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IFI conditionality in flux

Reflections on recent changes in the approach of International
Financial Institutions

Introduction

Conditionality has often been a controversial aspect of the policies and practices of international financial and economic institutions and given rise to much debate and criticism. It is not a novel concept. Assistance from the IMF and other international financial institutions has always been conditional upon the fulfilment of terms and conditions imposed by them on the recipient nation. According to the IMF, “Conditionality in its broad sense embraces both the design of IMF-supported programs - that’s to say, the underlying macroeconomic and structural policies -and the specific tools used to monitor program implementation to ensure the achievement of the goals outlined by the country in cooperation with the IMF”¹.

This note on conditionality takes a brief look at the background to the recent reforms, examines their possible implications for member countries with particular reference to the developing world and points to the evidence of the continuing use of damaging economic conditionality and of no significant change in favour of more latitude for national authorities to manage their economies.

1 IMF Conditionality, Factsheet, April 2009.

Background

As IMF/WB conditions grew in number and stringency and became more complex and pervasive, there was intense criticism from recipient member nations, civil society including the international trade union movement and other interested parties. In essence, critics point out that conditionality allowed little leverage for member countries in the management of their economies, as the scope and the depth of the conditions had a profound impact on the key macroeconomic parameters. As a consequence, the IMF in 2000 commissioned a review of its conditionality which involved consultations with member countries and other stakeholders. The Review, while recognising the importance of conditionality in the achievement of the goals of IMF-supported programmes, emphasized the need for strong country ownership.

The new approach to conditionality reflected in the Revised Guidelines² was supposed to enable the IMF to allow more flexibility and be more sensitive and responsive to the needs of developing economies. In 2005, the IMF Executive Board reviewed the application of new Guidelines and recommended further measures for the improvement of conditionality. In 2007, the Independent Evaluation Office (IEO) of the IMF, following an assessment of structural conditionality³ recommended that further progress be made in the refining and streamlining of conditionality.

On the recommendations of the IEO, the IMF Executive Board agreed to strengthen their efforts to make conditionality more relevant and focus on the achievements of the goals of IMF-supported programmes. There is now even greater emphasis on the concepts of criticality and parsimony – already considered part of the new approach in 2002. Some international aid agencies including the Department for International Development (DFID) transposed some of the recommendations on to national policies and practices following consultations with stakeholders.

In May 2008, the IMF Executive Board agreed to a plan⁴ to implement Board-endorsed recommendations. The plan focuses on the strict application of the 2002 Guidelines while providing better justification of criticality and establishing explicit links between goals, strategies and conditions. The financial and economic crisis has given the IMF and other international financial institutions an opportunity to further refine conditionality and make it more relevant to all its member countries. The Guidelines⁵ to the IMF Staff underline the need for (a) national ownership of

2 The Revised Guidelines on Conditionality were adopted by the IMF Executive Board in September 2002. They replaced the Guidelines on Conditionality issued in 1979.

3 Evaluation of Structural Conditionality, IEO, 2007

4 Implementation Plan in Response to the Board-endorsed Recommendations arising from the IEO Evaluation of Structural Conditionality of IMF-supported Programmes, April 2008

5 Operational Guidelines to IMF Staff, July 2009

reform programs, (b) parsimony in program-related conditions; (c) tailoring of programs to a member's circumstances; (d) effective coordination with other multilateral institutions; and (e) clarity in the specification of conditions. Moreover, the Conditionality Guidelines in 2002 required that variables and measures that were critical to the achievement of goals, monitoring programme implementation be agreed with recipient countries in line with the Articles of Agreement.

In 2005, the World Bank⁶, following a review of policy and practice of its conditionality, introduced a set of Good Practice Principles⁷ (GPP), with a view to lightening the burden of the terms and conditions it used to impose on member nations. The current financial and economic crisis has made the need for reforms of conditionality imperative, as the fragile economies, especially the most vulnerable sections in society, in the developing world have to bear the brunt of the consequences of the world-wide recession

⁶ The Review was undertaken between Nov 2004 and July 2005.

⁷ They are ownership, harmonisation, customisation, criticality, transparency and predictability.

National ownership

The concept of national ownership was strongly supported by the Executive Directors who called for reliance on the country authorities' views in setting conditions. The emphasis on national ownership, though not original or innovative⁸, in the context of development assistance, is a step in the right direction and should lead to better relations between member countries and the international financial institutions. However, it is extremely difficult to assess the degree of ownership by recipient nations in IMF-supported or World Bank-supported programmes.⁹ Due to the asymmetry of the relationships, national ownership has been of little practical significance, although many donors have made commitments in this regard.¹⁰ Developing countries in dire need of financial assistance are rarely in a position to assert their position vis-à-vis international financial institutions often backed by developed nations. The integration of reform programmes into national development strategies and plans is, indeed, key to the success of such programmes. However, this presupposes the existence of a national consensus on the issues concerned, which is rarely the case in many developing countries. Moreover, not all member nations are functioning democracies and opportunities for meaningful effective consultations with trade unions and other civil society organisations may be limited or non-existent.

The primary responsibility of the design of the programme lies with the authorities of a member country which also has the duty of building support for the programme. On the face of it, this is a significant departure from past practice. It is hoped that the authorities will be encouraged to build broad support for programmes among trade unions and other civil society organisations. In this regard, the IMF staff are required to support the efforts of the authorities to engage in “a transparent participatory process” to develop a policy framework and

8 “Partner countries exercise effective leadership on their development policies and strategies and coordinate their development actions”, Paris Declaration. II, Partnership Commitments

9 “...true partnership supposes autonomy of beneficiary countries in requesting aid and in determining its objectives... Often programmes are imposed on us, and we are told it is our programme... People who have never seen cotton come to give us lessons on cotton... No one can respect the conditionalities of certain donors. They are so complicated that they themselves have difficulty getting us to understand them. This is not a partnership. This is a master relating to his student”, Amadou Toumani Touré, President of Mali, quoted by EURODAD, p.16, Critical Conditions, IMF maintains its grip on low-income governments, April 2008

10 “DFID will support nationally owned poverty reduction plans that take account of the views and concerns of poor people. We will not make our aid conditional on specific policy decisions by partner governments, or attempt to impose policy choices on them (including in sensitive economic areas such as privatisation or trade liberalisation).” Partnerships for poverty reduction: Rethinking conditionality, UK Policy Paper, DFID, March 2005

engage with various interest or political groups including parliamentary committees, business community and NGOs. There is no mention of the need to consult trade unions despite the numerous assurances¹¹ given to the international trade union movement on the willingness of the IMF to consult trade unions and other civil society organisations. In general, governments set out a series of measures that they are willing to carry out in order to achieve macroeconomic stability and promote growth in exchange for IMF assistance and claim that they “stand ready” to take additional measures, if necessary, in consultation with the Fund. Moreover, the country concerned usually undertakes to inform the IMF of any changes to be effected to economic and financial of policies¹².

There has been much discussion and debate on national ownership and its limitations in recent years and many concede that authentic ownership¹³ is hard to establish and that it is even harder to find credible evidence of ownership by the poor for whose benefit most programmes are implemented¹⁴. Although the international financial institutions and some donors¹⁵ have pledged to ensure not only the government ownership, but also ownership by the poor, there has been little progress in this regard. The Poverty and Social Impact Analyses (PSIAs) could throw valuable light on the possible impact of programmes, especially, on the most vulnerable sections in society and on the mitigating measures to be adopted and contribute to the enhancement of national ownership. Nevertheless, as many critics have pointed out, there is not much evidence to suggest that PSIAs have fulfilled the role in low-income countries. Some researchers have also stressed that the concept of conditionality itself often comes into conflict with the concept of national ownership¹⁶.

11 In November 2008, a trade union mission to the IMF and World Bank headed by the ITUC received assurances from both institutions that consultations with trade unions would be part of their engagement with civil society.

12 The Letter of Intent from the Government of Uganda, para 21, May 2009

13 Albania in January 2009 said in its Letter of Intent “We are progressing towards the privatisation of electricity Distribution Company and are committed to ensure complete recovery of tariffs for KESH.... The privatization process for public insurance company INSIG is also by now quite advanced.” It is difficult to determine the extent of country ownership /autonomy and IMF influence in these decisions.

14 “Ownership by the poor, being the ultimate objective of aid, would be a good start to address the question of ownership and conditionality.”, Antonio Tujan, Southern Voices on the conditionality and ownership, Forum on the Future of Aid

15 “We do not only equate country ownership with government ownership. We believe that civil society, including poor people, should also have a voice and stake in their development, and that governments should be accountable to them.”, p 15, Partnerships for Poverty Reduction, Rethinking conditionality, A UK Policy Paper, DFID, March 2005

16 Other Donors’ recent experiences with conditionality, AUSAID, Factsheet, May 2008

Parsimony

The IMF admits that its loans in the past had too many conditions insufficiently focused on core objectives and, in an initiative to modernise conditionality, has made changes to the terms and conditions. According to the IMF, “all conditionality¹⁷ under an IMF-supported program must be either critical to the achievement of program goals or for monitoring implementation or necessary for the implementation of specific provisions under the IMF Articles of Agreement”. In April 2009, the IMF approved an Implementation Plan for Board-endorsed Recommendation arising from the IEO Evaluation of Structural Conditionality in IMF-supported Programmes. Moreover, the implementation of structural policies in IMF-supported programmes is to be monitored in the context of programme reviews rather than the use of structural performance criteria. According to the IMF, “evidence exists of a substantive shift in the composition of structural conditionality towards Fund core areas and Fund-supported programs cover narrower areas of reform.”¹⁸ It should be recalled that IEO Recommendations focused on six interrelated issues:

- clarity in terms of numbers and focus of structural conditions with a notional cap per programme year;
- identification of goals;
- ensuring that the Fund plays a subsidiary role to that of the World Bank in setting structural conditions in areas where the latter has primary responsibility;
- development of a framework for monitoring and evaluation linking conditions to reforms;
- making program documentation explicit about the objectives being supported by the Fund; and
- intensification of outreach efforts to clarify how structural conditions are set and by whom.

It is important to point out that, although the Executive Directors agreed to the bulk of the Recommendations and on the emphasis on the design and focus of conditionality, they did not support some of the specific recommendations, notably on the number¹⁹ of structural conditions, elimination of structural benchmarks²⁰

17 IMF Conditionality, Factsheet, April 2009

18 Implementation Plan in response to Board-Endorsed Recommendations Arising from the IEO Evaluation of Structural Conditionality in IMF-Supported Programmes, April 2009

19 The majority of the Board viewed a cap as overly rigid and mechanistic which would compound the difficulty of tailoring to country-specific circumstances.

20 Some directors favoured their use as markers to assess progress on reforms.

and the need to play a subsidiary role²¹ to the World Bank in non-core areas of the Fund expertise.

The use of conditions²² by the World Bank, IMF and international financial institutions has declined considerably over the past decades. It is claimed that “in 30 countries with parallel Bank- and Fund-supported programs, aggregate conditionality (measured per program year for comparability reasons) declined by 25 percent for middle-income countries and by 14 percent for low income countries when comparing the periods before and after 2000”²³.

The emphasis has often been on the number of conditions. However, it is not the number of conditions *per se* that causes difficulties for developing nations. It is their scope, depth, duration and their possible combination with related conditions that often leave little room for governments to make vital decisions on the management of their economies. Their individual or cumulative impact on the macroeconomic framework often denies governments the use of policy options appropriate for their economies²⁴. Moreover, although it is often claimed that IMF conditionality²⁵ is directed at supporting member countries in their efforts to solve balance of payments problems, it is too narrow an interpretation in the context of conditionality.

The IMF conditionality in the past has encompassed a broad range of policy instruments through which the IMF is in a position to exercise influence over sectoral and/or macro-economic policies of member nations. These include, in general, adjustment of exchange rates, elimination of internal price systems, trade liberalisation, removal of restrictions on foreign investments, public sector reforms, fiscal reforms, limitations on government expenditure etc. It is quite possible that international financial institutions have not insisted upon the fulfilment of conditions relating to all of these at once.

Nevertheless, as the IMF itself has admitted, there have been far too many conditions in the past. The concept of parsimony needs to be translated into reality through a meaningful reduction of conditions applicable to a particular assistance programme. The reduction in the number of conditions *per se* will not have beneficial effects on the living and working conditions of the poor if the remaining conditions impose significant restrictions on their access to vital public services. In

21 Directors were of the view that Fund conditionality should cover all measures critical for successful implementation of its programmes.

22 The average number of conditions per operation fell from 35 in the late 1980s to about 12 in FY05, across all Regions and for different groups of borrowers.”, Review of World Bank Conditionality, Operational Policy and Country Services, WB, Sept 2005

23 Op cit

24 See Letter of Intent from the Government of Burundi to the IMF, 2008. Conditions on wage control, for instance, range from recruitment freezes to partial replacement of retirees. Burundi was requesting a loan worth only 60% of its quota.

25 IMF Factsheet on conditionality

the past, the international trade union movement led by the International Trade Union Confederation has consistently argued against austerity conditions²⁶ and pointed out that they could worsen the impact of the current financial and economic crisis on the poor. The term “programme” in the context of the IMF assistance is rather misleading, as it may convey the impression that it is concerned with a small segment of the economy and that the conditions critical to the achievement of its goals do not affect the overall performance of the economy.

However, a careful look at the contents of the Letters of Intent²⁷ demonstrates their far-reaching and long-lasting implications for the whole of the economy. The Government of Romania, in a 22-page Letter of Intent and Technical Memorandum of Understanding, *inter alia*, undertook to reduce all personnel spending by 15.5%, cut overtime and premia, restructure state agencies between October and December 2009 and introduce an organic public wage law by the end of October 2009.

In a comprehensive review of WB conditionality over a period of two years involving 32 operations in 16 countries, EURODAD concluded: “*The Bank might be slimming down the number of conditions it attaches to developing countries, but it is still pushing privatisation and unnecessarily meddling in the economic affairs of sovereign nations... since the implementation of the GPPs, almost one out of every six conditions countries received was privatisation-related..*”²⁸. Moreover, as EURODAD has pointed out²⁹, the World Bank has tended to introduce multiple conditions or “bundle” conditions together in an effort to ostensibly bring down their number. In addition, there is a tendency by both the IMF and the World Bank to introduce a variety of terms, often similar in meaning and effect, perhaps, to avoid the frequent use of “conditions”. In fact, there is a plethora of terms – prior actions, preconditions, structural benchmarks³⁰,

26 Promoting sustained economic recovery through a global jobs pact, Statement by the Global Unions to the 2009 Annual Meetings of the INF/WB, Istanbul, 6-7 October 2009.

27 “We will undertake several emergency measures to reduce the wage bill: (i) between October and the end of December 2009, all personnel spending (including in the local governments and self-financed entities) will be subject to a reduction of 15½ percent, corresponding to a reduction in working hours equivalent to 10 working days (0.3 percent of GDP); (ii) overtime hours and premia will be cut as well, yielding an additional 0.1 percent of GDP; and (iii) we will launch the restructuring of state agencies, as described in paragraph 12 below”, Technical Memorandum of Understanding, Letter of Intent from the Government of Romania, January, 2009

28 Untying the Knots, EURODAD Report, Nov 2007.

29 Ob cit p.11 EURODAD has unbundled the WB’s 11 conditions into 38 in the case of Uganda.

30 See Technical Memorandum of Understanding, Central Bank, Sri Lanka, Press Release, 30 July 2009

benchmarks³¹, triggers, indicative targets³², quantitative performance criteria etc, which are difficult to define in terms of their impact on the economies of developing nations with any degree of precision.

The international financial institutions including the IMF appear to have skirted around the problem to some extent by making an explicit distinction between ex-ante conditionality and ex-post conditionality. The shift of emphasis from ex post conditions to ex-ante conditions – set of well-defined pre-set rigorous terms and conditions which member countries need to fulfil in order to qualify for IMF assistance is not of much use for a developing nation beset with various economic and financial problems. The new Flexible Credit Line is a prime example of this approach to conditionality. The new approach focuses on the strong performance³³ of external position, capital account, steady sovereign access to international capital markets, comfortable reserve position, sound public finances, low and stable inflation, absence of bank solvency problems, effective financial sector supervision and data transparency and integrity. On the one hand, it is evident that the number of pre-conditions has not diminished in any meaningful sense. On the other, the preconditions embrace a substantial part of the macroeconomic policy environment, bear upon their performance and restrict the ability of the authorities to take key decisions. The conversion of conditions used to be imposed by the IMF into pre-conditions is unlikely to be very helpful to member countries going through severe economic and financial problems.

Member countries seek IMF assistance when they are confronted with severe balance of payments problems. Indeed, one of the primary responsibilities of the IMF is to assist its members in their efforts to solve balance of payments problems.³⁴ Therefore, it is ironical that the IMF insists on the strengths of the external position as a precondition for access to its resources, albeit in the case of countries with strong economic fundamentals. It is evident that a large number of low-income countries will be automatically disqualified for receipt of IMF support if this particular pre-condition is strictly adhered to. Moreover, the combination of this precondition with other preconditions relating to the external position such as steady access to international financial markets at favourable terms, capital account with substantial private inflows and a strong reserve position will effectively prevent many small developing nations from receiving any financial assistance from the IMF under Flexible Credit Line. Furthermore, the remaining pre-conditions are by no means less onerous or pervasive or intrusive. There is no indication of the concept of parsimony being applied here.

31 “For me the difference between a condition and a benchmark is that a condition is a condition and the release of aid will depend on that. A benchmark is how you measure the progress that a country is making.” Hilary Benn, former Secretary of State for International Development, in reply to a question in Parliament, 18 Oct 2005.

32 See Technical Memorandum of Understanding, Table II, Central Bank, Sri Lanka, Press Release, 30 July 2009

33 IMF Overhauls Lending Framework, Press Release, 24 May 2009

34 Article I(vi), IMF Articles of Agreement

The apparent reduction in the number of conditions was also due to the diminution in the number of conditions pertaining to trade liberalisation. With the membership of the WTO rising to 153, it has become less important and often irrelevant to attach conditions on trade liberalisation, for the vast majority of WTO members have already fulfilled them or undertaken to do so within an agreed timeframe. The IMF and World Bank seem to have shifted emphasis on short-term economic adjustments and removal of economic distortion to long-term institutional reforms.

Tailoring of programs to a member's specific circumstances

The new approach consists in, according to the IMF, ensuring that the conditions attached to loan disbursements are focused on, and adequately tailored to, the varying strengths of countries' policies and fundamentals.

Both the IMF and World Bank share the view that all programmes should be tailored to the specific needs and circumstances of a member country – concept the validity of which it is hard to dispute. In the Paris Declaration, this was referred to as Adapt and Apply to differing country situations. In 2007, the World Bank defined it as customising the accountability framework and modalities of its support to country circumstances³⁵.

In principle, international financial institutions are expected to anchor their operations firmly in government policies and strategies and not to add policy actions to government agenda. In the case of many developing countries seeking assistance from IFIs, this has been a very sensitive area, as issues concerned often involved privatisations, trade liberalisation, public sector reforms, reforms to subsidies³⁶ etc. In many instances, the IMF has secured assurances from recipient governments to reduce expenditure on health, for instance, in minute detail.³⁷ The Government of Uganda embarked on an ambitious programme of public sector

35 Conditionality in development policy lending, World Bank, November 2007

36 “We have reached understandings with the World Bank and ADB staff on a plan for eliminating electricity tariff differential subsidies by August 2010. To that effect, the average electricity tariffs will be increased to ensure that they reach cost recovery by August 2010. para 20, Letter of Intent from the Government of Pakistan July 2009

37 ”We have established safeguards to ensure that health spending developments do not jeopardize the achievement of this year’s budget targets. In particular, we have stepped up monitoring of spending (both on accrual and cash basis) to ensure corrective actions can be taken promptly. We have also significantly strengthened control over public hospital expenditures by (i) setting hospital-by-hospital quarterly budgetary targets beginning with the second quarter of 2007; (ii) putting in place the legal framework necessary to audit and settle hospital invoices so as to enforce hospital budget constraints; and (iii) capping this year’s aggregate bonus payments at the 2006 level. All accumulated obligations to public hospitals, as of end-March 2007, have been resolved, leaving no residual claims”, Turkey, Letter of Intent, Memorandum of Economic and Financial, Policies, and Technical Memorandum of Understanding, May 2007

reforms designed to privatise over 100 public enterprises³⁸. Nevertheless, there is evidence that governments³⁹ have often been compelled to take decisions on privatisation under pressure from donors and international financial institutions⁴⁰. In 2005, the Government of Tanzania concluded that water services had deteriorated in Dar-es-Salaam and cancelled the contract with Biwater following the Company's failure to meet its obligations. In sub-Saharan Africa, privatisations of public enterprises have been on the increase, especially in the telecom sector⁴¹, although it is difficult to gauge the extent to which governments have been leant on by international financial institutions and donors in their decisions.

There has been no serious initiative to attach conditions relating to the observance of core labour standards and human rights, although both the IMF and the World Bank⁴² are publicly committed to promote them and make it an essential part of the monitoring and evaluation process⁴³. In 2005, the UK Government signalled its commitment to "respecting human rights and other international obligations"⁴⁴. There is no evidence of any meaningful initiative being taken to pursue the matter with the Executive Board of either the World Bank or the IMF or in any other forum. The World Bank has often recommended labour market reforms – flexibility, deregulation, wage restraints – which are at variance with its support for the adherence to core labour standards⁴⁵. Although there are no political conditions overtly referred to, international financial institutions tend to take them into account when taking decisions, often, at the instigation of industrialised nations⁴⁶.

38 Uganda Government Public Enterprise Reform and Divestiture Programme involved the privatisation of 158 public enterprises.

39 Pricing farmers out of cotton, The Costs of World Bank Reforms in Mali, Box 1, Briefing Paper, Oxfam, March 2007

40 On 1st August 2008, the National Assembly in Mali approved the law authorising the privatisation of cotton industry. It is alleged that the World Bank had stipulated that the Law be adopted "no later than the end of July 2008".

41 Proceeds of Privatizations in sub-Saharan Africa amounted to some USD 2.6bn, Sunita Kikeri and Verena Phipps, Privatization Trends, View Point, Note 231, WB, Oct 2008.

42 Core Labour Standards Toolkit for Staff preparing Country Assistance Strategies, WB web site

43 Peter Bakvis and Molly McVoy, Core Labour Standards and International Organisations, What inroads has labour made? FES, Briefing Paper, NO 6, 2008

44 Partnerships for Poverty Reduction, Summary, 1.3, DFID Policy Paper

45 Thea Mei Lea, Policy Director, AFL-CIO, Testimony to the US House of Representatives, Oct 2007

46 The recent controversy over the IMF assistance to Sri Lanka is a good example of G8 nations exercising influence on the decisions by the Executive Board of the IMF.

A discussion paper by the Centre for Economic Policy Research (CEPR) in an analysis of IMF policies during the recession claimed that the IMF had imposed pro-cyclical macroeconomic policies on 31 of 41 countries recipient of its financial assistance.⁴⁷ The “pro-cyclical” of the measures in 14 out of the 15 countries was vigorously contested⁴⁸ by the IMF which claimed that the countries concerned in fact expanded their fiscal deficits.⁴⁹ The Government of Ethiopia, in its IMF-supported programme which was negotiated without any involvement of trade unions or any other components of civil society, has agreed to eliminate fuel subsidies, reduce domestic borrowing both by the Government and enterprises and tighten fiscal policies.⁵⁰ The removal of fuel subsidy⁵¹ has resulted in some 50% increase in the price of kerosene oil used by about 14% of Ethiopians for cooking and heating and had an adverse impact on households’ budgets.⁵²

There is considerable controversy over the conditions accompanying the recent IMF support for Central and Eastern Europe. The table below summaries key information on recent Stand-By Arrangements and other forms of financial assistance.

47 “The paper finds that 31 of the 41 agreements contain pro-cyclical macroeconomic policies. These are either pro-cyclical fiscal or monetary policies – or in 15 cases, both – that, in the face of a significant slowdown in growth or in a recession, would be expected to exacerbate the downturn. In some cases, the Fund subsequently relaxed the original conditions; sometimes (as in Hungary, Latvia, Republic of Congo, and Haiti) this appeared to be the result of social unrest or other pressures on the borrowing government. These relaxations of fiscal and monetary policy are noted in the text below, but the original agreements are included in the tally because they still represent, in the authors’ opinion, a policy mistake that may have caused unnecessary economic harm during the time when the policy was in effect.”, IMF-Supported Macroeconomic Policies and the World Recession: A Look at Forty-One Borrowing Countries, Mark Weisbrot, Rebecca Ray, Jake Johnston, Jose Antonio Cordero and Juan Antonio Montecino, Oct 2009, p.6. October 2009

48 James Roaf, Deputy Division Chief in the Emerging Markets Unit of Strategy, Policy, and Review Department (SPR), International Monetary Fund, responded to the CEPR Report on 15 Oct 2009

49 CEPR Responds to the IMF’s Reply and Defence of its Policies during the World Recession, Discussion Paper, Oct 2009

50 Ethiopia, Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding, August 2009

51 See para 15, op cit.

52 Doing a decent job, IMF policies and decent work in times of crisis, Joint Study by Solidar, Global Network and EURODAD, October 2009

IMF loans to Western, Central and Eastern Europe, 4 September 2009

Country	Approval date	Amount/type	Principal conditions	Remarks
Bosnia and Herzegovina	8 July 2009	\$1.57 Billion SBA (Stand-By Arrangement-SBA)	Reduce structural fiscal balance: Re-establish public sector wage restraint	Government withdraws labour decree after strike threat
Serbia	15 May 2009	\$4 Billion SBA	Reduced spending in 2009; freeze in public sector wages and hiring	IMF delays loan payment because deficit exceeds target; government offers wage cuts
Poland	6 May 2009	\$20.58 Billion FCL (Flexible Credit Line FCL)	There is no strong conditionality. See comments in the text on FCL.	Precautionary arrangement; Loan not yet drawn. FLC is about 1000% of Poland's quota.
Romania	4 May 2009	\$17.1 Billion SBA	Spending cuts and revenue increases to reduce budget deficit under 3% of GDP by 2011	Additional financing from EU, EBRD and others
Armenia	6 Mar. 2009	\$540 Million SBA	Reduction of "non-priority spending". However, IMF supports an increase of 0.3% of GDP relative to Budget to protect the poor.	Fiscal deficit is projected to drop from 7.5% of GDP in 2009 to 5.9% of GDP in 2010
Belarus	12 Jan. 2009	\$2.46 Billion SBA	Price wage liberalisation, privatisation, deregulation,	Targeted social assistance in cooperation with World

			reduction of government, review of social safety net, restraints on public investment etc	Bank,
Latvia	23 Dec 08	\$2.35 Billion SBA	Wage bill freeze and 15% reduction for local government workers; several additional budget cuts	Approved under the Fast Track Emergency Financing procedures, Additional EU loans; deficit limit increased 5% to 13% after -18% GDP forecast
Iceland	19 Nov 2008	\$2.1 Billion SBA	Basic interest rate increased to 18%; deficit reduction starting in 2010	Approved under the Fast Track Emergency financing procedure, IMF Board threat of payment delay to guarantee debt reimbursement for foreign depositors
Hungary	6 Nov. 2008	\$15.7 Billion SBA	Reduced or capped pensions, social benefits, public-sector wages	Initial condition to lower 2009 deficit relaxed during March loan review
Ukraine	5 Nov. 2008	\$16.4 Billion SBA	Balanced budget in 2009 by numerous budget cuts; wage and pension caps	In July, deficit target relaxed after -12 % GDP growth forecast

Georgia	15 Sept. 2008	\$750 Million SBA	Reduction of 2009 deficit by cutting expenditures 13%	In August, higher deficit agreed, re- adjusted in 2010
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Source: IMF Press Releases, Article IV Consultation Reports, Country Information etc

Effective co-ordination with other multi-lateral institutions

It generally refers to close coordination among donors and international financial institutions adopting similar policies, procedures and practices in the same sector or country and sharing analytical work, joint reviews and monitoring and evaluations. It does not necessarily involve a partnership with the government to the same degree. Alignment, the need for which is also emphasized, refers to the adoption of development policies, priorities, practices of the governments and accepting their leadership and supporting their action plans. Both concepts, though applicable to conditionality, are of more general use and certainly go beyond conditionality.

The principles of co-ordination or harmonization or alignment have been underlined in a number of fora on aid effectiveness. In 2003, the heads of multilateral and bilateral institutions and partner countries pledged to “harmonize the operational policies, procedures, and practices of our institutions with those of partner country systems to improve the effectiveness of development assistance, and thereby contribute to meeting the Millennium Development Goals (MDGs)”⁵³. They also agreed to review and identify ways to amend individual institutions’ and countries’ policies, processes and practices to facilitate harmonization.

There is specific reference to harmonization in the Paris Declaration on aid effectiveness while the World Bank has recently underscored the need for it. It is generally acknowledged that harmonisation has beneficial effects and that it brings about a reduction in transactions costs and an improvement in the efficiency of aid delivery. However, many analysts have pointed to the difficulty of separating harmonisation from related concepts of national ownership and alignment of policies at country level⁵⁴. Moreover, in the case of low-income countries with substantial dependence⁵⁵ on ODA from a large number of donors⁵⁶, the difficulties of aid co-ordination is often compounded with poor administrative and managerial deficiencies and weak institutional capacity. In 2007, the World Bank,

53 Para I, Rome Declaration, 2003

54 Evaluating Progress towards Harmonisation, Working Paper 15, DFID, May 2005

55 In 2007, the Government of Tanzania received approximately USD 2.811bn in ODA – about 17.3% of its GDP.

56 France Diplomatie claims that Mozambique had received over 400 aid missions per year, Aid Effectiveness: Harmonisation, Alignment and Ownership.

in its review of harmonisation of policies in line with the Paris Declaration acknowledged that progress needed to be made in a number of areas, notably, at country level⁵⁷. The collaboration between the World Bank and the IMF, too, has been the subject of debate and sometimes of controversy. The concept of lead agency has often been applied in order to allow the World Bank and the IMF to engage in policy dialogue with members in each other's areas of speciality and where relevant, to include input in overall assessment of a member's economy in each other's reports.

Nevertheless, the IMF insists that the criterion of criticality be applied to all measures irrespective of whether it is within the competence of the IMF or not. Therefore, a condition which is clearly outside IMF remit and could well be one of the conditions more appropriate to the assistance from the World Bank or other international development agency will still be attached to IMF assistance if it is deemed to be critical to the achievement of programme goals. The use of prior actions is also subject to the concept of criticality and parsimony.

Clarity

There has been a great deal of criticism by the international trade union movement, civil society and the governments in developing countries regarding the lack of clarity in the conditions accompanying financial assistance from international financial institutions. As a result, the IMF, for instance, is reported to be making clearer the terms and conditions in the letters of intent. Ironically, this, in many instances, seems to have resulted in more conditions being specified in greater detail. The Government of Seychelles in its 20-page Letter of Intent including the Technical Memorandum of Understanding sets out in detail tax reforms it has agreed to carry out, gives itself strict timetables and enumerates each step in the reform process⁵⁸.

It is, perhaps, pertinent to make a distinction between conditionality relating to short or medium – term assistance packages from the IMF and that applicable to long term assistance from the World Bank, notably through the International Development Association. On the one hand, conditions governing the use of short-term stand-by arrangements appear to be particularly stringent. On the other, the terms and conditions relating to the assistance made available through the IDA are often less onerous and pervasive and meant to steer countries towards long-term development.

⁵⁷ Harmonisation and alignment for greater aid effectiveness, An update on global implementation and the Bank's commitments, Harmonisation Unit, Oct 2006.

⁵⁸ See Letter of Intent from the Government of Seychelles to the IMF, action and timing in particular, June 2009

Conclusions

Conditionality is a complex multi-faceted issue, the impact and implications of which cannot be easily analysed in general terms or in isolation without reference to a particular context. There is unmistakeable evidence that the international financial institutions, especially, the World Bank and IMF, despite their public pronouncements, continue to make use of damaging economic conditionality under various guises, especially on fragile economies in the developing world.

There has been some progress towards streamlining of conditionality through recent reforms by international financial institutions. The initiatives to re-define and refine terms and conditions accompanying assistance have been useful in many respects, although they have not necessarily resulted in easier access to financial and/or technical assistance for developing nations. There is little evidence that the diminution in the number of conditions has had any positive effects on the ability of governments to manage their economies in receipt of financial assistance.

The emphasis on the key concepts - national ownership, parsimony, criticality, harmonisation and clarity, in particular - is a step in the right direction, although much remains to be seen in their application. National ownership, though relevant and useful in theory, is no effective remedy for the numerous difficulties arising out of an essentially asymmetrical relationship between international financial institutions backed by industrialised nations and its low-income member countries with little political clout on the international scene.

The much vaunted shift of onus for key policy decisions to national authorities is a mere *trompe l'oeil* - much less significant in reality, as national authorities have no option but to draft letters of intent in compliance with detailed technical advice from international financial institutions.

A perusal of the most recent letters of intent including the Memoranda of Economic and Financial Policies provides no evidence of a meaningful qualitative change in favour of more latitude for the governments in the developing world despite the noticeable semantic differences.

The bulk of the current reforms of conditionality have been undertaken quite recently and the implementation of a substantial part of the agreed changes is still in progress. It is, therefore, necessary to monitor the progress and evaluate their impact on member countries, especially, on developing countries in the medium and long term.

Recommendations

It is hoped that the international trade union movement will be in a better position to keep a watchful eye on all issues surrounding conditionality, especially following the decision of the IMF to publish Letters of Intent⁵⁹, albeit, with the prior agreement of governments concerned. The International Trade Union Confederation will be watching the impact of recent changes to conditionality in low-income countries from a trade union perspective.

In the light of the UK Government's publicly declared policy of dispensing with damaging economic conditionality, the TUC hopes that the Government will play a leading role in mobilising support in the G8 Summits, European Union and G20 fora with a view to initiating action in this regard in the international financial institutions, notably, in the IMF.

The TUC, through its influence within the international trade union movement, will be in a position to garner the necessary support for it, not only, in industrialised countries, but also in developing countries. It should continue to gather evidence of the adverse impact that economic conditionality is having on the living and working conditions of trade union members, their families and communities.

⁵⁹ Including the Memorandum of Economic and Financial Policies (MEFP) and Technical Memorandum of Understanding (TMU)