# INTERNATIONAL MONETARY FUND

# STUDY GUIDE

SHAPING GLOBAL PERSPECTIVES TOGETHER

LUMUN21

# THE LUMUN SPIRIT

The LUMUN Spirit was first introduced as a concept at LUMUN XV. It sought to reintroduce a recognition of the most essential components of MUN culture; imparting a sense of responsibility accepting that the onus is on us to be the forerunners of change. The fundamental premise of a Model UN is to develop our understanding of the issues and conflicts in the world as a collective, and to connect individuals with vastly differing life experiences with each other. The pursuit of quantitative success and accolades has fermented a tradition of MUN being a space mired in hostility and distrust. The LUMUN Spirit is our continuing effort to inculcate empathy, compassion, understanding and diplomacy within this competitive activity.

As we proceed on our journey of revamping Model UN, the LUMUN Spirit is an idea that we aspire to incorporate in the entire LUMUN experience: from the Host Team, to an expectation that we will have from the delegates as well. It is not an abstract concept – it is a vision that should embody the behavior of every delegate in every committee. Inside the committee or out; the enthusiasm to meet other people, present arguments in a true ambassadorial manner and the idea to enjoy LUMUN should never be forgotten. In this very essence we will be able to represent what it means to simulate a true world model; an actual representation of the United Nations. We continue to strive and ensure that the outlook of LUMUN XVIII is to not be an average Model UN conference anymore.

And so, leadership and prowess within a committee is not characterized by exerting one's overbearing presence on others or by alienating and excluding others from discussion. They manifest in a delegate's ability to engage with others, help them play their part in the committee, and to facilitate the committee as a whole to engage in a fruitful and informative debate. This includes actions as simple as maintaining a moderate temperament, inviting others' input and operating with honesty and respect. The LUMUN Society invites you to understand what it means to be an ambassador of a country and represent its foreign policy means to employ collaboration alongside reasoned argumentation to press forward with that actor's policy agenda.

# Secretary General

**Laiba Noor Abid**

The Dear Delegates,

On behalf of our Secretariat and Staff, it is with great joy and immense pride that I extend a heartfelt invitation to you for the 21st edition of LUMS Model United Nations (LUMUN). This milestone marks not only a continued legacy of excellence in diplomacy at LUMS but extends beyond! It is both an honor and a privilege to carry forward this tradition of global engagement in collaboration with Oxford University this year.

At LUMUN, we believe in the power of dialogue. For just over two decades, each year young minds have come together to tackle issues of global and contemporary importance. In the process, they learn how to face adversity and difference while celebrating the spirit of negotiation and collaboration. These five days serve as a platform for utilizing real-world knowledge to craft actionable and feasible policy proposals.

But LUMUN is so much more than just a forum for intellectual exchange; it is a community where lasting connections are forged! Now more than ever, as we diversify and internationalise the LUMUN community, we hope to facilitate bonds and create treasured moments for delegates to carry as souvenirs far beyond the conference days. Staffed by over 200 members, our team is dedicated to ensuring that delegates feel welcomed to the vibrant city of Lahore and enjoy a wide array of engaging social and recreational activities, outside their committee rooms.

With a diverse range of committees – from General Assemblies to Specialized Agencies, Regional Bodies, and the Economic and Social Councils – there is something for everyone at

X`LUMUN. Whether you are new to Model United Nations or a seasoned delegate, you will find a platform that perfectly aligns with your interests.

As we celebrate and expand our ongoing legacy of quality debate, we are committed to making this year's LUMUN more memorable than ever. The Staff and I are thrilled to welcome you to the 21st edition of LUMUN!

Warm Regards,

Laiba Abid

Secretary-General

LUMS Model United Nations XXI

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## Under Secretary General

**Eman Ali**

Dear Delegates,

It is my immense pleasure to welcome you to the 21st Edition of LUMUN. I extend to you my warmest greetings and heartfelt gratitude for your dedication. At LUMUN we are dedicated to bring-fourth an environment that stimulates intellectual debate and encourages you to forge solutions that advance sustainable development, economic resilience, and social equity worldwide.

I will be serving as your Undersecretary for Ecosocs. A little about me, I am currently a Sophomore studying Computer Science at the Syed Babar Ali School of Science and Engineering. With what little time I have to myself, I love reading and sketching. I also binge watch movies and series when I am procrastinating (which is almost the full semester).

My journey of Muns started relatively later than my peers. I was always intimidated by public speaking and during my A levels I needed Extracurriculars for my applications hence, I decided to join my school's mun society. It was terrifying yet the most thrilling experience for me and since then Muns have become a big part of my life. It was not easy to be surrounded by far more experienced delegates who have had multiple years of experience yet every Mun I attended taught me something new and I made the most memorable memories simultaneously.

Being part of Lumun has given me the opportunity to expand my horizon and further polish my public speaking skills. My goal as your usg is to keep the Lumun spirit alive, provide an environment that not only is a safe space but it also challenges you intellectually so that you gain the most fruitful experience out of it. Best of luck and prepare well!

Warm regards,
Eman Ali
Under-Secretary-General | Economic and Social Council
LUMUN XXI

## Committee Director

**Esa Khalil Khan**

Hello Everyone, I wish you all a warm welcome to the 21st edition of LUMUN! My name is Esa and I'll be one of the members of the IMF dias this year. This being my third year in the society and in LUMS, I look forward to some exciting debate come conference time.

I am a management science major (regrettably) and am only just getting adjusted to the Pakistani circuit as I spent pretty much all of my childhood from kindergarten to A-levels in the UAE, so you can rest assured that I won't have any collegiate biases.

This year's topic was chosen after much deliberation and I hope you all will be as enthusiastic about it as I am. Considering Pakistan's recent history with IMF loans I thought it would only be right if this year's IMF tackles the same topic and hopefully maybe some of you will walk away from this knowing a bit more about our country's not-so-ideal state of affairs. On a more serious note, the IMF holds an alarming amount of control over its less stable member countries and it is an issue that plagued IMF policies for years now, I'm hoping that through this we can bring awareness to the issue and who knows, maybe one of us can actually take the first step to making this committee better in the distant future.

To wrap this up I think it's worth noting that each and every member of your dias is extremely competent and nothing gets past any of us. I have unfortunately been part of multiple committees where delegates have utilized underhanded and inappropriate tactics in hopes of securing an award (just to end up blacklisted) and because of that I have to remind you that before you are a delegate competing for an award, you are human, and you hold a responsibility to create an inclusive/comfortable environment for everyone. Let’s make this IMF a fun one!

That's pretty much it from me. If you have any concerns please feel free to contact me and I hope to see you all soon, peace!

## **Committee Director**

**Nabhaan Umer**

Assalamualaikum everyone,

Welcome to the IMF!!!!

I am not going to get into the nuances of my MUN journey and establishing my credentials, mostly because it dejects me that I am 19 and still doing this stuff (I do enjoy it though), but just know that the last time LUMUN ran IMF as a committee, I participated as a delegate, and now I am chairing it (no pressure then).

Look, if you’re stressed about the supposed overarching or seemingly ambiguous topic of the, ‘Conditionality of IMF Loans’, and are probably scratching your heads right now trying to understand exactly what that means and how it applies, don’t sweat it. The one crucial quality Esa and I are going to expect from every delegate is their tenacity (shoutout to the homies that understand this <3) and that can be applied outside of a contextual understanding of the topic, the trick is to just be creative!

Naturally though, we do expect you to be researched, really well, particularly the mandate under which the IMF functions because Esa and I will throw the odd curveball to test you and I want you all to be ready for that.

Just remember, as one of my mentors once told me, “It’s not a sprint, it’s a marathon”, so walk into each of the four days with your head held high no matter what position you’re in, and you’ll do just fine.

Best of Luck!

## Assistant Committee Directors

**Anas Adeel Allawala**

**Sameen Suhaib**

**Syed Hammad Ali**

LUMUN21

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## Glossary:

**Debt Sustainability Analysis:** Structured examinations of developing country debt based on the Debt Sustainability Framework, The IMF uses this framework to guide the borrowing decisions of low-income countries in a way that balances their financing needs with their ability to repay.

**Structural Adjustment Program (SAP):** Structural Adjustment Programs are economic policies and reforms countries implement as part of agreements with the IMF or World Bank to receive financial aid. These programs typically focus on reducing fiscal deficits, controlling inflation, promoting market liberalization, and improving economic stability by restructuring the economy.

**Privatisation:** Process by which a country's government sells state owned enterprises to private owners.

**Flexible Credit Line (FCL):** Program designed to meet the demand for crisis-prevention and crisis-mitigation lending for countries with very strong policy frameworks and track records in economic performance

**Monetary Policies:** Policies that adjust interest rates and money supply to influence aggregate demand

**Fiscal Policies:** Policies that adjust taxation and Public expenditure to influence aggregate demand

**Budget Deficit:** When Public expenditure exceeds government revenue

**Fixed Exchange Rate Systems:** A fixed exchange rate system is a currency regime where a country's currency value is tied or pegged to another major currency, a basket of currencies, or a commodity like gold. To keep the currency's value within a specific range, the central bank actively participates in the foreign exchange market.

**Front-Loaded Austerity Policy:** Front-loaded austerity policy refers to a fiscal strategy where significant government spending cuts or tax increases are implemented quickly and intensively at the beginning of an economic adjustment period, rather than spreading the measures over time. The aim is often to reduce debt levels rapidly, though it may risk economic contraction in the short term.

**Emergency Special Property Tax (EETIDE):** The Emergency Special Property Tax (EETIDE) is a temporary tax measure imposed on property owners to address urgent fiscal crises or budget deficits. This term is often associated with responses to severe financial distress in specific countries, such as during the Eurozone crisis.

**Non-Performing Loans (NPLs):** Non-performing loans are loans on which the borrower is not making scheduled payments of principal or interest for a specified period, typically 90 days or more. NPLs represent credit risk for banks and are a key indicator of the health of the banking system.

**National Asset Management Agency (NAMA):** NAMA refers to a government-backed institution set up to acquire and manage distressed assets, particularly non-performing loans, from financial institutions. It aims to stabilize the banking sector and recover the maximum value from these assets over time.

**Value-Added Taxes (VAT):** Value-added tax is a consumption tax levied on the incremental value added to goods and services at each stage of production or distribution. It is commonly applied in many countries as an indirect tax collected by businesses and remitted to the government.

**Eurozone Crisis:** The Eurozone Crisis was a period of economic instability in the European Union from 2009 to 2015, marked by sovereign debt crises in several member states, such as Greece, Ireland, and Portugal. The crisis stemmed from excessive borrowing, weak economic growth, and imbalances in the shared currency system, requiring financial assistance programs led by the IMF, European Central Bank, and European Commission.

## Mandate of the IMF

The IMF promotes global macroeconomic and financial stability and provides policy advice and capacity development support to help countries build and maintain strong economies. The IMF offers short- and medium-term loans to help countries experiencing balance of payments problems and difficulty meeting international payment obligations. IMF loans are funded mainly by quota contributions from its members. IMF staff are primarily economists with wide experience in macroeconomic and financial policies.

***What does 'Conditionality of Loans' mean?***

When the IMF lends to a member country, there are certain 'conditions' that it imposes on the borrowing country's economic policies to solve the issues that led it to seek assistance.

***How has the progression of IMF Loan Conditionality unfolded?***

Until the early 1980s, IMF's conditionality was mainly centered around macroeconomic policies. This, however, changed when the organization started to work with low-income developing countries where the economic state was more fundamentally damaged. With the passage of time the IMF has become more accommodating for its member countries in setting its conditions. The IMF occasionally reviews the performance of its programs, and one such review suggested measures to 'improve macroeconomic projections, sharpen **debt sustainability analysis**, and better tailor structural conditions to specific country circumstances.'[1]

A comprehensive timeline is as follows:

In the early 1970s, Conditionality became increasingly incorporated in IMF loan agreements. These conditions are typically austerity measures that the country must take. **Structural Adjustment Programs (SAPS)** were also introduced, which asked the demanding countries to implement reforms like **privatization** and others. In later years, the Structural Adjustment Programs became more comprehensive. The IMF started directing the borrowing countries to change their methods of governance, intervening more than before to issue any loans.

By the early 2000s, many countries started criticizing the IMF for its strict rules. Developing countries, in agreement with the IMF, claimed that the conditions led to higher income inequality and

[1] Review of Conditionality

economic unrest. So, from 2000 onwards, the IMF revised its conditionalities and focused more on poverty reduction. The policies now were devised to suit the conditions of the borrowing countries. Recently, the IMF introduced a program known as **Flexible Credit Line (FCL)**. It does not include any conditions whatsoever, and still aims to provide the funds needed to the borrowing countries.[2]

## Types of Conditionality

### *Structural Adjustment*

For loan authorization, the IMF may ask a country to meet certain criteria. This is done to establish a successful program. A country may be asked to generate income for public expenditures. This could be through the privatization of government assets or by lowering subsidy amounts. The IMF could also ask the country to clear its overdues before a loan is granted. Structural or foundational reforms may also be demanded which are steps taken to reduce corruption, restructuring of government-owned organizations, and others.

### *Quantitative Performance Criteria (QPC)*

The IMF also has its own criteria for assessing macroeconomic conditions, which are called 'Quantitative Performance Criteria'. These conditions always relate to the variables under the control of national authorities, such as international reserves, fiscal balances, external borrowing, etc. Using these, the IMF conducts periodic checks to assess whether a previous program is successful in case a QPC condition is missed, the effectiveness of the program is reevaluated.

## Objectives of IMF Conditionality

### *Stabilizing Economies*

A country facing an economic crisis such as hyperinflation, currency devaluation, or a balance of payments deficit often demands an IMF loan. These loans aim to stabilize the economy, improve social conditions, and increase investor confidence.

Conditionality here can be in the form of Monetary Tightening, where the IMF recommends **monetary policies** like

[2] Evolution of IMF conditionality

adjusting interest rates and money supply to stabilize inflation, Currency stabilization, where countries in danger of having their currency devalued are required to peg their currency to a more stable foreign currency, and Improved **Fiscal policies**, where the public expenditure and taxation is adjusted to resolve **budget deficits** and prevent accumulation of new debts.

***Promoting Structural Reforms***

In cases where an economy is facing continuous deterioration, the IMF recommends policy changes that aim to improve long-term development. Contrary to crises, these policies aim to prevent

future crises and enhance growth prospects and competitiveness in the current market.

Structural reforms may include Privatization and deregulation, where nationally owned businesses are sold to private owners to make the business more competitive and efficient, Trade Liberalisation, where trade barriers like tariffs and import quotas are lowered to maintain competitiveness in the global market, and Labor market reforms, where unionization policies and minimum wages are adjusted to lower unemployment and boost productivity.

***Ensuring the Repayment of Loans***

Ensuring the ability of the borrowing country to repay its debts is another primary objective of an IMF loan. While the IMF aims to improve global economic health, it also implements policies to ensure that countries do not default on their payments. These Policies may include the building of foreign reserves, debt restructuring, or strengthening of financial institutions

## Economic Sovereignty vs. International Oversight

***Debate on IMF Jurisdiction***

As the Articles of Agreement mentioned, the IMF's primary purpose is safeguarding global financial stability and overseeing trade while respecting national sovereignty. However, since most financial assistance programs have the prerequisite of "economic adjustment programs," the extent of IMF's jurisdiction has led to significant debate.

***Challenges to National Sovereignty***

The IMF uses austerity measures to encourage economic reforms. These measures usually involve pensions, subsidies, and social spending cuts, as well as reducing access to essential services like healthcare and education. While it possesses the right to do so as a pre-condition for most financial assistance programs, many argue that these conditions give the IMF unnecessary influence over a country's internal decision-making. Policies like devaluing currency, in particular, arouse suspicion from the public, with many supporting the belief that the IMF puts its interests regarding the global economy above national sovereignty[3].

Currency devaluation[4] is a policy where governments intentionally lower the value of their currency relative to other countries. This is usually done in a **Fixed Exchange Rate System**, where the government or state banks set and maintain the currency's exchange rate at a specific level. Devaluing the currency provides short-term relief as the country's goods become more competitive in global markets and the price of imports increases. This leads to the public preferring local substitutes and domestic products, thus boosting the local economy. As the demand for imports decreases, the country can improve its Balance of Payment.

On the other hand, increased import prices can lead to higher inflation. The initial effects of devaluation may also include lower wages, which can harm the lower class. If not managed correctly, the currency's value will continue to plummet, even below the intended value.

***Balancing Global Economic Stability with Domestic Autonomy***

Since the IMF is responsible for ensuring global economic stability, it must intervene in some cases. This is particularly true when a country's financial situation or economic policy could potentially harm other countries.

For example, Argentina had been receiving loans from the IMF since the 1990s, and by the time it defaulted on these

[3] The IMF Approach to Economic Stabilization

[4] Devaluation in developing countries: the difficult choices

loans in 2001, the IMF had provided around $13 billion. Even though suggested policy changes and austerity measures were not working, the IMF continued to disburse loans.

Ultimately, the economy collapsed, and the Argentine Peso became largely devalued. This triggered widespread violent protests as social unrest gripped the nation. Countries in Latin America were also strongly affected, and Argentina's collapse began causing volatility in the international market.

The IMF justified its intervention as necessary but later acknowledged that these policies may have added to the growing crisis. However, the IMF's intervention did prevent the economic contagion from spreading further, particularly in other emerging markets.

On the other hand, interventions in smaller countries like Ghana benefited both the country in question and the global market. Ghana started a Structural Adjustment Program (SAP) with the IMF in 1983, and specific policies were implemented. These included devaluing the Cedi, reducing government spending, and privatizing most state-owned industries. Unlike Argentina's case, these reforms worked in Ghana's favor. By the early 1990s, Ghana had a stable economy and significant debt relief compared to before starting the program. Inflation was also reduced from 123% in 1983 to 33% in 1986[5].

## Effectiveness of Conditionality

***Case Study: Greece (Failure)***

Due to an unexpected lack of funds, the Greek government took out a 3-year, €110 billion loan in May 2010[6]. This loan had a strict **front-loaded** austerity policy to stabilize the economy and make public debt more manageable.

Significant structural changes like privatization were also required to transform the country's administration and improve Greece's international standing.

[5] Adjustment for Growth - The African Experience

[6] Chapter 8: Managing the Crisis in Greece: The Missing Link between External Conditionality and Domestic Political Economy

These included decreased pensions, wages, and the **Emergency Special Property Tax (EETIDE)**, ranging from €3 to €16 per square meter of property.

Although these conditions were intended to restore fiscal stability, things did not go as planned. The harsh conditions led to an economic recession, with much higher suicide and homelessness rates and unemployment reaching 12.7%[7].

| **Metric** | **2010** | **2015** | **2018** |
|---|---|---|---|
| Debt-to-GDP Ratio | 146% | 177.4% | 181.2% |
| Unemployment Rate | 12.7% | 24.9% | 19.3% |
| GDP Growth Rate | -5.5% | -0.4% | 1.9% |

*Key Economic Indicators: Greece*

Greece was forced to sign a second bailout agreement in 2012. This also proved futile since the political instability and civil unrest made it challenging to implement IMF's conditions effectively. There was also a perception among the Greek people that their economic policies were dictated by foreign powers.

Further pension and wage cuts were made, though the lowest-paid workers received protection from these cuts. This prevented further civil unrest. However, Greece's second IMF program did not fully restore economic growth or public trust. Public debt had increased to 177% of GDP by 2014.

Thus, Greece entered a third IMF program in 2015. While it more successfully stabilized the economy, it left Greece with a legacy of high debt and socio-political scars.

***Case Study: Ireland (Success)***

After the 2008 global financial crisis, Ireland's economy suffered dramatically. Public debt was very high, and unemployment had soared from 5% to 16%. In November 2010, Ireland sought assistance[8] from the IMF and European Union (EU), receiving a joint €67.5 billion bailout.

[7] The financial crisis, austerity policy and Greece

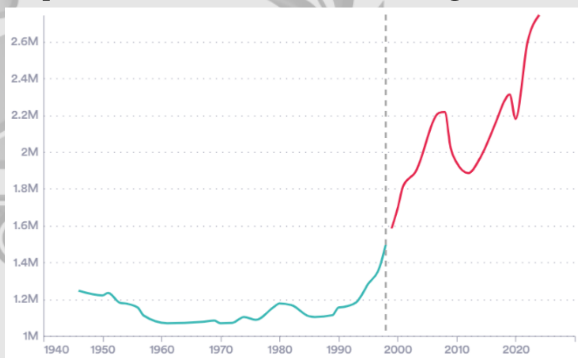
[8] The International Politics of Ireland's EU/IMF Bailout

As part of the program, Ireland had to restructure its banking system, which started by merging major banks, such as Allied Irish Banks (AIB) and Bank of Ireland. Staff was also reduced, and **Non-performing Loans (NPLs)** were mostly transferred to the **National Asset Management Agency (NAMA).** Next, they introduced **Value-Added Taxes (VAT)**, followed by taxes on carbon and motor vehicles. An additional personal income tax was levied, and the number of civil servants on duty and being hired was reduced. The budget for their perks and bonuses was also reduced. It is important to note that despite the austerity measures, the Irish government focused on protecting social welfare programs, thus gaining the support of the people[9]. This sets it apart from other countries' relatively harsher approaches.

By 2013, Ireland had fulfilled most of its goals and became one of the first Eurozone countries to complete a bailout program. By 2015, Ireland's unemployment rate had dropped to 9.9%, continuing to improve in subsequent years. Ireland managed to return to international bond markets within 2 years of this program, regaining the trust of future investors.

*Total Employment in Ireland[10]*

Ireland is doing well now and owes its success to the government's effective implementation of reforms, though some




attribute it to the IMF's relatively flexible approach.

***Dependency and Debt Traps***

There are also cases where IMF programs in a country cannot be definitively classified as a success or a failure. This usually occurs due to repeated borrowing - which fosters economic dependency - or poorly implemented programs that fail to provide sustainable

9 IMF Lending Case Study: Ireland

10 Total Employment in Ireland, 1956-2024

solutions or long-term relief. Pakistan and Kenya are two key examples.

Pakistan is one of the IMF's most frequent borrowers, having entered 25 programs since 1947. During 1972-77 alone, Pakistan turned to the IMF four times for one-year Stand-By Agreements (SBA). While these allowed the country temporary relief, repeated borrowing and reliance on the SBAs led to a cycle of dependency, which still has not ended. As of November 2024, Pakistan is the fourth largest IMF debtor, following Argentina, Ukraine, and Egypt.

For Pakistan, two main reasons have led to this dependency[11]: flaws in the program's design and weak local governments. The flaws mainly included overambitious goals for savings and growth, unrealistic time frames, no details on dealing with security issues, etc.

On the other hand, the local governments failed to implement the suggested policies or curb growing civil unrest effectively. In most cases, these reforms were implemented partially or inconsistently.

## Social and Political Impacts

### *Conditionality's Impact on Social Welfare Programs*

Some countries have suffered as austerity measures suggested by the IMF further worsened the situation for vulnerable populations. In Greece, for example, pension cuts[12] and reduced public spending were criticized as they further exacerbated poverty, leading to higher unemployment and suicide rates.

Pakistan [13] followed a similar approach and decided to cut back on subsidies. The government also increased the price of fertilizers, wheat, and petroleum. This resulted in increased poverty as the public suffered even more.

[11] Impact of IMF Conditionality on Pakistan

[12] Greece, Letter of Intent

[13] Impact of IMF Conditionality on Pakistan

Latvia[14] was also part of an IMF program after the 2008 crisis, and instead of devaluing the Lat, it made significant cuts (up to 26%) on public spending and wages.

***Political Backlash and Civil Unrest in Borrowing Countries***

Austerity measures usually lead to widespread protests, particularly if the suggested policies bring a drastic, unwelcome change. For example, Greece faced anti-austerity riots during the **Eurozone Crisis**. Argentina's crisis in 2001 also contained violent protests and civil unrest. This was further highlighted by mass demonstrations nationwide and multiple presidents resigning within weeks[15].

Pakistan also experienced similar protests due to recent IMF-imposed taxes and subsidy cuts. The public denounced the government for further worsening their standards of living. These cases show the delicate balance between maintaining political order and stabilizing the economy.

***Influence on Governance and Institutional Reforms***

Institutional reforms have had mixed results in most countries, depending mainly on the type of institution being privatized. In Pakistan[16], for example, privatizing the non-financial sector was significantly more successful than privatizing the energy, transport, and steel industries. They made little to no progress, while the fertilizer, cement, telecoms, and textile industries were very successful.

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[14] Republic of Latvia: Fifth Review Under the Stand-By Arrangement and Financing

Assurances Review, Request for Waiver of Nonobservance of a Performance Criterion, and Proposal for Post-program Monitoring

[15] Social Revolution or Political Takeover? The Argentine Collapse of 2001 Reassessed

[16] Impact of IMF Conditionality on Pakistan

In Latvia[17], the public sector was reformed, and decisions like reducing the salaries of civil servants (up to 40%) were made. While these reforms were intended to stabilize the economy, they also placed immense pressure on the government since they had to manage civil unrest while simultaneously trying to implement these changes effectively.

While some reforms have improved efficiency and transparency, they have also adversely affected struggling populations. These cases clearly show how reforms suggested by the IMF can lead to improvements in the governance of a country, but often at significant political and social cost.

## Motivation For Seeking IMF Loans:

Countries typically approach the IMF due to domestic and external factors that create economic crises[18]. Domestically, inappropriate fiscal and monetary policies can lead to large current account and fiscal deficits, high public debt levels, and weakened competitiveness due to misaligned exchange rates. Weak financial systems, political instability, and poor institutional frameworks further exacerbate these issues.

Externally, shocks such as natural disasters, volatile commodity prices, and sudden shifts in global market sentiment can destabilize economies. Even countries with sound fundamentals can suffer from external crises, as seen in the Asian Financial Crisis of the late 1990s[19].

The Thai Baht faced speculative attacks, forcing its devaluation and triggering a domino effect across Southeast

[17] Republic of Latvia: Fifth Review Under the Stand-By Arrangement and Financing Assurances Review, Request for Waiver of Nonobservance of a Performance Criterion, and Proposal for Post-program Monitoring

[18] IMF Lending

[19] The Onset of the Asian Financial Crisis

Asia due to interlinked trade and financial systems. Investor panic caused massive capital flight, leading to recessions in countries like South Korea, which required IMF loans and corporate restructuring. South Korea's reliance on chaebols, heavily dependent on foreign-denominated debt, and the lack of adequate regulation exacerbated the crisis as many large corporations, such as Daewoo, either went bankrupt or needed government bailouts.

Similarly, India faced a balance of payments crisis in 1991[20] due to decades of poor economic policies, including importing more than exporting, which created a large current account deficit financed by foreign debt. The Gulf War caused a spike in oil prices, further increasing India's import bill, while lenders lost confidence, drying up short-term credit.

By June 1991, India's foreign exchange reserves dwindled to less than $1 billion, enough to cover just three weeks of imports, thus forcing India to pledge 47 tonnes of gold to secure loans and avoid defaulting on international debt. The IMF provided a $2.2 billion loan[21], but it came with strict conditions, including devaluing the rupee by 20%, liberalizing industrial licensing, easing export controls, and encouraging foreign direct investment (FDI). While these measures helped stabilize the economy and spur growth, they also led to inflation, job losses in public sector enterprises, and widened inequality, with rural and agricultural sectors lagging behind urban and industrial areas. The reliance on external capital increased vulnerability to global financial fluctuations, and IMF-imposed reforms reduced India's ability to prioritize developmental policies, particularly in the immediate aftermath of the crisis.

## Role Of Countries In IMF Decisions:

The IMF has historically relied on a quota-based voting system where member countries are assigned votes based on their

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[20] Balance Of Payments Crisis (1991), India

[21] Academic analyses on India's economic liberalization post-1991: Ahluwalia, M. S. (2002). *Economic Reforms in India Since 1991: Has Gradualism Worked?*.

financial contribution to the IMF[22]. The largest donor to the IMF, holding the largest vote share, has been the United States with 16.5% of the vote share. This has effectively given the US a veto since all major decisions at the IMF require an 85% supermajority (DISCLAIMER: Despite the quota-based voting system followed for the IMF officially, we are abiding by standard ROPs for IMF at LUMUN 21 which includes equitable voting for all member states).

Collectively, western countries such the US, France and the UK put together wield disproportionate influence over the decision making of the IMF and thus allow them to push for conditions on loans that align with their geopolitical interests, and economic philosophy. Neoliberal economic philosophy as codified in the Washington Consensus[23] that pushes for policies that include fiscal and monetary discipline, promotion of free markets and privatisation of state owned enterprises are championed by countries such as the US.

This is in stark contrast to the economic philosophy espoused by China[24], and to a lesser extent Russia, which assert that western conditions on loans focus too much on austerity and do not emphasize investment as a way to grow out of debt.

Initiatives such as the Belt and Road Initiative (BRI) or the Asian Infrastructure Investment Bank (AIIB), initiatives both led by China, have proven themselves to be worthy alternatives to the IMF. More specifically, the loans provided by the BRI or AIIB provide financing without the same type of stringent conditions that would be part of an IMF loan. These loans come with less of a focus on governance and economic reforms, making them more accessible for countries with governance challenges, as well as direct financing for large scale infrastructure projects such as dams, ports, roads, etc, which help increase the efficiency and profitability of businesses in the country

[22] IMF Members Quotas and Voting Power, and IMF Board of Governors

[23] What is the "Washington Consensus"?

[24] China, the IMF, and Sovereign Debt Crises

***Case Study: Ethiopia***

The role of China's rise as a global economic superpower that is beginning to challenge the influence of old western institutions can be exemplified by the Ethiopia case study[25]. Ethiopia is one of the largest aid recipients globally, with foreign assistance comprising 50–60% of its national budget during the early 2000s. It received aid from both Western donors (e.g., the IMF, World Bank, U.S., and UK) and China. China's involvement increased significantly after the 2003 FOCAC (Forum On China-Africa Cooperation), with major investments in infrastructure as part of Ethiopia's Growth and Transformation Plan.

Between 1990 and 2014, Ethiopia received 337 policy conditions attached to IMF loans, addressing issues like fiscal policy, trade liberalization, SOE privatization, and monetary policy. IMF conditions aimed to ensure macroeconomic stability, improve governance, and safeguard the repayment of loans. In contrast, China's aid focused on large-scale infrastructure projects (e.g., dams, railways, and ports) without imposing governance or economic reforms. This provided Ethiopia with an alternative to IMF assistance, allowing it to negotiate more favorable terms.

Before 2003: **272** conditions were attached to IMF loans to Ethiopia. After 2003: Only **65** conditions were imposed, marking a **76%** decrease. The "Big Three Conditions" focused on the financial sector and monetary policy, external debt, and trade/exchange systems saw significant drops of 63–84%. Fiscal policy and SOE privatization conditions were entirely removed.

Displaying some of the contradictions between the IMF's policies and stated goals, the IMF had emphasized fiscal transparency and budget management in Ethiopia's development strategy but removed all fiscal-related conditions after 2003. It also advocated strongly for privatization as a way to reduce fiscal

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[25] The IMF, China and Conditionality. An examination into the impacts of China's rise as a donor has had on the conditional approach taken by the IMF

burdens, yet eliminated all conditions tied to SOE privatization and reduced conditions promoting trade liberalization, possibly to maintain Ethiopia's participation in IMF programs.

The IMF reduced conditions in response to China's influence, even when doing so contradicted its development objectives. This aligns with the theory of Politically Motivated Aid, where aid decisions are shaped by the geopolitical interests of donor countries.

The IMF's actions underscore how aid allocation and conditionality are influenced by competition among major donors, particularly as China's unconditional aid model challenges traditional Western practices. The Ethiopia case suggests a potential trend of reduced conditionality as a strategic response to retain influence in recipient countries where China is a significant player.

Furthermore, the IMF's inconsistency in enforcing its policies risks undermining its reputation as a neutral institution committed to global development goals.

Western shareholders have supported IMF-led efforts to scrutinize countries' debt sustainability[26], especially for nations heavily indebted to China. These policies ensure that Chinese loans, which often come with limited transparency, are accounted for in debt restructuring negotiations. They have also emphasized reforms that require transparency in public financial management. This challenges China's model, where the terms of loans are often opaque.

## QARMA (Questions a Resolution Must Answer):

1. How can the International Monetary Fund (IMF) adapt its loan conditionality framework to account for the unique socio-economic conditions of low-income developing countries?
2. In what ways can the IMF ensure that its austerity measures do not

[26] New Data on the "Debt Trap" Question

disproportionately harm vulnerable populations in borrowing countries?

3. How can the IMF strike a balance between enforcing fiscal discipline and fostering long-term sustainable growth in countries with weak economies?
4. What measures can be implemented to increase transparency and accountability in IMF loan agreements and conditionality requirements?
5. How can the IMF collaborate with regional financial institutions to ensure that loan conditions are more attuned to local realities and developmental goals?
6. How can the IMF improve its engagement with civil society and other non-governmental stakeholders in the design and implementation of loan conditionality?
7. How can the IMF monitor and assess the social and economic impacts of its loan conditions in recipient countries, especially in light of growing criticisms of its past policies?
8. What safeguards should be put in place to prevent the misuse of IMF loans for purposes other than those agreed upon?

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