

WORLD BANK INFORMATION BRIEFS



The World Bank and the IMF

The World Bank and the International Monetary Fund (IMF) were founded at the same time, and their headquarters are across the street from one another in Washington, DC. But while the work of the Bank and the Fund are complementary, their individual roles are quite different. The World Bank is a lending institution whose aim is to promote long-term economic growth that reduces poverty in developing countries. The IMF acts as a monitor of the world's currencies by helping to maintain an orderly system of payments between all countries, and lends money to those of its members who face serious balance of payments deficits.

The World Bank and the IMF were both established in 1944 at a conference of world leaders in the New Hampshire village of Bretton Woods. The aim of the two "Bretton Woods institutions," as they are sometimes called, was to place the international economy on a sound footing after the end of World War II.

One need was to make sure that the misguided, nationalistic monetary policies of the 1930s did not reappear in the post-war period. This task was assigned to the International Monetary Fund. Another need was to rebuild the roads, bridges, communications links, power systems, and other basic building blocks of the economies of the war-torn countries of Europe. This job was given to the International Bank for Reconstruction and Development--the World Bank, for short.

Help for the countries of Western Europe soon came in the form of the U.S. Marshall Plan, and the World Bank shifted its lending focus to the countries of the developing world in Asia, Africa, and Latin America. The British economist Lord Keynes, one of the "founding fathers" of the World Bank, foresaw this shift of emphasis at the original Bretton Woods meeting: "It is likely, in my judgment, that the field of reconstruction from the consequences of war will mainly occupy the proposed Bank in its early days. But as soon as possible, and with increasing emphasis as time goes on, there is a second primary duty laid upon it, namely to develop the resources and productive capacity of the world, with special reference to the less developed countries."

Helping Different Countries--Together

The World Bank and IMF should rightly be seen as partners in promoting global economic prosperity, but their structure, size, and country focus are not identi-

cal. For instance, both richer and poorer countries are entitled to join the World Bank, but only poorer countries qualify for assistance from the institution. Membership in the IMF is a prerequisite for joining the Bank, and both organizations currently count more than 170 members.

While the World Bank lends only to developing countries, all member countries (rich and poor) can call upon the International Monetary Fund's services and resources. In fact, for the Fund to do its job properly, the vast majority of the world's countries must participate in its work. Since international trade and investment cross borders, nearly every country finds itself buying and selling foreign currencies to finance imports and exports. The IMF monitors such transactions, and consults with its members on ways they can contribute to a fluid and stable global monetary system. The IMF also offers technical assistance in macro-economic management and extends financial assistance to countries in return for a commitment to economic policy changes.

As of June 30, 1992, the Bank has disbursed over \$200 billion in loans for projects and policy changes since it began operations. The Fund has provided over \$140 billion in permanent liquidity and short- and medium-term loans to its members, traditionally to help them overcome balance of payments difficulties. The Bank is a much larger institution, with a staff of 6,800, while the Fund has a staff of 2,000. For both the Bank and the Fund, staff members come from over 100 countries.

Projects and Policies

In its early years, most of the Bank's assistance to developing countries was devoted to specific development projects, such as installing electric power lines, or building roads, bridges, and railroads. Later,

the number of large industrial projects declined, while projects that raised the productivity and living standards of the rural and urban poor gained importance. Many of these later projects have also included a training component, such as modernizing farms, improving the skills of teachers, or providing business know-how to small entrepreneurs.

While the Bank began by focusing on individual projects, and this remains the area where the Bank puts most of its resources, in recent years the World Bank has begun to make loans for general improvements in economic policies too. The oil crisis of the 1970s and the debt crisis of the early 1980s created serious economic challenges for many developing countries, including higher import costs and an increased need to export to earn foreign currency.

The Bank started lending for broad improvements in economic policies, called structural adjustment, which aim, among other things, to channel limited resources into more cost effective investments to reduce budget deficits or stem inflation. By correcting these distortions, adjustment loans can help developing country economies use resources more effectively and so become better able to secure long-term growth. The Bank's project loans also affect economic policies, however: as local experts work on a new gas distribution network, for instance, they will often need to consider new pricing policies to make the use of energy more efficient.

While the World Bank makes loans for both policy reforms and projects, the International Monetary Fund concerns itself with policies alone. The IMF tracks its members' monetary and fiscal policies that can have an impact on their ability to finance their imports and exports--their "balance of payments." It makes recommendations during regular consultations with government officials on what changes to make in policy to correct current problems or to head off future ones. It also provides loans to member countries that have a short-term problem meeting their foreign payments requirements. Finally, the Fund seeks to obtain full convertibility among the currencies of its members under the system of flexible exchange rates in force since 1973. When currencies can be freely exchanged, trade and investment among different countries is greatly eased. As of 1991, 70 countries had agreed to currency convertibility.

Greater Cooperation

The World Bank and the IMF have always been complementary institutions. But lending for broad improvements in economic policies has led their staffs to cross the street more often in the last 10 to 15 years in order to step up their cooperation. The Bank hopes to create a sounder basis for the success of the specific projects it creates, while the Fund is trying to promote greater international monetary stability. (Apr.1993)