On One Condition: The politics of Conditional Lending in developing Countries

There is scarcely any enduringly successful experience of an international body which has fulfilled the hopes of its progenitors. Either an institution has become diverted to the instrument of a limited group or else it has been a puppet – sawdust through which the breath of life does not blow. - John Maynard Keynes[1]

Introduction

Nearly a universal institution with 187 member countries and $842 billion dollars in resources, the International Monetary Fund (IMF) is most likely the most powerful of all international organizations. The advent of the financial crisis of 2008 has thrust the IMF into a central position of lending to developed and developing countries. The IMF's influence stretches among many financial capacities including – preserving exchange rate alignment; lending; research and economic analysis; developer of market-based economies; managing financial reform and systemic crises; and, establisher of macroeconomic policies to eradicate poverty.[2] IMF's position in international and domestic policy illustrates its extraordinary flexibility and importance as an international financial institution (IFI). A controversial debate revolves around the Fund's policies in the international financial system. Originally mandated to manage a fixed exchange rate system, the IMF has extended its influence into development projects and creating market-based economies. Despite the aberrant effects of IMF programs, the Fund's use of conditions attached to their loans continues.[3] A fundamental tension arises between the sources of failure – low compliance or the policies themselves. Scholars and economist argue the IMF should get out of the development business and return to their original Bretton Woods mandate of correcting balance of payment issues. However, transforming the structure of the IMF and its policies is not a likely scenario.

The IMF's governance and voting structure and hegemonic free-market economic polices in congruence with the complex variances in domestic realities of its loan receiving member countries, sets up a system that simply does not produce a sustainable economic system that safeguards the human rights of a member country's citizens. To develop this argument, I will first present the structure of the IMF and the significant actions it takes. Laying this foundation will provide a basis for further critical analysis, but also will reveal the creation, complexity, and transformation of the IMF over the decades. The second

[1] Keynes, John Maynard, 9.3.1946, Speech at Inaugural Meeting of Governors of Fund and Bank, The Collected Writings of John Maynard Keynes, Volume XXVI: Activities, 1941–46 – Shaping the Post-war World: Bretton Woods and Reparations. Basingstoke: The Macmillan Press Ltd. 1980, 215–217.
[2] DAVID VINES & C. L. GILBERT, The IMF and its critics : reform of global financial architecture 13 (Cambridge University Press. 2004).
[3] This concept will be elaborated upon later in the paper.

section of this paper will examine the innate politics contained in the decision-making process of the IMF. This section will explain that voting in the IMF does not occur in a political free space, but in a complex web of voting blocs and third-party influences. The third section will critically analyze IMF policies, specifically, the use of conditionalities – or, structural adjustment programs (SAPs). The use of conditionalities is the area of most scrutiny of IMF polices, and, therefore, the area of most economic and social science analysis. This section will be the first prong of a two-prong approach that will argue that the IMF programs are ineffective and cause human rights abuses. By presenting statistical analysis and scholarly arguments, this section will effectively situate the IMF as an IFI that has overstepped its original mandate and is ineffectual in its application. The fourth section and the second prong of this paper will examine the unaccountability of the IMF programs through an analysis of the democratic deficit that occurs through implementing IMF policies. This section will elaborate upon the citizen disconnect associated with IMF programs and will argue that IMF programs are the result of elite implementation and not of democratic processes. Sections three and four contain the essence of my argument –IMF loan conditions promote human rights abuses and inequality. The final section will focus on possible solutions and novel ways of development that honor human rights and possible reforms the IMF can utilize while keeping its original mandate intact.

IMF Structure, Governance and History

Following the conclusion of WWII, the leading economic powers in the world created the IMF at the Bretton Woods Conference in 1944. By the end of 1945, enough countries had ratified the agreement to bring the IMF into existence. The Board of Governors first met in March 1946, adopted by-laws and decided to locate the headquarters in Washington DC. One year later the IMF began operations.[4] Article I Section I states the purpose of the IMF is "[t]o promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems."[5] This institutional innovation created an international legal framework and code of conduct for international monetary relations. The UK and US lead economists originally designed the Fund to manage a system of fixed exchange rates and provide emergency liquidity to countries facing temporary payment difficulties. Under this system, the currencies of the world would be freely convertible for currencies of other countries and the valuation of currency would remain unchangeable, unless a member state had IMF approval. This notion is radically different from the setting of the

[4] MORTEN BØÅS & DESMOND MCNEILL, Multilateral institutions : a critical introduction 45 (Pluto Press. 2003).
[5] IMF, *Articles of Agreement of the International Monetary Fund,* IMF(1944), at http://www.imf.org/external/pubs/ft/aa/index.htm#art1.

exchange rate as a sovereign decision and beyond the reach of other nations. Member countries approved of this "par value" system because of its inherent predictability in international currency values. How this system functioned was that each member would notify the Fund of the initial par value of its currency in terms of gold or in terms of the U.S. dollar as a common denominator. A member was entitled to change the par value of its currency after IMF approval, but only to correct balance of payments issues.[6] The most important function of the IMF charter sanctioned the Fund to make short-term loans available to member countries that were having balance of payment difficulties. These short-term loans sought to support the integrity of the member country so as not to imbalance the global economic order. The Bretton Woods agreement fostered international trade, which in turn, fostered international peace.

Global economic integration made each state's economy dependent on the integrity of the global financial system. A state would less likely start a war if the international community guaranteed economic hardship in response. The fixed-value system negated competitive currency manipulation for short-term goals – a common practice in the early 20th century.[7] The Bretton Woods system was also meant to undermine the spread of communism, which sought to infiltrate markets in the post WWII geopolitical world.[8] The Bretton Woods system aimed to contain communism and expand liberal capitalism. This global system was meant to integrate and simplify international trade through processes that promoted predictability and prosperity in the global financial order. The IMF and its member states sought to promote their market-based oriented economic reforms to the world throughout the world. Only members of the IMF could benefit from its surveillance, technical assistance, and loans.

To become a member of the IMF, a country must undertake economic and financial obligations geared towards managing its national currency. Articles IV and VIII of the IMF Charter layout the "code of good conduct" and include the following duties – (1) "to assure orderly exchange arrangements and to promote a stable system of exchange rates"; (2) foster "orderly underlying economic and financial conditions and a monetary system that does not tend to produce erratic disruptions"; and, (3) "avoid manipulating exchange rates."[9] These foundational financial obligations provide stability and efficiency in the international exchange rate system. In addition, the IMF acted as "a clearinghouse for collecting national and international financial statistics and to develop expertise and analytical research on monetary and financial issues (as called for in Article VIII, section 5 of the Fund Agreement) that could be

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[6] SARAH TENNEY & NORMAN K. HUMPHREYS, Historical dictionary of the International Monetary Fund 237 (Scarecrow Press. 2011).
[7] WILLEM MOLLE, Global economic institutions 34 (Routledge. 2003).
[8] RAY KIELY, Empire in the age of globalisation : US hegemony and neoliberal disorder 90 (Pluto. 2005).
[9] IMF.

disseminated to the international community through publications, training, and technical assistance."[10] The IMF surveillance looks to exchange rate policies, financial markets, external reserves, banking soundness through financial assessments, and other elements of good governance such as observation of international standards and codes.[11] The IMF publishes these reports, which work as a soft power mechanism to "shame" countries into fulfilling IMF approved economic policies. Another key feature of IMF membership is the technical assistance provided by the Fund's economists. IMF technical assistance "helps member countries design and implement financial policies, draft and review legislation, and build institutional capacity."[12] This technical support further integrated the global economy since states would have policies that complemented one another. Through the codes of good conduct, surveillance, and technical assistance, the IMF promoted liberalized economic policies to its members and assisted transition economies. Beyond following good conduct obligations and allowing IMF technical assistance and surveillance, the most important member obligation is contributing money to the Fund.

The cash deposited into the Fund became part of a quota system within the IMF that provides benefits and powers to the member country. The IMF, according to the country's wealth and economic performance, establishes the amount contributed to the Fund. The more affluent the country – the higher the quota amount. Quotas are reviewed every five years and can be lowered or raised depending on the needs of the member country and the IMF. This quota subscription works like a credit union and serves several different purposes. For instance, the quotas form a pool of money that member countries can draw upon. This pool of funds forms an IMF currency called special drawing rights (SDR). The SDRs can be exchanged for various currencies and its value is based on four key currencies (Dollar, Yen, Euro, and Pound).[13] The quotas also form the basis for the amount a country can borrow from the IMF – the more the member contributes, the more they can borrow. Loans are disbursed on the percentage of the quota with some loans allowing for up to 500% of the quota.[14] When a country receives a loan from the IMF, depending on the currency used, the IMF pays interest on that currency to the member state that contributed those funds. A member state will only earn interest on its quota contribution when other members borrow its currency from the pool. For example, during most of the 1980s the US received over a half billion dollars in returns and in the 1990s even more.[15] This is the only way the member country receives funds from the IMF without a loan. The most contentious area of the quota system is the quota

[10] ROBERT ANTHONY ELSON, Governing global finance : the evolution and reform of the international financial architecture 40 (Palgrave Macmillan. 2011).
[11] MOLLE, 176.
[12] JOHN W. HEAD, Losing the global development war : a contemporary critique of the IMF, the World Bank, and the WTO (Martinus Nijhoff Publishers. 2008).
[13] IMF, *Special Drawing Rights (SDRs)*(2011), at http://www.imf.org/external/np/exr/facts/sdr.htm.
[14] IMF, *IMF Lending*(2011), at http://www.imf.org/external/np/exr/facts/howlend.htm.

amount of each member country fixes the voting power of the member in the IMF.[16] In other words, the quota system provides the foundation of power and influence.

The Politics of Voting

The IMF is not a democracy but a collection of voters whose power are based on their quota subscriptions. Initially, this system makes logical sense because those with the most invested in the Fund have more power, but the nearly universal membership implies that loan receivers can be from developing countries that have no influence and usually no other options for financial assistance. The power imbalance of the IMF decision-making authority explicates the gap between the developed and developing countries.

Overall authority of the IMF lies in the Board of Governors and the Executive Board. The Board of Governors, the highest decision making body of the IMF, is comprised of the heads of central banks or ministers of finance from each member country. The Board of Governors meets only once a year. A Smaller subset of 24 governors, called the International Monetary and Financial Committee, meets twice a year and provides the Executive Board with policy oversight. The Executive Board facilitates the day-to-day activities of the IMF. It is comprised of 24 Directors, who are appointed or elected by member countries or by groups of countries, and the Managing Director, who serves as its Chairman. The Executive Board meets several times a week in formal sessions at the IMF headquarters. The Board usually meets several times each week. It carries out its work largely based on papers prepared by IMF management and staff.

In IMF decision-making, states' votes are weighted according to their "quota subscriptions" – the sum of money that each country pays to the IMF upon joining the organization. Because each state's percentage of votes is tied to economic indicators, IMF votes "reflect not just the preferences of states but the preferences of the Fund's richest and most powerful members."[17] A member country has, according to Article XII of the IMF Charter, "two hundred fifty votes plus one additional vote for each part of its quota equivalent to one hundred thousand special drawing rights" and all decisions are made by a majority vote.[18] At present, members with the largest IMF quotas – the USA, Japan, Germany, France, and the United Kingdom – appoint five Executive Directors. One country or a group of countries elects each of

[15] WILLIAM K. TABB, Economic governance in the age of globalization 212 (Columbia University Press. 2004).
[16] BØÅS & MCNEILL, 29-30.
[17] MICHAEL N. BARNETT & MARTHA FINNEMORE, Rules for the world : international organizations in global politics 49 (Cornell University Press. 2004).
[18] IMF, *Articles of Agreement of the International Monetary Fund*.

the other nineteen Executive Directors. These five countries, noted above, currently hold over 37% of the total votes in the Executive Board and the aggregate total of the G-7 countries is nearly 45%.[19] This is in comparison to the forty-four African states sharing just two seats on the executive board and wielded a combined total of 4.4 percent of the total votes.[20] The disparate power in decision making is striking. Developed countries dominate the IMF processes while developing countries voices are marginalized. Mark Copelovitch concluded in his book, *The International Monetary Fund in the Global Economy Banks, Bonds, and Bailouts*, "that IMF lending policies are determined jointly by the Fund's five largest shareholders and the IMF's professional staff."[21] Moreover, the Managing Director who usually chairs the meetings leads them according to the "sense of the meeting," which, as James Vreeland argues, creates an environment whereby "opposition to the US by smaller countries cannot be expressed through block voting, but must be voiced individually...the Managing Director has been reported to rarely act against the will of the US since the US has veto power over his appointment and reappointment."[22] Thus, the developing countries are sidelined because of the weighted voting and the influence of the Funds five largest members.

Developing countries simply do not have the voting power to place their priorities on the IMF agenda. The consequence being "a yawning gap...between the institution's stakeholders and shareholders, and those who are affected by decisions and those who should be accountable for them."[23] The advanced capitalist societies, who have the most voting power and least likely to acquire an IMF loan, are setting the agendas and making decisions that leave them largely unaffected. This gap in the decision making process undermines the overall legitimacy of the decisions because those most affected have the smallest vote. When voting power is imbalanced, as it is at the IMF, self-interests of the G-7 infiltrate the voting process.

International politics plays a part in IMF voting as powerful members use their influence to further political goals and reward allies. Vreeland argues –

Governments who are considered important allies of the IMF's most influential members – like

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[19] IMF, *IMF Executive Directors and Voting Power*(2011), at http://www.imf.org/external/np/sec/memdir/eds.aspx.

[20] VALERIE SPERLING, Altered states : the globalization of accountability 40 (Cambridge University Press. 2009).

[21] MARK S. COPELOVITCH, The International Monetary Fund in the global economy banks, bonds, and bailouts 85 (Cambridge University Press. 2010).(This book is a highly detailed political economy statistical analysis that looks into voting behaviors of the Executive Board and IMF).

[22] JAMES RAYMOND VREELAND, The International Monetary Fund : politics of conditional lending 41 (Routledge. 2006).

[23] BARRY CARIN & ANGELA WOOD, Accountability of the International Monetary Fund 9 (International Development Research Centre ; Ashgate. 2005).

> the United States – sometimes receive preferential treatment from the IMF. The IMF may bail them out of economic crises with large loans even if they fail to comply with IMF conditions of changing economic policy."[24]

In Storm Thacker's analysis of UN voting patterns, on key issues as identified by the State Department, and disbursed IMF loans, he concluded that "political friends of the US are more likely to receive loans than are its enemies... the more closely a country aligns with the US, the higher the probability it will receive a loan from the IMF."[25] International politics further embed themselves as the US and like-minded countries affect international monetary policies by forming voting subsets to push through certain packages that individual countries cannot.[26] The IMF argues "[l]oans are made strictly on the basis of the monetarist 'Financial Programming' model and a 'Doctrine of Economic Neutrality' that is blind to such factors as international politics and the nature of developing country regimes."[27] However, this statement does not explain how certain countries receive preferential treatment and it ignores the political economy of international lending and geopolitics.

The voting structure of the IMF lends some states greater power than others, but membership is voluntary. Despite the possibility that voting blocs influence the arrangements of loan conditions, each state's governor is accountable to their government as agents for their interests. In this sense, the state has delegated their decision-making authority to the IMF through membership alone. However, the Board of Governors meets only once a year. At the daily level, 24 Executive Board members run the IMF "who formally make the decisions regarding the disposition of funds and other key matters of policy."[28] To combat this issue, in 2010, the IMF board of governors approved a far-reaching reform of quota shares among its members. The reform plan will –

> shift more than 6% of quota shares to emerging markets and developing countries and over 6% from over-represented to under-represented countries, while protecting the quota shares and voting power of the poorest members. The Board also endorsed proposals that would lead to a more representative, all-elected Executive Board.[29]

This shift in internal governance will most likely not have a strong affect on IMF lending practices and policies. Most of the shifting quotas will go to Brazil and China whose economic ideologies are already aligned with current IMF policies. Moreover, while the quota system may shift to developing countries, they most likely will not represent the citizens of the country – only the elites.

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[24] VREELAND, 2.
[25] STROM C. THACKER, *The high politics of IMF lending*, *in* Globalization and the Nation State : the impact of the IMF and the World Bank 116, (Stephen Kosack ed. 2007).
[26] Id. at, 113.
[27] Id. at, 112.
[28] SPERLING, 39.
[29] IMF, *IMF Executive Board Approves Major Overhaul of Quotas and Governance*(2010), at http://www.imf.org/external/np/sec/pr/2010/pr10418.htm.

The quota system and its weighted voting structure influences IMF policies towards the interests of the advanced capitalist societies. The Board of Governors, with a representative from every country, only meets once a year and does not implement IMF policies on a day-to-day basis. The Executive Board carries out the daily operations. Only 24 members, five of which are the majority shareholders in the IMF, control the complex financial operations. The lack of representation in IMF decision-making is striking. Furthermore, international politics can influence who receives a loan and for how much. The proposed reforms of the quota system will not benefit the countries that lack representation. This imbalance of power negatively affects developing countries, especially when the IMF imposes conditions on their loans. Those with the power decide what conditions and reforms are necessary, while the receiving country may not have a choice but to accept.

Loan Types and Processes

Loans from the IMF have shifted in their focus since its inception. In the late 40's and 50's the IMF lent to industrialized nations with foreign exchange deficiencies.[30] The IMF began lending to decolonized nations in the 1960s. These new nations lacked a strong central government and economic institutions to compete on the international market and sought the IMF's assistance. On August 15, 1971, the United States suspended the conversion of official dollar balances into gold, and all the major trading countries let their currencies float on the world's exchange markets. The IMF's relevance was greatly challenged. The IMF responded by passing the second amendment to the Articles of Agreement that legalized the freely floating exchange rate system.[31] With the oil crisis in 1973, the IMF became a major lender to indebted nations. With the increase in oil price, the oil-export countries deposited their profits into Western banks that sought to profit from newly created loans. Many of these loans were given to developing countries to enable them to increase military budgets, pay for oil and other imports, fund development projects, and keep some for themselves. The close of the 1970s saw an increase in oil prices and interest rates and a decrease in agricultural and raw materials export prices. The loan recipients could not pay off their debts, so the IMF began loaning money to these states. Here, we see the advent of Structural Adjustment Programs (SAPs) as we know them today – policy reforms designed to liberalize the borrowers economic policies.

Governments join the IMF and receive loans for a straightforward reason: they need a loan of foreign exchange. According to the IMF Articles of Agreement, "[a] member shall be entitled to purchase the currencies of other members from the Fund...[provided] the member represents that it has a

[30] VREELAND, 10.
[31] TENNEY & HUMPHREYS, 231.

need...because of its balance of payments or its reserve position or developments in its reserves" (Articles of Agreement Article V, § 3).[32] The interest rates on IMF loans are lower than private sources making the IMF a usual lender of last resort. The primary rate is based on the SDR that is calculated every week (current rate is .20%). The adjusted rate of charge is applied to charge members on their outstanding credit and is calculated every week (at current is 1.20%).[33] An IMF arrangement is usually composed of two parts – the loan and a set of conditions imposed by the IMF in return for the loan.

The IMF developed a loan structure that takes into account whether the country is heavily indebted or just experiencing a short-term balance of payment issue or liquidity crisis. The IMF has several different mechanisms for financing member states that have strong market fundamentals and a proven track record of reform implementation. The IMF created the first two loans to confront the financial crises of 2008. Usually, borrowing from the IMF evinces a stigma for advanced capitalist countries. The IMF marketed these two loans for use by any advanced capitalist country experiencing short-term economic shocks. They imposed no conditionalities. The first, the Flexible Credit Line (FCL), is for strong performing countries. This loan focuses on crisis prevention and mitigation with no cap on the borrowing limit, but the amount will be assessed on a case-by-case basis. Second, the Precautionary Credit Line (PCL) is for member countries that have financial vulnerabilities that preclude them from using the FCL. The PCL is only available for countries that do not have a current balance of payment problem and is solely focused on crisis prevention. The most common loan is the Stand-By Arrangement that assures a member state that it can draw a specified amount of money from the Fund for a short term. The Stand-By Arrangement, established in 1952, provides quick funding for a period that lasts for 12-24 months but no longer than 36. The focus is on the objectives and less on conditionalities. The Extended Fund facility (EFF), on the other hand, focuses on long-term loans ranging from 3-4 years with a strong focus on conditionalities. The repayment date is within 4.5-10 years. These loans are only available to developing or developed countries. Low-income countries (LIC) have their own set of loans designed specifically to transform and modernize their economies. The following loans were established under the Poverty Reduction and Growth Trust (PGRT) and tailor each financing disbursement to the diverse needs of a lesser-developed country. First, the Extended Credit Facility (ECF) was designed specifically for developing countries with protracted balance of payment issues. Only member countries of the PGRT can request an ECF loan and this is done on a case-by-case basis. Assistance under an ECF arrangement is provided for a three-year period that can be extended another two years. The IMF works closely with the member state through conditions, benchmarks and reviews. Second, the Rapid Credit Facility (RCF) was designed for rapid financial assistance for LIC's with balance of payment issues. This loan has few

[32] IMF, *Articles of Agreement of the International Monetary Fund*.
[33] IMF, *SDR Interest Rate, Rate of Remuneration, Rate of Charge and Burden Sharing Adjustments*, IMF(2011), at http://www.imf.org/external/np/tre/sdr/burden/2011/112111.htm.

conditionalities and can be used in a wide variety of circumstances. Finally, the Standby Credit Facility (SCF) was created for LICs with stable market-based macroeconomic policies, but still have short-term balance of payment issues. Like the ECF, the SCF has benchmarks, reviews, and applies conditions to stabilize the short-term economic policy. The IMF conditionalities are designed to permanently shift the LIC from constant balance of payment issues. The IMF views loan conditions as an important part of this process.

The process of receiving IMF funds is through a set of decisions between the IMF and member country. There are two decision makers – the government's executive body and the staff and executive directors at the IMF. At the onset of the meetings, both the IMF and the member country evaluate the feasibility of the program. While the member country analyzes the costs and benefits of the program, the IMF examines the country's economic policies and quantifies the feasibility of the member state complying with the reform conditions and repayment scheme. As the IMF Executive Board instructed in its 1997 guidelines to its staff, it is now "legitimate to seek information about the political situation in member countries as an essential element in judging the prospects for policy implementation."[34] While this guideline is necessary, it does question IMF's statements that politics do not affect their loans and loan amounts. One issue of note is the lack of communicating reasonable alternatives. Stiglitz contends, "[i]n dictating the terms of the agreements, the IMF effectively stifles any discussions within a client government – let alone more broadly within the country – about alternative economic policies," thereby obstructing the governments own economic interests.[35] Despite any differences, if both agree to a loan, the member state files a Letter of Intent agreeing with the IMF conditions. Upon receipt, the IMF releases the first tranche of funds. In a continuing relationship, the IMF examines whether the member state has carried out the reforms and conditions. If not, the IMF will not automatically release the next tranche of funds. The IMF will either enter a waiver or delay disbursement of the funds. If both the IMF and member country agree the conditions of their arrangement are no longer fitting, the country can cancel the program so a new program with new conditions can be introduced. Conway notes, "[c]ancelation is then a signal not of conflict but of cooperation, and is usually followed by immediate agreement on a new program with new conditions."[36] Because of the Funds willingness to renegotiate their loans, many states have been participating in IMF agreements for many years. For example –

> South Korea spent 13 years under consecutive agreements from 1965 to 1977, Zaire 14 years straight (1976–89), Liberia 15 (1963–77), Peru participated in consecutive agreements from 1954 to 1971 (18 years), and Panama from 1968 to 1987 (20 years of consecutive agreements). And

[34] HAROLD JAMES, *From grandmotherliness to governance : the evolution of IMF conditionality*, 35 Finance and development., 46 (1998).
[35] JOSEPH E. STIGLITZ, Globalization and its discontents 42-43 (W.W. Norton. 2002).
[36] PATRICK CONWAY, *Empirical implications of endogenous IMF conditionality*, *in* Globalization and the Nation State : the impact of the IMF and the World Bank 85, (Stephen Kosack ed. 2007).

> after a stint of 7 years (1961 to 1967), Haiti entered into agreements again from 1970 to 1989, for a total of 27 out of 29 years. During the entire period between 1952 and 1990, an average completed spell lasted 4.7 years.[37]

Consecutive loans are thus the norm, not the exception. Nations requiring IMF assistance for decades may exemplify the ineffectiveness of IMF programs.

The IMF's role as a lender is essential to the function of the current economic system. The Fund's role, post 2008 financial crisis, signifies its perceived importance in balance of payment issues with may European nations seeking its assistance. Over the decades, many post-communist and developing nations have received IMF loans and technical support. Developed countries with strong market fundamentals can receive loans from the IMF without any conditions. For developing countries and LICs, the loans come with many conditions. The IMF can impose conditions since they are lenders of last resort and the loans can be negotiated without communicating possible alternatives. Developing countries that do receive loans can enter into consecutive agreements lasting decades, thereby requiring continuous market reforms that may not improve the nations balance of payment issues.

The Political Economy of Conditional Lending

The use of conditions in IMF lending practices is the most controversial aspect of IMF governance and policy. Scholars and economists dispute the efficacy of conditionalities since their inception in the 1970s. Conditions are traditionally considered the tool the IMF uses to prevent moral hazard. In a sense, "[e]xplicit IMF conditionality is thus meant to substitute for the lack of safeguards in private lending and, by analogy, to benefit borrowers by making loans more available."[38] Through decreasing the possibility of moral hazard, the IMF confidently lends funds to democracies and despots. In other words, "a loan is held out as the carrot, with conditionality as the stick."[39] The IMF is conventionally thought of as a technocracy. It reviews a member country's economic structure and finances, and then requires an economic reform package it believes is necessary to fix a balance of payment issue. As stated in the Articles of Agreement (Article V, Section 3(a)):

> The Fund … may adopt special policies for special balance of payments problems, that will assist members to solve their balance of payments problems in a manner consistent with the provisions of this Agreement and that will establish adequate safeguards for the temporary use of the general resources of the Fund.[40]

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[37] JAMES RAYMOND VREELAND, The IMF and economic development 18 (Cambridge University Press. 2003).
[38] ALLAN DRAZEN, *Conditionality and ownership in IMF lending, in* Globalization and the Nation State : the impact of the IMF and the World Bank 53, (Stephen Kosack ed. 2007).
[39] VREELAND, The IMF and economic development 27.
[40] IMF, *Articles of Agreement of the International Monetary Fund*.

The IMF controls what conditions are attached to the loan, which makes sense, because the IMF wishes the member country to use the funds sensibly. The contentious issue is the reforms can harm the member country's economy because the balance of loan payments may not be caused by domestic policy, but by international events. Graham Bird has suggested the conventional policy prescriptions have misdiagnosed the problem. He writes, "A large amount of evidence shows that BOP [balance of payments] difficulties in developing countries are caused by external factors such as adverse movements in the terms of trade or increases in world interest rates as well as by domestic economic mismanagement."[41] Essentially, the global system is imbalanced. A developing country, especially an LIC, does not have the infrastructure and the capital to insulate its economy from the vagaries of capitalism. Therefore, a country's balance of payments issue may lie outside the reforms required by the IMF. This explains the consecutive loan agreements since any domestic reforms will not improve the balance of payment issues. A shift in capital halfway around the world can have disastrous effects in a LIC. The Fund's singular focus on domestic policies will not cure the inherent inequality and exploitation of capitalism in a globalized world.

The IMF promotes Conditionalities as an instrument to liberalize the economy, improve economic development, and secure compliance. The IMF stated in early 2001 –

> the intended purpose of conditionality is as a mechanism to help bring together a combination of financing and policies as a solution to economic difficulties; it is needed to provide assurances to both authorities and the IMF that both parts of the package are provided together. This concept of conditionality is fully consistent with a cooperative approach to designing and implementing programs.[42]

The IMF conditions are designed to develop a free market economy within the member country (if they are not already done so) to attract outside investors and integrate into the global economic system. As the IMF itself explains, "the IMF has found that a much broader range of institutional reforms is needed if countries are to establish and maintain private sector confidence and thereby lay the basis for sustained growth."[43] The IMF's recipe for sustained growth includes the deregulation of international trade and finance, which entails "lowering or eliminating tariffs on imported goods, dismantling quotas and domestic monopolies, deregulating capital markets, introducing currency convertibility, and opening

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[41] GRAHAM R. BIRD, *The International Monetary Fund and developing countries : a review of the evidence and policy options*, International organization. 50(3) Summer 1996 : 477-511, 491 (1996).

[42] International Monetary Fund. 2001. Conditionality in Fund-Supported Programs: Policy Issues. Policy Development and Review Department Washington. IMF.

[43] IMF, *Good Governance: The IMF's Role*(1997), at www.imf.org/external/pubs/ft/exrp/govern/govern.pdf.

industries and stock and bond markets to direct foreign ownership and investment."[44] Other types of policies include – reduction in government spending and foreign borrowing, encouraging privatization of state owned enterprises, and increasing taxes and enforcement.[45] These policies may work in developed countries, but often have negative effects in LICs.[46] Despite this, the IMF has increased the use of conditionalities over the years.

The increase of conditions is linked to both the hegemonic free market ideology and the expansion of IMF influence. Graham Bird found the average number of conditions increased during the 1990s, "up to 9.9 in 1993, 10.5 in 1994, 11.0 in 1995, 13.0 in 1996, and 16 in 1997."[47] Another study showed that, "through 1982, less than 5 per cent of [IMF] upper tranche arrangements contained more than 11 or more performance criteria [i.e. conditionalities related to governance]. By the end of the decade, more than two thirds of such arrangements had 11 or more criteria."[48] And, another found that, "[i]n the 1970s the number of performance criteria in IMF stabilization programs averaged six. In the 1980s it averaged ten. By 1999 there were an average of twenty-five performance criteria attached to IMF stabilization programs required of borrowers for use of IMF resources."[49] This timeline is consistent with the dominant narrative concerning economic policies such as – democracy; 'good' bureaucracy; strongly protected private property rights (including intellectual property rights); and transparent and market-oriented corporate governance and financial institutions, all championed by US and Britain. The IMF used its conditions to open the markets of receiving countries to foreign exploitation. The developed countries, while in the same state of development as the LICs, did not use similar policies a century ago. Indeed, many of the advanced capitalist societies applied protectionist economic policies after free trade failed.[50] In regards to LICs, IMF conditionalities are essentially economic imperialism designed to exploit natural resources and labor. By controlling the IMF's agenda, the majority countries acted in their self-interest. Self-interest, not compassion, explains the significant increases in the number of conditionalities.

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[44] M. RODWAN ABOUHARB & DAVID L. CINGRANELLI, Human rights and structural adjustment 15 (Cambridge University Press. 2007).
[45] HEAD, 111.
[46] This will be elaborated upon later in the paper.
[47] G. BIRD, *IMF Programmes Is there a conditionality Laffer Curve?*, 2 WORLD ECONOMICS -HENLEY ON THAMES-, 29-49 (2001).
[48] Kapur, D. and R. Webb (2000) 'Governance-related Conditionalities of the International Financial Institutions', G-24 Discussion Paper Series, no. 6, New York: United Nations Conference on Trade and Development/Center for International Development, Harvard University, August.
[49] BARNETT & FINNEMORE, 56-59.
[50] HA-JOON CHANG, Kicking away the ladder : development strategy in historical perspective 17 (Anthem. 2002).

The IMF's free market policies that work efficiently in advanced capitalist economies simply do not work in the developing world. Instead of working with the differences inherent between developing and developed economies, the IMF increased conditionalities. This reproduction of conditionalities seems irrational. World Bank economist William Easterly studied loans from 1980 to 1998 and found "no direct effect of structural adjustment on growth," and that the amount of change in poverty rates given a certain amount of growth is lower when a country is operating under structural adjustment loans than when it is not.[51] Vreeland's study of 135 countries from 1951-1990, which substantiates 3,991 observations concluded, "[t]here is no evidence that IMF programs help growth or even have benign effects. IMF programs hurt economic growth."[52] These significant studies convey the essence of exploitation – in spite of millions or billions being funneled into the country – the economy doesn't grow.

The Fund imposes austere economic policies in times of crisis rather than allowing governments to "prime the pump." Increasing government spending during financial crises is the usual and accepted policy of developed countries. The contradictory policies required by an IMF agreement thus recreate and reproduce the receiver's financial crises.[53] As a result, IMF supported LICs lose control of their own economy – the global financial systems unduly influence the country, the IMF imposes its own sets of reforms, and the politics of IMF lending –the LICs are continuously at the mercy of advanced capitalist countries and IFIs. In response to systemic failures in many countries, the IMF proposed a new approach to conditionality: "ownership." The IMF argues that its overall approach to economic crises was correct. The problem continued to be that countries failed to implement the program.[54]

The IMF stresses that conditionalities succeed only if they are "owned" by the target government. But, whom are the ones "owning" the IMF reforms? Ownership places all the responsibility on the host country and holds the IMF and its policies unaccountable. Rajagopal states that ownership is "a meaningless concept in the end because the real question concerns whose ownership is involved – that of the state or the local community?"[55] Essentially, the IMF makes the agreement with the executive, so the state or the market will be the "owners" of the reform, not the most affected people.

The logic of "ownership" is didactic and circular. Most will argue the IMF is imposing policy conditionalities on a member country that views them as opposed to their own interest; thus, not complying with the reforms. Yet, if the country owned the policy reforms, as the IMF insists must occur,

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[51] WILLIAM RUSSELL WORLD INSTITUTE FOR DEVELOPMENT ECONOMICS EASTERLY, RESEARCH, The effect of IMF and World Bank programmes on poverty (United Nations University, World Institute for Development Economics Research. 2001).
[52] VREELAND, The IMF and economic development 129.
[53] VREELAND, The International Monetary Fund : politics of conditional lending 95-96.
[54] Id. at, 24-25.
[55] BALAKRISHNAN RAJAGOPAL, International law from below : development, social movements, and Third World resistance 149-150 (Cambridge University Press. 2003).

then the country would implement them without the Fund's conditioned reforms. In other words, conditions would be unnecessary. Hence, ownership and conditionality are incompatible. As Boughton notes, "if the Fund insists on national ownership as well, then that amounts to insisting that the country must not only do what the Fund wants, it must also at least pretend to want to do so."[56] As noted earlier, the IMF analyzes the receiving states economy and political landscape, so they should be aware of what is occurring on the ground. Why ownership is the fulcrum of IMF scrutiny evinces the inherent negative judgments regarding LICs and developing countries – it is not us, it's them. As one author put eloquently –

> [Ownership] provided a new tool-kit, an instrument of control, an additional conditionality for the time when the traditional blame-the-victim defence again becomes necessary. It further offered the opportunity to instill Western political values in borrowing countries and to fault them if things go wrong.[57]

State ownership of IMF reforms is not a novel idea. The IMF created conditionalities to ensure complicity and reduce moral hazard. Vreeland has claimed that compliance rates have been cited as high as 72% and as low as 30% for fiscal conditions.[58] He also notes that economic factors don't explain the lack of compliance, but instead international and domestic political factors play the strongest role in determining who complies.[59] One thing is for sure –

> The studies paint a consistent picture of an institution bent on fully opening economies to foreign investors on advantageous terms at almost any cost—the destruction of domestic productivity capacity and local demand, growing poverty and inequality, the deterioration of education and health-care systems, and as has been...dangerously expanding vulnerability of those economies themselves to forces external to their governments.[60]

Why would an LIC or developing country want to own economic reforms that produce negative results? Claiming ownership as the reason of IMF reform failure removes any possibility of reform by the IMF itself. Moreover, the onus of the IMF program lies with the receiving country – the process is not collaborative, but rather an imposition that must be followed and owned. The IMF's fundamental beliefs are that markets are superior in transnational economic relations and more effective at solving economic

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[56] JAMES M. BOUGHTON, *Who's in charge? Ownership and conditionality in IMF-supported programs, in* Globalization and the Nation State : the impact of the IMF and the World Bank 21, (Stephen Kosack ed. 2007).
[57] SUSAN GEORGE & FABRIZIO SABELLI, Faith and credit : the World Bank's secular empire 142 (Westview Press. 1994).
[58] VREELAND, The International Monetary Fund : politics of conditional lending 110-111.
[59] Id. at.
[60] Helleiner, Stephen. 1998. "Testimony Regarding Congressional Funding of the International Monetary Fund." Subcommittee on General Oversight and Investigations, Committee on Banking and Financial Services." U.S. House of Representatives, April 21. http://www.igc.dgap/imfsteve.html.

problems. Free trade is preferred over protectionism. Ownership of fiscal austerity and reduction of public spending with the privatization of state owned enterprises effectively strips away any "ownership" the people may have over the government.[61] Furthermore, the government distances itself from the people by decreasing public services and places the blame on the IMF – an unaccountable IFI.

Accountability, Democracy Deficit, and Human Rights Abuses

Accountability for the consequences of IMF agreements is placed on the shoulders of the member country. The IMF has effectively excluded itself from any domestic legal proceedings and uses its mandate to sidestep human rights abuses caused by their programs. Citizens, whom are the most vulnerable to the economic reforms, are left without a protector as their government representatives points their fingers at the IMF, and the necessity of the loan, or violently represses any dissent. Due to the possibility of consecutive agreements, government representatives can be voted out (where democracy exists), yet the agreement outlives the executive signatory's cabinet. The question of who is accountable is not settled.

By entering an IMF agreement the executive commits to the attached economic reforms. The executive can enter into an agreement unilaterally, but usually, to pass the needed reforms other bodies of government must endorse the agreement. The congressional veto power plays a significant role in the power struggle associated with IMF agreements. If the legislative body rejects an agreement, then the IMF will limit the credit available and this will send negative signals to private investors and creditors.[62] On the other hand, signing an IMF agreement in a developing country or LIC will send a positive signal. Yet, multiple economists have proven that these programs hurt economic growth and aggravate income inequality.[63] Elected officials, if they approve an IMF agreement, can pass the blame to the IMF and state they had no choice. Vreeland argues that governments enter into IMF programs not just for economic reasons, but also for political reasons. Indeed, governments may be motivated to turn to the Fund because they want conditions to be imposed, regardless of their foreign reserves. Unpopular economic reforms that award the elites in the country provide a significant impetus for states to enter an agreement. Vreeland found that "the imposition of conditions may not be a stick but a carrot, attracting unpopular governments seeking to impose economic policy changes. The IMF may tend to be an ally for right wing governments."[64] The IMF has loaned millions of dollars to dictators and billions to un-democratic governments. The absence of a democracy provides a fertile ground for establishing a market based

[61] SPERLING, 22.
[62] VREELAND, The IMF and economic development 26.
[63] Id. at, 164.
[64] Id. at, 115.

economy and privatizing public goods. In many circumstances, the citizens have no recourse to vote out the executive.

Whether a dictatorship or democracy, there is a correlation between human rights repression and IMF programs. In Abouharb and Cingranelli's study "[b]ased on an analysis of outcomes in 131 developing countries between 1981–2003, we show that, on average, structural adjustment has led to less respect for economic and social rights, and worker rights."[65] Compliance with IMF reforms causes governments to decrease respect and protections for most human rights, including the rights to decent jobs, education, health care, and housing. However, IMF programs have been correlated with an increase in free and fairer elections, free speech, and the right to organize, in countries that have been under IMF agreements the longest.[66] These outliers had domestic policies with no infrastructure to support economic well-being and human rights. The improvements in these countries do owe their success to the IMF, but in general, human rights protections decrease under IMF programs. As Sperling notes –

> Even if economic liberalization is positively correlated with democratization, the increased income inequality that has accompanied the rise of free market reforms may well amount to an unequal distribution of political accountability among the citizenry of individual countries.[67]

In response to allegations that the IMF was ignoring the human rights consequences of its activities, an IMF spokesman said that it was not obligated to promote human rights and its mandate did not include the protection of human rights.[68] How can the IMF impose conditions that target policies that emphasize human rights and basic needs without violating its Articles of Agreement that prevent it from considering non-economic factors?

The government has the responsibility to protect human rights and provide public goods for its citizens. This responsibility to protect and provide "becomes problematic when the hands of the state are tied by fiscal and monetary policies imposed by international financial institutions."[69] State leaders become more responsive and beholden to the IMF more than their domestic constituents who are the most affected by IMF reforms. In effect, the decision-making has transcended the state, which brings up questions of accountability and the deficit in democracy. The IMF can enforce sanctions on the member country if the reforms are not complied with and no accepted justification is given. As Sperling correctly notes, "[t]his 'upward accountability' implies that a transnational force can require 'answerability' from a national government."[70] The new executive or government could wish to provide basic socio-economic

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[65] ABOUHARB & CINGRANELLI, 4.
[66] Id. at, 5.
[67] SPERLING, 28.
[68] ABOUHARB & CINGRANELLI, 41.
[69] RADHIKA BALAKRISHNAN, et al., Rethinking macro economic strategies from a human rights perspective : (why MES with human rights II) 17 (Marymount Manhattan College. 2005).
[70] SPERLING, 13.

rights to its citizens, but past agreements with the Fund can create situations where a majority of the GDP is paid to the IMF instead of invested in its infrastructure. If the state must accept the terms of the IMF agreement, even if it causes human rights repression, the citizens of the state are left without a protector. This leaves a gap for Multinational Corporations (MNCs), who also aren't responsible for human rights protections, to exploit the newly opened markets.

In LICs and developing countries, IMF reform programs focus on the domestic structure so MNCs and private investors can make a profit in the receiving country. IMF provisions requiring reduction in protections for workers create a friendlier environment for MNCs, but compounds issues facing the poor. Pressures from the IMF to create a more business-friendly climate have encouraged the leaders of developing countries to reduce protections of workers from exploitation by employers.[71] The poor, organized labor, and civil society groups protest the outcomes and reforms imposed by their government and the IMF. Many governments respond to these challenges in their authority by torturing, disappearing, murdering, imprisoning more of their citizens.[72] Vreeland's study points to this discrepancy –

> IMF programs have negative distributional consequences. This finding holds across data sets and methodologies. If IMF programs hurt economic growth and redistribute income away from labor, labor is worse off – in terms of income – when countries participate in IMF programs. For other constituencies, however, there is a trade-off: growth decreases but share of income increases. Shifts in distribution toward the owners of capital, for example, mitigate the negative effects on economic growth for this group. The change in capital share of income from manufacturing is large enough to increase the income of the owners of capital, despite lower growth rates...negative effects of IMF programs on economic growth are paid for by the least well-off in a country.[73]

Vreeland's findings point to the essence of my argument – each layer of involvement from the IMF's Executive Board to the receiving state's capital owning elites – all work in their own self-interest to obtain a profit. Exploitation is the systemic characteristic of capitalism. And as long as the self-interest of states and the IMF converge, the relationship will continue. And the state's violent repression is an expression of this relationship. David Harvey notes this symbiosis –

> One of the prime functions of state interventions and of international institutions is to control crises and devaluations in ways that permit accumulation by dispossession to occur without sparking a general collapse or popular revolt. The structural adjustment programme administered by the...IMF complex takes care of the first while it is the job of the comprador state apparatus (backed by military assistance from the imperial powers) in the country that has been raided to ensure that the second does not occur.[74]

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[71] ABOUHARB & CINGRANELLI, 4-5.
[72] Id. at, 4.
[73] VREELAND, The IMF and economic development 163.
[74] DAVID HARVEY, A brief history of neoliberalism 163 (Oxford University Press. 2005).

Political protests, violent backlashes and government repression are symptoms of an unaccountable government. Issues such as these are considered to be issues of the sovereign to be solved on the national level. However, this denies the interconnected realities of global economic and political policies – everything is closely interconnected. The IMF and many economists are too quick to place the blame on the developing country, as if it operated in a vacuum. Perhaps, it is the IMF that acts in a vacuum. Section 3 of Art IX states, "[t]he Fund, its property and its assets, wherever located and by whomsoever held, shall enjoy immunity from every form of judicial process except to the extent that it expressly waives its immunity for the purpose of any proceedings or by the terms of any contract."[75] This provision almost bars any judicial process against the IMF in a national court of the Member States. If a member state wanted to hold the IMF accountable, the IMF would have to give it permission.

The issue of accountability is further compounded by third-party influence on conditionalities. Erica Gould found that, "supplementary financiers are able to influence the terms of Fund conditional loan arrangements because their financing is necessary for the success of Fund-designed programs."[76] The Fund often only provides a fraction of the loan amount with the rest provided by creditor states, private finance initiatives, and multilateral organizations. Because the IMF relies on this external financing the third parties are able to make demands on the Fund by stipulating what conditions are required before their funds are disbursed.[77] Not only do the citizens not have a say on the IMF reforms, but also the IMF itself is beholden to third party influence.

Accountability for the negative consequences of IMF agreements is a complex web of shifting responsibilities and finger pointing. The sovereign responsibility to protect basic human rights is infringed by austere economic reforms imposed by the IMF. The executive and congressional bodies can communicate to their citizens that the IMF funds were necessary and the economic reforms were beyond their control. If that doesn't work, violent repression and disappearances silence any domestic protests. The IMF has legally removed itself from any accountability and abandoned any involvement with domestic human rights issues. To compound the matter, third party investors can influence agreement conditions before disbursing funds. All the while, vulnerable citizens are victims to the vagaries of capitalism. The IMF does provide beneficial results in some circumstances, but the long time recipients in the global south remain largely negatively affected.

Possibilities for Reform

[75] IMF, *Articles of Agreement of the International Monetary Fund*.
[76] ERICA R. GOULD, *Supplementary financiers and IMF conditionality*, *in* Globalization and the Nation State : the impact of the IMF and the World Bank 144, (Stephen Kosack ed. 2007).
[77] Id. at, 145.

Reforming the IMF's voting structure and conditional lending requirements to focus on human rights and democracy are not impossible. Passing amendments to the Articles of Agreement requires an 85% majority vote. The US alone can veto any proposed amendment.. However, the US veto has not stopped the IMF from proposing and passing other policy reforms in response to public pressure and increased efficiency needs. Nevertheless, these reforms seem insignificant compared to the sweeping motions of global capital and its affects on developing countries. A shift in development ideology that frames its understanding within human rights, sustainability, and equality is necessary to secure a world that reveres life and respect for one another and mother earth.

In an attempt to redress the realized accountability gap, in 2001, the IMF created an Independent Evaluation Office (IEO). The IEO is to conduct independent and objective evaluations of IMF programs. For example, a report on the success of the IMF's exchange rate policy advice from 1999 to 2005 found that the IMF "was simply not as effective as it needed to be in both its analysis and its advice, and in its dialogue with member countries."[78] The IEO evaluates many different aspects of IMF governance, but has yet to look into human rights consequences of IMF programs. This lack of attention to human rights does not deny the importance of an independent evaluator, but it does evince the overall inattention the IMF pays to human rights. The importance of transparency of IMF programs is not lost on the IEO or IMF.

IMF has long been critiqued for its lack of transparency. Despite a history of secrecy concerning how it does its business, current internal policies focused on transparency of the IMF internal proceedings have seen thousands of reports published. In 2010, 98% of member countries agreed to the *Public Information Notice*, which assesses the member's macroeconomic and financial situations, 92% agreed to publish the Article IV consultations, and 96% of the IMF standalone reports and other member state information were published. This shift in IMF policy reveals the importance of public opinion concerning IMF decision-making processes.[79] Despite this unprecedented transparency, the internal discussions remain inaccessible to the public.

The IMF has made an overt effort to increase governmental accountability to citizens and, at the same time, to improve the institutions' external accountability. Such efforts are most effective and significant for authoritarian regimes little inclined to incorporate public opinion in their policymaking. One such joint initiative by the IMF and the World Bank involves the Heavily Indebted Poor Countries program (HIPC), intended to remove debt burdens from the poorest IMF loan recipient states. The receipt of debt relief is conditional on a government's preparation of a Poverty Reduction Strategy Paper (PRSP),

[78] SPERLING, 45-46.
[79] IMF, *Transparency at the IMF*(2011), at http://www.imf.org/external/np/exr/facts/trans.htm.

a document describing, "that country's strategy for reducing poverty and how the money it's going to get as a result of debt reduction will be used."[80] The improvement in accountability stemming from the use of PRSPs theoretically arises because the IMF and the World Bank mandate that the PRSP be a collaborative effort between a state's government and its citizens' groups.[81] New accountability mechanisms need to take account processes that improve social justice and the realization of rights. Thus, state and non-state actors can be held accountable for whether they contributed to improving poor people's levels of human development.[82] By implementing an accountability measure such as this, new ground could be broken. This could then empower citizens to become involved in the decision making process through social movements and concerted democratic efforts where available. The IMF would no longer make the decisions with the executive, but with the people, thereby bringing the decision closer to the ground and strengthening democracy. The effectiveness of this program has yet to be uncovered, but many critics argue that a fundamental shift of IMF's role is needed.

Three significant and often cited reports advocate a narrower role of the IMF.[83] Congress established The International Financial Institution Advisory Commission (the Meltzer Commission). The Meltzer report is the most critical of IMF's role in developing countries. The main finding is that the IMF needs to suspend long term lending and focus only on short term crisis lending.[84] The report also states that current conditionality should be replaced with financial and fiscal requirements that would have to be met before any country had access to Fund loans.[85] The Fund should concentrate on emergency lending at penalty rates. The Council on Foreign Relations (CFR) Task Force recommends that the "IMF should focus on monetary, fiscal and exchange rate policies plus financial-sector surveillance and reform and stay out of longer-term structural adjustment."[86] It proposes greater rewards for joining the 'good housekeeping club', with the IMF lending on "more favourable terms to countries that take effective steps to reduce their crisis vulnerability" but the Report also argues that the IMF "should adhere consistently to normal lending limits" as a way of reducing the moral hazard associated with its lending, and should turn

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[80] IMF, *Poverty Reduction Strategy Papers (PRSP)*(2011), at http://www.imf.org/external/np/exr/facts/prsp.htm.
[81] SPERLING, 53.
[82] GOETZ AND JENKINS, *Global Governance and Democratic Accountability, in* Global governance and public accountability 146, (David Held & Mathais Koening-Archibugi eds., 2005).
[83] These reports still play a significant role in IMF reformation arguments.
[84] MELTZER COMMISSION, *Meltzer Commission Report*(2000), at http://www.house.gov/jec/imf/meltzer.htm.
[85] Id. at.
[86] COUNCIL ON FOREIGN RELATIONS, *Safeguarding Prosperity in a Global Financial System: The Future International Financial Architecture*, CFR(1999), at http://www.cfr.org/international-law/safeguarding-prosperity-global-financial-system/p3233?excerpt=1.

to "special contagion funds" only when a country is an "innocent victim" of crises elsewhere.[87] The Overseas Development Council's (ODC) Task Force also argues that events and reforms have pushed the Fund in the direction of dealing with problems, such as poverty and growth, for which it was not originally designed and is unsuited. According to the ODC Report, the far-reaching conditionality that this involvement has brought with it is unlikely to be accompanied by governmental commitment, and for this reason, "conditionality has, far more often than not, proven to be an ineffective way of influencing policy in the medium to long term...[it] has not been effective in promoting structural and institutional reform."[88] The ODC Report argues for moving the PRGF to the World Bank with the IMF holding responsibility for short-run macroeconomic management.[89] All three reports argue the IMF needs to reign in its development agenda.

The general argument from both the left and right is that the IMF has strayed from its core competence of macro-economic and exchange rate policies and entered the development arena usually the purview of the World Bank. This in turn, leads to poor crisis management and a loss of credibility.[90] Stiglitz agrees that while it would be best to have the IMF aim for different policies than it has in the past, it should also become less involved in the domestic politics of program countries. He suggests that the IMF narrow its focus, moving away from development and towards data collection and the surveillance of economies.[91] Not only is such data collection important for bringing about higher global levels of transparency, but narrowing the focus of the Fund also brings about greater accountability.

Most critics agree that conditionalities are the main area the IMF needs restructuring if not outright abolishing. Despite the evidence concluding loan conditions harm economic growth and citizen rights, the IMF still applies them in their agreements. The proponents of more conditionality argue the IMF needs to'[m]ake sure that the adjustment programmes of the member countries do not stop half way....[and] prevent its bail-outs being used to facilitate bad economic policies and thus creating moral hazard problems at the expense of the tax payer."[92] However, countries under decades long IMF agreements still experience recidivism and inequality due to IMF agreements. Conditionalities used as deterrent for moral hazard has not been effective. Increasing conditionalities and promoting "ownership" will not establish the economic growth the IMF hopes to obtain. Ofer Eldar mentions one point of reform in IMF conditionalities – allow the member countries to design the conditions themselves.[93] This argues for a more realistic sense of "ownership" instead of requiring the member country to own something

[87] Id. at.
[88] ODC TASK FORCE, *ODC TASK FORCE REPORT: The Future Role of the IMF in Development*(2000), at falcon.arts.cornell.edu/kmm368/imfrpt.pdf.
[89] VINES & GILBERT, 290.
[90] MOLLE, 178.
[91] STIGLITZ.
[92] MOLLE, 178.

against their own interests. Under this reform, the IMF would have the power of review and could propose their own conditions if the member country's are too speculative.[94] Ha Joon-Chang argues that allowing developing countries to adopt their own policies and conditions will enable them to develop faster and this will benefit the developed world by increasing trade and investment opportunities.[95]

Amending IMF agreements to decrease inequality and increase human rights can occur if loan conditions shifted to a different frame of development economics. As a society we don't have to assume we will be stuck with materialism, individualism, consumption, and exploitation – these characteristics are not fixed expressions of human nature. Instead we can transform our public ethos into a more affiliative society where we work together to solve the problems that threaten us all. Inequality, economics wise, doesn't make much sense because it limits individual's ability to fulfill their potential. In the book *The Spirit Level*, the authors calculated nine health and social ills across 23 countries and found "a common element related to the prevalence of all these health and social problems is indeed the amount of inequality in each country."[96] By refusing to impose conditions that cut public spending, governments can send their citizens to school. The next generation will be more able to fulfill their potential. The increased economic development that occurs through a higher educated citizenry can be realized.[97] Amartya Sen takes a similar stance is his concept of development as freedom. He argues, the ability for citizens to completely exercise their full range of human rights is the litmus test for the level of economic development – not GDP. He notes that human rights help facilitate economic development and the more developed a country is determines their respect for human rights.[98] This idea of development as freedom frames development studies as a holistic model as opposed to a strictly monetary self-interest model.

By focusing on equality and human rights, each individual would be assisted in realizing their potential. Abouharb and Cingranelli maintain that an IMF agreement strategy based in human rights protections must have some of the following elements –

> 1) Equitable economic development, defined as the simultaneous achievement of economic growth and advancement in protections of economic and social rights of citizens; (2) Some minimal level of respect for human rights should be a necessary condition before [entering] into negotiations that might result in provision of financial assistance; (3) The Fund should develop and issue regular human rights impact assessments of their activities; (4) The government of every developing country should be expected to make progress (or at least not to regress) in the

[93] OFER ELDAR, *Reform of IMF Conditionality A Proposal for Self-Imposed Conditionality*, 8 Journal of International Economic Law, 511 (2005).
[94] Id. at, 512.
[95] CHANG, 141.
[96] RICHARD G. WILKINSON & KATE PICKETT, The spirit level : why greater equality makes societies stronger 30 (Bloomsbury Press. 2010).
[97] ABOUHARB & CINGRANELLI, 67.
[98] AMARTYA SEN, Development as freedom (Knopf. 1999).

> protection of all human rights and especially those that have been shown to facilitate equitable economic development.[99]

By promoting and managing an economy that protects human rights, an IMF agreement automatically limits exploitation of labor, environment, and other sectors of existence. The IMF has the power to make positive change in the world if it so decided.

Conclusion

In this paper, I have laid out the structure of the IMF governance system as well as its use of loan conditions and the affects of their agreements in LICs and developing countries. IMF agreements hurt economic growth, redistribute wealth to the owners of capital, and create human rights abuses. The IMF sees these failures not as a weakness of their policies, but a lack of "ownership" in the member countries. As if a country's economic woes are their own creation and not of the global economic order. This paper argues that no one wants to be accountable in an IMF agreement, especially when its consequences result in human rights abuses. This unaccountability reproduces agreements that harm individual citizens as both the state and IMF point fingers at each other. The most vulnerable people, meanwhile, do not have the capacity and support to achieve their full potential. The lack of communication, the lack of accountability, the lack of human rights protections, and the democracy deficit portray a system that must be changed – for the better. By focusing on development as a process that increases human rights and individual freedoms, and not materialism and self-interest, will produce sustainable economic growth based in respect for individuals and mother earth. These reforms will take place when each individual realizes the importance of every other person on earth. Working from a place of compassion and solidarity, as opposed to individualism and exploitation, will spread this awareness to our coworkers, bosses, peers, friends, and family, until we can all work together to improve global prosperity and confront the global catastrophes that threaten us all.

[99] ABOUHARB & CINGRANELLI, 13-14.

DAVID VINES & C. L. GILBERT, The IMF and its critics : reform of global financial architecture (Cambridge University Press. 2004).
MORTEN BØÅS & DESMOND MCNEILL, Multilateral institutions : a critical introduction (Pluto Press. 2003).
IMF, *Articles of Agreement of the International Monetary Fund*, IMF(1944), at http://www.imf.org/external/pubs/ft/aa/index.htm - art1.
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JOHN W. HEAD, Losing the global development war : a contemporary critique of the IMF, the World Bank, and the WTO (Martinus Nijhoff Publishers. 2008).
IMF, *Special Drawing Rights (SDRs)*(2011), at http://www.imf.org/external/np/exr/facts/sdr.htm.
IMF, *IMF Lending*(2011), at http://www.imf.org/external/np/exr/facts/howlend.htm.
WILLIAM K. TABB, Economic governance in the age of globalization (Columbia University Press. 2004).
MICHAEL N. BARNETT & MARTHA FINNEMORE, Rules for the world : international organizations in global politics (Cornell University Press. 2004).
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