OVERVIEW OF THE IMF AS A FINANCIAL INSTITUTION

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The International Monetary Fund was founded some 70 years ago near the end of World War II. The founders aimed to build a framework for economic cooperation that would forestall the kinds of economic policies that contributed to the Great Depression of the 1930s and the global conflict that ensued. The world has changed dramatically since 1944, bringing extensive prosperity to many countries and lifting millions out of poverty. The IMF has evolved as well, but in many ways its main purpose—to support the global public good of financial stability and prosperity—remains the same today as when the organization was established.

Throughout its history, the organization has played a central role within the international financial architecture. With its near-global membership of 188 countries, the IMF is uniquely positioned to help member governments take advantage of the opportunities and manage the challenges posed by globalization and economic development more generally.

More specifically, the IMF continues to serve a number of critical international functions, including to provide a forum for cooperation on international monetary issues; facilitate the growth of international trade, thus promoting job creation, economic growth, and poverty reduction; promote exchange rate stability and an open system of international payments; and lend countries foreign exchange when needed, on a temporary basis and under adequate safeguards, to help them address balance of payments problems. Marked by massive movements of capital and shifts in comparative advantage, globalization has affected IMF member countries' policy choices in many areas. Helping its members benefit from globalization, while avoiding potential pitfalls, is an important task for the IMF.

A core responsibility of the IMF is to provide resources to member countries experiencing actual or potential balance of payments problems, meaning that the country cannot find sufficient financing on affordable terms to meet its net international payments (for example, for imports or external debt redemptions). 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 implementing policies to correct underlying problems without resorting to measures that could be destructive to national or international prosperity. Unlike development banks, the IMF does not lend for specific projects.

The global financial crisis of 2007–09 highlighted how economically interconnected countries have become. During the crisis, the IMF mobilized on many fronts to support its members. To meet the ever-increasing financing needs of countries hit by the crisis and help strengthen global economic and financial stability, the IMF significantly bolstered its lending capacity. It did so both by securing large bilateral borrowing agreements from individual member countries and/or their agencies and by expanding the New Arrangements to Borrow (NAB) as a first step, as well as obtaining commitments to increase quota subscriptions of member countries—the IMF's main source of financing. The IMF has refined its general lending framework to make it better suited to member countries' needs, in particular to give greater emphasis to crisis prevention. The IMF also undertook an unprecedented reform of its policies toward low-income countries and significantly boosted the resources and concessional lending available to the world's poorest countries. To increase its permanent resource base and strengthen its legitimacy, in December 2010, the IMF's member countries also agreed to a historic quota and governance reform to double quotas and increase the role of emerging market and developing economies in the decision-making of the institution while simultaneously preserving the voice of the low-income members.

This chapter describes the evolution of the IMF's financial structure and operations, its role and functions, governance structure, and the nature of recent reforms. It provides an overview of the material covered in detail in subsequent chapters, looking in turn at the IMF's nonconcessional financing (Chapter 2), concessional financing (Chapter 3), the Special Drawing Rights (SDR) mechanism (Chapter 4), income generation (Chapter 5), and financial risk management (Chapter 6). The chapter concludes with suggested sources for further information on IMF finances.

1.1 ROLE AND PURPOSES OF THE IMF

The IMF is a cooperative international monetary organization whose nearly universal membership comprises 188 countries. It was established in 1945, together with the International Bank for Reconstruction and Development (known as the World Bank), under agreements reached by delegates from 44 countries who convened during July 1944 at the Bretton Woods Conference.

The responsibilities of the IMF derive from the basic purposes for which the institution was established, as set out in

Article I of the IMF Articles of Agreement—the charter that governs all policies and activities of the IMF:

- 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.

In pursuit of these objectives, the key activities of the IMF can be classified under three areas—lending, surveillance, and the provision of capacity-building services:

- **Lending functions** of the IMF are tailored to address the specific circumstances of its diverse membership. The IMF is probably best known as a financial institution that provides resources to member countries experiencing temporary balance of payments problems (actual or potential). 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 implementing policies to correct underlying problems. The IMF is also actively engaged in promoting economic growth and poverty reduction for its poorer members facing a protracted or short-term balance of payments need by providing financing on concessional terms. Nonconcessional loans are provided mainly through Stand-By Arrangements, the Flexible Credit Line, the Precautionary and Liquidity Line, and the Extended Fund Facility. The IMF may also provide emergency assistance via the Rapid Financing Instrument to all its members facing urgent balance of payments needs. Low-income countries may borrow on concessional terms from the IMF as a trustee of the Poverty Reduction and Growth Trust, currently through the Extended Credit Facility, the Standby Credit Facility, and the Rapid Credit Facility.
- **Surveillance functions** stem primarily from the IMF's responsibility for overseeing the international monetary system and the policies of its members, a task entrusted to the IMF following the collapse of the Bretton Woods fixed exchange rate system in the early 1970s. These activities include bilateral surveillance, which is the regular monitoring and peer review by other members of economic and financial developments and policies in each member country. Regional and multilateral surveillance is conducted through ongoing reviews of world economic conditions, financial markets, fiscal developments and outlooks, and through oversight of the international monetary system. Following the global financial crisis, the IMF undertook several major initiatives to strengthen surveillance in a more globalized and interconnected world and adopted an Integrated Surveillance Decision in July 2012.[1]
- **Capacity building** and other services to members of the IMF include provision of technical assistance and external training; creation and distribution of international statistical information and methodologies; and establishment and monitoring of standards and codes for international best practice in several areas, including timely country economic and financial statistics, monetary and fiscal transparency, assessment of financial sector soundness, and promotion of good governance.

To sum up, the IMF is much more than a lending institution. It is concerned not only with the economic problems of individual member countries but also with the working of the international monetary system as a whole. Its activities are aimed at promoting policies and strategies through which its members can work together to ensure a stable world financial system and sustainable economic growth. The IMF provides a forum for international monetary cooperation, and thus for an orderly evolution of the global system, and it subjects wide areas of international monetary affairs to the

[1] This Decision became effective in January 2013 and provides the legal framework for surveillance to cover spillovers (how economic policies in one country affect others) as well as deepening the IMF's analysis of risks and financial systems. www.imf.org/external/np/exr/facts/isd.htm.

covenants of law, moral suasion, and mutual understanding. The IMF must also stand ready to deal with financial crises, which not only affect individual members but can also threaten the entire international monetary system.

All operations of the IMF are conducted under a decision-making structure that has evolved over time (Box 1.1). The governance structure attempts to strike a balance between representation of its members and the operational necessities of managing an effective financial institution. Although every member country is represented separately on the Board of Governors, most members form combined constituencies on the much smaller Executive Board, which conducts the day-to-day business of the IMF. Members' voting power is based mainly on the size of their quotas, or capital subscriptions, which are intended to reflect members' relative economic positions in the world economy. This structure gives the greatest voice to the institution's largest contributors, although smaller members are protected through a system of basic votes.[2] Moreover, the Executive Board bases most of its decisions on consensus, without a formal vote. This procedure ensures the thorough consideration of all points of view.

The IMF is a quota-based institution, and quotas play a number of key roles; they not only determine a country's voting power and maximum financial commitment but are also relevant for access to IMF resources. The IMF normally conducts general reviews of quotas every 5 years. These reviews provide an opportunity to assess the appropriate size of the Fund and the distribution of quotas among its members. In the past, general quota increases have been distributed largely in proportion to existing quota shares with a smaller amount of the quota increases generally allotted to realign members' quotas with their relative positions in the world economy as reflected in their calculated quota shares, which are based on a quota formula designed for this purpose.[3]

Because past adjustments have been largely proportional to existing quotas, changes in the distribution of actual quotas have lagged behind global economic developments. Consequently, in order to safeguard and enhance the institution's credibility and effectiveness, in 2006 the IMF began a process to review and reform the quota and voice of its member countries. The specific aim was to better align members' quota shares with their economic positions in the world economy and to enhance the voice of low-income countries in the governance of the IMF.

At its annual meeting in Singapore in September 2006, the Board of Governors adopted a resolution requiring the IMF Executive Board to implement a comprehensive program of reforms that, when complete, would increase the representation of dynamic economies (many of which are emerging market economies) whose position and role in the global economy has increased and would make quota and voting shares in the Fund more reflective of changes in global economic realities in the future. Similarly, the voice and participation of low-income countries was to be enhanced through an increase in basic votes which, at a minimum, would be sufficient to preserve their voting shares.

During the first stage of this reform, the Board of Governors agreed that the countries whose quota shares were most out of line with their relative positions in the world economy—namely, China, Korea, Mexico, and Turkey—would receive ad hoc quota increases as a down payment on an adjustment for a broader set of countries based on a new formula. An ad hoc increase for 54 underrepresented members was agreed in 2008; it used a simpler and more transparent quota formula as the basis and became effective in March 2011. The 2008 Quota and Voice Reforms strengthened the representation of dynamic economies, many of which are emerging market economies. They also enhanced the voice and participation of low-income countries through (1) a tripling of basic votes—the first such increase since the IMF's creation in 1945, (2) a mechanism to keep constant the ratio of basic votes to total IMF voting power, and (3) a measure enabling Executive Directors representing seven or more members to each appoint a second Alternate Executive Director.

Building on this reform, in December 2010, the Board of Governors approved a major Quota and Governance Reform in connection with the completion of the Fourteenth General Review of Quotas and a proposed amendment of the IMF's Articles of Agreement on the reform of the Executive Board.[4] The reform package—once effective—will (1) double quotas to approximately SDR 477 billion (about $756 billion), (2) shift more than 6 percent of quota shares to dynamic emerging market and developing economies and from overrepresented to underrepresented countries (exceeding the 5 percent target set by the International Monetary and Financial Committee in 2009), and (3) protect the quota shares and voting power of the poorest members.

[2] A member's voting power is equal to its basic votes, which are the same for all members, plus one additional vote for each SDR 100,000 in quota. Basic votes therefore help to strengthen the relative voting power of those members with the smallest quotas. See Appendix 1 for the IMF's quota and voting structure.

[3] The major variables in the quota formula have been GDP, external openness, variability of external receipts, and reserves. The central role of quotas and the quota formula are discussed in Chapter 2.

[4] As part of the 2010 Quota and Governance Reform, the Board of Governors requested that the Executive Board complete a comprehensive review of the quota formula by January 2013 and bring forward the timetable for completion of the Fifteenth General Review of Quotas to January 2014.

With this shift, the four largest emerging market economies (Brazil, China, India, and Russia) will be among the IMF's 10 largest shareholders, alongside France, Germany, Italy, Japan, the United Kingdom, and the United States. In addition, the 2010 reform moves the IMF to an all-elected Executive Board. The combined representation of advanced European economies on the Executive Board is set to decrease by two Executive Director chairs, and there is increased scope for appointing second Alternate Executive Directors to enhance the representation of multicountry constituencies.

1.2 EVOLUTION OF THE IMF'S FINANCIAL STRUCTURE

The most salient feature of the IMF's financial structure is that it is continuously evolving. The IMF has introduced and refined a variety of lending facilities and policies over the years to address changing conditions in the global economy or the specific needs and circumstances of its members.[5] It has also discontinued or modified such adaptations when appropriate.

- 1945–60: The IMF facilitated a move to convertibility for current payments, meaning that member countries were able to freely convert the currencies of one member country into those of another. Restrictions on trade and payments that had been put in place before and during World War II were removed, and there was relatively little financing by the IMF.
- 1961–70: To meet the pressures on the Bretton Woods fixed exchange rate system, the IMF developed a new supplementary reserve asset, the Special Drawing Right or SDR. It also developed a standing borrowing arrangement with the largest creditor members to supplement its resources during times of systemic crisis.
- 1971–80: The two world oil crises led to an expansion in IMF financing and the development of new lending facilities funded from borrowed resources. It also marked the IMF's expansion into concessional lending to its poorest members.
- 1981–90: The developing country debt crisis triggered a further sharp increase in IMF financing, with higher levels of assistance provided to individual countries than in the past. These programs were also financed in part by borrowed resources.
- 1991–2000: The IMF established a temporary lending facility to smooth the integration into the world market system of formerly centrally planned economies, primarily in Central and Eastern Europe. IMF financing facilities also were restructured to meet members' demands in an environment of increasingly globalized financial markets, where large and sudden shifts in international capital flows led to payment imbalances originating in the financial account rather than the current account of the balance of payments.
- 2001–06: The world economy experienced a period of sustained economic growth, expanding trade and capital flows, and relatively low inflation and interest rates. This extended period of relatively benign economic conditions—and, in many cases, high commodity prices—spurred rapid growth, produced strong external positions, and led to a sharp decline in outstanding IMF credit. At the same time, the IMF's focus turned to the growing challenges posed by the acceleration of globalization, including the need to strengthen and modernize the surveillance process, seek new ways to support emerging market economies, and deepen its engagement with low-income countries.

1.3 MEASURES TAKEN SINCE THE ONSET OF THE FINANCIAL CRISIS

In 2007, the U.S. subprime mortgage market soured, ushering in the global financial crisis that struck with full force in the fall of 2008 with the collapse of Lehman Brothers. In response, the IMF mobilized on a number of fronts to support its member countries. In particular, the IMF significantly increased its lending capacity through borrowing; completed a general quota review that resulted in an agreement to double its quota resources; and implemented two SDR allocations. It refined its general lending framework to place greater emphasis on crisis prevention, reformed its policies toward low-income countries, increased its concessional lending resources, strengthened its surveillance mechanisms, and reformed its governance framework.

1.3.1 Borrowing

A key element of international efforts to overcome the global financial crisis was the agreement of the Group of Twenty industrialized and emerging market economies (G20) in

[5] The provision of financial assistance by the IMF to its members is not "lending" either technically or legally. IMF financial assistance provided through the General Resources Account takes place by means of an exchange of monetary assets, similar to a swap. Nevertheless, this purchase and repurchase of currencies from the IMF, with interest charged on outstanding purchases, is functionally equivalent to a loan and its subsequent repayment. Accordingly, for ease of reference, the terms "lending," and "loans" are used throughout this publication to refer to these arrangements, as explained in Section 2.2.

April 2009 to increase borrowed resources available to the IMF, complementing its quota resources by up to $500 billion. This resulted in a tripling of the IMF's lending resources, which were about $250 billion before the crisis. The International Monetary and Financial Committee (IMFC) endorsed this broad goal. The overall financing increase was accomplished in two steps, first through bilateral financing from IMF member countries (the 2009 round of bilateral agreements) and second by incorporating (folding) this financing into the expanded and more flexible New Arrangements to Borrow (NAB).[6]

In April 2012, the IMFC and G20 jointly called for further enhancement of IMF resources for crisis prevention and resolution through temporary bilateral loans and note purchase agreements. In response, in June 2012, the Executive Board endorsed modalities for a new round of bilateral borrowing—the 2012 Borrowing Agreements (see Borrowing by the IMF).

1.3.2 Quotas

As discussed in Section 1.1, the 2010 Quota and Governance Reform and the completion of the Fourteenth General Review of Quotas in December 2010 will lead to a doubling of quotas to approximately SDR 477 billion (about $756 billion). Once the package is accepted by the membership and the reform goes into effect, there will be a rollback in the NAB credit arrangements from around SDR 370 billion to around SDR 182 billion.

1.3.3 SDRs

Postcrisis measures also included a new general allocation of SDRs. In 2009, in addition to increasing the IMF's lending capacity, the membership agreed to make a general allocation of SDR 161.2 billion (or approximately $250 billion), resulting in a nearly tenfold increase in SDRs. This represented a significant increase in reserves available to help member countries, including many low-income countries.

1.3.4 General Lending Framework

The IMF also refined its lending framework to offer higher loan amounts and tailor its lending toolkit to the evolving needs of the membership. New facilities were introduced in the General Resources Account (GRA) to complement existing instruments. The Flexible Credit Line (FCL), introduced in April 2009 and further enhanced in August 2010, is a lending tool for countries with very strong fundamentals. It provides large, up-front access to IMF resources as a form of insurance for crisis prevention and involves no policy conditions once a country is approved. Benefits to countries that have used the FCL include lower borrowing costs and more room for policy maneuver.

In 2011, the Executive Board approved a further set of reforms to bolster the flexibility and scope of the GRA lending toolkit. There were two key reforms. First, existing GRA emergency assistance tools were consolidated under a single instrument, the Rapid Financing Instrument (RFI). This increased the flexibility of support to countries facing urgent balance of payments needs, including those stemming from exogenous shocks. Second, the Precautionary Credit Line (PCL) was replaced by the Precautionary and Liquidity Line (PLL), a more flexible instrument that can be used not only to address potential but also actual balance of payments needs. This added flexibility provides IMF members that have strong fundamentals with policy insurance against future shocks.

1.3.5 Resources and Lending to Low-Income Countries

Since 2009, the IMF has advanced its support for low-income countries through the Poverty Reduction and Growth Trust (PRGT), reflecting the changing nature of economic conditions in these countries and their increased vulnerability as a result of the global financial crisis. The PRGT provides three lending windows, which were established in January 2010 and further refined in April 2013. These three lending vehicles are tailored to provide flexible support to the increasingly diverse needs of low-income members: (1) the Extended Credit Facility (ECF) provides medium- to long-term support; (2) the Standby Credit Facility (SCF) provides flexible support to address low-income countries' short-term financing and adjustment needs; and (3) the Rapid Credit Facility (RCF) provides rapid support through a single up-front payout for low-income countries facing urgent financing needs.

The IMF has introduced a new interest rate structure that links the concessional interest rates paid on PRGT lending to the SDR interest rate and is subject to regular review. Exceptional interest relief has been extended to all low-income countries—zero interest on all concessional loans until the end of 2014. The IMF also set up a more flexible concessional financing framework. This included establishing a General Loan Account (GLA) and a General Subsidy Account (GSA) to receive and provide financing for all PRGT facilities and special loan and subsidy accounts to accommodate donors' preference for making contributions to specific facilities.

In addition, in September 2012, the Executive Board approved a strategy to make the PRGT self-sustaining. The strategy relies on the use of resources from the partial

[6] The NAB is a set of credit arrangements between the IMF and 38 member countries and institutions including a number of emerging market economies. Further details are provided in Chapter 2.

distribution of the IMF's general reserves linked to the windfall from earlier gold sales. Finally, the IMF established a Post-Catastrophe Debt Relief (PCDR) Trust in June 2010, which allows the Fund to join international debt relief efforts for very poor countries hit by catastrophic natural disasters.

1.4 THE IMF'S FINANCIAL STRUCTURE AND LENDING MECHANISMS

The IMF provides financing to its members through three channels, all of which serve the common purpose of transferring reserve currencies to member countries: regular (nonconcessional) lending from the GRA; concessional lending from the PRGT; and the SDR Department. Regular and concessional lending operations involve the provision of financing to member countries under "arrangements" with the IMF that are similar to lines of credit. A large majority of IMF lending arrangements condition use of these lines of credit (facilities) on achievement of economic stabilization objectives agreed between the borrowing member and the IMF. The IMF may also create international reserve assets by allocating SDRs to members, which can use them to obtain foreign exchange from other members. Use of SDRs is unconditional, although a market-based interest rate is charged.

The basic financial structure of the IMF is summarized in Box 1.2, which includes references to the chapters of this publication where each of the three financing channels is discussed in detail (regular lending in Chapter 2, concessional lending in Chapter 3, and use of SDRs in Chapter 4). Chapter 5 explains how the IMF generates income through lending and investment activities to finance its administrative expenditures. Chapter 6 describes the IMF's financial risk-management framework. Brief summaries of the contents of these chapters follow.

1.4.1 Nonconcessional Financing (Chapter 2)

Unlike other international financial institutions such as the World Bank or regional development banks, the IMF is not technically a lending institution. Instead, the IMF is a repository for its members' currencies and a portion of their foreign exchange reserves. The IMF uses this pool of currencies and reserve assets to extend credit to member countries when they face economic difficulties as reflected in their external balance of payments.

The IMF's regular lending is financed from the fully paid-in capital subscribed by member countries. Such lending is conducted through the General Resources Account of the General Department, which holds the capital subscribed by members. A country's capital subscription is its IMF quota. At the time it joins, each country is assigned a quota based broadly on its relative position in the world economy, and this represents its maximum financial commitment to the IMF.[7]

The IMF's quota-based currency holdings can be supplemented by GRA borrowing. Borrowing by the IMF to finance the extension of credit through the GRA is an important complement to the use of quota resources. Borrowing is currently conducted under its main standing borrowing arrangement, the New Arrangements to Borrow (NAB), as well as through bilateral agreements.[8] However, as the IMF is a quota-based institution, borrowing is understood to be a temporary supplement, in particular during periods of financial crisis but also as a bridge to general quota increases.

The lending instruments of the IMF have evolved over the years. Initially, IMF lending took place exclusively on the basis of general policies governing access to its resources in what became known as the credit tranches and, in particular, under Stand-By Arrangements (SBA). Beginning in the 1960s, special policies were developed to deal with various balance of payments problems that had particular causes.

After 2008, in the wake of the global financial crisis, the IMF strengthened the GRA lending toolkit to meet member countries' financing needs while safeguarding IMF resources. Existing lending instruments were modified and new ones were created, including the Flexible Credit Line (FCL), the Precautionary and Liquidity Line (PLL), and the Rapid Financing Instrument (RFI).

1.4.2 Concessional Financing (Chapter 3)

The IMF lends to poor countries on concessional terms that involve interest rates of zero to no more than 0.75 percent. Concessional lending is meant to enhance these countries' ability to pursue sustainable macroeconomic policies to promote growth and reduce poverty. The IMF also provides assistance on a grant basis to heavily indebted poor countries (HIPCs) to help them achieve sustainable external debt positions. Concessional lending began in the 1970s and was strengthened over time. In July 2009, the Executive Board approved a comprehensive reform of the IMF's concessional facilities. Such assistance is now provided mainly

[7] Quotas also determine a country's voting power in the IMF, define the basis for its access to IMF financing, and determine its share of SDR allocations.

[8] Another standing borrowing arrangement, the General Arrangements to Borrow (GAB), can also be used in limited cases.

through the facilities of the Poverty Reduction and Growth Trust (PRGT).

Concessional lending activities are undertaken separately from the IMF's regular lending operations, using resources provided voluntarily by members (independently of their IMF capital subscriptions) along with some of the IMF's own resources. The concessional lending and debt relief operations are trust based, which allows for more flexibility in differentiating among members and mobilizing resources. The use of trusts also removes certain credit and liquidity risks from the balance sheet of the GRA. The resources are administered under the PRGT for concessional lending and, for debt relief, under the Poverty Reduction and Growth—Heavily Indebted Poor Countries (PRGT-HIPC) Trust, the two Multilateral Debt Relief Initiative (MDRI) trusts (MDRI-I and MDRI-II), and the Post-Catastrophe Debt Relief (PCDR) Trust. The IMF acts as trustee for all five of these trusts, mobilizing and managing resources for all the concessional operations.

1.4.3 The SDR (Chapter 4)

The SDR is a reserve asset created by the IMF and allocated to participating members in proportion to their IMF quotas to meet a long-term global need to supplement existing reserve assets. A member may use SDRs to obtain foreign exchange from other members and to make international payments, including to the IMF. The SDR is not a currency, nor is it a liability of the IMF; instead, it serves primarily as a potential claim on freely usable currencies. Members are allocated SDRs unconditionally and may use them to obtain freely usable currencies in order to meet a balance of payments financing need without undertaking economic policy measures or repayment obligations. A member that makes net use of its allocated SDRs pays the SDR interest rate on the amount used whereas a member that acquires SDRs in excess of its allocation receives the SDR interest rate on its excess holdings.

Decisions to allocate SDRs are made for successive basic periods of 5 years. As of April 30, 2014, there have been only three general allocations of SDRs and one special allocation under the Fourth Amendment to the Articles of Agreement. Most recently in 2009, a general allocation was made to help mitigate the effects of the global financial crisis, and the special allocation under the Fourth Amendment to enable all members of the IMF to participate in the SDR system on an equitable basis also became effective. The 2009 allocations raised total cumulative SDR allocations to about SDR 204 billion.

The SDR serves as the unit of account for the IMF, and the SDR interest rate provides the basis for calculating the interest charges on regular IMF financing and the interest rate paid to members that are creditors to the IMF. The value of the SDR is based on a basket of currencies comprising the U.S. dollar, euro, Japanese yen, and pound sterling and is determined daily based on exchange rates quoted in the major international currency markets (see SDR Basket).

1.4.4 Income Generation (Chapter 5)

The IMF generates income primarily through lending activities and investment activities. Since its establishment, the IMF has relied primarily on lending activities to fund its administrative expenses, including its pension and employee benefit expenses. Lending income is derived from the charges (interest on loans) that are levied on the outstanding use of credit in the General Resources Account. In addition to the basic rate of charge, the use of IMF credit under certain circumstances is subject to surcharges, and all IMF credit is subject to service charges, commitment fees on credit lines, and special charges. A small amount of income is also generated by receipt of interest on the IMF's SDR holdings.

Over the years, a number of measures have allowed the IMF to diversify its sources of income. In 1978, the Second Amendment to the IMF's Articles of Agreement authorized establishment of the Investment Account (IA). The Investment Account was activated in 2006 (largely in light of the deterioration in the IMF's income position as a result of a decline in credit outstanding) with a transfer from the General Resources Account of SDR 5.9 billion. In 2008, the Executive Board endorsed a new income model to allow the IMF to diversify its sources of income through the establishment of an endowment in the Investment Account funded with the profits from a limited sale of gold holdings and to expand investment authority to enhance returns.

Broadening the IMF's investment authority required an amendment to the Articles of Agreement, which became effective in 2011, following ratification by the required majorities of the members. The amendment authorized expansion of the range of instruments in which the IMF could invest according to the rules and regulations to be adopted by the Executive Board. New rules and regulations for the Investment Account came into effect in January 2013.

1.4.5 Financial Risk Management (Chapter 6)

The Articles of Agreement require that the IMF establish adequate safeguards for the temporary use of its resources. The IMF has an extensive risk-management framework in place, including strategies to address the institution's strategic and operational risks as well as more traditional financial risks.

The financial structure of the IMF, especially the need for its resources to revolve for use by other members, requires that members with financial obligations to the institution repay them as they fall due. The IMF has implemented a multilayered framework to mitigate the full range of financial risks it faces in fulfilling its mandate, including credit, liquidity, income, and market risks.

Credit risks typically dominate, reflecting the IMF's core role of providing balance of payments support to members when other financing sources are not readily available. Credit risks can fluctuate widely because the IMF does not target a particular level of lending or lending growth, and so it must rely on a comprehensive set of measures to mitigate credit risk. The IMF's primary tools are its strong lending policies governing access, phasing, program design, and conditionality. These policies include assessments of members' capacity to implement adjustment policies and repay the IMF. An exceptional access framework for larger commitments subjects potential borrowers to higher scrutiny, including eligibility criteria and a supplemental assessment of financial risks to the IMF whenever such lending is considered by the Executive Board.

The IMF also has systems in place to assess safeguards procedures at members' central banks and address overdue financial obligations. In the event a country falls into arrears, the IMF has an agreed strategy that includes a burden-sharing mechanism to cover any income losses. There is also a framework to assess the adequacy of precautionary balances, which serve as a buffer against the financial consequences of residual credit risks, helping to ensure that members' reserve positions remain of high quality and readily available to meet their balance of payments needs, even under adverse circumstances.

1.5 INFORMATION SOURCES ON IMF FINANCES

1.5.1 IMF Website

Comprehensive and timely data on IMF finances are available on the IMF website (www.imf.org). Financial data are presented in aggregate form for the institution as a whole and for each member country. The IMF Finances portal (www.imf.org/external/fin.htm) provides ready access to current and historical data on all aspects of IMF lending and borrowing operations.

The IMF Finances portal links to general information on the financial structure, terms, and operations of the institution, including electronic versions of this publication. Data sets include the following and are updated regularly as indicated:

- exchange rates (twice daily)
- IMF interest rates (weekly)
- financial activities and status of lending arrangements (weekly)
- financial resources and liquidity (monthly)
- financial statements (monthly)
- financing of IMF transactions (quarterly)
- financial position of members in the IMF (monthly)
- disbursements and repayments (monthly)
- projected obligations to the IMF (monthly)
- IMF credit outstanding (monthly)
- lending arrangements (monthly)
- SDR allocations and holdings (monthly)
- arrears to the IMF (monthly).

Additional information is available through a mobile app, IMF Finances, free for download on mobile devices. The app currently displays 10 years of IMF financial data in aggregate and country formats, including credit outstanding, lending arrangements, past transactions, projected payments, and SDR interest rates.

1.5.2 Contacts in the Finance Department

Questions concerning any aspect of the financial structure and operations of the IMF should be sent by email directly to the staff of the Finance Department at IMFfinances@imf.org.

Box 1.1 Decision-Making Structure of the IMF

The IMF's decision-making structure consists of a Board of Governors, an Executive Board, a Managing Director, and a staff of nearly 3,000 that roughly reflects the diversity of its membership. The Board of Governors is the highest decision-making body of the IMF; it consists of one Governor and one Alternate appointed by each member country. The members of the Board of Governors are usually ministers of finance, heads of central banks, or officials of comparable rank, and they normally meet once a year.

An International Monetary and Financial Committee (IMFC), currently composed of 24 IMF Governors, ministers, or others of comparable rank (reflecting the composition of the Executive Board and representing all IMF members), usually meets twice a year. The IMFC advises and reports to the Board of Governors on the management and functioning of the international monetary system, proposals by the Executive Board to amend the Articles of Agreement, and any sudden disturbances that might threaten the international financial system. The Development Committee, which is currently composed of 25 World Bank Governors, ministers, or others of comparable rank (reflecting the composition of the World Bank Executive Board and representing all IMF members), has a similar composition, surveys the development process, reports to the Board of Governors of the World Bank and the IMF, and makes suggestions on all aspects of the broad question of the transfer of resources to developing economies.

The IMF Executive Board is responsible for "conducting the business of the Fund" and exercises the powers delegated to it by the Board of Governors.[1] It functions in continuous session at IMF headquarters, currently consists of 24 Executive Directors, and is chaired by the Managing Director.[2] The Managing Director is selected by the Executive Board and is the chief of the operating staff of the IMF and "conduct[s], under the direction of the Executive Board, the ordinary business of the Fund." The Deputy Managing Directors are appointed by the Managing Director, and their appointment and terms of service are subject to the approval of the Executive Board.

The current 24 Executive Directors are either appointed or elected biennially by the IMF's membership.[3] The five member countries with the largest quotas are each required to appoint an Executive Director (that is, they must each appoint an Executive Director and may not participate in the biennial regular election of other Executive Directors). The Articles of Agreement also permit two Executive Directors to be appointed by members whose currencies have been most used in the IMF General Resources Account in the two years immediately preceding an election if they are not already among those with the five largest quotas.[4] Nineteen of the Executive Directors are currently elected by the membership.

The Articles of Agreement provide that the number of elected Executive Directors may be increased or decreased by the Board of Governors for each regular election. The flexibility accorded to the Board of Governors by the Articles allows it to (1) determine the size of the Executive Board in light of developments in the size of the IMF's overall membership and (2) recalibrate the size of the Executive Board if desired in the event one or two members were entitled to appoint an Executive Director pursuant to Article XII, Section 3(c).

A key feature of the 2010 Quota and Governance Reform is a proposal to amend the Articles of Agreement to eliminate the category of appointed Executive Directors (Board Reform Amendment). Accordingly, when this amendment enters into force, all Executive Directors will be elected (including members with the five largest quotas in the Fund).[5]

In addition to the Proposed Board Reform Amendment and the doubling of quotas, the 2010 reform package includes two important commitments that will become operational after the three conditions for effectiveness of the 2010 Quota and Governance Reform have been met.[6] First, in order to achieve greater representation for emerging market and developing economies, the number of Executive Directors representing advanced European economies would be reduced by two no later than the first regular election of Executive Directors following the entry into force of the Proposed Seventh Amendment. Second, an Executive Board consisting of 24 Executive Directors would be maintained, and its composition would be reviewed every 8 years.

A number of important decisions specified in the Articles of Agreement require either 70 percent or 85 percent of the total voting power; other decisions are made by a majority of the votes cast.[7]

[1] Article XII, Section 3 (a).

[2] The default size of the Executive Board is 20 but may be increased or decreased by the Board of Governors for the purposes of each regular election by an 85 percent majority of the total voting power.

[3] Article XII, Section 3 (b).

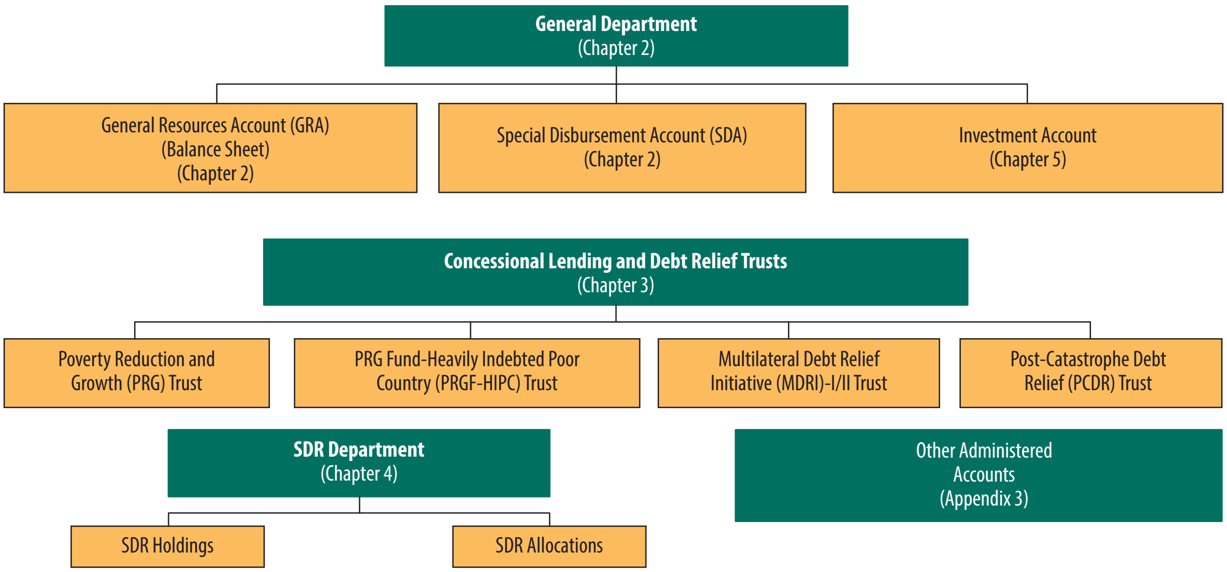
[4] Article XII, Section 3 (b) (c). The last IMF member to appoint an Executive Director pursuant to Article XII, Section 3(c), was Saudi Arabia in 1990.

[5] For further information, see IMF Board of Governors Approves Major Quota and Governance Reforms, December 16, 2010: www.imf.org/external/np/sec/pr/2010/pr10477.htm.

[6] Quota increases under the Fourteenth General Review of Quotas will become effective when three general effectiveness conditions are met: (1) members with no less than 70 percent of the total of quotas on November 5, 2010, consent to the increases in their quotas (this has been met), (2) the Sixth Amendment on Voice and Participation enters into force (which occurred on March 2, 2011), and (3) the proposed Board Reform Amendment becomes effective. The proposed Board Reform Amendment enters into force once the IMF certifies that three-fifths of the members representing 85 percent of the total voting power have accepted it (this is the only remaining condition to be met).

[7] See Appendix 2 on Special Voting Majorities for Selected Financial Decisions.

Box 1.2 Financial Structure of the IMF



Source: Finance Department, International Monetary Fund.
Note: Chapter numbers refer to where in this publication each topic is discussed. Chapter 6 covers "Financial Risk Management." SDR = Special Drawing Right.

ADDITIONAL READING

Articles of Agreement of the International Monetary Fund: http://www.imf.org/external/pubs/ft/aa/index.htm

Integrated Surveillance Decision, *IMF Factsheet*: www.imf.org/external/np/exr/facts/isd.htm

IMF Articles of Agreement—*Articles XII, Section 3. Executive Board*: http://www.imf.org/external/pubs/ft/aa/index.htm#a12s3

IMF Board of Governors Approves Major Quota and Governance Reforms, Press Release No. 10/477, December 16, 2010: www.imf.org/external/np/sec/pr/2010/pr10477.htm

IMF Board of Governors Approves Quota and Related Governance Reform, Press Release No. 06/205, September 18, 2006: http://www.imf.org/external/np/sec/pr/2006/pr06205.htm

IMF Executive Board Approves Major Overhaul of Quotas and Governance, Press Release No. 10/481, November 5, 2010: https://www.imf.org/external/np/sec/pr/2010/pr10418.htm

IMF Finances portal: www.imf.org/external/fin.htm

IMF website: www.imf.org

Members Date of Entry to the IMF: www.imf.org/external/np/sec/memdir/memdate.htm

"To Help Countries Face Crisis, IMF Revamps its Lending," *IMF Survey Magazine,* March 24, 2009: www.imf.org/external/pubs/ft/survey/so/2009/new032409a.htm