ONLINE CONSULTATION ON THE 2018 REVIEW OF CONDITIONALITY AND DESIGN OF IMF SUPPORTED PROGRAMS

FROM: see list of signatories at the end of the letter.

Dear Executive Board,
Dear Strategy, Policy, and Review Department,

We write to you as civil society organisations, academics, economists, and networks to express our concern over the continued negative impacts of conditionality in IMF programmes. We call on you to use the *Consultation on the 2018 Review of Conditionality and Design of IMF Supported Programs* to re-evaluate the current approach. At the heart of our calls rests a need for the systematic integration of global civil society in the consultation process and to ensure that the voices of those impacted by IMF policy are listened to and involved in its design and implementation.

Restrictive fiscal and monetary policies prescribed in IMF loan conditionality squeeze the fiscal space needed for public investment and too often result in devastating consequences --- particularly for marginalised groups --- at high political costs. Last year, a UN expert warned that lending policies of the IMF actively undermine some human rights and development priorities, as well as promoting failed policies of privatisation and austerity. Moreover, in June 2018 the UN special Rapporteur on Extreme Poverty and Human Rights claimed that the world is now "suffering the consequences of the past lopsided approach of IMF to globalization and its single-minded pursuit of a model of fiscal consolidation that relegated social impact to an afterthought."

The conditionality review must thus revisit and investigate the impacts of IMF policy lending practice on human rights and inequality in the past two decades. We believe that fighting inequality must be integrated into loan programmes and conditions, which should include regular monitoring of the impacts on inequality of such programmes. Additionally, this review offers an opportunity for the IMF to set out how conditionality can support or undermine the achievement of the Sustainable Development Goals, and human rights. Critically, this means designing conditions which do not compromise countries' ability to achieve adequate levels of public spending, especially in health, education and social protection, but which in fact help them support these spending levels, including through the design of fair tax systems.

Further, as demonstrated by an academic study entitled *IMF conditionality and development policy space, 1985-2014*, since 2008 "structural conditions have been a growing component of IMF programs." We therefore remain concerned that IMF programmes continue to erode democratic governance and sovereignty of borrowers.

With regards to labour, coordinated collective bargaining and fair regulations are beneficial for productivity and job-rich growth. Reaching beyond institutional expertise, IMF loan programmes have often undermined collective bargaining structures, held down wages, encouraged excessive labour market flexibilization, and led to drastic job cuts in the public sector. In programmes since 2011 --- including Portugal, Greece and Romania -- the Fund focused on the dismantling of national or sector-level collective bargaining and the weakening of employment protection legislation. This has long-term repercussions for precarious and non-standard work, productivity, wage stagnation, inequality and falling labour share of income. IMF research has recognized that inequality undermines sustainable economic growth.

Outside Europe, IMF conditionality has targeted the size and compensation of the public sector. Conditions and prescriptions on labour markets have shown few signs of aiding recovery or addressing unemployment and have instead contributed to increased income inequality and the erosion of basic public services. We call on the IMF to address this through the conditionality review.

On gender, the IMF's recent efforts to explore the gendered dimensions of macroeconomic policy are broadly welcomed, but its approach to gender in policy conditionality continues to lack a systematic framework and disregard gendered impacts of conventional IMF macroeconomic policy advice. We therefore call on the IMF to use the review to set out a board-approved 'institutional view' on its position and role towards gender equality, enhance collaboration on its gender work with international organisations, in particular UN Women, and civil society organisations, in particular women's rights organisations. Further, we call for the implementation of gender budgeting in the design of IMF loan conditionality, and to use *ex-ante* gender impact assessments to analyse core policy conditionality, track the impact of subsequent reforms and propose an alternative policy mix if adverse gendered impacts of proposed conditionality are identified.

Moreover, we believe that the review should revisit the efficacy of the IMF's standard prescriptions of driving interest rates very high to get inflation very low. The unquestioned acceptance of highly restrictive fiscal and monetary policies has consistently undermined efforts to realise meaningful increases in public investment as a percent of GDP, and the harmful consequences of the high interest rates makes government deficit financing so unaffordable as to block needed increases in public investment. Efforts by advocates for increased public investment have been consistently frustrated because the root problem --- the need for more expansionary policies --- has not yet been adequately addressed.

The aftermath of the 2008 financial crisis had far-reaching and harmful consequences. Ten years on from the crash and amid rising global debt and inequality, we hope that this conditionality review will be used by the Fund as an opportunity to reconsider the current approach in favour of one that protects universal human rights and supports the achievement of the Sustainable Development Goals.

Kind regards,

ActionAid

International

Afrodad

Alexander Kentikelenis, University of

Oxford Alice Evans, Lecturer Kings

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APIT Portugal – Portuguese Tax and Customs Inspectors Trade

Organization Asia Transnational Corporations (ATNC)

Monitoring Network, Hong Kong Bank Information Center

Europe

Bank Information

Centre Bretton Woods

Project

British Black Anti-Poverty

Network Center for Economic

and Policy Research

Centre national de cooperation au développement, CNCD-

11.11.11 Child Poverty Action Group

Church of Sweden

Common Weal,

Scotland

Daniel Horn, independent researcher

Debt Justice Norway

Development Pathways

Development Research and Training

(DRT) Diane Elston, Professor,

University of Essex Dr Carolina Alves,

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Equality in

Tourism

Eurodad

Focus Association for Sustainable

Development Free Trade Union

Development Center, Sri Lanka Gender and

Development Network

Global Alliance for Tax Justice

Global Justice Now

Global Responsibility from Poland

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Confederation

Jayati Ghosh, Professor of Economics, Jawaharlal Nehru University,

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Jubilee

Scotland

Jubilee UK

Jubilee USA

Labour Resource and Research Institute

(LaRRI) Latindadd

Movement for decent work and welfare society

National Society of Conservationists --- Friends of the Earth

Hungary New Economics Foundation

Norwegian Church Aid

Olof Palme International

Center Oxfam International

Phenix Center for Economic and Informatics Studies, Jordan

Social Watch

Stamp Out Poverty

Tax Justice Network

The Egyptian Initiative for Personal Rights

The Network for Transformative Social Protection (NTSP) in

Asia The Rethinking Bretton Woods Project at Center of

Concern (USA) Thomas Stubbs, University of Cambridge

UK Women’s Budget Group

OLEKSANDER SHAROV, THE NATIONAL INSTUTE FOR STRATEGIC STUDIES, UKRAINE

- *Did Fund-supported programs achieve their objectives? If not, what do you think is the reason?*

In principal, for all years of bilateral cooperation Ukraine never completed its Fund-supported programs successfully: they were either broken beforehand or finished without achievement of objectives. In sure this will happened with current program (March 2015 – March 2019 four-year EFF worth $17.5 billion) as well.

Main reason (in all cases) is that Ukrainian Gvnm's never have treated Fund-supported programs as really Action Plan for Gvnm but rather a Term of Conditions for borrowing with understanding (deep confidence) that this Terms could be changed (facilitated) later (when money will be spent and lender will be forced to do it). So, the IMF is treated rather as a big commercial bank (lender of *first* resort) than the IFO which used to assist Gvnm in crucial reforms. By this reason, for ex., were not reached such objectives of the Program as

i) the Agriculture Land Reform (introduction of a Land Market),
ii) ii) the Establishment of the Anti-Corruption Court (the Bill supported by the IMF was approved by the Verkhovna Rada only in June to restrict possibility for real implementation till end of the Program),
iii) introduction Natural Gas Market Price for all kind of customers (i.e. next stage of Natural Gas Price rise for households which is problematic by political reason).

- *Have Fund-supported programs struck the right balance between the needed policy adjustment and conditionality, and the amount of financing, taking into account debt vulnerabilities and countries' capacity to repay? Are there areas where more conditionality, or less conditionality, would be appropriate?*

The General amount of financing is too small to ensure the right balance between the needed policy adjustment and conditionality. In such circumstances the Gvnm is always under pressure of opponent argued that receiving such small amount of funds will not cover political and social disadvantages.
More conditionality would be appropriate in such politically-motivated areas as Land Market and Anti-Corruption Fighting but economic ones (as Natural Gas Market Price).

- *Have Fund-supported programs given enough attention to the social impact of program measures, including through coordination with the World Bank and other financing and development partners?*

More attention to the social impact of the Program used to be paid in such areas as Utilities Service (incl. Natural Gas Price) and the Pension Reform.

- *What role did program ownership play in program design, implementation, and outcomes?*

As mentioned above the Program Ownership play a crucial role because Ukrainian Gvnm (wide - the Establishment) doesn't treat this Program as own one in reality. So, maybe it is necessary to change the Program preparation model to force the Gvnm to design such a program itself (without participation of the Fund mission) and to use it as a base for discussion. Maybe it will need to reject one or two blueprints of it but finally it will force the Gvnm to design real one with filling that it is its own program.

- *Have Fund-supported programs struck the right balance between the need to apply similar conditionality across countries with similar characteristics and the need to tailor programs to country circumstances?*

  This is really actual problem for Ukraine which has face few challenges the same time, incl. BoP dis-equilibrium, transition to market economy (still) and consequences of annexation of Crimea and military support for separatist in Donbass by Russia. Such way similar conditionality used to be supplemented by tailor program for ex. in New Marshall Plan style (not like just a set of existed credit and grants program of different international institutions but special designed program with own objectives and owm financial management scheme).

MARTIN S. EDWARDS. ASSOCIATE PROFESSOR, SCHOOL OF DIPLOMACY AND INTERNATIONAL RELATIONS, SETON HALL UNIVERSITY

Thanks for the opportunity to comment on this public review. As with all reviews, there are inevitable questions about the qualifications of the reviewer. My particular (including peer reviewed works, public commentary, and media quotes on the Fund) are available upon request.

There is a welcome focus on ownership in the proposed review. This is, as noted by the Fund, essential, though it received relatively less attention in the more recent Crisis Program Review than in the 2011 Review of Conditionality.

Given that the focus of the Comprehensive Surveillance Review is on the *traction* of IMF advice, this is a welcome time for a stock-taking of both of these parallel conversations when completed. The Fund needs to develop a better understanding of when and how its advice (when not backed by money) can be consequential, and there might be insights from each conversation that can inform the other. In both cases, outreach to civil society and the media can be a strength, and conversations with legislators and bureaucrats below the national level can help ensure that Fund recommendations find their way into the policy process.

Ensuring a high degree of similarity between the two processes has value. The 2011 Conditionality Review notes that less than half of program measures were foreshadowed in Article IV reports. One would hope that this percentage has improved over time, but outside of policy advice, greater attention to the traction of surveillance can only aid the Fund's assessment of program ownership when crises occur. The involvement of the borrower in listening to the Fund's recommendations is important even when there is not money on the table or a crisis on the horizon.

More importantly, both the conversation on ownership and the conversation on traction require the Fund to receive a high degree of external advice. To generate the highest quality work possible, outside voices from outside the building, and indeed, from non-economists, are essential. In terms of *process* for the conditionality review, this suggests a need for multiple different forms of commentary. Creating a review system analogous to the 2014 Triennial Surveillance Review, with background studies by outside observers, independent commentary, and an External Advisory Group, would help create the strongest possible review.

A stronger operationalization of ownership is essential. This would aid staff in designing stronger policy notes at the time that programs are being developed. As recommended in the 2014 Revised Operational Guidance to Staff on the 2002 Conditionality Guidelines, paragraph 9, these assessments are needed in Policy Notes. An open question for the review is how well these Policy Notes have actually anticipated implementation difficulties. Evidence in the Technical Appendices for the 2011 Conditionality Review (Background Paper 4, paragraph 106) suggests that discussions of ownership in EPAs and EPE are "uneven and not based on a clear-cut definition." In practice, then this means that Fund staff disagree on what ownership is and sometimes apply it as a catch-all in lieu of other explanations.

There are doubtless benefits in continuing the ambiguities around ownership, but there are certain costs as well. Developing a better understanding of what ownership looks like and how one would know it in practice might help avoid overestimations of country ownership, which are real and have occur (see Background Paper 4, paragraph 103 and Edwards policy commentary here and here). The staff survey in Background Paper 4 suggests that only 13%

of IMF staff (Mission Chiefs and Resident Representatives) felt that their programs were not owned by the borrower. If this number were in fact true, the problem of program implementation would be much smaller than it is in practice.

In light of the greater attention to evenhandedness in Fund operations, a more detailed operationalization of country ownership can help to ensure fairer treatment of borrowing countries. The ambiguities of ownership can give rise to concerns on the part of the borrower that she is being treated differently for other reasons. A greater attention to what ownership looks like, to the extent that it is followed up with a clear operationalization shared with staff, can help reduce concerns about fairness of treatment. Giving staff a more informed leeway to require prior actions informed by an accurate assessment of ownership will send a message that improve perceptions of evenhandedness regardless of whether the country is a borrower or not.

There is a baseline understanding of ownership to work with. As noted in Background Paper 4, paragraph 59:

> They suggested relying on the following indicators: (i) track record of implementation of the current and of earlier programs, and historical economic performance; (ii) access to government officials (the higher the position, the more ownership); (iii) support from the parliamentary opposition and civil society. In related comments, Directors suggested that Fund staff could maximize ownership by collaborating closely with the authorities and by flexibly accommodating country characteristics and the authorities' policy objectives.

But here there are natural questions:

- Is the goal to create a simple rule or a more complex rule? While past behavior is a good predictor of future behavior, a political science perspective would look less at outcomes and more at institutional attributes. This points to a large literature on a number of factors, including, but not limited to regime type, veto players, electoral cycles, partisanship, federalism, electoral rules. Some of these factors help us to understand that ownership might well change over time, and recognition of this fact at the outset can only be helpful. And some of these variables listed above might help one understand IMF program performance in some areas (notably fiscal policy) more than others.
- How well have the above indicators from paragraph 59 performed in the past, and can we do better? As suggested above, this commonsense understanding seems to underperform.
- What are we missing? Realizations that capacity constraints are real is a challenge and realizing actors in the bureaucracy can block or slow IMF recommendations means that buy-in of lower government officials can also turn out to be crucial.

The good news is that we have moved past the framing of ownership that was once advanced by Managing Director Camdessus that "programs work only if governments want them to work." The challenge is to move forward, but to do this well requires that we think about the ownership of ownership itself and aim to have broader conversations.

<u>**MARK SOBEL, NOW RETIRED, FORMER US EXECUTIVE DIRECTOR AT THE IMF**</u>

The issue that caught my attention on your on-line consultation request on the ROC is embedded in the question

> *"Have Fund-supported programs struck the right balance between the needed policy adjustment and conditionality, and the amount of financing, taking into account debt vulnerabilities and countries' capacity to repay? Are there areas where more conditionality, or less conditionality, would be appropriate?"*

This is quite a mouthful. One issue in this regard relates to the Fund staff's current ethos in approaching programs and the choice of facility.

- The standby is supposed to be the "workhorse" instrument of the Fund. Historically, economies have overheated, giving rise to BOP problems and necessitating fiscal and monetary policy tightening/adjustments. Surges in capital outflows, especially beginning in the 1990s, added to these woes. Still, BOP problems were largely seen as temporary, in the sense that countries often could overcome the overheating (and slow/reverse capital outflows) in the context of a 1-2-year program, with repayments over a 3-1/4 to 5 year cycle.
- Extended Fund Facility (EFF) lending generally entails a 3-year (if not longer) program with repayments over a 4-1/2 to 10-year period. EFFs are used in principle to help countries address balance of payments difficulties related partly to structural problems that may take longer to correct than macroeconomic imbalances.
- The Fund, as a matter of principle, is said to be a global short-term lending institution with a monetary character and revolving resources. The SBA is clearly consistent with those principles and was designed with them in mind. The Fund would never break its principles, and since there are many EFFs, it must be undoubtedly true that the EFF is also consistent with the short-term, monetary and revolving nature of Fund financing. But in the sovereign space, a ten-year bond is certainly seen as long term in nature.

Below is a table on the number of SBAs vs EFFs. (Data drawn from the Fund's wonderful weekly financial activities reports.)

Year*	**SBAs** (# of programs)	**EFFs**
2000	16	9
2005	12	2
2010	19	4
2012	11	6
2013	6	5
2014	7	7
2015	5	8
2016	8	11
2017	4**	11

*end-December
**3 of which were precautionary

It appears that around 2013-14, there was a regime change or break in terms of a shift toward the use of EFFs, away from the Fund's "workhorse". The horse has been put out to pasture.

Why is this happening? Many possible explanations abound.

- Perhaps it can be argued that there is something different about the nature of BOP adjustment in the early 21st Century, unlike the late 20th Century. The Tequila and Asia crises involved sudden stops in capital, were often a reflection of illiquidity, and exchange rates bore a substantial burden of adjustment. It seems, though, that sudden stops are still quite possible in the 21st Century -- to wit the Taper Tantrum. Of course, in the European programs, there was no role for exchange rate adjustment, and hence adjustment relied on internal devaluation which is extremely onerous and damaging of demand. Further, given low productivity growth in the aftermath of the crisis, a stronger case can perhaps now be arguably made for increasingly emphasizing structural reforms relative to demand management measures in conditionality, which might argue for EFFs. ***Are BOP problems more structurally rooted these days? If that is the rationale for the shift to use of EFFs, what is the proper role of structural reforms in Fund conditionality, especially given that the Fund's focus is macroeconomic and the key structural reforms needed for strong and sustained growth often go well beyond the Fund's mandate? If the kinds of structural reforms needed to unleash productivity are beyond the Fund's remit, are EFFs appropriate? Should the Fund be placing more emphasis -- where appropriate -- on exchange rate adjustment?***

- Perhaps EFFs have been used for "blends", in order to better mesh terms with countries also using the PRGT -- which often have 3-year programs -- and provide greater financing. Or perhaps they are used for lower middle-income countries that have recently graduated from the PRGT. ***But if so, how does one explain the many MICs now using EFFs?***

- Perhaps debt loads are habitually greater in some countries than in the past, and the EFF with its up to ten-year maturities (vs. 5 for SBAs) allows countries more time to achieve sustainability. ***If so, however, is the EFF becoming a vehicle for a more gradual debt/GDP ratio adjustment path, and is this desirable? Is this really consistent with the idea of the Fund as a short term monetary lender, helping countries quickly remedy their BOP problems or stem illiquidity?***

- Perhaps given the longer maturities of EFF relative to SBAs, it stands to reason that the Fund receives much greater amounts of income and over a longer period from EFFs than SBAs. This helps facilitate financing of the Fund budget and balance sheet, even if the Fund can finance itself given its new income model, hefty reserves, and ongoing receipts. On the other side of the coin, the longer EFF maturities allow countries more time to repay the Fund, which may be helpful for their financing situation. ***Do such types of considerations enter into the equation in staff's thinking about the case for more EFFs vs SBAs? If so, is that appropriate?***

Perhaps the answer to the growing prevalence of EFFs is a bit of this and a bit of that, and perhaps that is the correct answer and a fair one. If it's any consolation, the staff, Management and Board held similar discussions in the context of the 2000 facilities reform debate that may merit a revisitation. Be that as it may, the shift in the current environment from the workhorse instrument to EFFs begs a thorough examination and a clearly articulated theory of the case -- What is the rationale for the shift? Is this just a product of the outcome of case-by-case developments, or is it occurring by design? If the latter, what is the design and is this a proper course of action? Should the "workhorse" stop idly grazing and be brought in from the pasture?