

IMF Conditionality and Ownership

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Major Review of IMF Conditionality

The International Monetary Fund (IMF) engaged in a major review of conditionality during 2000-2002, the result of which was to produce new conditionality guidelines, revising the guidelines of 1978. The review concentrated on the role of structural conditionality and issues of ownership in programmes. These issues have come to the fore particularly after the Asian crisis, the establishment of the PRGF (Poverty Reduction and Growth Facility), and the launching of the PRSP process.

Current Review of IMF Conditionality

The IMF is now performing the first biennial review of these conditionality guidelines, and we have split this review into two parts. The Policy Development and Review Department (PDR) is doing a series of papers on programme design issues, followed by a review of the guidelines themselves. The papers on programme design are scheduled to be discussed by the Board and made public shortly before or after the Annual Meetings, and the conditionality guidelines will be reviewed at about the end of the year.

The revised guidelines were based on five principles: programmes should be clearly owned by the authorities; conditions should be parsimonious; conditions should be tailored to the country's circumstances; conditions should be set in coordination with other actors, particularly the World Bank, but also the rest of the donor community; and conditions themselves should be clear. The current review will consider how conditionality has developed over the last two years, whether conditions have been implemented according to the guidelines, and whether the guidelines themselves are having the desired effect.

Objectives of IMF Programmes

Before one can be clear on what conditions should be applied, one needs to be clear on the program goals that form the basis of IMF support. The IMF's task is to strengthen the balance of payments position and foster reserve accumulation, and is therefore not primarily involved in development aid, although IMF financing may be complementary to development aid in some lower-income countries

The aforementioned review is looking quite carefully at whether programme goals are clearly defined, noting that IMF-supported programmes can be divided into several different groups, depending on the precise program objective: some are traditional programmes aimed at strengthening the current account; some programmes are designed to support the restoration of confidence in the markets after a capital account crisis; some programmes are designed primarily as monitoring arrangements to give assistance either to the creditor community or to the authorities themselves, as well as assuring that programmes are on track, and others back major structural reform operations.

One of the expected results to come out of this conditionality review is the need to be clear on program objectives. In justifying IMF assistance, there is a tendency for IMF economists to highlight the perceived perverse consequences had they not gone ahead with support for a particular set of policies, rather than highlight the precise objectives of the program. In other words that the Minister of Finance would be under pressure to take measures that would be very undesirable, and so the IMF's support of the programme succeeded in making things not quite as bad as they would have been otherwise. This justification does not provide an adequate basis for IMF assistance.

Breadth of Policy Conditions Supported by the IMF

The breadth of policy conditions is also an essential element of conditionality, and this clearly varies with the goals of the programme. In programmes that are dealing with financial crises, the vast majority of conditions are indeed financial, whereas in programmes that are in the PRGF category (for the lower income countries) the bulk of conditionality tends to be focused on fiscal issues and expenditure orientation.

Whether the breadth has been appropriately tailored to the country's circumstances remains to be seen. The IEO Report on Fiscal Adjustment was rather positive on this, but we are in the early stages of our own review. Streamlining conditionality continues to be a priority, but the number of conditions in programmes now seems to be fairly constant, with about fifteen conditions a year per country.

Conditionality and Ownership – The Future

The basic framework for the IMF's support of countries should involve setting a minimal standard beyond which the authorities should be given space to conduct economic policies precisely as they wish, provided of course this doesn't cut into the minimal area. This implies both a retreat from extraneous conditions and more selectivity in IMF assistance. In other words, the institution needs more care in accepting the member's word that it will meet the minimum standards.

A recent survey to see how World Bank/International Monetary Fund collaboration was viewed in member countries was pretty encouraging in that it indicated that quite a large majority of the countries found conditionality not to be particularly intrusive and that policies were clearly owned by the country.

The current debate on conditionality and ownership is centered on whether conditionality should be used as leverage, or whether it is primarily designed to protect the lending agencies, so that they can give assurance to their shareholders that the money is being lent properly. The evidence is overwhelming that conditionality as leverage is not particularly effective. Moreover, it is not legitimate for an institution like the IMF to use conditionality to persuade a country to do things that it would not otherwise have done.

Rather, the purpose of IMF resources is to encourage the authorities to adopt appropriate measures based on an active policy dialogue that incorporates program design issues, even before conditionality is actually set. In practice however, there is a temptation to use leverage when the country is in a difficult situation, and this temptation needs to be resisted. However, it can be very difficult to enforce selectivity when the country itself is faced with a desperate situation, or when the donor community wishes the IMF to give support on the grounds that without it, the situation would be unmonitored and could deteriorate further, thus rendering their own bilateral aid less effective.