The role of the imf in helping poor and debt-troubled countries

Finance

The role of the IMF in helping poor and debt-countries Instructor

Course

Institution

Date

International monetary Fund is an organization that aids in fast-tracking payment systems and circulation of currencies among financial institutions and countries globally. Funds are sourced from contributions from countries, which are in turn advanced to developing countries at an interest.

International Monetary Fund nonetheless, has assisted in boosting economic, social, and political functionalities of countries with payment imbalances. The main goal of International Monetary Fund is to ensure there is regional integration and cohesion by bridging the gap between developed and developing countries.

Question 1- Why does the IMF have to help out poor and debt-troubled nations?

International Monetary Fund is financial institution that amasses its funds through contributions from countries using quota systems. These resources are however, availed to developing countries to boost their economic growth, reduce poverty, reduce unemployment, and provide enabling environment for political stability. Poor and debt-troubled countries need financial support and International Monetary Fund plays instrumental role in ensuring availability of favorable exchange rates and money that is used to improve infrastructure, boost education, and run day-to-day activities of the government. Despite the help, International Monetary Fund levies high charges on countries, which borrow money thus rendering them slaves of the developed countries because they cannot pay the debts within the agreed time. Poor countries continue being poor because the International Monetary Fund regulates the policies that govern the rates and value of money (Copelovitch, 2010).

Question 2- What are the conditions that the borrowing country needs to meet to be eligible for the loan?

Financial assistance from IMF is advanced to countries facing financial problems for instances, balance of payment deficit, and unfavorable terms of trade. In this regard, actual and potential countries in financial difficulties are assisted. Actual borrowers are countries, which need financial support to run their routine activities and this includes states that have borrowed money at one instance. Potential borrowers are countries that are vulnerable for instance, under civil war, gained independence, and facing economic recession.

Furthermore, borrowing countries have to be member states of IMF and have to abide by the rules and regulations laid down by the organization. The countries have to be aware of the penalties and processes to be followed before receiving funding. Abiding by the strategies, visions, and missions of the organization aids in reducing default rate. On the other hand, the projects and programs which the money is borrowed for must be realistic and viable to avoid embezzlement of public funds by leaders (Gould, 2006).

Question 3- Are there any ethical foundations for the IMF to use debt to help out nations that are already in debt?

Default rate in funds advanced by IMF is high in developing countries due to poor management, procurement of ghost projects, corruption, and negligence. More so, some projects stall due to insufficient funding and IMF is required to clearly gauge the use of funds to avoid blacklisting genuine countries from assessing the funds. Rather, countries in debt should be assisted whenever they are in dire need to avoid suffering and retardation of the economy. Accumulated debts can be waived or charged low interest in order to encourage other countries (Vreeland, 2003).

Question 4- Do these loans harm or help in the development of poor countries and saving debt-troubled nations?

Loans from IMF have both benefits and demerits in the development of poor countries especially in the impacts amassed during lapse of repayment period. First, funds are used to ensure infrastructure is empowered, stabilize economy, and raise living standards. Conversely, debt-troubled countries are weakened by consecutive loans, which lower economic growth. Loans have double standards that need to be gauged thoroughly by the lending institutions and the countries in debt. It is prudent to say that money lend by IMF helps elevate the economic stability of poor countries while in return maiming the progress of development because the money gained from improving trade are repatriated back to the organization (Truman, 2006).

Question 5- Do the IMF and their policymakers have undisclosed purposes to pursue certain policy objectives?

International Monetary Fund is an international organization that all members with precision and equality. Policy makers are individuals with distinguished qualification and sought from countries in all continents. Policies are made to serve all countries without fear or favor; both actual and potential borrowers. In this regard, policies made by the organization in the long run undermine the progress of developing countries because they cannot bail all the debts within short time. This makes most countries retard and not reach world class status with ease.

Conclusion

IMF is an organization that was formed solely to boost development of infrastructure, economic growth, and regulate monetary systems that mane the exchange rate in the global economy. It is however, the prerogative of poor countries to pay the loan within the stipulated time frames to avoid accumulation of debts. Policies should however, be formulated to regulate the amount advanced to poor countries to avoid bad debts that accrue losses to the organization.

Reference

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