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Critically Evaluate the Role and Activities of the International Monetary Fund

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Abstract

This article describes that every country will be interdependent in terms of business, politics or social dynamics, because no country can develop and operate independently. Due to the interdependence, the country is safe in terms of financial performance and economic growth. It has always been an important issue in bilateral and multilateral relations. This is the reason for the existence of the International Monetary Fund (IMF), but does (IMF) really promote the prosperity and stability of countries? This article will focus on whether (IMF) will also help the economic problems of some developing countries.

Keywords

Interdependencies; Bilateral Relations; Multilateral Relations; Critical Analysis; Developing Countries.

1. Introduction

Interdependence among nations in the world is essential for general routine in terms of business, politics, and social dynamics. Zhou (2017) argues that, this interdependence is in the realization of the fact that no country, even the developed ones, can operate independently. Specialization, in terms of socio-economic activities across the world, as well as different levels of access to economic resources, makes it almost mandatory that states depend on each other. In the wake of these interdependencies, the security of nations in terms of financial performance and economic growth has been a significant concern in bilateral and multilateral relations (Shafiu, and Salleh, 2018). The working together of nations is the rationale for which the International Monetary Fund (IMF) exists. According to Blanton, Early and Peksen (2018), the fund aims at reducing the world poverty index by encouraging internationalization of business and promoting the stability of member states in terms of their financial statuses and ensuring further that members experience economic growth overall. However, is it true that by performing its roles and implementing various activities globally that IMF promotes the stabilization of all country economies? This essay is concerned with the critical analysis of the roles and activities conducted by the IMF. This essay begins with a brief background, states the roles, and then presents the activities of IMF critically and analytically. The essay is further biased in terms of finding out whether the IMF supports economic growth in the developing countries in the same way as it does for developed countries.

2. Background

The IMF was created as part of Bretton Woods and its original purpose was to underpin the Bretton Woods monetary system. It was established in 1944 as a solidarity move of 189 nations across the world. It is headquartered in Washington, D.C. The IMF is meant to support economic stability amongst its members. It was idealized through Harry White Dexter and John Keynes Maynard with the goal of constructing an international system of payment. At the time of its formation, the IMF was ratified by 29 counties before operations started in 1945. Report by Kuehn (2020) indicates that member states contribute funds to the IMF pool using a quota system. Countries that experience problems with their balance of payments are allowed to borrow money from the pool. In its early years, both developed and developing countries took IMF loans to ensure monetary stability, but developed countries can now obtain loans from private capital markets. Therefore, since the 1980's the IMF has loaned only to developing countries, with an increased policy emphasis on 'poverty reduction and growth'. Recent data indicates that as of 2016, the fund had an estimated US$667 Billion to support its activities (Rojas, 2020).

Among other activities and roles, the international monetary fund works to ensure that there is good monetary cooperation that can secure international trade, financial stability, revamp economic growth and promote high levels of employment with a mission of eradicating poverty. It depends on the World Bank for capitation of its activities across theworld. The IMF, intimate Eleonu (2015), also plays a pivotal role in managing the balanceof payments challenges as well as monitoring financial performance to manage international financial crises. The management is conducted by overseeing economic development, capacity development, and lending.

3. Critical Evaluation of the Role and Activities of the IMF

The IMF performs several roles in the world of economy. The first article of the agreementthat formed the IMF stipulates the institution as an independent body whose main aim fostering the growth and stability of the world economy. The article stipulates that the IMF shall provide macroeconomic policy advice to member states and provide funding when countries require their balance of payments to be rationalized (Santucci, 2020). The IMF is also entitled to providing technical assistance as well as training that would lead to improved management of national economies. The roles and activities are summarized and presented below:

3.1. Surveillance on the Global Economic Policies

By the mandate of the members, the IMF is the only organization that is charged with the responsibility of examining every country globally to ascertain its economic circumstanceevery time. By joining the IMF, countries sign an agreement to pursue consistent objectives and economic policies; hence, the IMF must oversee the level of complianceof each member state whether the consistency is adhered to or not. Cecchetti (2018) posits that countries found guilty of inconsistencies are subjected to punishment and sanctions. This kind of administration is meant to promote exchange steadiness, orderliness in exchange arrangements, and to avoid depreciation of the power of competitive exchange. In line with the surveillance role, the IMF is to strengthen the Global Monetary System because it is a central institution entrusted with global monetaryissues. Members meet for consultations to come up with formidable rules to prevent economic problems and to facilitate orderly resolution of such issues.

3.2. Capacity Building, Technical Support, and Training to Member States

IMF has the mandate of making sure that all its members have the necessary capacity needed to come up with economic policies that can be used to improve their (members) abilities to manage their economies. IMF's capacity building programs can, therefore, helpreduce risks such as failure of policies and the countries' resilience to shocks. Although all member states are eligible to benefit, Bordo and James (2000) supposed that the intervention on capacity building is highly needed in developing countries because of thescanty, scarce, and weak nature of resources and instructions.

3.3. Lending to Countries Experiencing Difficulties e.g. in Balance of Payments

As enshrined in the articles of the agreement, availing funds to finance the need for the balance of payments temporarily is a core IMF activity. The fund is strictly directed to member states that exhibit challenges in their balance of payments. The fund is meant to cushion members and provide reprieve when financial crises occur so that orderly corrective measures can be taken instead of having disorderly adjustment of the imbalances that come about. According to Gadbaw (2017), lending is often directed to an economic adjustment program that a suffering country implements in pursuance to correct the difficulties in applying the balance of payments. The IMF can either provide direct lending or assist an ailing country in finding external avenues for financing to correct thebalance of payment.

3.4. Supply of Global Reserves and Bailouts

Whenever there is a need, the IMF is the authorized institution that can issue international reserve assets, for example, during moments when supplementing existing ones is critical.The foreign reserve is called the Special Drawing Right (SDR). The Special Drawing Rights can be exchanged against convertible currencies and form part of members' international reserves held by the institution (Kentikelenis, Stubbs, and King, 2016). Countries, therefore, cannot treat Special Drawing Rights as claims. IMF uses the Special Drawing Right as the metrics that can determine the members' financial transactions.

3.5. Poverty Eradication in 3rd World Countries

Closely working with the World Bank and other partners, as Kranke (2020) intimate, the IMF avails loans to countries with low income so that they can use it to alleviate poverty.In this pivotal act, IMF goes beyond the norm to mobilize funds through donor support for development activities as well as controlling the balance of payment issues in affected countries. Stiles (2019) contend that debt relief finds the support of IMF through activities such as the Heavily Indebted Poor Countries (HIPC) and the Multilateral Debt Relief Initiative (MDRI).

In the real sense, no significant economic growth is realized in developing countries as a result of IMF's activities; hence there is the only minimal impact of these activities on the creation of employment, enhanced international trade, and proliferation of countries' real incomes. While executing its duties, IMF designs ambiguous programs and policies hence Ljungberg and Ögren's (2019) feeling that IMFs adjustment policies yield negative results due to poor management.

3.6. Mobilization of External Financial Sources

IMF is mandated by its bylaws to support developing countries not only through lending but also through assisting them in soliciting for donor funds so that the process of recovery can be expedited. The role of the IMF in seeking donor funds is the endorsement of the economic policies and programs of countries to potential partners before even committing their funds as an institution (Blackmon, 2020). To make such endorsements, IMF assesses and recommends countries based on their anticipated economic future, anticipated impacts on the investors as well as confidence in economic markets. An analysis of this activity by IMF extracted from the sentiments of Kranke (2020) indicates that the interest of IMF endorsed donors lies in having favourable exchange rates for them,meaning that developing countries can only become poorer when subjected to such 'expected reprieve' policies.

4. Criticisms and Disadvantages of the IMF

IMF has been criticized for a number of reasons. For instance, its structural adjustment policies used to enforce 'neo-liberal' economic policies have been critiqued to be assuming a 'one size fits all' approach. Such an approach has disadvantaged many developing member states.

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Further, there have been contentions that IMF policies tend to be imposed at once, rather than in sequence which causes economic shock rather than recovery. Additionally, the conditions placed on loans are too intrusive and compromise the economic and political sovereignty of the receiving countries. Lack of transparency and national involvement has also exacerbated the need for good will and ownership thereby raising eyebrows from observers ad economists.

Critically thinking, many IMF supported activities often have economic and financial variations from the start, which presented an early indicator that IMF's policies are seldom interested in improving the position of balance of payment of affected developing countries. Nonetheless, Babb and Kentikelenis (2018) have recently inferred that IMF's reprieve policies on the balance of trade are workable only if a general evaluation technique can be devised. Stame (2020) further found no basis for Fund-supported programs, specifically in developing countries, because their balance of payments did not show any significant impact. Therefore, the IMF's activities are controversial based on the host country selected to benefit.

Economists have also analysed the roles of IMF in the solidification of monetary policies concentrating on the effects of the trade balance. For instance, Jasim and Naama (2020) argued that the role of stabilisation and economic intervention by the Monetary Fund is to bring about equity in the distribution of global resources by, for example, making trade free for all. Walcher (2019), however, noted that the IMF's activities completed in the 1990s bred negative results in various countries, specifically Bulgaria, Romania, Poland, Czechoslovakia, and Hungary. These countries had a general collapse in their economic outputs at that time. This collapse, as Edwards (1989) argues could have been caused by unnecessary pressures from the strong economies and policymakers who were after controlling inflation, which unfortunately reduced credibility levels and slowed down economic activities.

5. Conclusion

Assessing the IMF's intervention in developing countries can offer a better way to understand the roles and essence of the institution. This essay finds that the assistance offered by IMF often relies on the application of a neoliberal ideology of economics. Weak states suffer from IMF's numerous preconditions to receive any funds. Kentikelenis, Stubbs, and King (2016) believe that the conditions bring about the strings attached syndrome. The essay further comprehends that the IMF is used to prescribing liberalization and cutbacks in resource extractions. These moves are often in pursuance of giving rise to an export-oriented trade where developing countries receive goods and services from developed ones direly affecting their trade balances. The host state is also limited in terms of influencing planning and expending funds they are awarded, which means privatization is ultimately encouraged. Discouraging states to play an active role in planning for funds allocated to them further daunts them from protecting their domestic and infant industries. This act means that the IMF generally promotes the devaluation of the local currency to make the international one stable. In the process, interest rates are increased, which adversely affects local compatriots.

In conclusion, the restrictions and interventions of IMF appear helpful, but in reality, they are devastating in emerging economies. In disguise to support their economies, weak states are forced to export as a way to repay funds donated to them by the IMF. In contrast, increased exports create a large-scale price war condition. This war happens when countries that are evidently too young and unstable economically or socially are pressurized to participate in export trade. For instance, the states could be pressurized by the IMF to produce more cash crops just as a justification for their presence in the international trade where their prevailing conditions do not support such a move. As a recommendation, based on the failures of IMF in performing its roles and executing its activities, the IMF should devise alternative ways of intervening in developing countries' conditions of the balance of trade, for example, by bringing

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on board more opportunities for external financing. The proposal would be best achieved through enhancing and promoting market-led modalities such as exchange rates to correct deviations in balances of trade.

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