants from donor nations. The Bank is a major borrower in the world's capital markets and the largest nonresident borrower in virtually all countries where its issues are sold. It also borrows money by selling bonds and notes directly to governments, their agencies, and central banks. The proceeds of these bond sales are lent in turn to developing countries at affordable rates of interest to help finance projects and policy reform programs that give promise of success.

Each member contributes to this pool of resources a certain amount of money proportionate to its economic size and strength (richer countries pay more, poorer less). While the Bank borrows and lends, the IMF is more like a credit union whose members have access to a common pool of resources (the sum total of their individual contributions) to assist them in times of need. Although under special and highly restrictive circumstances the IMF borrows from official entities (but not from private markets), it relies principally on its quota subscriptions to finance its operations. The adequacy of these resources is reviewed every five years.

Recipients of Funding

“Neither wealthy countries nor private individuals borrow from the World Bank, which lends only to creditworthy governments of developing nations. The poorer the country, the more favorable the conditions under which it can borrow from the Bank. Developing countries whose per capita gross national product (GNP) exceeds $1,305 may borrow from the IBRD. (Per capita GNP, a less formidable term than it sounds, is a measure of wealth, obtained by dividing the value of goods and services produced in a country during one year by the number of people in that country.)

These loans carry an interest rate slightly above the market rate at which the Bank itself borrows and must generally be repaid within 12-15 years. The IDA, on the other hand, lends only to governments of very poor developing nations whose per capita GNP is below $1,305, and in practice IDA loans go to countries with annual per capita incomes below $865. IDA loans are interest free and have a maturity of 35 or 40 years.

In contrast, all member nations, both wealthy and poor, have the right to financial assistance from the IMF. Maintaining an orderly and stable international monetary system requires all participants in that system to fulfill their financial obligations to other participants. Membership in the IMF gives to each country that experiences a shortage of foreign exchange--preventing it from fulfilling these obligations--temporary access to the IMF's pool of currencies to resolve this difficulty, usually referred to as a balance of payments problem. These problems are no respecter of economic size or level of per capita GNP, with the result that over the years almost all members of the IMF, from the smallest developing country to the largest industrial country, have at one time or other had recourse to the IMF and received from it financial assistance to tide them over difficult periods. Money received from the IMF must normally be repaid within three to five years and in no case later than ten years.

Interest rates are slightly below market rates, but are not as concessional as those assigned to the World Bank's IDA loans. Through the use of IMF resources, countries have been able to buy time to rectify economic policies and to restore growth without having to resort to actions damaging to other members' economies”[4].

“For the World bank and IMF to approve loans and grants, a standard policy package was imposed upon the borrowers. This was a necessary precaution to ensure that the borrowers would repay the loans. The standard policy package was termed Structural Adjustment Programme (“SAP”)[5].

By the same token, the lenders elucidate that the SAP was aimed at correcting trade imbalances and government financial deficits. SAP involves cutting back the role of the state and promoting the role of the private sector.

The ideology behind these policies are often labeled “neo-liberalism”, “free market

2 Ibid, pp.74-75.

3 Kingston, Christina, Irikana, Godspower Jackson, Dienye, Victory Uchechukwu and Kingston, Kato ogo, The Impacts of the World Bank and IMF Structural Adjustment Programmes on Africa: The Case Study of Cote D'Ivoire, Senegal, Uganda, and Zimbabwe (2011). Sacha Journal of Policy and Strategic Studies, Vol. 1, No. 2, pp. 110-130, 2011 . Available at SSRN: http://ssrn.com/abstract=2056391

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5 Bird, Graham and Dane Rowlands, “The Catalyzing Role of Policy –Based Lending by the IMF and the World Bank: Fact or Fiction?” Journal of International Development 12, 2000, pp. 951-973.

fundamentalism", or simply put, the "Washington Consensus."[6]

3. World Bank Operations[7]

The World Bank aims to encourage countries to improve their living standards, economic and social, focusing on development. The channels used to encourage this development are technical assistance and funding for projects and policies or guidelines that will realize the economic potential of countries. In the material reviewed, the Bank believes that the long-term, integrated effort. During the first two decades of its existence, two-thirds of the assistance provided by the Bank was intended for electric power and transportation projects, but now areas or sectors are more diverse, with the development pillar of the nations.

"The Bank will consider with special attention to projects that directly benefit the poorest people in developing countries, the social component is an important variable in their analysis process. On this point, the direct participation of the poorest in economic activity is being promoted through loans for the development of various sectors such as agriculture and rural small-scale enterprises, and urban development. While not a direct payment, this is channeled by some entity in the country receiving the benefit"[8].

The Bank provides most of its financial and technical assistance to developing countries by supporting specific projects that has direct impact in their population. Although IBRD loans and IDA credits are made on different financial terms, the two institutions use the same standards (scoring or procedures) in assessing the soundness of projects. The decision whether a project will receive IBRD or IDA financing depends on the economic condition of the country and not on the characteristics of the project.

Its borrowing member countries also look to the Bank as a source of technical assistance. By far the largest element of Bank-financed technical assistance--running over $1 billion a year recently--is that financed as a component of Bank loans or credits extended for other purposes. But the amount of Bank-financed technical assistance for free-standing loans and to prepare projects has also increased. The Bank serves as executing agency for technical assistance projects financed by the United Nations Development Program in agriculture and rural development, energy, and economic planning. In response to the economic climate in many of its member countries, the Bank is now emphasizing technical assistance for institutional development and macroeconomic policy formulation.

Every project supported by the Bank is designed in close collaboration with national governments and local agencies, and often in cooperation with other multilateral assistance organizations. Indeed, about half of all Bank-assisted projects also receive co financing from official sources, that is, governments, multilateral financial institutions, and export-credit agencies that directly finance the procurement of goods and services, and from private sources, such as commercial banks.

In making loans to developing countries, the Bank does not compete with other sources of finance. It assists only those projects for which the required capital is not available from other sources on reasonable terms. Through its work, the Bank seeks to strengthen the economies of borrowing nations so that they can graduate from reliance on Bank resources and meet their financial needs, on terms they can afford directly from conventional sources of capital.

The range of the Bank's activities is far broader than its lending operations. Since the Bank's lending decisions depend heavily on the economic condition of the borrowing country, the Bank carefully studies its economy and the needs of the sectors for which lending is contemplated. These analyses help in formulating an appropriate long-term development assistance strategy for the economy.

Graduation from the IBRD and IDA has occurred for many years. Of the 34 very poor countries that borrowed money from IDA during the earliest years, more than two dozen have made enough progress for them no longer to need IDA money, leaving that money available to other countries that joined the Bank more recently. Similarly, about 20 countries that formerly borrowed money from the IBRD no longer have to do so. An outstanding example is Japan. For a period of 14 years, it borrowed from the IBRD. Now, the IBRD borrows large sums in Japan.

4. IMF Operations[9]

The IMF[10] has gone through two distinct phases in its 50-year history. During the first phase, ending in 1973, the IMF oversaw the adoption of general convertibility among the major currencies, supervised a system of fixed exchange rates tied to the value of gold, and provided short-term financing to countries in need of a quick infusion of foreign exchange to keep their currencies at par value or to adjust to

6 Bird, Graham, "Borrowing from the IMF: The Policy Implications of Recent Empirical Research" World Development 24, 1996, pp. 1753-1760.

7 Bond, P. (2004). Should the World Bank and IMF be "Fixed" or "Nixed"? Reformist Posturing and Popular Resistance. Capitalism, Nature, Socialism, Vol 15: 2, 85-105.

8 Andersen, T.B., H. Hansen and T. Markussen (2005). 'US politics and World Bank IDA Lending', Discussion Paper, Institute of Economics University of Copenhagen, May.

9 IMF 2010b.

10 Saner, R. & Guilherme, R. (2007). The International Monetary Fund's Influence on Trade Policies of Low-income Countries: A valid Undertaking? Journal of World Trade, Vol 41: 5, 931-981.

changing economic circumstances. Difficulties encountered in maintaining a system of fixed exchange rates gave rise to unstable monetary and financial conditions throughout the world and led the international community to reconsider how the IMF could most effectively function in a regime of flexible exchange rates. After five years of analysis and negotiation (1973-78), the IMF's second phase began with the amendment of its constitution in 1978, broadening its functions to enable it to grapple with the challenges that have arisen since the collapse of the par value system. These functions are three.

First, the IMF continues to urge its members have let their currencies to the unrestricted exchange for currencies of other members. But this is interesting and perhaps contradictory, if we consider that BIS considers only "G7" currencies and in some cases may include others to maintain international savings. This is known as coins that are "delivery" and those that are "non delivery"

Second, in place of member compliance monitoring obligations in a fixed exchange rate system, the IMF monitors the economic policies that affects their balance of payments current environment legalized flexible exchange rate. This aspect is interesting considering that often is not the “right way”; we knew the case of Argentina and more recently in several European countries. Something that still does not change, is the process of "des-dollarization of the economy," that it is important in order to generate better controls and especially strengthen in the currency of each country. Whenever the IMF will have an advisory role, but we believe that, this should be "tropicalized" understanding the joints and particularities of each country and not assume that, for the neighbors or strong trade and cultural, which is applied in a country can do or apply "equal" in another.

Third, the IMF continues to provide financial assistance in the short and medium term to members running on temporary balance of payments, of course. Besides, the IMF could help to develop capital markets, following the experience that we have in Mexico, Colombia and Peru. I is important that this aid will "creating value" and not just force to "realize" that at the end, could generates problem in the market and with the participants.

As an IMF member, a country finding itself in this bind can turn to the IMF for consultative and financial assistance. In a collaborative effort, the country and the IMF can attempt to root out the causes of the payments imbalance by working out a comprehensive program that, depending on the particulars of the case, might include raising producer prices paid to farmers so as to encourage agricultural production and reverse migration to the cities, lowering interest rates to expand the supply of credit, and adjusting the currency to reflect the level of world prices, thereby discouraging imports and raising the competitiveness of exports.

Because reorganizing the economy to implement these reforms is disruptive and not without cost, the IMF will lend money to subsidize policy reforms during the period of transition. To ensure that this money is put to the most productive uses, the IMF closely monitors the country's economic progress during this time, providing technical assistance and further consultative services as needed.

In addition to assisting its members in this way, the IMF also helps by providing technical assistance in organizing central banks, establishing and reforming tax systems, and setting up agencies to gather and publish economic statistics. The IMF is also authorized to issue a special type of money, called the SDR, to provide its members with additional liquidity. Known technically as a fiduciary asset, the SDR can be retained by members as part of their monetary reserves or be used in place of national currencies in transactions with other members. To date the IMF has issued slightly over 21.4 billion SDRs, presently valued at about U.S. $30 billion.

Over the past few years, in response to an emerging interest by the world community to return to a more stable system of exchange rates that would reduce the present fluctuations in the values of currencies, the IMF has been strengthening its supervision of members' economic policies. Provisions exist in its Articles of Agreement that would allow the IMF to adopt a more active role, should the world community decide on stricter management of flexible exchange rates or even on a return to some system of stable exchange rates.

Measuring the success of the IMF's operations over the years is not easy, for much of the IMF's work consists in averting financial crises or in preventing their becoming worse. Most observers feel that merely to have contained the debt crisis of the 1980s, which posed the risk of collapse in the world's financial system, must be counted a success for the IMF. The Fund has also gained some recognition for assisting in setting up market-based economies in the countries of the former Soviet Union and for responding swiftly to the Mexican peso crisis in 1994, but its main contribution lies in its unobtrusive, day-to-day encouragement of confidence in the international system. Nowhere will you find a bridge or a hospital built by the IMF, but the next time you buy a Japanese camera or drive a foreign car, or without difficulty exchange dollars or pounds for another currency while on holiday, you will be benefiting from the vast increase in foreign trade over the past 50 years and the widespread currency convertibility that would have been unimaginable without the world monetary system that the IMF was created to maintain.

The theoretical debate over IMF intervention in debt rescheduling illustrates the implications of the three theoretical perspectives. In the functionalist view, the institutions of the debt regime—the IMF, the Paris Club, and the London Club— reflect the creditors' attempts to cope with moral hazard problems, which generate transaction costs. Creditors attempt to screen potential reschedules to determine their commitment to economic reform and repayment; borrowers attempt to signal their commitment to these virtues, but also face incentives to demonstrate their need for debt relief (Cole et al. 1995)[11].

5. Cooperation Between World Bank[12] and IMF[13]

Although the Bank and IMF are distinct entities, they work together in close cooperation to their members. This cooperation, present since their founding, has become more pronounced since the 1970s. Since then the Bank's activities have increasingly reflected the realization that the pace of economic and social development accelerates only when sound underlying financial and economic policies are in place.

The IMF has also recognized that unsound financial and economic policies are often deeply rooted in long-term inefficient use of resources that resists eradication through short-term adaptations of financial policies. It does little good for the Bank to develop a long-term irrigation project to assist, say, the export of cotton, if the country's balance of payments position is so chaotic that no foreign buyers will deal with the country. On the other hand, it does little good for the IMF to help establish a sound exchange rate for a country's currency, unless the production of cotton for export will suffice to sustain that exchange rate over the medium to long term. The key to solving these problems is seen in restructuring economic sectors so that the economic potential of projects might be realized throughout the economy and the stability of the economy might enhance the effectiveness of the individual project.

The main objective of structural-adjustment lending is to restructure a developing country's economy as the best basis for sustained economic growth. Loans support programs that are intended to anticipate and avert economic crises through economic reforms and changes in investment priorities.

Dreher (2004) takes a public choice perspective, arguing that the IMF prefers to impose as many conditions as possible in order to increase the prestige, budget and organizational slack of the organization, and explains variations in the number of conditions in terms of shifts in the relative bargaining power of the Fund and its borrowers. As evidence, he cites associations between the number of conditions and weak current accounts and heavy dependence on financing from the IMF and World Bank.

In contrast, Stone (2008) finds that while countries apparently desire to minimize conditionality, the Fund often refrains from imposing maximum conditionality when it is in a strong bargaining position. In addition, countries that receive substantial amounts of U.S. foreign aid are subject to more stringent applications of conditionality when their need for IMF support is greatest.

Focusing on structural reform in recent years has resulted in considerable convergence in the efforts of the Bank and IMF and has led them to greater reliance on each other's special expertise. This convergence has been hastened by the debt crisis, brought on by the inability of developing countries to repay the enormous loans they contracted during the late 1970s and early 1980s. The debt crisis has emphasized that economic growth can be sustained only when resources are being used efficiently and that resources can be used efficiently only in a stable monetary and financial environment.

The bedrock[14] of cooperation between the Bank and IMF is the regular and frequent interaction of economists and loan officers who work on the same country. The Bank staff brings to this interchange a longer-term view of the slow process of development and a profound knowledge of the structural requirements and economic potential of a country. The IMF staff contributes its own perspective on the day-to-day capability of a country to sustain its flow of payments to creditors and to attract from them investment finance, as well as on how the country is integrated within the world economy. This interchange of information is backed up by a coordination of financial assistance to members. For instance, the Bank has been approving structural- or sector-adjustment loans for most of the countries that are taking advantage of financial assistance from the IMF. In addition, both institutions encourage other lenders, both private and official, to join with them in co financing projects and in mobilizing credits to countries that are in need. Cooperation between the Breton Woods Institutions has two results: the identification of programs that will encourage growth in a stable economic environment and the coordination of financing that will ensure the success of these programs. Other lenders, particularly commercial banks, frequently make credits available only after seeing satisfactory performance by the borrowing country of its program of structural adjustment.

The Bank and the IMF have distinct mandates that allow them to contribute, each in its own way, to

11 Cole, H. L., Dow, J., & English, W. B. (1995). International Economic Review, 36, 365–385.

12 The President of the Bank, currently Jim Yong Kim, is responsible for chairing the meetings of the Boards of Directors and for overall management of the Bank. Traditionally, the Bank President has always been a US citizen nominated by the United States, the largest shareholder in the bank. The nominee is subject to confirmation by the Board of Executive Directors, to serve for a five-year, renewable term.

13 On June 28, 2011 Christine Lagarde was confirmed as Managing Director of the IMF for a five-year term starting on July 5, 2011.

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the stability of the international monetary and financial system and to the fostering of balanced economic growth throughout the entire membership.

Since their founding more than 60 years ago, both institutions have been challenged by changing economic circumstances to develop new ways of assisting their membership. The Bank has expanded its assistance from an orientation toward projects to the broader aspects of economic reform. Simultaneously the IMF has gone beyond concern with simple balance of payment adjustment to interest itself in the structural reform of its members' economies.

Some overlapping by both institutions has inevitably occurred, making cooperation between the Bank and the IMF crucial. Devising programs that will integrate members' economies more fully into the international monetary and financial system and at the same time encourage economic expansion continues to challenge the expertise of both Breton Woods Institutions.

Table 1. "The International Monetary Fund and the World Bank at a Glance*

International Monetary Fund	World Bank
• oversees the international monetary system • promotes exchange stability and orderly exchange relations among its member countries • assists all members--both industrial and developing countries--that find themselves in temporary balance of payments difficulties by providing short- to medium-term credits • supplements the currency reserves of its members through the allocation of SDRs (special drawing rights); to date SDR 21.4 billion has been issued to member countries in proportion to their quotas • draws its financial resources principally from the quota subscriptions of its member countries • has at its disposal fully paid-in quotas now totaling SDR 145 billion (about $215 billion) • has a staff of 2,300 drawn from more than 182 member countries	• seeks to promote the economic development of the world's poorer countries • assists developing countries through long-term financing of development projects and programs • provides to the poorest developing countries whose per capita GNP is less than $865 a year special financial assistance through the International Development Association (IDA) • encourages private enterprises in developing countries through its affiliate, the International Finance Corporation (IFC) • acquires most of its financial resources by borrowing on the international bond market • has an authorized capital of $184 billion, of which members pay in about 10 percent • has a staff of 7,000 drawn from 180 member countries"

* David D. Driscoll, 1996

6. Conclusions and comments

We consider important to start the conclusions mentioned that there is ample evidence that G7 countries, and in particular the United States, make some kind of pressure on governments to vote in line with them in the General Assembly. As outlined above, G7 countries can to some extent control IMF and World Bank decisions, and can thereby use the international organizations to influence recipient countries' behavior in ways compatible with their interests.

The differences between them are clear in terms of definition but in the emerging economies sometimes it is necessary to understand each function in order to maintain strong relationship with them. The World Bank provides loans to developing countries for capital programs. The World Bank's official goal is the reduction of poverty. The IMF works to improve the economies of its member countries

The guidelines mentioned by the WB and IMF where taken by the Basel III, but it is necessary to clarify the real impact in emerging economies. How manage information and the quality of it is an aspect that in the future the academics and practitioners have to analyze and study in the relation with WB and IMF recommendations.

The aspects related to Governance and how manage and identify stakeholders will become an important aspects that the IMF and WB have to study and evaluate not only in their members but also in the companies that have operations in their countries (for instance social impact).

One of the most positive contributions from IMF to emerging economies is the Public Debt management recommendations that helped them to create their Market Markers Programs. We have the experience from Peru and Colombia.

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