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The Dynamics of Donors, Recipient Countries and the IMF

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The discussion on the role of the IMF in relation to low-income countries is closely linked to how donors and recipients behave. As donors, we have to better organise, harmonise, coordinate, avoid overlap, do away with inefficiencies, and try to move from projects to programmes so that we have a more aggregate longer-term vision on development programmes. We need to link with MDGs and move toward a programmatic role. Linking to institutions and budgetary processes in developing countries also means that we move closer to the World Bank and particularly to the IMF. The relationship between donors and the IMF is a very important one, and they do not meet often enough. There is still a distance between the two worlds, which is very unproductive because we are moving toward the same agenda, and we are actually partners.

Let me briefly go through the various issues of Matthew's chapter. First, the need for concessionality will increasingly be determined by the so-called debt sustainability analysis. The IMF's resources are not cost-free – they are not grants. I agree that the IMF should not become a grant-based institution. As a starting point, the IMF should bring resources through its programmes. In selected cases, there might be an issue of concessionality or the lack of concessionality with bringing in more IMF resources. At the same time, there should not be two Funds; there should not be an IMF for the low-income countries and one for the rest. And while the balance of payment needs and the concessionality needs might differ, the development partners can play a role as co-financing partners here. This means that the IMF should preferably use

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its general account resources and should not finance its programmes in low-income countries from separate budgets or bilateral resources.

Second, I understand Matthew's points that the IMF should be more forward-looking in factoring-in external shocks. But, when Matthew says the IMF should improve its macroeconomic forecasts to avoid shocks, I am very sceptical. I do not think that, apart maybe from some business cycles, many shocks can be foreseen.

Third, the relationship between lending and programmes is a key issue. I take as a starting point the fact that the IMF supplies resources with its programmes, for various reasons. No stick without a carrot. The low-income countries need a vast influx of resources: grants and non-grant resources, see, for example, Jeff Sachs' report on MDGs. Any dollar or any SDR that the IMF brings in is badly needed in many countries. Does this mean that the concessionality issue is at stake? No. We have to provide for concessionality and grants through other means than the IMF.

Fourth, in terms of the IMF's catalytic role, Matthew clearly indicates the various roles that the IMF is playing. The IMF is a strong catalyst for donor resources – also in low-income countries, but not so much for private sector flows. But this last element does not necessarily demonstrate that the catalytic role of the IMF is weak or that it could be stronger because private sector capital flows, unfortunately, react to more than macroeconomic stability – certainly in the low-income countries. Private sector flows also react to the overall business climate, investment climate, and political stability. The enabling environment for private sector flows goes beyond macroeconomic stability.

This does not mean that the catalytic role of the IMF is too weak or should be enhanced in terms of attracting increased private sector flows because then you fall victim to the other issue that Matthew rightly criticised, that the IMF goes too far in the direction of structural governance and micro issues. The IMF should refrain from doing this. But I would provocatively say that there is a strong lack of cross-conditionality. There needs to be far stronger cross-conditionality across the whole set of players. The IMF should also respond to World Bank and donor conditions and agreements.

There are many issues related to implementation and the political will to implement agreements. We need to step up our efforts and say: we have an agreement, you should do this, I should do that, and if one of us does not deliver, there are going to be consequences. We are often far too polite and cautious in addressing these peer pressure issues.

When donors are moving to budget support and budgetary adjustment in a recipient country, then obviously the IMF, the World Bank and donors face the same difficulties and problems. In order to get out of this, it would help tremendously if the donor community, including the IMF, would speak with one voice and address the issue with the recipient country concerned in a coherent and harmonised manner.

Fifth, programme design and implementation. Matthew finds the PRGF programmes, on average, too restrictive. I would advise caution before signaling that they could be looser, that they could be based more on outcome needs. I would be very cautious because – this is probably my Treasury background – I adhere strongly to the need for balance of payments and budgetary sustainability.

A more fundamental issue of Matthew's chapter is that all programmes, IMF programmes as well as countries' own programmes, should focus more on outcomes and MDGs, and include this in s. The IMF needs to step-up its efforts to think more in terms of MDGs and what is needed to bring those MDGs about, certainly in countries where the IMF has a long-term engagement. Whether they like it or not, the Fund has to try to incorporate the MDG agenda into its programmes. But the IMF cannot do it alone and we cannot push the IMF into a scenario in which the needs are dominant and the availability of resources, including domestic resources, are totally neglected. We have to find a middle ground here.

Sixth, I basically agree with all of Matthew's points on structural conditionality. The IMF has moved too far into the governance, transparency, and corruption-related conditions. I am not saying that these are unimportant issues, but in the spirit of division of labour, other institutions – and primarily the recipient – should take these up. The fact that as far as Matthew's research is concerned, after the drive towards simplification, conditionality has recently been further tightened and further complicated is a disappointing one. If this is true, I would call upon our executive directors and the management of the IMF to go back to the original intention of a couple of years ago to simplify conditionality. I do not know if it was a deliberate decision of the IMF's management or whether it just slipped in because of the 30 percent of staff who do business as usual. But if it is a conscious decision, I am disappointed by it because the IMF was on the right track in simplifying and tailoring conditionality.

Let me briefly turn to alternative scenarios. As donors, we often preach that we need more alternative scenarios. If Matthew means more flexibility in conditionality, I would disagree. But if you say: let's have more alternative scenarios on the table for all of the partners involved, then I agree. But once you are operating in a set of agreements, i.e. a certain set of understandings on policy decisions and financing, I would not call for more flexibility but call for adhering to the agreements as much as possible. But alternative scenarios have been called for by many of us for many years. This is not something that the IMF should take on its shoulder alone. It is a wider responsibility that all of us face. Certainly, when it comes to MDG programming, all of us, including the IMF, but also my own institution, need to do a better job. One would expect the recipients countries themselves, to play an active role in pressing for alternative scenarios before somebody else in Washington or The Hague decides for them.

Regarding how the IMF is doing business, it is extremely important for the IMF to move as quickly as possible into strengthening the local representations, into having not only more staff there, but also having a sincere dialogue there. The whole impression of IMF missions flying in and out, and not even touching base with the major donors or the World Bank representative looks very bad – and is very bad. The Fund officers on site should have full responsibility for engaging in country-specific discussion. This is also why technical assistance should stay with the IMF but delivered on site. Having a real role to play as a partner on the ground is very important. If it costs more, so be it; the IMF should then step up its resources or reallocate resources, as Matthew rightly indicated. The Fund can no longer work from Washington through in-flying missions alone. Instead, the Fund should be working from local offices on a continuous basis and with a strong delegated authority.

Finally, as I said in the beginning, we talked about the IMF, but we could also have talked about donor behaviour or World Bank behaviour in these developing countries. One thing is certain: we need to work far more closely together, as Matthew said. Ultimately, we have the basic instrument, the PRSPs, in place, and most of us now have offices and we have decentralised ourselves so that all of our colleagues are on site. But there are still too few meetings where all partners, including NGOs, sit at one table and discuss the situation as well as make concrete agreements and arrangements on how to develop this longer-term agenda. And here I can only say that while there has been a lot of preaching, a lot of commitments and intentions have not been met because the commitments and agreements were not firm enough.