

# Similarities and differences of the world bank and imf

[Finance](#), [Banks](#)



The World Bank retains funds or capitals from investments are done by in different operations by subsequent investment in the universal capital market.

This causes the fluctuations in the investment and restrict on lending actions.

Donor countries replenish the funds every three years.

The replenishments are relying loan repayment timorous.

It will spontaneous the Bank future lending capacity will be influence when face the above criteria.

## **Facts about World Bank**

There are two kinds of loans that provided by World Bank which are investment and development policy. Investment loans are those that are provided to assist economic and social development whereas development policy loans are proposed as quick finance to uphold institutional reforms to lessen third world debt.

The Bank gives analysis services for economic and social infrastructural improvements . The Bank as well inspires innovation and cooperation between local stakeholders to create:

Debt relief in the very impoverished countries

Development of clean water supply and environment

Aid of immunization programs in epidemics.

Establish "green's initiatives"

## **Chapter 4 IMF and World Bank**

### **Similarities of IMF and World Bank**

Apparently, the IMF and World Bank exhibit many common characteristics while they are performing their tasks. First of all, the IMF and World Bank are controlled by the member nation's governments. In reality, the members of both institutions are all the countries on earth.

Besides, both IMF and World Bank concern their member nations based on the economic issues. They also put more effort on enlarging the economies. In the both institutions, their staff members attend the conferences and talk the similar complex language of the development professions. Not only those activities, they reports in the media that involve negotiate and mystify programs of the adjustment of the economic with other government's finance's ministers Both the IMF and World Bank grasp annual meetings.

Other than the similarities above, both IMF and World Bank have head office in Washington, D. C. (Driscoll, D. D., n. d.), where the things that they do and their differences are pronounced everywhere. Both institutions are located in the same building for many years. In today's world, they are situated on opposite sides of a street. That street is very near the White House (Driscoll, D. D., n. d.). Besides, the same library and other facilities are shared by them. They also trade economic data frequently. There are sometimes they attending the seminars and having daily casual meetings. Sometimes, they are also sending out joint missions to other member nations.

Furthermore, they work together in close cooperation since 1970s. World Bank's activities reflect the consciousness that the speed of social and economic development get faster only when there are good financial and economic policies. The IMF has also realized that financial and economic policies that are in poor condition have caused long-term not efficient of using of resources that oppose abolition through short-term alteration of the policies of financial.

World Bank has done little good to build up a long-term irrigation project to assist if there does not have involvement from the foreign investors or buyers to make business with the nation as the position of payment's balance of the countries is not good. Compare with the IMF, the IMF also does little good to set up a good exchange rate for the currency of specific country, except for the production will be sufficient to maintain the overall term of exchange rate. The main point that can work out with the problems is the reformation of economic sectors. Therefore, the potential of projects may be recognized throughout the whole economic condition. Besides, the effectiveness of the individual project also can be enhanced by the stability of the economy.

World Bank's function is to lend to specific projects that deals with the construction of the infrastructures in the nations. During the recession occurs during 1980s, the World Bank extended the range of the operations of lending to take account of sector-and structural-adjustment loans. These actions help developing countries who had the problems of payment imbalance that harmed the growth of the countries to adjust their economic

policies and structures. This is to reorganize the economy of a developing country to have the sustained economic growth. Loan support programs is planned to foresee and avoid economic crises through the reformation of economic situation and investment priorities changes. World Bank encourages the growth of the economic in deeply indebted countries. In addition, IMF also provides a bigger amount of financial support and the period of its financial assistance would be available had been lengthened. However, balance of payments problem arise because there was a temporary illiquidity and inadequate financial and budgetary policies. Not only that, the problems arise due to the challenge in the structure of the economies of the members' nations, reform stretching over many years and suggests making a closer cooperation with the World Bank.

IMF and World Bank are reliance to each other's expertise. Their special relationship has been speed up by the debt crisis and the in ability for developing countries to repay the loans. To make sure that the economic growth can only be sustained by having the debt crisis, the resources should be used efficiently and effectively in stable monetary and financial environment.

Both IMF and World Bank cooperate with the officers who are working in the common nations country regularly and frequently. The staffs of the World Bank view that the process of development is slow and they have a deep understanding of the economic and structural conditions of a specific country. Besides, the IMF staff contributes its own perspective to sustain its flow of payments and attract from investment finance. Both institutions

encourage lenders to join with them in co-financing plan and transfer funds from the countries that have surplus balance to the countries that have deficit balance.

Both IMF and World Bank need to change their economic conditions to develop other ways of assisting their membership. The World Bank has expanded its assistance to a broader aspect of economic reform. At the same time, the IMF has concerned the economies conditions of its members' nations by adjusting their balance of payment in the structural reform. As a result, the IMF and World Bank need to cooperate in a close relationship to maintain the country's economic circumstances.

## **Differences of IMF and World Bank**

Although both IMF and World Bank have shared some common characteristics, however, they remain distinct. The most obvious distinction is that World Bank is a development institution while IMF is a cooperative institution (Driscoll, D. D., n. d.). The task that IMF needs to do is to monitor the process of payments and receipts among its members' nations. Not only that, each of them has their own purpose, distinct structure, membership, decision making, tasks, sources of funding, recipients of funding, IMF and World Bank's operation.[1]

### **Purpose**

The establishment of IMF contributes to different purposes. In dealing with the unresolved financial problems, unpredictable changes in the trading of national currencies' value in which it can be exchanged for foreign

currencies. Besides, IMF also acts as a voluntary and cooperative institution. It attracts its membership nations by giving up some of the controls towards them. It does not do harm activities towards the membership nations and maintain the economic welfare of its member nations. The IMF institution has set up the rule which is in the Articles of Agreement signed by all members; make up a code of conduct. The guardian of the code of conduct is the IMF. The member nations are allowed to exchange their currency to foreign currencies without restriction. IMF should be informed of changes in monetary and financial policies which will bring implications to the economies of its members' nations. Stated in the code of conduct, they can modify the policies based on the advice of the IMF. If its members' nations are deficit in the funds, they can borrow money from IMF. Besides, it receives reports on member's economic policies and prospects. IMF discusses on it so that other members will respond it in a right way and understand of the way to own their domestic policies. Furthermore, IMF is required to maintain the orderly monetary system that will sustain economic growth throughout the world.

World Bank also has different purposes and responsibilities. The international community assigned World Bank as IBRD[2](Driscoll, D. D., n. d.). Its primary role and responsibility is for financing economic development. Besides, the World Bank's first loan is for the Western Europe to restructure the economies after the war. After these nations recover to their normal operations, the World Bank changed its attention to the poorer nation which is developing countries. Moreover, the World Bank wants to help the

developing countries to enhance the progress of the social and economic circumstances. It can help to move up the productivity of the developing countries. This can ensure that their people may live a better life.

### Size and Structure

The IMF is small and has no affiliates or subsidiaries. It has only about 2, 300 staff members (Driscoll, D. D., n. d.). Most of them work at headquarters in Washington, D. C. There are three small offices in Paris, Geneva, and United Nations in New York. The staff members who work for economists and financial aspects are professional staff members.

However, the World Bank is larger than the IMF and its structure is more complex. It has over 7, 000 staff members which are three times larger than IMF. Not only that, it also maintains about 40 offices throughout the world. Most of its staffs work at headquarters which is located at Washington, D. C. There are different expertises of staffs in the World Bank such as economists, engineers, urban planners, lawyers, as well as experts in telecommunications, transportation, and education. The World Bank has two organizations which are IBRD and International Development Association (IDA)[3]. World Bank transfers fund from surplus unit in developing countries to the private enterprises.

### Membership

Currently, IMF has around 182 members throughout the world. The Board of Governors is the highest authority (IMF and the World Bank, n. d.). Each



country has two representatives which are a Governor and an Alternate Governor. They meet once a year and votes are carried out through mail. There is 24 member Board of Executive Directors monitors the day-to-day operations of the IMF. Japan, USA, France, United Kingdom, and Germany are the first five nations that contribute to the IMF. Each of them appoint one Executive Director, however, the remaining 19 are elected for several nations.

Nevertheless, in the World Bank, there are 187 member countries. If the country is the member's nation of the IMF, then it just can be considered the membership of the World Bank. However, if it is not a member's nation of the IMF, then it cannot be the member of the World Bank. Same as the IMF, the World Bank also has Board of Governors. Each country will elect a representative. They meet once a year. The day-to-day operations are managed by a board of 24 Executive Directors. The overall membership structure of World Bank is much like that of the IMF.

### Decision Making Power

In the IMF, if the member nation wants to make decision, it needs to base on its quota. If it has higher quota, then it can have higher decision making power. The amount of quota mentioned here is determined by the reserves, balance of payments and national income of the members' nation. In addition, it also decides the contribution of the nation to the IMF. The decision-making power of the first five nations that contribute to the IMF and Saudi Arabia is about 40%. Nonetheless, there is less than 5% of the decision

making power of the entire continent of Africa (IMF and the World Bank, n. d.).

In the operations of World Bank, the Governors are delegating the decision making power to the Executive Directors. The decisions are normally made by consensus rather than formal vote by the Directors. Therefore, the World Bank policy is considered and decided by the Directors. Besides, the Directors also approve the credit and loan proposals. They need to show all the reports to the Governors during the annual meetings.

### Tasks

The IMF performs the task by prerequisite of short term loans which are reliant on the structural adjustment programs (SAPs). This task is used for correcting a deficit, eliminating or easing net export controls and foreign exchange investment, diminishing development in domestic money supply, demolishing price controls, depreciating the currency, privatizing the firms which are publicly owned, increasing taxes, reducing government spending, and abolishing subsidies.

While performing the tasks, the World Bank works closely with the IMF. It makes long term loans and repayable within 15 years. They are investing the projects which has viable rate of return. World Bank has used structural adjustment lending to monitor the economic structure and if there are changes, they can follow up easily. The World Bank's plan is to reduce deficiencies that have the accumulating of the specific country assessments

and the strategies which make sure that the support and complement of the World Bank's projects and programs of the country.

### Source of Funding

The IMF is not a bank and it does not act as intermediate between investors and recipients. However, it has at its disposal resources which come from quota subscriptions, paid by IMF's member countries. They contribute certain amount of money based on their economic sizes and strengths. The members of the IMF can share the same resources when they are in need, this can show that IMF acts as a credit union. Even though under high restraining conditions the IMF borrows from official entities, it relies on its quota subscriptions to carry out its operations. Every five years, the IMF will review the amount of the resources.

World Bank has different sources from the IMF. The World Bank is an investment bank, acts as intermediate between investors and recipients. The IBRD issues the bonds which have the greatest rate to individuals and private institutions through market borrowing to acquire the extra funds. The funds are used to lend to the financial development. The IDA is supported by agreement from contributor nations. The major borrower in the capital market is the World Bank. It is also the biggest nonresident borrower to all countries that sold issues. It sells bonds and notes to governments and publics to raise funds. So, it can borrow money to other countries. The money that gets after the borrowing is lent to developing countries at affordable interest rates to help them to finance their projects and programs.

## Recipients of Funding

All wealthy and poor member nations can have the opportunity to ask financial aid from the IMF. The stable and arranged international monetary system is maintained and sustained by the IMF to allow all participants in that system to accomplish their financial obligations to other participants. When the IMF's member nations experience a shortage of foreign exchange, they can access temporarily to the pool of currencies of IMF to account for the balance of payments problem, however, it is not related to the size of the economy or per capita GNP level. Throughout many years, nearly all IMF's members' nations that are from the smallest to the largest industrial countries have shares the same resources to the IMF. They accepted the financial supports to surge them over the hard and difficult periods. The money that lent by the IMF must be repaid between three to five years. Interest rates are below than market rates. The members' countries have been able to fix the economic policies by using the resources from the IMF. They also want to re-establish growth without doing the activities that damaging to other members' economies.

In contrast, World Bank would not lend the money to neither wealthy countries nor private individuals. It only lends to the developing nations and helps the governments to maintain their economies. The worse the economy of the country is, the easier for the World Bank to lend the money to those countries. The per capita GNP of developing countries exceeds \$1, 305 may borrow from the IBRD (Driscoll, D. D., n. d.). The interest rates of these loans are higher than the market rate and the country must do the repayment

between 12 to 15 years. Not only that, only poor developing nations' governments can borrow the loans that provided by the IDA. Those developing countries must have per capita GNP less than \$1, 305 and annual per capita incomes below \$865 (Driscoll, D. D., n. d.). IDA loans are interest free and its maturity dates is 35 or 40 years.

### World Bank Operations

The World Bank persuades poor developing countries to improve their economies by giving them with financial and technical assistance for projects and policies. From the World Bank point of view, the development is viewed as integrated efforts and it is a long-term development. The IBRD loans and IDA credits use the common principles in evaluating the reliability of projects; however, both institutions are using not same financial terms. The World Bank make the judgment of either one of the institutions receive the project based on the country's economic condition but not on the characteristics of the project.

During the initial stages of its existence, World Bank provided the financial assistance on the shipping projects and electricity projects. However, in order to reduce risk, the activities that carried out by the World Bank have been diversified. This is because the World Bank has done many activities and gets many experiences. Besides it also wanted to obtain new opinions into the process of development.

The World Bank puts more effort on the project that can benefit to the poorest people in developing countries. This is being promoted by giving the

opportunities for the residents in the developing countries to borrow funds to carry out the development in the rural and urban areas and agriculture activities. Besides, it also allows these people to manage small types of projects. It helps the poor to be more effective and to gain access to the necessities which comprise of the construction of infrastructure, help the family to plan on the health care, nourishment, education of their children. Besides, it also gives more attention on the constructing farm-to-market roads and provides lighting and power to the villages. Industrial projects create job opportunities in small enterprises. In addition, the World Bank supports development of oil, gas, coal, fuel wood, and biomass.