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# Limits on streamlining Fund conditionality: the International Monetary Fund's organizational culture

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The International Monetary Fund (IMF) recently started addressing its 'runaway agency' image by instituting top-down directives to streamline, or limit the scope and breadth of, conditionality. Under the leadership of a new Managing Director in 2000, the IMF attempted to change its guidelines on conditionality to address members' concerns that Fund staff had encroached on members' economic sovereignty. After some internally proposed steps to change conditionality, the new guidelines that were ideally designed to allow flexibility in designing conditionality — explicitly for member-states and implicitly for Fund staff — resembled the existing means of formulating conditionality. The reason for the continued *status quo* is that the Fund's organizational culture, qualified as technocratic, resisted policy changes and instead invited a continued mission creep. Based on published internal Fund studies and personal interviews with Fund staff, this article suggests that internal efforts to change conditionality have had a minimal effect on changing the *status quo* due to the Fund's entrenched organizational culture.
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## Introduction

Since 1952, the International Monetary Fund (IMF) has required borrowing members to adopt economic reforms known as conditionality. According to the IMF's *Articles of Agreement* members are entitled to financial assistance, but they must comply with conditions designed by the IMF staff (IMF 1992). The Fund argues that conditionality ensures that members can repay their loans, referring to this insurance as 'adequate safeguards' (*ibid.*). In reality, conditionality ensures the efficient recycling of money to various states. Following the debt crisis, the IMF has increased the scope and breadth of its loan conditions. In the mid-1980s, most Fund loan arrangements included less than 10 conditions; in the late 1990s, many Fund loan arrangements included more than 30 conditions (Kapur and Webb 2000). The often cited case of Indonesia in 1999, for example, included more than 100 conditions. The Fund has also transcended from its traditional role of dictating macroeconomic policies, such as exchange rate reforms, to prescribing controversial structural and social policies, such as privatization and pension reform. This expanding scope and intrusive nature of conditionality, referred to as 'mission creep', has encroached on state policy-making and incurred the ire of borrower-states. External criticism from civil society groups, academics, borrower-states and the United States (US) Congress over the widening scope of Fund conditionality has forced the Fund to internally address changing the intrusive nature of conditionality. The IMF started to address institutionwide changes to conditionality following a change in Fund leadership.[1]

On 1 May, 2000, a new IMF Managing Director, Horst Köhler, took office. Less than one month after entering office, Köhler announced his vision for a 'more focused IMF' (Köhler 2000a). Shortly thereafter, Köhler initiated discussions with the Executive Board and staff on changing Fund policies: streamlining conditionality to enhance country ownership of Fund policies. According to a former staff member, Köhler was responding to the cries of developing countries, particularly in Latin America, that agreements were carbon-copies of one another and dictated by the Washington Consensus policies dominant in US policy-making circles and in other International Financial Institutions.[2] Köhler took a personal interest in combating the negative view of Fund conditionality. At a summer retreat with Executive Directors, the new Managing Director discussed his proposals for streamlining conditionality as a means of enhancing country ownership. The Executive Board members endorsed the new Managing Director's initiatives and agreed to have the staff study the Fund's policy options (IMF 2000: 104).

In 2002, the Fund updated its 1979 Guidelines on Conditionality to suggest a new code for how IMF conditions are to be negotiated, designed, and approved (see IMF 1998 for previous Guidelines). The essence of the new guidelines was that streamlining, or minimizing the scope and number, of conditionality would be deemed less intrusive and therefore enhance country ownership. Ideally, country ownership implies that debtors' individualize conditions of their own IMF programmes to improve the adoption and implementation of their conditions and to promote a participatory and consultative process with civil society. Behind the Fund's public relations attempt to depict conditionality as a country-led participatory process is a continuation of much the same staff–debtor discussions and decision-making procedures on conditionality. Through personal interviews with IMF staff and Executive Directors as well as an analysis of internal IMF documents acquired from the Fund archives, this article suggests that changing conditionality has been limited by the Fund's technocratic and hierarchical organizational culture. The IMF, like many organizations slow to address organizational change, has to find ways of instituting change that is amenable to its entrenched organizational culture. To better understand organizations' responses to change, this article will survey constructivist and organizational theory literature applied to international organizations.

## International Organizations as Social Contexts

Traditional International Relations theories have generally given little credit to International Organizations' (IOs') organizational ecology as a factor of change within international organizations (Kapur 2000). Realists, Liberals, Functionalists, and Marxists have failed to understand the importance of IOs' internal structure, mandate, culture, and behaviour. In the case of the IMF, an overwhelming number of studies have argued that this international organization is an agent of an external principal — with the usual suspects including the United States, Western-liberal industrialized countries, systemic capitalist interests or transnational corporations (e.g. Killick 1995; Thacker 1999; Peet 2003; Momani 2004). Stiles (1991) argued that these 'political model' proponents have emphasized industrialized countries' disproportionate voting power on the IMF Executive Board as an indication that the IMF is being manipulated for capitalist and American control. External factors then explain the internal behaviour, policies and loci of IMF change and reform (*ibid*.).

Are international organizations mere pawns of the power, interests, utility and control of member-states? Or do organizational features shape an IO's social context explaining IO behaviour, actions and policy outcomes? Traditional IR theorists would posit that change in the nature of the international political system explains change within international organizations. Consequently, international organizations are argued to rarely change because structural and systemic factors have tended to remain stable (Taylor 1987) or have a long-run cycle. For these traditional theorists international organizations are studied as 'empty shells or impersonal policy machinery to be manipulated by other actors' and as having 'no ontological independence' (Barnett and Finnemore 1999: 704). However, there is a methodological void in analyzing the IMF's internal features like culture and operating procedures and analyzing how these factors affect calls for change. This study suggests that notwithstanding the power and interests of state and non-state actors that are already well documented, we need to better understand how international organizations internally behave. The case examined here is how the IMF internally responded to both external and top-down pressures to change a key policy and to what extent the Fund's organizational ecology can help explain policy outcomes.

Constructivism offers an alternative approach to the study of international relations by examining the role of internationally held norms, beliefs and shared values. Constructivists interested in international organizations have further argued that international organizations can be both the receivers (learners) and transmitters (teachers) of these norms, beliefs and values (Finnemore 1996). Constructivist approaches to the study of international relations have refreshed theoretical interest in the role and interaction of international organizations and international politics. That said, most constructivists are still more interested in the role of normative institutions than the secondary/material institutions of international organizations (Guzzini 2003: 12). Again, this is because constructivists perceive the IO function as relatively constant and therefore undervalue its ontology (*ibid.*). As Checkel (2003) aptly notes, however, there is a real need to incorporate better research methods and empirical projects to explicate the utility of constructivist approaches. There is a methodological opportunity in understanding international organizations as social contexts, which shape behaviours and outcomes both within the organizations examined and with the external normative institutions. The 'sociological turn' in constructivist approaches is missing real empirical teeth, so to speak (*ibid.*). Without grounding constructivist approaches to tangible and real case studies, the constructivist literature may get lost in a jungle of linguistics and semantics. Using constructivist approaches to better understand international institutions *by actually examining* international organizations can help 'build bridges' and give substantive weight to interpretive constructivist approaches (Ness and Brechin 1988). To better understand the dissemination of norms and ideas it would be useful for constructivists to 'go micro' in their analysis by looking inside-out (Johnston 2001). Starting with the smallest unit of the individual, to the organization, then to the systemic level (*ibid.*; Hooghe 2004).

'Going micro' has involved social constructivists examining IOs' internal socialization, learning, culture, ideologies and norms as explanations of IO behaviour and international norms (Adler and Haas 1992; Finnemore 1996; Checkel 1999). Social constructivists apply varied methodologies in approaching the study of international organizations. Nevertheless, a common thread among social constructivists is the principle that ideas, culture, norms, socialization and other intangibles are important to such a study. Moreover, to understand international organizations we need to give them an ontological purpose.

Social constructivists recognize the importance of international system factors, such as power and state interests, used in traditional approaches to the study of international organizations. Social constructivists add, however, that we need to look at international organizations as social environments that often behave in ways that challenge or complement system-based explanations (Johnston 2001; Leiteritz 2005). Critics have often charged that social constructivists have incorrectly overestimated international organizations' autonomy and devalued system-based factors. Barnett and Finnemore (1999) qualify this, however, suggesting that the international system explains the direction of international organization change. Moreover, the more autonomous an international organization the less important are exogenous factors and the more capable international organizations are at internal change (*ibid.*; Kapur and Webb 2000). So, social constructivists are not suggesting that international organizations are closed-systems where an organization is argued to be self-contained and independent of power considerations in the international system. The point of social constructivists is that international organizations can act in ways that system-based explanations fail to consider (Barnett and Finnemore 1999). International organizations operate in an open-system where international system factors are more important to some international organizations than to others. Organizational change is possible because most organizations belong to a fluid open-system where external factors can be important variables of change. Nevertheless, international organizations are also bureaucratic entities with their own internalized sets of norms, ideologies, and cultures that need to be considered when studying their behaviour and responses to change (*ibid.*). Consequently, social constructivists' contribution to the IO literature has reinvigorated interest in the utility of organization theory for the study of international organizations.

To understand international organizations' behaviour, including organizational change, we need to borrow principles and observations from established organization theory. According to organizational theory, there are a series of exogenous and endogenous factors of international organizations that can induce organizational change. Exogenous factors that can stimulate change in international organizations include (Kapur 2000: 8–18): structural changes in the international political and economic system; crises and disasters causing shocks to ripple in international organizations; competition between and among international organizations vying for additional jurisdictional turf; changes in international norms and values; and changes in attitudes and policies in the domestic polities of key international members. Endogenous factors that can provoke change include (Bennis 2000): dissent and conflict within an organization leaving a norm vacuum; a positive leadership with a new vision that gains the trust of subordinates; powerful leaders that coopt energy-driven cabals that agree to change; and an internal paradigm shift that changes the *raison d'être* of an organization. Finnemore and Sikkink (1998) added that a key element of securing organizational change is to have 'norm entrepreneurs' spearheading change both within and outside of the organization. These norm entrepreneurs are dissatisfied with the dominant organizational culture and seek some form of change.

Similarly, there is a series of exogenous and endogenous factors of international organizations that can resist organizational change. Exogenous factors that can resist organizational change include the veto power held by states and other international organizations, the denial of financial resources to implement change by external actors, ideological and norm change resistance outside of the organization. Arguably more importantly, there are endogenous factors that resist organizational change. This is because 'the sociology of institutions is fundamentally *antichange*' (Bennis 2000: 492; emphasis added). Simply put, organizations are comprised of individual personalities and vested interests, consequently 'organizations resist change because people resist change' (Heffron 1989: 154). Organization theorists contend that individuals resist change because they fear the unknown, have selective attention to and retention of new information, prefer habit and routine, need the security of the known, and feel threatened by change (Trice and Beyer 1993: 393–428). At the group level, organizations therefore resist change because there is a lack of trust, differing perceptions and goals, social disruption with change, a limitation of resources to devote to change, and most importantly change requires a change in an embedded organizational culture (*ibid.*).

Social constructivists and organization theorists argue that one of the most important factors to consider with organizational change is culture. Change in international organizations is arguably difficult and slow because organizational culture is deeply embedded in the routinized and day-to-day structure of organizational behaviour. Organizational culture is defined as 'the shared beliefs, attitudes, and values of members that determine organizational norms of behavior' (Heffron 1989: 155). Cameron and Quinn (1999) classified four types of organizational culture: the clan-type where employers feel they have a communal, family-like setting; the *ad hoc*-type where employees are motivated by innovation and creativity, and work in a relaxed or unstructured work environment; the market-type where employees operate in a competitive, high-strung work environment; and the hierarchical-type where employees belong to rigid, structured, technocratic and rule-driven work environments. The IMF has often been characterized as the last type of organizational culture: notably technocratic (Assetto 1988; Drazen 2002; Martin 2003; Momani 2005). Similarly, as former IMF Executive Director Ian Clark (1996: 25) reflected, the IMF's '"single corporate line" in negotiations with countries requires a somewhat hierarchical managerial structure and highly developed internal procedures.' The IMF's technocratic organizational culture requires staff to play rigid roles in their hierarchically organized departments with excessive attention paid to rules and procedures and the documentation of office decisions (for an ethnographic perspective, see Harper 1998).

Existing organizational culture is transmitted and entrenched through the continuous socialization of both existing and new staff members. Effective socialization implies that individuals working in an organization support the organization's mandate (Hooghe 2004). For example, one could argue that Fund staff are effectively socialized when they believe that Fund policies are inherently right and that the organization is trying to positively help member-states. The organization's mandate is reproduced and entrenched with new recruits who are both screened and pre-socialized. This process of self-selection occurs during the recruitment process and aids in the socialization of individuals within the organization. The rate of socialization is variable and can depend on age and experience both within and outside an organization (Hooghe 2004). Needless to say, it is easier for an organization to socialize and mould younger and less policy experienced employees (*ibid.*). Consequently, young and inexperienced employees better incorporate into and support a dominant organizational culture.

The success of organizational change is best determined by how receptive an organization's culture is to a proposed change. Basically put, if proposed organizational changes conflict with the organization's underlying culture then change will be met with resistance and fail during implementation (Heffron 1989: 155). Understandably, norm entrepreneurs are more successful at implementing organizational change when the proposed changes mesh with the existing cultural expectations of an organization's staff (Finnemore and Sikkink 1998). Norm entrepreneurs who recommend radical changes will find resistance and non-compliance.

Organizational change, in the event that it occurs, involves either *adaptation* where incremental change occurs without shaking the organization's *raison d'être*, or *learning* where change is more substantive by stirring and re-evaluating the organization's underlying values (Haas 1990: 3). Both forms of organizational change are invariably slow. However, organization theorists argue that for organizational change adaptation is more likely than learning because adaptation is less challenging to the dominant culture and invariably to the dominant interests. Most organizations that change have to adapt to new procedures, rules and ways of thinking. Consequently, as traditional organization theorists have argued organizational change is most likely incremental, and at times short of ideal, but at a minimum the proposed changes are acceptable to the organization. March and Simon (1958: 140–41) developed this idea of organizations' *satisficing*:

> Most human decision-making, whether individual or organizational, is concerned with the discovery and selection of satisfactory alternatives; only in exceptional cases is it concerned with the discovery and selection of optimal alternatives [...]. To optimize requires processes several orders of

> magnitude more complex than those required to satisfice. An example is the difference between searching a haystack to find the sharpest needle in it and searching the haystack to find a needle sharp enough to sew with.

Organizational theory expects that in the process of introducing organizational change, organizations set ideal standards and goals but often end up with solutions that can effectively satisfy all vested interests in the organizations.

To put empirical teeth into an organizational study on policy change it is useful to trace the process of internal decision-making on the matter. In the case of the IMF, due to the retroactive nature of this study participant observation was not possible. Similarly, the Fund is relatively guarded and cautious with its publicized information and can often 'sugar-coat' internal statements and decisions to maintain the aura of internal cohesion (Clark 1996; Momani 2004). The best available methodology is a content-analysis of IMF staff and Executive Board documents, publicized press releases, and interviews with former IMF staff members. Tracing how the Fund processes policies and decisions throughout the organization can give us a better understanding of the IMF's responses to change. By reporting the documents exchanged between the Fund staff and the Executive Board, this study reveals details about the IMF's organizational ecology and provides explanations to how the Fund responds to top-down calls for change. The case presented demonstrates limitations to changing the organization's policy on conditionality, while the final section demonstrates how the Fund's organizational culture is most likely to blame.

## Top-down Organizational Change: Streamlining Fund Conditionality

In a September 2000 letter to IMF Department Heads, Köhler announced his vision and intention to introduce a more focused IMF. He commissioned an internal working group to consider proposals and suggestions to streamline conditionality, particularly structural conditionality which debtor-members highlighted as particularly intrusive (Köhler 2000b). At the behest of the new Managing Director, the staff and Executive Board started conversing on how to streamline conditionality and to promote the improved country ownership of policies.

Up to 2001, a series of staff papers were written by the Policy Development and Review Department (PDR) and guided by Jack Boorman (PDR 2001a, 2001b, 2001c). The principle paper, *Conditionality in Fund-supported Programs: Policy Issues*, suggested ways of streamlining conditionality. It was argued that the changed approach to conditionality could give countries better parsimony, flexibility and adaptability in choosing loan conditionality. In principle, streamlining conditionality could be achieved by refocusing the scope of Fund conditionality to core areas of staff expertise, limiting the breadth of loan conditions deemed to be intrusive, and avoiding overstepping into the mandate of other International Financial Institutions (IFIs), especially the World Bank (PDR 2001a: 25–41). The *Conditionality in Fund-supported Programs* report corroborated external research arguing that loans with many conditions, regardless of the applicability or relevance of conditions, correlated to lower programme implementation. Consequently, it was suggested that debtors should have a say in the selection of a lean number of conditions in an effort to improve programme implementation. The study also suggested limiting the scope of conditionality to the IMF staff's core areas of expertise: exchange rate policies, macroeconomic stabilization, and financial sector policies (*ibid*.: 34). This was in response to Fund staff who overstepped their areas of expertise; at times, both micro-managing loan arrangements and crossing over into the jurisdictional scope of policy advice given by other IFIs, namely the World Bank. The PDR study cautioned that both mission-creep and cross-conditionality hampered the effectiveness of Fund conditionality (Bird 2001: 29–49; PDR 2001a: 19).

In March 2001, the IMF Executive Board raised questions and concerns about the PDR's suggested approach to streamlining conditionality (IMF 2001a).[3] First, how would staff determine whether a condition was relevant as opposed to critical in achieving a programme's objective? Second, should staff prescribe conditions that were not crucial to the macroeconomic objectives of the programme? Some Directors argued that the staff should prescribe conditions outside the identified core areas of staff expertise if that would ensure a more favourable programme outcome. Other Directors objected, arguing that the staff would overstep their mandate and create unfavourable cross-conditionality with the World Bank. Third, what determined the pace and sequence of conditionality especially of structural conditions? Fourth, should lending be denied to countries incapable of country ownership? In other words, should funding only be limited to countries with a good chance of implementation and adoption of conditionality? Several Directors argued that determining, in advance, which countries were capable of country ownership would be difficult to measure and be highly subjective. As a compromise, Directors suggested that perhaps countries suspected of having weak country ownership could prove themselves by addressing a higher number of prior conditions. Sixth, should the Fund adopt results-based programmes which tied financing to key policy results as opposed to disbursing funds to specific targets monitored by the Fund staff. This scheme would mean countries received funds in the latter stages of reform after demonstrating policy changes. Finally, what effect would streamlining have on waivers, programme frequency, scope of conditions, and the role of structural benchmarks and prior actions? At the request of the Board, the staff reviewed the first 8 months of experience with streamlining conditionality. The PDR examined five countries — Latvia, Peru, Sri Lanka, Croatia and Pakistan — which had signed a Stand-by Arrangement from September 2000 to May 2001. The report demonstrated that very little had changed in the 8 months. For example, the study found that the number of structural conditions mildly decreased, performance criteria barely changed, and prior actions substantially increased. The study also showed that approximately 30% of prescribed structural conditions were outside of staff expertise, specifically, pricing and marketing 5.8%, trade 4.6%, public enterprises 3.7%, and social security 3.6% (PDR 2001d: 7). The same five countries had agreements in the mid to late 1990s for which approximately 36% of the prescribed structural conditions were from non-core areas of staff expertise (*ibid.*: 7). A 6% decrease in the number of structural conditions outside of the core areas of staff expertise is modest at best considering that the late 1990s was a peak time when staff prescribed structural conditionality. It is arguable that little had changed after so-called streamlining had been ordered by the institution's head.

The Executive Board discussed the PDR report on the five countries' experiences with streamlined conditionality. The staff responded that in some cases structural conditionality increased to regain investors' confidence and to address past weak performance and implementation. These staff excuses raised further concerns at the Board. Some Directors suggested that perhaps the Fund should entertain the idea that funding be denied to countries with poor implementation records (IMF 2001b). Again, at the request of the Board the staff prepared a report on ways of strengthening country ownership. The study boldly emphasized the importance of a debtor's political situation to achieving a genuine commitment to Fund programmes. The report acknowledged, however, that staff do not know how to assess a country's commitment to reforms. For the Fund, there is no 'proven methodology for making such assessments or an accepted means of evaluating the extent of commitment ex post' (PDR 2001e: 13). To address these institutional shortcomings on political-economy issues, the PDR report recommended further institution-wide changes (IMF 2001c). First, the staff should increase their knowledge and analysis of member-states' domestic political situations. Specifically, the Fund should strengthen the input of resident representatives who are Fund staff members permanently residing in member-countries, recruit more IMF staff with social science degrees as opposed to strictly hiring macro-economists, and extend the assignment period of staff assigned to negotiate with member-states for longer than the customary 2-year period. Second, the staff report recommended that staff partake in consensus-building on agreements with key political constituencies. Third, the report suggested improving the Fund's technical advice to allow staff to adapt assistance to members' domestic situations, thereby encouraging ownership. Fourth, enhance the Fund's image by communicating with local media groups and by coordinating dialogues and exchanges with civil society. Fifth, the PDR recommended supporting the Independent Evaluation Office's assessment of country ownership.

At the same time, the PDR report on strengthening country ownership noted the difficulties in interpreting country ownership to imply attaining a domestic consensus on reform packages. According to the report, reaching a consensus on Fund programmes or on particular aspects of conditionality was nearly impossible. Problems in reaching a consensus on reforms included:

> First, the authorities — economic and finance ministers, central bank governors — may not agree among themselves. Second, the highest political leaders might overrule the economic authorities. Third, parliamentary, regional, or other political opposition outside the government might block implementation. Fourth, interest groups and NGOs can play important roles in either creating or undermining public support for reform, especially in countries without an effective political opposition [...] it would be unrealistic to expect all affected groups in a country to benefit directly from reforms or to accept ownership of them (PDR 2001e: 5).

Despite the PDR report recommendations to enhance staff training in political-economy in an effort to better understand country ownership, the report warned that country ownership should not be equated with achieving broad political support for Fund programmes.

Before the Board finalized the modified guidelines, the PDR prepared a report clarifying the various tools of conditionality. In *Modalities of Conditionality*, the PDR evaluated outcomes-based conditionality; this concept was raised by several Directors at the 25 July, 2001 Board meeting as an alternative means of determining conditions. Outcomes-based conditionality meant using conditions to achieve specific policy outcomes tied to non-scheduled fund disbursal as opposed to using conditions to achieve incremental policy actions tied to scheduled fund disbursal. Ideally, outcomes-based conditionality would give countries flexibility to determine when and how to implement policy changes; at the same time, the Fund maintains financial disbursements as leverage (PDR 2002). The PDR, however, cautiously endorsed the concept of outcomes-based conditionality because many members have poor track records of programme implementation, fearing Fund lending may fail to disburse funds and may become 'pro-cyclical'. The staff paper also suggested that the 'toolkit of conditionality' — such as waivers, performance criteria, prior actions, and programme reviews — were necessary and should not be reorganized (*ibid.*: 7–10). The Directors endorsed the staff report, agreeing to give Fund staff the discretion to apply an outcomes-based conditionality on a case-by-case basis and to maintain the current toolkit of conditionality (IMF 2002a). Board approval of the final interim staff report on conditionality paved the way for the Board to approve the new guidelines.

The final draft of a new Guideline on Conditionality was enacted in September 2002. Among the most notable additions to the new Guidelines on Conditionality was the reference to country ownership. Specifically, the Guidelines stated that the IMF should 'be guided by the principle that the member has primary responsibility for the selection, design, and implementation of its economic and financial policies [... and] encourage members to seek to broaden and deepen the base of support for sound policies' (IMF 2002b: 1). The 2002 Guidelines also included a direct mention of structural conditionality as a corrective measure, a pledge to limit conditions to those of critical importance, a commitment to avoid cross-conditionality with World Bank conditions, a latitude for staff to decide on the appropriateness of outcomes-based conditions, and a statement suggesting that the Fund would approve agreements when it ensures a country's commitment to conditionality. The new Guidelines also included a review of conditionality every two years (*ibid.*).

One of the understated and implicit features in the new Guidelines was the increased flexibility for the IMF staff to design and tailor agreements based on what they deemed to be appropriate. Staff members could take an even heavier hand in designing conditions for countries with a record of weak past performance (IMF 2002b: 3): 'The member's past performance in implementing economic and financial policies will be taken into account as one factor affecting conditionality.' In staff-debtor negotiations, the staff could custom-tailor debtors' conditionality: 'The formulation of individual conditions will be based, in particular, upon the circumstances of the member' (*ibid.*). The staff now had explicit authority to prescribe structural conditions and polices outside of the stated core area of expertise: 'Variables and measures that are outside the Fund's core areas of responsibility may also be established as conditions but may require more detailed explanation of their critical importance' (*ibid.*: 2). Finally, although the Executive Board approves all loan arrangements, the staff would advise on debtors' probability of programme implementation and commitment: 'A member's request to use Fund resources will be approved only if the Fund is satisfied that the member's program is consistent with the Fund's provisions and policies and that it will be carried out, and in particular that the member is sufficiently committed to implement the program' (*ibid.*: 2). These new additions to the Guidelines, ironically, will give the staff even greater discretion over programme and conditionality design adding greater potential for mission creep while simultaneously claiming to have streamlined conditionality.

## The Fund's Technocratic Culture as a Limit on Streamlining Conditionality

In addition to the PDR study noted above, various preliminary external studies have already demonstrated the limited effects of streamlining on reducing the scope and breadth of conditionality. Several government and non-governmental organization studies have found that many Fund programmes with a stated commitment to country ownership and streamlining still included an excessive number of structural conditions (Action Aid 2004; Bretton Woods Project 2004: 1). In a EURODAD (2003) study on Nicaragua, Tanzania and Zambia, the number of conditions modestly decreased after streamlining while the use of structural conditions continued outside of the Fund staff's core areas of expertise. Similarly, in a US General Accounting Office (GAO) study for the US Senate Committee on Foreign Relations, Albania, Benin and Honduras' programmes with the Fund were scrutinized. The GAO study found that the three programmes included most conditions found in previously negotiated Fund programmes, demonstrating little had changed despite the IMF's policy on streamlining (US GAO 2001: 5).

In a study sponsored by the United Kingdom's Department for International Development, the Overseas Development Institute's (ODI) Tony Killick found that streamlining occurred in some countries while excessive structural conditions outside of the Fund's core areas of expertise continued in other countries (Killick 2002: 5). Based on interviews with Fund staff, Killick finds that there appears to be some staff confusion about 'critical' structural policies. Fund staff argued that ''criticality' is necessarily a matter that can only be decided case-by-case, which leaves a large amount of discretion to Mission Chiefs' (*ibid.*:7). Killick's study finds that streamlining conditionality is contingent on the reputation of the debtors. Countries that have poor performance in implementation do not get the benefit of the doubt and continue to have excessive structural conditionality prescribed; countries with modest or good performance in implementation have witnessed the streamlining of structural conditions (*ibid.*: 5). Again, Killick's study confirms that the staff will continue to have considerable leverage in determining conditionality.

Why has it been so difficult for staff to follow through on streamlining conditionality? After all, there is no evidence of protest against streamlining among external actors. On the contrary, there seemed to be external support for streamlining among powerful state members, civil society groups, and borrowing member-states. There are no clear exogenous reasons to explain why change was so minimal. The empirical case examined showed that even the Executive Board did not indicate a problem with streamlining, but often questioned methods of so doing. Similarly, the Managing Director acted as a 'norm entrepreneur' trying to herald internal change. One prominent endogenous factor to consider and the one most often highlighted by organization theorists is organizational culture. Indeed, as interviews with staff members have highlighted and as internal exchanges of documents between the staff and Executive Board have shown, the Fund's technocrats resisted calls to change how things were done at the Fund.

Little had changed after so-called streamlining, this article argues, because the Fund's organizational culture is technocratic and therefore generally tends towards maintaining the *status quo*. The internal exchanges between Fund staff and the Executive Board on how to streamline conditionality resulted in Fund staff using the opportunity to address its issues regarding conditionality with the Executive Board and further justifying its need for additional room to manoeuvre in negotiations with borrowing members. Staff would not budge on revising the toolkit used in determining conditionality, on changing recruitment practices, on refraining from prescribing structural conditionality, and on using political factors to determine the level of country ownership of agreements. Instead of streamlining conditionality, as originally directed by Fund leadership, we find that the modified Guidelines included additional wiggle room for staff to determine conditionality and therefore added the possibility of mission creep. Organizational theorists would point out that, as expected, considerable satisficing occurred between September 2000 when Köhler announced his vision to introduce a more focused IMF and September 2002 when the modified Guidelines were introduced. Similarly as organization theory would anticipate, the end product of the 2 years of internal exchanges represented the best alternative palatable to the organization. One of the main problems in streamlining conditionality is the Fund's technocratic organizational culture.

To suggest that formulating IMF policies is always a top-down process, as 'political model' proponents often assume, ignores a fundamental characteristic of Fund decision-making: a technocratic and hierarchical institution intellectually driven by the technical-oriented IMF staff (Clark 1996). Take, for example, IMF–debtor negotiations on loan conditionality. Negotiating loan conditionality is highly dependent on Fund staff's technical-oriented analysis. The negotiation and monitoring of loan agreements requires significant staff attention to technical details using mathematical formulations called the Polak model (Polak 1997). These standard mathematical models were inspired by Jacques Polak, Director of Research in the 1950s, are used to test performance criteria (David 1985). To determine these formulae requires the significant assembly of numerical-based data from a country's central bank and finance departments. Based on this collected data, staff take great care in further prescribing conditionality that is easily quantifiable and easily made into 'objective' targets. The basis of Fund conditionality are these technical performance criteria which is put forward by the staff to the Executive Board.

The Executive Board depends on the technical assessment and criteria set out by the Fund staff. The assessments and criteria used in determining these formulae were not modified under the new Guidelines. The staff-Executive Board exchanges demonstrate how the staff ignored top-down calls to revise the staff's toolkit in formulating conditionality. The staff continued to argue that its toolkit was appropriate because it was measurable and removed 'subjective' analysis. This was most evident when Executive Board members asked the staff to consider the political ownership of loan conditionality; staff resisted, citing that there was no 'proven methodology' — in other words, no easily quantifiable, measurable way to determine political ownership. Consequently, the staff reverted to its more comfortable technocratic approach to devising loan conditionality using economic data. Correspondingly, the staff justified the continued means of negotiating and monitoring loan agreements as it had in the past. Simply put, the same *modus operandi* of IMF–debtor negotiations and IMF staff monitoring continues despite the Fund's claim of streamlining conditionality.

Loan negotiations and monitoring are still highly dependent on staff's technical analysis and prescription of conditionality. Initial experience therefore shows that little has changed in the *modus operandi* of Fund–debtor negotiations. Not surprisingly, several studies confirm that the Fund continues to fail in engaging in a dialogue with civil society groups and that discussions with Finance Ministries and Central Banks remain non-transparent (Booth 2001). Dialogue with civil society continues to be limited, remaining confined to bankers, financial investors and business groups. The least frequent meetings are with trade unions and non-governmental organizations; these meetings almost always include the watchful eye of government officials (IMF 1999: 17). Streamlining has not changed how IMF–debtors negotiate and monitor conditionality because the underlying technical formulation that is used remains intact.

Former Executive Director Ariel Buira has noted that the IMF staff are generally slow to change operational procedures despite top-down measures to reform conditionality (Buira 2003). There is an internal resistance to changing procedures particularly when it goes against the Fund's dominant ideology: a conservative macroeconomic doctrine dominating the Fund staff (*ibid.*). Although streamlining conditionality would not have challenged the dominant paradigm in the institution, perhaps staff may have viewed incorporating political-economy criteria in Fund negotiations with debtor-states as a challenge to the standard way of doing things at the Fund. Again, an organizational culture that is technocratic and territorial about how things are done resists calls to change. Inversely, this technocratic culture can propel and welcome change when this supports or aids getting their job done. Consequently, Barnett and Finnemore (2004) find that the IMF staff have a tendency to make their own rules. This can be done because IMF staff have a highly regarded authority in international economic policy-making circles and use their noted expertise status to justify overstepping their mandate (*ibid.*).

The Fund staff, for example, historically argued that the expansion of conditionality was necessary to get their job done; they resorted to increased conditionality because of countries' severe economic problems they had to correct.[4] This was the case with the 1979 Guidelines which limited Fund staff's conditionality to macroeconomic policies, but were overstepped by the Fund staff prescribing structural conditionality to meet the economic thinking of the times. The 2002 Guidelines can similarly be overstepped when justified by economic circumstances of the day; streamlining can turn to mission creep when the staff argue that it is warranted by economic realities of the debtor member. The fact that the staff still have control over setting structural benchmarks for conditions, allowing waivers, endorsing programme reviews and setting prior actions, leaves a considerable amount of room for staff discretion and therefore for staff subjectivity (Babb and Buira 2004: 16). Moreover, the new Guidelines now formally include structural conditions as a legitimate staff tool, opening the door perhaps to an opportunity to resume mission creep.

Unfortunately, it has been too often criticized that the Fund staff can be myopic about their policy prescriptions. For example, in an independent Fund study interviewed state officials complained that the IMF staff 'came to [their] countries with a preconceived template of ideas, based on a theoretical or textbook model, housed in Washington, into which they fed country information' (IMF 1999: 36). Staff policy prescriptions continue to be dominated by conservative macroeconomic ideology. Fund internal thinking on macroeconomics has tended to remain the same because there is no credible alternative provided by the economics discipline (Momani 2005). To change the ideological orientation of the staff requires an internal cultural change starting with diversifying the staff recruitment process. Based on IMF recruitment data released from the IMF archives, it was found that the IMF continues to recruit predominantly young male economists (an average age of 30 years) from the Western world who generally have little if no policy experience, having just completed a PhD and graduated from a small, although widening, network of Anglo-American universities favoured by the Fund (Momani 2005). The Fund's method of recruitment, at the same time, feeds into the IMF's existing rigid corporal-like structure with an ingrained appreciation for efficiency and organizational conformity (*ibid.*).

An ideological consensus dominates within the Fund discrediting alternative views on the means of devising conditionality. Knowledge pooled in the Fund by selective recruitment and organizational socialization remains connatural (*ibid.*). Similarly, former staff members in an independent evaluation of the

Fund noted that 'knowledge transfers across departments is seen as deficient [...] this manifests itself in an inadequate cross-fertilization between multilateral and bilateral surveillance, and in insufficient use of what is learned in different countries' (IMF 1999: 13). Many critics of the Fund have complained that the IMF staff's technocratic training limits their ability to appreciate debtors' social and political circumstances and thus produces policy advice based on theoretical arguments as opposed to practical evidence.

According to a former staff member and advisor to an Executive Director, the idea of country ownership was to give countries a menu of optional policies to choose from. This idea, however, soon became 'a joke' and staff members realized that it would not work. The problem was that Fund arrangements were still expected to be implemented in two to three years. IMF staff soon realized that for debtors to complete a programme in such a short time frame required the type of policy mixes prescribed in the past. Consequently, the Fund staff could not be patient with countries attempting to achieve policy ownership because the staff mandate continued to expire in a short period of time.[5] At the same time, country officials were also confused as to what passed for country ownership. Consequently, the staff would give countries examples of what would work and pass, particularly in preparing the Poverty Reduction Strategy Papers (PRSPs). As one former staff member stated: 'in the end the staff wrote the PRSPs' to facilitate the process with Management and the Executive Board. National ownership of the PRSPs was again 'a joke'.[6] The prospects of changing how the Fund negotiates with debtors appear dubious.

In 2000, the new Fund Managing Director called for a change in the Fund's dominant technocratic culture led by macroeconomists, but this was eventually resisted. According to senior Fund staff members, some staff believed that Managing Director Köhler came to the Fund with a general disregard for macroeconomists. It was widely believed throughout the Fund staff that Köhler thought macroeconomists were not imaginative. Köhler wanted to hire more political-economy graduates who would think 'outside the box'.[7] This potentially new way of approaching staff recruitment was supported by the 2001 PDR study on strengthening country ownership. The idea of hiring political science graduates, however, was quickly resisted and abandoned with no follow-up action. This call for a change of hiring was primarily resisted by Fund staff and senior department heads. Senior Fund staff wanted to ensure the continued staff recruitment of Western-educated conservative macroeconomists from preferred universities and resisted diversifying recruits to include non-Western educated economists that better reflected Fund membership (Momani 2005). Agreeing with senior Fund staff, the Executive Board was also less than thrilled with Köhler's vision of hiring political scientists. The Board did not want to be lectured to on the political feasibility of certain policies and programmes. After all, political factors were the concern and job of the Executive Board.[8]

## Conclusion

Conditionality is a powerful Fund leverage used to achieve economic reform in member-states. In 2000, the new Managing Director Köhler came to power with the intent of streamlining conditionality and led internal change of conditionality to address staff encroachment over debtor-states' economic sovereignty. Responding to the negative image of the Fund as a runaway agency of the United States and as a myopic institution that was insensitive to developing countries, Köhler had a bold plan of changing and refocusing the IMF. In 2002, the IMF officially reformed its mandate on the form, purpose, and use of conditionality. Despite Management efforts, however, it is argued that to date very little has changed with respect to streamlining conditionality because the IMF's technocratic culture traditionally has been known to resist change and expand their mandate. Consequently, we find the new Guidelines have increased the latitude of staff to decide the terms and conditions of loans opening the door to added mission creep and the same modus operandi of IMF-debtor negotiations continues despite directives to streamline. Like many other complex organizations, changing the IMF involves more than semantics and top-down directives from Management; organizations need cultural change to truly reform their behaviour.

## Notes

1 It should be noted that in 1999, the IMF and World Bank initiated a plan designed for heavily indebted countries to promote country ownership. Under the plan, eligible debtors prepared a Poverty Reduction Strategy Paper that was to be negotiated with civil society and owned by national authorities in exchange for lower interest loans and generous payback terms. Among the notable external criticism of Fund conditionality, see Meltzer (2000) and Stiglitz (2002).

2 Based on personal interviews with a former staff member on 3 March, 2004, in Ottawa, Canada.

3 The Executive Board also decided at the meeting to publicly post the PDR studies and invited external comments. For nearly three months, the Fund received solicited comments from academics, NGOs, government officials, and individuals. A total of 44 of these comments were published on the IMF website, after some delay and exclusion of comments that did not address conditionality (IMF 2001d). The Fund also held three public meetings on conditionality and ownership in Berlin on 11–12 June, on Asia in Tokyo on 10 July, and in low-income countries in London on 23–24 July. Mainly developing country officials, academics and IMF and World Bank representatives were in attendance. No NGOs participated in the three public meetings (PDR 2001f).

4 Based on a seminar by Martha Finnemore: 'Expertise and Bureaucratic Power at the International Monetary Fund', Centre for International Studies, University of Toronto, Toronto, 23 January, 2004.

5 Based on an interview with a former staff member and advisor to the Executive Board on 3 March, 2004, in Ottawa, Canada.
6 Based on an interview with a former staff member and advisor to the Executive Board on 3 March, 2004, in Ottawa, Canada.
7 Based on two interviews with senior IMF staff members on 2 February and 3 March, 2004, in Toronto, Canada.
8 Based on two interviews with senior IMF staff members on 2 February and 3 March, 2004, in Toronto, Canada.

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