

Title: IMF Rhetoric on Reducing Poverty and Inequality

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Abstract:

By the turn of the century, the International Monetary Fund (IMF) had proclaimed that one of the purposes of its lending activities was to help low-income debtors achieve 'poverty reduction'. It took nearly twenty years for the IMF to come to terms with the linkages between its programs and poverty and inequality. After denying the existence of a problem, to relinquishing responsibility for poverty and inequality to borrowing governments, Fund Management had come to acknowledge its role in ensuring that borrowers promote growth, reduce poverty, and address inequality: coined by Michel Camdessus as 'high quality growth'. Borrowers were then asked to 'own' their policies and promote good governance to achieve these ends, but this often ended up in more government lip-service than substantive ownership. As an organization staffed mainly with macroeconomists, moreover, IMF staff were ill-trained to implement these policy goals and the Fund organizational culture resisted attempts to operationalize these objectives. Despite top down directives, Fund staff operated as 'business as usual'. IMF rhetoric, topped perhaps with good intentions from Management to combat poverty and reduce inequality, grew while cynicism of the IMF mounts against the organization. As the Fund today considers a number of reform proposals, this paper concludes with an assessment of some of these proposals and their potential to help the IMF meet the needs of its poorest members.

Introduction

Since the IMF started lending exclusively to developing countries in the late 1970s, the question of what role does the IMF play in exacerbating poverty and inequality in these countries has continued to surface in academic and policy debates. The IMF, an international organization initially designed to promote global monetary cooperation among the industrialized countries, has been often accused of being ill-suited to meet the needs of developing countries. The Fund, for most of its intellectual history, has proclaimed that its role and expertise in facilitating programs that promote economic growth had made it well suited to advising developing countries and that economic growth would eventually help in reducing poverty and inequality. Throughout the debt crisis and periods of structural adjustment policies, academic and IMF debate waxed and waned over the question of whether Fund programs helped or hindered economic growth and often the early empirical results rested in the Fund's favour.¹

The IMF staff had for many years argued that measuring the effect of its programs on social dimensions was objectively difficult to accomplish considering the lack of data and the high number of counterfactual arguments that could be made. When a new Managing Director, Michel Camdessus, took the helm in 1987; however, the IMF had a norm champion within the organization who wanted to seriously think about the ways in which the IMF needed to take responsibility for its role in developing countries' social and economic development.² Camdessus introduced the idea of 'high quality growth' whereby the Fund would maintain its objective of designing programs that promoted overall economic growth, but these programs would be mindful of and steer away from potentially negative social and distributional effects.

As the IMF was commemorating its 50 year anniversary, in 1994, pressure from the non-governmental organizations started to mount on the continued plight of low-income countries that had unsustainable debt burdens and its affect on the world's poor. The IMF tried to justify its preferred creditor status and advance the notion that low-income debtors had a temporary liquidity problem that could be solved through their financing arrangement and that low-income debtors were not actually insolvent.³ After significant internal IMF debate on how much and how wide to apply multilateral debt relief to poor countries- with progressive forces in the UK, Canada, and the United States against conservative positions in France, Germany and Japan- the

¹ James Vreeland. 2003. *The IMF and Economic Development*. Cambridge: Cambridge University Press, p.3.

² World Bank President James Wolfensohn took the helm on 1 June 1995, and in trying to find his own *raison d'être* Wolfensohn started with progressive stances on issues related to poverty and inequality as well. See Mallaby, S., 2004, *The World's Banker: A Story of Failed States, Financial Crises and the Wealth and Poverty of Nations*, New York, Penguin, p.105-114.

³ Huw Evans. 'Debt Relief for the Poorest Countries: Why did it take so long?' *Development Policy Review*. Vol17 (1999), 267-279.

IMF initiated the Heavily Indebted Poor Countries (HIPC) initiative in 1996 that would give phased in debt relief to select countries.⁴ The HIPC process required all low-income debtor countries that wanted to receive debt relief to borrow from the Poverty Reduction and Growth Facility fund (formerly the Enhanced Structural Adjustment Fund) and to comply with the Poverty Reduction Strategy Paper (PRSP). The PRSPs required low-income countries to ‘take ownership’ of their own policies by consulting with stakeholders and crafting their own programs.

Financial crises of the late 1990s, however, put serious doubts in the minds of not just academics and civil society actors, but now policymakers in the industrialized countries who questioned whether Fund policies now also hurt economic growth.⁵ In addition to mounting external criticism of the ‘Washington Consensus’ the IMF was often criticized for its callousness toward the poor, particularly in Africa, by being out of touch with the local needs of its clients.⁶ The basis of the Fund’s argument for why it was well suited to advise developing countries was now a shaky one.

Although Fund Management did come to recognize the importance of reducing poverty and inequality and made this a top-down communication directive, two realities contradicted Management’s rhetoric. First, country ownership soon became a facade governments were willing to fake to get through the Fund’s internal bureaucratic process. Second, the Fund staff resisted attempts to internalize these changes and continued to operate as ‘business as usual’: designing programs that would meet the objectives of macroeconomic stability.

The result of this ratcheted up rhetoric about reducing poverty and enhancing country ownership with the policy reality being that little had changed in the working of the Fund was a further loss of Fund legitimacy and reputation. The Fund’s failure to deliver on poverty reduction, however, has been incorrectly interpreted as an example of IMF callousness to help the poor. Looking at this from an organizational perspective, the IMF staff are macroeconomists that do not have the skill-set, and simply do not know, how to reduce poverty. To no surprise then, the Fund’s organizational culture resists attempts to incorporate poverty reduction in its work objectives by reframing the issue into measurable macroeconomic variables and objectives. Despite attempts by Management and, at times, the Executive Board to have Fund staff internalize poverty reduction in its programmes, the Fund’s technocratic organizational culture regurgitates this

⁴ See Bessma Momani. 2008. “Internal or External Norm Champions: The IMF and Debt Relief” Paper presented to the ISA Annual Conference ‘On Owning Development Workshop’, San Francisco, 25 March.

⁵ James Vreeland. 2003. *The IMF and Economic Development*. Cambridge: Cambridge University Press, p.3.

⁶ Evans, P. and Finnemore, M. (2001) *Organizational Reform and the Expansion of the South’s Voice at the Fund*. G24 Discussion Paper Series, No.15 (December).

directive into the same-old IMF lending arrangements that emphasize macroeconomic stability and growth—at times, at the expense of societal factors.

Although, academics still point out that the Fund has not necessarily achieved ‘high quality growth’ and that Fund programs can indeed hurt labour and the poor,⁷ the purpose of this paper is to trace the Fund’s organizational discourse and resistance to coming to terms with its role in reducing poverty and inequality and to suggest how the Fund can be reformed to better meet the needs of its poorest clients.

Management Comes to Terms with Addressing Poverty and Inequality

IMF thinking on poverty and inequality, particularly among Management, has evolved over the past twenty years. With mounting criticism over the IMF’s structural adjustment policies and its central role in managing the debt crisis, the IMF started to discuss the issue of poverty and inequality in the early to mid 1980s. Fund staff, however, tended to avoid using the terms ‘poverty’ and ‘inequality’ as social factors; instead, economic growth and income distribution were discussed in macroeconomic terms. How would the IMF come to terms with its role in addressing poverty and inequality?

A number of countries that undertook IMF programs throughout the 1970s had, by the IMF historian’s own account, “violent and deadly protests” that the IMF could not ignore despite arguing that these were not due to IMF programs per se.⁸ The 1977 ‘bread riots’ in Egypt, for example, was high on the minds and memory of IMF Management and the Executive Board.⁹ On the one hand, the IMF believed that these protests were often guided by politicized urban middle class and not the rural, or “really poor” according to an IMF staff study, who did not benefit the same from government subsidies.¹⁰ On the other hand, the IMF felt it could no longer ignore the public connection being made between IMF programs, poverty and inequality. Moreover, some of this external criticism came from across the street, at the World Bank, which made IMF staff and Management adamant about answering whether there was indeed some connection.

IMF Managing Director Johannes Witteveen directed his staff that “It seems important for us to follow these [World Bank] studies closely. The IBRD seems to be on a risky and debateable course that could easily lead to some conflict with Fund policies. I wonder whether we should

⁷ James Vreeland. 2003. *The IMF and Economic Development*. Cambridge: Cambridge University Press, p.3.

⁸ See James Boughton. 2001. *Silent Revolution: The International Monetary Fund 1979-1989*. Washington, DC: IMF, p. 689.

⁹ According to James Boughton. 2001. *Silent Revolution: The International Monetary Fund 1979-1989*. Washington, DC: IMF, p. 689. See Bessma Momani. 2005. *IMF-Egyptian Debt Negotiations*. Cairo: American University of Cairo Press.

¹⁰ Mohsin Khan and Malcom Knight. 1986. “Do Fund-supported adjustment programs retard growth?” *Finance and Development* Washington DC: IMF. (March). P.32.

not do some research of our own in this field,”.¹¹ In response to the Managing Director’s request, two IMF economists undertook a study of four countries with Fund programs and argued that “measures taken as part of stabilization programs inevitably have repercussions on the distribution of income”, but that effects on poverty and inequality were more dependent on the particulars and characteristics of borrowers’ economies than on the Fund programs.¹² Although this study “...grew to be considered by academics as the Fund’s response...” to the question of a connection between Fund programs, poverty and inequality, the external criticism from academia and the World Bank continued to mount.¹³

At the bequest of the IMF Executive Board, in 1986, the IMF staff again produced a series of working papers to answer some of the external criticism raised against the Fund’s ideology and prescriptive for developing countries. The principal staff study maintained that there was no simple empirical way to test the suggested linkages, but more importantly that Fund programs were implemented by borrowing countries who choose the policy mixes that can negatively affect particular social groups. Since the IMF must respect a country’s political independence, “...the Fund position on distributional issues remains that distributional policies are entirely a sovereign issue.”¹⁴ Several of these studies were further published in a March 1986 issue of the Fund’s *Finance and Development* journal to disseminate their findings to a wider community. IMF Fiscal Affairs Department economist Charles Sisson would again hit home the point: “...distributional issues have always been an inherent, if unspecified, element in [IMF] programs. However....the Fund has generally maintained that distributional issues are primarily an internal political concern.”¹⁵ Moreover, Sisson suggested that one could not determine the effect of Fund programmes on borrowing countries without a cross-comparative analysis of borrowing and non-borrowing states.

IMF staff would argue that it would not be a surprise to find that Fund borrowers might have increased inequality and poverty, but this was because these countries were already undergoing difficult economic times before IMF financing. Keeping this in mind, Sisson argued that it would be difficult to assess the impact of IMF programs on poverty and inequality because economic models are not available to do this accurately, comparable countries are not always available, and

¹¹ Quoted in James Boughton. 2001. *Silent Revolution: The International Monetary Fund 1979-1989*. Washington, DC: IMF, p. 696, fn 13.

¹² Omotunde Johnson and Joanne Salop. 1980. “Distributional Aspects of Stabilization Programs in Developing Countries,” *Staff Papers*. 27 March. Washington, DC: IMF. P. 2.

¹³ Quoted in James Boughton. 2001. *Silent Revolution: The International Monetary Fund 1979-1989*. Washington, DC: IMF, p. 696, fn 13.

¹⁴ IMF. Fiscal Affairs Department. “Fund –supported programs, fiscal policy, and income distribution as study by the Fiscal Affairs Department of the International Monetary Fund. Occasional Papers, No. 46. Washington, DC: IMF. P.4.

¹⁵ Charles Sisson. 1986. “Fund-supported programs and income distribution in LDCs” *Finance and Development* (March). Washington DC: IMF. P. 36.

data is often lacking in many developing countries.¹⁶ In the same March 1986 issue of *Finance and Development*, the IMFs Khan and Knight added that Fund programs spur economic growth in the medium term and criticism of Fund programs is simply short-sighted.¹⁷ In his article, Sisson concluded that the “...the debate over some Fund-supported adjustment programs may be more a reaction to the required adjustment, organized affected groups, than an indictment of the type of adjustments measures implemented under Fund-supported programs.”¹⁸ In other words, the debate over the Fund’s involvement in exacerbating poverty and inequality had more to do with an IMF public relations problem and using the IMF as a scapegoat than with the fundamentals of IMF advice.¹⁹

A new IMF Managing Director took over the helm in 1987 and ushered in a new understanding of poverty and inequality that moved the IMF one step closer to acknowledging responsibility in these issues. In a 1990 speech before the United national Economic and Social Council, Michel Camdessus stated: “We are striving to improve the design of our programs to ensure a better blend of adjustment, growth, and equity and, in particular, to ensure that the plight of the poor is properly recognized”.²⁰ This goal would be, in Camdessus words, “high quality growth”.²¹ One year later, Camdessus requested all IMF department heads to consider the effect of IMF programs on the poor in all Fund lending programs.²² Here the IMF would begin to learn more about measuring the effects of its programs on the poor from the World Bank. Through joint IMF-World Bank cooperation on the Policy Framework Papers (renamed the Poverty Reduction Strategy Papers in 2000), the IMF staff would be involved in assessing the effect of lending programs on the poor, in designing social safety nets to protect them, and “...drawing on the [World Bank’s] extensive experience in this area”.²³ Fund staff would also begin to “build a data base to construct brief profiles of the poverty situation for any of the member countries” and

¹⁶ Charles Sisson. 1986. “Fund-supported programs and income distribution in LDCs” *Finance and Development* (March). Washington DC: IMF. P. 33-36.

¹⁷ Mohsin Khan and Malcom Knight. 1986. “Do Fund-supported adjustment programs retard growth?” *Finance and Development* Washington DC: IMF. (March). P.32.

¹⁸ Charles Sisson. 1986. “Fund-supported programs and income distribution in LDCs” *Finance and Development* (March). Washington DC: IMF. P. 33.

¹⁹ Another IMF staff study was done in 1988 to measure the effect of fund-supported programs on poverty in seven cases. Heller et al. came to similar conclusions: poverty and inequality were determined by the ‘policy mixes’ used by program countries and not by Fund conditionality per se. See Peter Heller et al. 1988. *The Implications of Fund-Supported Adjustment Programs for Poverty: Experiences in Selected Countries*. IMF Occasional paper No.58. Washington, DC: IMF.

²⁰ Michel Camdessus. 1990. “Aiming for High Quality Growth” *Finance and Development*. Washington, DC: IMF. (September), p. 11.

²¹ Michel Camdessus. 1990. “Aiming for High Quality Growth” *Finance and Development*. Washington, DC: IMF. (September), p. 11.

²² See James Boughton. 2001. *Silent Revolution: The International Monetary Fund 1979-1989*. Washington, DC: IMF, p. 698, fn.144.

²³ Sanjeev Gupta and Karim Nashashibi. 1990. “Poverty Concerns in Fund-Supported Programs” *Finance and Development*. Washington, DC: IMF. (September), p. 13.

“quantify the impact of policies on the poorest groups”.²⁴ This was an attempt by Management to shift IMF staff thinking, where less than five years earlier IMF staff had suggested the near impossibility of measuring and verifying the poor and IMF program impact. Under Camdessus reign, Fund Management initiated a top-down effort to have the Fund come to better terms with the concern that IMF programs might be negatively affecting the poor.²⁵

Throughout the 1990s, the IMF maintained that for countries to alleviate poverty and inequality, countries needed to increase domestic economic growth. IMF staff had also argued that Kuznet’s theory- where economic growth is believed to exacerbate income distribution disparity in the initial stages of economic development- was no longer supported by empirical evidence. World Bank staff had found that although growth reduced absolute poverty, growth was not necessarily distribution-neutral.²⁶ Subsequently, Fund research suggested that economic growth could help alleviate poverty when combined with effective social policy that targeted lower-income groups.²⁷ Following an IMF conference in 1995 on income distribution and sustainable development, the IMF formulated its new thinking on the interrelationship between poverty, growth and inequality:

*“(1) policies that promote equity can enhance growth prospects... (2) economic growth may not necessarily lead to a strong reduction in poverty, particularly in the short run, unless supported by appropriate policies and institutions that incorporate the poor in the growth process; and (3) the provision of social safety nets may be conducive to long-term growth, given that the protection of vulnerable groups from the potentially adverse effects of economic reform may help garner political support for economic reforms.”*²⁸

By the late 1990s, the IMF recognized that fiscal policies prescribed in its programs were not just macroeconomic tools, but also had implications on income distribution and economic growth.²⁹

²⁴ Sanjeev Gupta and Karim Nashashibi. 1990. “Poverty Concerns in Fund-Supported Programs” Finance and Development. Washington, DC: IMF. (September), p. 14.

²⁵ Based on interview with a Canadian Executive Director on 24 January 2008 in Ottawa, Canada.

²⁶ Bruno, Michael, Ravallion, Martin and Squire, Lyn, "Equity and Growth in Developing Countries: Old and New Perspectives on the Policy Issues" (November 30, 1999). World Bank Policy Research Working Paper No. 1563. Available at SSRN: <http://ssrn.com/abstract=604912>

²⁷ Vito Tanzi. 1997. “The Changing Role of Fiscal Policy in Fund Policy Advice” Paper presented to the World Bank/IMF Annual Meetings, Hong Kong. 19 September. <http://www.imf.org/external/np/apd/asia/TANZI.HTM>

²⁸ Vito Tanzi. 1997. “The Changing Role of Fiscal Policy in Fund Policy Advice” Paper presented to the World Bank/IMF Annual Meetings, Hong Kong. 19 September. <http://www.imf.org/external/np/apd/asia/TANZI.HTM>; emphasis is in the original.

²⁹ Explicitly stated by Sanjeev Gupta et al. 1998. The IMF and the Poor. Pamphlet Series, No. 52. Washington, DC: IMF.

The Fund also maintained its previous assumption that borrowing countries were still free to choose appropriate policy mixes to meet its program objectives. The question would be how to make borrowers promote the kinds of policy mixes that the Fund believed would meet the objective of economic growth while not exacerbating distribution gaps and harming the poor. Particularly because the IMF still maintained that its core ideology and prescription of macroeconomic adjustment was sound and that failures were often at the implementation stage when borrowing countries chose inappropriate policy mixes.

In response, the IMF and the World Bank would require low-income countries (that include 78 of the poorest IMF member states) to commit to Poverty Reduction Strategy Papers (PRSPs), described by Fund staff members as “the centerpiece of the international community's new assault on poverty”.³⁰ Since 1999, low-income members borrowing funds from the IMF have been required to craft PRSPs that build broad domestic coalition to ‘own’ the policy mixes that explicitly achieve “a comprehensive country-based strategy for poverty reduction.”³¹

Organizational and Cultural Challenges to IMF Change in Policy

Since 1999, the IMF’s approach to reducing poverty and inequality has been through the Poverty Reduction Strategy Papers, a set of documents that lay out government plans for meeting debt restructuring and poverty alleviation. Borrowing states would be “in the driver’s seat of their own development” and “own” their policy mixes through domestic political dialogue with civil society, parliamentarians, and the wider public.³² The IMF also recognized that this “...requires a shift in the [Fund] organizational cultures and attitude...”.³³ This paper suggests that as macroeconomists, the IMF has had a difficult time in providing the expertise required to adequately monitor the kinds of changes needed. In a 1998 address to a US university on the issue of poverty, social justice and debt relief, then Managing Director Camdessus had noted, “...we recognize a need to continue to deepen our attention to social policies in partnership with the authorities and with other official agencies and the NGOs. *But we are mainly economists, particularly attentive to macroeconomic realities.*”³⁴. The IMF Management, and at timest the

³⁰ Brian Ames, Gita Bhatt, and Mark Plant. 2002. “Taking Stock of Poverty Reduction Efforts” Finance and Development (June) Volume 39, Number 2 <http://www.imf.org/external/pubs/ft/fandd/2002/06/ames.htm>

³¹ IMF. 2008. Factsheet- Poverty Reduction Strategy Papers. <http://www.imf.org/external/np/exr/facts/prsp.htm>. PRSPs were initiated in 1999.

³² IMF. External Relations Department. 2001. What is the International Monetary Fund? Washington, DC: IMF. P.47.

³³ IMF. External Relations Department. 2001. What is the International Monetary Fund? Washington, DC: IMF. P.48.

Executive Board, would soon realize that there was a problem with having IMF staff that was almost exclusively comprised of macroeconomists.

A new Managing Director, Horst Kohler, took office in May 2000 and took stock of the growing criticism surrounding the IMF. On the one hand, there was growing external criticism from prominent economists, US Congress, and powerful emerging market economies for IMF failures in predicting and handling financial crises at the turn of the century and for the expanding purview of IMF staff conditionality called ‘mission creep’. On the other hand, borrowing countries cried foul for intrusive IMF conditionality that transcended the traditional areas of IMF expertise, monitoring and advising on exchange rate cooperation. Kohler came to the IMF with a fresh perspective on changing the Fund from within and directed a number of studies to see what could be done to address the concerns over mission creep and intrusive Fund advice.³⁵ The internal staff findings raised more questions than answers and put into doubt the ability of the IMF staff to manage Fund programs that ensured timely payback of IMF funds while encouraging so-called country ownership. Moreover, the IMF studies argued that the IMF staff did not have the skill-set or ‘toolkit’ to measure or determine country ownership and that reaching political consensus on reforms was almost impossible to achieve and measure in many countries.³⁶

The Independent Evaluation Office, an independent arm of the IMF mandated to give objective assessment of Fund policies and activities, conducted an evaluation of the Fund’s role in the Poverty Reduction Strategy Papers in 2004. While the report noted that it was premature to judge whether the PRSPs helped in reducing poverty, they did point out some concerns with the breadth of country ownership among debtors using PRSPs.³⁷ Similarly, academic studies of the PRSPs noted the ‘challenge of institutionalizing participation’ where governments control participation of civil society, rural poor are ignored, governments remain suspicious about the motives of civil society, and elected parliamentarians remain omitted from the PRSP process.³⁸ Civil society groups echoed similar concerns. The Bretton Woods Project argued that ownership

³⁴ Michel Camdessus. 1998. “Addressing Concerns for the Poor and Social Justice in Debt Relief and Adjustment Programs” Address to a Conference on the Ethical Dimensions of International Debt Seton Hall University, South Orange, New Jersey, 22 October.
<http://www.imf.org/external/np/speeches/1998/102298.HTM>

³⁵ See Momani, Bessma. 2005. Limitations of Streamlining Fund Conditionality: IMF Organizational Culture *Journal of International Relations and Development* Vol 8, Issue 2. (June), pp.142-163.

³⁶ Policy Development and Review Department (PDR). 2001. *Streamlining Structural Conditionality: Review of Initial Experience*, Washington, DC: International Monetary Fund, 10 July.

³⁷ Independent Evaluation Office. 2004. *Evaluation of the IMF’s Role in Poverty Reduction Strategy papers and the Poverty Reduction and Growth Facility*. Washington, DC: International Monetary Fund. P.7.

³⁸ Fantu Cheru. 2006. “Building and supporting PRSPs in Africa: What has worked well so far? What needs changing? *Third World Quarterly*, 27, 2: p.355-376.

was not being achieved, but rather that countries agreed to Fund conditions for ‘tactical reasons’.³⁹ Eurodad argued that many government authorities in borrowing countries do not have the capacity to implement prescribed policies which are imposed rather than owned.⁴⁰ Finally, Oxfam argued that many sectors of society were ignored in the so-called country consultation process that is meant to lead to ownership.⁴¹ As one IMF staff member noted in a personal interview, the PRSP process was “a joke” where debtors asked Fund staff to help them write in the ‘ways to own their policies’.⁴² Country officials were motivated to engage in the PRSP process to fulfill the requirements for debt relief and did not internalize the process in a normative way.⁴³

The IEO 2004 report also noted that there was a lack of clarity within the IMF on its actual role in this new process. The IEO noted that the IMF staff did not see the PRSPs “...as implying fundamental changes in the way the IMF would contribute to a broad-based policy debate on the macroeconomic aspects of countries strategies.”⁴⁴ In fact, based on an IEO survey of Fund staff, only 20% had believed that the PRSPs changed policy discussion with country officials.⁴⁵ Part of the challenge was that Fund staff were still expected to achieve macroeconomic results when the agreements expired in 2 to 3 years and consequently the Fund prescriptive remained virtually unchanged.⁴⁶ In an IEO survey in 2007, all of the IMF mission chiefs (who lead negotiations on terms of conditions of IMF loan programs with country officials) surveyed had believed that PRGF programs did influence government policies on macroeconomic stability, the majority agreed that PRGFs did influence government policies on growth, but only 45% viewed PRGFs as instruments to reduce poverty and only 20% believed the PRGF to be instruments to meet the

³⁹ Wood, Angela, and Matthew Lockwood, 1999, “The ‘Perestroika of Aid’? New Perspectives on Conditionality,” Bretton Woods Project (Washington, DC), available at www.brettonwoodsproject.org/topic/governance/poa2.pdf

⁴⁰ Eurodad, 2006, “World Bank and IMF Conditionality: A Development Injustice,” Eurodad Report (June).

⁴¹ Oxfam International, 2004, “From ‘Donorship to Ownership?’ Moving Towards PRSP Round Two,” Oxfam Briefing Paper 51 (January).

⁴² Based on an interview with a former staff member and advisor to the Executive Board on March 3 2004.

⁴³ Independent Evaluation Office. 2004. *Evaluation of the IMF’s Role in Poverty Reduction Strategy papers and the Poverty Reduction and Growth Facility*. Washington, DC: International Monetary Fund. P.24.

⁴⁴ Independent Evaluation Office. 2004. *Evaluation of the IMF’s Role in Poverty Reduction Strategy papers and the Poverty Reduction and Growth Facility*. Washington, DC: International Monetary Fund. P.7.

⁴⁵ Independent Evaluation Office. 2004. *Evaluation of the IMF’s Role in Poverty Reduction Strategy papers and the Poverty Reduction and Growth Facility*. Washington, DC: International Monetary Fund. P.63.

⁴⁶ See Momani, Bessma. 2005. Limitations of Streamlining Fund Conditionality: IMF Organizational Culture *Journal of International Relations and Development* Vol 8, Issue 2. (June), pp.142-163.

United Nations Millennium Development Goals (MDGs) that focus on targeted goals to uplift the world's poor (See Figure 1).⁴⁷

The IMF staff were put in awkward positions to talk and act like a development institution, borrowing much of the language and lingo used in the World Bank, while at the same time holding to its motto of “It’s Mainly Fiscal”. As Graham Bird aptly noted, “On its website, the IMF clearly states that it is ‘a monetary not a development institution’....It is difficult to imagine more important development issues than poverty and growth. This implies something of a split institutional personality and a potential- and one suspect’s actual- cause of internal ambiguity and tension”.⁴⁸ Herein was an internal organizational challenge for the IMF: the technocratic impulse of the organization to prescribe fiscal conservative policies and the top-down, external pressure to factor in social policies in the design of its programmes. This incongruity led to increased IMF rhetoric on combating poverty and inequality while the IMF modus operandi had remained unchanged.

The IEO’s recent report on the IMF relationship with Sub-Saharan Africa highlighted this grave disconnect between rhetoric and reality. The 2007 IEO report noted,

“When the PRGF was introduced, it was meant to be more than a name change. It set out a new way of working, grounded in the PRS process, with programs based on specific country-owned measures geared to poverty reduction and growth, and an ambitious vision of the IMF’s role on the analysis and mobilization of aid, working in close partnership with the Bank. But in the face of a weakening consensus in the Board and a staff professional culture strongly focused on macroeconomic stability—and, most important, changes in senior management and a resulting lack of focused institutional leadership and follow-through—the IMF gravitated back to business as usual”.⁴⁹

The disconnect between IMF rhetoric and reality was fuelled, according to the IEO report, by then Managing Director Michel Camdessus’ emphasis on ‘high quality growth’ where he made poverty reduction and economic growth conceptually inseparable.⁵⁰ While the IMF communication policy, particularly in the External Relations Department, needed to fall in line

⁴⁷ Independent Evaluation Office. 2007. *The IMF and Aid to Sub-Saharan Africa*. Washington, DC: International Monetary Fund. P.28,30. <http://www.ieso-imf.org/eval/complete/pdf/03122007/report.pdf>. The first of the eight MDG goals include eradicating poverty and hunger.

⁴⁸ Graham Bird. 2004. “Growth Poverty and the IMF” *Journal of International Development*. 16, p.621.

⁴⁹ Independent Evaluation Office. 2007. *The IMF and Aid to Sub-Saharan Africa*. Washington, DC: International Monetary Fund. P.1. <http://www.ieso-imf.org/eval/complete/pdf/03122007/report.pdf>

⁵⁰ Independent Evaluation Office. 2007. *The IMF and Aid to Sub-Saharan Africa*. Washington, DC: International Monetary Fund. P.33. <http://www.ieso-imf.org/eval/complete/pdf/03122007/report.pdf>

with the Managing Director's new message, the same would not hold true among the IMF staff. Fund staff were not internalizing Management directives and as noted above, Fund staff operated under 'business as usual'. The consequence of this lack of staff internalization of the 'high quality growth' message was, in the words of the IEO: "...reinforced cynicism about, and distrust of Fund activities in SSA [Sub-Saharan Africa] and other low-income countries".⁵¹ How can the Fund be reformed to better meet the needs of poor countries?

Reforming the IMF for its Poorest Members

There is no panacea for the IMF's woes in dealing with the endless amount of criticism levelled against it today. Yet, there is a near cottage industry devoted to IMF reform proposals around the Washington beltway. This section tries to assess whether some of these proposals will help meet the needs of the IMF's poorest members.

By far, one of the more popular proposals is to move the low-income countries out of the IMF's jurisdiction and into the World Bank. As the IMF was being questioned about its comparative advantage in light of calls that the IMF was increasingly irrelevant, academics and analysts had become more vocal in pointing to a more appropriate institutional forum for dealing with the development of the world's poor countries: the World Bank. Pundits have argued that the IMF should move away from lending and focus on its core areas of expertise: providing bilateral and multilateral surveillance.⁵² Simply put, the PRGF should be moved from the IMF to the World Bank.⁵³ As discussed above, the IMF has heavily leaned on the World Bank for know-how on measuring and assessing poverty and inequality. The World Bank clearly has the comparative advantage to offer the services and staff skills needed by many poor countries that access the PRGF. Shifting responsibility for the PRGF from the Fund to the Bank has received some support from officials in the US Treasury Department.⁵⁴ But is it practical to expect the Fund to relinquish its lending to low-income countries to the World Bank? I would argue that this is highly unlikely due to a number of factors.

First, IMF officials will point out that the low-income countries of today may become the emerging market economies of tomorrow; it would be short-sighted for the IMF to give up its

⁵¹ Independent Evaluation Office. 2007. *The IMF and Aid to Sub-Saharan Africa*. Washington, DC: International Monetary Fund. P.33. <http://www.ieso-imf.org/eval/complete/pdf/03122007/report.pdf>

⁵² Truman, Edwin. 2006. *A Strategy for IMF Reform*. Washington, DC: Institute for International Economics.

⁵³ Birdsall, Nancy and John Williamson. *Delivering on Debt Relief: From IMF Gold to a New Aid Architecture*. Washington, DC: Center for Global Development and Institute for International Economics, 2002.

⁵⁴ Adams, Timothy. 2006. Statement by the Under Secretary for International Affairs in Advance of Meetings of the G7, IMF, and World Bank, April 19. Washington, DC: Department of the Treasury. Available at Web site: <http://www.treasury.gov/press/releases/js4193.htm>.

institutional involvement in low-income countries.⁵⁵ Second, the IMF argues that it has a unique staff skill set that is still able to offer policy advice on means to improve governance, increase revenue, and control spending.⁵⁶ Finally, moving the PRGF to be held exclusively at the World Bank will be rejected by the Fund for self-interested reasons. It appears that in the short term, at least, the IMF will have few if any clients seeking funding beyond the low-income countries. Emerging market economies are no longer interested in borrowing from the Fund and are creating regional alternatives to it.⁵⁷ There are calls to augment the Fund's role in its traditional areas of expertise, exchange rates and surveillance, but these do not generate income for the organization and one cannot underestimate the bureaucratic motivation to continue to serve the low-income countries.

Other reform proposals that have taken some form include electing a Managing Director from the developing world and increasing the relative quota shares of low-income countries. Former Fund Executive Directors that have represented poor country constituencies have argued that their low voting share in the organization has been to the detriment of the members that they represent. They have argued that if their voting rights were enhanced, then they would be able to more forcefully reject the Fund staff prescriptive that has at times harmed their constituents. Similarly, Executive Directors offices that represent poor countries are often understaffed and under-skilled, with so many constituents to represent, that poor countries have weak voices at the Executive Board and are less capable of resisting Fund staff pressures to liberalize.⁵⁸ These proposals are morally persuasive, but it is not clear how these changes to Fund governance will materialize into substantive changes in Fund policies and behaviour toward poor countries.

As I have argued elsewhere, perhaps the IMF should think about reforming the Fund staff to encourage substantive policy changes; in particular, promoting political-economy training that is sensitive to the needs of Fund borrowers.⁵⁹ As discussed in the previous section, the IMF's technocratic organizational culture is focussed on meeting macroeconomic stability goals that is

⁵⁵ See James Boughton, *Finance, Development, and the IMF*, James Boughton and Domenico Lombardi (Eds). Forthcoming.

⁵⁶ Boughton, James. 2005. "Does the World Need a Universal Financial Institution?" *World Economics* 6 (2): 27–46

⁵⁷ Helleiner, Eric and Momani, Bessma (2008). *Slipping into Obscurity: Crisis and Institutional Reform at the IMF*. In Alan Alexadroff (Ed.), *Can the World Be Governed?* Waterloo: WLU Press/CIGI.

⁵⁸ See Cyrus Rustomjee. (2004) "Why Developing Countries Need a Stronger Voice" *Finance and Development* September 41, 3; Cyrus Rustomjee. (2005) "Improving Southern Voice on the IMF Board: Quo Vadis Shareholders," in *Enhancing Accountability in the International Monetary Fund*. Barry Carin and Angela Wood (Eds). Aldershot: Ashgate; Ariel Buiria (2003) "The Governance of the International Monetary Fund," Washington, DC: Group of 24 <http://www.g24.org/imfgover.pdf>; Abbas Mirakhor and Iqbal Zaidi. 2006. *Rethinking the Governance of the International Monetary Fund*. IMF Working Paper. Washington DC: IMF.

⁵⁹ Momani, Bessma. (2007) "IMF Staff: Missing Link in Fund Reform Proposals" *Review of International Organizations*. 2:39–57.

at times at the expense of political-economy ones. This has had devastating political consequences for many of the IMF's poorest clients. Fund staff have often tried to wish away the political realities of the poorest countries, particularly in Africa, but a lack of understanding of their political needs has resulted in unintended political consequences that have harmed many poor countries' polities.⁶⁰ There is no substitute for local political knowledge in furthering economic reforms in many poor countries.⁶¹ The problem, however, is that IMF staff are trained as macroeconomists with little to no training in political-economy. Moreover, while it could be argued that political-economy sensitivity is a skill gained on the job through participating in numerous missions. It has also been shown that often the poorest countries and regions (most notably in Africa) get the most inexperienced of IMF staff.⁶² Moreover, there is an internal organizational preference to work in mainly non-borrowing departments (such as the Western Hemisphere and European Departments).⁶³

Michel Camdessus once noted an often cited analogy: "Blaming the IMF for the pain of adjustment is a bit like blaming a doctor because all the people he visits seem to be sick!".⁶⁴ Well, it is one thing to say poor countries do not want to take their medicine because it tastes bad or it is politically inconvenient- as many have implied. It is completely another thing to say that the medicine is vomited because it cannot sit in the stomach of the body politic. One is not doubting the IMF's economic and theoretical logic (or to take the medical analogy further- the scientific composition of the medicine), nor the country's determination and 'ownership' to improve (the patient's desire to get better), but rather there is serious doubt about the ability to implement the policy advice (ability to digest the medicine and not have the body reject it). Fund staff could better serve the needs of its poor members with greater political-economy sensitivity in the design of its loans. Governance reforms, which have dominated IMF reform debates today, without functional reforms would do little to serve the needs of the IMF's poorest clients.

⁶⁰ Ngaire Woods (2006). *The Globalizers: the IMF, the World Bank and Their Borrowers*. Ithaca: Cornell University Press, Ch. 6.

⁶¹ Evans, P. and Finnemore, M. (2001) *Organizational Reform and the Expansion of the South's Voice at the Fund*. G24 Discussion Paper Series, No.15 (December).

⁶² Ngaire Woods (2006). *The Globalizers: the IMF, the World Bank and Their Borrowers*. Ithaca: Cornell University Press, p.157.

⁶³ Based on personal interviews with former senior Fund officials conducted in Washington, DC on May 3 and 5, 2006.

⁶⁴ Michel Camdessus. 2000. *The IMF and Human Development: A Dialogue with Civil Society*. Washington, DC: IMF, p.10.

Conclusion

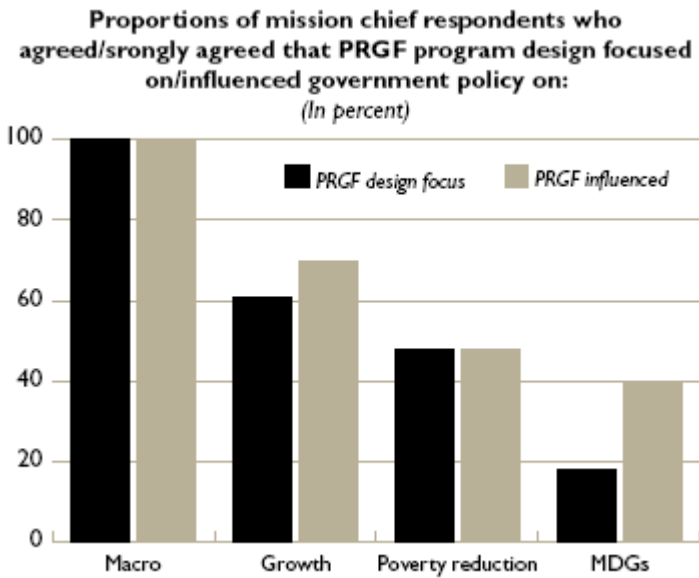
The IMF has been blamed for many of the economic, political, and social ills of its poorest members. Over the years, the IMF has taken greater interest in addressing these criticisms, particularly as there has been growing pressure from civil society and industrialized country taxpayers to force the Fund to become more transparent and accountable for its activities and policies.⁶⁵ IMF Management has also shown sensitivity to this external criticism. Michel Camdessus, and Kohler to a lesser extent, had taken personal interest in understanding the connections between IMF programs and poverty and inequality. While IMF staff suggested varying responses to whether IMF programs could hurt the poor, there remained an underlying organizational agreement that IMF members were ultimately responsible for the policy mixes they chose.

The IMF in many ways devolved its liability to borrowing governments and the PRSPs would, it was believed by the Fund, ensure that borrowing states through wide consultations with domestic stakeholders would come to ‘own’ their policies and thereby improve their economies. This became ‘a joke’, in the words of a Fund staff member, because country officials could not own the painful policies asked of them and unofficially asked Fund staff to help them devise their PRSPs. IMF staff did not have the political-economy toolkit to monitor and assess this as well and reverted measuring progress of the PRGF programs on the basis of macroeconomics stability. The Fund staff would operate as ‘business as usual’.

At the heart of the problem, however, is the lack of organizational know-how and expertise in dealing with the needs of many poor countries. In particular, the IMF is unskilled at providing politically sensitive reform policies that do not have the unintended consequences of harming borrowing countries’ polities. It has been suggested that the IMF consider letting go of the PRGF to the World Bank, but this appears to be politically difficult to implement in a time when the Fund’s only remaining clients are the low-income countries. The Fund needs substantive changes to the way things are done and this requires bottom up reform of the organization’s staffing resources to achieve. Without seriously challenging the IMF’s organizational dynamics, as the PRSPs have shown, things remain ‘business as usual’ and the rhetoric-reality gap continues to widen.

⁶⁵See Cotarelli, Carlo. (2005) *Efficiency and Legitimacy: Trade-Offs in IMF Governance*. Working Paper 05/107. June. Washington, DC: IMF. <http://www.imf.org/external/pubs/ft/wp/2005/wp05107.pdf>

Figure 1: Survey Views on Relevance of PRGFs



Source: Independent Evaluation Office. 2007. *The IMF and Aid to Sub-Saharan Africa*. Washington, DC: International Monetary Fund. P.28. <http://www.ieso-imf.org/eval/complete/pdf/03122007/report.pdf>