International Monetary Fund

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International Monetary Fund (IMF) is an international financial institution and its headquarter is in **Washington, D.C,** has **190**-member countries, working to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth and reduce poverty around the world. In short it is an organization which is made up to ensure the stability of international monetary system. IMF work with member countries to overcome economic crisis.

IMF established with World Bank in **1945**.Basically after world war 2 America had a conference known as **Bretton Wood Conference**. In this conference they discuss about post world war 2 and the effects after war and also how-to re-build Europe and how the economic system of world would be made. In this conference two organizations were made World Bank and IMF. Two major sources of fund are quota and loan in IMF. IMF apply some conditions to the country which is taking the loan and also give **Structural Adjustment Program** which must be followed by the borrower country. Purpose for making this organization was that the world has faced **Great Depression** in **1930**.America faced economic depression and recession and due to this other country of the world also got effected by this. When different currencies are working together then when one got affected others will also have effects of this. So, to stop this depression IMF was created. There were protectionist policies at the time of great depression. Every country was defending its own domestic policy. Every country was trying to import less products and export more products and then the devaluation of national currencies occurs. So, to stop this IMF was built up so if one country is facing any problem and face economic crisis then it will not affect the other countries of the world. It was formally existed in **27th Dec 1945**.In start it had **29-member** countries. In **March 1947** its started its operations and **France** was the first country to take loan from IMF in **8 May 1947**.All members of IMF are not members of UNO and vice versa. If any country wants to join IMF than its criteria is very simple. Country has to provide payment or **Quota**. Poor countries have less quota and rich countries has more quota and country also has to

provide national economic information to IMF. Its main objective is to promote international currency (the dominating currency is stronger as compared to others that's why trade is happening on international level in dollars) and for international trade, high employment, exchange rate stability, economic growth stability, making resources available to its member countries. Initial objectives of IMF also includes to oversees fixed exchange rate between countries, to provide short term capital to aid balance of payment(to prevent international financial crisis).After 1971 when America finished the gold standard then the role of IMF converted to examine economic policies of countries who have gained Laon, to ensure what type of economic policy will ensure economic recovery (now it's not dependent on the country that the loan which is taken by IMF can be use anywhere where a country want),to prevent financial crisis(now IMF manage economic policy rather than just exchange rate).

Conditionality is a set of policies that a borrower must be followed and requires collateral and also policy reform for macroeconomic imbalance.

Structural Adjustment Program is cutting expenditure also known as austerity measure in which government expenditure is very less and there will be more focus on privatization, maximize export and resource extraction because when the exports is more and imports is less than the foreign assets will be more and less trade deficient and the currency will be more strong, resource extraction, devaluation of currencies example of Pakistan is best in this, trade liberalism, increasing the stability of investment, balancing budget, privatization of state owned enterprises enhancing the rights of foreign investors, improves governance and fight corruption, raising the price of public service reduce in other words known as tax because when a country takes loan from IMF then poor suffer the most in this condition because tax than increased, government expenditure (government spending is very less and in this condition when government don't take any initiative then the issue of employment occurs).

These loan conditions ensure that the borrowing country will be able to pay back the IMF. Conditionality also reassures the IMF that the funds lent to them will be used for the purposes defined by the articles of agreement and provides safeguards that the borrower country will be able to rectify its macroeconomic and structural imbalances. These conditions and structural adjustment programs ensure the IMF that they will get back their money.

Structure of IMF includes **Board of Governor (BOG)** and each country has 2, one is permanent and the second one is alternative and they meet annually. They are responsible for improving quota increase, admittance of new country, with drawl of member countries and amendment to the articles of the agreement.

Board of governor is advised by international monetary and financial committee, it has **24** members and **Development Committee** which has **25** members. Then after Board of Governors IMF have **Executive Board**, they are total **24** and they represent all 190-member countries. After these two IMF has **Managing Director**, it is the head of the staff and chairman of executive board and from its start to now it is always a **European.**

Each country has basic vote in IMF. Based on **Special Drawing Rights** some countries got additional votes. And **SDR** depends on **Quota**. Change in voting requires **85 percent** of majority, US has 17.52 votes, Japan has 6.15, India has 2.64 voting power. This depends on how much a country is economically strong. Quota system is there to raise funds and it determines voting power, wealthy countries has more say in making decisions.

IMF provides broad support to **Least Developing Countries (LDC, s)** through surveillance and capacity-building activities, as well as concessional financial support to help them achieve and to maintain and to restore a stable and sustainable macroeconomic position consistent with strong and durable poverty reduction and growth. As we know that IMF is there to help other countries so the least developing countries are the one, who need more help from IMF.Because they are not economically much strong. And they need help from developing to develop their country so they take loans from IMF to become a developed state. There are many models that tells us that how to develop a country. I will describe here **Rostow** model of economic growth.

W.W. Rostow model and the stages of economic growth asserted that all countries exist somewhere on linear spectrum, and climb upward through each stage if they want to be a developed state. There are five stages of this model. These stages are following

<u>Traditional Society:</u> This stage is characterized by a subsistent, economy which is based on agriculture, with intensive labor and low levels of trading, and a population that does not have a scientific perspective on the world and also technology.

Preconditions to Take-off: In this stage society starts to develop manufacturing, and a more national and international, as opposed to regional, outlook.

Take-off: Rostow describes this stage of economic growth as a short period of intensive growth and in this stage, industrialization starts to happen, and workers and institutions become concentrated around a new industry.

Drive to Maturity: This stage takes place over a longer period of time, as the standards of living rise, use of technology increases, and the national economy grows and diversifies.

Age of High Mass Consumption: Rostow believed that the western or the developed countries, most preferably the United States, occupied this last "developed" stage. In this stage country's economy flourishes in a capitalist system, characterized by mass production and consumerism.

All developing countries to become a developed country have to go through these stages to become a developed state according to this model. But it will happen only when a country has full control on its economic policies. But IMF can't allow the borrower country to set its policies. Developed countries(creditors) has more control and dominance over developing countries(borrower). IMF policies cause unemployment and poor suffer most.IMF principles are based on theory ad they are market oriented do not aware of local culture and people reaction because every country has different economic system. It creates **Neo-Colonialism** because before this developed country rules the developing countries directly like in the time period of Colonialism. But now with the help of World Bank, IMF the powerful ones are controlling the other countries of the world indirectly.

Developed countries were seen to have a more dominant role and control over less developed countries **(LDC,s).**The fund worked on the incorrect assumption that all payments disequilibria were generate domestically. The group of 24 **(G-24)**, on the behalf of LDC members, and the **United Nations Conference on Trade and Development(UNCTAD)** complained that the IMF did not distinguish sufficiently between disequilibria with most external as opposed to internal causes. This criticism was raised in the aftermath of the 1973 oil crisis. Then **LDC,s** found themselves with payment deficits due to unfavorable changes in their terms of trade, with the fund prescribing stabilization programmes similar to those proposed for deficits caused by government over-spending.

Some IMF policies may be anti-developmental and the deflationary effects of IMF programmes then led to losses of output and employment in economies of those countries where incomes were low and unemployment was high. Burden of the deflation is disproportionately borne by the poor. Critics suggest that its intentions to implement these conditionalities in countries with widely varying economic circumstances were misinformed and lacked economic rationale.