Research Journal of Finance and Accounting
ISSN 2222-1697 (Paper) ISSN 2222-2847 (Online)
Vol.4, No.2, 2013

Critical Role of the International Monetary Fund IMF in the Global Financial System as an International Lender of Last Resort: Effect from Mexico, Russia, And Zimbabwe

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Abstract
The purpose of this paper is to have an in-depth look on how the International Monetary Fund has operated in the global financial crisis and how it has strategically manoeuvred itself as an international lender of last resort as it tackles economic collapses in various affected economic countries. The paper addressed key points on how the International Monetary Fund reacts to global crisis and how it sets up financial assistance within an economy who seeks financial assistance. The paper however, evaluated the IMF's effects on Mexico, Russia and Zimbabwe who had in the past faced with the same financial situation under different circumstances. Also, the future trend of the International Monetary Fund was discussed thoroughly to determine whether it will continue to act as an international lender of last resort or will it adopt a new measurement of unilateral and regional approaches to create sustainable solutions to future lending among key countries in time of financial distress.
Key Words: IMF, MEXICO, RUSSIA, ZIMBABWE, TEQUILA CRISIS/PESO CRISIS.

1. Introduction

The International Monetary Fund has established itself as a significant fund institution in the world economy. Moreover, it has become an independent organisation throughout the years, developing and reconstructing its objective to meet global stability and economic reform. There have been several unique programme of the IMF which has made it an institution of international lending. Throughout history, financial crisis have been the defining point of the IMF and has created the expansion of the structure in which it was fundamentally established. The International Monetary Fund is a leading lender of the emerged market countries and continues to involve itself in the assistance of economic relief and reformation. The ideal of each country equally being involved was the principle focus of the IMF but it was not design to take on the conditions of a country that was facing problems of poor policies and contributing external effects from outside contributors. The fundamental structure of the IMF was intended for countries that faced difficulty in trade and balance of payment problems or required short term loans so that trade would continue to exist among member countries. However over time the role of the IMF has transformed itself from a short term lender, into a long-term bailing out institution for countries during financial crisis. Today, it gives the impression of an international lender of last resort, because of how it has reacted in the past decades, in helping the economies of member countries with financial crisis. It has proven itself over time especially when it first relieved the pressure of financial instability in the Russian, Mexican and Asian crisis, respectively, which has giving the IMF a standing point in becoming an international lender of last resort. The IMF has continuously grown to pride itself the leading lender, just as a financial crisis manager devices intervention plan, with economic reforms to establish an apprehensive approach to global financial recovery. In addition, it has been very successful to obtain extensive funding from rich economic countries and has acted as relief during financial crisis.

Its major objective has always been to keep the world economy financially stable through economic times. Furthermore, in recognitions of the Mexican, Russian and Zimbabwean economy, this paper is based on the adaption of the IMF involvement within each country's economy and how it has relieved economic pressures or increased the pressure of relief during policy making decisions. Mexico, Russia and Zimbabwe are three countries with some similarities on the extent of contributions of the International Monetary Fund to stabilising their economy, though, funding and policies differ amongst them. The paper also covers various economic conditions in which IMF faced, and how each country was supported. Throughout the financial destitution, these countries had managed to establish the role of the IMF, and their eligibility to perform one task that has transpired in to its role of a lender of last resort. Also, the research of Russia, Mexico, and Zimbabwe focuses on the similarities of the financial assistance and the overall result of each country which faces the same dilemmas but different results due to different conditions IMF put in place to overturn the current condition and to prevent further decline. Furthermore, the prevention from the reoccurrence of the same situation, by strengthening the country's economic system in which it governs itself. Observing the obstacles of each country and the IMF, and it role as the international lender of last resort, this paper however, subjected its evaluation on the past- lending activities, including IMF's policy, and condition of funding in Russia, Mexico and Zimbabwe respectively.

2. IMF and Mexico

Mexico is one of the 45 allied nations present at Britton Woods, New Hampshire, United States at the conception of International Monetary Fund during the United Nation Monetary and Financial Conference. Mexico is also among the top 20 member countries in terms of voting power and the first country to use the new instrument called Flexible Credit Line (FCL) designed to cushion the effects of current global financial crisis.

Since the 1970's, Mexico has always been bailed out from their financial crisis by IMF or the U S treasury department. IMF and U S treasury has been lending to the Mexican government once they faced financial crisis. After the government of President Luis Echeverria who tripled his country foreign debt was offered a loan worth $1.2 billion in 1976. In 1982, President Jose Lopez Portillo, quadrupled Mexico foreign debt and created a 17 percent GDP fiscal deficit, the IMF gave Mexico more than $1.8 billion as a bail out. In 1988, International monetary fund and the United States treasury department intervened in the Mexico financial crisis again by providing more than $3.5 billion following a devaluation of the Peso. (Vasquez 1997).

Again in 1995 IMF provided $17.8 billon as a stand-by support. Because of this various financial support, IMF as a lender of last resort to Mexico cannot be over emphasised because it has contributed immensely to rescue Mexico from two or more major financial crisis; *Tequila crisis*[1] of late 1994-1995, the global financial crisis of 2008-2010 this is not to mention other Special Drawing Right (SDR) i.e. $1.8 billon provided in 1982 and $3.5 billion in 1988. (William 2005).

According to IMF survey, on 17 April, 2009 the executive board of IMF approved $47 billion credit line for Mexico and stated that they were the first country to show willingness in the IMF flexible credit line introduced in March 2009 to strengthen strong economics against fallout of the global financial crisis.

[1]**Tequila crisis**- is also known as Peso crisis. It became an effective crisis when Peso was devalued in December 1994.

In 1997, Vasquez stated in a journal of world affairs that with the intervention of International monetary fund and the U S treasury department once Mexico is faced with financial problem is a moral hazard because there is a predictable reaction of bailout from the fund to respond to their economic crisis. He further stated that this will encourage financial distress. The policy makers in Mexico can afford to *misbehave* and act irresponsible in making financial policies, and that Investors will become less cautious about their investment knowing they will not be held responsible against their policies and actions and there is a ready remedy.

IMF and Mexico bailout episodes enumerated above 1976, 1982 and in 1988, the principal and remote cause was poor monetary policy born by the government election year concern. In 1984 – 85 Stephen stated in Houston journal of international law that the Mexican government had used the IMF loans granted them for three purposes: (a) To service their debts owed to foreign and various creditor. (b) For foreign exchange purpose, that is to meet up their balance of payment deficit and pay for imported goods and services. (c) To guide against the further devaluation the Peso so this fund from IMF was used for speculative purpose.

Furthermore the government wanted exchanged controls to operate in interaction with other course of action adopted and pursued such as approving the rescheduling foreign, private and public debt. With this rescheduling of these debts they will be able to ration the scarce foreign exchange and channel it priority uses. Payment to the suppliers of essential imported commodities and essential foreign debt payment were first targeted. By so doing, the government believe they will be relieving Peso from short term drop in value and then they could concentrate on a longer term solution: promotion of Non oil export and reducing government deficit etc.

The Peso or Tequila crisis of 1994-1995 was very devastating because Mexico was achieving high market orientation progress. However the policymakers failed to tighten policy when they should and they also increased their spending by 11.6 percent resulting to 4.7 percent of GDP budget deficit unreported in 1994.
Tequila crisis in Mexico also referred to as '*el error de diciembre'* meaning the December mistake by President Carlos Salinas de Gortari[2] became effective in December 1994 after the sudden devaluation of the Mexican currency called Peso hence it was also called Peso crisis.

Before this crisis, four peso was exchanged to a dollar but in the space of one week during the crisis the peso crashed and 7.2 peso was exchanged for a dollar which led to the speedy intervention of the US, IMF and other economic organisation. The loans and guarantee granted to Mexico to suppress the effect of the crisis was totalled almost $50 billion including IMF 18 month's stand-by credit agreement of around $17.8 billion.
[2]**President Carlos Salinas-** He is a Mexican economist and politician. He was the president of Mexico from 1988-1994

Frederic (1999) states in a journal of banking and finance the basic lesson from the
tequila crisis are the Danger of Pegged Exchange Rate: The devaluation of Mexico currency as a speculative attack on exchange rate has an ironic effect on the economy because the financial market information flow has been hampered. When exchange rate is pegged then depreciation of the domestic currency is a non-linear event because it means that the currency has to be devalued. Secondly, there was no strong prudential supervision of the banking system in Mexico which has affected the health of its financial markets resulting to financial crisis. Mexico as an emerging market needs strong prudential supervision of their banks because banks plays a very important role in channelling funds to those who has opportunities and willing to invest productively.

Lastly, the speedy liberation and deregulation of the financial system is also a lesson from the crisis because in Mexico this was not done gradually and proper checks were not put in place. If proper bank's supervisory structure is not in place when deregulation comes, then the constraints of risk taken may be non existence. In many countries lending booms have been featured because financial liberation often leads to lending boom and has often been followed by banking crisis as also the case of Mexico before the Tequila crisis.

The use of IMF assistance to bailout countries whose banks cannot satisfy its creditors, discharge liabilities or not solvent is not proper because such assistance and doctrines that has underlies it are threats to the stability of the entire financial system (Charles 1998). This paper observed that for the past 30 years, Mexico has experienced different monetary and currency crisis because of its poor monetary and fiscal policies. In various crisis enumerated above, IMF and U.S treasury comes up with a bailout of an increasing amount. Although in 1998, Vasquez states that bailout by IMF and the US treasury is very expensive and unjust.
IMF has played a role of lenders of last resort to Mexico and therefore may weaken the reliability of their central bank because going through various analysed financial crisis from 1976 to date, you will notice that the IMF intervened at the right time by providing the fund that is required for economic crisis bailout.

The Rubin doctrine introduced by the Clinton administration in 1995 was aimed to protect developing countries from free market because their losses can be socialized. This was adopted by IMF during the Tequila or Peso crisis in Mexico which had crippled their financial system. The bailout has contributed greatly during the financial crisis, and protected the Mexicans economy from further financial problems but it has a negative scenario to the developing countries that they can engage in risky financial practice because if their business fails and there are unpaid loans, taxpayers in the developed countries will use this doctrine of IMF to bail them out.

Also recently, Flexible Credit Line (FCL) introduction by the IMF in 2009 which had provided Mexico government with a credit facility of $47 billion to hold up as a precautionary measure against the global financial crisis. The disbursement of this Flexible Credit Line is not conditioned on compliance with the traditional IMF supported programmes and recently the credit has been elongated for another one year.

3. IMF and Russia.

The Financial crisis struck Russia's economy in 1988. During this period, Russia had introduced various economic measures to end the crisis; setting out government reform Agenda and involving the International Monetary Fund for a macroeconomic stabilisation. The financial assistance by the fund would depend not only on its policies but also taking into considerations the domestic conditions in Russia. This paper intends to review the funds existence in Russia during 1990s.

The head of government, Yeltsin in October 28, 1991, articulated an economic programme which aimed at revamping Russia's economy. He presented an economic reform agenda to the international organisations and to accept the basic principles set out for a possible invitation of the International Monetary Fund for reconstruction and development. He also requested the fund to work out a detailed and economic oriented work plan for participation and cooperation for the Country's economic stabilisation. (Nigel and Ngaire 1999).

According to Nigel and Ngaire (1999), the presence of the IMF in Russian's economy in 1991, was likened to be stronger. In June 1, 1991, the fund had agreed to lend the first $1 billion monthly support, following the memorandum of understanding reached between Russia and the IMF. Gaider and Camdessus, the country's Deputy Prime Minister Economic Policy, and the IMF Director acted as representatives for both parties. During this period, the west only granted Russia an associate membership to the fund in October 1991, and was reluctant that if granted full membership it would draw heavily from the fund when it has not met the criteria for a full membership. It further suggested that the IMF should work in closed coordination to help actualise the reform programme already put in place by the government. This includes the immediate stabilisation through spending cuts, tax-increases and price liberalisation. It also recommended the privatisation of small and large enterprises.

Struggle for supremacy erupted between the president and parliament. As a result of the IMF's economic policy agenda, industrialists felt that this would not favour them and had shifted their support to the parliament to garner favour for more credit facilities. The rift was another prelude to economic instability in Russia and had caused serious impediment to the reform agenda. (Nigel and Ngaire 1999)

Russia in June 1992, secured its full membership with the IMF. The reform recorded an increased growth and had caused the removal of over 90 per cent of the consumer prices and 80 per cent of the producer prices, liberalisation of the internal trade, and a controlled inflation in an economy that has suffered a macroeconomic imbalance.

In a related development, the IMF offered its second $ 3 billion credit loan to Russia from the new Systemic Transformation Facility **(STF)**[1]. This was a new experiment for the IMF, mostly, for the member countries experiencing severe economic disruption in its trade and payment arrangement, as a result of a shift from significant reliance on trading at nonmarket prices to multilateral market based trading. There was no condition attached to the new Systemic Transformation Facility **(STF)**, implying that the recipient. Providing more support through a standby arrangement however, half of the **STF** credit was initially extended with the remaining $1.5 billion.

IMF lending support programme recorded another upheaval in September 19, 1993 to 1994. The Fund decided to suspend forthwith, its lending programme to Russia on the bases that the government has failed on their part to cut down the rate of inflation and embrace necessary steps in the budget area. The interest disparities between the Executive and parliament over economic policies control, and poor policy implementation of Chernomyrdin governments' loose budgetary and monetary policy. This caused inflation to have risen suddenly from 4 per cent to 15 per cent a month in 1994. In 1995, **IMF**'s programme in Russia recorded a tremendous growth. Before this period, they had applied a dimension of lending support with less conditionality, using the Systemic Transformation Facility from 1993 to 1994, which yielded less success. The fund however, reverted to its traditional approach of strict, non-concessional standby arrangement with aggressive monitoring.

IMF was observed that macroeconomic stabilisation would not lead to sustainable long-term growth unless deep institutional changes were also followed. The mutual relationship that existed between Russia and the fund was reflected during one year $6.8 billion standby arrangement that was announced on the April 11, 1995. This was reported as the largest IMF loan to date with the exception of Mexican bailout. At this stage, inflation was expected to fall to 2 per cent of the gross domestic product GDP Subsequently, strict measures were introduced to ensure the effectiveness of the

[1]STF: Systemic Transformation Facility; measure introduced by the fund to release money to Russia and other member countries

programme which includes a monthly monitoring against the former quarterly, a closed working group comprising of the representative from Russia's Ministry of Finance, the Central Bank, and the staff of the International Monetary Fund.

The progress recorded by Russia was highly appreciated by the IMF at the end of 1995. Irrespective of all the political pressures, Russia was seen to have responded to its reform programme as expected by the IMF. In reciprocation to that, the fund introduced an Extended Fund Facility (**EFF**) to the Russian economy signed on March 1996 of a sum totalling $10.2 billion, which was expected to be disbursed monthly over the period from March 26, 1996 to March 25, 1999. The **EFF** was in anticipation for another condition requesting Russia to further reduce its fiscal deficit to 4 per cent of the GDP in 1996 and to 2 per cent in 1998. Also, the condition was for Russia to cut down its rate of inflation to 1 per cent a month by the end of the year. (see appendix 1)

Russia was conditioned to undertake structural reforms which aimed at privatising the agricultural sector of the economy and elimination of all export duties. Furthermore, total restructuring of the banking sector, proper auditing of the largest enterprises and improvement in tax collection. The actions and influences associated with IMF approval were considered highly significant at this point. The agreement created an atmosphere for a compound re-invigoration of Russian's $38.7 billion debt with the official creditors of Paris club in April. In return led to the Country's transverse to international capital markets as a sovereign borrower and the eventual floating of several successful Eurobond issues.
However the financial assistance given to the Russian government by the IMF may have delayed it from adopting an appropriate reform measure which could have helped to stabilise its financial system. Maintaining measurements adopted by the IMF in resolving the crises in Russia were considered commendable, however, Sachs argued that IMF credits should have been used not just to build reserves, but to assist in the non-inflationary financing of the deficit. He also viewed the crisis as a run on the bank when he argued that the IMF should have provided sufficient funds to end the run. The IMF's insistence upon market reform conditions in this context just deepens the loss of confidence that caused the country to undertake unnecessary and costly policy changes. IMF has not done what it was supposed to do in the case of Russia, to provide sufficient funds to ending the financial crisis inherence in the country. This has caused serious impediment to the development of Russia (Stiglitz, Conway, and Fischer, 2006).

4. IMF and Zimbabwe

The purpose of selecting Zimbabwe for the study is because of its participation in IMF's Enhanced Structural Adjustment Facility **(ESAF)**, and the IMF's concessional lending facility for one of the least African developed countries. The ESAF was established in 1987. ESAF is the IMF's discounted lending facility for the least developed countries. Under ESAF's IMF offers low interest rate and its repayment term is five and a half to ten years. There is a condition of receiving these loans. Countries must have to adopt IMF's structural adjustment programs from privatization of government controlled units, minimising the barriers to trade as well as to foreign investment and ownership, also reducing government spending, monetary tightening, and the reduction in government subsidies.

Over the years, Zimbabwe faces a wide variety of difficult economic problems. Its involvements in the war drained millions from the economy. The government had set-up reforms programs which badly damaged the commercial farming sector, traditional exports, and foreign exchange. This impacted Zimbabwe's government, which had to enter into agreements with the World Bank in the late 1980's. Zimbabwe began structural adjustments in earnest in 1991 when it signed a standby arrangement with the IMF in exchange for a $484 million loan. Unlike many of the countries under take IMF adjustment programs, Zimbabwe did not institute structural adjustment in
response to a crisis. After several years of economic stagnation, Zimbabwe turned to the fund and World Bank in an effort to jump start economic growth. Due to the support by IMF, Zimbabwe has to adopt changes in its policy as it is required by the IMF in exchange for the loans were cuts in its fiscal deficit, tax rate reduction and the de-regulation of financial markets also dismantle protection for the manufacturing sector and de-regulate the labour market, lowering the minimum wage and eliminating certain guarantees of employment security. From this view point of the IMF, labour market rigidity was a factor which was constraining future growth potential and keeping the fiscal deficit high in Zimbabwe.

When IMF came to Zimbabwe in 1980's, it largely dodged the famines, civil strife and mismanaged government policies, which was common in sub Sahara African countries. In 1980, Zimbabwe maintained positive growth of 5 percent (GDP growth per year) and unlike other African countries, agricultural yields were large enough to allow the country to export gain. After the implementation on IMF policies in Zimbabwe, in 1992 its real GDP fell by nearly 8 percent in that year. From 1991 to 1996 manufacturing output of the country contracted by 14 percent and Real GDP per capita declined by 5.8 percent from 1991-1996. In the following decade, Zimbabwe economic growth slowed and government policies were less than efficient, but Zimbabwe still managed to grow an average of 4.3 percent, in real terms. However, between the year 2000 to 2003, the government initiated land reforms policy in large scales. These land reforms marked an important turning point for Zimbabwe. After implementation of these reforms, Zimbabwe's economy collapsed by 5 percent in 2000, 8 percent in 2001, 12 percent in 2002 and an estimated 18 percent by 2003. The government of Zimbabwe faces different economic problems, which includes shortage of foreign exchange, increase inflation and supply shortage. Inflation reached 500 percent and Zimbabwe dollars was more than 99 percent of their real exchange value. (Gibbons 1997 and Richardson, 2004).

Between 1991 to 1996, formal sector employment in manufacturing fell by 9 percent and real wages fell by 26 percent, this due to the reduction in public spending and deregulation of labour market which led to higher unemployment in Zimbabwe.

In order to meet IMF's fiscal target in the 1991 ESAF program the government had to reduce non-interest expenditure by 46 percent. From the study it is found unsurprising that Zimbabwe never met its fiscal target nor did Zimbabwe meet the IMF target between 1990-91 and 1995-96. The expenditure on health care declined as a shore of the budget from 6.4 percent to 4.3 percent and as a share of GDP from 3.1 percent to 2.1 percent. The IMF recommendations for fiscal adjustment included reductions in the real wages of public health sector workers. As a result many government medical staff moved to the private practice or private sector which led to decline in the quality of public health, which also led to non affordable of public services to poor's. Compare to the previous situation of 1980's, health care services were widely more available to people. The decline in government health care spending resulted the spreading of diseases, as a result AIDS rapidly increased in the community (Richardson, 2004). Government spending on education also fell under IMF adjustment. As a result time real per capita expenditure on primary and secondary education declined by 36 percent in 1990-91 and 25 percent in 1993-94 respectively. As in the health sector, wages for educational staff fell by between 26 percent and 43 percent between 1990 and 1993 (Goldsmith, 1995).

The IMF policies could not help Zimbabwe to improve its economic condition. Zimbabwe's GDP, Per Capita Income went down. Also, there was a fall in its level of education and health facilities, standard of living of its people and as a result Zimbabwe finds itself under the huge debt. ESAF program were not suited for the Zimbabwe economy. Policies such as reduction in government expenditure led to economical imbalance in the country and the funds policy is in monetary tightening, which is related to increase in taxes, even when the economy of the country is weak.

5. Conclusion

Over the decades speculations of its existence to continue with good governance and accountability has been heavily questioned, mostly of its actions to rectify financial situation by providing compensative leverage. In perspective the IMF in fairness is an organisation primarily set up to ensure that every member economy is functioning under stable economic condition, and that it remains stabilised as economic relief is implemented into the country fiscal structure.

Conclusively, the overview of Russia, Mexico and Zimbabwe, shows discrepancies in the role of the IMF. The International Monetary Fund can be described as an international fund institution that can be referred to as a lender of last resort. However, transforming the IMF into an international central bank will alter the architectural form from a short-term provider into a govern body that will have to adapt international strategy mechanism. In the reference to our case studies, we can conclude that IMF has been exploited as an organisation that does more harm than good, especially since most underdeveloped countries seem to dwindle more, due to the capacity to adjust than most rich countries. Russian had not developed as much as it was intended to do. Instead its economy started to deteriorate almost as much as Mexico but not as large of a scale as Zimbabwe. The equilibrium of the core structures do not fit underdeveloped countries and lack the main criteria to adjusts to certain frameworks, for this, Zimbabwe was hopeless against the fight to financially survive. The adjusted policies that the IMF imposes, has to do with vital cuts in the basic resources such as education, healthcare and also cutting down the imports which mostly includes food and basic supplies. There is always a debate in whether the judgement of the IMF is the right action when it comes to stability or can their policies be less harsh and more considerate to the people of the country.

During the financial crisis of 1995 in Mexico, the International Monetary Fund stepped in to perform a function of lender of last resort. Because of the peso taking a significant falls in the exchange market. However, the extent of what the original purpose of the IMF may have evolved unknowingly, but looking at Mexico Russia and Zimbabwe it acted as a lender of last resort.

Nevertheless, becoming the last resort through financial crisis, and global instability, can be the cutting future for the IMF, but their needs requirement more of a formation when dealing with specific countries.

Looking at the Mexico, Russia and Zimbabwe the IMF only causes a quick relief and substantial consequences. It is an easy bailout package to countries that are in desperate need but are these countries able to pay the rate of interest and adhere to their stiff conditions.

Mainly, the IMF will be more complex and complication will arise as it acting as an international lender. By refuting the past misfortunes that has happen with other countries that are yet to recover from the provisions of the IMF, the IMF will not have the transparencies to do so. Its efforts of providing short-term credit continue to be the main goals. The outlook of Mexico, Russia and Zimbabwe implies that it success rate is not effective in the long run and, many countries will continue to worsen economically because of the provisions it has imposed. Furthermore, many countries are considering have inter-continent emergency banks among regions where money will be put aside in case a financial crisis occurs, the same way the IMF lends, but on a smaller scale where it meets sub-continent requirements on a multilateral scale. Lastly, can the IMF should find a balance of structure that will suit all countries when it comes to international lending and capital control that are not fragmented on the regularity system and create room for flexibility on a multilateral contributor of a lender of last resort? The IMF is best suited to continue the role of credit services and refining the existing structure than taking a role of the emerging world central bank.

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