

**RESETTING PRIORITIES:  
WHAT KIND OF IMF DOES AFRICA NEED?**

**Bringing African perspectives to IMF Reform Debates**

**The Role of the IMF in Systemic and Financing Issues**

*What role should the IMF play in global systemic crises, and how can it improve its fulfillment of this role? Are the IMF's financing facilities adequate in their purposes, scale and concessionality? What should be the Fund's role in catalyzing other finance for development (aid, other official and private flows, tax revenue, domestic savings) through its signaling role? What should the Fund do to help countries to keep their debts sustainable?*

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## 1. Introduction

The landscape in which the international financial system is situated has entered into a remarkable period of transition, relative to two years ago. Numerous countries have repaid their debts to the International Monetary Fund (IMF) ahead of schedule, leaving the Fund with a US\$400 million annual deficit expected for 2010. Many of these same countries have indicated that they will not return to the IMF because of the burdensome conditions that it imposes on debtors.

The roles of the IMF in a fast globalizing world have become the subject of controversy. Its sympathizers believe that it's a question of getting it back to its mandate; keeping it in line with the division of labour- the IMF should remain as a monetary institution it should concentrate on macroeconomic surveillance and consultation, providing temporary balance of payment support. The moderates suggest modifying or reforming the IMF or merging it with the World Bank while the extremists urge that it be shut down.

A new financial architecture – new institutions and sources of finance emerging. Calling for deeper change.

## 2. Why the debate on the IMF role?

IMF has been under the scrutiny following the occurrence of a number of global events that seem to question its relevance and legitimacy.

- (i) East Asian Crisis of 1997-1998
- (ii) Argentina's crisis of 2001-2002
- (iii) MDRI imposed on IMF by G8. 24 (initially 20) countries of the IMF benefit from the MDRI Vs the big request. Policy Support Instrument (PSI)<sup>1</sup> trying to keep countries from IMF independence.
- (iv) Tim Adams US undersecretary of the Treasury of International Affairs 2005 critique of IMF as been asleep in regard to exchange rate surveillances.
- (v) Pay off claims & elimination of IMF leverage by Brazil & Argentina (2005), and in 2006 it was Bolivia, Serbia, Indonesia
- (vi) IMF Quota reform protest by 20 countries including India, Brazil and Argentina at the 2007 annual meetings

For Africa:

- Import Liberalization led to deindustrialization, unemployment and environmental damage.
- 3 issues stand out as important-Trade, Debt and Aid.
- Africa's shocks and real problems

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<sup>1</sup> Nigeria, Uganda and Tanzania

Alternatives to the IMF are still been considered but they lack the global scale of representation though. An example of such is the Mai Initiative. The Chiang Mai Initiative is a first step towards a regional Asian Monetary Fund, an effort to move away from the International Monetary Fund, which is believed to have further aggravated the 1997 Asian economic crisis with a series of harsh policies.

### 3. IMF role and areas of contestation

**a. Governance of IMF** (A question power balance between rich countries wanting to maintain status quo and low-income countries wanting more power)

*Key here is the influence of developing countries in IMF's decision making process. Currently a member's quota determines its voting power. Voting derived from an arbitrary quota allocation formula perpetuates the dominance of the industrial countries. The debate on IMF reform is about how the members' representation in the Fund and their influence on Fund policy can be adjusted to the changes in global economic and geopolitical conditions.*

**Is IMF reformers prepared to see weighted voting replaced by the so called Westphalian one-country, one vote system?** Under the current system non-OECD countries cannot block any proposal as the OECD countries control nearly 70% of the votes at the board. 8 EDs (from G7 countries plus Belgium) representing 35 countries can unilaterally make decisions and on the contrary developing countries EDs need the support of either 4 developed country EDs or the US and other developed country ED. The current debates around reforming the IMF quota system – to better reflect the economic weight of various emerging economies, but to also increase the decision-making power of developing countries – are moving at a glacial rate. When approved, the changes will be superficial. Furthermore, in the wake of the Wolfowitz scandal and the early resignation of IMF Managing Director Rodrigo de Rato, which presented a key opportunity to open up the selection process for the heads of both institutions, the Board elected to maintain the *status quo* with an American as head of the Bank and a European at the IMF. Austere and ineffective policies prevail. In December 2006, the World Bank's internal auditor determined that despite Bank efforts to fight poverty, it has failed to increase incomes in many poor countries over the past decade, leaving tens of millions of people living in the same or worsening conditions.

**b. Fund surveillance** (going beyond implementation of international standards and codes)

*There has been an extension of Fund surveillance to go beyond dealing with Its traditional mandate of macro-economic conditions and monetary, fiscal and exchange rate policies in individual member countries with the functioning of the international monetary system. New focus includes prevention of financial crisis and esp. identification of sources of vulnerability and measures to prevent emergence of*

*crises? viewed to be a super rating agency and issuing warnings that are self-fulfilling prophecies.*

In today's global village, the IMF can claim a leading role and a coordinating function in regard to the monitoring of compliance with regard to internationally agreed standards and codes. The availability of informative and timely data on a country's economic situation can help identify undesirable developments at an early stage and enable measures to be taken to rectify them.

c. **Conditionality and country ownership** (the scope and content of IMF conditionality raises the issue of how to reconcile it with the importance of assuring country ownership)

*New conditions of a political economy character relating to governance (rule of law, judiciary reforms, civil society participation etc) has represented unwarranted invasion of national sovereignty? Conditionality undermines ownership of programmes by the borrowing country.*

Now a year later, the IMF's internal auditor has determined that the Fund's policy to "streamline" and reduce the number and scope of conditions attached to loans - a policy adopted in response to the burdensome and intrusive lending conditions the Fund placed on countries in East Asia at the time of the Asian financial crisis - essentially has had no impact. In response to these and other issues, Southern governments are increasingly seeking alternatives to the Bank and Fund. New and innovative mechanisms are being developed for financing development and regulating private capital flows, and high level working groups are looking into issues such as capital flight, tax havens and remittances. While many of these new initiatives represent exciting new opportunities, it would be naïve to assume they are without their own challenges.

-flawed process though countries sign a letter of intent.

-Insistence on low inflation targets and wage caps paralyzing health, education and social welfare.

-Budgets vetted during PRGF reviews which affects aid increases if declared off track. Tighter controls of overall public spending impacts on quality education and public sector ability to hire more teachers and health workers.

-11 structural conditions as per PRGF review by AFRODAD & EURODAD. Pushing some privatization reforms.

-Lack of CSOs consultation on macroeconomic frameworks.

d. **Private sector involvement**

*The private sector should participate in the prevention of resolution of financial crises- Should private sector involvement be based on the use of concerted techniques applied*

*under a rules-based framework or should be decided on a case by case basis? IMF has been asked*

- (i) *not to become party of the negotiations between debtor country and its private creditors*
- (ii) *Have an emergency facility to assist poor countries facing speculative excessiveness in private capital markets.*

**e. IMF facilities**

Use of IMF resources.

**f. Capital economic liberalization and the choice of exchange regime**

*The major issue here is the degree of national autonomy that countries exercise in regard to the management of their capital accounts. The choice of exchange regimes is absent without national autonomy.*

**4. Other key problems**

**5. Emerging Issues/Areas of Concern**

- g. Africa needs anti-shock measures, contingency funds, realistic projections, poverty eradication, environmental sustainability, & realization of human rights.
- h. Reforms must empower those sidelined by the existing system and build in important checks to abuse of power
- i. Any reforms must consider the political realities.
- j. The best contribution IMF can make to fighting poverty is to ensure monetary stability in the poorest countries.

**6. Recommendations**

a). There is need to reaffirm the role of the IMF as important with regard to financial flows which remain important for breaking through the development problems faced by many low income African countries.

- (i) Global capital flows regulation & more stable exchange rates
- (ii) Provide guidelines on use of funds & curb manipulative financial activity.
- (ii) Provide sufficient liquidity and credit to developing countries to finance development.

b). There is a need for **coherence** in order to make development finance more systemic. Currently the IMF operates outside efforts at donor harmonization. Given the IMF important financial role (for those countries still under PRGF) it is important that such IMF financial flows be seen also in relation to development finance provided by other donors. It is for the same reason that financial flows for development which come through NGOs should be part of the whole financial architecture. For development

purposes it is crucial to see how the different and the total financing can stimulate the development process. In this regard financial flows from the IMF should be part of the whole. The current mechanism, of donor harmonization needs to include the IMF since they are an important player.

c). As part of the development finance community the IMF could play an important role in influencing the direction of development aid and domestic resources to secure that the countries remain in the framework of **sustainable debt levels**. In other words, if and when as a country begins to slide from debt sustainable levels, the IMF might signal areas or sectors in which development finance could be directed mitigate the tendency.

c). The IMF remains a key institution defining fiscal space and the Medium Term Expenditure Framework (MTEF) is a key instrument for this. There is a feeling within the NGO community that although the MTEF is a “**country owned**” instrument the reality seems that it is a framework which defines the boundaries of macro-economic parameters for securing the stability of the macro-economic fundamentals. Although the IMF denies its grip on the MTEF it is a reality that even if additional development finance were available to meet the MDGs in three years, it is unlikely that this could be permitted as this would distort the MTEF parameters. Would the MTEF allow for doubling of the number of health workers and teachers in any particular year if development finance were available? The answer would be no; largely defined by the MTEF parameters. Various arguments related to absorptive capacity and actual availability would take the upper hand of the argument.

d) Engage CSOs and parliaments at local level for community participation & legitimacy.

e) A debt Resolution system should be in place- FTA could be convenient for this.

f) Aid effectiveness as enshrined and refined in the Paris Declaration.

## 7. Conclusion

In conclusion, we propose that the IMF be part of the donor harmonization process so that the role of IMF finance can be synergized with other development financial flows. In that context, it could play a role in mitigating any tendencies for countries to slide into unsustainable debt levels as other financial instruments could mitigate the tendencies. IMF should continue to serve all its members, including the poorest and that its resources should be available for supporting macro-relevant, structural reforms as well as dealing with financial crises.

