Open conference on IMF conditionality at the Norwegian Ministry of Foreign Affairs

IEO report: Evaluation of Structural Conditionality in IMF-Supported Programs

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Let me first use this opportunity to thank the Ministry of Finance for initiating this meeting and inviting me, as a representative of several Norwegian civil society organization working on IFI issues, to be part of this panel discussion on the recently released Independent Evaluation Office (IEO) report on structural conditionality (SC).

It is a report that I very much welcome as it provides us with, as mentioned by the previous speakers, a number of valuable insights into the current status of SC in IMF-supported programs.

In this regard I would also like to acknowledge the representatives of both the IEO and the IMF who have taken the time to join us in Oslo today in order to share their perspectives with us, although with the disadvantage of having to make their presentations with considerable jetlag.

There are, in my view, several critical issues emerging from the report, as well as from the discussion here today, so far. I think we can agree that there in certain areas have been some change in IMF policy, some learning has taken place and there is a greater flexibility in the institution's approach to SC than what we experienced a decade or two ago. Among others we can notice that the IEO report finds that the streamlining initiatives from 2000 and 2002 have resulted in a slight shift in the composition of conditionality towards IMF core areas.

Notwithstanding these more positive developments, the overall findings in the report nevertheless confirm that the IMF is having considerable difficulties in rethinking its approach to conditionality in general and its role in low-income countries in particular.

As mentioned by the previous speakers, despite the streamlining initiative of 2000 and the Conditionality Guidelines of 2002 aiming to reduce the volume and scope of SC, the IEO report finds that the average number of conditions have remained at 17 per program/year and one third of conditions continues to fall outside the core area of IMF competency.

Moreover, the report finds that even within non-core areas conditions remain quite detailed.

Meanwhile, the streamlining initiative did *not* result in better explanations of *why* conditions, core or non-core, were critical or how these conditions would contribute to the program objectives.

Finally, while the report does acknowledge a slight shift away from privatization of state owned enterprises (SOEs) to areas such as fiduciary reform, it does also stress that the shift away from sensitive policy conditionality has been more pronounced in the World Bank than in the IMF.

Given the limited structural depth and the low compliance rates, it remains somewhat of a paradox, seen from a purely efficiency perspective, why the IMF has not seen it in its self-interest to reduce the number of conditions it attaches to its programs.

However, our concerns should go beyond the issue of efficiency in program implementation. The findings in the IEO report on the volume and content of conditions confirm that the IMF continues to exercise a significant influence on policy formulation in many developing countries.

This does not only impede efforts to increase policy space and promote greater ownership. The policies promoted also often have a rather bad track record when it comes to promoting development, maybe partly due to the fact that one third of them falls outside the areas of IMF core competency. The point raised by the IEO, namely that some of the most successful programs were associated with low compliance, is an indicative.

Benedicte Bull and colleagues, in their 2006 study for the Norwegian Ministry of Foreign Affairs, formulates our challenge rather well when saying that, in dealing with the issue of IFI conditionality versus country ownership, we should move “towards greater national sovereignity in aid dependent countries, while increasing accountability for results” (Bull, Gjerve and Sigvaldsen 2006: 47).

However, the findings in the IEO report basically suggest that the IMF is doing neither. By reducing policy space available for national governments it is reducing their sovereignity. And by, in most cases, only building alliances with a small number of stakeholders, primarily within the ministries of finance, and by not being able to engage in broader and more inclusive policy discussions it reduces the ability of people to make their own governments accountable for the results. In the end, these are the ones the government, as well as the donors, should be made accountable to.

In order to understand the challenges the IMF is facing and recommend policy alternatives, we need to place the IEO report on SC within a *broader* context.

First, the findings in the IEO report on SCs is consistent with the findings in the 2007 report on “The Role of the IMF in Sub-Saharan Africa” and the “Malan-report”, both of which have questioned the competency of the IMF, an institution primarily set up to provide short-term balance of payment support, in dealing with the long term development challenges faced by low-income countries.

These reports also suggest that there is limited institutional ability to reform in the IMF. For example, the report on the IMF in Sub-Saharan Africa comments on what it sees as a disconnection between the objectives inherent in the PRGF approach and current IMF programs:

> "Underlying the theme of disconnect is a larger issue of attempted – but ultimately unsuccessful – institutional change. When the PRGF was introduced, it was meant to be more than a name change. It set out a new way of working, grounded in the PRS-process, with programs based on specific country-owned measures geared to poverty reduction and growth, and an ambitious vision of the IMF's role on the analysis and mobilization aid, working in close partnership with the Bank. But in the face of a weakening consensus in the Board and a staff professional culture strongly focused on macroeconomic stability – and, most important, changes in senior management and a resulting lack of focused institutional leadership and follow-through – the IMF gravitated back to business as usual" (IEO 2007:1).

Given the rather defensive response from the IMF staff on the latest IEO report SC, it leaves you wondering if there is similar dynamic here. Basically, the IMF is seems to be struggling to find its role. In a time when its largest clients, the larger middle-income countries of Latin America and Asia, is moving away from the IMF, the institution is left with the low-income countries to secure its legitimacy. However, this is where the IMF's competency is weakest. It will be interestingly to see how Dominique Strauss-Kahn, the new managing director, will deal with this.

An issue related to this, where the IMF has shown little willingness to reform and which unfortunately is missing from the IEO report, is the availability of policy alternatives, something that is crucial for policy space and ownership.

Furthermore, an interesting finding in the IEO-report, is that conditions have been added by donors, for various reasons, even if these conditions were known to have little or no impact on reaching program objectives. Rather they were added in order to serve as signaling, for example in relation to HIPC debt relief or EU accession.

The IEO rightly questions if this is a legitimate role for the IMF and says that there are several trade-offs between program objectives and signaling. Not only does this blur the objectives of programs, but the signaling role does add significantly to the leverage enjoyed by the IMF and help explain why even advice, evaluations, and instruments such as the policy support instrument (PSI) are perceived as conditionality by the recipient countries.

Finally, as the IEO also finds, while several executive directors (EDs) at the board question the number of conditions, *donor* EDs continue to insist on a large volume of conditions. This illustrate how the IMF's limited ability to reform to a considerable extent is linked to the interests of the more powerful members of the board. Hence reforming the IMF will need to include changes in the governance structure.

One of the IEO recommendations that have resulted in some discussion with the IMF staff is the proposed notional gap on conditions, limiting the number of conditions to 4 or 5 per program.

I share the IEO's view that the number of conditions should be drastically reduced and I find the idea of a notional gap attractive, although I also see potential pitfalls. First, there is always the possibility of "bundling" of conditions – restructuring the lending agreements so that 17 conditions comes across as 4 or 5 conditions. Second, our concerns should not only be with the number of conditions, or the level of structural content, but also with what sort of conditions that are necessary and legitimate. For example, one could argue that certain fiduciary obligations are legitimate, while sensitive economic policy conditions, such as privatization/liberalization, are not.

In conclusion I would say that the implication of the issues raised above, is that a response to the IEO report on SCs will need to be comprehensive. It will need to include an approach that includes a fundamental debate about the role of the IMF in low-income countries. This has already been recommended by the majority of the members in the standing committee on finance in the Norwegian parliament. Furthermore, a response will need to include a discussion on the IMF's ability and willingness to develop policy alternatives. And finally, it will be crucial for reformers to address the problems associated with the IMF's signaling role and its governance structure.

While these are challenges to the IEO and the IMF, they are first and foremost challenges that the owners of the institution will need to deal with, one of them being the Norwegian government.

I am looking forward to a further discussion on these issues.

Thank you.