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American politicization of the International Monetary Fund

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ABSTRACT

The International Monetary Fund claims that its loan conditions are apolitically devised because loans are negotiated by the technocratic staff and away from the possibly politicized Executive Board. Previous studies have suggested IMF Executive Board politicization but have not analyzed internal IMF documentation. Recently released IMF Article IV Consultations from the IMF Archives provide the opportunity for a new methodology based on searching for slippages in staff recommendations. It was found that two lenient IMF–Egyptian agreements had considerable slippages and two strict IMF–Egyptian agreements had little evidence of slippages. It was further found that the United States intervened in both the 1987 and 1991 agreements by usurping staff recommendations and undermining negotiations to ensure that these two agreements were lenient. The United States intervened in the 1987 and 1991 negotiations to preserve the political stability of the pro-Western Egyptian regime during a particularly turbulent time.

KEYWORDS

International Monetary Fund; Debt negotiations; US–Egyptian economic relations; IMF Executive Board; Conditionality; International Economic Organizations.

One of the many criticisms facing the International Monetary Fund (IMF) is that the terms and conditions attached to its loan agreements are politically determined.[1] The IMF has been accused of being an American agent of economic liberalization throughout the developing world. The IMF, however, claims that its decision-making is apolitical and based on internal staff recommendations. Ideally, the process of determining IMF conditionality should be technocratic, largely the product of economic modelling and analysis. This article utilizes IMF reports which were previously considered confidential and were released upon request from the

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IMF Archives, to introduce a new methodology for determining whether political intervention occurs in the design of loan conditionality. This article argues that political intervention in the terms and conditions of IMF agreements occurs when IMF staff recommendations are repeatedly disregarded. This method traces politicization in the IMF decision-making process, by comparing and contrasting IMF staff's Article IV Consultations for slippages in recommended conditions.[2]

Egypt was chosen as a case study because the United States has a geopolitical interest in this Middle East country and a strong bilateral aid relationship with it. The possibility of US politicization was high and the four IMF–Egyptian agreements would allow for a pattern to emerge.[3] Four IMF–Egyptian loan agreements were analyzed for slippages and it was found that two of the four agreements were politically determined. Two IMF–Egyptian agreements were facilitated by the United States in 1987 and 1991, in order to protect the Egyptian regime from tough conditions and to reward the regime for its participation in the Persian Gulf War. Corroborated by numerous interviews with IMF staff, Executive Board members and US government officials, the 1987 and 1991 IMF–Egyptian case studies indicated that IMF decision-making procedures were politicized and staff recommendations were not adhered to by the Executive Board and Management. The IMF claims that its decisions are to follow an apolitical process, based on staff recommendations and consensual Executive Board deliberations, but this did not occur in two of the four IMF–Egyptian agreements.

IMF DECISION-MAKING AND NEGOTIATING IMF CONDITIONS

The IMF members' quotas are based on their relative strength in the international economy measured by such factors as members' current account transactions and Gross Domestic Product (IMF, 2000).[4] The quotas are used to determine both how much financial assistance members can borrow and member states' voting strength. A member's quota is equivalent to the amount of capital contributed to the Fund's liquidity. A member can contribute gold, currencies and Special Drawing Rights (SDRs) to make its quota in the Fund.[5] The IMF claims that it follows the principle of non-discrimination in setting both members' quotas and consequently, voting shares.

The IMF Executive Board's decisions are made based on weighted voting that reflect a member's quota. Each IMF member is given 250 basic votes and an additional vote for every 100,000 SDRs contributed to its quota. The United States provides the largest contribution to IMF funds, and therefore holds the largest voting power (371,743 votes or 17.11% of total fund votes). No other country's voting power is proximate to the United States' strong voting power. The United States' voting power is followed by Japan with

Table 1 Sample of IMF executive directors and voting power

Member country	Votes by country (250 votes per member + 1 for each SDR contributed to IMF funds)	Percent of total fund votes
United States	341743	17.11
Japan	133378	6.14
Germany	130332	6
France	107635	4.95
United Kingdom	107635	4.95
Russia	59704	2.75
Saudi Arabia	70105	3.23
China	63942	2.94
Egypt and 12 other Arab countries	64008	2.95
23 African countries	25169	1.16
Other	1103651	52.18
Total: 182 Members	2159676	100

Adapted from: IMF, 2002: np.

133,378 votes or 6.14%, and by Germany with 130,332 votes or 6.0%. A large gap exists between the United States' voting power and all other member states. To demonstrate the gap in voting power, consider that Sub-Saharan and many other poor African states (twenty-three countries in total) are represented by one Executive Director, and their *combined* voting power amounts to 25,169 votes or 1.16% of total fund votes (see Table 1).[6]

The IMF *Articles of Agreement* (See Article XII, sec. 5c) stipulates that decisions, including approval of members' agreements and corresponding conditions, require a majority of IMF votes (IMF, 1992).[7] Critics of the Fund, therefore, have suggested that the skewed distribution of votes ensures industrialized countries' dominance in all aspects of decision-making, especially in the design of loan conditions. Correspondingly, poor and indebted states that largely use the funds' resources have a small say in IMF decision-making (Rapkin *et al*., 1997). It has been charged that the United States most often determines conditionality by flexing its voting muscle. According to the IMF, however, critics who claim that the United States determines the terms of IMF conditions fail to recognize that member–IMF negotiations are an apolitical process. The IMF argues that members' agreements are negotiated at arms length from the possibly politicized Executive Board where the United States wields its power.

A member state must first negotiate the terms and conditions of its agreement with the IMF staff. The IMF staff prepare annual reports, called Article IV Consultations, that contain prior conditions (also referred to as 'preconditions' or 'front-loading') that are to be implemented before initiation of an agreement (See the IMF's *Selected Decisions* Guidelines 1 and 7). These preconditions differ for each country, 'tailored on a country-by-country basis', although the IMF admits that similarities exist (IMF, 1989). The IMF staff then evaluates whether an agreement's preconditions have been met as part of the annual Article IV Consultations.[8] Once the member addresses the staff's preconditions detailed in the Article IV reports, then it can request finances from the IMF using a Letter of Intent. During negotiations, the IMF staff indicates the types of conditions, also referred to as 'policy understandings', that are needed to meet the Fund's provisions (see Denters, 1996). Conditions are supposed to be limited to macroeconomic variables (as stipulated in Guideline 9), but have often included both microeconomic variables (IMF, 1987b: 7) and structural benchmarks for programs emphasizing structural reform (Mercer-Blackman and Unigovaskaya, 2000: 3).[9] The IMF staff and a member state are therefore meant to work closely together to devise a Letter of Intent that is then submitted by the member to the Managing Director. The Managing Director decides whether the Letter of Intent is acceptable, but must do so considering the advice of the IMF staff. The proposed agreement, most commonly a Stand-by Arrangement, then contains both the Letter of Intent and the staff report which should ideally mirror one another.

The Managing Director takes the IMF staff's recommendations and the member's Letter of Intent to the Executive Board, and requests funds on behalf of the member. Since 1946, the Managing Director usually does not call for a formal vote (as stipulated in the IMF's *By-laws Rules and Regulations*, section C-10), but rather determines the 'sense of the Executive Board meeting' (IMF, 1997). The Managing Director advocates that the Executive Board approve the Letter of Intent, because the proposed agreement is based on staff recommendations (See the IMF's *Selected Decisions* Guideline 7). It is generally assumed that by the time the proposed agreement has come to the Executive Board, the staff and Managing Director have endorsed the Letter of Intent, making the proposed agreement *a fait accompli* (see Gold, 1983; Stiles, 1991; Harper, 1998). Similarly, in the IMF *Annual Report* it is stated that 'The Executive Board carries out its work largely on the basis of papers prepared by IMF management and staff', (IMF, 1998a: iv). The IMF argues that its decision-making follows an apolitical process through the organization's hierarchy, as depicted in Figure 1.

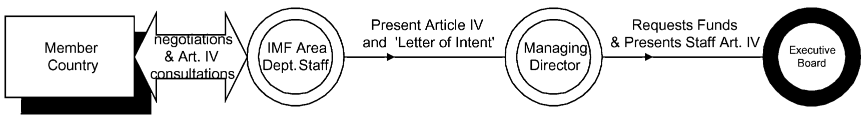

Figure 1 IMF decision-making.

According to Frank Southard, former IMF Deputy Managing Director and former US Executive Director, the Managing Director may face pressure by the Executive Board members to accept agreements which show favouritism and discrimination. Southard explains, however, that the Managing Director must resist this pressure and abide by recommendations made in IMF Article IV Consultations (Southard, 1979). It is the responsibility of the Managing Director to ensure that members are not to be discriminated against or receive favouritism, as stipulated in Guideline 8 (IMF, 1998b). Joseph Gold adds that 'it is accepted that political considerations are out of order, and they are not advanced in the deliberations of the Executive Board' (1983: 148). Gold suggests that the terms of IMF conditions are not made using political considerations and that the Executive Board does not partake in political deliberations (Ibid: 146). As a further check against politicization, agreements are reviewed internally by the Policy Development and Review Department in order to ensure that conditions in the arrangements comply with standard IMF models (see Stiles, 1991).[10]

LITERATURE ON POLITICIZATION OF THE IMF

The majority of studies investigating IMF decision-making processes and outcomes seem to indicate that politics can partially explain negotiations and the terms and conditions of agreements. These have been referred to as the political model (Stiles, 1991). Thacker (1999) identified three possible variables that explain why politics matters. First, the IMF repeatedly lends to debtor states which have high rates of non-compliance with IMF conditions. Second, the Executive Board must approve all loan agreements. Lastly, the Executive Board's decision is based on a weighted voting system which gives a small number of countries considerable power (Ibid: 40). The first variable identified would challenge the IMF's claim that the lending process is technocratic because it suggests that IMF staff would not be foolhardy to continue with badly implemented agreements. In cases of noncompliance, the technocratic approach would be to forfeit future agreements. It is suggested, however, that political pressure placed on IMF staff lead them to enter negotiations even when they believe that there is little hope of accomplishing compliance.

The second and third variables identified by Thacker (1999) suggest that powerful states use their voting influence within the Executive Board to determine the outcome of negotiations between IMF staff and debtor states. It is often argued that the United States, in particular, advances its economic and foreign policy interests by dominating Executive Board decisions on debtors' terms of conditions. As stated earlier, the United States has approximately 17% of the IMF votes in the Executive Board. This may not seem sizeable, but many IMF decisions (excluding approval of agreements) need the support of 85% of Fund votes; this in effect gives the United States a veto power on many important issues.[11] Similarly in cases of 'simple majority voting', the US's vote proves essential in building winning coalitions in the Executive Board when voting takes place (see Rapkin and Strand, 1987; Leech, 2000). These studies suggest that if formal votes were taken at the Executive Board, then the rules of the game would be such that the relative power of the US's vote would be *much greater* than the nominal value of 17%. Rapkin and Strand (1987) examined possible coalition sets in voting and found that the US's relative voting power within the Executive Board is closer to 62.3%.[12] The United States has a swing vote that can determine voting outcomes because no natural coalition set would be formed to bloc the United States. Even in the case of approving financial assistance, then, one can extrapolate that the United States has considerable power. It is noted that the IMF claims that formal voting does not take place on the decision to approve loans in the Executive Board. One must infer, however, that when the Managing Director gathers the 'sense of the meeting' he also recognizes the balance of power in the Executive Board.

The political model proposes that politics matter. It is assumed that either Executive Directors undermine staff recommendations, or that IMF staff draft proposals which they know will satisfy the 'lowest common denominator of views of Board members with large voting power' (Martin, 1991: 34). Political model proponents have generally purported that either debtor regime-type/ideology or global alliance patterns explain political intervention in IMF decision-making and consequently the terms and conditions of IMF agreements.

Several studies have either proposed that regime type and/or state ideology would explain IMF politicization. Payer (1974) and Hayter (1971) found that during the Cold War, socialist or leftist debtor states tended to receive tough IMF conditions. Killick (1995: 119) added that Tanzania, in the early 1980s, received tough conditions because it was a socialist regime. Bartilow (1997), however, found no correlation between debtor-states' regime type and the relative degree of toughness in the terms of IMF conditions. This study was conducted using the cases of Jamaica, Grenada and Guyana.

Several studies, however, dispute two underlying assumptions proposed by Payer, Hayter and Killick. First, that market-friendly governments are American allies that receive favouritism from members on the Executive Board; second, that strong socialist and state-led governments would be least favoured at the Executive Board. Blackmon (2000) found that Russia received lenient conditions when it agreed to support the US-sponsored peace settlement in the 1999 Kosovo crisis. Assetto (1988) found that former socialist debtor-states of the Republic of Yugoslavia and Romania received generally lenient conditions because they were not closely allied to the former Soviet Union.

Other studies have purported that global alliances and geopolitical factors better explain political intervention in IMF decision-making. Killick (1995) argued that some strategic allies of key Executive Board members received more favours and concessions in the terms of their agreements than non-strategic debtor-states. Killick (1995: 119) argued that in at least one-third of 17 countries examined, geopolitical factors explained favourable treatment. Countries which received favourable treatment included Sudan (1979), Brazil, Mexico (1986, 1989), Pakistan, Phillippines (1979), Jamaica (1981) and possibly Dominican Republic (1983), Malawi and Morocco (Ibid: 119). Thacker (1999) has further suggested that global alliances can better explain Fund decision-making. Thacker tested two hypothesises labelled 'political proximity' and 'political movement'. The political proximity hypothesis suggests that states which are like-minded with the United States would receive favourable treatment at the Executive Board, whereby like-minded states might more often receive loans than would non-like-minded states (Ibid.). The political movement hypothesis suggests that states do not have to be allies or like-minded but must exhibit movement toward the American position in order to receive more loans. Thacker (1999) found that the political movement argument best explained IMF lending. In other words, states which chose to politically align themselves closer to the United States, had a higher incidence of receiving IMF financial assistance.[13] This hypothesis suggests that the United States is more apt to interfere in the IMF lending process when debtor-states are in the process of moving towards the United States than when debtor-states are already US allies. The implications of the political movement hypothesis are revealing. First, the hypothesis suggests the advice of an old adage: 'keep your friends close and your enemies even closer'. Second, the hypothesis suggests that the United States works hard to make distant states into allies, but takes its allies for granted when in its domain. Third, the United States uses the IMF as an instrument of broader foreign policy making. Finally, if debtor-states understand the American rationale then it serves debtor-states' interests to not rush into the US domain.[14]

In sum, existing studies of the political model had examined the US's powerful voting strength in the Executive Board and the US's contributions of money to the IMF to infer politicization. The contents of the agreements and the IMF staff recommendations, however, were not covered in these studies. Killick stated that, in his review of 17 countries, one-third was probably an underestimated number of cases demonstrating political interference because he was 'unable to offer concrete evidence' (1995: 119). The concrete evidence, so to speak, are the agreements and staff reports which were previously considered confidential. This shortcoming was further recognized by Eckaus (1986), Stiles (1991), Ferguson (1988) and Thacker (1999).[15] The existing studies attempted to explain negotiations and outcomes by examining the IMF Executive Board. A central shortcoming of previous studies has been that they could not examine the actual loan packages. This study attempts to contribute to the existing literature by showing that political factors can explain IMF conditionality. This is to be assessed using the now publicly available documentation in the IMF Archives.

PROPOSED METHODOLOGY

A unique methodology is proposed in this study to better assess politicization in the design of conditionality, by using the IMF's own Article IV Consultations. It is assumed that the staff recommendations in the Article IV Consultations are technical and apolitically motivated. In other words, if the staff have the liberty to design the agreements according to the IMF model, then the agreements would reflect the recommendations found in the Article IV Consultations. Conversely, when there is political intervention, the conditions of the agreement do not reflect the recommendations of the Article IV Consultations. It is suggested that an agreement that shows evidence of slippage from the Article IV Consultations, qualifies as 'lenient'. An agreement that reflects the Article IV Consultations, qualifies as 'strict'. Identifying a lenient or a strict agreement is a matter of degree, relative to the Article IV Consultations.

As depicted in Figure 2, one could determine that substantial slippages exist in the application of staff recommendations if: (1) many of the conditions prescribed in the Article IV Consultations written before the agreement are not included in the actual agreement, and (2) many of the same conditions prescribed in the Article IV Consultations are repeatedly prescribed in the Article IV Consultations written after the agreement. To qualify the agreement as lenient, there is evidence of slippage from Article IV Consultations and the agreement; and, most importantly the Article IV Consultations written after the agreement reiterate the conditions initially sought in earlier Article IV Consultations. It is important that the Article IV Consultations reiterate previous recommendations to rule out counter arguments that either the IMF staff chose to voluntarily waive conditions stipulated in the Article IV Consultations or that the IMF staff drafted Article IV Consultations which they knew would satisfy the 'lowest common denominator of views of Board members with large voting power' (Martin, 1991: 34). In keeping with the argument that the IMF staff are technocratic and apolitically motivated, it is therefore argued that lenient agreements occurred beyond the will of the staff. This then supports the claim that some influence such as political intervention is an intervening variable.

Also depicted in Figure 2, one could determine that minimal slippages existed in the application of staff recommendations if: (1) many of the conditions prescribed in the Article IV Consultations are included in the

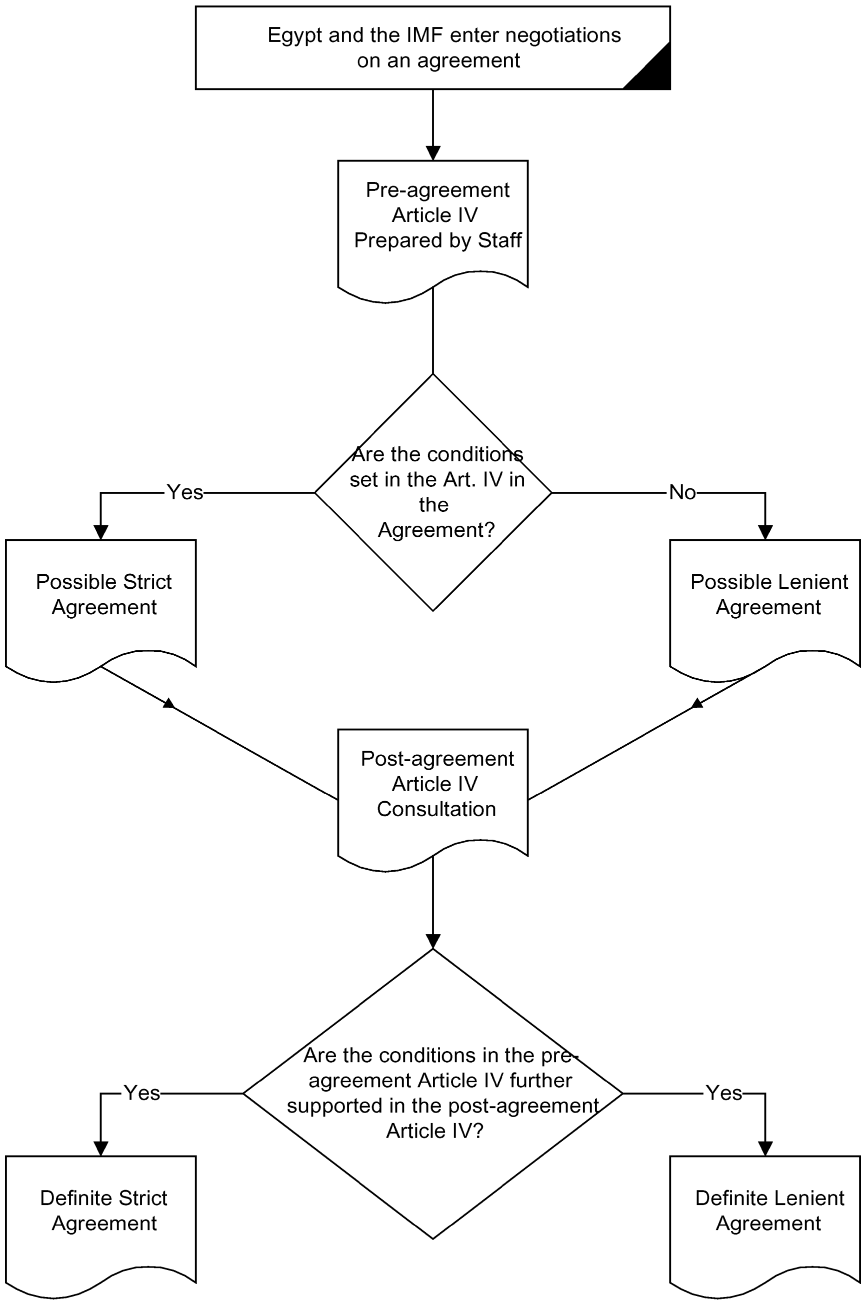

Figure 2 Leniency or strict agreements.

actual agreement and (2) in the Article IV Consultations written after the agreement, the IMF staff expresses satisfaction with recommending the conditions of the agreement. To further corroborate the findings, the IMF staff express satisfaction with the agreement in interviews. Where minimal slippages in the application of staff recommendation exists, this is characterized as a strict agreement.

Interviews with several of the negotiation participants were conducted to help authenticate the authorship of the documents. It is important, particularly in the case of the IMF, to authenticate authorship because the Policy Development and Review Department review and edit IMF staff reports (see Harper, 1998). It should be noted that many of these interviews were difficult to obtain, particularly with IMF staff who are officially not allowed to speak to the public about negotiations. These interviews lasted a minimum of an hour and were candid. Throughout 1998–2000, a total of twenty-five interviews were conducted, these included four former Executive Directors, eight IMF staff members, two World Bank officials, nine US government officials and two Egyptian government officials. Interviews with negotiation participants assisted in determining whether IMF staff felt strongly about the prescribed conditions that were either included in, or waived from the agreements. Questions posed in interviews with negotiation participants determined the staff's views of the agreements and the reasons they believed that slippages occurred. Content-analysis of internal IMF documents, complemented by in-depth interviews, is a suitable method available to studying the design of IMF conditionality.

POLITICIZATION IN THE CASE OF EGYPT

The methodology suggested above was tested using the case of Egypt. Egypt and the IMF signed four agreements in the late 1980s and 1990s. It was observed that the 1987 and 1991 IMF–Egyptian agreements were lenient, as evidenced by a high degree of slippage between the staff's prescribed conditions in the Article IV Consultations and the actual terms of conditions contained in the agreements. On the other hand, the 1993 and 1996 agreements were strict as evidenced by a low degree of slippage between the staff's prescribed conditions in the Article IV Consultations and the actual terms of conditions contained in the agreements.

The 1987 agreement, negotiated from 1985 to 1988, included three conditions, although five further conditions were absent from the agreement despite IMF staff recommendations. The 1987 agreement ended, without the release of the final tranches, after none of the attached conditions were implemented. The 1991 agreement, negotiated from 1988 to 1993, attached ten conditions, while three other conditions were absent from the agreement despite IMF staff recommendations. Moreover, the Egyptian government received the final tranche of funds of the 1991 agreement despite having implemented only two of the attached conditions. The 1993 agreement, negotiated from 1993 to 1996, attached all eleven conditions recommended by the IMF staff. The agreement ended in failure, however, because five of the attached conditions were not implemented. Similarly, the 1996 agreement, negotiated from 1996 to 1998, attached all seven conditions recommended by the IMF staff. Unlike the 1993 agreement, however, the 1996 agreement ended successfully with the release of the final tranche as all but one condition was not fully implemented (see Table 2). In the 1987 and 1991 Stand-by Arrangements many of the preconditions prescribed in the Article IV Consultations were not included in the actual agreements, many of the same preconditions prescribed were repeatedly prescribed in the Article IV Consultations written after the agreements and the IMF staff expressed dissatisfaction with the agreements in the Article IV reports and in personal interviews. The IMF staff expressed dissatisfaction with the efficacy of lenient agreements, particularly when many of its prescribed preconditions and conditions were ignored for political considerations.

In the 1993 Extended Fund Facility and 1996 Stand-by Arrangement many of the preconditions prescribed in the Article IV Consultations were included in the actual agreements and the IMF staff expressed satisfaction

Table 2 Conditions included and implemented in the agreements

Conditions	1987 Agreement	1991 Agreement	1993 Agreement	1996 Agreement
Exchange rate unification	N	Y√		
Devaluation	N	N	Y	
Restrict budget deficit	Y	Y	Y√	
Decrease interest rates	N	Y	Y√	
Increase energy prices	N	N	Y	Y ⋆
Decrease government subsidies	N	Y√	Y√	
Tax reform	Y	Y√	Y√	Y√
Privatization		Y	Y	Y√
Investment reforms		Y	Y	Y√
Banking liberalization			Y√	Y√
Trade liberalization	Y	N	Y√	Y√
Rent de-control			Y ⋆	
Labour deregulation			Y√	Y√
Capital market liberalization			Y√	
Agreement type:	*Lenient*	*Lenient*	*Strict*	*Strict*

Key: N = Conditions referred to in the pre- and post-IMF staff Article IV Consultations but not included in the agreement despite staff recommendations.
Y = Conditions referred to in the pre- and post-IMF staff Article IV Consultations and included in the agreement.
√ = Implemented condition at end of the agreement.
⋆ = Implemented condition following the end of the agreement.

with the conditions of the agreement in Article IV Consultations and in personal interviews. It is therefore suggested that the 1993 and 1996 agreements were strict. The IMF staff persevered in having the 1993 agreement end without the release of the final tranche, because the Egyptian government refused to comply with devaluation. The 1996 agreement, on the other hand, ended successfully as the Egyptian government complied with nearly all of the stipulated conditions. Political intervention in IMF negotiations of the 1993 and 1996 agreements was not observed, and these agreements were found to be strict.

Throughout the course of negotiating the 1987 agreement, the United States helped the Egyptian government attain a lenient agreement because it feared that political instability would ensue in Egypt. The Egyptian government feared repetition of the 1977 riots, resulting from rapid implementation of suggested IMF reforms. The United States was also concerned with the political stability of the Egyptian regime, as expressed in a 1985 US GAO report:

> However, although State [Department] officials agree with the need for structural changes in the [Egyptian] economy in the long term, they believe that pushing too hard for these changes may raise political tensions . . . and could adversely affect other important aspects of our bilateral relationship. (US GAO, 1985: 10)

To prevent undermining the Egyptian regime, the US Embassy in Egypt under the directive of the State Department took on a direct role in IMF–Egyptian negotiations. According to cables sent between the US Embassy in Cairo and the State Department, acquired through the Freedom of Information Act, the United States was actively overseeing IMF–Egyptian negotiations and involved in designing key conditions. Moreover, according to personal interviews with US Embassy officials, the US State Department and US Executive Director at the IMF were involved in making sure that Egypt received a lenient agreement for fear of ensuing political instability.

The Egyptian government, with American support, wanted to pursue a gradual reform programme with which the IMF staff did not agree. In the 1986 Article IV Consultation the staff wrote, to this issue, that:

> The staff is mindful of the political and social implications resulting from implementing the bold package of economic reforms suggested above. However, the precariousness of the balance of payments and the need to create jobs for the rapidly growing labor force and for Egyptian workers returning home makes the introduction of new policies a matter of urgency. Delay in the adoption of key reforms will neither reduce the magnitude of the problem nor ease the political difficulties that are discouraging the implementation of a vigorous program. (IMF, 1986: 28)

In sum, the IMF staff argued that gradual reforms were insufficient and 'would have to give way' to 'vigorous' policies that were deemed necessary for the Egyptian economy (Ibid: 16).

According to personal interviews with Executive Directors, the US Executive Director and the Executive Director representing Egypt convinced the Board that a lenient IMF–Egyptian agreement was important to preserving the fragile regime and that this should supercede IMF staff recommendations. As one Executive Director, reminiscent of the 1977 Egyptian riots, stated during the Board meeting on Egypt's 1987 agreement:

> It would not be prudent, for Egypt but also for the Fund, to test the limits of social tolerance, particularly since the reaction of the Egyptian public to certain adjustment measures in the past is still well remembered. (Unpublished speech presented 15 May 1987)

The staff was also aware of this as it reported in the *1988 Article IV Consultation* that:

> The Egyptian representatives expressed the view that the adjustment envisaged in the staff scenario was too rapid, and its impact would jeopardize economic growth and social stability. The pace of reform had to be geared to likely public reaction, and public tolerance had now been stretched to the danger point. (IMF, 1988a: 21)

Nevertheless, the staff did not agree that a lenient programme was the best course of action. In fact, the 1987 agreement did not receive the implicit support of the Policy Development and Review Department (PDR) responsible for verifying the soundness of IMF programmes. This was marked by the highly publicized resignation of the head of the PDR, David Finch, who protested political intervention into Egypt's agreement. In his farewell speech to the Executive Board, Mr. Finch commented that:

> The role of the [PDR] Department has been particularly conscience [sic], as a colloquialism almost, in the sense that it is to ensure uniformity of treatment or to encourage uniformity of treatment and responsibility of action, particularly in the use of resources. It had been increasingly evident that Governments were moving towards more political actions. The particular cases of course that come to mind are well known. Egypt and Zaire, at the time were quite clearly political elements entering into the role of the Fund, and they are ones that in a sense we felt/I felt in particular that needed to be featured and resisted. (Unpublished speech presented 18 March 1987)

According to numerous interviews with IMF staff, staff members agreed with Finch's remarks and felt that the Egyptian agreement was lenient. Egypt had such favourable treatment because, as the staff stated in the *1987 Standby Arrangement*, Egypt had a 'strategic geographical location'

(IMF, 1987a: 37). The IMF staff revealed in interviews that Egypt always reminded Executive Directors, especially of the United States, that upholding its economy ensured peace in the Middle East. Egypt convinced the United States that the geopolitical importance of Egypt's economy outweighed the need for tough IMF conditionality.

Throughout negotiations of the 1991 agreement, the United States again intervened to support a lenient agreement. According to US Embassy communiques with the State Department, acquired through the Freedom of Information Act, the Egyptian government had asked the US government for help. The Embassy reported that

> The Egyptians . . . want us to urge the IMF to bend to their estimate of the possible and conclude an agreement rapidly. Both as a signal to the IMF and because they are desperately strapped for cash to meet debt and food purchase payments . . . (US Embassy, 1990a: 2)

The Embassy also warned that

> Egypt has remained calm in the aftermath of these price increase but very tense; similar increase of lesser magnitudes produced rioting and the Army's intervention in 1977. The mood today is angry but resigned. (1990a: 2)

In response, the State Department told its Embassy in Cairo to assure President Mubarek that 'we remain committed to helping you reach an agreement with the IMF and are in touch with them' (US Embassy, 1990a: 4).

The onset of the Persian Gulf crisis in August 1990 further heightened US concerns about the stability of the Egyptian regime. The US government recognized 'if Egypt and the IMF continue their exchanges on the same basis they conducted them in the past, there will be no Stand-by agreement, no debt rescheduling and therefore great peril to Egypt at this critical moment in the region's affairs' (1990b: 2). Moreover, Egypt knew that the United States and other states understood Egypt's important role in legitimizing military action in the Persian Gulf. The Egyptian government wanted the US government and the IMF to reward it for its commitment to US actions, by accepting a lenient agreement. This was clearly expressed to the US government. The US Embassy in Cairo reported that

> The Egyptians observed that the Gulf crisis has focussed attention on Egypt's stabilizing influence in the region. The time is right, therefore, for a meeting of the G5 or G7 nations to commit in advance the resources needed to meet the finance gap. [The Egyptian government representative] stated he would prefer the US lead such a meeting. According to [the Egyptian government representative], IMF Managing Director Camdessus told them in their last meeting that he could not agree to a Stand-by based on the Egyptian economic reform

> plan until the creditor nations would agree to meet the finance gap. The Egyptians believe that a pledge in advance will allow the IMF a face-saving means of reducing its demands. This would, said [the Egyptian government representative] settle three quarters of the differences between the Egyptians and the Fund. (US Embassy, 1990b: 4–5)

The US government assured the Egyptian government that it would arrange a meeting of its creditors and of IMF and World Bank Executive Directors. The Embassy commented that

> It is in our [US] interest to see the IMF and the Egyptians come to terms quickly and conclude a Stand-by which will set reform performance benchmarks and open the door to debt rescheduling. Egypt faces a real economic mess without IMF and IBRD agreements. The Gulf crisis imposes huge financial costs; the massive return of Egyptians from Kuwait and Iraq add social and political burdens . . . there is simply no way this government will chop LE5 billion from its budget or surge energy prices in the weeks ahead to secure an IMF agreement . . . therefore, we need to find another way. (US Embassy, 1990b: 4–5).

In March 1991, the US Embassy in Cairo expressed its concern over the Fund's reluctance to accept Egypt's Letter of Intent. The US Embassy reported to Washington that 'although short of ideal, this new proposal represents a considerable effort on the GOE's [Government of Egypt] part to come to grips with the problem. Embassy recommends that the IMF be encouraged to respond positively and send a team to Cairo to finalize a Letter of Intent' (US Embassy, 1991: 2). Soon after, Egypt's weak Letter of Intent was accepted at the Executive Board even though it did not incorporate many of the preconditions that the IMF staff had been adamant about in previous years. Moreover, the IMF released all installments of funds despite the fact that the Egyptian government failed to implement almost all of the conditions attached to the agreement. The United States intervened again in the negotiations of IMF conditions because it wanted to reward Egypt for its participation in the Persian Gulf War coalition, to ensure the Egyptian regime's stability during a volatile time, and to fulfill a $28 billion Paris Club's debt forgiveness stipulation that an IMF agreement be in place.[16]

The United States did not intervene in the 1993 and 1996 IMF–Egyptian agreements' terms and conditions because of relative regime stability due to regional calm. Regional calm during negotiations of the 1993 and 1996 IMF agreements was created with the dual containment of Iran and Iraq, the pacification of the Soviet Union, the 1993 Palestinian Liberation Organization (PLO) and Israeli Declaration of Principles, and the 1994 Jordanian and

Israeli peace agreement. The 1993 and 1996 agreements were negotiated apolitically between the IMF staff and the Egyptian government as there was no evidence of slippages between the staff reports and the agreements and correspondingly no evidence of Executive Board intervention.

DECISION-MAKING PROCEDURES AND THE ROLE OF IMF STAFF AND THE EXECUTIVE BOARD

Based on numerous interviews with IMF staff, staff members expressed resentment toward the Executive Board for interfering in their negotiations with Egypt and with other countries. The staff argued that many countries had important allies in the Executive Board which helped them receive favouritism. Executive Directors kept themselves abreast of negotiations in countries they deemed to be of strategic importance. According to one Executive Director and several staff members, it was common for Executive Directors with an interest in a specific country to go downstairs to staff offices and ask to be briefed on the status of negotiations with the country in question. In some cases, Executive Directors pressured the staff to pursue certain conditions and abandon other conditions. As Bob Russell, former advisor to the IMF's ETR department stated in his letter to the Editor of the Wall Street Journal,

> [T]ruth be told, staff views don't matter very much. What you seem to have difficulty accepting is that the country representatives on the IMF board – where the United States and other hard currency countries wield the most votes – call the tune. They, not anonymous staff, decide which tax policy and exchange-rate recommendations are preferable. (Russell, 1999: 89)

Staff resentment of Executive Board interference in negotiations was evident. Not surprisingly, moreover, some countries' Executive Directors such as the United States would be listened to more frequently. The United States requested and received more staff briefings, formally and informally, than other Executive Directors.

The Executive Directors were given advance copies of the staff's Article IV Consultations and debtor states' Letter of Intent. The front page of all Article IV Consultation reports which were circulated to the Executive Board included the names and contacts of staff members to call upon and discuss the contents of the document. The front page also noted an Executive Board meeting date to discuss the document, unless an Executive Director objected. In the case of several staff Article IV Consultations on Egypt, the initial meeting dates were delayed for months. These delays corresponded with negative staff assessments of Egypt. One can infer that interested Executive Directors delayed meetings on Egypt when the staff wrote negative assessments. Political pressure and interference with staff then ensued, in order to try and have the staff change their prescribed conditions.

When the United States dominated the Executive Board meetings on Egypt, the IMF staff tended to still be critical of any lenient IMF agreement.[17] One could suggest that the staff, therefore, continued to have intellectual dominance and a critical role *vis-a-vis* the Executive Board. As former Executive Director Ian Clark stated:

> Board members take pride in bringing high quality and independent analysis to the table. At the same time, the Board can achieve little without the cooperation of the management and staff, who, in addition to possessing detailed knowledge, possess the mandate for conducting surveillance reviews and program negotiations with member countries. (1996: 26)

The staff, in absence of political interference, persevered in dominating the intellectual debate on conditions. The fact that Executive Directors had to delay board meetings on Egypt suggested that the staff were not easily influenced. Political pressure and intervention were not easily done. Instead of changing the staff's recommendation, the Executive Board accepted weak Letters of Intent and therefore weak agreements. This was the way that the Executive Board ensured leniency. Having said that, an Executive Director revealed that sometimes Executive Directors made certain that select staff members and not others were assigned to the country concerned. In the case of Egypt, the US Executive Director and the Egyptian Executive Director attempted to have a particular staff member assigned to Egypt because they believed this individual to be more favourable than others in the same department. Nevertheless, Executive Directors did not intervene without significant effort at politicization.

As for the IMF's claim that Executive Board decision-making was based on consensus, Executive Directors understood the unequal distribution of power in the Board and that Board decisions reflected this. According to one Executive Director, it was understood that the United States had the most powerful presence in the Board. As a result, the Managing Director often regurgitated the United States' position in his statements. Executive Directors were not treated as equals within the institution. As stated, the US Executive Director received documents and established meetings with staff members quicker than other Directors. The United States wielded a lot of power in the Fund, as David Sanger noted in a study of South Korea:

> South Korea slipped within days of running out of hard currency to pay its debts in December, it sent a secret envoy, Kim Kihwan, to work out a rescue package. 'I didn't bother going to the IMF,' Mr. Kim recalled recently. 'I called Mr. Summers's office at the Treasury

from my home in Seoul, flew to Washington and went directly there. I knew this would get done.' (1999: 23)

The result of this was an IMF agreement signed with South Korea in 1998, where US political intervention in negotiations prevailed.[18] The IMF's Deputy Director, Stanley Fisher, was reportedly upset with the United States' political intervention in South Korea's negotiations saying that, 'to make a negotiation effective, it has to be clear who has the authority to do the negotiating' (quoted from Sanger, 1999: 23). Nevertheless, as suspected, the United States did not intervene in every agreement that came to the Executive Board. The United States intervened when it was concerned about a strategically important country and when its strategic objectives were at risk, as was the case of Egypt during negotiations of the 1987 and 1991 agreements.

According to several Executive Directors, the United States was always concerned about the terms of conditions attached to Egypt's agreements.[19] The US Executive Director was the strongest advocate for Egypt. The Executive Directors interviewed, in addition to the many staff interviewed, confirmed that the United States intervened in both negotiations of the 1987 and 1991 agreements to ensure that Egypt received lenient agreements. Those interviewed cited the resignation of David Finch (former head of PDR) as an important and unprecedented event that resulted from political intervention in Egypt's 1987 agreement.

According to several interviews, European Executive Directors were often frustrated with US intervention in Egypt's negotiations. The European Directors wanted the staff's prescribed conditions carried through and were frustrated at continued intervention by the American government. Several European states lent Egypt large sums of money and were a part of the Paris Club restructuring program for Egypt. According to a US representative at the Paris Club, the European states resisted forgiving part of Egypt's debt. European states later compromised and agreed to the American debt forgiveness proposal in exchange for the IMF staff monitoring and ensuring Egypt's economic liberalization. It would be of no surprise that the European Directors, under the guidance of their capitals, resented further American involvement in the Executive Board after such generous terms at the Paris Club.[20] The United States helped Egypt overstep G-7 members at the Board.

Despite their differences, the IMF staff members and Executive Board tried to demonstrate solidarity within the organization. This attempt to portray 'a "single corporate line" in negotiations with countries requires a somewhat hierarchical managerial structure and highly developed internal procedures to encourage questioning and debate at an early stage but to act with Cabinet-like solidarity after decisions are made' (Clark, 1996: 25). Dissension within the ranks of the Fund was not acceptable, putting the burden on the staff to accept the Executive Board's suit after a decision had been taken. As former Managing Director Camdessus stated: 'the intellectual discipline will be maintained while I am here – we deal with crises and we cannot have our troops [the staff] rethinking strategy on the field of battle' (quoted in Clark, 1996: 25). The staff were pressured by the Executive Board prior to and after negotiations, despite their differences of opinion on loan conditions.

Executive Directors also tried to demonstrate solidarity within the Board but were often forced to take their respective country's position. The Executive Directors are supposed to be autonomous from the countries they represent. After all the Executive Directors are paid by the Fund, and are housed in Washington far from their native countries. However, as one former Executive Director confirmed, the Executive Directors often read their official statements in the meetings sent from their country's capitals. The Directors perceived themselves to be similar to ambassadors and definitely did not feel autonomous to decide the economic merits of any programme.

CONCLUSION

While there is no clear algorithm for IMF decision-making, based on IMF written statutes, the IMF argues that its decision-making is apolitical, and based on its staff's recommendations. The IMF claims that external factors, such as the distribution of power in the international system, is perhaps symbolically reflected in IMF quotas, but does not affect the final outcome of decisions. This is based on the belief that the IMF staff, who are technocratic and not politically motivated, determine the conditions attached to loan agreements.

In order to understand the IMF, both the internal decision-making structure and the geopolitical environment in which it operates are needed to explain negotiations on the terms and conditions it applies to its assistance. It would be naive to argue that the United States contributes significant amounts to the Fund's liquidity without the expectation of having its voice heard on key strategic allies at all levels of the Fund's decision-making process. Although it has been argued by several studies that the United States wields considerable power within the Executive Board, this study also adds that the United States intervenes in the design of loan conditionality.

In 1987 and 1991, Egypt demonstrated to the US government that tough IMF conditions would undermine Egypt's political stability in an already volatile region and therefore the United States intervened to ensure two lenient agreements by usurping staff recommendations. Lenient agreements that did not reflect the Article IV Consultations prepared by the IMF staff prevailed because of US pressure on the Executive Board. So, it can be learned that the staff did not succumb to US pressure by changing the post-agreement Article IV Consultations. On the contrary, the United States was able to push lenient agreements through without the implicit support of the IMF staff. Decision–making in the Fund did not follow the principle of consensus building, but rather reaffirmed that US power in the Fund is enforced at all levels within the process of determining conditionality.

APPENDIX I

Selected 1979 Guidelines on IMF Conditionality

Guideline 1: Members should be encouraged to adopt corrective measures... Article IV consultations are among the occasions on which the Fund would be able to discuss with members adjustment programs, including corrective measures, that would enable the Fund to approve a stand-by arrangement

Guideline 5: Appropriate consultation clauses will be incorporated in all stand-by arrangements...

Guideline 6: Phasing and performance clauses... will be included in all other stand-by arrangements but these clauses will be applicable only to purchases beyond the first credit tranche.

Guideline 7: The Managing Director will recommend that the Executive Board approve a member's request for the use of the Fund's general resources in the credit tranches when it is his judgement the program is consistent with the Fund's provisions and policies and that it will be carried out... A member may be expected to adopt some corrective measures before a stand-by arrangement is approved by the fund, but only if necessary to enable the member to adopt and carry out a program consistent with the Fund's provisions and policies.

Guideline 9: The number and content of performance criteria may vary because of the diversity of problems and institutional arrangement of members. Performance criteria will be limited to those that are necessary to evaluate implementation of the program with a view to ensuring the achievement of its objectives. Performance criteria will normally be confined to (i) macroeconomic variables, and (ii) those necessary to implement specific provisions of the articles or policies adopted under them. Performance criteria may relate to other variables only in exceptional cases when they are essential for the effectiveness of the member's program because of their macroeconomic impact.

Guideline 10: In programs extending beyond one year... provision will be made for a review in order to reach the necessary understandings with the member for the remaining period.

Guideline 11: The staff will prepare an analysis and assessment of the performance under programs supported by the use of the Fund's general resources in the credit tranches in connection with Article IV consultations and as appropriate in connection with further requests for use of the Fund's resources.

Source: IMF, 1998b: 125–7.

NOTES

1 The Author acknowledges the assistance of the IMF Archives. The IMF claims that arrangements with members are not international agreements *per se*, because the member voluntarily requests funds and the arrangements are not contractual in nature. The term 'agreement', however, is used throughout the article to include both Stand-by Arrangements (SBA) and Extended Fund Facility (EFF) arrangements.

2 Politicization, defined here, is argued to occur when ostensibly technocratic and scientific–based institutions use non-technocratic criteria in their decision–making. Similarly, politicization as defined by David Kay is: '[T]he reaching of decisions on matters within an agency's or program's functional competence through a process that is essentially political and that does not reflect technical and scientific factors in the decision process; and ... the taking of specific actions on issues within an agency's or program's competence for the sole purpose of expressing a partisan [or self-interested] political position rather than attempting to reach an objective determination of the issues,' (1980:7). Also, slippages are deviations between 'what ought to be' and 'what is'. In terms of policy–making, slippage implies the difference between an ideal outcome, as described by the institution's mandate, and the actual sub–optimal outcome.

3 This study relied on examining one country, and of course this potentially questions the notion of replication. The methodology used – content analysis of internal IMF documents and interviews – is replicable. However, the generalizations of the findings are undoubtedly limited by the single country examined. It is doubtful that Egypt was the first and only case where the United States intervened to support lenient IMF agreements. Other debtor states should be examined to further the generalizations suggested. Having said that, the study finds that in two of the four agreements politicization was not observed and, therefore, politicization is not argued to be the norm.

4 Technically, however, the IMF has 'never formally adopted a method for determining members' initial quotas and subsequent quota increases because it believes that quantitative measures cannot fully reflect the considerations that appropriately bear on each member's position or on the total size of the Fund's resources,' (US GAO, 1999:7). Correspondingly, some have suggested that the allocation of IMF quotas are in as much a result of political bargaining as of economic criteria (See Rapkin and Strand, 1997).

5 The SDR is 'an artificial currency unit defined as a basket of national currencies. The SDR is used as an international reserve asset, to supplement members' existing reserve assets (official holdings of gold, foreign exchange, and reserve positions in the IMF). The SDR is the IMF's unit of account: IMF voting shares and loans are all denominated in SDRs. The SDR serves as the unit of account for a number of other international organizations, including the WB [World Bank].' (IMF, 2001). On June 12, 2000 the SDR exchange rate value was SDR1 = US $1.33 or US$1 = SDR 0.75.

6 All figures of members' votes and percent of fund total votes were calculated on September 16, 2002 (IMF, 2002).

7 There are some exceptions to the 'simple majority vote', particularly for politically sensitive issues, such as measures to increase the number of Executive Directors which requires 85% of votes and effectively gives the United States a veto (See Gold, 1977).

8 In the event that conditions are not being met, the IMF staff can either advise on new measures to bring reforms back into line with the Fund's policy objectives, or grant waivers on certain conditions.

9 Typically, conditions have included trade liberalization, privatization, reduction in government subsidies, unification of exchange rates, lowering of interest rates, reducing inflation and lowering government spending. The number of performance criteria has increased throughout the past 20 years, as more microeconomic and structural conditions have been included on the grounds that these affect macroeconomic outcomes. The increasing number of both microeconomic and structural conditions have placed a greater strain on state policy-makers who have to balance vested interests affected by structural adjustment.

10 These standard models were inspired by Jacques Polak, Director of Research in the 1950s (See Polak, 1997). The Polak models are used to test performance criteria (See Nowzad, 1981; David, 1985; Dell, 1983; Taylor, 1987).

11 Referred to as 'special majorities' (see Gold, 1977: 8). Some of the decisions that require 85% of Fund votes include: adjustment of quotas; allocation of SDRs; increase/decrease in the number of Executive Directors; and many other decisions (See Gold, 1977: 57–61).

12 See Rapkin and Strand (1987) for a description of the model used. Leech (2000) found similar findings but argues that this trend has declined significantly throughout the history of the Fund.

13 Thacker (1999) uses a quantitative pooled logit model to test the hypothesis on eighty-seven debtor–states.

14 This point is similar to Putnam's (1988) 'two–level game' argument which suggests that in international negotiations it sometimes serves to advance a state's bargaining position if it plays that its domestic politics constricts its ability to compromise.

15 It should be noted that Storm Thacker suggests that '[t]he structure of the Fund leaves more room for political factors to enter into the process of loan approval than into the formation of the terms of the loans themselves,'(1999:50). Thacker's argument is followed by recognizing that the lack of Executive Board documentation poses methodological difficulties in assessing the terms of IMF agreements (Ibid.).

16 Furthermore, In October 1990, the United States had forgiven Egypt of its outstanding military debt, valued at $6.998 billion. President Bush remarked that this debt reduction was because of Egypt's 'unique contribution in galvanizing international support against Iraqi aggression,'(Bush, 1990:np). According to the National Advisory Council (NAC), debt forgiveness was 'essential to the national security interests of the United States and to enhance the chances for peace and stability in the Middle East.' (NAC,1991).

17 Although the case of Egypt demonstrates that the IMF staff did not write Article IV Consultations that would satisfy the Executive Board, it could be argued that the suggested methodology may underestimate politicization in other cases where the staff do succumb to Executive Board pressures.

18 According to David Sanger (1999: II 23), the US Treasury sent David Lipton, one of the Treasury's senior officials, to negotiate with the South Koreans and monitor the IMF staff.

19 For example, it was common for IMF staff to visit the US Embassy in Egypt, to update officials on the status of negotiations (as revealed in numerous interviews with Embassy officials and an Executive Board member).

20 The Paris Club on May 25th 1991 agreed to reduce Egypt's outstanding debt by 50% over three years. The Paris Club initially agreed to execute the 50% debt-cancellation in three stages: an immediate reduction of 15% on July 1st 1991; a 15% reduction on December 31, 1992 (near the end of the IMF's Stand-by Arrangement); and, a 20% cancellation of outstanding debts on July 1, 1994. This would be accompanied by a rescheduling of $10 billion through generous terms over 25 years. All Paris Club debt reductions were conditional upon having an IMF arrangement in place.

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