

***The decline (& fall?) of the IMF
Or, chronicle of an institutional death foretold***

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Once upon a time, the International Monetary Fund (IMF) seemed immune to criticism, regardless of the damage its neo-liberal policy impositions inflicted around the globe. That immunity was finally torn away by the East Asian financial crisis of 1997-98, when criticism of the IMF's interventions came from all sides. A famous photograph of long-time IMF Managing Director Michel Camdessus standing, cross-armed, over Indonesian President Suharto as he signed the papers for an IMF "bail-out" summed up the neo-colonial "overlord" role that the IMF's critics had long charged it with.

The Argentine crisis of 2001-02, where the IMF's culpability in creating the crisis was generally acknowledged, probably put the recuperation of the institution's reputation permanently out of reach.

But the IMF continued to lurch along, on "automatic pilot", under the unimaginative leadership of Horst Köhler and Rodrigo Rato, Camdessus's successors. But since 2005, the IMF has suffered a rapid succession of blows, and seems less like the haughty overlord of 1998 than a boxer staggering around the ring trying to evade the knock-out punch. Presented here is a timeline of some of the events of this turbulent period, starting in June 2005 and running through May 2007.

1. June 2005: The Multilateral Debt Relief Initiative (MDRI)

After a decade of pushing by Jubilee campaigners and over a year of wrangling among G7 leaders, the G7 finance ministers, meeting in June 2005, announce that their countries would advocate – and, given their domination of the voting structure at the IMF and World Bank, secure – 100% cancellation of the debts claimed by the IMF and World Bank of countries which completed the Heavily Indebted Poor Countries (HIPC) debt initiative. That means 20 countries for the IMF, a figure which has now increased to 24 as others have graduated from HIPC.

This program, given the prosaic name of Multilateral Debt Relief Initiative (MDRI), is still quite limited, in that it applies to a small subset of the countries requiring such cancellation: those which had submitted to at least six full years of the IMF's destructive "sound policies." But it nonetheless sets an important precedent – the elimination of virtually all obligations to the IMF and World Bank. For the first time, countries which have been under the policy domination of these institutions for as much as 25 years could, potentially, opt out of any further involvement with them.

The IMF still gets its money – indeed, the MDRI enables it to collect on some of its most dubious claims, in full, through the mechanism of trust funds set up by wealthier countries and the World Bank. But after 25 years of keeping almost 100 countries on a debt treadmill – structural adjustment loans leading to more poverty and debt, leading to more structural

adjustment loans – the IMF has lost its leverage to maintain that cycle with some of the most vulnerable ones. Unfortunately, but perhaps predictably, given the infiltration of finance ministries with former IMF and World Bank employees, few countries avail themselves of this opportunity. Most already have signed onto new, restrictive programs with the IMF and/or World Bank by the time the MDRI is finalized. (see #3)

Simultaneously with the MDRI, the IMF introduces a new program, formulated in tandem with the debt-cancellation talks. Called the Policy Support Instrument (PSI), it is designed to offer IMF oversight and “advice” for countries that no longer need or want IMF loans. In other words, a country that wants to declare itself free from the IMF – a “graduation” the IMF could not overtly be seen as discouraging – can still be pressured to submit itself to IMF rules. Although the first PSI goes to a non-MDRI country, Nigeria, the PSI is clearly designed for the new frontier the IMF faces: countries that can declare their independence of IMF lending. Thus far only four countries have signed up for the PSI – Nigeria, Cape Verde, Uganda, and Tanzania, with only the latter two having benefited from the MDRI. But Ghana is likely to go the PSI route, and several other countries are considering it.

2. September 2005: U.S. Attacks IMF

In a widely-discussed speech at the Institute for International Economics in Washington, at the beginning of the weekend of the IMF/WB annual meetings, U.S. Under Secretary of the Treasury for International Affairs Tim Adams, with IMF Managing Director Rodrigo Rato in the audience, delivers a stinging critique of the IMF. The speech attracts extra attention because the IMF is usually seen as deeply influenced by U.S. Treasury. Press articles focus on Adams’s declaration that the IMF is “perceived as being asleep at the wheel on its most fundamental responsibility, exchange rate surveillance,” a thinly-veiled attempt to shift discontent among U.S. politicians with China’s exchange rates from Treasury to the IMF. But the speech also lays out in unusually clear terms the need for re-balancing voting power on the IMF board – where the status quo threatens the Fund’s legitimacy -- including a call for consolidating the eight European seats into one. More importantly, Adams zeroes in on the IMF’s record in impoverished countries, finding that “the IMF is not a development institution, and it is clear that the IMF’s financial involvement in low-income countries has gone terribly awry.” He calls for IDA, the World Bank’s facility for low-income country loans, to take on most of the work currently being done by the IMF’s Poverty Reduction and Growth Facility (PRGF), and for the IMF to return to its original mandate of making short-term loans to facilitate balance-of-payments corrections.

Adams’s speech in effect declares open season on the IMF, with officials of other governments and independent commentators taking up the theme that the IMF has lost its way, and is in danger of becoming irrelevant.

3. December, 2005: Failed Attempt to Undermine the MDRI

The MDRI announced by the G7 finance ministers in June required ratification at the board level of both the World Bank and the IMF. IMF staff prepare recommendations for its implementation. Those suggestions and the discussion that ensued demonstrate just how

threatening both the staff and some members of the IMF board find the MDRI. Using elaborate inferences, IMF staff construe the rather straightforward declarations of the G7 to mean that it should devise a new set of performance criteria before countries are awarded cancellation. Using very imprecise gauges, the staff concludes that six of the initial 18 countries -- fully one-third -- should have their benefits delayed. Coincidentally, or quite possibly not, four of the five countries which would not have an IMF program in force after getting MDRI benefits fall on the list of six. (The other, Uganda, had recently committed to become the second PSI client.) The IMF, it seems, is willing to create new rules in order to preserve its leverage.

The staff proposal receives support from board members representing the non-G7 European countries, who are apparently miffed at having the MDRI imposed on them. Some of those board members went further than the staff recommendations, making suggestions such as making the cancellation revocable at any time a country deviated from IMF-approved policy behavior. Rapid mobilization by civil society organizations, together with the obstinacy of the U.S. and U.K., preserve the MDRI in its original form, except for a delay for Mauritania (which turned out to be for six months). The intensity of the board battle makes clear that this is a significant defeat for the IMF -- probably the most significant rejection of established practice and the staff and management's policy priorities in its history.

4. December 13, 2005: Brazil to pay off all IMF claims

After successfully concluding, and not renewing, its IMF program in March 2005, the Brazilian government makes the unanticipated announcement that it will pay the remaining \$15.5 billion claimed of it by the IMF before the end of 2005. Civil society activists protest that the move amounts to depriving Brazil of much-needed funds for social programs in order to pay what should be considered illegitimate debt claims. But it does have the effect of eliminating the IMF's leverage over Brazil.

Brazil is not the first country to make a pre-emptive and complete payoff -- Thailand did so by paying \$12 billion in August, 2003. But Brazil's move sets off a chain reaction of other middle-income countries taking the same step. This, together with the growing recognition that East Asian countries are amassing unprecedented currency reserves in order to guard against future vulnerability to the IMF, intensifies the perception (and the reality) that the IMF is facing a crisis of confidence, a crisis of identity, and a crisis of finance.

5. December 15, 2005: Argentina to pay off all IMF claims

Just as surprising as Brazil's announcement is Argentina's two days later that it will pay the \$9.8 billion the IMF claims from it. Although civil society protested, as in Brazil, there was widespread approval of the resulting independence from the IMF. President Nestor Kirchner's administration had the most contentious relationship with the IMF of any government, and in announcing the pay-off, he reiterates his charge that the IMF is responsible for the catastrophic collapse of the country's economy in 2001 -- a belief widely shared in Argentina and around Latin America. While Kirchner's move adds to its crises of relevance and legitimacy, and now solvency, there is also some relief felt at the IMF since some had feared that the Argentina would choose to default rather than repay its arrears.

6. February 2006: Debating the IMF's future

The debate ignited by Tim Adams's speech in September reaches new peaks, as a number of other top officials join in the IMF-bashing. Mervyn King, the U.K.'s central bank governor, uses particularly strong language, warning the IMF risks "slipping into obscurity." Adams again weighs in again on the exchange-rate surveillance. Officials of the Canadian central bank jump into the fray, as does South African central bank governor Tito Mboweni, who slams the marginalization of African countries on the IMF board. Even among the G7 officials, the diagnoses are not identical: King, for instance, locates the IMF's problems in its "micro-managing" board, a theme not picked up by others. Another critic suggests merging the IMF and the OECD; others suggest merging it with the World Bank. The most common suggestion is re-focusing the IMF from lending operations in low- and middle- income countries to global surveillance, with emphasis on the imbalances among the largest economies. Pressure from the establishment for real change at the IMF has probably never been greater.

7. March 2006: Bolivia turns its back on the IMF

Bolivia, under its new President, Evo Morales, becomes the first country benefiting from the MDRI to conclude its IMF arrangement and announce that it will not enter into any new agreements with the institution.

8. April 2006: A New Role for the IMF?

At the semi-annual meetings of the IMF and World Bank, the IMF releases official figures forecasting its first loss in decades in 2007. Much discussion focuses on the reform of voting power on the IMF board, with the G24 and other developing-country blocs expressing dissatisfaction with the limited proposal tabled by Rato, which would give four countries (Mexico, Turkey, South Korea, and China) immediate quota increases, and inaugurate a process to consider how to realign all the institution's votes. New committees are created to explore the financial challenges facing the IMF and the voting-rights debate.

But the proposal winning the most attention is Rato's rather unexceptional one to shift the IMF to a more active role in convening bilateral and multilateral meetings among major economies to address serious imbalances (meaning, in particular, China with its controversial exchange rate and trade surplus, and the U.S. with its massive deficit). This "new mandate" to mediate global economic frictions is greeted in extravagant terms by some of those who had been most vocal with their criticisms. Tim Adams is very satisfied, and Mervyn King is reported to be nearly ecstatic. But at the end of most commentaries reporting on this development is the cautionary note: we shall see if the big players really allow the IMF to play a mediating role, and if the IMF will have the clout and imagination to pull it off. Prescient concerns, since by the institutions' annual meetings in September, this new mandate that was to revive the IMF is hardly spoken of.

9. May 17, 2006: Serbia pays off IMF

The Serbian government announces that it will pay back \$500 million lent by the IMF, thus closing out all obligations to the institution (the final payment is made in March 2007).

10. May 23, 2006: Indonesia announces plan to pay off IMF early

The Indonesian government announces that it will pay off all remaining IMF claims, totaling \$7.8 billion, within two years. That amount is the residue of some \$25 million the IMF lent Indonesia during the East Asian financial crisis.

11. June / July / August 2006: IMF insolvency?

As the committee formed in April to consider alternative funding mechanisms for an IMF that can no longer depend on loan-repayment income goes about its work, reports emerge of the depth of the shortfall, including a possible one-year loss of \$100 million in 2007. For the first time, reductions in IMF staffing are discussed. The idea of selling or revaluing some of the IMF's massive gold stocks is broached – a move that was rejected as a financing mechanism for debt cancellation in 2005. The U.S., whose Congress must approve any change in the status of the Fund's gold, signals that it will not support such action.

12. September 2006: IMF & World Bank meet in repressive Singapore

The IMF and World Bank hold their 2006 annual meetings in Singapore despite warnings that its history of suppressing civil liberties may impede free discussion with civil society. And indeed, the Singapore government bans dozens – probably over one hundred – individuals from entering the country, including some 27 whom the institutions had approved as civil society delegates to the official meetings. The institutions issue statements distancing themselves from Singapore's actions, and requesting that all delegates be allowed to attend. But most press attention and commentary at the meetings is devoted to the image of the IMF and World Bank taking cover in another repressive country to hold their meetings (the 2003 meetings – the last time they were held outside Washington – were in Dubai, UAE). The release of a World Bank report on “doing business” that finds Singapore is the top country in which to “do business” does not help persuade anyone that the institutions are on the side of human and civil rights.

13. August 2006: African Directors protest IMF quota reform plan

In a very unusual move, the three Executive Directors representing African countries send a memo to a meeting of African Finance Ministers in Maputo, Mozambique, informing them that the quota reform proposal to be discussed at the annual meetings may well result in Africa, already quite marginalized at the board, actually seeing its voice reduced. The EDs signal that they will vote against the proposal in its current form – again, very unusual – and recommend that African countries oppose it at the annual meetings if it has not been changed.

14. September 2006: IMF quota reform talks cause dissension

The substantive discussion that gets the most attention at the annual meetings is the proposal for changes to the IMF board's voting structure. The proposal – largely unchanged from April despite much discussion (see #8), is denounced by a number of middle-income country governments who believe that the promised “second step” of the reform will take much longer than the promised year, and may never be completed. In an unusual step, a formal vote is taken

at the annual meetings, stretching over two days. Over 20 countries oppose the resolution, including India, Brazil, and Argentina, but their combined votes fall short of the 15% of total votes required to prevent the resolution from passing. (Unfortunately, African governments are mollified by promises that the process will receive high-level attention, and most support the proposal). But the level of dissension at this level at the IMF is rare, and reports indicate that the discussions (which are behind closed doors) featured several governments, primarily Asian, complaining that the proposal failed to outline any shift in the IMF's role.

15. October / November 2006: Ecuador resists IMF pressures

As it becomes clear that Rafael Correa might win the November presidential elections (he does), concerns mount about his outspoken opposition to IMF policies and interventions during his brief stint as Finance Minister (a position he was forced to resign due to World Bank pressure). On the campaign trail, Correa explicitly threatens to repudiate Ecuador's external debts. But even before the elections, in October, the Ecuadoran government publicly denounces IMF pressure to stockpile foreign currency to pay off any judgment against it in a case involving Occidental Petroleum, a U.S. company. After winning the presidential election, Correa refuses to indicate whether Ecuador will make payments on its external debt. (As of this writing, it appears that Ecuador is making payments, albeit late ones, and perhaps not full ones.)

16. November 8, 2006: Uruguay to repay IMF debt

The Uruguayan government announces it will pay in full the IMF's claims on it, amounting to a little over \$1 billion, becoming the third country in the Mercosur bloc to escape IMF influence.

17. December 2006: New role for IMF? No thanks!

Commentators report that the IMF has had to downgrade the talks it was trying to host among five major economic players (China, the U.S., the "eurozone", Saudi Arabia, and Japan). The participants were reportedly failing to sufficiently engage in the discussions. So much for the big plans announced for a new IMF mandate in April.

18. December 28, 2006: Philippines to pay off IMF and exit its programs

The Philippine government announces that after paying the final \$220 million the IMF claims of it, it will not renew its IMF programs.

19. January 2007: IMF pressure on Uganda poverty program exposed

In a review under its PSI program, the Ugandan government is told by the IMF that its "Bonna Bagagawale" program – under which banks are encouraged to make below-market-rate loans to small farmers – constitutes "directed lending" and should be curtailed or re-designed. The IMF's assertion of recent years that it is making reducing poverty its top priority is called into question by this determination. And any hopes that under the PSI the IMF would end its practice of erecting obstacles to "pro-poor growth" are laid to rest.

20. February 2007: Malan Report calls for IMF to stop lending to low-income countries

A committee chaired by former Brazilian Finance Minister Pedro Malan publishes its report on how the IMF and World Bank can collaborate better. One of its highest-profile suggestions is that the IMF, which it asserts is not equipped to operate as a development institution, should stop making loans to low-income countries, leaving that responsibility to the Bank. The report also notes that the issue of “fiscal space” – the IMF’s insistence that low inflation targets must be maintained even as they limit growth – has caused increasing friction between it and the World Bank. Civil society groups have been targeting this issue aggressively in the last two years, blaming IMF wage caps and inflation targets for squelching health and education programs. Unfortunately, the report endorses the continuing use of “assessments” of low-income country economies by the IMF, and explicitly supports the PSI.

21. March 1, 2007: Argentina refuses to re-engage with IMF

Argentine President Nestor Kirchner says that while Argentina intends to negotiate with and pays its debt to the Paris Club of bilateral creditors, under no circumstances will it enter into a new agreement with the IMF. Having an IMF program is a pre-requisite for any debt reduction or rescheduling from the Paris Club. The Paris Club has yet to signal whether it will make an exception for Argentina.

22. March 6, 2007: Rumors that Turkey will pay off IMF

The *Turkish Daily News*, citing reports in business daily *Referans*, reports that the Turkish government is considering paying off its entire \$8.5 billion IMF debt before November elections. If this happens, the big four IMF debtors as of November 2005 will all have paid their debts early and set the stage to free themselves from IMF oversight.

23. March 2007: Chavez steps up campaign against IMF in Latin America

As U.S. President George W. Bush prepares to embark on a high-profile tour of Latin America, Venezuelan President Hugo Chavez publicizes his efforts to eliminate IMF influence in the region. Together with Argentine President Kirchner, he announces that the new “Bank of the South” will soon begin operations, allowing countries with financial difficulties an alternative source of finance.

24. March 2007: Internal report faults IMF practice in Africa

A report published by the IMF’s own internal watchdog, the Independent Evaluation Office (IEO) says that the IMF has failed to communicate its policies accurately in Africa (saying it has “done little to address poverty reduction and income distributional issues, despite institutional rhetoric to the contrary”), has failed to keep promises (e.g. of increased consultation with civil society), and has resisted working to expand financing and aid possibilities for African countries. In commenting on the “fiscal space” issue (see #20), the IMF agency says that the Fund has “blocked the use of available aid to SSA [sub-Saharan Africa] through overly conservative macroeconomic programs.”

25. March 2007: Angola cancels consultations with IMF

The Angolan government confirms reports that in February it cancelled planned consultations with the IMF. Finance Minister José Pedro de Morais, himself a former IMF Executive Director, says an IMF program “will not help Angola to preserve the economic and social stability it has gained so far,” and that the country wants to continue implementing its successful macroeconomic program “without being subjected to restrictive conditions.” There are significant concerns that the Angolan government may want to prevent investigations of high-level corruption, and that the maneuver is only possible because of Angola’s enormous oil wealth and the generous aid those resources have attracted from China. But Angola’s announcement remains an important precedent – very likely the first time an African government has been in a position to refuse IMF engagement altogether.

26. March 28, 2007: IMF’s new role a flop, Japan confirms

Discussing the upcoming semi-annual meetings of the IMF, Japanese officials say that no news can be expected from the IMF’s convening of economic powers to discuss global imbalances. Reuters reports that “there has been scant evidence of progress in the International Monetary Fund’s multilateral consultation process on global imbalances and Tokyo expects no big surprises at the international meetings in mid-April in Washington.”

27. April 10-15, 2007: IMF appears stagnant at Spring Meetings

During the Spring meetings of the IMF and World Bank in Washington, the IMF benefits from being overshadowed by the Wolfowitz scandal at the World Bank. Without the scandal, more attention would have been focused on the absence of any progress in discussions on quota reform and the apparent stalling of the global-imbalances mission.

The U.K. and France stated bluntly that they would not agree to any reform (such as using purchasing-power-parity to calculate the size of economies) that would reduce their voting position at the IMF, a stark departure from the U.K.’s usual talk of empowering Africa and other developing countries and a clear signal that further voting reform will be very difficult if not impossible to achieve.

An announcement of plans said to have resulted from the global-imbalances talks are characterized by Reuters and others as “an inventory of existing measures.” John Lipsky of the U.S., the new #2 at the IMF, is reduced to saying, “Words have implications and that is a new approach.”

Those columnists and reporters who can be distracted from the Wolfowitz circus long enough to look at the IMF mostly reach conclusions like that of Gary Duncan of *The Times* (U.K.): “Both the IMF and the G7 are becoming outdated and toothless bodies as the world economic landscape is transformed by the rise of China, India, Brazil and other emerging market powers.”

28. April 15, 2007: Ecuador pays off IMF and will “sever ties”

President Rafael Correa announces that Ecuador has paid off the remaining \$9 million the IMF claimed from it. Saying that Ecuador will “sever ties” with the institution, he makes it very clear that Ecuador has taken the step so it will never again have to accept the IMF’s failed policy advice. The next day, Correa expels the World Bank representative to Ecuador.

29. April 2007: China & Russia rebuff IMF

Within days of the formal end of the spring meetings, two major governments announce they will disregard IMF demands. China’s deputy central bank governor, Hu Xiaolian, rejects the idea of accelerating the flexibility of the renminbi exchange rate, saying, “The fund... should respect its member countries' core interests and actual economic fundamentals. Biased advice would damage the fund's role in safeguarding global economic and financial stability.” Meanwhile, the Russian Finance Ministry announces that it is uninterested in the IMF’s idea of creating rules governing how oil-exporters use windfall revenues.

30. April 30, 2007: Chavez says Venezuela Intends to withdraw from IMF & World Bank

In a surprise announcement, Venezuela’s President Hugo Chavez says that his country will go a step beyond simply ignoring the IMF and withdraw altogether from both it and the World Bank. Saying the institutions are dominated by U.S. imperialism, Chavez emphasizes the new Bank of the South as a better option for Latin America. No doubt with tongue in cheek, Chavez points to the IMF’s dubious financial status, saying Venezuela needs to get its money out before the IMF steals it, since he “read in the press somewhere that the IMF does not have enough money to meet its payroll.”

31. May 2007: East Asian Countries threaten to create IMF substitute

On the sidelines of the annual meeting of the Asian Development Bank, government officials of the countries involved in the Chiang Mai currency-swap plan discuss plans to expand its scope. The plan sounds very much like a regional IMF, along the lines of the Asian Monetary Fund that was proposed during the East Asian financial crisis but squelched by the vigorous objections of the U.S. and the IMF. The fund would involve the ten ASEAN countries plus Japan, China, and South Korea. Because the Chiang Mai Initiative applies only to bilateral swaps, this move is being described as a “multilateralization” of the CMI. Details of the plan are still scarce enough that it is difficult to know if it will be a truly independent body which can supplant the IMF in East Asia. The central question being asked by observers is whether IMF approval of a government’s economic program will be a prerequisite for its participation. If it is independent of the IMF, this could be a major blow.

32. May 17, 2007: Another Negative Internal Report

The IMF’s Independent Evaluation Office publishes its analysis of the institution’s oversight of the international monetary system and individual governments’ exchange rate policies. Calling the IMF’s performance from 1999 to 2005 “ineffective,” the report says many governments feel

the IMF is not even-handed in its approach to high, middle, and low income countries with regard to exchange rate policies. The report also says that staff and management often “failed to provide analytical backing for their recommendations” and that in many cases “the IMF’s advice was based on fashion rather than tailored to the country-specific circumstances.”