

Challenging Neoliberal Conditionality
Tracing IMF Lending Policies from 2007-2012

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ABSTRACT

The conditionality agreements of the International Monetary Fund have received a significant amount of criticism from the 1980s and 1990s and into the 2000s. Critics have found little reassurance from the IMF's attempts to reform conditionality after 2000. The 1980s marked a time where conditionality on IMF loans required structural adjustment and the imposition of austere fiscal measures. The streamlining initiative in 2000 possessed only slight quantitative modification to lending conditionality. However, recent changes in the Fund's lending policy occurring between 2007 and 2012 may finally display the institution's ability to listen, learn, and adapt policy toward a conditionality regime utilizing policy outside of the neoliberal framework. This thesis examines these new policies and their implications for neoliberalism where the term represents an approach to economic growth that demands privatization, deregulation, and weakening the role of the public sector. It provides a history of conditionality reforms and positions the most recent reforms in lending policy in the evolving neoliberal context.

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Chapter 1: Introduction

i. Overview

The International Monetary Fund—commonly referred to as the IMF or “the Fund”—possesses various institutions or “facilities” tasked with lending to countries experiencing fiscal crises. The mission of the facilities at the Fund’s disposal has seen several changes throughout the Fund’s history and the practices of each lending facility have evolved with the international community’s understanding of the potential causes of and solutions to economic crises. IMF conditionality specifically refers “to the policies the Fund expects a member to follow in exchange for IMF credit.”¹ Conditionality—broadly referred to as a set of criteria applied to an economic or political agreement—is one of the more prominently discussed practices involved in the Fund’s approach to economic development.

The concept “conditionality regime” refers to the broader modes of IMF conditionality across several dynamics (e.g. condition type, policy area) where specific sets of available policy strategies, condition types, and facilities are utilized to facilitate a country’s adaptation to an established ideology of political economy. First, “type of conditionality” refers to specific kinds of conditions relating to the condition’s temporal application in the lending agreement. For instance, prior actions, or “PAs”, must be adopted before the disbursement of a loan. Second, IMF conditionality is applied across various kinds of policy domains (e.g. a country’s fiscal policy, exchange rates, debt service, structural reform). Finally, conditionality is utilized across a variety of lending facilities—each possessing certain qualifications, interest rates, and goals (e.g. Extended Fund Facility, Poverty Reduction and Growth Trust). Studying the broader trends in conditionality regime change is not a matter of finding dates and clear-cut divisions. Instead, it requires an

¹ Mark S. Copelovitch, *The International Monetary Fund in the Global Economy*, 1st ed. (Cambridge University Press, 2010).

² Ibid.

appreciation of the desired goals reflected in conditionality strategies and assessing them in the context of broader trends and transformations in political economy in much of the world.

Although modifications have been made to conditionality throughout the Fund's history, popular and scholarly criticism remains acute. Calls for change have been frequent and the IMF is well aware of the odious reputation lending conditionality has among a variety of scholars and the general public as well. Although rhetorical attempts at ridding the Fund of a socially austere lending requirements have been made, widespread disapproval of the Fund's practices remains high.

In September of 2000, over 15,000 protestors rioted outside Fund headquarters in Prague. Countless stun grenades, petrol bombs, and rocks flew through the air, signifying the existence of a dark side to international markets more rapidly circulating capital than ever before. Many injuries occurred on both sides as the institutions created to strengthen global markets clashed with those against the powerful tides of globalization. On October 7th, 2011, protestors marched on IMF headquarters in Washington D.C. in a slightly more peaceful manner. There are numerous examples like the ones mentioned above that have occurred across the globe for decades. However, the Fund is experiencing new changes that seem only to give the institution more economic prowess in tandem with a rising number of critics.

The IMF charter enables the institution to lend to countries facing "balance of payments" problems.² This relates to the ability of a country to properly maintain currency reserves and exchange in relation to international trade.³ The IMF serves as a "lender of last resort" although it was never explicitly given this responsibility at its founding. In addition, the Fund also lends to countries in an effort to prevent financial crises, lending to countries experiencing a small,

² Ibid.

³ Ibid.

medium-term balance of payments problem, and it lends to poverty-stricken countries facing long term financial crises. In theory, conditionality provides the means for which IMF creditors mitigate the risk associated with lending to countries, especially developing ones. In practice, it has been associated with worsening financial crises and reducing the ability of a country to provide infrastructural services. As a result, IMF conditionality requiring social austerity—policies defined by high taxes and reducing government expenditure—has continually come under increased scrutiny scholars and national authorities from loan recipients. In 1944, Keynes envisioned the IMF as an institution dedicated to stabilization, composed of cautious bankers, conceding the role of development to the World Bank.⁴ However, over time, the IMF has continually become involved in developmental projects throughout the world’s most poorest countries. IMF Managing Director, Michel Camdessus, displays his interpretation of the evolution of conditionality in 1990 stating, “Our prime objective is growth. In my view, there is no longer any ambiguity about this. It is towards growth that our programs and their conditionality are aimed.”⁵ After the Camdessus officially admitted to the modified mission of the institution, the IMF has only continued to pursue projects of growth and development, well outside the realm of currency crises and stabilization.

Over the past five years, the tumultuous state of the global economy has undoubtedly provided cause for increased levels of pessimism. However, this time could also signify the foundations for a change in the opportunities for the least developed countries. The Fund is arguably in the process of implementing policy and structural change leading to a more effective international monetary system that modifies the history of IMF conditionality. Changes including a New Credit Line facility for emergency crises (NCL), doubling the amount of Fund assets—

⁴ Bradley Bateman, Toshiaki Hirai, and Maria Marcuzzo, *The Return to Keynes* (Cambridge, Massachusetts: Belknap Press of Harvard University Press, 2010).

⁵ Jacques Polak, “The Changing Nature of IMF Conditionality” (OECD Development Center, August 1991).

Special Drawing Rights and gold reserves—could all be seen as meager instances of change that stand in contrast to the Fund’s efforts to impose minimum levels of social expenditure on all loan agreements and further the polymorphous nature of conditionality initiated in the Streamlining Initiative in 2004.⁶ Conditionality is becoming polymorphous in the sense that recipient countries are able to take a larger role in negotiating the kinds of conditions attached to loans and each specific set of conditions is more specifically tailored to the economic needs of countries.⁷ The Fund’s lending practices have once again been modified and the implications for the international community could be significant.

In response to the recent global financial crisis, many changes to the institution have been made. First, lending commitments have reached record levels at over \$250 billion.⁸ The Fund has further streamlined conditions attached to loans in an effort to become more flexible and increased concessional lending capacity—loans given to the world’s poorest countries as fixed interest rates—in various ways resulting in a doubling of the Fund’s permanent resources of gold and SDRs.⁹ External Relations Factsheets issued by the Fund detail increases in social spending (implementing floor percentages for all loan agreements) for recipient countries and the elimination of “hard” structural conditionality—a non-negotiable form of conditionality requiring structural adjustment for loan disbursement to continue.¹⁰ Surprisingly, a small amount of research concerning the implications of these changes has been conducted.

⁶ External Relations Department, “IMF Factsheet-A Changing IMF-Responding to the Crisis” (International Monetary Fund, March 2011), <http://www.imf.org/external/np/exr/facts/changing.htm>.

⁷ External Relations Department, “IMF Factsheet-The IMF’s Role in Helping Protect the Most Vulnerable in the Global Crisis” (International Monetary Fund, March 2012), <http://www.imf.org/external/np/exr/facts/protect.htm>.

⁸ External Relations Department, “IMF Factsheet-A Changing IMF-Responding to the Crisis.”

⁹ External Relations Department, “IMF Factsheet-The IMF’s Role in Helping Protect the Most Vulnerable in the Global Crisis.”

¹⁰ Ibid.

Conditionality policies traditionally have been viewed by scholars in relation to the structural depth and nature of change the conditions seek to create within the given political system to which they apply. Here the term “structural conditionality” surfaces as a way of viewing a particular part of the IMF lending framework. The Independent Evaluation Office (hereafter referred to as the “IEO”) of the Fund defines a structural condition as “any program condition that is not a quantitative target related to the financial programming of the arrangement.”¹¹ An increase of lending agreements possessing structural conditionality during the 1980s and 1990s resulted in uproar from the international community, yet it led to no sustainable economic development deepening the debt of many poverty-stricken nations. At the turn of the millennium, the IEO suggested policy change, resulting in minor, quantitative modifications to the conditionality regime structure. Here, the IMF was charged with applying conditionality to loans that demanded change in sectors of the economy in which the IMF’s officials had no expertise. This “mission creep” was not attacked aggressively with policy change but rather with what the IEO called a “streamlining” initiative leading to minor reductions in structural conditionality.

While analyses of structural conditionality are important for this thesis, I am not concerned with the degree of structural change elicited by various conditionality regimes. Instead, this thesis focuses on the political significance of changes in policy strategies that relate to the role of government within the market. Recent changes, over the past decade (2003-2013), to the previous conditionality regime deal with additions to the ‘policy toolkit’ of strategy increasing the role of government where the shortcomings of the streamlining initiative where the IEO has play an integral role of this story.

¹¹ Independent Evaluation Office (IMF), “Structural Conditionality in IMF-Supported Programs” (International Monetary Fund, 2007), www.ieso-imf.org.

ii. Theoretical Framework

a. Neoliberalism

Neoliberalism can be analyzed in two ways. First, as an ideology related to an abstracted understanding of political economy. Second, as a rationality, a project that can be analyzed in the policies, practices, and strategies of those who adhere to its logic—a formula for development and stability that advises privatization, deregulation of the market, and no role for government in the economy. Pragmatically, this thesis focuses on the latter approach analyzing the practices, strategies, and policies of the IMF in relation to the larger project to extend the application of neoliberal rationality in tandem with global capitalism. This thesis also views neoliberalism in a normative context examining the views of scholars and national authorities upon neoliberal rationale.

Wendy Brown argues that neoliberalism should be conceived as “more than a set of free market economic policies that dismantle welfare states and privatize public services in the North, make wreckage of efforts at democratic sovereignty or economic self-direction in the South, and intensify income disparities everywhere” but concludes that neoliberalism certainly comprises these effects but as a “political rationality.”¹² Brown explains the implications of the political nature of the neoliberal project in the following quote:

... While neoliberal political rationality is based on a certain conception of the market, its organization of governance and the social is not merely the result of leak- age from the economic to other spheres but rather of the explicit imposition of a particular form of market rationality on these spheres. Neoliberalism as a form of political reasoning that articulates the nature and meaning of the political, the social, and the subject must be underscored because it is through this form and articulation that its usurpation of other more democratic rationalities occurs...neoliberalism casts the political and social spheres both as appropriately dominated by market concerns and as themselves organized by market rationality. That is, more than simply facilitating the economy, the state itself must construct

¹² Wendy Brown, “Neo-liberalism and the End of Liberal Democracy,” accessed May 13, 2013, http://muse.jhu.edu/login?auth=0&type=summary&url=/journals/theory_and_event/v007/7.1brown.html.

and construe itself in market terms, as well as develop policies and promulgate a political culture that figures citizens exhaustively as rational economic actors in every sphere of life.¹³

Brown's framework puts forth an understanding of neoliberalism that is necessarily political due to the interconnectedness of markets and governments. Popular supporters of neoliberalism make the mistake of defining neoliberalism as a project solely economic in nature. However, as the state adopts a neoliberal rationale, it reconceives the social and political as secondary concerns to the freedom of markets where the unregulated flow of markets takes predominance in dictating the means by which the political needs of the social are attended too. The thesis examines the extent to which the IMF utilizes the neoliberal rationality to dictate the policy strategies contained in conditionality. To an extent, a country adhering to a conditionality agreement suspends its sovereignty allowing the IMF to articulate the role of the national government in markets. Under a neoliberal conditionality regime, the IMF dictates no role for the government in regulating the markets yet this cannot be seen as external to politics—it is clear that the reorientation of how governance affects the social, reconstructing the role of government in society, is a political project speaking to a particular rationality of politics and not just a economic ideology of growth.

While this thesis examines the research with the framework discussed above, the normative context extant in IMF discourse is of importance for understanding how the IMF's neoliberal project has been perceived. Brown describes the normative aspect of neoliberalism this way.

In popular usage, neo-liberalism is equated with a radically free market: maximized competition and free trade achieved through economic de-regulation, elimination of tariffs, and a range of monetary and social policies favorable to business and indifferent toward poverty, social deracination, cultural decimation, long term resource depletion and environmental destruction. Neo-liberalism is most often invoked in relation to the Third World, referring either to NAFTA-like schemes that increase the vulnerability of poor nations to the vicissitudes of globalization or to International Monetary Fund and World Bank policies which, through financing

¹³ Wendy Brown, "American Nightmare," accessed May 13, 2013, <http://ptx.sagepub.com.ezproxy.lib.vt.edu:8080/content/34/6/690.full.pdf+html>.

packages attached to "restructuring" requirements, yank the chains of every aspect of Third World existence, including political institutions and social formations.¹⁴

Brown's discussion of restructuring requirements refers to the stipulations on lending agreements beginning in the 1980s—the foundations of the IMF's neoliberal conditionality regime. Where a politically articulated neoliberal project allows us to view neoliberalism pragmatically, a normative understanding of the effects of this political project is essential to understanding the effects of the neoliberal rationality, manifested in the conditionality policies of the IMF, upon the world's most poor.

While neoliberal rationality is evident in the policies of a number of institutions, the logic by which neoliberalism operates results in a similar answer provided by institutions to the world's economic challenges—privatization, deregulation, and reducing social expenditures. Joseph Stiglitz refers to the dogmatic practice of neoliberalism by the world's most powerful political actors (e.g. IMF, World Bank, United States) as the Washington Consensus and argues that this consensus purported a one-size-fits-all approach poor economies should take in attempting to stabilize and develop their economies.¹⁵

This thesis reviews critiques of the IMF's conditionality regime in relation to the effects it has upon the world's poorest—what the IMF crudely refers to as the "social."¹⁶ Providing a history of IMF conditionality alongside the development of the predominance of neoliberal rationality, it attempts to position changes in IMF conditionality strategy between 2007-2012 in relation to this history. Selecting IMF conditionality to review these changes requires a theoretical background as to how conditionality operates and what it provides to the parties involved with its practice.

¹⁴ Ibid.

¹⁵ Joseph E. Stiglitz, *Globalization and Its Discontents*, 1st ed. (New York, NY: W.W. Norton Company, n.d.).

¹⁶ IMF, "Review of Social Issues and Policies in IMF-Supported Programs" (International Monetary Fund, August 27, 1999).

b. Conditionality

Similar to the misconception of neoliberalism, conditionality has also been solely viewed as an economic phenomenon. However, much like the framework put forth above on neoliberalism, conditionality, must also be contextualized as a political mechanism as it elicits a variety of political effects and has reoriented the role of national governments. While the IMF and supporters of conditionality refer the conditionality as a mechanism of mitigating risk, this definition is reductionist and crude. Conditionality must also be viewed as a political mechanism by which political views, structures, and practices are modified in relation to the IMF's demands. In addition, conditionality must also be analyzed in relation to accountability.

Accountability

Conditionality is a means by which the power relationship between a loan recipient and the IMF negotiate the terms of a lending agreement. Conditionality has a threefold relationship with accountability. The work of Ebrahim and Weisband become important for understanding accountability. In their framework, accountability is “about power, in that asymmetries in resources become important in influencing who is able to hold whom to account.”¹⁷ Assessing accountability becomes complicated “by virtue of the fact that organizations must often deal with competing demands.”¹⁸ Conditionality can be explained in this framework where the the IMF usually possesses more economic prowess than LDCs and therefore the negotiating position of the LDC is less leading to higher levels of conditionality attached to loans.¹⁹ While assessing the role

¹⁷ Alnoor Ebrahim and Edward Weisband, eds., *Global Accountabilities: Participation, Pluralism, and Public Ethics* (University Press, Cambridge: Cambridge University Press, 2007). Pg. 10

¹⁸ Ibid. Pg. 11

¹⁹ Randall W. Stone, “The Scope of IMF Conditionality” (University of Rochester, NY, March 16, 2007).

of accountability in the formation of IMF conditionality is difficult, it can be explained across three levels of their framework.

First, conditionality can be seen as a process by which IMF holds recipient countries responsible for the ways in which they use the funds provided by a loan. This form of accountability is related to narrow oversight of the loan process and bilateral in nature. Second, conditionality represents a means by which donor countries hold the IMF accountable for monitoring and protecting their resources when consolidated into lending packages for LDCs. This is a form of accountability internal to the organization representing a system of responsibility in a multilateral agreement. Finally, conditionality can be viewed as a set of policies that represent the IMF's vision for the world's political economy where the international community holds the Fund accountable for the way it operates more broadly alongside nation-states. This form of accountability is plurilateral and directed at "social betterment" normatively defined in a given time period.²⁰

Strategy

More specifically, conditionality must be defined in the context of strategy where each set of conditions attached to lending agreements represent a particular strategy for stabilization and development for the loan recipient. As discussed above, this strategy goes well beyond mitigating risk where every policy strategy manifested through lending conditionality requires change in the political structure and vision of the recipient country.

iii. Research Question

This thesis focuses on recent reforms that seek to provide higher levels of social spending for countries in an effort to better understand how the IMF lending conditionality is used, how it

²⁰ Ebrahim and Weisband, *Global Accountabilities: Participation, Pluralism, and Public Ethics*.

has been reformed, and how it has been sustained to fulfill various financial and political goals in the global polity. While one could not possibly analyze all of the causes, implications, and details of every one of these adjustments, an important focus can be drawn: the development of the neoliberal IMF conditionality regime and policy revision implemented over between 2007-2012. Policy changes discovered reveal an increased attention to increasing levels of social spending—focusing on the populations basic needs—in poverty stricken countries. Recent policies include increasing spending for education and healthcare programs. Does recent policy change represent a modification to the neoliberal project—representing the creation of completely unregulated markets and reducing the role of the public sector—and, if so, what does the revised form of IMF conditionality represent politically, exactly?

Answering this question requires an examination of IMF conditional lending agreements before and after policy revision. This thesis analyzes various documents to examine the nature of the changes in Fund lending practices. While no single thesis could detail all of the aspects and implications of these institutional changes, the approach proposed here will provide an important lens into the ways in which these adjustments originated and their potential implications for the neoliberal project. In order to adequately research these phenomena, various research techniques will be required.

iii. Methodology

First, an analysis of primary documents—detailing the statements and positions of key actors involved in IMF decision-making and consulting—provided a narrative of the causes and nature of the overhaul of IMF lending practices. This involved an analysis of IMF External Relations Department Factsheets, documents originating from the Independent Evaluation Office,

Letters of Intent concerning adherence to IMF lending agreements, and Staff from the Strategy, Policy, and Review Department. Documents were selected by their relevance to conditionality policy dealing with the role of public sector. For instance, documents concerning Tajikistan's lending agreements were selected based on the need for comparable primary sources before and after the years of 2007-2008. The Letters of Intent provided an excellent source of comparison over time as they are used to form a discussion concerning adherence to conditionality in all agreements. As such, the specific wording of conditions attached to lending may not always be used. Various interpretations of IMF conditionality agreements will be analyzed in addition to provide an important understanding of the overall objectives of IMF lending.

Second, scholarly appraisals of IMF conditionality will be analyzed. The documents originating from the External Relations Department provide a valuable perspective for understanding how the institution itself perceives these changes, what Fund officials attribute as the causes, and a timeline for understanding the process of change internal to the Fund. However, these documents are inevitably biased to some extent as they represent the beneficence of the IMF. Scholarly critiques provide an understanding of IMF conditionality external to the reinvigorated public outreach effort recently undertaken by the IMF. This thesis begins by telling the story of the IMF's conditionality from a broader perspective, focusing on the trends in lending policy, and ends with a discussion of recent policy change, which possesses important implications for the IMF's practice of conditionality. Finally, an analysis of broader trends in political economy is provided to understand the larger roles and objectives of differing conditionality regimes.

iv. Significance of Research and Limitations

While the implications of a more polymorphous, ideologically flexible conditionality related to this analysis cannot be undertaken in the breadth of this project, an important emphasis can be explicated and some significant points brought out. The importance of the research proposed here is two-fold. First, the elimination of “hard conditionality”, and the introduction of socially aware and dedicated loan agreements starting around 2007-2008, carry the potential to significantly impact the least developed countries of the world. Situated in a global economy, the most vulnerable regions could benefit if the IMF more effectively utilizes an increased amount of resources. Second, it is important for a critical analysis of conditionality’s broader trends to be undertaken by political scientists. A majority of the existing literature originates from the fields outside the discipline of political science, particularly law and economics. Copelovitch notes that “additional research is needed to understand fully how and why specific policy targets—rather than the number of conditions are included in IMF loan[s].”²¹

The least developed countries (LDCs) of the world receive support from a number of institutions and organizations. Countries like Tajikistan are involved with joint developmental projects working with both the World Bank and the IMF. Non-governmental organizations and non-profit institutions form one part of the larger foreign assistance dedicated to developing poverty-stricken nations. However, the effect of these kinds of institutions is undoubtedly overshadowed by the massive amounts of funding that states receive from intergovernmental organizations as one loan originating from the IMF can easily surpass the entire yearly budget of an NGO. Recent steps taken by the Fund could change the ways in which the LDCs receive targeted support as well as the magnitude of support they are able to receive. The failure of these

²¹ Mark S. Copelovitch, *The International Monetary Fund in the Global Economy*. Pg. 15

measures contains unparalleled financial and social risk for countries in need of effective assistance. With significant increases in IMF assets and modifications to lending practices, it appears that development and economic stability will be approached in a different way in the wake of the global financial crises of 2008-2012. IMF lending conditionality policy contains a vast number of topics for research. Taking the vast amount of potential research topics into consideration, a discussion of the limitations becomes important.

First, conditionality and its various manifestations, cannot be compared across financial institutions for effectiveness. While many international and national institutions utilize forms of conditionality to mitigate risk, this thesis focuses only on IMF lending conditionality. Second, this thesis does not deal with the varying interpretations of the effectiveness of various conditionality regimes. Although an important tension exists between the criteria creditors and borrowers use to measure success, this thesis examines conditionality outside the realm of success and failure—focusing on the broader approaches to economic development inherent in differing conditionality regimes. More broadly, a focus on the value of IMF conditionality is not drawn. Khan and Sharma explain the problematic nature of research focused on the value-added nature of IMF conditionality, writing, “it is difficult, if not impossible to establish the value of IMF conditionality...it depends on the degree to which authorities of the borrowing country adopt the program and are willing to expend effort and political credibility to implement it.”²² In addition, a country-based analysis is not performed because the conditions of each country change considerably over time as the IMF modifies conditionality policy, thus making a country-based assessment problematic as change in conditionality and results elicited from conditionality agreements are gradual. Where there is nearly three decades of agreements to review under the

²² Mohsin S. Khan and Sunil Sharma, “IMF Conditionality and Country Ownership of Adjustment Programs,” *The World Bank Research Observer* 18, no. 2 (Fall 2003): 227–248.

previous conditionality regime, this becomes hard to compare to conditionality of the present as recent changes have occurred within the past five years. While simultaneously avoiding both the pitfalls and some surely interesting facets of IMF conditionality discussed above, this thesis provides an historical review of IMF lending conditionality policy in relation to broader transformations underway in the world political economy.

In the wake of the global financial crisis, the Fund is wealthier and stronger than ever before.²³ Changes in lending conditionality—birthed from the critiques of technocrats and internal reviews—show the amorphous nature of the Fund in response to recent critiques. Recent changes stand in stark contrast to the neoliberal doctrine—founded upon the logic of unregulated markets, low levels of social spending, and the merits of privatization. However, what exactly are the implications of these changes for the IMF’s more neoliberal project? Joseph Stiglitz supports the research conducted here when he writes that the recent crises “exposed broader flaws in the understanding of markets” where “unfettered markets are, on their, quickly self-correcting and efficient”, and suggests, “it is necessary to review the policies advocated by international institutions—such as the International Monetary Fund.”²⁴ To what extent do recent policy changes at the IMF reflect the rethinking that Stiglitz suggests, and what can a critical analysis of these changes reveal about the future of the Fund’s role in the global political economy? And finally, do these changes indicate the emergence of a more balanced approach to lending conditionality where privatization and social spending are braided together, utilized as complementary tools for growth based on the needs of a particular country in question? To begin answering these questions, a comprehensive review of the current state of IMF conditionality is required.

²³ Joseph E. Stiglitz, *The Stiglitz Report: Reforming the International Monetary and Financial Systems in the Wake of the Global Crisis*, 1st ed. (New York, NY: The New Press, 2007).

²⁴ *Ibid.* pg. 13

v. Chapter Outline

In order to examine the above questions, four chapters follow this introduction.

a. Chapter Two: Literature Review

Chapter two will consist of a three-part review of the literature relevant to the research presented in this thesis. First, a review of primary sources originating from IMF affiliated scholars and departments is provided. This includes but is not limited to: External Relations Department Factsheets, Staff Reports, and Reviews by the Independent Evaluation Office. Second, a review of literature analyzing IMF conditionality is provided. This will display the various approaches to analyzing conditionality and discourse concerning conditionality policy, and provide critiques and defenses from a variety of sources. In addition, an analysis of literature discussing the evolution of the IMF's neoliberal project is presented. This involves a review of literature related to Keynes, critics and supporters of neoliberal lending practices, and literature that discusses the return of Keynes within recent economic trends. This chapter will conclude with a discussion of where this thesis falls within current discourse on IMF conditionality.

b. Chapter Three: A History of IMF Conditionality Regimes

This chapter provides a historical analysis of the evolution of IMF Conditionality Regimes. In order to trace this across the various modifications of conditionality it will be broken down into the following sections: Early Stages of IMF Lending Conditionality, The 1980s & 1990s, The Streamlining Initiative, and the Creation of the IEO. The first section will discuss the birth of IMF lending and conditionality policy. The second section will trace the rise of structural conditionality and the development of the neoliberal conditionality regime. The third section will discuss an attempt to quantitatively modify the neoliberal regime

near the turn of the millenium. Finally, the recent reforms evolving over the past decade will be discussed briefly in relation to the creation of the IEO—an independent review organization carrying imporant consequences for the ways in which IMF conditionality policy is modified. This chapter is more than descriptive—it provides an analysis of the particular modifications and lending practices as it presents them. Understanding the reasons for changing conditionality policy requires an appreciation of the shortcomings of the previous policies. Throughout the chapter, both primary and secondary sources are used to detail interpretations of policy changes.

c. Chapter Four: The Current Realm of Conditionality Policies

This chapter provides a description of the present IMF conditionality regime. The first section focuses on the types of conditions to provide a description of how conditions operate temporally across lending agreement regimes. The second section slightly broadens the perspective by discussing the areas of conditionality policy lending agreements operate across, explaining the importance of “fiscal policy” and “structural reform” for the argument put forth in the final chapter. Next, an empirical illustration of socially protective conditionality operating across the categories explained in the previous sections will be provided. This section will discuss the evolution of conditionality that advocates the creation of social spending including but not limited to cash transfers to poverty-stricken households, infrastructural spending, and social safety nets. It will also analyze the socially protective nature of what is being called “flexible conditionality.”

d. Chapter Five: Balance and Limits: The Implications of Socially Protective Conditionality

This chapter presents a critical analysis of the changes discussed in Chapter four in relation to a broader understanding of neoliberalism. First, critiques of neoliberalism are reviewed and the

“fall” of neoliberalism is discussed in relation to IMF lending conditionality. Second, this chapter analyzes arguments for a return to Keynesian Liberalism in relation to the recent modifications to IMF conditionality policy.

The next section—“Next Stage Neoliberalism vs. Productive Incoherence”— discusses the possible emergence of a new approach to political economy undertaken by the IMF, and it explores what this new approach looks like politically. Although it is too early to confirm whether these changes represent the emergence of a radically new approach, I discuss possible steps moving forward for the current IMF conditionality. Following this, I discuss future research projects related to the work undertaken in this thesis.

Chapter 2: Literature Review

i. Introduction

IMF conditionality regimes have generated critique and analysis from a variety of disciplines. This thesis provides a broader view of conditionality using an analytical framework focused on a variety of policy strategies at the IMF's disposal. The development of alternate conditionality regimes involves utilizing additional strategies not within a pre-existing policy framework. In order to understand the history of these developments, a thorough literature review must be performed.

An understanding of the IMF's efforts to represent itself to external audiences—displaying how the IMF wishes to be seen by the international community—is found in External Relations Department Factsheets. Studying the particular policies and statements of IMF staff requires a review of staff reports from a variety of departments (e.g. Strategy, Policy, and Review Department, Fiscal Affairs, and Policy Development Review Department). Finally, the Independent Evaluation Office (IEO) must be taken into account with any study of IMF policy over the past decade. The IEO performs a crucial role in providing independent evaluation of policies and issuing recommendations directly to the Executive Board—the highest level of decision-making internal to IMF hierarchical structure.

Next, an understanding of the external analyses reveals the nature of scholarly and popular critique within the international community. While the IMF has received much criticism, thorough research shows many compelling arguments debunking the nature of many popular critiques. Furthermore, IMF conditionality has been analyzed from a number of perspectives and with a number of methodologies. Understanding the diversity of these approaches provides accurate positioning of where this research falls in the field.

ii. Primary Sources

a. External Relations Department

The External Relations Department reveals how the IMF wants to be seen by the international community. “IMF Factsheets” provide concise and easily accessible information concerning recent policy changes. Two factsheets detailing the IMF’s involvement with concessional lending (fixed interest rate lending for low-income countries) facilities provide an understanding of the evolution of IMF lending to poverty-stricken nations. A factsheet in 2009 details the role of the Poverty Reduction and Growth Facility (PRGF). Established in 1999, the PRGF represented a shift to focusing on development making poverty reduction “more central to lending operations.”²⁵ In addition, it shows that 78 countries qualified for the concessional interest rate of 0.5 in 2008.²⁶ However, review of a later factsheet shows the evolution of poverty-reduction focused lending. A decade later, the PRGF was replaced by the Extended Credit Facility (ECF). A 2012 External Relations Department factsheet claims that access to concessional lending under the ECF is now reviewed on a “case-by-case” basis and that conditionality within the ECF is more focused, streamlined, and more dedicated to “safeguarding social spending.”²⁷ In addition the ECF factsheet shows that interest rates dropped to an even zero percent and will remain that way until 2014.²⁸

The next three External Relations Department factsheets detail an “overhaul” of conditionality policies. A factsheet published in 2011 titled, “A Changing IMF—Responding to the Crisis”, details important modifications and objectives for post-crisis lending programs:

²⁵ External Relations Department, “IMF Factsheet-The Poverty Reduction and Growth Facility (PRGF)” (International Monetary Fund, July 2009), <http://www.imf.org/external/np/exr/facts/protect.htm>.

²⁶ Ibid.

²⁷ External Relations Department, “IMF Factsheet-IMF Extended Credit Facility” (International Monetary Fund, September 2012), <http://www.imf.org/external/np/exr/facts/ecf.htm>.

²⁸ Ibid.

stepping up crisis lending, developing more flexible conditionality, increasing lending capacity more than twofold, and developing objective-based conditionality with increased focus on social spending.²⁹ The factsheet details an emphasis on social protection while providing only a few examples. Conversely, a factsheet titled, “The IMF’s Role in Helping Protect the Most Vulnerable in the Global Crisis, published a year after the previous factsheet, provides a long list of cases where the IMF has formed conditionality policy dedicated to increasing or protecting social spending. Thirty examples are provided discussing the creation of social spending floor targets, social safety nets, cash transfers to vulnerable households, and development of programs to improve infrastructure.³⁰ The final factsheet, published in 2012, focusing on development in low-income countries, titled “IMF Support For Low Income Countries,” announced the extension of zero percent interest through the end of 2014 and details the increase in IMF resources making low rates possible.³¹ All of these factsheets show that the IMF at least wishes to be seen by the international community as a socially protective institution different from the IMF that created a “stigma of borrowing” referred to by multiple factsheets.³²

b. Departmental Reviews and Reports

Staff reports and reviews originate from a variety of departments in the IMF. Staff Reports Reviewing the adherence to conditionality contain reviews by IMF assessors detailing the areas where a country can work on better adhering to conditionality. For instance, staff reports on Tajikistan’s lending agreements detail a focus on privatization and reducing government expenditures providing an easy resource to empirically investigating the economic conditions of a

²⁹ External Relations Department, “IMF Factsheet-A Changing IMF-Responding to the Crisis.” (International Monetary Fund, March 2011)

³⁰ External Relations Department, “IMF Factsheet-The IMF’s Role in Helping Protect the Most Vulnerable in the Global Crisis.”

³¹ Ibid.

³² External Relations Department, “IMF Factsheet-A Changing IMF-Responding to the Crisis.”

country in relation to conditionality policies. Reports on Tajikistan in 2001 and 2011 differ drastically in their content and a larger focus on social spending can be found in more recent reports.³³ While this thesis focuses on the policy strategies rather than the specific wording of conditions, these reports provide a valuable resource for analyzing the discussions concerning conditionality of a given country.

One review prepared by the Fiscal Affairs and Policy Development and Review Departments arguably provides the single most important document for this thesis. Titled “Review of Social Issues and Policies in IMF-Supported Programs”, it tells the story of the IMF developing what they call “a social pillar in the architecture of the international finance system.”³⁴ The review provides statistics on social spending from 1985-1997 and recommendations for future conditionality agreements. Comparing these statistics to today’s agreements and analyzing the extent to which the IMF adopted these recommendations will provide an understanding of when and how the previous conditionality regime underwent modification.

In order to provide this comparison, a report prepared by the Strategy, Policy, and Review Department in 2009 becomes important. Titled “Creating Policy Space—Responsive Design and Streamlined Conditionality in Recent Low-Income Country Programs”, the report provides analysis on the effects of socially protective, streamlined conditionality developed in lending facilities over the past decade.³⁵ The final section of the report lists a variety of countries and discusses the progress made by initiating these changes. These two reports together provide

³³ Middle East and Central Asia Department, *Staff Report for the 2011 Article IV Consultation, Routh Review Under the Three-Year Arrangement Under the Extended Credit Facility, Request for Waiver of Nonobservance for Performance Criteria and Modification of Performance Criteria*, Staff Report-Tajikistan (Washington D.C.: International Monetary Fund, April 26, 2011).

³⁴ IMF, “Review of Social Issues and Policies in IMF-Supported Programs.” Pg. 35

³⁵ Strategy, Policy, and Review Department, *Creating Policy Space--Responsive Design and Streamlined Conditionality in Recent Low-Income Country Programs* (International Monetary Fund, September 10, 2009).

excellent primary sources for presenting an analysis of the development of a new or modified conditionality regime.

c. The IEO

This section attempts to briefly shine light on the larger significance of the organization and position it in relation to recent changes within IMF conditionality. A recently published book concerning the the first decade of the IEO's involvement in IMF lending details the role of the IEO stating: "The IEO of the IMF was created in 2001 to strengthen learning, accountability, and transparency of the IMF."³⁶ During the turn of the millenium, the IMF had experienced nearly two decades of harsh criticism from the international community. The rationale for the creation of the IEO clearly shows that the IMF was in dire need of a better system of learning not only requiring accountability and transparency—but needing transparency sourcing from an independent review process to create accountability. In her article, "The politics of performance evaluation: Independent evaluation at the International Monetary Fund," Catherine Weaver discusses the motivation for the creation of the IEO by stating that:

The Fund has been widely accused of performance problems, including unchecked mission creep, weaknesses and biases in central surveillance activities and conditionality practices, and failures to anticipate and preempt financial crises in a timely manner. After the Asian financial crisis ten years ago, many traditional borrowers turned away from the Fund towards private capital or sovereign wealth funds, resulting in several years of negative net lending and a budget crisis that led to a near 13% staff layoff in the summer of 2008. Although recent events have renewed demand for Fund bailouts and thus resolved some debate surrounding its relevance, the institution continues to face considerable criticism regarding its legitimacy and efficacy. This has in turn fueled demands for more accountability and organizational learning, particularly through stronger performance evaluation.³⁷

³⁶ Thomas Bernes, "IEO: The Initial Vision and a Vision for the Future," in *Independent Evaluation at the IMF: The First Decade*, ed. Ruben Lamdany and Hali Edison, vol. 1, 1 vols. (Washington D.C.: International Monetary Fund, n.d.), 19–24.

³⁷ Catherine Weaver, "The Politics of Performance Evaluation: Independent Evaluation at the International Monetary Fund," *Review of International Organizations* 5 (August 11, 2010): 365–385.

Weaver goes on to explain that the IEO is an office under various forms of conflicting pressure—providing both legitimacy in the face of external pressure and powerful critiques of the Executive Board’s actions could be in direct contrast with each other in Weaver’s opinion. However, it is clear that the IEO was not created to provide legitimacy by justifying the actions of the IMF but to provide credibility by frequently doing the opposite. Weaver’s interchangeable use of “credibility” and “legitimacy” seems to canvas over a key aspect of the IEO’s role—whereas legitimacy refers to the right to operate (originating from member countries) and credibility more accurately refers to the believability of IMF rationale. In addition, the IEO reports reviewed for this thesis offer a variety of justifications strongly criticizing the policies and direction of IMF lending. Managing Director, Christine Legard, asserts that “...the IEO is a true child of Lord Keynes, in that it carries out the mandate of “ruthless truth-telling” at the heart of an institution whose own mission is to tell the truth.”³⁸ While the IEO’s review of structural conditionality and the streamlining initiative fails to merit the label of “ruthless,” the suggestions made by the IEO within the reviews are clearly directed towards substantial policy change rather than rhetorical positioning directed towards external criticism.

Legard shows us her perception of the IEO’s mission: “The IEO is an entity that not many organizations would tolerate. It goes under the skin of the institution and under the skin of projects, reports, and ways of operating.”³⁹ Legard does not mention why it took so long for the IMF to establish a “hard to tolerate” unit like the IEO but her views are distinctly positive on the ability of the IMF to remain independent while delving deep within the institutional structure of the IMF. In a report on the IEO, an IMF employee argues that “The IEO has several missions: enhancing our learning culture, strengthening our external credibility, promoting a greater

³⁸ Thomas Bernes, “IEO: The Initial Vision and a Vision for the Future.”

³⁹ Ibid.

understanding of our work, and supporting the Board’s governance and oversight.”⁴⁰ In order to understand the extent to which this role is played, a discussion of the composition is needed.

The IEO was originally designed as a small office designed to work independently of IMF management and “at an arms length” from the Board.⁴¹ The IEO Director is appointed by the Executive Board and serves a non-renewable, fixed term appointment.⁴² From there, the IEO Director selects the staff that composes the rest of the office. The office utilizes various experts to create evaluations where the process follows as such:

...when launching an evaluation and again before completing it, the IEO organizes workshops of experts and other stakeholders to obtain feedback on the evaluation methods, findings, and lessons. Then, after concluding each evaluation, it prepares an internal completion report that mostly focuses on assessing processes and drawing lessons.⁴³

In a 2007 IEO report on conditionality, the office advises the IMF to drastically reduce the way that conditionality operates. This can be seen as a critical point in the IEO’s role in motivating the policy change focused upon in this thesis. In this report IEO argues that “compliance and effectiveness in the areas of IMF core competency” of conditionality was significantly higher. These “areas of competency” that are core to the Fund’s expertise broadly classified as public expenditure management, financial sector issues (transparency, accountability, etc.), and tax-policy.⁴⁴

However broadly defined, these core areas allow national governments to form expectations in relation to the nature of conditions that may or may not be applied to a given loan. In addition, the core areas allow the IMF to develop a strong level of effectiveness in applying conditions that actually reduce the risk involved in lending to poverty stricken and developing

⁴⁰ Ibid. ix

⁴¹ Ibid. pg. 5

⁴² Ibid.

⁴³ Ibid. pg. 6

⁴⁴ Independent Evaluation Office (IMF), “Structural Conditionality in IMF-Supported Programs.”

nations. The IEO played a significant role in advising the IMF to realign conditionality to core areas yet this is only part of the recommendations dedicated to enhancing the effectiveness of conditionality and reducing the stigma involved with IMF lending. The Strategy, Policy, and Review Department supports this claim stating, “A 2007 evaluation of Fund structural conditionality by the Fund’s Independent Evaluation Office became an impetus for further reform.”⁴⁵

Overall, the IMF has adopted a significant number of the recommendations put forth by the IEO where the Executive Board adopts around “85 percent of the IEO’s high-level recommendations whether in full or in a nuanced manner...and estimates it has taken action on roughly 75 percent of these recommendations.”⁴⁶ It is evident that the role of the IEO cannot be ignored when analyzing the processes by which the IMF learns and enacts new forms of conditionality dedicated towards new approaches to lending. The IEO has made critical contributions to the IMF and has “allowed the rest of the world a window on the workings of a critically important and previously quite opaque institution.”⁴⁷

iii. Analyses of Conditionality

Analyzing IMF conditionality requires the appreciation of a diverse set of perspectives. In order to understand IMF lending agreements in terms of conditionality regimes, it is important to have a strong historical grasp of conditionality in addition to being able to discern the various issues discussed in conditional lending agreements. Although every study discusses the “Early Years” of conditionality, I have reserved this for a couple extremely targeted reviews taking place

⁴⁵ Strategy, Policy, and Review Department, *Creating Policy Space--Responsive Design and Streamlined Conditionality in Recent Low-Income Country Programs*. Pg. 23

⁴⁶ Thomas Bernes, “IEO: The Initial Vision and a Vision for the Future.” Pg. 15

⁴⁷ *Ibid.* pg. 24

in the 1980s and early 1990s. Furthermore, the section, “The Causes, Character, and Consequences of IMF Conditionality” deals with reports and scholarly analyses that take on IMF conditionality as a whole—each possessing different focus and approach to understanding why conditionality exists, how it operates, and the results it creates. Next, reviews of the formulation of conditionality are discussed to provide a background for analyzing recent changes in conditionality dealing with “country ownership” of conditions. Finally, literature dealing with “recent change” or the introduction of a social dimension to IMF conditionality—all over the past decade—is reviewed in order to understand these changes outside the nature of IMF public outreach efforts.

a. The Early Years of Conditionality

The 1979 Operational Guidelines to IMF Conditionality took nearly 23 years to replace. The 1980s and 1990s marked two decades of IMF conditionality under the original guidelines full of criticism. One text, “The IMF and World Bank in Africa: Conditionality, Impact, and Alternatives”, focuses on conditionality agreements in throughout the early-1980s and attempts to provide alternatives to the IMF’s approach. Writing in 1987, Kjell Havnevik, states, “conditionality has extended beyond the balance of payment conditions” and that his “findings clearly show that developments associated with the conditionality of the 1980s were extremely unsatisfactory.”⁴⁸ The report also analyzes the argument that an extreme “mission creep” of the IMF had taken place eventually agreeing based on the fact that the IMF was not (in their interpretation of Keynes) supposed to deal with LDCs and only apply conditions on lending related to exchange rate matters.⁴⁹ Another article in the anthology, “Should Conditionality Change?”, provides a historical of analysis of IMF conditionality over the 1970s and 1980s and provides suggestions for reform. Understanding these critiques as they were presented during the

⁴⁸ Kjell Havnevik, “The IMF and The World Bank in Africa: Conditionality Impact, and Alternatives” (Ekblad and Co, 1987). Pg. 20

⁴⁹ Ibid. Pg. 25

experience of IMF lending agreements becomes important for providing a history of conditionality regimes.

Another report important to understanding the evolution of IMF conditionality regime written by Jacques J. Polak presents a powerful review of IMF conditionality. Titled “The Changing Nature of IMF Conditionality”, this report reviews a variety of dynamics within conditionality up until the year before it was published, 1991. It provides a detailed account of the institutional features of conditionality that are discussed later in the thesis concerning the present realm of conditionality policies and details the content of the 1979 Interim Guidelines on Conditionality. Polak presents an understanding of the initial learning curve that IMF lending programs required and discusses this curve in relation to the policy strategies and targets. He concludes: “The 1980s experience of frequent failures of Fund arrangements appears to have had a sobering influence.”⁵⁰ Understanding exactly why the IMF experienced this and their direction since is central to the story developed in this thesis. Together these extensive reviews of conditionality form an excellent source for understanding conditionality’s evolution over the 1980s and 1990s.

b. The Causes, Character, and Consequences of IMF Conditionality

“The Causes and Consequences of Conditionality”, written by Alex Dreher and Roland Vaubel in 2003, claims to fill gaps in the literature by providing a public-choice model that reviews the effects of IMF conditions on target variables.⁵¹ Using IMF Letters of Intent—correspondence between loan recipients and IMF staff—Dreher and Vaubel provide a quantitative analysis of causes of conditionality by reviewing the specific nature of conditions attached to

⁵⁰ Polak, “The Changing Nature of IMF Conditionality.”

⁵¹ Alex Dreher and Vaubel, Rolan, “The Causes and Consequences of IMF Conditionality” (Universitat Mannheim, September 2003).

lending agreements. Their most important recommendation for reform details the need for “mandatory” and “universal” ex ante conditionality (pre-crises, anticipatory measures) as the current system requires countries to accept a crisis is on the horizon for their economy before they can begin receiving assistance.⁵² They argue this is unlikely to change due to the higher levels of demand that “*ex post*” (after crises conditionality) creates for IMF loans.⁵³

There are numerous analyses of IMF conditionality which look at the specific nature of conditions as process by which the IMF creates and sustains demand for its lending. In 2003, Ariel Buira presented paper to the Intergovernmental Group of 24 titled “An Analysis of Conditionality.”⁵⁴ The paper begins by questioning the nature and results of IMF conditionality. Buira supports previous research by finding a significant increase in IMF conditionality throughout the 1980s and 1990s focused upon market liberalization.⁵⁵ Buira also asks the important question: why is the IMF becoming involved in poverty-reduction and social welfare when this is more appropriately the responsibility of the World Bank?⁵⁶ Buira importantly states that the IMF strategically remains in these fields only to show the international community that they “have a social conscience.”⁵⁷

With increased structural conditionality throughout the 1980s and 1990s, scholars have also studied the effects of this particular kind of policy strategy. In Morris Goldstein’s, “IMF Structural Conditionality: How Much is Too Much?”, discusses the character of conditionality applied to lending agreements in relation to the willingness of recipient countries and creditors to enter into

⁵² Ibid. pg. 19

⁵³ Ibid.

⁵⁴ Ariel Buira, “An Analysis of IMF Conditionality” (presented at the XVI Technical Group Meeting of the Intergovernmental Group of 24, Port of Spain, Trinidad and Tobago, 2003).

⁵⁵ Ibid. pg. 6

⁵⁶ Ibid. pg. 5

⁵⁷ Ibid.

lending agreements.⁵⁸ Goldstein also provides a detailed list of the kinds of structural conditions applied in lending agreements across varying kinds of policy areas. Displaying these examples is important to providing an understanding of conditionality in the past.

Analyzing conditionality in a nascent state, prior to the rise of expanded structural conditionality, requires the review of the Jeanne et al paper, “A Theory of International Crisis Lending and IMF Conditionality.”⁵⁹ The authors provide an excellent overview of the origins of conditionality and how the character developed into the conditionality so frequently criticized by the scholarly community. In addition, the paper attempts to clarify the role of the IMF since the the origin of conditionality. Many scholars have discussed the evolving role of the IMF in relation to the content of conditionality—others have focused on the “scope” of conditionality in relation to the variability within IMF conditionality.

In. “Assessing the IMF Conditionality Programs: Implications for Governance of International Finance”, Sawa Omori reviews the criticism that the IMF has frequently applied the same conditionality to a wide variety of countries “without regard for each countries peculiar situation.”⁶⁰ Where the previous analyses discuss the nature of IMF conditionality related to specific conditions, the following analysis are concerned with the criticism displayed in Omori’s work: has the IMF utilized a one-size-fits-all approach to conditionality policy-strategy?

This theme is commonly found within the work of Joseph Stiglitz. In his book, *Globalization and Its Discontents*, Stiglitz frequently discusses the relationship of IMF conditionality to the “Washington Consensus”—an agreement between the “the IMF, the World

⁵⁸ Morris Goldstein, “IMF Structural Conditionality: How Much Is Too Much?,” in *IMF Structural Conditionality: How Much Is Too Much?* (presented at the Economic and Financial Crises in Emerging Market Economies, Woodstock, VT, 2000).

⁵⁹ Olivier Jeanne, Jonathan Ostry, and Jeromin Zettelmeyer, “A Theory of International Crises Lending and IMF Conditionality,” October 2008.

⁶⁰ Sawa Omori, “Assessing the IMF Conditionality Programs: Implications for Governance of International Finance,” *Interdisciplinary Information Sciences* 15, no. 2 (2009): 189–196.

Bank, and the U.S. Treasury about the ‘right’ policies for developing countries” signalling what he calls “a radically different approach to economic development and stabilization.”⁶¹ He charges the IMF for utilizing conditionality to create national policies adherent to the Washington Consensus or neoliberal project—qualified by policy targets demanding rapid liberalization or markets and diminishing the role of the government by reducing spending and cutting social programs. Stiglitz is not alone in this critique. William Tabb’s article “After Neoliberalism?” argues that the neoliberal doctrine of the IMF based a developmental project on the logic of no alternatives.⁶² David Sarai finds that the policies advocated by the IMF over the past several decades are “somewhat indistinguishable from the wider influence of the neoliberal ideology.”⁶³ Eva Nieuwenhuys further argues that the rationality of global neoliberalism—composed of autonomous liberalized states—is ironically countered by the role of IMF conditionality as she argues that states rarely enjoy autonomy when adopting conditions set out by IMF economists.⁶⁴ Steven Slaughter’s book, *Liberty Beyond Neo-liberalism*, argues that IMF conditionality of the 1980s and 1990s possessed neo-liberal character as it attempted to “wind back the welfare state” cutting various forms of social expenditures.⁶⁵

While these scholar’s critiques focus upon the relationship between conditionality policy targets and a particular philosophy of market-government interaction, their analyses fall short of the most recent changes discussed in this thesis and are importantly countered by the work of Randall Stone. In Stone’s paper, “The Scope of IMF Conditionality”, he presents an extensive analysis of the size and breadth of IMF conditionality. Stone concludes based on an empirical

⁶¹ Joseph E. Stiglitz, *Globalization and Its Discontents*.

⁶² William Tabb, “After Neoliberalism?,” *Monthly Review* 55, no. 2 (June 2003): 25.

⁶³ David Sarai, “The US Treasury and the Re-emergence of Global Finance,” in *Hegemonic Transitions, the State and Crisis in Neoliberal Capitalism* (New York, NY: Routledge, 2009), 87–103.

⁶⁴ Eva Nieuwenhuys, “Social, Sustainable Globalization Requires a Paradigm Other Than Neo-Liberal Globalism,” in *Neo-Liberal Globalism and Social Sustainable Globalisation* (Boston, MA: Brill, 2006), 57–74.

⁶⁵ Steven Slaughter, *Liberty Beyond Neo-liberalism* (New York, NY: Palgrave Macmillan, 2005). Pg. 63

analysis of the kinds of conditions within various policy area that “there is no basis to the charge that the IMF imposes a one-size-fits-all approach” as “the extent and composition of conditionality vary greatly across countries and over time.”⁶⁶ This argument supports and provides limitations to this thesis in two primary ways. First, my argument agrees with Stone’s findings concerning the variation within conditions over time. As conditions change in relation to various policy targets, new policy strategies are formed where significantly new or different strategies constitute the further evolution or fall of a conditionality regime. Second, while Stone concludes that the IMF does not have a one-size-fits-all approach, this relates to the composition of conditionality itself, not the policy strategies enacted through the application of conditionality. In relation to the overall policy strategy contained within conditionality, my argument works alongside the critiques put forth by Stiglitz, Tabb, Slaughter, Sarai, and many others.

This distinction is important to providing an analysis of conditionality regimes and is displayed within James Crotty and Kang-Kook Lee’s research concerning IMF intervention in Korea. They argue that “IMF agreements with Korea in December of 1997 and beyond demanded nothing short of a complete transformation of the Korean Economy.”⁶⁷ Calling the IMF conditionality policy “neoliberal restructuring” the authors conclude IMF conditionality was a “takeover” of Korean interests and should be seen as an “illegitimate anti-democratic power-play by neoliberal forces” restructuring the Korean economy through policy change only attempting to meet the needs of neoliberal donors.⁶⁸ Although the authors focus upon the Korean example, they connect IMF conditionality with a larger economic project; neoliberalism. Crotty and Lee deal extensively with the neoliberal nature of 1980s and 1990s IMF conditionality. This thesis picks up

⁶⁶ Randall W. Stone, “The Scope of IMF Conditionality.” Pg. 3

⁶⁷ James Crotty and Kang-Kook Lee, “Was IMF-Imposed Economic Regime Change in Korea Justified? The Political Economy of IMF Intervention,” *Review of Radical Political Economics* 41, no. 149 (February 24, 2009): 169.

⁶⁸ Ibid.

where they leave off: analyzing the extent to which recent policy changes modify the IMF's neoliberal project. In order to understand how external interests become expressed in IMF conditionality, literature must be reviewed concerning the formation of IMF conditionality.

c. The Formation of IMF Conditionality and Ownership of Conditionality Policy

The formation process of IMF conditionality has become a popular topic over the past decade. Questions of country ownership—a term used to refer to IMF conditionality produced by the country receiving the loan—have surfaced as a result of IMF policy change. A variety of scholars insist upon the introduction of recipient country-owned conditionality in order to strengthen the will of a recipient country to adhere to lending agreement stipulations while others find that external interests dominate the conditionality policy-making process. Higher levels of involvement on behalf of the countries receiving the loans—and therefore agreeing to submit to conditionality policy—could create lending agreements with qualities distinct from those of the past.

Mohsin Khan and Sunil Sharma break down the formulation and ownership in their article “IMF Conditionality and Country Ownership of Adjustment Programs.”⁶⁹ They provide a review of proposals put forth near the turn of the millenium that discuss the following: encouraging countries to design their own structural adjustment, streamlining conditionality, introducing more flexible timing measures to the adoption process, and applying conditionality to outcomes rather than policies.⁷⁰ Eventually, they advocate for an “outcomes-based” conditionality that leaves the specific policies directed at economic growth up to the national authorities.⁷¹ While they present several important complications for this approach, they nevertheless conclude that “country

⁶⁹ Mohsin S. Khan and Sunil Sharma, “IMF Conditionality and Country Ownership of Adjustment Programs.”

⁷⁰ Ibid. pg. 227

⁷¹ Ibid. pg. 242

ownership of IMF-supported programs is essential.”⁷² This distinction between policy-based and outcomes based is significant to the research performed here in this thesis. While the authors argue for “outcomes-based conditionality”, IMF conditionality policies (what Khan and Sharma call policy-based conditionality) inherently include targets where many different types of conditions form a blend between means and ends. Khan and Sharma’s analysis of IMF conditionality is static, concluding that agreements are only sets of policies. This thesis disagrees with this framework—and instead, views conditionality agreements as dynamic sets of policy formulating a strategy for stabilization or growth—necessarily focused on the outcomes needed to mitigate the risk involved within crises lending.

In Jurgen Zattler’s article, “Reviewing the Policy on Conditionality”, he reaches conclusions concerning the merit of donor-recipient coordination providing a more dynamic understanding of IMF conditionality policy.⁷³ Zattler finds that donor coordination is beneficial with social sector reforms, yet, also, that the IMF must continue to lead the formulation process to ensure that the disbursement process can begin quickly while the level of change required is relatively low.⁷⁴

Other scholars have viewed the formulation of conditionality policy in relation to the influence that American interests can have upon lending agreements. Thomas Oatley and Jason Yackee discuss the extent to which American interests can decide the kind of economic reforms contained in conditionality policy and the extent to which they are required to be adopted in their article “American Interests and IMF Lending.” Their research finds that the IMF offers larger loans where the United States has more interests at stake, and conversely, that smaller loans are

⁷² Ibid. pg. 245

⁷³ Jurgen Zattler, “Reviewing the Policy on Conditionality,” *Intereconomics* September/October 2005 (n.d.): 292–296.

⁷⁴ Ibid. pg. 295

offered where the United States has fewer interests.⁷⁵ Research put forth in Stone’s “The Political Economy of IMF Lending in Africa”, expands upon Oatley and Yackee’s conclusion arguing the IMF fails to enforce its conditions because the major donor countries interfere.”⁷⁶ Both articles show a similar diagnosis with empirical divide where both articles state that the IMF is directed by donor countries—one researching the formation of conditions and the other finding donor influence within the enforcement process. While this thesis looks more broadly at the policy strategies evident in IMF lending conditionality, these articles provide a foundation for describing how policy is formed and understanding the external influences involved throughout the IMF lending process.

d. Focusing on Recent Changes

Recent literature on IMF conditionality focuses upon the the effects of the streamlining initiative—an effort undertaken by the IMF to reduce the amounts of conditions outside of IMF expertise attached to lending agreements—or the possible effects of the most recent changes. Tony Killick argues in, “The Streamlining of IMF Conditionality: Aspirations, Reality, and Repercussions”, that the IMF’s attempt to reduce and create a more parsimonious conditionality regime is narrowly conceived, supply-driven, and confined only to a few lending agreements.⁷⁷ Concerning more recent changes, Killick finds that the current nature of conditionality is changing in relation to governance and public expenditure management. He argues that newer programs are paying more attention to the specifics of social sector spending and the content of conditions

⁷⁵ Thomas Oatley and Jason Yackee, “American Interests and IMF Lending,” *International Politics* 2004, no. 41 (2004): 415–429. Pg. 425

⁷⁶ Randall Stone, “The Political Economy of IMF Lending in Africa,” *American Political Science Review* 98, no. 4 (November 2004): 577–590.

⁷⁷ Tony Killick, *The “Streamlining” of IMF Conditionality: Aspirations, Reality, and Repercussions* (Department for International Development: Overseas Development Institute, April 2002).

related to this policy domain is changing.⁷⁸ Graham Bird further analyzes the effects of the 2000 initiative to streamline IMF conditionality arguing that it is more of a “flatline” where no progress had been made up until the end of 2008.⁷⁹ Bird claims that since then there are signs of a “major overhaul” within IMF conditionality. He writes, “the global financial crisis of the late 2000s seems to have generated institutional reform that allows the IMF to deliver the modifications that many critics have been seeking.”⁸⁰ As Bird fails to provide a detailed analysis here, the important question becomes, what are these reforms and what can they tell us about the overall strategy of IMF conditionality lending?

In Ilene Grabel’s article, “Not your grandfather’s IMF: global crisis, ‘productive incoherence’ and developmental policy space”, Grabel discusses the IMF’s response to financial crisis. She distinguishes between “neoliberal coherence” and “productive incoherence” where the former represents the IMF’s conditionality regime of the past several decades and the latter represents a distinctively new approach that has not yet “congealed into any sort of consistent strategy or regime.”⁸¹ Grabel writes:

For those like this author and others who have worried about neo-liberalism as a straightjacket over policy space in developing countries, the new incoherence may signal the tentative beginning of the end of a wrong-headed regime that granted excessive authority to the IMF, neo-liberal economists and the global financial community to set the parameters of acceptable, feasible policy choices in the developing world. In this sense, the present incoherence is productive, signalling as it does not the death of neo-liberalism, certainly, but erosion of the stifling consensus that has secured and deepened neo-liberalism across the developing world over the past several decades.⁸²

⁷⁸ Ibid. pg. 3

⁷⁹ Graham Bird, “Reforming IMF Conditionality: From ‘Streamlining’ to ‘Major Overhaul,’” *World Economics* 10, no. 3 (September 2009): 81–104.

⁸⁰ Ibid.

⁸¹ Ilene Grabel, “Not Your Grandfather’s IMF: Global Crisis, ‘Productive Incoherence’ and Developmental Policy Space,” *Cambridge Journal of Economics* 35 (2011): 805–830.

⁸² Ibid.

As Grabel writes in 2011, the IMF is implementing further changes to its lending agreements. In order to understand what strains of rationality exist in this new “productive incoherence” and how it differs distinctly the neoliberal project, this thesis sets out where Bird and Grabel finish—providing a history of the IMF’s neoliberal conditionality regime and analyzing initial conditionality policy-changes relating to modifications of the previous regime. In order to discern the amount of contrast between ‘new IMF conditionality’ and the neoliberal project, new research must be conducted.

iv. Conclusions

While there is a vast amount of literature concerning IMF conditionality, the research presented in this thesis fills an important gap. Although scholars (e.g. Stiglitz, Slaughter, Sarai, Nieuwenhuys, Tabb, etc.) have reviewed the ideological predisposition of conditionality policy-strategy—placing IMF conditionality over the past several decades in line with the evolution of the neoliberal project—a comprehensive history, discussing the origins and applications, of this conditionality regime has not been provided. In addition, it has not been contextualized in the wake of recent changes concerning new policy strategies directed at safeguarding social spending through conditionality. Many scholars have empirically investigated the nature of specific lending agreements or the character of the conditions themselves while fewer have attempted to analyze broader trends in IMF conditionality. While Bird and Grabel argue that a “major overhaul” or new “productive incoherence” stands in direct contrast to the conditionality of the past, insufficient time had passed for them to adequately support their arguments. Picking up where these authors leave off, this thesis attempts to provide a theoretical positioning of socially protective IMF

conditionality and prescribe a possible path forward for the IMF in further modifying its overall ideological approach to lending and economic growth.

Chapter 3: A History of IMF Conditionality

...those almost overwhelming tasks which lie ahead of us, to rebuild the world when a final victory over the forces of evil opens the way to a new age of peace and progress after great afflictions.

John Maynard Keynes-3 July 1944⁸³

i. Introduction

The IMF came into being in 1944 as a limited solution to a larger issue with international markets. Part of a larger approach to reforming international markets, it had a central focus: provide an effective system of management dedicated to the stable circulation of currency across the globe. Previous forms of international governance were inadequate. Many world leaders increasingly found the General Agreement on Trade and Tariffs to be ineffective when dealing with forms of protectionism not directly related to tariffs and unable to enforce shared principles directed at increased levels of trade. As a result, a new kind of discussion—bearing important consequences still in effect to day—would be held. Eventually, a conference in Bretton Woods, New Hampshire established what many call the “liberal economic order” through the creation of a set of multilateral institutions.⁸⁴ Now, they are commonly referred to as the Bretton Woods Institutions—a set of institutions possessing binding agreements between member nations charged with guiding and sustaining economic relationships in a increasingly complex world. This vision represented a philosophy of economy that accounted for market failure—an understanding of markets that claims markets possess various forms of risk when left to their own devices. Joseph Stiglitz displays this philosophy in relation to the IMF’s creation writing, “The IMF was founded

⁸³ John Maynard Keynes, *J.M Keynes XXVI-Activities 1941-1946: Shaping the Post-War World-Bretton Woods*, vol. 26 (University Press, Cambridge: Macmillan Cambridge University Press, 1980).

⁸⁴ Mark S. Copelovitch, *The International Monetary Fund in the Global Economy*.

on the belief that there was a need for collective action at the global level for economic stability.”⁸⁵ Markets were deemed volatile and regulation, intervention, resultingly unavoidable to create stability.

The IMF has a unique structure related to intervening in international markets. Rather than working directly with national governments, the IMF deals with central banking and financial institutions. It is a “public institution established with money provided by taxpayers around the world” and “reports to the ministries of finance and the central banks of the governments of the world.”⁸⁶ Unlike the World Bank, the IMF is publicly funded through a quota system where each member nation makes payments based on an assigned percentage and can only borrow in relation to percentage of that total amount.⁸⁷ While not legally declared lender of last resort exists, the IMF is undoubtedly the institution performing this role. Mark Copelovitch, an institutional scholar, supports writing: “Above all the Fund’s key role has been that of de facto international lender of last resort to countries facing financial and currency crises or an inability to repay their international debt.”⁸⁸ As such, the founding philosophy of the IMF provided a limited role of stabilization lender during financial crises. Economic challenges outside of this domain were addressed through the creation of separate institutions such as the World Bank.

In 1944, John Maynard Keynes argued for a strict distinction between the operations of the World Bank and the IMF.⁸⁹ Keynes argued that the Fund should be composed by “cautious bankers” and the Bank by “imaginative expansionists.”⁹⁰ While Keynes saw an expansionist role for mulilateral institutions, he argued for a strict division of labor between the institutions. The

⁸⁵ Joseph E. Stiglitz, *Globalization and Its Discontents*.

⁸⁶ Ibid. pg. 12

⁸⁷ Mark S. Copelovitch, *The International Monetary Fund in the Global Economy*.

⁸⁸ Ibid. pg. 3

⁸⁹ Tony Killick, “Relections on the IMF/World Bank Relationship,” in *The IMF and The World Bank in Africa: Conditionality Impact, and Alternatives*, ed. Kjell Havnevik (Ekblad and Co, 1987), 25–26.

⁹⁰ Ibid. pg. 25

limited and cautious role for the IMF envisioned by Keynes becomes important for understanding the history of IMF lending. Killick interprets Keynes' vision writing, "The Fund was not expected to be dealing primarily with LDCs and it was not designed as an agency whose policy was intended to tackle the particular type of balance of payments problems which are now associated with LDCs."⁹¹ The first two decades saw little overlap between the activities of the institutions. However, in 1974, the IMF established the Extended Fund Facility (EFF), which expanded the IMF's ability to lend to countries facing longer issues related to an imbalance of payments. As the agreements expanded, the amount of conditionality expanded as well and the "cautious" nature of Keynes' IMF bankers had begun to decline.⁹²

This chapter traces the rise, climax, and impending resolution of a story related to IMF conditionality policy. Conveniently, our protagonist becomes the concept of the "cautious banker" John Maynard Keynes sought to build the IMF around. Conditionality simultaneously viewed as a strategy and accountability mechanism, presents a window for analyzing the IMF's actions. Conditionality directed towards development represents a significant redirection of the IMF's original role as a cautious economic stabilizer. The history of conditionality provides many important topics for discussion as the plot line traces a variety of policy strategies possessing their own objectives. The important, untold story, becomes one of detailing the specific direction of a prolonged mission creep, and finally, one of utilizing social spending to spur economic growth in relation to the rise and fall of the neoliberal doctrine. Nearly seventy years after Keynes' envisaged the IMF as a set of "cautious bankers", it seems as if the mission and activities of the IMF have greatly expanded undergoing a variety of modifications. The gradual birth of the predominant conditionality regime adherent to neoliberal policies—dogmatically designed to

⁹¹ Ibid.

⁹² Ibid. pg. 26

liberalize and privatize the entirety of the market—is still experiencing modification. Yet, what can a history of the IMF’s neoliberal conditionality regime tell us about the current state of IMF conditionality and does an analysis of the current realm of conditionality policies reveal a return to the balance and caution advocated by Keynes? This chapter begins with a discussion of origins and ends directly prior to an analysis of present.

ii. Early Stages

From 1947 to the mid 1950s, The IMF allowed members to borrow without explicit conditions although strong suggestions for policy change were advocated by IMF staff alongside lending agreements.⁹³ The early stages of IMF conditionality (1954-1979) represent a nascent state of IMF conditionality strategy full of experimentation. During this time, the IMF possessed a limited conditionality regime. Very few conditions were applied to each agreement and as Jaques Polak argues, the 1960s and 1970s represented a conditionality regime vigilantly constrained by the IMF’s Executive Board.⁹⁴ Polak’s paper cited above shows that the IMF’s Articles of Agreement does not mention “growth” as an initial objective. As a result, the initial conditionality was primarily focused on stabilization and maintaining an acceptable balance of payments over the duration of a loan’s disbursement.

The logic of conditionality originated in 1952 over eight years after Keynes carved out the IMF’s mission at Bretton Woods.⁹⁵ Through the creation of the “Stand-By Arrangement”—a facility providing additional time for countries to borrow without making an entirely new request for a loan—conditionality found an initial role. In 1954, Peru requested a one-year stand by arrangement and the request was granted with an important provision; the IMF could interrupt the

⁹³ Jeanne, Ostry, and Zettelmeyer, “A Theory of International Crises Lending and IMF Conditionality.”

⁹⁴ Polak, “The Changing Nature of IMF Conditionality.” Pg. 61

⁹⁵ Jeanne, Ostry, and Zettelmeyer, “A Theory of International Crises Lending and IMF Conditionality.”

loan disbursement if it felt that the Peruvian attempt to stabilize currency values was no longer effective.⁹⁶ This represents a significant change in IMF lending which can be viewed as the birth of “prior action” conditionality or policies attached to lending agreements required to be adopted by recipient countries before the disbursement of a loan.

However limited, the IMF still possessed a relatively rigid policy strategy related to controlling inflation—representing a general increase in prices and fall in the purchasing value of a national currency. Polak shows that the IMF did not apply the concept of “gradualism” to controlling inflation—allowing loan recipients time to gradually adopt policy changes. Instead, a strict form of conditionality resided between IMF resources and member countries where those unwilling to rapidly adopt IMF fiscal policy strategies could not count on IMF resources.⁹⁷ Where “gradualism” was scarce within policy change advocated for member countries, the IMF’s internal development of conditionality policy evidenced a slow evolution over time—conditionality developed slowly regardless of the strict nature attributed to it during creation.⁹⁸

At this point in time, Keynesian notions of caution had remained relatively strong. A limited conditionality regime of scope had entered the playing field and conditionality was used only to “safeguard” IMF resources; a strategy many creditors were agreeable with. However, as conditionality evolved, the process of assigning conditionality to lending agreements represented the beginning of a negotiation process embedded in power and economic status. Buira’s analysis of IMF conditionality shows that conditionality of the 1960s and 1970s involved a process of negotiation where the IMF used a superior financial position to encourage member countries to adopt policies.⁹⁹ Buira argues that conditionality was not initially formed in relation to a set policy

⁹⁶ Ibid.

⁹⁷ Polak, “The Changing Nature of IMF Conditionality.” pg. 33

⁹⁸ Jeanne, Ostry, and Zettelmeyer, “A Theory of International Crises Lending and IMF Conditionality.” Pg. 4

⁹⁹ Ariel Buira, “An Analysis of IMF Conditionality.”

strategy but in the negotiation process, where a larger, wealthier, country would possess more alternatives to financing and therefore have a stronger ground to negotiate lower levels of conditionality than a poor country.¹⁰⁰ As the IMF negotiated the adoption of conditionality over the 1960s and 1970s, this conditionality regime can be seen as nascent and limited, yet growing and increasingly rigid. In 1979, Interim Guidelines on Conditionality were issued to IMF management and staff marking the first official set of policy strategies distributed to IMF staff concerning how to apply conditionality to loans.

The 1979 guidelines can be seen as the culmination of what the IMF learned about conditionality over the first two and a half decades of using it to safeguard fund resources. Most importantly, the 1979 guidelines show the IMF had learned (or at least recognized the benefit of stating it had learned) that conditionality must represent the IMF's awareness of the *causes* of imbalances of payments issues and not just quantitative measures to stabilize the effects of these causes.¹⁰¹ Ironically, these guidelines argued for limited conditionality yet also created room for an increased amount of depth in the changes IMF conditionality engendered. That is, the IMF Executive Board saw the need for a reduced amount of conditions per loan; yet, by focusing on the structural causes of fiscal issues, the IMF had begun to utilize conditionality on a political level. It expanded conditionality beyond fiscal stabilization to structural adjustment—arguing the former oftentimes required the latter. This expansion would represent the theme of over twenty years of policy strategy in IMF conditionality. As a result, IMF conditionality of the 1980s and 1990s represented a turn from caution to exploration and quite possibly the beginning of an IMF distinct from Keynesian vision.

¹⁰⁰ Ibid. Pg. 4

¹⁰¹ Ibid.

iii. The 1980s & 1990s

IMF conditionality of the 1980s and 1990s was not revised as a result of the decision of one Managing Director or Executive Board—or even a continuity in vision across these positions. The nascent conditionality regime of the past solidified around the 1979 Interim Guidelines increasing in scope and depth. Expanding around the original vision provided by Keynes at Bretton Woods—a limited and cautious credit insurance system focused on economic stabilization—1980s and 1990s conditionality began to possess stark contrast to the cautious nature of lending advocated by Keynes. The IMF had moved from solely focusing on economic stabilization to emphasizing growth and development. IMF Managing Director, Michel Camdessus, displays his interpretation of the evolution of conditionality in 1990 stating, “Our prime objective is growth. In my view, there is no longer any ambiguity about this. It is towards growth that our programs and their conditionality are aimed.”¹⁰² The distinction between stabilization and growth is one of great significance. While stabilization implied a short-term process related to currency issues; growth provided a larger, broader, economic goal for the IMF forcing conditionality to focus outside of monetary policy and begin to view structural, institutional, and eventually social reform as suitable horizons for conditionality to manifest across. The question of how to discern which kinds of conditionality to attach to structural reform was inevitably a political one—if conditionality was to restructure, what kind of structures would it aim to create and who would stand to benefit the most from restructuring?

The rise of the conditionality that IMF scholars so aggressively critique originated from an approach to growth born out of a relationship between the IMF, the World Bank, and the United States Treasury. Joseph Stiglitz notes that “the Keynesian orientation of the IMF, which emphasized market failures and the role for government in job creation, was replaced by the free

¹⁰² Goldstein, “IMF Structural Conditionality: How Much Is Too Much?”. Pg. 3

market mantra of the 1980's"—one part a what many call the "Washington Consensus".¹⁰³ He explains this relationship further detailing that the Washington Consensus formed between "the IMF, the World Bank, and the U.S. Treasury about the 'right' policies for developing countries" signalling what he calls "a radically different approach to economic development and stabilization."¹⁰⁴ His description of the "market mantra" represents a critique common within the literature concerning IMF conditionality of the past.

The development of the Washington Consensus alongside IMF conditionality of the 1980s and 1990s is an important phenomenon for understanding how new modifications contrast with old policies. As the IMF began to focus more on growth rather than stabilization, they were required to answer an important question concerning the nature of growth itself: how does an economy grow? The Washington Consensus provided a market-based answer to this question adopted by the IMF. However, the IMF's answer to this question, regardless of adherence to a "Washington Consensus", was not initially of great importance. Rather, the more important focus was the means by which the IMF attempted to spur growth in relation to the Washington Consensus—conditionality eliciting structural and even political change.¹⁰⁵ The 1980s and 1990s saw many critiques of what came to be known as "structural conditionality", or conditionality requiring change not readily defined by a quantitative target. Responding to two decades of structural conditionality, Martin Feldstein wrote: "The IMF should eschew the temptation to use currency crises as an opportunity to force fundamental structural and institutional reforms on countries..."¹⁰⁶ The Independent Evaluation Office has since concluded in agreement with scholars like Feldstein and Stiglitz noting that structural conditionality operated outside of IMF

¹⁰³ Joseph E. Stiglitz, *Globalization and Its Discontents*. pg. 16

¹⁰⁴ Joseph E. Stiglitz, *The Stiglitz Report: Reforming the International Monetary and Financial Systems in the Wake of the Global Crisis*.

¹⁰⁵ Goldstein, "IMF Structural Conditionality: How Much Is Too Much?". Pg. 4

¹⁰⁶ Ibid.

expertise and were seen as ideologically based and intrusive upon national sovereignty.¹⁰⁷ The conditionality of the 1980s and 1990s, one shown to be focused on growth through structural is important to review in relation to what the IEO points out in the above quote: ideology. What was the logic by which structural changes were made—what exactly had the IMF, World Bank, and U.S. Treasury reached a consensus upon?

Neoliberalism—an approach to economic growth related to privatization, market liberalization, decreasing the role of government in the economy, and reducing levels of social spending—is commonly presented as an answer to the above question. An important example of structural conditionality applied in adherence to neoliberal doctrine is found in the case of South Korea’s lending agreement in December of 1997. James Crotty and Kang-Kook Lee serve as two examples of many scholars who critique the actions taken by the IMF in this agreement. Crotty and Lee powerfully critique the late 1990s IMF agreement with South Korea. They argue that this agreement required “nothing short of the complete transformation of the Korean economy...demanding a complete and rapid transition from Korea’s traditional East Asian economic model to a globally integrated neoliberal model.”¹⁰⁸ Their recommendations are summarized in the following quote:

If this can happen to Korea, it can happen to any developing country. All developing countries should resist even the early pressures to accept liberalization policies that will make them vulnerable to subsequent banking and currency crises that give powerful foreign economic interests the leverage they need to enforce destructive IMF agreements. Such agreements destroy the ability of nations to control their own economic destiny.¹⁰⁹

Crotty and Lee’s argument show a staged process by which they believe the IMF spreads structural change adherent to the neoliberal logic. First, the IMF exerted pressure before the lending

¹⁰⁷ Independent Evaluation Office (IMF), “Structural Conditionality in IMF-Supported Programs.”

¹⁰⁸ James Crotty and Kang-Kook Lee, “Was IMF-Imposed Economic Regime Change in Korea Justified? The Political Economy of IMF Intervention.”

¹⁰⁹ Ibid. pg. 167

agreement to liberalize creating a vulnerable banking and currency system. Then after these vulnerabilities cause crises, the IMF offers help only under the condition that the recipient country further liberalize, adopting neoliberal policies. This represents what Crotty and Lee call “the paradox of the neoliberal revolution” via IMF conditionality where they ask in conclusion, “[unless in crisis] who would vote for the outcomes that typically follow an IMF takeover: mass unemployment, falling real wages, an assault on trade unions, destruction of welfare programs, the elimination of subsidies for the poor, and rising inequality?”¹¹⁰ Stiglitz, Feldstein, Crotty, and Lee are not alone in their critique of the 1980s and 1990s IMF neoliberal-structural conditionality regime.

Where Crotty and Lee focus upon the economic vulnerability related to neoliberalization via IMF conditionality, Ximena de la Barra and Richard A. Dello Buono address another important facet of conditionality during this period: discussing the effect it had upon national decision-making processes. They argue that the ascent of neoliberalism “endorsed by the so-called Washington Consensus called for unbridled deregulation of economic flows.”¹¹¹ The political effect was felt at the level of national parties—as liberalization dominated policy-making, parties began to receive opposition among “their traditional sectors of support” where “the pressures on parties to deepen a process of neoliberal reform altered the political and ideological context.”¹¹² As parties struggled to reformulate their platforms in adherence to the neoliberal reforms imposed externally, they struggled to survive. They cite the anti-IMF riots in Venezuela—known as the “Caracazo”—as their key illustration to this political effect where people across party lines

¹¹⁰ Ibid.

¹¹¹ Ximena de la Barra and Richard A Dello Buono, *Latin America After the Neo-Liberal Debacle* (Plymouth, UK: Rowman and Littlefield, 2009).

¹¹² Ibid. pg.17

protested the adoption of neoliberal policy resulting in a violent suppression of the riot.¹¹³

However, why did IMF conditionality receive such popular opposition above and beyond reasons related to intrusion of sovereignty? What other reasons can we find to explain these forms of resistance to the neoliberal conditionality regime of the 1980s and 1990s?

The answer relates back to Crotty and Lee's understanding of IMF conditionality focused on reducing government expenditures, welfare programs, and subsidies for the poor.¹¹⁴ Discussing the social debts brought on by neoliberal globalization, de la Barra and Dello Buono continue to position IMF conditionality alongside neoliberalism in Latin American. They show that the IMF privileged debt-service payment over social expenditures during lending agreements placing social services (e.g. education, healthcare, and pensions) as "the first budgetary item on the chopping block."¹¹⁵ Decreasing the levels of spending in these areas transcended political party lines in many countries in Latin America and became a popular issue of class warfare. As the expansion of private business developed, the social services provided by the government were halted resulting in widespread protest.

Paradoxically, the evolution of the IMF neoliberal conditionality over the 1980s and 1990s can be seen as two seemingly contrasting phenomena: first, a distinct turn away from Keynes' limited and cautious vision of an economic stabilizer at Bretton Woods, to one focusing on growth via structural reform, and second, a rigid adherence to a clear task given by Keynes at Bretton Woods, maintaining the stability of global capital.¹¹⁶ Once again, the key difference is one between that of growth and stabilization. It seemed as if the IMF had moved towards the goal of growth and development while believing it could simultaneously and dogmatically serve the

¹¹³ Ibid.

¹¹⁴ James Crotty and Kang-Kook Lee, "Was IMF-Imposed Economic Regime Change in Korea Justified? The Political Economy of IMF Intervention."

¹¹⁵ De la Barra and Dello Buono, *Latin America After the Neo-Liberal Debacle*.

¹¹⁶ Ibid.

interests of stabilizing the increase of capital flows. The IMF's attempt to balance both placed them geographically (e.g. Latin America, South America, Eastern and Southern Africa) in areas where development required more than the increase of capital flows, and providing the social services required for development in these areas ran counter to the interests of immediately increasing the reach of global capitalism through liberalization.

While the IMF continued to practice lending through this conditionality regime over the 1980s and 1990s, there is evidence that the institution was actually learning from its mistakes. Issuing new conditionality guidelines in 2002 and enacting what the IMF called the "Streamlining Initiative" serve as the first responses on behalf of the IMF to resolve the tension between neoliberal conditionality and the developmental needs of recipient countries.

iv. The Streamlining Initiative

With the turn of the millennium, our 'cautious banker' is found on the sidelines of a heated debate concerning the IMF's role in the developing world. The IMF has reached a stride in offering resources for the sake of development and has publicly stated that there is no ambiguity concerning this key role for the institution. However, those negatively affected by the structural conditionality of the 1980s and 1990s did not remain silent. Scholarly and popular critique alike calling for a reduction in the IMF's activities finally received at least the appearance of slight victory in 2001 when the IMF announced new reforms to the conditionality regime.

The IMF's first attempt to alter the nature of conditionality is commonly referred to as the "streamlining initiative".¹¹⁷ It defines to an attempt to create a more parsimonious conditionality regime—one of simplicity and focus. The rhetorical effort surrounding the initiative seemed to

¹¹⁷ Graham Bird, "Reforming IMF Conditionality: From 'Streamlining' to 'Major Overhaul'."

call for a return to low, limited, levels of conditionality previously discussed during the late 1950s and 1960s. It seemed that new employment opportunities for our cautious banker would be found at the IMF. The IMF argued that less conditionality would result in less intrusion on the national sovereignty of recipient countries and a higher rate adoption on their behalf. The initiative primarily focused on reducing the number of conditions that related to areas outside of the IMF's expertise. However, it is now apparent that the initiative failed to provide what it had promised. For an understanding of how and why, I turn to the IMF's most surprising critic—the IMF itself. This section focuses on a report issued by the Independent Evaluation Office that analyzes both: structural conditionality throughout the 1990s and the effectiveness of the streamlining initiative.

The Independent Evaluation Office's (IEO) review of structural conditionality in IMF-supported programs traces the structural depth of conditionality and the policy areas by to which conditionality was applied from 1995-2004. The IEO—an office dedicated to enhancing the learning process at the IMF and strengthening external credibility founded in 2002—finds that 216 IMF lending programs possessed over 7,000 structural conditions averaging 34 conditions per program.¹¹⁸¹¹⁹ These conditions varied greatly in their nature focusing upon many areas outside the Fund's core area of expertise including: state-owned enterprise reform, privatization or public industry, and social policies.¹²⁰ The 'mission-creep' of IMF lending had evolved into an open attempt to expand the reach of the IMF lending framework.

The IEO report on the streamlining initiative shows that the core areas possessed an average 11.25% of all of the total conditions utilized. Nearly ninety percent of all conditions were focusing well outside the areas of IMF expertise nearly four years after the beginning streamlining initiative. This shows us that the IMF operated well outside the boundaries of its expertise before

¹¹⁸ Independent Evaluation Office (IMF), "Structural Conditionality in IMF-Supported Programs."

¹¹⁹ Thomas Bernes, "IEO: The Initial Vision and a Vision for the Future."

¹²⁰ Independent Evaluation Office (IMF), "Structural Conditionality in IMF-Supported Programs."

and after the streamlining initiative. In addition to created a limited role for conditionality outside of IMF core areas of expertise, the initiative also failed to reduce the usage of conditionality eliciting structural change in the recipient country.

Within the Poverty Reduction and Growth Facility (PRGF)—a lending facility for LDCs offering a low fixed interest rate—the percentage of conditions within core areas experiences a significant rise after the streamlining initiative yet still fails to show a complete erasure of the practice of structural conditionality in non-core areas. The IEO review of the streamlining initiative shows us that there is no evidence whatsoever of the initial reduction in the number of structural conditions by the initiative, as the average remained right around 17 per program/year. While the amount of conditions utilized in the PRGF declined from about 16 to 15, this is well under the stated goals of the initiative.¹²¹ This forces one to ask why the streamlining initiative failed to succeed in reducing the amount of conditions? The IEO argues that streamlining through reduction of total conditions was simply hard because program goals “were very broad” and that the “use of specific structural conditions was no better explained in the recent programs than in earlier ones.”¹²² The historical breakdown of IMF conditions by other lending facilities shows that even after the IMF’s approach to applying conditionality changed as a result of the streamlining initiative, it only changed slightly in a quantitative sense as policy change was not focused on modifying the strategy of conditions but rather the numerical extent to which they were applied to lending agreements. As such, the streamlining initiative approached conditionality with the assumption that it was absolutely necessary to provide accountability to loan recipients and to the IMF’s attempt to protect donor resources.

¹²¹ Ibid. pg. 15

¹²² Ibid.

However, the story of the streamlining initiative is not important by virtue of the various shortcomings it possessed. Rather, the streamlining initiative represents an important part of the history of IMF conditionality in relation to how the IMF responded to the the initiative's shortcomings. Although the guidelines on conditionality issued in 1979 and the streamlining initiative of 2002 failed to provide a return to Keynes's projected role for the IMF as a cautious banker, they represent significant points in the history of IMF conditionality policy change defining the gradual evolution of a conditionality regime. The important question becomes, would another twenty years pass before the further modification of IMF conditionality, as in the case of 1979 guidelines, or would the IEO succeed in advancing the pace by which IMF staff learned from their mistakes?

v. The IEO Recommends Real Change for Conditionality

As stated above, the IEO, founded in 2002, represents an attempt on behalf of the IMF to accomplish a variety of things. The Independent Evaluation Office (IEO) of the IMF has come over thirty years after the creation of the Independent Evaluation Group at the World Bank.¹²³ While the IEO has been active during the first decade of its existence, it is easy to wonder why the IMF was so slow to adopt the practice of independent evaluation of practices? This question is not focused upon here, yet the importance of the IEO in the present is.

This section illuminates the larger significance of the organization and position it in relation to recent changes within IMF conditionality. A book recently published concerning the the first decade of the IEO's involvement in IMF lending details the role of the IEO stating: "The IEO of the IMF was created in 2001 to strengthen learning, accountability, and transparency of the

¹²³ "About IEG," *IEG-The First Thirty Years*, accessed March 27, 2013, <http://ieg.worldbankgroup.org/content/ieg/en/home/about.html>.

IMF.”¹²⁴ During the turn of the millenium, the IMF had experienced nearly two decades of harsh criticism from the international community. The rationale for the creation of the IMF clearly shows that the IMF was in dire need of a better system of learning not only requiring accountability and transparency—but transparency originating from an independent review process to create accountability. In her article, “The politics of performance evaluation: Independent evaluation at the International Monetary Fund”, Catherine Weaver discusses the motivation for the creation of the IEO by stating that:

The Fund has been widely accused of performance problems, including unchecked mission creep, weaknesses and biases in central surveillance activities and conditionality practices, and failures to anticipate and preempt financial crises in a timely manner. After the Asian financial crisis ten years ago, many traditional borrowers turned away from the Fund towards private capital or sovereign wealth funds, resulting in several years of negative net lending and a budget crisis that led to a near 13% staff layoff in the summer of 2008. Although recent events have renewed demand for Fund bailouts and thus resolved some debate surrounding its relevance, the institution continues to face considerable criticism regarding its legitimacy and efficacy. This has in turn fueled demands for more accountability and organizational learning, particularly through stronger performance evaluation.¹²⁵

Weaver goes on to explain that the IEO is an office under various amounts of conflicting pressure—providing legitimacy in the face of external pressure and providing powerful critiques of the Executive Board’s actions could be in direct contrast with eachother in Weaver’s opinion. However, it is clear that the IEO was not created to provide legitimacy by justifying the actions of the IMF but to provide credibility by frequently doing the opposite. Weaver’s interchangeable use of “credibility” and “legitimacy” seems to canvas over a key aspect of the IEO’s role—whereas legitimacy refers to the right to operate (originating from member countries) and credibility more

¹²⁴ Thomas Bernes, “IEO: The Initial Vision and a Vision for the Future.”

¹²⁵ Catherine Weaver, “The Politics of Performance Evaluation: Independent Evaluation at the International Monetary Fund.”

accurately refers to the believability of IMF rationale. IMF policies would be more credible if the IMF could receive direct criticism and recommendations as to how to reform them from experts.

Managing Director Christine Legard claims that "...the IEO is a true child of Lord Keynes, in that it carries out the mandate of "ruthless truth-telling" at the heart of an institution whose own mission is to tell the truth."¹²⁶ Legard further displays her perception of the IEO's mission by stating: "The IEO is an entity that not many organizations would tolerate. It goes under the skin of the institution and under the skin of projects, reports, and ways of operating."¹²⁷ Legard does not mention why it took so long for the IMF to establish the IEO but her views are distinctly positive on the ability of the IMF to remain independent while delving deep within the institutional structure of the IMF. In a report on the IEO, an IMF staff member argues that "The IEO has several missions: enhancing our learning culture, strengthening our external credibility, promoting a greater understanding of our work, and supporting the Board's governance and oversight."¹²⁸ In order to understand the extent to which this role is played, a discussion of the composition is needed.

The IEO was originally designed as a small office designed to work independently of IMF management and "at an arms length" from the Board.¹²⁹ The IEO Director is appointed by the Executive Board and serves a non-renewable, fixed term appointment.¹³⁰ From there, the IEO Director selects the staff that composes the rest of the office. The office utilizes various experts to create evaluations where the process follows as such:

...when launching an evaluation and again before completing it, the IEO organizes workshops of experts and other stakeholders to obtain feedback on the evaluation methods, findings, and lessons. Then, after concluding each evaluation, it prepares

¹²⁶ Thomas Bernes, "IEO: The Initial Vision and a Vision for the Future."

¹²⁷ Ibid.

¹²⁸ Ibid. ix

¹²⁹ Ibid. pg. 5

¹³⁰ Ibid.

an internal completion report that mostly focuses on assessing processes and drawing lessons.¹³¹

The lessons provided by the IEO have concerned a variety of topics both before and after the creation of the office. For the story presented in this thesis, one lesson becomes of great importance. In 2007 the IMF tasked the IEO with developing a comprehensive evaluation of conditionality. The Strategy, Policy, and Review Department displays the importance of this report stating, “A 2007 evaluation of Fund structural conditionality by the Fund’s Independent Evaluation Office became an impetus for further reform.”¹³² The IEO report provided direct recommendations to IMF staff that are crucial to account for when analyzing the current state of IMF conditionality.

First, they argue that the Executive Board should clarify what it expects in terms of the number of reductions and what it means by “focusing structural conditions.”¹³³ Here the IEO sees a key problem within conditionality. Although the Executive Board had clearly stated that focused conditionality would work better than a one-size-fits-all approach so criticized by the international community, they had not provided any specific direction for doing so in the streamlining initiative. No specific direction had been provided by IMF management as to where structural conditionality should be focused, what role it should perform.

Second, the IEO recommended that fewer prior actions—types of conditionality required to be adopted before the disbursement of the loan—and performance criteria—quantitative targets required to be met to continue loan disbursement—should be used and the remaining structural benchmarks should promote country ownership, seek sustainable compliance, and pertain to the

¹³¹ Ibid. pg. 6

¹³² Strategy, Policy, and Review Department, *Creating Policy Space--Responsive Design and Streamlined Conditionality in Recent Low-Income Country Programs*. Pg. 23

¹³³ Independent Evaluation Office (IMF), “Structural Conditionality in IMF-Supported Programs.”

core areas of competency.¹³⁴ Here, the IEO is attempting to motivate a conditionality regime not necessarily adherent to the historical means by which conditionality is reformed. Although obscure in the wording of the report, the IEO recommends a decision-making process not solely reliant upon the specific ideological attachments of IMF staff, but one devoted to developing lending agreements specific to the needs and vision of each country possessing structural revisions the borrowing country advocates rather than only accepts out of desperation.

Third, the IEO argues that the Fund is in desperate need of more collaboration and cooperation with the World Bank. This is extremely important for conditionality agreements that contain non-core area conditions that are deemed unavoidable in the composition of the lending agreement as IMF officials could import the expertise required for the management of those sectors. This recommendation, in tandem with advising a stricter approach to reducing conditions applied outside of IMF expertise, the IEO seems to argue for a return to the division of labor similar to the one Keynes envisioned in 1944.

The fourth and fifth recommendations contained in the report touch upon the concept of traceability. The IEO noticed that the reasons for why each condition became attached to a lending agreement weren't explicitly attached program goals. As a result, the IEO advocated the creation of a more robust "monitoring framework that links conditions in each program to reforms and specified goals" and concluded that this monitoring framework should lead to explicit declaration of goals within all documents including reviews originating from the Executive Board.¹³⁵

Finally, and most importantly for this thesis, the IEO advocated a higher level of IMF public outreach. They argue that "outside criticism of conditionality and resistance to requesting IMF support for stabilization and economic reform programs may stem in part from

¹³⁴ Ibid.

¹³⁵ Ibid.

misunderstandings about how structural conditions are set and by whom.”¹³⁶ This shows a pivotal point in IMF policy change—the IEO recognized the detriment of outside criticism upon the willingness of member nations to borrow funds from the IMF. Without a proper track record of successful lending and correct understanding of the policy-making process, the ability of the IMF to lend to countries experiencing a balance of payments crisis, and therefore function at full capacity, would be jeopardized. In addition, this recommendation subtly accounts for the critics previously discussed who believed the United States and other economically wealthy nations purveying the neoliberal doctrine possessed a large amount of power in deciding what kind of conditionality became applied to each lending agreement. While it is evident that the Washington Consensus affected the conditionality of the 1980s and 1990s—through a rigid adherence to neoliberal economic rationale—it seems that the IMF required a better outreach effort to create an understanding of how this happened. While it is evident that the U.S. Treasury, World Bank, and IMF were in conversation with one another concerning the ‘appropriate’ path for developing countries, it is less clear whether the IMF directly incorporated specific suggestions for conditionality agreements as a result of this conversation. The IEO’s last recommendation in the 2007 report comes across as an argument claiming scholars overestimate the role of external influences upon conditionality’s formation. However needed the above recommendations might be, they are of little importance if they are ignored by IMF management. The past three years have provided a small amount of room for discussion concerning the extent to which the IEO’s recommendations made an impact.

While the streamlining initiative lacked qualitative change, its eventual application following the IEO’s critique worked quite well to reduce the amount of conditions per loan.

¹³⁶ Ibid.

Stiglitz discusses the progress in reducing the cumbersome nature of conditionality writing, “..excessive conditionality was one of the major complaints against the IMF” where surprisingly “both institutions now admit that they went overboard” greatly reducing conditionality in the past five years.¹³⁷ A recent report by the Strategy, Policy, and Review Department finds that “..as the number of conditions have declined, the implementation rate has improved.”¹³⁸

Overall, the IMF has adopted a significant amount of the recommendations put forth by the IEO where the Executive Board adopts around “85 percent of the IEO’s high-level recommendations whether in full or in a nuanced manner...and estimates it has taken action on roughly 75 percent of these recommendations.”¹³⁹ It is evident that the role of the IEO cannot be ignored when analyzing the processes by which the IMF learns and enacts new forms of conditionality dedicated towards new approaches to lending. The IEO has made critical contributions to the IMF and has “allowed the rest of the world a window on the workings of a critically important and previously quite opaque institution.”¹⁴⁰

vi. Conclusions

So where can our Keynesian banker of caution be found throughout this history? In the beginning, as a member of the IMF vigilantly constraining the role of conditionality, focusing it on stabilization. During the 1980s and 1990s, increasingly further away from the advancing role of the IMF in the international community. By the end of two decades of increasing levels of structural conditionality and strongly focusing on development engendering kinds of conditions outside the area of IMF expertise, our banker is well outside of the decision making process only

¹³⁷ Joseph E. Stiglitz, *Making Globalization Work*, 1st ed. (New York, NY: W.W. Norton Company, 2007). Pg. 15

¹³⁸ Strategy, Policy, and Review Department, *Creating Policy Space--Responsive Design and Streamlined Conditionality in Recent Low-Income Country Programs*.

¹³⁹ Thomas Bernes, “IEO: The Initial Vision and a Vision for the Future.” Pg. 15

¹⁴⁰ Ibid. pg. 24

to be reincarnated at times through the voices of critics. With the creation of the IEO a new attention to caution is found within the policy formulation process. However, even if Keynes' banker is hired at the IEO, the caution advocated is still *ex post facto*. That is, if the IEO is the "true child" of Keynes, as the current Managing Director claims, should we now see the IMF as his prodigal son? Although the current state of financial markets has changed since 1944, experiencing high levels of volatility, would Keynes agree with the changes the IMF enacted? Would he find hope in the creation of the IEO and the recommendations put forth by this office, or see it as a simple means of retroactive justification to the mission creep evident in IMF conditionality over the 1980s and 1990s? In order to answer these questions, the most current realm of IMF conditionality policies must be reviewed.

The most recent phase of IMF conditionality policy revision follows the streamlining initiative. Beginning in 2007, the recent changes lack a grandiose title yet have powerful implications if they in fact represent a change in vision for the institution. This is due, in part, to the fact that the IMF "admits that the fiscal policy it recommended was excessively austere."¹⁴¹ The Strategy, Policy, and Review Department (SPRD) notes that, "most programs began to incorporate fiscal easing in 2007."¹⁴² Fiscal easing can be thought of as an alternative approach to fiscal austerity where lending agreements initially allow for increased levels of government spending. The SPRD also states that the most recent reforms "were initiated against the backdrop of past criticisms over the Fund's engagement with LIC's."¹⁴³ The explicit recognition of the need for qualitative change post-streamlining initiative in relation to the criticism of lending policy is crucial to the argument put forth by this thesis in the final chapter.

¹⁴¹ Joseph E. Stiglitz, *Globalization and Its Discontents*. pg. 105

¹⁴² Strategy, Policy, and Review Department, *Creating Policy Space--Responsive Design and Streamlined Conditionality in Recent Low-Income Country Programs*. Pg. 4

¹⁴³ *Ibid.* pg. 7

The external relations department summarizes the recently adopted lending philosophy in the following passage:

...the IMF is helping governments to protect and even increase social spending, including social assistance. In particular, the IMF is promoting measures to increase spending on, and improve the targeting of, social safety net programs that can mitigate the impact of the crisis on the most vulnerable in society.¹⁴⁴

This represents an important turn from the shock therapy practiced throughout the 1980s and 1990s. An external relations department factsheet details this move stating “the IMF has overhauled its general lending framework...tailoring loan terms to countries’ varying strengths and circumstances” and “doing away with “hard” structural conditionality” with an “increased focus on social spending and more concessional terms for low-income countries.”¹⁴⁵ However, what exactly does the newly overhauled framework entail? Do we find a return to limited, cautious role of IMF lending envisaged by Keynes or only a reinvigorated approach to maintaining the extensive reach of the IMF conditionality regime?

¹⁴⁴ External Relations Department, “IMF Factsheet-The IMF’s Role in Helping Protect the Most Vulnerable in the Global Crisis.”

¹⁴⁵ External Relations Department, “IMF Factsheet-A Changing IMF-Responding to the Crisis.”

Chapter 4: The Current State of IMF Conditionality

“When things have been so bleak for so long, it is understandable that heterodox development economists underestimate change when it begins to unfold.”¹⁴⁶

-Ilene Grabel

i. Introduction

An analysis of the current state of IMF conditionality policies reveals three things: the lending framework has been significantly changed, policy strategy has become more varied, and that conditionality is paying an increased level of attention to social spending. This chapter provides a description of IMF conditionality today in an effort to depict the changes mentioned above. Conditionality dedicated to enhancing social spending becomes of importance when comparing recent modifications in conditionality policy to revisions of the past. Describing this social addition to the “policy toolkit”—a term I use to describe the current set of policy instruments utilized by the IMF—presents a difficult task. Empirically analyzing IMF conditionality becomes limited due to the nascent nature of policy changes. While examples are provided, it is important to note that they only intend to represent the addition of an economic logic, not evidence of a fundamental change in the way the IMF sees the world or approaches economic intervention. While implications related to the IMF’s vision can be discussed, they must be properly limited and positioned in relation to the gradual evolution of conditionality over the past several decades. Where new changes could represent the emergence of an entirely new approach to providing crises relief on behalf of the IMF, this thesis only seeks to show that they at least represent the addition of a new policy strategy to the prior conditionality regime.

¹⁴⁶ Grabel, “Not Your Grandfather’s IMF: Global Crisis, ‘Productive Incoherence’ and Developmental Policy Space.” Pg. 805

Our cautious banker is constantly kept in mind during this discussion. Do the most recent changes represent a further return to caution, parsimony, and an important appreciation of boundaries? Or do we still find our cautious banker on the periphery? It is important to note here that areas of operation for the IMF distinguished by the above questions are not mutually exclusive. Moreover, it could be the case that the IMF is proceeding with a different set of limitations, applying caution as it changes. To accurately position the current state of our cautious banker, positioning an important part of Keynes' vision for the IMF in the present, a descriptive project of current IMF conditionality must be undertaken.

First, this chapter provides a review of the current types of conditions and the extent to which they are used from 2007 to 2012. Second, it describes the policy areas by which conditionality is applied and the extent to which conditionality operates in them. Finally, it describes the current kinds of expansionary policy strategy—increasing the role of the government in the market—utilized by the IMF exemplifying them with comparisons between past and present lending agreements. The development of a socially protective conditionality represents an important development in IMF lending. After briefly reviewing the types of conditions and policy areas they apply to, the story of the IMF's gradual evolution of socially protective conditionality will be provided supplemented by current examples of its initial application.

ii. Types of Conditions

IMF Conditionality currently possesses three separate types of conditions: prior actions, performance criteria, and structural benchmarks. First, conditions applied before the disbursement of the loan are referred to as “prior actions”. These conditions are “measures that a member is

expected to adopt prior to the approval of the agreement.”¹⁴⁷ These measures are relatively rigid in relation to non-compliance, as the loan disbursement process cannot begin if the recipient has not taken these actions. IMF Factsheets describe the goal of PAs as ensuring that “the program has the necessary foundation to succeed, or is put back on track following deviations from agreed policies.”¹⁴⁸ Examples given in the factsheet include the “elimination of price controls or formal approval of a budget consistent with the program’s fiscal framework.”¹⁴⁹ Due to their application before the disbursement of a loan, PAs provide a framework for the initial negotiation process of a lending agreement. Polak supports writing, “The strongest indications of a member’s intentions are, of course, the actions it takes before receiving credit...”¹⁵⁰ Here, PAs, are viewed as a kind of ‘conditionality proving ground’ showing the willingness of a member country to work with IMF lending conditionality before the loan disbursement begins.

Second, the Fund utilizes a type of condition called Performance Criteria (PC). The IEO states that these criteria are now very clearly defined and measured by the use of specific variables that lead to a strong ability of the Fund to monitor the progress of a nation’s adoption of PC conditions. The decision-making process is set by IMF management and requires the Executive Board to review the status of all PCs before they can be re-applied to specific lending agreement.¹⁵¹ Under the assumption that the IMF Board is targeting only core areas and promoting an effective developmental approach, PCs can serve as an excellent way to mitigate the risk of lending without imposing relatively large amounts of structural change.

Finally, the Fund utilizes conditions classified as Structural Benchmarks (SBs) or loosely

¹⁴⁷ Independent Evaluation Office (IMF), “Structural Conditionality in IMF-Supported Programs.” pg. 4

¹⁴⁸ External Relations Department, “IMF Factsheet-A Changing IMF-Responding to the Crisis.”

¹⁴⁹ External Relations Department, “IMF Factsheet-IMF Support for Low-Income Countries” (International Monetary Fund, December 2012), <http://www.imf.org/external/np/exr/facts/ecf.htm>.

¹⁵⁰ Polak, “The Changing Nature of IMF Conditionality.” Pg. 25

¹⁵¹ Goldstein, “IMF Structural Conditionality: How Much Is Too Much?”

based goals for the financial sector in which a loan recipient's non-compliance to one single SB no longer elicits a halt in loan disbursement. The IMF defines SBs as applicable “to measures that cannot be specified in terms that are objectively monitorable.”¹⁵² Where SBs used to represent the means by which the IMF applied “hard structural conditionality”—rigid conditions where rapid adoption is required to continue loan disbursement—they now represent an important change in IMF conditionality. The External Relations Department claims that SBs have been reformed where structural benchmarks are no longer “hard” but flexible and diverse.¹⁵³ The following statement concerning SBs details the new vision for structural conditionality in IMF lending:

Structural Benchmarks help monitor macro-critical reforms to achieve program goals; progress against these benchmarks is assessed in the context of program reviews. These measures vary across programs but could, for example, include measures to improve financial sector operations, build up social safety nets, or strengthen public financial management. Legally binding structural conditions have been abolished.¹⁵⁴

While the types of conditions have remained relatively similar over time, the rigidity of these conditions—related to the ability of recipient countries to negotiate the content of them—and the strict nature of compliance has changed. The quote cited above details only a few of the policy areas PAs, PCs, and SBs operate in. The following section provides a brief overview of these areas to further describe the current state of IMF conditionality policy.

iii. Areas of Conditionality Policy

Even though the IMF claims to have constructed a more “limited and more parsimonious conditionality regime”, the IMF still applies conditionality across five main policy areas: monetary

¹⁵² Independent Evaluation Office (IMF), “Structural Conditionality in IMF-Supported Programs.” Pg. 4

¹⁵³ External Relations Department, “IMF Factsheet-A Changing IMF-Responding to the Crisis.”

¹⁵⁴ External Relations Department, “IMF Factsheet-IMF Extended Credit Facility.” Pg. 2

policy, fiscal policy, debt service, exchange rates, and structural reform.¹⁵⁵ While Polak separated these areas into primary (e.g. balance of payments, economic growth, price stability) and secondary objectives (e.g. poverty alleviation, environmental concerns, military expenditures, and political considerations)—current applications of conditionality do not prioritize objectives outside of their attachment to a specific lending agreement. Today’s conditionality regime is more appropriately divided along the following areas.

a. Monetary Policy

Monetary policy relates to IMF’s central role in lending to member nations—solving balance of payments problems. Conditionality operating within this area directly relates to the balance sheet of the banking sector where IMF officials utilize PAs and PCs to quantitatively measure the variables including but not limited to: credit to the private sector, demand for currency, and exchange rates.¹⁵⁶

b. Fiscal Policy

Fiscal policy represents an area where conditionality operates to reduce government deficits by adjusting national budgets. Polak shows that “traditionally, the Fund has prided itself on taking a neutral position on the specifics of fiscal policy.”¹⁵⁷ However, this neutral position only lasted during the early stages of IMF lending. By 1987, the IMF had moved well outside the area of political neutrality in this area.¹⁵⁸ Conditionality of 1980s and 1990s has previously been discussed from the perspective of fiscal policy in Chapter 3. The critiques of conditionality focusing on fiscal policy during this period focused upon raising taxes, cutting social programs,

¹⁵⁵ Graham Bird, “Reforming IMF Conditionality: From ‘Streamlining’ to ‘Major Overhaul’.”

¹⁵⁶ Polak, “The Changing Nature of IMF Conditionality.”

¹⁵⁷ Ibid. pg. 48

¹⁵⁸ Ibid.

and reducing government spending.¹⁵⁹ However, fiscal policy conditionality has evolved since the turn of the millennium focusing on increasing social spending and applying more flexible fiscal policy change where the IMF “has generally factored in higher deficits and more spending” due to the recent crisis.¹⁶⁰

c. Debt Service

Debt Service conditionality policy refers to the usage of PCs to reduce the commercial and national debt of a loan recipient. Often, the reduction of external debt is reached through fiscal policy objectives; as a result of the flexible nature of these conditions, debt service policy has also become more flexible.

d. Exchange Rates

Exchange rate policy refers to IMF conditionality policy attempting to reduce inflation and develop a higher rate of exchange for the national currency of a recipient country. Exchange rate policy is quantitatively measured through PCs and has been essential to the IMF’s strategy to resolving balance of payments problems across every lending facility.

e. Structural Reform

Structural reforms relate to conditionality policy that alters the way the recipient country’s political system regulates the market. These policies, in theory, aim to create a relationship between the state and market where the state encourages privatization of industry and the expansion of underdeveloped sectors of the economy to increase GDP, trade, and the value of a national currency. For example, the IMF program in Greece has recently encouraged the government to unlock potential in the tourist industry, further deregulate the service sector, and

¹⁵⁹ Goldstein, “IMF Structural Conditionality: How Much Is Too Much?”; de la Barra and Dello Buono, *Latin America After the Neo-Liberal Debacle*; Joseph E. Stiglitz, *Making Globalization Work*; James Crotty and Kang-Kook Lee, “Was IMF-Imposed Economic Regime Change in Korea Justified? The Political Economy of IMF Intervention.”

¹⁶⁰ External Relations Department, “IMF Factsheet-A Changing IMF-Responding to the Crisis.” Pg. 3-4

privatize state assets through direct sales and auctions.¹⁶¹ While considerable criticism has resulted from the IMF program in Greece, these examples provide an excellent example of the IMF's continued involvement in liberalization and privatization. While these policies could arguably be for the sake of stabilization rather than growth, recent structural reforms in Greece seem to adhere to the neoliberal project of opening markets by reducing the role of the government. However, Greece could be an outlier when reviewing the conditionality in other recipient countries.

iv. Socially Protective Conditionality

Several primary sources detail the IMF's recent policy change in relation to social spending. However recent these changes might seem, they are more accurately positioned in a context of gradual policy change. A review of social policies in IMF conditionality shows that the period of 1985-1997 marked the existence of an IMF that cared relatively little about social issues in its attempt to develop and stabilize the economic conditions of recipient countries. During this period only 61% of countries under IMF programs experienced an increase in social spending (e.g. education and healthcare) and this increase averaged only .3% of national GDP.¹⁶² The IMF's 1999 review of social policies provides the single most important source for understanding how the IMF viewed social policy before the turn of the millenium. First, the report admits to a lack of attention to social issues in IMF lending agreements stating that "monitoring of social safety nets has been infrequent" yet correctly claims that "social issues lie outside the areas of IMF expertise."¹⁶³ The critiques previously discussed related to IMF conditionality outside of IMF

¹⁶¹ "Greece: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding," Letter of Intent, December 8, 2010.

¹⁶² IMF, "Review of Social Issues and Policies in IMF-Supported Programs." Pg. 21

¹⁶³ *Ibid.* pg. 7

expertise (e.g. fiscal policy, structural reform) seem to beckon the scathing question: at what point, since the 1980s, has a lack of expertise ever prevented the IMF from applying conditionality outside of IMF expertise? Unsurprisingly, much like the areas of fiscal policy and structural reform, the IMF similarly moved forward with social policy conditionality.

The 1999 report details an important recognition by of the IMF about social policy. Recognizing the tension between macroeconomic policy change and the developmental needs of the poor, the report states, “measures needed for macroeconomic stability can adversely affect some poor groups, while helping other such groups.”¹⁶⁴ In addition the reports admits that both “the size and quality of public social spending can affect long-run growth and poverty reduction”—clearly defined as a primary objective of the IMF in 1990 by Managing Director Michel Camdessus.¹⁶⁵ The recognition that social spending can benefit growth by the IMF is an important one, yet it developed gradually.

The review shows that the IMF avoided a discussion of social policy issues—concerning fiscal policy’s effect on poverty and income distribution—until the mid-1980s.¹⁶⁶ While the Executive Board took time to discuss the effect, no new guidance was issued concerning taking these issues into account when applying conditionality to lending agreements. In 1993, the Executive Board considered the issues of how conditionality policy related to structural reform was affecting social safety nets.¹⁶⁷ Once again, no action was taken as a result of these considerations, no declaration made. Finally, in September 1996, the Interim Committee made a declaration concerning the need for considering social sector policies in conditionality stating the following:

¹⁶⁴ Ibid. pg. 9

¹⁶⁵ Goldstein, “IMF Structural Conditionality: How Much Is Too Much?”. Pg 3

¹⁶⁶ IMF, “Review of Social Issues and Policies in IMF-Supported Programs.”

¹⁶⁷ Ibid. pg. 34

...because the sustainability of economic growth depends on development of human resources, it is essential to improve education and training; to reform public pension and health system to ensure their long-term viability and enable the provision of effective health care; and to alleviate poverty and provide well-targeted and affordable social safety nets.¹⁶⁸

With these very words, a new path to accomplishing a now antiquated direction of international development for the IMF, had been established. The following year in June, new guidelines were issued in attempt to begin improving the monitoring framework of social expenditures. Under the guidelines, IMF staff would collaborate directly with World Bank officials to learn how to better design IMF lending conditionality addressing social issues.¹⁶⁹ Finally in 1999, the Managing Director spoke to IMF staff stressing the need for what he called “a social pillar in the architecture of the international finance system.”¹⁷⁰ The means by which the IMF would build this pillar would be conditionality via performance criteria and structural benchmarks.

A fifteen year process of discussion, consideration, recognition, and debate had finally resulted in collective action by the IMF. Again, the claim that the IMF had changed the fundamental nature of its lending cannot be substantiated here. In 1999, it would have been hard to tell if these statements were only rhetorical position by IMF management. However, an analysis of IMF conditionality over the next decade makes it easier to claim that rhetoric detailing the IMF’s newly found role in social development was followed by action. The following sections provide several examples of IMF conditionality that is socially protective in nature. An analysis of one or two countries over time reveals little due to the gradual nature by which changes in conditionality policy are applied to lending agreements. However, an analysis of the analysis of conditionality across many countries points to an increased application of fiscal policy

¹⁶⁸ Ibid.

¹⁶⁹ Ibid.

¹⁷⁰ Ibid. pg. 35

conditionality providing increased social expenditures. The following sub-sections detail the various approaches to applying socially protective conditionality in IMF lending programs:

a. Cash Transfers

Cash transfers represent the direct provision of money to people by a national government. They represent a form of investing in the market as recipients of transfers are encouraged to spend the money on basic goods or self-development of the population (e.g. education, healthcare). The IMF has initiated cash transfer programs (monitored through performance criteria conditions) in several countries over the past decade. Cash transfer programs in Kenya target orphans and vulnerable children increasing the percent of children eligible for transfers from 1 percent in 2007 to 15.6 percent in 2011.¹⁷¹ Transfer programs in Seychelles are expected to rise by .4 percent of GDP by the end of 2013 as well. A significant rise in cash transfers can be found in the Dominican Republic. The cash transfer program termed “Solidaridad” increased by 70,000 families in 2009 representing over a 10 percent increase for families living in conditions of extreme poverty.¹⁷² In addition, conditional cash transfer programs—transfers contingent upon the actions of the receiver (e.g. enrolling in school, attending regular health checkups)—have been monitored through performance criteria conditionality in the following countries: Guatemala, Jamaica, Pakistan, and Tajikistan.¹⁷³ Conditional cash transfer programs serve as a ‘conditionality within IMF conditionality’. That is, the overall program, monitored by IMF conditionality, applies its very own version of conditionality to incentivize certain actions by those targeted to receive cash transfers. These programs represent a significant portion of the IMF’s initial attempt to develop socially protective conditionality.

¹⁷¹ External Relations Department, “IMF Factsheet-The IMF’s Role in Helping Protect the Most Vulnerable in the Global Crisis.” Pg. 1

¹⁷² Ibid. pg. 5

¹⁷³ Ibid.; External Relations Department, “IMF Factsheet-A Changing IMF-Responding to the Crisis.”

b. Infrastructure

The IMF's fiscal policy conditionality has attempted to promote socially protective actions by recipient countries by developing the state of national infrastructure. Using both performance criteria (monitoring and encouraging minimum infrastructural spending levels) and structural benchmarks (broader goals related to the overall conditions of national infrastructure), the IMF has begun to make an effort to improve the national infrastructure of recipient countries via fiscal policy conditionality.

One such country, Tajikistan, has one of the lowest per capita GDPs when compared to the 14 other Soviet republics. Suffering from a significant lack of employment opportunities, over a million citizens work in Russia, sending money back to families located in country. The CIA World Factbook reports that "less than 7% of the land is arable" where cotton, the most important crop, is a closely monitored production by the government.¹⁷⁴ Under extreme financial duress, Tajikistan's National Bank admitted to improperly subsidizing the cotton sector resulting only in a temporary suspension of IMF lending disbursement. Little industry can be found and mineral resources are limited to silver gold, uranium, and tungsten.¹⁷⁵ Significant financial decline can be attributed to a civil war occurring between 1992 and 1997 leading to large declines in many forms of production. The IMF recognized that the infrastructural needs of the nation could be served while simultaneously increasing the nation's GDP. Under IMF supported programs, the Tajiks have finished construction of two major hydroelectric dams and the next dam under construction stands to become the world's largest source of hydroelectric power if completed.¹⁷⁶

¹⁷⁴ "Letter of Intent and Memorandum of Economic Policies of the Government of Tajikistan, October 11, 2000," accessed February 26, 2013, <http://www.imf.org/external/np/loi/2000/tjk/01/index.htm>.

¹⁷⁵ Ibid.

¹⁷⁶ Ibid.

In Sri Lanka, IMF conditionality has encouraged the reallocation of resources from military spending to serve the basic infrastructural needs (e.g. clean water systems, hospitals, schools, housing developments) of the nation.¹⁷⁷ Examples of IMF conditionality incentivizing increased government spending on infrastructure from 2007-2012 include: the Solomon Islands, Georgia, Iraq, Kyrgyz Republic, and Sudan.¹⁷⁸ All of these programs related to the logic of developing human resources for the sake of long-term growth advocated by IMF management in 1999.

c. Safety Nets

Social safety nets provide a government system of security for those who need financial assistance. Over the past decade the IMF has dealt extensively with monitoring social safety nets through performance criteria and structural benchmarks.¹⁷⁹ This is evident in Burundi's lending agreement in 2008, where the IMF argued that the consequence of higher food and oil prices on the most vulnerable was "mitigated by enhancing social safety nets" and that the "budgetary costs of these measures (estimated at about 3 percent of GDP) was fully financed by donors."¹⁸⁰ The following year, the IMF program in Burundi accommodated spending at approximately 1.5 percent of GDP for the protection of social safety nets including unemployment and healthcare programs.¹⁸¹ In 2011, IMF conditionality monitored the implementation of a strategy to increase social safety net spending by an increase of .5 percent of GDP.¹⁸² The IMF expects social safety net spending to provide effective assistance to those affected by the recent financial crises and intends to maintain support for these programs by implementing floor targets on social spending.

¹⁷⁷ External Relations Department, "IMF Factsheet-A Changing IMF-Responding to the Crisis."

¹⁷⁸ Strategy, Policy, and Review Department, *Creating Policy Space--Responsive Design and Streamlined Conditionality in Recent Low-Income Country Programs*; External Relations Department, "IMF Factsheet-IMF Support for Low-Income Countries."

¹⁷⁹ *Ibid.* pg. 26

¹⁸⁰ Strategy, Policy, and Review Department, *Creating Policy Space--Responsive Design and Streamlined Conditionality in Recent Low-Income Country Programs*. pg. 39

¹⁸¹ External Relations Department, "IMF Factsheet-The IMF's Role in Helping Protect the Most Vulnerable in the Global Crisis."

¹⁸² *Ibid.* pg. 4

d. Social Spending Floor Targets

Floor targets are easily understood as policies, measured and initiated through performance criteria, that seek to incentivize a nation's accommodation of minimum levels of social spending in its fiscal policy sector. Tajikistan provides the first illustration of this approach practiced via IMF conditionality.

A staff report on Tajikistan's lending agreement shows that "expenditures on subsidies, goods and services, and public investment declined" in adherence to fiscal performance targets throughout the late 1990s.¹⁸³ However, beginning in 2008, many efforts at bolstering social spending took effect. Under the IMF-supported program in Tajikistan, authorities aimed to increase social spending from "7.3 percent of GDP in 2008 to 8.7 percent of GDP in 2009 and further to 10 percent of GDP by 2012."¹⁸⁴ Where nearly 3 percent of all government expenditures as a percent of GDP were cut from 1997 to 2001, nearly 3 percent in social spending as a percent of GDP has been added in only three years to Tajikistan's budget in addition to provisions for other forms of government expenditure. Although Tajik authorities maintain that social spending requirements were almost met in 2010, IMF officials report that spending was less than what conditionality targeted "due to a government decision to limit the increase in public sector wages and salaries."¹⁸⁵ A highly infrequent event occurred here: a nation failed to meet the requirements of IMF lending conditionality due to the fact that social spending was too low. An IMF response to Tajikistan's social spending level even "emphasized the importance of meeting social spending

¹⁸³ European II and Policy Development and Review Departments, *Staff Report for the Second Review Under the Third Annual Arrangement Under the Poverty Reduction and Growth Facility, and Request for Waiver of a Performance Criteria*, Staff Report-Tajikistan (Washington D.C.: International Monetary Fund, June 26, 2001).

¹⁸⁴ External Relations Department, "IMF Factsheet-The IMF's Role in Helping Protect the Most Vulnerable in the Global Crisis."

¹⁸⁵ Middle East and Central Asia Department, *Staff Report for the 2011 Article IV Consultation, Routh Review Under the Three-Year Arrangement Under the Extended Credit Facility, Request for Waiver of Nonobservance for Performance Criteria and Modification of Performance Criteria*.

targets—particularly given the relatively low level of spending in this area,” and noted that there was “sufficient room in the program” for increases in social spending.¹⁸⁶

The External Relations Department report shows that that the 2008 IMF-supported program in Guatemala required social spending increases by 0.6 of GDP “to help offset the effect of the crisis on the poorest people in society.”¹⁸⁷ In addition, the External Relations Department claims that “all IMF-supported programs in low-income countries are expected to include floors on social spending.”¹⁸⁸ This newly found approach allowing for social spending is backed up by a report conducted by the Strategy, Policy, and Review Department claiming that, “out of the 19 programs initiated in 2008-09, 16 have budgeted higher social spending for 2009.”¹⁸⁹ These illustrations demonstrate the existence of a nascent IMF attempt to increase the socially protective nature of conditionality.

e. Flexible Nature of Conditionality

Other rhetoric concerning recent developments in conditionality directed at social protection details the benefits of “flexible conditionality”. The flexible nature of conditionality refers to the increased ability of recipient countries to negotiate the kinds of conditions to their lending agreement. In addition, it refers to the ability of a loan’s disbursement to continue if the recipient country fails to meet the conditions attached to the agreement.¹⁹⁰ However, too little time has passed to properly measure the extent to which conditionality if adopting a flexible nature.¹⁹¹

¹⁸⁶ Ibid.

¹⁸⁷ External Relations Department, “IMF Factsheet-A Changing IMF-Responding to the Crisis.”

¹⁸⁸ Ibid.

¹⁸⁹ Strategy, Policy, and Review Department, *Creating Policy Space--Responsive Design and Streamlined Conditionality in Recent Low-Income Country Programs*. Pg. 17

¹⁹⁰ Ibid.

¹⁹¹ Graham Bird, “Reforming IMF Conditionality: From ‘Streamlining’ to ‘Major Overhaul’.”

v. Conclusions

IMF conditionality evolved in various ways over the past decade. The current realm of conditionality possesses many similarities to the realm of past conditionality. However, one important distinction can be drawn: the IMF is beginning to develop a socially protective policy strategy related to long term growth, manifested in the fiscal policy area through performance criteria and structural benchmarks. As conditionality prior to these changes spans over forty years, the five or so years that show initial signs of these changes does not allow for adequate before and after comparison. It is clear that the IMF is still operating outside of its core areas, advocating reforms not related to exchange rates and monetary policy. If anything, the IMF has further expanded extra-core area conditionality by adding social policies to its instrumental toolkit.

The introduction of fiscal policy conditionality that increases government expenditures on cash transfers, infrastructure, safety nets, and other forms of social spending represents an important modification to the conditionality regime of the 1980s and 1990s. The development of a “social pillar in the architecture of the international finance system” has been, and likely will continue to be, a gradual process. Yet whom does socially protective conditionality protect, exactly? Most, if not all, conditionality policy enacted in the name of social protection involves bettering the conditions of the world’s most poor. As such, a discussion of the shortcomings of the previous conditionality regime is merited in order to understand by the poor are targeted in the IMF’s socially protective conditionality. The passage of more time could lend to fascinating comparative studies concerning the effects of socially protective conditionality as compared to conditionality policy not concerned with this form of fiscal policy. However, the future could also reveal a further modified realm of conditionality where social issues are no longer considered

making the past five years a slight deviation in what has become an extensive history of IMF conditionality.

With these limitations in mind, important steps can be made in assessing the implications of recent change initiating the usage of socially protective economic logic. For this discussion, a return to the history of Keynes' cautious banker is required. In addition, it is important to revisit the notion of "neoliberal conditionality" that scholars have so viciously critiqued. If neoliberalism represents a form of conditionality advocating privatization and a reduced role for government expenditures, what do we now call a conditionality that includes the increase of government expenditures for the sake of social benevolence? Does this return represent a return to a limited role for the IMF envisaged by Keynes or more accurately a new approach to the previously expanded mode of operation? The following chapter attempts to answer these questions yet, due to the need for much more research and time to pass with these changes in place, some questions will inevitably only end with new research questions. The next chapter also attempts to prescribe or suggest a refined mode of operation for the IMF moving forward—an arduous task desperately needed during a pivotal point in the history and evolving story of international finance institutions.

Chapter 5: Limits and Balance: The Implications of Socially Protective Conditionality

[IMF] conditionality has been based on an understanding of economies...that we refer to as neoliberal—that is, a revival of nineteenth-century liberalism that counters Keynesian interventionism by stressing privatization, deregulation, and other anti-state policy areas...the increasingly free market nature of the conditionalities attached to loans is part of a ‘silent revolution’...a subtle but ultimately dramatic drift.¹⁹²

-Richard Peet

i. Introduction

Richard Peet discusses the gradual evolution of the neoliberal conditionality regime in his 2007 work, *Unholy Trinity*. Analyzing IMF statements on behalf of the IMF concerning neoliberal conditionality, Peet suggests that statements concerning policy change could be more “spin than substance.”¹⁹³ Would Peet reach the same conclusion after six years of more socially protective conditionality? This question begs a further concern: what is the “social” in political and economic terms, exactly? That is, who exactly is the IMF trying to protect—if recent policy change is of substance rather than spin, to whom in society are substantive changes directed? A review of IMF conditionality over the past six years shows that the IMF operates on a basic definition of “social” where social needs are served by protecting the majority of country’s population. In the case of concessional lending where loans are directed at the world’s poorest nations, the IMF equates the “social” with the poverty-stricken. By creating a role for the state in the market by creating conditionality advocating social spending through a variety of programs, the IMF has at least show its potential to lend in stark contrast to the neoliberal doctrine—one that would strongly protest policy that increases the role of government and directs spending away from industrialization. The story of the IMF can be seen along the lines of increasing levels of mission

¹⁹² Richard Peet, *The Unholy Trinity: The IMF, World Bank, and the WTO*, 4th ed. (New York, NY: Palgrave Macmillan, 2007).

¹⁹³ Ibid.

creep—but it can also be seen in terms of whose interests Fund lending attempts to serve. That is, conditionality adherent to the neoliberal doctrine served the interest of creditors in terms of liberalizing markets for increased levels of trade and investment. Here, conditionality is applied to hold the IMF accountable for serving the interests of creditors where the failure of lending to spur growth leading to an . Socially protective conditionality of late attempts to serve the interests of a nation more broadly, yet it does so while continually attempting to liberalize and privatize a loan recipient’s national economy. As such, socially protective conditionality represents a direct challenge to the dogmatic practice of neoliberalism. However, it does not represent the erasure of every facet of neoliberal rationale evident in IMF lending conditionality.

While leading to important considerations considering the future of international finance, the discussion of IMF conditionality “after neoliberalism” courts the mistake of erasing the history of neoliberalism from the actions presently taken by the IMF. The rise and potential “fall” of neoliberal conditionality is an ongoing story. Discussing the current state of IMF conditionality as a step in the opposite direction of neoliberalism precludes an analysis of how neoliberalism remains as a function of the present conditionality regime. As such, a different discussion is formed here based on an understanding of the gradual nature by which conditionality is changing in relation to larger developments in the world economy. Richard Peet shows us that IMF conditionality has been adherent to neoliberal rationality for nearly three decades writing, “ While the IMF’s increased usage of socially protective conditionality could very well represent a challenge to the neoliberal doctrine, this by no means decides the fate of the neoliberal project. However, taken at face value, it does show an important addition to the ongoing history of IMF conditionality where the role of IMF lending cannot be taken lightly in any consideration of the future of the neoliberal project.

The research conducted in this thesis shows the gradual nature of policy change within the IMF conditionality regime. In line with Keynes' vision for IMF lending, early forms of lending operated with little to no conditionality where conditionality was directly related to IMF expertise created by the mandate of Bretton Woods. With the creation of the longer lending agreements, prior action and performance criteria conditionality entered the scene to monitor the progress of recipient countries in meeting a balance of payments. As the Washington Consensus developed, structural conditionality became a powerful force for market liberalization throughout the 1980s and 1990s and no longer represented the limited, cautious, nature of lending envisaged by Keynes. However, in response to a variety of pressures, a discussion among top IMF managers developed throughout the 1990s detailing the need for social protection —the construction of a “social pillar in the architecture of the international finance system.”¹⁹⁴ At the turn of the millenium, the effort to create a “streamlined” conditionality took place alongside the creation of the IEO representing, at least on paper, the attempt to limit the scope of conditionality and apply caution to policy change by initiating an independent review process. Over five years later, global financial crises threatened the continued liberalization of international markets, heightening the demand for IMF lending. In the IMF project, which was called “A Changing IMF-Responding to the Crisis,” the construction of a social pillar in the international finance system is being led by the IMF itself. Performance criteria and structural benchmarks are now being utilized in the fiscal and structural reform policy areas to monitor a number of kinds of socially protective policy changes (e.g. cash transfers, infrastructural projects, safety nets, and floor targets).

The usage of socially protective conditionality represents an important challenge to the neoliberal doctrine, a challenge to the logic that reducing the role of the government in the market benefits all citizens in the market. It implicitly recognizes that the neoliberal rationality

¹⁹⁴ IMF, “Review of Social Issues and Policies in IMF-Supported Programs.”

reorganizes political society solely around the economic relationships between national economies disregarding the basic needs of the national populations involved. A new kind of accountability can be seen in this process where the IMF's attempt to develop national economies is being held accountable by the populations it governs via conditionality. However, where conditionality representing neoliberal rationale (e.g. liberalization, privatization, contracting the role of government) can be empirically investigated over the span of nearly thirty years, socially protective policy has only just begun to develop as an integral part of IMF conditionality. In addition, it has occurred post-crisis where the creation of socially protective conditionality could easily be cast off as a process of economic triage rather than the sustainable emergence of a new conditionality regime. The following sections explore these arguments and return to a discussion of our, now somewhat aged, protagonist: the Keynesian banker of caution.

ii. A Return to Keynes' Cautious Banker?

While the development of socially protective conditionality could be interpreted as an act of caution by the IMF—taking time to protect those most vulnerable to financial crises—it does not represent a return to the vision provided by Keynes' cautious banker. Where Keynes' envisioned a cautious credit union, providing credit for nations to stabilize the value of their currency and maintain a balance of payments, the IMF presently plays the part of facilitating national development and poverty reduction. The 1980s and 1990s marked the turn away from a limited IMF where an IEO review of IMF lending found that a large majority of IMF conditionality dealt with policy areas that IMF staff had little to no expertise in.¹⁹⁵ Although important modifications have occurred to the conditionality regime of the 1980s and 1990s over the past five years, these modifications cannot be seen as a return to a previous vision, one of

¹⁹⁵ Independent Evaluation Office (IMF), "Structural Conditionality in IMF-Supported Programs."

caution. Rather, they must be viewed as a new means to sustain IMF projects already outside of Keynes' vision for the institution. Providing social protection via conditionality is an attempt to retroactively justify and improve the project of development initially undertaken by the IMF in the 1980s, a project inevitably outside of the founding mandate of IMF—that of a limited economic stabilizer.

It is not as if Keynes and Bretton Woods failed to account for the needs of developing countries. Keynes' solution for issues related to development—his “imaginative expansionist” was for the World Bank, not the IMF. Scholars like Nitsan Chorev and Sarah Babb have used this institutional distinction to argue that the IMF is vulnerable due to a lack of expertise in what it does, arguing that development responsibilities should be given solely to the World Bank.¹⁹⁶ However, it is more likely that the two institutions will continue to collaborate and a certain amount of mission overlap will exist. The IMF, for instance has only increased the amount of resources for poverty reduction.¹⁹⁷

Hopefully, the IEO can provide a voice of caution for the IMF. Focusing on the effectiveness of particular policy strategies, regardless of their adherence to particular ideological projects could enhance the effectiveness of lending programs and the gradual policy change they experience over the next decade—a time that will prove to be important for the IMF moving forward after their post-crisis attempts to provide relief. The IEO has seen a high rate of adoption with its recommendations oftentimes forcing the IMF to take a couple steps back before moving forward with policy changes evident in the streamlining initiative.¹⁹⁸ While IMF staff claim that the first ten years of IEO reviews have led to improved results, including more strongly targeted

¹⁹⁶ Nitsan Chorev and Sarah Babb, “The Crisis of Neoliberalism and the Future of International Institutions: A Comparison of the IMF and the WTO,” *Theor Soc* 2009, no. 38 (June 28, 2009): 459–484.

¹⁹⁷ External Relations Department, “IMF Factsheet-IMF Support for Low-Income Countries.”

¹⁹⁸ Thomas Bernes, “IEO: The Initial Vision and a Vision for the Future”; Independent Evaluation Office (IMF), “Structural Conditionality in IMF-Supported Programs.”

policy change, the role that the IEO plays in the next ten years, reviewing the effects of socially protective conditionality, could be of much more importance attempts to sustain a flexible, socially protective, lending institution with the power to limit itself. It is for this reason that scholars of the IMF wishing the institution's return to a limited, cautious, institution lender hope that Keynes' cautious banker will at least find employment at the IEO.

iii. The Fall of Neoliberalism?

Neoliberalism represents a large, global, project dedicated to privatizing industry, liberalizing markets, and reducing the role of the private sector.¹⁹⁹ As mentioned before, discussing the fate of neoliberalism as a history precludes the ability to analyze its effect upon the present. A challenge to neoliberal conditionality does not entail the "end" of neoliberalism, but rather a decline in its usage dogmatically in international institutions where the IMF is the first experiment with alternatives to neoliberal rationality. Scholars such as William Tabb support the development of alternative approaches to economic development. Tabb shows the negative effects of neoliberal economics writing,

...neoliberalism is widely understood, even by many mainstream economists and policy wonks, to have failed in terms of its announced goals. It has not brought more rapid economic growth, reduced poverty, or made economies more stable. In fact, over the years of neoliberal hegemony, growth has slowed, poverty has increased and economic and financial crises have been overwhelming.²⁰⁰

More specifically, time is needed to research the extent to which the introduction of IMF's socially protective conditionality represents a fall in neoliberal conditionality. While the introduction of socially protective conditionality policies proves to be a direct challenge to the dogmatic practice of neoliberalism, it could also represent the emergence of a larger trend where all parts of the

¹⁹⁹ Tabb, "After Neoliberalism?".

²⁰⁰ Ibid. pg. 28

neoliberal doctrine are questioned. Socially protective conditionality challenges the anti-state intervention position of neoliberal economics. In some sense, through the public provision of social infrastructure and healthcare, it also challenges the facet of neoliberal logic demanding privatization. There is no evidence, yet, of IMF conditionality that challenges the liberalization of markets although many other ideologies of political economy (e.g. balanced mercantilism, classical liberalism) agree to the benefits of international trade. While any form of market liberalization has not been challenged by recent lending policy, many scholars attribute this as detrimental aspect of past IMF lending. The critique provided by William Tabb at least demonstrates the problematic nature of neoliberal conditionality of the 1980s and 1990s.

An IMF study found that 133 of the fund's 181 member countries suffered at least one crisis involving significant banking sector difficulties between 1980 and 1995... The fact that two-thirds of the fund's members experienced such crises cannot be altogether coincidental but rather is connected to the fact that these were the years the IMF imposed financial liberalization.²⁰¹

Increased liberalization may have led to these failures, but this does not mean the IMF will abandon the liberalization of international markets all together. The question moving forward is if the IMF will abandon the means by which it has liberalized markets—extending a move towards allowing countries to adopt their own method to opening up national markets and industry. The Washington Consensus represented a means to neoliberal capitalism reached through quick, extensive change, forced through conditional lending agreements.²⁰² Recent policy change details a flexible, parsimonious, conditionality focused on an agreement with recipient countries where structural reforms are initiated by countries' national government, not IMF staff. This along with a conditionality advocating a role for government in the social sector could play a leadership role in directing the international community away from a dogmatic adherence to neoliberalism. Will

²⁰¹ Ibid.

²⁰² Joseph E. Stiglitz, *Globalization and Its Discontents*.

the IMF see sustainable growth as a result of the socially protective conditionality practice over the past few years and how will this continue to challenge the existence of neoliberal markets? While insufficient time has passed to allow sufficient scholarly analysis of recent changes to conditionality, a distinction between two recent analyses can be made to frame further research.

iv. “Next Stage Neoliberalism” vs. “Productive Incoherence”

In William K. Tabb’s “After Neoliberalism”, a discussion of “next-stage neoliberalism” critiques the recent changes in IMF policies rather than praising them as an alternative to the neoliberal economic rationale of the 1980s and 1990s. Tabb writes, next stage neoliberalism “begins by conceding the failure of the Washington Consensus, but in a brilliant sleight of hand, proposes as the solution reforms that continue to favor foreign capital.”²⁰³ Tabb’s distinction—separating the recent stage of the neoliberal project from Washington Consensus neoliberalism—is one of significance. Here neoliberalism separates from Washington Consensus economics in an effort to continue sustaining the needs of capital flows. Here, socially protective conditionality, represents a modification only resulting in the “next stage” of neoliberal capitalism where the interests of foreign capital are served by the ability of human resources (e.g. healthy educated national workforces) to develop alongside the liberalization of markets. Tabb concludes his discussion of this next stage by arguing that the problem lies that institutions like the IMF are “still trying to fit all countries into a single developmental model.”²⁰⁴ Contrastingly, Stone’s research concerning the scope of conditionality argues that conditions focused on development have been increasingly varied.²⁰⁵ Additionally, there are important differences in the developmental models imposed in recent lending agreements. Where the IMF has envisioned an increased level of

²⁰³ Tabb, “After Neoliberalism?”.

²⁰⁴ Ibid.

²⁰⁵ Randall W. Stone, “The Scope of IMF Conditionality.”

government spending and social protection for many countries, it has not carried this vision to every lending agreement evident in the recent approach taken by the IMF in Greece that demands the reduction of social spending and privatization of several industries.²⁰⁶ It is evident that the IMF's effort to protect the "social" has its limits—reinvigorating the livelihood of the neoliberal project where social spending and government intervention is deemed too high.

As such, Tabb's theory of next stage neoliberalism should still be taken into consideration moving forward. If the creation of socially protective lending by the IMF represents only a temporary reaction to recent crises, the dawn of a reinvigorated neoliberal regime could be on the horizon for international finance. However, while the IMF's attempt to utilize socially protective conditionality is nascent, lending to a scarcity in scholarly analysis, Tabb is not alone in his effort (e.g. Stiglitz, Grabel, Bird, Peet) to explain the implications of these seemingly 'post-neoliberal' changes.

Ilene Grabel distinguishes between "productive incoherence" and "neoliberal coherence" in her article "Not Your Grandfather's IMF: 'Productive Incoherence' and Developmental Policy Space."²⁰⁷ She uses the term "neoliberal coherence" to refer to the consistent, nearly universal, "straightjacket" over policy space in developing countries.²⁰⁸ Her analysis of IMF lending in relation to this "coherence" echoes many of the critiques of Washington Consensus conditionality. The distinction between the historical neoliberal coherence and the emergence of a productive incoherence is displayed in the following quote:

...the mixed and even chaotic response to the current global financial crisis represents an historical moment of what I term 'productive incoherence', which has displaced the constraining 'neoliberal coherence' of the past several decades. By

²⁰⁶ "Greece: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding."

²⁰⁷ Grabel, "Not Your Grandfather's IMF: Global Crisis, 'Productive Incoherence' and Developmental Policy Space."

²⁰⁸ Ibid.

productive coherence, I refer to the proliferation of responses to the crisis...(particularly the IMF)...that to date have not congealed into any sort of consistent strategy or regime...the new incoherence may signal the tentative beginning of the end of a wrong-headed regime that granted excessive authority to the IMF. In this (albeit limited) sense, the present incoherence is productive, signalling as it does not the death of neo-liberalism, certainly, but erosion of the stifling consensus that has secured and deepened neo-liberalism across the developing world over the past several decades. It follows that we would make a grave error were we to prejudge the historical moment as one of certain inertia than potential rupture.²⁰⁹

Grabel's discussion of neoliberalism contrasts Tabb's in important ways. Grabel, cautiously, realizes the contrasting nature that recent changes undertaken by the IMF in response to the crisis possess to neoliberalism. She carefully limits her argument though making the point that recent changes have not solidified into a body of thought or approach yet as they are so recent and possibly fleeting. However, in contrast to Tabb's analysis she argues that recent changes in IMF lending should at least be analyzed as a potential rupture rather than mistakenly cast as the continuance of the neoliberal regime. The research conducted here has shown the gradual development of conditionality regimes in the IMF and the introduction of socially protective conditionality could represent the rupture of an aged regime, and the beginning of something distinct from the logic of neoliberalism. While the IMF's early attempts at responding to the crisis may have seemed "incoherent" as Grabel claims, the past six years begin to show a coherent, planned, and targeted attempt to liberalize and privatize while concurrently allocating an increased amount of resources to the development of social goods.

Further research might invoke consideration of both frameworks as the next stage of neoliberalism, whether a representation of inertia or rupture, develops. More time is needed to confirm whether Grabel is correct in assuming that the IMF's response to the crisis via new forms of lending conditionality is an "historical moment." It is possible that Tabb could be correct by

²⁰⁹ Ibid. pg. 106

strongly limiting the extent to which these changes will affect the neoliberal project. In order to tell, more research is needed as time passes post-crisis. In addition, the IMF is not the sole practitioner of the neoliberal cure to poverty. Even if the IMF were to congeal Grabel's productive incoherence into a new approach, it would have to be demonstrated that other institutions—from the World Bank to national governments—are consistently applying a “non” or “post” neoliberal approach for it to present any real challenge to the neoliberal doctrine so deeply embedded in today's political economy due to several decades of its practice. With that said, more research is needed to theorize the extent to which the IMF has initiated a fundamental change of vision for itself. This research could be followed by similar reviews of the World Bank and various national banks famed for neoliberal practices. The creation of universal healthcare under President Obama's administration represents the development of increased levels of social protection in the United States. Could this, alongside the IMF's recent approaches, represent the emergence of a new consensus on development? However, predominant in the present, the 2016 elections could mark a fall in the United State purveyance of social protection causing a decreased amount of support for socially protective policies in the IMF. Theorizing these changes in relation to Amartya Sen's, *Idea of Justice*, is an important next step—his institutional focus on justice advocating practical, non-utopian driven developmental approaches and distinction between capabilities, happiness, and well-being in relation to the social justice bear important questions for the nature of recent policy changes undertaken by the IMF.²¹⁰ Without doubt, the potential for future research is significant.

If the IMF's creation of socially protective conditionality represents the emergence of a new developmental strategy, the implications could be of great significance. Countries could rely on the IMF for credit and technical advice concerning monetary policy, yet simultaneously expect

²¹⁰ Debra Satz, “Book Review: The Idea of Justice-Amartya Sen,” *Political Theory* 39, no. 4 (2009): 560–565.

assistance in sustaining and protecting social spending during policy change. While it seems unlikely that the IMF will become ideologically agnostic in relation to its developmental strategy, there is a hope that the institution can become less rigidly adherent to one particular understanding of the relationship between markets and governments. Allowing recipient countries to adopt lending conditionality based on their understanding of the role for government in markets, utilizing both socially protective and, at times, socially austere policy strategies, IMF conditionality could become less intrusive, finding a balance in its developmental approach that neither necessarily condemns or praises the role of governments in markets.

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