THE CONDITIONALITY OF THE INTERNATIONAL MONETARY FUND LENDING

A case study of Romania

By

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Declaration form

The work I have submitted is my own effort. I certify that all the material in the Dissertation which is not my own work has been identified and acknowledged. No materials are included for which a degree has been previously conferred upon me.

Signed ………………… Date ……………………

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Abstract

The International Monetary Fund and its lending mechanisms have raised a significant amount of controversy over the years, since the practices of this institution have a direct impact on the economic and social life of the individuals. This study engages with the role of conditionality, focusing on the development of this mechanism and its effects, but also with the changes brought about by the global financial crisis. It argues that although some reforms have taken place, the IMF still needs to work on improving its practices, especially from a human rights perspective.
Keywords: conditionality, IMF, human rights, Romania

CHAPTER 1: INTRODUCTION

1.1. Problem Statement

One of the core responsibilities of the International Monetary Fund (IMF) is to provide loans to member countries which are in the position of experiencing actual or potential balance of payments problems. Since the IMF holds a great power when it comes to dictating programmes to its borrowers, an active debate has long been underway about the appropriate scope and intrusiveness of the Fund's conditionality.

Faced with strong criticism for its expansive and erroneous use of conditionality, the IMF has promised on various occasions to streamline this mechanism, but little progress has been made in this respect. Although the Fund announced that it will eliminate structural performance criteria from loans negotiated after May 1, 2009 critics still argue that this institution has not been reformed and question its ability of prescribing appropriate policies in the context of the current financial crisis.

Previous studies which have engaged with the problem of IMF conditionality have looked at this mechanism especially from the point of view of the Third World countries. Few authors have taken into consideration countries with transition economies like Romania, which has been heavily affected by the global recession and has had to enact harsh austerity measures in order to meet the conditions of the 2009 IMF loan.

1.2. Research Questions

This study engages with the problem of IMF conditionality and therefore concentrates on the following research questions:

1. What is the rationale for conditionality?
2. How has conditionality evolved over time?
3. How can conditionality affect human rights?
4. Have there been any changes in conditionality in the context of the current financial crisis in Romania's case?

The first three questions refer to conditionality and its effects on all borrowing countries. One will look at the reasons why the IMF has maintained its grip on conditionality and how this mechanism has evolved over time to a wider range of areas but also at how the Fund's conditions can interfere with the integrity of human rights. The forth question takes particular interest in Romania's case and the agreement signed by this country with the IMF in 2009 in order to recover from the devastating effects of the global crisis.

1.3. Relevance of the Study

In the context of the current financial crisis, the International Monetary Fund has become one of the most important development agencies with a fundamental role in shaping the future of many borrowing nations. The conditionality that this institution attaches to its loans has become a more and more controversial issue over the years, since only compliance with this mechanism can ensure that a country receives its tranches.

Although there is a vast literature concerned with conditionality and its effects, not many authors have engaged with this issue after the 2002 streamlining initiative and even less studies have dealt with conditionality in the context of the global financial crisis. Also, the majority of studies conducted so far have looked at conditionality in particular from the point of view of Third World countries and little reference has been made to middle-income countries, like Romania. Moreover, not many authors have engaged with the problem of conditionality and human rights, namely with how this mechanism can affect the integrity of an individual's rights.

Based on the literature gap mentioned above, this study will provide a better understanding of why the International Monetary Fund insists on continuing with its practice of conditionality and whether it is truly committed to reforming it. More importantly, this research will contribute to further promote discussion on how conditionality can affect human rights and will therefore highlight some important and necessary actions which could lead to the Fund's improving its human rights record.

In Romania's case in particular this study will provide an overview of the main areas covered by conditionality and the impact of this practice on an economic and social level. The research and its findings will therefore be of interest to those aiming at applying the most efficient policy measures in order to ensure Romania's recovery from the crisis but also to guarantee a decent living and the integrity of human rights for the Romanian population.

1.4. Outline of Chapters

Chapter 2 represents the literature review which aims at setting the background of the problem discussed and mentioning some of the existing literature around the researched subject.

Chapter 3 discusses the methodology used for collecting and analysing data. One will argue why that particular methodology has been chosen for this study, mentioning both its strengths and weaknesses.

Chapter 4 deals with the first three research questions. More precisely, one will look at the reasons why the IMF insists on practicing its conditionality, how this mechanism has evolved since it was first introduced and how conditions attached to IMF loans can have a direct impact on human rights.

Chapter 5 engages with Romania's case and looks at any changes that took place in the context of the financial crisis regarding the conditions imposed by the IMF in the loan offered to this country. In order to do this, one will compare the 2009 agreement with a previous one from the point of view of conditionality.

Chapter 6 summarizes the main findings of this research and recommends some measures that could lead to improved IMF practices especially in the area of human rights.

CHAPTER 2: LITERATURE REVIEW

2.1. General remarks

Since the 1980s, international financial institutions like the IMF have encouraged countries to integrate into the world economy, by highlighting the potential gains that could result from this integration. This process has been translated into an endeavour to ensure "trade liberalization, privatize state-owned enterprises, open up developing countries to foreign investment, and deregulate labour markets in member countries" (Woods, 2006: 1).

However, in the context of the major crises experienced by Latin America and East Asia, the International Monetary Fund (IMF) was faced with criticism from its opponents, who believed that the policies of this institution not only did not encourage economic growth, but actually hurt this process (Vreeland, 2003, Woods, 2006).

Mussa and Savastano (1999) note that over the past years the IMF's approach to economic stabilization and particularly the conditionality that this institution attaches to its loans have come under great scrutiny. In this context, IMF programs have been criticised for damaging growth, for proving harmful to the poor, for being inflexible and not taking into account the differing circumstances of member countries or for making use of outmoded and discredited economic principles in their application.

Mussa and Savastano (1999) dismiss some of these criticisms as inaccurate and note that others are the result of no easy policy choices for countries which are facing severe balance of payments problems. However, they also admit that some of these controversies are worthy of substantive consideration. In their paper they discuss the approach to stabilization adopted by the IMF in its programs, trying to explain the rationale behind using quantitative performance criteria for fiscal and monetary policy in the arrangements signed by the IMF.

Conditionality refers to the practice of the Fund's offering financial assistance in return of the implementation of specific policies. As stipulated in the IMF's Articles of Agreement, the policies implemented by a borrowing country have to be in line with the purposes of the Fund, and avoid "measures destructive of national or international prosperity". They also have to guarantee that resources are made "temporarily available" and "under adequate safeguards" (Dreher, 2009: 236). Therefore, the IMF considers that loan repayment would be at risk without conditions attached to it and that conditionality is inevitable for securing the revolving character of the Fund's resources.

Goldstein (2000) also recognizes that the debate about the intrusiveness of IMF policy conditionality has intensified in the years that followed the Asian crisis. He therefore engages with the role of structural policies in IMF-supported adjustment programs. He makes the remark that by structural policies he is referring to the measures aimed at improving the efficiency of resource use or increasing the economy’s productive capacity. Among such structural policies one can include: financial-sector policies; privatization and public enterprise policies; tax and expenditure policies; pricing and marketing policies; poverty-reduction and social safety-net policies; pension policies, etc.

Goldstein (2000) comes to the conclusion that the Fund should not engage with conditions that lie outside the areas of monetary, fiscal, exchange rate, and financial-sector policies. He goes on to state that if conditions outside these areas are to be imposed by the IMF there should be a strong justification for them in any program.

Bird (2009) also notes that during the 1980s and 1990s the Fund expanded its conditionality beyond its traditional focus on key macroeconomic variables. As a consequence of the fact that the number and scope of conditions increased significantly, some observers claimed that conditionality was undermining ownership, and this was affecting the implementation of programmes.

Due to the strong criticism that it faced for its expansive and erroneous use of conditionality, the International Monetary Fund decided to reform its conditionality in 2002. The Conditionality Guidelines presupposed a reduction in the overall number of conditions attached to Fund lending and the insurance that those attached respected and were drawn from nationally developed poverty plans, taking into account the ownership of the respective country (Molina and Pereira, 2008).

Molina and Pereira (2008) analyse the IMF reports after the 2002 streamlining initiative and come to the conclusion that no further progress has been made in this direction, a conclusion which raises questions about the commitment of the institution to reforming its structural conditionality. The two researchers argue that the Fund should speed up the implementation of the Conditionality Guidelines and take further steps in the streamlining initiative.

However, Bird (2009) argues that although IMF conditionality changed very little in the period from 2000 to 2008, one has witnessed a noteworthy institutional reform between late 2008 and early 2009 driven by the effects of the global financial crisis. He therefore notes that the evolution of conditionality has since been driven in a way and at a speed that the streamlining initiative had failed to do.

In the beginning of the 1990s, the IMF was also criticized for the fact that its programs were anti poor. Although the Fund has stressed the central role of poverty reduction in its strategy for low-income countries it generally failed to establish pro poor measures under its conditionality. Moreover, although poverty reduction is considered a major goal in almost all recent programs, it is rarely covered by mandatory conditionality (Dreher, 2001).

It is therefore of no surprise that as a consequence of its high conditionality, the IMF was accused of not only failing to engage with human rights concerns, but also that some of its policies have actually led to human rights violations (McCorquodale and Fairbrother, 1999).

The United Nations Subcommission for the Promotion and Protection of Human Rights accused the Fund of having shown indifference to human rights principles. This accusation was based on a report carried out by UN Special Rapporteurs Joseph Oloka-Onyango and Deepika Udagama which criticised the World Bank and Fund's human rights record. The report insisted on a restatement of the human rights obligations of these international institutions, and their adherence to the UN Declaration on the Right to Development, which asserts that all human rights must be recognised and protected during the process of development (see UN Report, 2001).

The Fund reacted to these accusations by stating that its Articles of Agreement do not oblige the institution to any human rights responsibilities and that local governments should be the ones held accountable for such concerns (www.imf.org). Grant B. Taplin, assistant director at the IMF's Geneva office, stated before the United Nations Subcommission for the Promotion and Protection of Human Rights that the IMF does not have a mandate to promote human rights and that it was not "bound by various human rights declarations and conventions". However, Taplin also added that the IMF was "doing many things through many channels" to promote human rights (www.globalpolicy.org).

Skogly (2001) expressed his view on this issue and suggested that since the Fund is a U.N. specialized agency it should act in accordance with the principles of the U.N. Charter. He argues that the IMF should adhere to human rights standards and should be concerned with the protection and promotion of such rights. The UN Sub-Commission on the Promotion and Protection of Human Rights also concluded on its 25th meeting that both the World Bank and the IMF are bound by obligations enshrined in international human rights covenants, and therefore they must incorporate human rights considerations in the formulation and review of their programmes (www.brettonwoodsproject.org).

Another important issue concerning the debate about the IMF and its conditionality is the borrowing governments' attitude towards the Fund's requirements. In the conventional view, governments who request a loan from the Fund do not want conditions attached to these loans. However, some scholars argue that this is not always the case. Vreeland (1999) engaged with this subject and came to the conclusion that some governments, by tying their hands with IMF conditionality, try to increase their bargaining advantage on domestic opponents of economic reform. In other words, governments try to use the IMF as a scapegoat in order to push through their preferred policies, which otherwise would not be approved.

Other scholars who touched on this subject came to similar conclusions: Remmer (1986) notes that the presence of the IMF "allows authorities to attempt to shift blame for austerity to the Fund" and that the "power of the IMF remains a useful myth to explain difficult economic decisions". Edwards and Santaella (1993) argue that governments usually get the IMF to do their "dirty work", while Vaubel (1986) states that international organizations like the IMF offer politicians the alternative of shrinking "domestic responsibility for unpopular policies" (in Vreeland, 2003: 13).

2.2. The IMF and Romania

The IMF is one of the most important international organizations for Romania, who joined the Fund in 1972. Apart from the usual surveillance process, Romania has used the IMF resources on twelve occasions since 1972 in support of the Government's Economic Programs. All of the loans have qualified as Stand-By Arrangements, the most recent one being approved on the 31st of March, 2011. Romanian authorities expressed their intention of treating this latest loan as precautionary (www.imf.org).

However, although much has been written in the last years about the IMF and the way in which its conditionality affects policies in borrowing countries, in all studies there is little or no reference at all to transition economies, and more specifically to Romania.

Still, Budau *et al* (2003) have conducted a study in trying to assess how cooperation with the IMF has affected Romanian economic and social policy since 1989. They engage with the loans contracted up until 2001 and try to identify the IMF's basic conditionality objectives for Romania. The criteria they use for these objectives are the following: they had to be singled out as performance criteria in the 2001 stand-by agreement (the latest at the time of their publication); they also had to be important for domestic politics in Romania, reflect a lasting concern and be specific enough in order to represent a manageable research focus.

Using this strategy, they identify five main policy objectives: the objective of driving forward the privatisation of state-owned enterprises; minimizing the continuing accumulation of inter-company arrears; disciplining salary policy in the public sector; improving financial discipline in state-owned enterprises and improving macro-economic indicators. Under the last objective one can include the increase of the GDP, the lowering of the inflation rate, the consolidation of currency reserves, etc. (Budau *et al*, 2003).

Budau *et al* (2003) emphasize the fact that different actors which influence the evolution of policy within any state together with the lack of transparency of their actions make it almost impossible to identify their influence with any certainty. Still, in their approach they try to find areas in which the IMF has had a significant involvement and look at what the Fund tried to do in each of these areas and how Romania responded to these efforts.

Their findings led them to conclude that, although IMF loan conditions have not been satisfactorily fulfilled in any of these sectors, some of the conditions have been implemented and have been partially successful in all areas with the exception of improvement of financial discipline in the public sector.

CHAPTER 3: METHODOLOGY

The technique employed in this research was document analysis, encompassing both quantitative and qualitative data. The choice of this method was mainly guided by the research questions and the objective of the study.

According to Sarantakos (2005) and Bryman (2008) some of the advantages of doing document analysis include: quick and easy access; convenience – since one can do research at any time and for as long as he or she wishes; low cost; less time consuming – since this method requires less time for data collection, one will have more time available for the analysis process. Moreover, the fact that one does not deal directly with people limits the possibility of encountering rejection, non response or bias.

However, as any other research method, document analysis also employs some disadvantages. Some of the most common ones were identified by Sarantakos (2005) as being: lack of accessibility – one might not be able to access all the documents he or she needs; incomplete data – some documents might not be complete or up to date; reliability – one has to always question whether the documents used are reliable sources.

During my research I was faced with some of these disadvantages; whereas initially I intended to look at the reports for Romania's IMF agreements between 1989 and 2009 in order to identify any changes regarding conditionality, I had to limit myself to the arrangements signed after 2000, since no thorough information is available on previous ones.

The documents used in this research as sources include: published books, articles and IMF materials. One has also consulted Internet websites but only to a limited degree, due to issues concerning reliability. Since a good research has to be based on high quality materials, one has concentrated mainly on publications of well known publishers and important academic journals.

In order to answer the first three research questions one has looked at publications and other studies which have dealt with the subject of conditionality, as well as IMF official reports. Since one was also interested in the evolution of the phenomenon, the materials date both from before and after the year 2000. One has engaged with a wide range of sources in order to provide validity of the data presented. For the last question one has used IMF reports available on their official website, but also articles and studies which make reference to Romania's case.

The material analysis method employed in this research was based on qualitative text analysis. Both descriptive and comparative analysis has been used, the latter being more useful for answering the forth research question. In order to see whether any changes have taken place regarding conditionality in Romania's agreements, one has compared conditions mentioned in the 2009 and 2001 arrangements and has generated statistical data presented both in the form of tables and graphs.

The rest of the quantitative data presented in the research has not been generated but gathered from IMF reports and studies conducted by other scholars who have engaged with the topic. According to Neuman (2003) existing statistics research is preferable in the case of topics which involve information collected by large bureaucratic organizations. This variant was also preferred due to time constraints.

In order to reduce any type of bias, this research has concentrated on a wide range of sources and has tried to make use of materials coming from authors with different and opposing views.

As far as ethical considerations go, the method employed in this research is a non-reactive one, and therefore ethical concerns do not play such an important role as in the case of dealing directly with people. Neuman (2003) argues that one ethical issue in this type of research is the "privacy and confidentiality of using information gathered by someone else" (2003: 328). However, since most of the documents consulted for this research are available online there is no case for a breach of confidentiality.

CHAPTER 4: THE IMF AND ITS CONDITIONALITY

4.1. The Rationale behind IMF Conditionality

I suggest we start our discussion about IMF conditionality by looking at what the reasons for imposing these conditions are and what the Fund tries to achieve through its conditionality.

Dreher (2009) is one of the researchers who have engaged with these questions and in his opinion there are five major points through which the IMF justifies its conditionality.

First of all, the conditions attached to a loan might represent a commitment device which addresses time inconsistency problems. Dreher (2009) identifies two main models which run along this line of thought.

The first one sees the governments of borrowing countries as unified actors, and takes into account the fact that policies preferred by the Fund might be similar with the ones preferred by the governments. Conditionality, therefore, would have the role of impeding policy changes in the future and through this solving the time-consistency problems associated with the design of economic policies. This argument also touches on the fact that since markets are reticent in believing that governments pursue appropriate policies it is in those government's interest to bind themselves to conditionality in order to minimize investors' risk perceptions.

The second model does not consider governments to be unified actors and thus allows for disagreements among different ministries. Consequently, in this case conditionality might be used in order to tip the balance in favour of reformers, the Fund becoming a scapegoat for the latter.

These two models of conditionality as commitment are useful in providing some insights in the incentives of borrowing countries, insights which might influence to some extent the design of IMF programs and facilities. The two models make visible the difference between conditional money and conditionality per se.

A second point concerning the rationale behind IMF conditionality is that the latter might be used for determining governments to pursue a set of policies they would not have opted for without the offer of aid - the so called 'bribery argument' (Dreher, 2009). This argument might become more plausible the worse a country's policy is from the Fund's point of view. The action of 'bribing' governments is probably more relevant to Poverty Reduction and Growth Facility (PRGF) programs – in these agreements governments of the poorest countries usually opt for very different policies, compared to the ones preferred by the Fund - but also to Standby Arrangements (SBA) which are usually signed with middle income countries.

Why would the Fund want to 'bribe' governments? According to Khan and Sharma (2001) the IMF "is a lender that has to have assurances that it will be repaid, and this requires placing conditions on its loans" (in Dreher, 2009: 240). Therefore conditionality is meant "to provide the safeguards that the country will be able to rectify its macroeconomic and structural imbalances, and will be in a position to service and repay the loan" (ibid). The lack of conditionality would probably lead to the borrower not repaying its loan or to its continuous dependency on additional IMF money.

'Bribing' governments could also be justified by the intention of protecting the interests of other Fund members from beggar-thy-neighbour attempts. It has also been claimed that the Fund having superior information and experience when it comes to generating policies is another argument which explains the 'bribery'.

A third rationale for conditionality identified by Dreher (2009) is that conditions might help signal what type of government the IMF is about to sign an agreement with. It is obvious that the IMF prefers lending to countries which have competent governments and are able of implementing good policies as this will prove more productive for the Fund. Consequently, conditionality might help with solving the IMF's selection problem. Also, if loans are tied to conditions, this ensures the fact that only the truly needy will demand them.

Another thing worth mentioning here is that conditionality has also been considered to be a seal of approval for private and official creditors who trust that the IMF, having the advantage of superior information, is more entitled to signalling the governments' type and helping them decide whether to lend to that country or not (Dreher, 2009).

The fourth argument is that through conditionality the IMF tries to restrict the way aid is spent, especially in cases where the Fund's preferences for methods meant to raise the recipients' welfare differ from those of the government. What needs to be taken into account here is that loans should pursue the objective of ensuring redistribution from rich to poor people, not from rich to poor countries, and Little and Clifford argue that there is no reason to think that this would be achieved by unconditional loans (in Dreher, 2009).

Finally, the fifth rationale presented by Dreher (2009) is that conditionality is important in addressing the problem of moral hazard. Moral hazard refers to the situation in which "the provision of insurance leads the insurant to take actions that increase the probability of bad outcomes" (2009: 245). In this context, IMF lending is seen as income insurance against adverse shocks and this insurance might determine the potential recipients to take fewer precautions against such shocks or even lead them to try and intentionally generate a crisis. This is called "direct moral hazard" since it looks at the behaviour of the direct recipients of the above mentioned insurance, namely the governments of the member states and is different from "indirect moral hazard" which deals with the effects of the creditors' behaviour.

In summing up all these five arguments, Dreher (2009) comes to the conclusion that conditionality, provided that it works, is meant to prevent the borrowing country from abusing the money and remaining dependent on further transfers.

Bird (2009) also engaged with the rationale behind IMF's conditionality and observed that the Fund has provided a range of justifications for its conditions.

First, since in the Articles of Agreement it is stipulated that the IMF must provide only "temporary" assistance under "adequate safeguards" (Bird, 2009: 84), conditionality represents the Fund's mechanism of ensuring that countries should be able to repay the money they borrow. Similar to Dreher (2009), Bird (2009) also mentions that conditionality is supposed to constrain moral hazard by preventing countries from squandering IMF resources.

Second, Bird (2009) argues that conditionality can be interpreted by capital markets as a country's commitment to reform, and this positive sign might result in additional capital inflows.

A third rationale for conditionality would be that it represents a guarantee for users that future tranches of a loan will follow provided they meet the performance criteria agreed upon (Bird, 2009).

Other arguments presented by Bird (2009) refer to the fact that conditionality might be used in a paternalistic way by IMF major shareholders in order to promote what they consider to be a good economic policy, or to allocate scarce IMF resources. Similar to Dreher (2009), Bird (2009) also notes that in some cases conditionality might be used as an excuse for governments in their endeavour to implement domestically unpopular policies, the IMF becoming a convenient scapegoat in this case.

However, Bird (2009) also mentions that, according to critics, the IMF's rationale for conditionality does not hold up to close inspection. In their opinion, conditionality has gone well beyond the level required to ensure repayment, entering spheres in which the IMF does not have expertise. Moreover, according to them, the low rate of compliance with conditionality and the consequently high number of interrupted programmes do nothing but to weaken the credibility of conditionality together with its commitment and signalling functions.

On this note, Mercer-Blackman and Unigovskaya (2004) have looked at compliance with conditionality in countries in transition to market economies and according to their findings "out of the 33 countries analyzed, only 17 implemented more than 50% of the structural benchmarks included under their program between 1993 and 1997" (in Dreher, 2008: 240). Similarly, Edwards (2001, 2006) analyzed 347 programs between 1979 and 1997 and found that "over the whole period of study, 138 programs have been suspended prior to expiration" (in Dreher, 2008: 239).

Furthermore, many opponents of conditionality argue that the economic philosophy promoted by this technique – usually favouring austere macroeconomic policies which are supposed to lead to economic liberalisation and openness – might be inappropriate for many of the IMF's borrowers. They therefore disagree with the IMF's imposing economic policies which are not consistent with the wishes of borrowing governments, particularly in cases where those policies are the reflection of the interest of powerful advanced economies. Moreover, they also point out that "while effective policy implementation relies on governments 'owning' the reform measures, conditionality is fundamentally at odds with ownership" (Bird, 2009: 85).

Some of the criticism also aims at the fact that not only did IMF conditions prove ineffective in helping a range of low-income countries overcome their dependence on IMF money, but also that the Fund became an almost continuous provider of aid to some developing countries and emerging market economies. Critics argue that this has been brought about by the IMF putting too much emphasis on internal adjustment and neglecting development (Vreeland 2003, Dreher 2009).

Due to these arguments, many scholars have expressed their reservations concerning the trend towards greater conditionality. In their opinion, this mechanism is based on "flimsy economic principles relating to economic growth and the role of economic liberalisation in securing it" thus making them fear that "it could end up transmitting negative signals, with greater conditionality implying the need for greater reform" (Bird, 2009: 90).

4.2. The Evolution of IMF's Conditionality

4.2.1. Trends in conditionality before 2000

The principle of conditionality has suffered changes since it first started being implemented in IMF programmes. In what follows I intend to look at these changes and the factors that have triggered them.

When the IMF was founded the only country which expressed an interest in conditionality was the USA. Their wish was not to attach detailed conditions to the loans the IMF would provide, but to be able to end drawings in cases where misbehaviour was flagrant (Dreher, 2001).

At the USA's insistence, the Executive Board recognized the principle of conditionality in 1952. As a result, the IMF introduced two standard operational practices for the Stand-by-Arrangement, considered the main instrument of conditional credit, namely the phasing of the disbursement of credit, and the mechanism of using performance criteria in order to test a member's progress.

In 1968, conditionality officially became part of the Fund's constitution when the amended Articles of Agreement included new provisions according to which the Fund would impose adequate safeguards in order to make sure that its resources are used in a manner consistent with the objectives of the Fund (Babu, 2001).

Dreher (2001) notes that during these first decades of Fund operations conditionality covered mainly "monetary and fiscal policy, reductions in relative price distortions, reduced current account deficits through import substitution and export promotion, reductions in deficits and an increase in international reserves" (2001: 10) (see Table 1).

In the years that followed, and particularly after the Extended Fund Facility was introduced in 1974, one noticed an increase in IMF conditions and at this point the two parties of an agreement had to no longer negotiate only targets, but also conditions related to specific instruments. The rationale for this was the assumption that by negotiating only targets, one could be impeded from reaching those targets by external shocks (Dreher, 2001).

Dreher (2001) has engaged with researching the development of the conditionality principle and for this he has looked at programmes from different time periods and the conditions attached to those loans. He comes to the conclusion that in the 1969-78 period expenditure restrictions covered a much broader range of areas in comparison to earlier programmes. As Table 1 shows, these restrictions referred to: freezing, reduction or postponement of wage increases (30.48%), freezing or reduction of government employee numbers (8.57%), ceiling on current expenditures (29.52%), transfers and subsidies (39.05%) and capital expenditure and net lending (20%). A little over 52 percent of these programs included tax increases and, as a change from the earlier years, creditor interests were also mentioned in these arrangements: 10.48% of programs included reductions in arrears.

Dreher (2001) argues that the 70s have been a period of loose conditionality. His explanation for this is that, partly as a consequence of the oil price shock, developing countries had no problems with obtaining private loans, and the majority of higher and middle income developing countries preferred to borrow in the private markets, since no conditionality was attached to these credits. As a consequence of the low demand for its resources, the Fund was willing to lend at low conditionality.

But, as some Latin American countries started to have debt problems, the flow of private money vanished and the IMF became the only resort for many developing countries. As one can imagine, faced with a rising demand for its resources, the Fund started to increase its conditionality.

In 1979 the Fund decided to adopt a new guideline for conditionality, which implied that the IMF would take into account the social and political objectives of the borrowing countries, their economic priorities, as well as the cause that led to their balance of payment problem. However, the new guideline for conditionality also introduced, in addition to performance criteria - which had to be met in order to secure tranche releases -, prior actions - which had to be implemented before presenting a program to the Executive Board (Dreher, 2001; Babu, 2001).

After the review of IMF conditionality one noticed a greater involvement on behalf of the Fund into social and political aspects of the borrowing countries. Dreher (2001) argues that in comparison to the 1970s, in the years following the review of the guidelines the IMF not only introduced more detailed conditions in its loans, but also offered less money at the beginning of the programs. In addition to this, it became more difficult to achieve a waiver during a programme.

The introduction of the Structural Adjustment Facility (SAF) in 1986 brought about a different type of conditionality, taking the form of structural benchmarks (see Table 1). In the event of these conditions not being satisfied by the borrowing government, the Fund disbursements would not be automatically terminated. However, although there was no provision for these structural benchmarks under the IMF conditionality guidelines, non-compliance with them might determine the staff to be stricter in assessing whether performance criteria were being met. The main difference between structural benchmarks and performance criteria is that the former put more emphasis on microeconomic variables, and this is a proof of the shift in focus on behalf of the Fund, from providing short tern balance of payment support to becoming a development agency that is supposed to stimulate growth in borrowing countries (Dreher, 2001).

Table 1. Conditions in IMF Standby and Extended Arrangements (1964-92)

	1964-69	%	1969-78	%	1988-92	%
number of programs	10		105		48	
I. Monetary and Financial Policies					40	83.33
1. Limit on credit expansion	3	33	99	94.29	39	81.25
a. Net domestic assets or total bank credit	3	33			36	75
b. Bank credit to central government			70	66.67	16	33.33
c. Bank credit to public sector						
2. Interest rate policy	1	10	7	6.67	12	25
3. Target on foreign reserves	4	40	6	5.71	na	
II. Public Sector Policies					44	91.67
1. Restraint on central government expenditures					32	66.67

	1964-69	%	1969-78	%	1988-92	%
a. Freezing, reduction or postponement of wage increases	2	20	32	30.48	32	66.67
b. Freezing or reduction of government employee numbers			9	8.57	na	
c. Ceiling on current expenditures			31	29.52	na	
d. Transfers and subsidies	3	33	41	39.05	na	
e. Capital expenditure and net lending			21	20	na	
2. Tax Policy	8	80	59	56.19	na	
a. Improve or reform (tax) administration			59	56.19	na	
b. Reform of the tax system or tax basis	8	80	53	50.48	na	
c. Increase in taxes	3	33	55	52.38	na	
3. Non-financial public enterprises					14	29.17
a. Privatisation					na	
b. Improve price structure			30	28.57	14	29.17
c. Improve institutional efficiency					na	
4. Reduction of deficit as percent of GDP			42	40	32	66.67
III. External Debt Policies					46	95.83
1. Control of public and publicly guaranteed debt					34	70.83
2. Reduction of Arrears			11	10.48	28	58.33
IV. Exchange and Trade Policies					47	97.92
1. Liberalisation and reform of exchange rate					47	97.92
a. Adjustable/ Crawling peg					14	29.17
b. Flexible rates					17	35.42
c. Fixed rates					14	29.17
d. Devaluation of the currency					6	12.5
2. Liberalisation and reform of trade system					9	18.75
a. Import substitution	5	50	8	7.62		
b. Export promotion measures	5	50	16	15.24		
c. Capital account liberalisation					9	18.75
V. Structural Adjustment Measures					39	81.25
1. Developing and restructuring of a subsector					17	35.42
a. Infrastructure, telecommunication and energy					11	22.92
b. Agriculture					6	12.5
2. Protection of the poor	1	10				
3. Wage and prices					37	77.08
a. Wage guidelines or wage reform policies	2	20	6	5.71	12	25
b. Reduction in price distortions	5	50	12	11.43	36	75

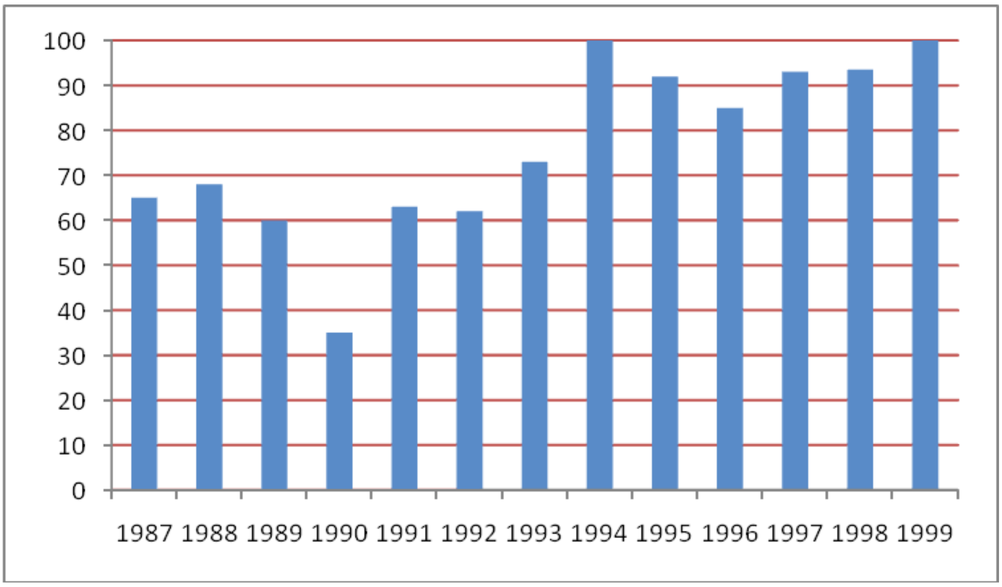
Source: Dreher, 2001

Babu (2001) also mentions the fact that especially during the 1990s the sphere of conditionality extended to social and political areas like democracy and human rights, although the Fund continued to profess that is was politically neutral.

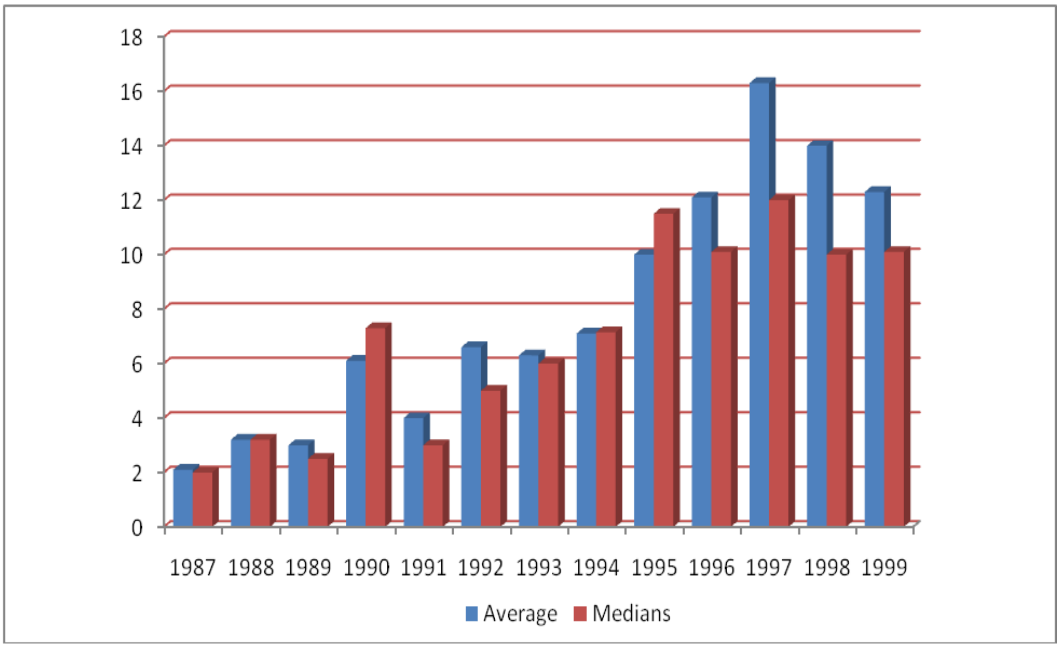
Data provided by the IMF (2001) prove the same increase in conditionality during the 1990s, as a consequence of the introduction of the Structural Adjustment Facility (SAF) and later the Enhanced Structural Adjustment Facility (ESAF).

Figure 1. Structural Conditionality in Fund- Supported Programmes, 1987-99

1. Share of Programmes with Structural Conditions in Total Programmes Approved



2. Structural Conditions per Programme Year



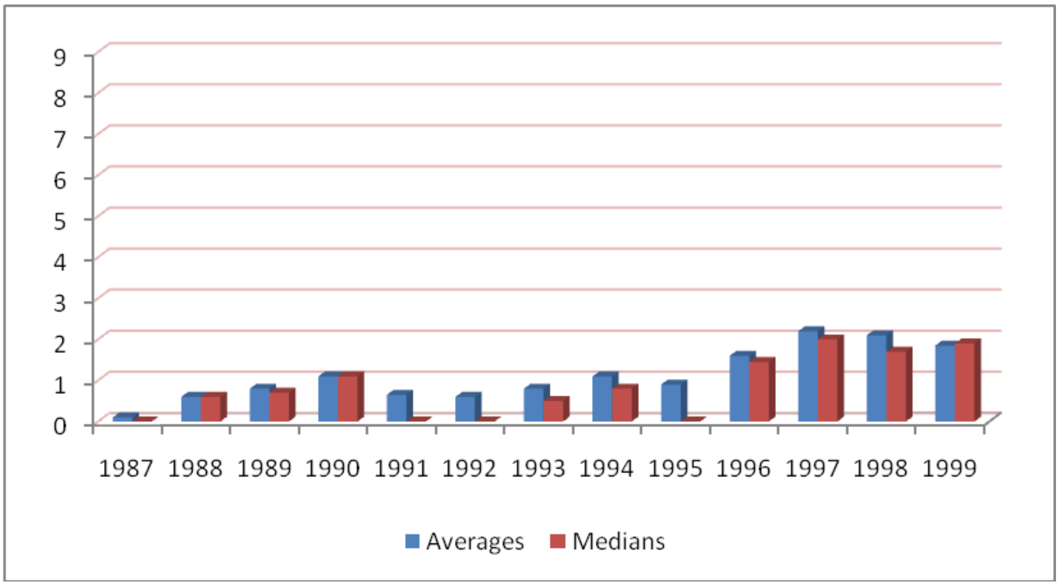
Source: IMF, 2001

According to data presented above, the average of Fund conditions was of two per programme in 1987, whereas by 1994 this average had reached the value of 7. The rise continued and during 1997 and 1999 the number of conditions recorded an average of 14. The IMF (2001) notes that some of this increase can also be considered a result of outliers, meaning that there were a few programmes with a very large number of conditions which brought about the values presented above. If one looks at the median of structural conditions, which was less influenced by such outliers, one will notice that the increase was lower than in the case of the average values.

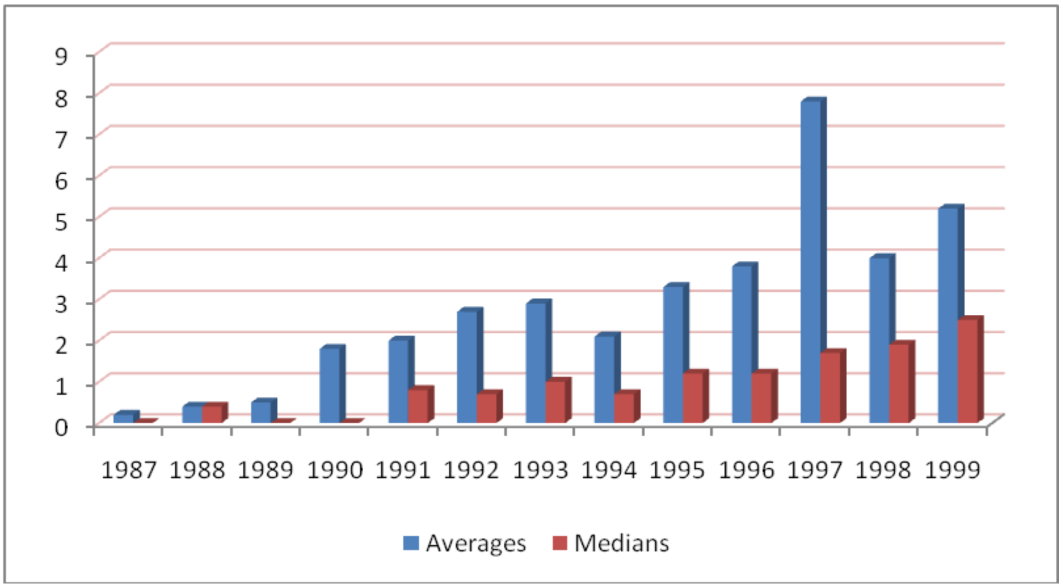
Another important thing worth mentioning here is the fact that this rise in conditionality was not uniformly across different types of conditions. As Figure 3 shows the highest increase was in the area of structural benchmarks, a fact which is surprising considering that this type of conditions is the least clearly defined one. The average number of prior actions also recorded a significant growth, but according to the IMF, “a substantial part of this increase appears to be due to a small number of programs with very large numbers of prior actions”, the median remaining below two, even during the 1997-99 period (2001: 9).

Figure 2. Structural Conditionality by Type of Conditions 1987- 1999 (Average number per programme year)

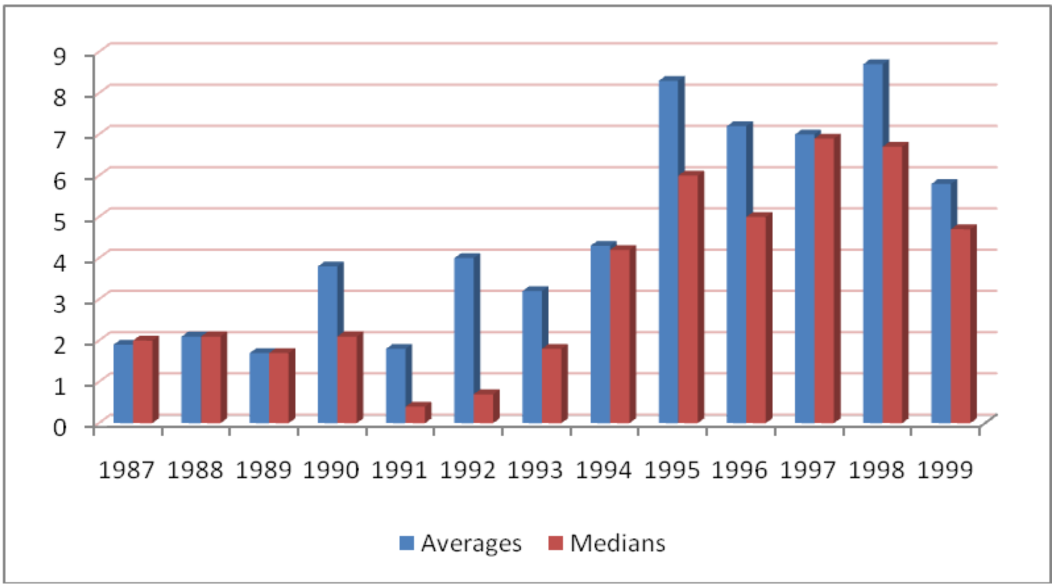
1/ Performance criteria



2/ Prior actions



Structural benchmarks



Source: IMF, 2001

1/ Stand-by, EFF and SAF/ESAF/PRGF – supported programmes

2/ Including conditions for completion of review

If one takes into account this uneven distribution of conditions, the increase in conditionality during the 1987-1999 interval might appear less dramatic than suggested by simple aggregate indicators. However, the clear expansion of the conditions imposed by the IMF cannot be denied even from this perspective.

Apart from the introduction of the new SAF and ESAF facilities, the increase in conditionality was also attributed to the fact that in that period the Fund was involved in helping transition economies recover after the end of the communist era in Europe (IMF, 2001).

The Asian crisis led to a rising demand for IMF support and to the fact that the governments of these countries were desperate enough to comply with all kind of conditions in exchange for the required international reserves. This is another reason for the sharper increase in conditionality towards the middle of the 1990s, and it is of no surprise that in 1997, programs with Asian countries had an average of 20 conditions, compared with an average of 16 conditions for all countries (Dreher, 2001).

The IMF’s argument was that structural reforms were important in the Asian crisis countries because although these countries had achieved impressive growth, they were still endangered by serious financial sector vulnerabilities which had caused their financial crises (IMF, 2001).

The situation of conditionality by type of country is presented below:

Table 2. Structural Conditions by Type of Country, 1987- 1999 (in percent)

	Distribution of programs by type of country (In percent)			Share of programs with structural conditionality (In percent)			Average number of structural conditions			
	Transition economies	SAF/ESAF/PRGF countries	Other countries	Transition economies	SAF/ESAF/PRGF countries	Other countries	Transition economies	SAF/ESAF/PRGF countries	Asian crisis countries	Other countries
1987	0.0	65.0	35.0	…	92.3	14.3	…	2.0	…	3.3
1988	8.0	52.0	40.0	100.0	100.0	20.0	3.0	3.5	…	0.8
1989	0.0	34.8	65.2	…	100.0	40.0	…	4.3	…	1.2
1990	21.4	21.4	57.1	33.3	100.0	12.5	2.7	9.2	…	1.1
1991	16.7	26.7	56.7	80.0	100.0	41.2	6.9	4.8	…	2.0
1992	29.2	25.0	45.8	71.4	100.0	36.4	6.2	11.5	…	1.2
1993	45.5	22.7	31.8	60.0	100.0	71.4	7.1	8.1	…	4.0
1994	21.2	36.4	42.4	100.0	100.0	100.0	8.2	8.6	…	5.7
1995	41.4	20.7	37.9	100.0	100.0	81.8	15.7	8.9	…	9.1
1996	40.0	33.3	26.7	91.7	100.0	62.5	17.9	8.1	…	9.6
1997	42.1	26.3	31.6	100.0	100.0	83.3	20.7	17.4	13.2	5.0
1998	28.6	38.1	33.3	100.0	100.0	85.7	21.6	11.6	22.2	7.9
1999	20.0	45.0	35.0	100.0	100.0	100.0	16.2	14.3	…	7.9

Source: IMF, 2001

Table 3. Structural Conditions by Economic Sector and Type of Country, 1987-1999 (in percent)

	Exchange System	Trade Regime	Capital Account	Pricing and Marketing	Public Enterprises, Reform and Restructuring	Privatisation	Fiscal Sector	Social Security System	Social Safety Net	Financial Sector	Agricultural Sector	Labour Market	Economic Statistics	Systemic Reforms
Transition economies														
1987-90	5.0	17.5	0.0	30.0	12.5	0.0	12.5	0.0	0.0	17.5	0.0	5.0	0.0	0.0
1991-93	10.0	15.7	0.2	18.2	1.6	4.5	9.5	2.9	4.0	19.6	1.0	5.4	0.9	6.5
1994-96	2.6	5.8	0.6	9.6	6.4	12.6	23.1	5.8	0.7	20.7	1.4	0.4	1.5	8.7
1997-99	2.3	7.1	0.4	4.6	3.9	16.7	25.2	3.3	1.0	21.9	3.1	0.7	2.2	7.7
SAF/ESAF/PRGF countries														
1987-90	5.7	12.4	0.0	8.2	11.3	4.7	26.0	0.4	0.0	16.3	8.7	0.5	2.0	3.8
1991-93	7.4	10.3	0.1	5.6	8.2	9.7	28.2	0.9	0.7	19.4	2.8	1.4	1.4	3.9
1994-96	3.1	9.2	0.1	7.2	5.8	15.5	32.6	1.8	0.0	15.5	0.8	0.4	4.9	3.1
1997-99	1.4	7.8	0.2	5.6	9.4	16.5	29.9	4.8	0.3	16.2	1.0	0.5	2.0	4.4
Asian crisis countries														
1987-90	.	.	.	.	.	.	.	.	.	.	.	.	.	.
1991-93	.	.	.	.	.	.	.	.	.	.	.	.	.	.
1994-96	.	.	.	.	.	.	.	.	.	.	.	.	.	.
1997-99	0.0	3.5	1.4	5.9	3.2	11.9	0.6	0.0	0.0	64.1	0.6	0.0	2.0	6.8
Other														
1987-90	42.1	27.1	0.0	5.0	14.6	0.0	6.3	0.0	0.0	5.0	0.0	0.0	0.0	0.0
1991-93	17.8	7.4	1.0	5.8	5.3	4.7	47.6	4.6	0.0	3.1	0.5	0.5	0.0	1.7
1994-96	4.9	6.5	0.3	8.9	8.1	13.7	35.9	2.8	0.4	9.7	2.1	1.8	1.9	3.1
1997-99	4.5	2.7	0.3	3.5	4.8	14.7	26.9	5.4	0.0	21.2	0.8	0.5	5.5	8.3

Source: IMF, MONA database and country papers

If we try to assess the areas on which conditionality focused during the 1987-1999 period, we will notice that the majority of conditions extended to the fiscal sector. According to the IMF (2001), of these, “40 percent refer to tax systems and tax administration” while “expenditures and public sector management amount for 30 percent of fiscal sector conditions” (2001: 27).

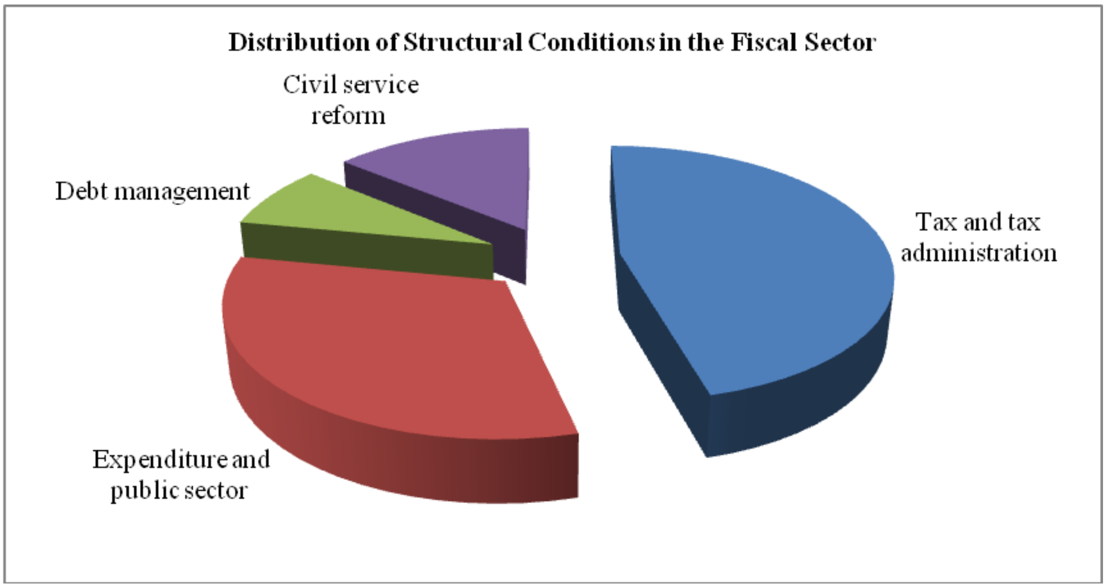
During the Asian crisis, financial sector conditions started to gain more importance. Of these, 20 percent focused on the monetary policy framework, and 50 percent on restructuring of financial institutions and the strengthening of regulation and supervision. Financial liberalisation represented about 10 percent of financial conditionality. Another condition that gained importance in this period was privatisation (IMF, 2001).

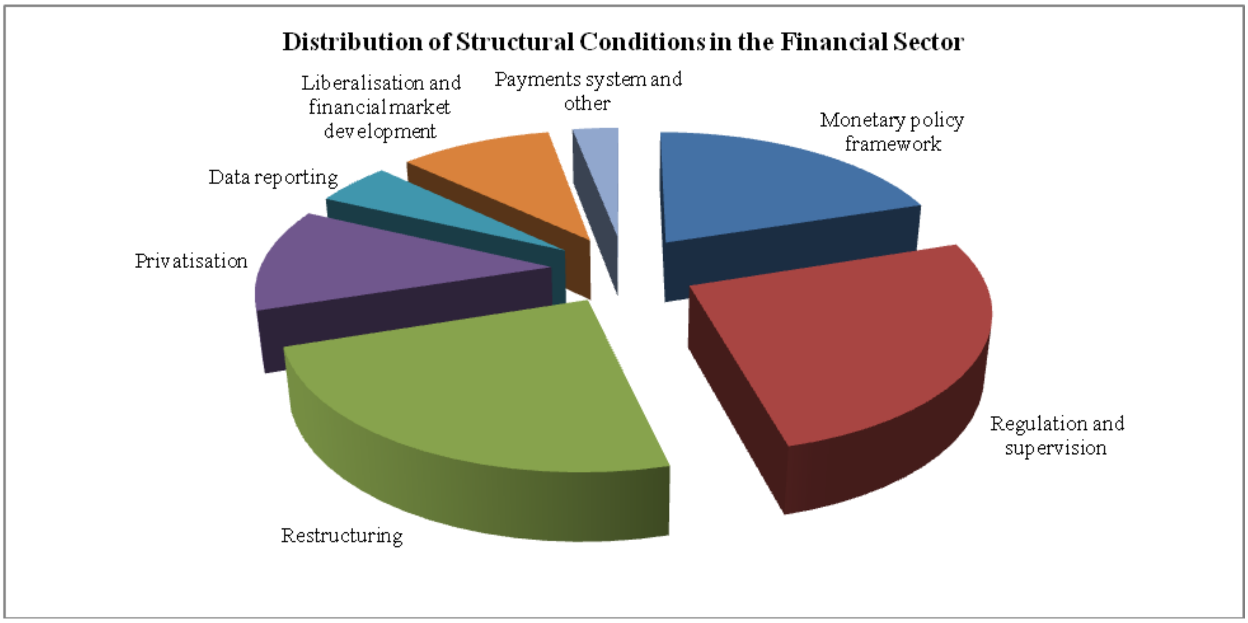
Table 4. Distribution of IMF Structural Conditions (percent, 1987-99)

	1987-90	1991-93	1994-96	1997-99
Exchange System	11.4	10.8	3.4	2.4
Public Enterprises	11.9	5.7	6.8	5.7
Fiscal Sector	22.7	27.8	31.0	24.7
Privatisation	3.4	6.8	13.6	15.6
Financial Sector	13.0	13.6	14.7	23.6
Trade Sector	18.4	11.6	7.4	6.0
Pricing and Marketing	7.9	9.7	8.8	5.1
Systemic Reforms	2.8	4.3	4.8	6.3
Social Security	2.8	2.3	3.4	4.3

Source: IMF (2001)

Figure 3. Distribution of Structural Conditions in the Fiscal and Financial Sector





Source: IMF, 2001

The situation during 1999-2001 remained more or less the same. Dreher (2001) looked at 36 Standby Arrangements from this period and came to the conclusion that more than 65 percent of them included conditions concerning borrowing countries' financial sectors. Privatisation continued to be an important area covered by conditionality, especially the privatisation of public enterprises (Dreher, 2001).

Table 5. Conditions in IMF Standby Arrangements (36 programs, 1999-2001)

	Prior Act.		**Perf Criteria**		**Struct B.**		**All conditions**	
number of conditions	113	10.27	296	8.22	260	10.4	669	18.58
		%		%		%		%

	Prior Act.		Perf Criteria		Struct B.		All conditions	
I. Monetary and Financial Policies	5	45.45	35	97.22	21	84	36	100
1. Limit on credit expansion			32	88.89	2	8	32	88.89
a. Net domestic assets or total bank credit			31	86.11	1	4	31	86.11
b. Bank credit to central government			11	30.56			11	30.56
c. Bank credit to public sector			1	2.78			1	2.78
2. Interest rate policy	1	9.09	1	2.78	2	8	2	5.56
3. Reform of the financial system	4	36.36	5	13.89	20	80	24	66.67
a. Closing of insolvent banks	1	9.09	3	8.33			4	11.11
b. Restruct. / Recapitalisation of the banking system			1	2.78			1	2.78
c. Introd. / Restruct. Of deposit insurance scheme	1	9.09					1	2.78
d. Promote competition and liberalisation			1	2.78			1	2.78
e. Basic standards/ IAS			1	2.78	2	8	3	8.33
f. Enhance surveillance and transparency					2	8	2	5.56
g. Privatisation	2	18.18	2	5.56	7	28	9	25
4. Grant independence to central bank					1	4	1	2.78
5. Target on foreign reserves			30	83.33			30	83.33
II. Public Sector Policies	7	63.64	34	94.44	21	84	34	94.44
1. Restraint on central government expenditures	2	18.18	6	16.67	1	4	9	25
a. Transfers and subsidies	1	9.09					1	2.78
2. Freezing or reduction in expenditure arrears	1	9.09	8	22.22	1	4	10	27.78
3. Tax policy	3	27.27	5	13.89	12	48	17	47.22
a. Improve or reform (tax) administration	1	9.09	1	2.78			2	5.56
b. Reform of the tax system or tax basis					1	4	1	2.78
4. Non-financial public enterprises	3	27.27	3	8.33	14	56	16	44.44
a. Privatisation	3	27.27	3	8.33	13	52	15	41.67
5. Reduction of deficit as percent of GDP	1	9.09	30	83.33	1	4	30	83.33
III. External Dept Policies			31	86.11	2	8	32	88.89
1. Control of public and publicly guaranteed debt			31	86.11	1	4	32	88.89
2. Control of maturity			27	75			27	75
3. Reduction in arrears			9	25			9	25
IV. Exchange and Trade Policies	5	45.45	5	13.89	9	36	16	44.44
1. Liberalisation and reform of exchange rate	4	36.36			1	4	5	13.89
a. Devaluation of the currency	1	9.09					1	2.78
2. Liberalisation and reform of trade system	3	27.27	4	11.11	6	24	11	30.56
a. Liberalisation of imports	2	18.18	2	5.56	2	8	5	13.89
V. Structural Adjustment Measures	8	72.73	6	16.67	12	48	20	55.56
1. Developing and restructuring of a subsector	3	27.27	3	8.33	5	20	9	25
a. Infrastructure, telecommunication and energy	3	27.27	2	5.56	4	16	7	19.44
b. Health and education	1	9.09			1	4	2	5.56
c. Agriculture			2	5.56	3	12	5	13.89
2. Labour market reform and liberalisation			1	2.78	1	4	2	5.56
3. Protection	2	18.18	2	5.56	10	40	13	36.11
a. of the poor	2	18.18	1	2.78	10	40	12	33.33
b. of the environment			1	2.78	1	4	2	5.56
4. Wages and prices	6	54.55	2	5.56	2	8	9	25
a. Wage guidelines or wage reform policies	1	9.09			1	4	2	5.56
b. Reduction in price distortions	5	45.45	2	5.56	2	8	8	22.22
VI. Improve database/ statistics	1	9.09			6	24	6	16.67

Source: Dreher, 2001

Babu (2001) argues that since it was introduced the conditionality attached to Fund's programmes has constantly increased, covering more and more areas. This increase in conditionality has been directly proportionate with the increase in demand for Fund's resources.

His hypothesis seems valid if we consider the fact that the only period when the Fund limited its conditionality was in the 1970's, when the Fund was experiencing a severe clientele crisis.

4.2.2. The streamlining of conditionality

After the sharp increase of structural conditions during the 1990s, IMF conditionality came more and more under the spotlight. By the year 2000 the IMF focused no longer only on macroeconomic factors, but was also intervening with tax rates, banking regulation, commodity prices or institutional reform. The structural conditions it attached to its loans started to spread to areas which were not under the expertise of the Fund, such as social policies and privatisation (Molina and Pereira, 2008).

Against this background the IMF started being more and more criticised for imposing expansive and erroneous conditions on borrowing governments. As a result, the IMF announced that it would streamline its conditionality and in 2002 it approved a new set of Conditionality Guidelines, committing itself to reduce the number of conditions it attached to its loans and make sure that "those attached respected and were drawn from nationally developed poverty plans in recognitions that developing country ownership is instrumental for successful development" (Molina and Pereira, 2008: 4).

Thus, according to Molina and Pereira (2008), the streamlining initiative was supposed to decrease the number of conditions attached to a loan and increase ownership of the borrowing governments. Another change that it brought about was that it introduced techniques for testing whether IMF conditions were the most appropriate ones, including a test of criticality.

The 2002 Conditionality Guidelines were supposed to focus on five principles:

- ownership – recognizing the responsibilities of the borrowing countries and respecting national policies
- parsimony and criticality – only the minimum necessary conditions should be imposed and these should cover the Fund's main areas of expertise
- adjusting policies to the circumstances of each borrowing country
- clarity – conditions should be clearly differentiated from those of other programs (Molina and Pereira, 2008).

Bird (2009) argues that the new Guidelines were not that different from the ones introduced in 1979. The latter had also mentioned the principle of parsimony and the fact that performance criteria had to be limited to the minimum. They had also emphasized the importance of taking into account a country's social and political objectives, together with its economic priorities and circumstances. Consequently, Bird (2009) notices that "the streamlining initiative could be seen as being more about returning to older guidelines that appeared to have been breached in the 1980s and 1990s" (2009: 91).

There are also other researchers who have engaged with the changes brought about by the streamlining of conditionality and who note that it actually lead to no further progress since 2002, this casting some doubt on whether the Fund is really committed to change its conditionality (Molina and Pereira, 2008).

Let us then look at the situation of conditionality after the 2002 Guidelines were introduced and see whether they brought about any positive changes.

The IMF's own Independent Evaluation office (IEO) has produced a report in trying to assess whether there has been any discernable change in they way conditionality has operated after the streamlining. This report looks at the development of conditionality between 1995–2004, using data from the IMF MONA database (Monitoring of IMF Arrangements) and examining 43 programmes as desk studies. The report evaluates 7139 structural conditions across 216 programmes in 94 countries. It also presents results of surveys of opinion conducted with the authorities of borrowing countries and IMF staff.

The IEO's main findings show that "there is no evidence of a reduction in the number of structural conditions following the introduction of the streamlining initiative" (2007: 24). By comparing the 1997-2000 period to the 2001-2004 one, it comes to the conclusion that the average number of conditions per programme remained at approximately 17. Although there was a decline from 16 to 15 in the case of PRGF (Poverty Reduction and Growth Facility) programmes, in SBAs (Stand-by Arrangements) the number rose from 18 to 19.

Furthermore, the IEO report (2007) shows that not only was there no significant change in the number of conditions, but that the distribution of these conditions did not change either. Consequently, prior actions, performance criteria and structural benchmarks, remained at about eight, three and five per programme, respectively.

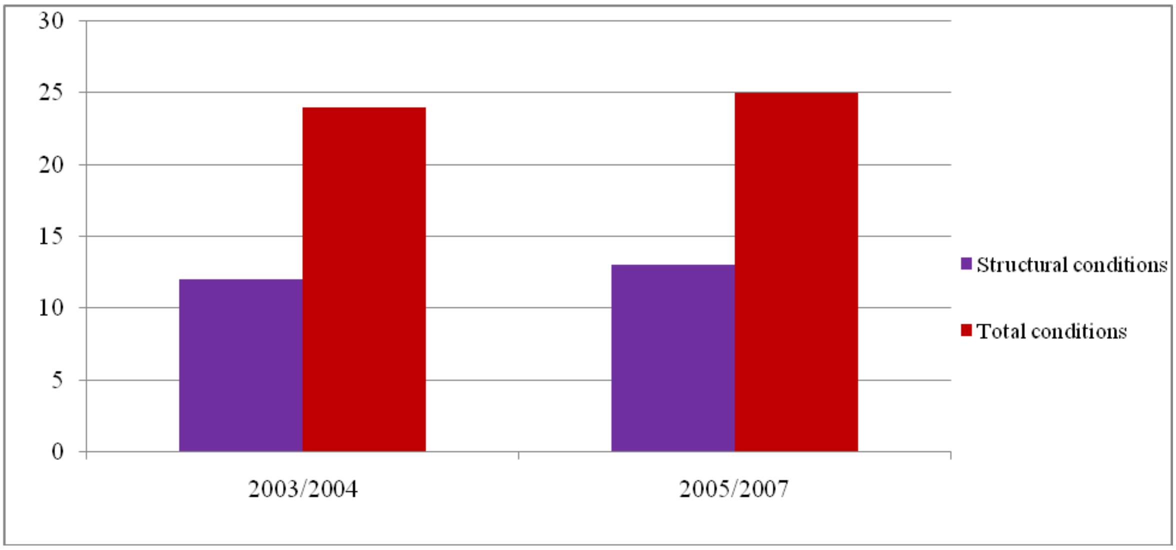
Still, a difference that the IEO (2007) does discover is an increase in conditions referring to taxation, public expenditure and the financial sector and a decrease in those covering privatisation and trade, or other areas which do not fall under the IMF's main core areas. The report therefore concludes that the streamlining initiative seems to have refocused and not necessarily reduced structural conditionality.

Molina and Pereira (2008) have also engaged with the results of the streamlining initiative. They argue that "during the first two years after the Guidelines were approved the

Fund attached an average of 12 conditions per loan granted to a poor country" and that after 2005 the number of conditions increased to an average of 13 (2008: 10).

These numbers differ from the ones presented by the IEO because they refer only to loans for low-income countries. However, Molina and Pereira (2008) note that if one takes both structural and quantitative conditions into consideration the average numbers "increase to 24 per loan after the Conditionality Guidelines were approved and 25 after the first review of the Guidelines took place in 2005" (2008: 10).

Figure 4. Average number of all IMF conditions and structural conditions



Source: Molina and Pereira, 2008

Molina and Pereira (2008) also argue that although only legally binding conditions have the power to suspend disbursements, non-legally binding conditions are also important since they are used in assessing the performance of a loan throughout the year. Looking at both of these categories, they discover that the numbers for them have remained steady over time.

Table 6. Distribution of structural conditions

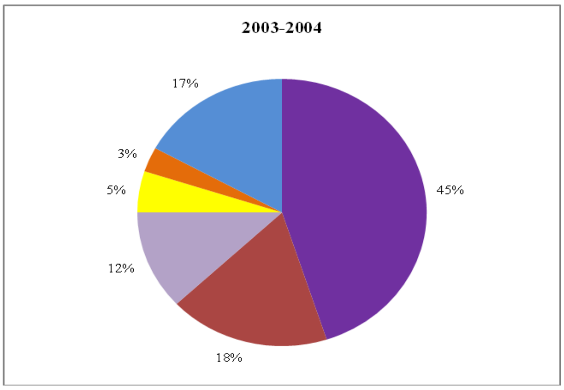
	2003/04	2005/07
Number of programmes	17	20
Total conditions	237	273
of which:		
Binding	115	135
Non-binding	122	138
Total non-sensitive	160	185
Total sensitive	77	88
of which:		
Banking and financial sector liberalisation	25	31
Limiting fiscal space	5	10
Regressive taxation	5	3

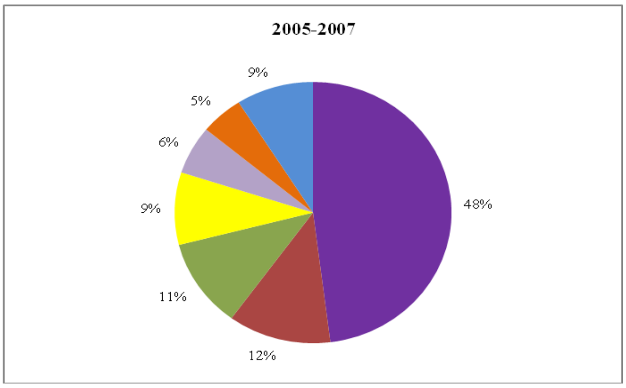
	2003/04	2005/07
Privatisation related	24	25
Public enterprise restructuring	7	10
Liberalisation related	11	9
Total sensitive ptivatisation and liberalisation conditions	60	65
by sector:		
Bank and financial sector	27	31
Trade and prices	11	8
Natural resources	7	6
Telecommunications	3	4
Energy and water utilities	2	3
Infrastructure and transport	0	7
Other	10	6

Source: Molina and Pereira, 2008

Moreover, although the IEO noticed a change in the areas the conditions focused on, Molina and Pereira (2008) are more reticent, their opinion being that the Fund's policies are still addicted to privatisation and liberalisation. They argue that in the case of poor nations, the IMF still interferes with decisions which should fall under the responsibilities of the respective governments in accordance with domestic priorities and needs.

Figure 5. IMF's privatisation and liberalisation conditions by sector





	Banking and financial sector		Trade and prices
	Infrastructure and transport		Telecommunications
	Natural resources		Energy and water utilities
	Other		

Source: Molina and Pereira, 2008

As shown in the figure above privatisation of the banking and financial sector is among the Fund's main concerns, accounting for almost half of all conditions regarding privatisation and liberalisation. Still, the Fund has also pushed privatisation in other sectors, such as agriculture, energy, infrastructure, and telecommunications, which do not fall under the Fund's core competences (Molina and Pereira, 2008).

The Fund's argument regarding privatisation is that this process is supposed to bring about good governance and an increased transparency in the sectors which are privatised. However, Molina and Pereira (2008) argue that in many cases the privatisation imposed by institutions like the IMF has had harmful effects on the poor people, often as a result of the fact that this process is rushed and does not take into consideration issues like "people's access to basic services and increased vulnerabilities in already weak economies" (2008: 15). Moreover, "privatisation of the agriculture and mining industries in countries heavily reliant on these sectors has also undermined the already fragile incomes of the poor" (ibid).

Bird (2009) agrees that the streamlining initiative was not successful in achieving any of its main goals prior to 2008, but also notices that in the wake of the global financial crisis the Fund went through an avalanche of institutional reforms, which seem to have rekindled some hope for the future of conditionality.

One of these reforms represented the changes made to the Exogenous Shocks Facility (ESF) in September 2008 in order for low-income countries without a PRGF programme in place to get easier access to finance. The changes lead to the introduction of a 'rapid access' component, allowing countries to quickly draw up to 25% of their quota. Apparently, for this rapid access component borrowing countries "will only need to commit to appropriate policies to address the shock, and in exceptional circumstances take targeted up-front measures" (Bird, 2009: 95).

Another reform was the inauguration of the Short Term Liquidity Facility (STLF) for emerging market-access economies in October 2008. Conditions under this facility are meant to be based "only on measures absolutely necessary to get past the crisis and restore a viable external position" and if borrowers have a past record of sound policies financing is made available "without the standard phasing, performance criteria, monitoring and other conditionality of a Fund arrangement" (ibid).

In March 2009 the STLF was replaced by the Flexible Credit Line (FCL). Together with the discontinuation of the Compensatory Financing Facility, the IMF argued that these changes should lead to the modernisation of conditionality. According to Bird (2009), the modernisation brought about by the FCL was represented by emphasizing more pre-set qualification criteria (ex ante conditionality) as opposed to the traditional (ex post) conditionality based on policy targets. In addition, the Fund announced that it would abandon structural performance criteria, and that structural reforms would be monitored in the context of programme reviews.

Grabel (2010) also notices that in the context of the current crisis Fund officials have tried to carve out a new identity for this institution by announcing the end of conditionality, promising "country ownership and national policymaker involvement in the design of the reforms mandated by SBAs" and "mandating the protection of vulnerable groups that may be affected by an IMF program" (2010: 24).

Still, Grabel (2010) is reticent about the FCL bringing about a modernisation of conditionality, since, in her opinion, this programme only managed to transform "traditional structural (ex-post) conditionality into a demanding ex-ante conditionality that elevates precisely the same neo-liberal policy and institutional agenda that the Fund has been promoting over the last three decades" (2010: 28). It is therefore not surprising that only few countries have applied for support under this programme – the first country was Mexico, in April 2009 ($47 billion), followed by Poland ($20.5 billion) and Colombia ($10.4 billion).

Bird (2009) argues that the new reforms have triggered significant changes regarding conditionality, reflecting a modification in the culture of the IMF, but that it is still too early to assess how much these changes will influence the design of the IMF programmes and their effects on the borrowing countries.

4.3. Conditionality and Human Rights

In the beginning of the 2000s, IMF conditionality came under strong criticism and some of the accusations were also concerned with the effects that the Fund's practices have on human rights.

As mentioned before, a UN report from 2001 criticised the Fund's human rights record, the latter's reaction to this being that human rights concerns were not mentioned in the articles of agreement, but that still, the IMF was "doing many things through many channels" to help promote human rights (www.globalpolicy.org).

However, Deepika Udagama, one of the authors of the 2001 UN report, argued that the IMF's plans for reducing poverty were still affected by the same conditionality dressed in different clothing. He brought up one of the oldest criticisms against the IMF, namely the strictness of its conditions for the authorization of loans. To this, Grant B. Taplin, assistant director at the IMF's Geneva office, replied that IMF rules do not allow the institution to approve financial aid without imposing certain conditions (ibid).

The report pointed out the ineffectiveness of the HIPC and PRSP strategies in alleviating poverty. One of the conclusions was that "under the PRGF, it is still the staff of the Fund and the Bank who retain the authority to decide whether the conditions are being met ... effectively negating the claims of local ownership and participation" (UN, 2001). The report therefore insisted on the fact that as long as the participation of the borrowing country in any of these processes was undermined, there was a danger of breaching human rights like self-determination and public participation (www.brettonwoodsproject.org).

The IMF was also criticized for depriving communities of the right to health, education and basic welfare as a result of its pushing through free market reforms and strict conditions (ibid).

Eriksen (2009) observes that due to stringent loan conditions imposed on borrowing countries, the IFIs, with the IMF at the forefront, have been accused of top-down globalization, which might have detrimental effects on human rights. In trying to assess the impact of international financial institutions on physical integrity rights, Eriksen (2009) comes to the conclusion that the lending activity of these institutions might lead to a decrease in government respect for human rights, since drastic measures might be used when people oppose the adjustment policies.

More and more critics tend to agree that stringent loan conditions have negative effects on the lives of individuals and might even cause human rights abuses. Since adjustment policies usually include cuts in social expenditures, increased taxes, and lower wages, this is prone to cause protests from civil society groups and keeping these protests under control might bring about human rights violations (Eriksen, 2009).

It has been argued that the power of institutions like the IMF can pose a threat to the sovereignty of states and that the former are only concerned with reclaiming debt and not with the welfare of people. States which find themselves in desperate need of capital in form of loans from the IMF are willing to accept more stringent conditions and to cede their decision-making authority to the Fund. Eriksen (2009) argues that IFIs' imposing economic policies on governments from the outside might endanger the democratic principles of those countries. In this context, Kapur and Naím (2005) argue that "locally made decisions lose relevance as conditionality ties the hands of domestic political actors" (2005: 91).

As seen in the previous sections, after 1980, conditions attached to IMF loans started to go beyond the traditional sphere of macroeconomic variables. Eriksen (2009) observes that while liberals have claimed that these conditions are not as strict and harsh as many assume, dependency theorists are the ones who argue that the conditions represent a threat to states' ownership.

Pettifor (2001) argues that as a result of IMF programmes, poor countries are coerced, due to the so-called structural adjustment policies, to "prioritize repayments to rich creditors over spending on health, clean water and sanitation for their own people" (2001: 48). The sole purpose of these structural adjustment policies is "to re-orient debtor nation economies towards exports to raise revenues for foreign debt service; and to switch economic priorities from a focus on the interests of their own people to the interests of foreign creditors" (ibid). Consequently, the human rights of the peoples of borrowing countries are often subordinated to the much more powerful rights of money.

Abouharb and Cingranelli (2009) found that "the longer time more years a developing country government spent under IMF programs between 1981 and 2003, the greater was the use of torture and extra-judicial killing and the worse its score on the Political Terror Scale" (2009: 55).

An Assistant Director in the IMF's Office in Europe argued that one should not expect international financial institutions to design human rights-related policy conditions for their borrowers, since these institutions lack the expertise for making judgements related to human rights, but that nothing stands in the way of governments under structural adjustment to incorporate human rights in their agreements (Abouharb and Cingranelli, 2009).

McCorquodale and Fairbrother (1999) have also argued that **"**globalized economic institutions often implement plans that hurt those whose economic rights are most vulnerable" (1999: 742). Moreover, "the fact that the economic decision-making process is being taken away from governments and put in the hands of financial "experts" in globalized economic institutions"(ibid) leads to people and the governments of the borrowing countries not being effectively involved in decisions affecting their lives.

Darrow (2003) and Ghazi (2005) agree that the IMF is one of the international institutions which have had a long and controversial relationship with human rights. One of the reasons for this has been the fact that the objectives of this institution come from a limited understanding of development as economic development and this approach has proved to have detrimental effects ranging from ecological to human disasters.

Although in recent years a wider range of human rights issues has been integrated into development cooperation, the mandates of international financial institutions seem to have remained unchanged, and thus their position concerning human rights responsibilities continues to be controversial. Darrow (2003) and Ghazi (2005) therefore argue that one still needs to address the matter of how to translate human rights into concrete and binding obligations in order to limit the activities of international financial institutions.

Darrow (2003) notes that not only the policies of institutions like the IMF have a heavy direct or indirect influence on the realization of human rights, but also that the loans and the conditions attached to them might interfere with the capacity of borrowing countries to fulfil their human rights obligations.

To the argument that the IMF is limited in its practices by its Articles of Agreement, both Darrow (2003) and Ghazi (2005) respond that the Fund's constitutive agreements do not impose any strict limitations to alternative policy options. In trying to identify these policy options, and how the IMF could include human rights in their project-planning and implementation, Darrow (2003) mentions that the Fund should improve its 'approval culture' by introducing transparency and accountability mechanisms which should lead to an improvement of individual projects and institutional performance, and by performing impact analysis.

Although there have been many studies which imply that human rights concerns should be placed at the forefront of the development debate, their role continues to be of a guiding nature only. Therefore, when trying to determine a certain course of action or formulate recommendations regarding a particular project, human rights language offers little concrete guidance. Also, one needs to take into consideration the fact that there are cases where human rights might contradict each other, and this weighs even more on the decision-making process. Finally, although economic objectives should not lead to compromises, one must also accept that the economic component is an essential part of the development framework and that a shift in focus from the economic to the human rights concerns will not necessarily solve the complex problems of societies and their development.

As seen in the previous sections, in the context of the global financial crisis, IMF conditionality has gone through a series of reforms, which are supposed to bring improvements to its practices and address some of the criticism which has been fired at this institution. However, it is still soon to assess whether these reforms will bring the promised effects.

CHAPTER 5: THE IMF AND ROMANIA

Romania has had several Fund arrangements since 1972, when it joined the IMF. Between October 1975 and July 2004 the Fund supported Romania with ten SBAs, the 2004 one being treated as precautionary.

Table 7. Romania: IMF Financial Arrangements between 1975 and 2009 (in millions of SDRs)

Year	Type of Arrangement	Date of Arrangement	Date of Expiration or Cancellation	Amount of New Arrangement	Arrangement as a Percent of Quota	Amount Drawn
1975	SBA	3-Oct-75	2-Oct-76	95.0	50.0	95.0
1976	CFF	1-Apr-76		95.0	50.0	95.0
1977	SBA	7-Sep-77	5-Sep-78	64.1	33.8	64.1
1981	SBA	15-Jun-81	31-Jan-84	1.102.5	217.6	817.5
1991	SBA	11-Apr-91	10-Apr-92	380.5	67.2	318.1
1992	SBA	29-May-92	28-Mar-93	314.0	41.8	261.7
1994	SBA	11-May-94	22-Apr-97	320.5	35.4	94.3
1997	SBA	22-Apr-97	21-May-98	301.5	63.5	120.6
1999	SBA	5-Aug-99	26-Feb-01	400.0	119.8	139.8
2001	SBA	31-Oct-01	15-Oct-03	300.0	97.4	300.0
2004	SBA	7-Jul-04	6-Jul-06	250.0	87.6	0.0
2009	SBA	6-May-09	15-Mar-11	11.443.0	1.110.8	

Source: IMF, 2009

As Budau *et al* (2003) have found, until mid-2003 the main policy objectives on which all IMF agreements focused in Romania's case were the following:

- the privatization of state-owned enterprises - sometimes equated with "restructuring" or "structural reform" but at least identified as a component thereof;
- the inter-company arrears problem – one had to improve the collection and minimize the continued accumulation of these arrears;
- the discipline of salary policy in the public sector, including both state-owned enterprises and the public administration;
- the improvement of financial discipline in state-owned enterprises - as another aspect of restructuring;
- the improvement of macro-economic indicators, such as GDP, inflation, exchange rates, budget deficit, currency reserves.

Freyberg-Inan (2006) argues that since the beginning of the IMF-Romania relation, when the Fund's official goals were offering Romania assistance in its transition-related balance-of-payment difficulties and helping with the stabilization of macroeconomic indicators in the context of a new market economy, the IMF got more and more involved in micro-managing restructuring. The consequence of this fact was that the IMF increased its conditionality in stand-by agreements, thus aiming at removing the causes for the slow pace of macroeconomic recovery. Therefore, in the quest for improving macro-economic indicators, the IMF has not only insisted on more rapid privatization, but also on reduced public expenditure on wages, greater financial discipline in state-owned enterprises, and reduction of arrears.

Weisbrot *et al* (2009) found that between 2003 and 2008 Romania experienced an economic boom fueled by large capital inflows, which reflected some positive prospects due to continued integration with the EU. Consequences of the large volume of flows were the appreciation of the leu (local currency) and significant credit expansion. Between 2004 and 2008 domestic credit grew an average of 50 percent per year, but the rapid boom, with an average annual GDP growth of 6.5 percent between 2003 and 2008, started to show signs of overheating, determining authorities to raise interest rates and bank minimum reserve requirements; however, these efforts proved unsuccessful in the fight against inflation.

According to IMF staff, the main factor behind the overheating was public spending growth: "excessive spending growth, especially on wages and pensions, was the main culprit and helped fuel domestic demand growth" (IMF, 2009: 6).

The global financial crisis caused GDP growth to plummet from 9 percent quarter-to-quarter growth in the first 3 quarters of 2008 to –13 percent in the fourth quarter. Moreover, the stock market crashed, losing 65% of its value from its August 2008 peak, credit contracted, and the real exchange rate depreciated by 7 percent by the end of 2008 (IMF, 2009).

In this context, Romania turned again to the IMF for help, signing an agreement for a new SBA in May 2009. In what follows, I intend to look at this agreement and see whether any changes regarding conditionality can be found, considering the fact that this SBA was signed not only after the 2002 streamlining of conditionality, but also around the time serious reforms took place at the IMF which were supposed to represent the modernisation of conditionality.

Following negotiations, the IMF and Romania signed an SBA for EUR 17.5 bn, with EUR 5 bn to be made available in May 2009, conditioned by a two pillar approach: on the one hand, a strong policy program which placed fiscal contractions at the heart of restoring confidence, together with an improvement in bank supervision and recapitalization, and continued exchange rate flexibility, and on the other hand large external financing assistance in the form of an external financial buffer to channel all disbursements into the NBR's (National Bank of Romania) foreign reserves (Gabor, 2009).

Table 8. Romania: 2009 SBA – Access and Phasing

Availability	Date	SDR mn
2009	May (approval)	4.370
	September	1.718
	December	1.409
2010	March	766
	June	768
	September	769
	December	769
2011	March	874
	Total	11.443

Source: IMF, 2009

The main objectives of the programme were identified by IMF staff in their report as being: reduction of the fiscal imbalance to bring the deficit back under 3 percent of GDP by 2011; the maintenance of adequate capitalization of banks and liquidity in domestic financial markets; reducing inflation within the NBR's target range and maintaining it there and securing adequate external financing and improving confidence (IMF, 2009).

As far as conditionality is concerned, the IMF considered that it focused "on measures critical for addressing the problems faced by Romania" (2009: 24). The staff also argued that limited structural conditionality was appropriate, the programme including five quantitative performance criteria, an indicative target on general government primary spending and an inflation consultation clause. The program also includes two prior actions and seven structural benchmarks for 2009 (IMF, 2009).

A more detailed description of the IMF conditionality for Romania's 2009 SBA is presented below (according to data from the IMF staff report, 2009):

- Quantitative Performance Criteria
  - ✓ A floor on the change in net foreign assets.
  - ✓ A ceiling on general government domestic arrears.
  - ✓ A floor on the overall general government cash balance.
  - ✓ A ceiling on general government guarantees.
  - ✓ Non-accumulation of external debt arrears.
- Quantitative Indicative Target
  - ✓ General government primary spending (excluding EU funds).
- A consultation band around the 12-month rate of inflation of consumer prices.
- Prior Actions

- ✓ Approval by emergency government ordinance of fiscal measures amounting to 1.1 percent of GDP.
- ✓ Conducting stress tests on banks with >1% of system assets and certain smaller banks to assess the need for additional capital.

▪ Structural Benchmarks

- ✓ Parliamentary ratification of the fiscal measures amounting to 1.1 percent of GDP.
- ✓ Passage of amendments to the banking law to strengthen NBR's power to request bank shareholders an increase in their share capital and limit profit distribution - by June 30, 2009.
- ✓ Passage of amendments to deposit insurance legislation to broaden grounds for activation of deposit insurance, expedite payouts and provide for access to government privatization receipts - by August 30, 2009.
- ✓ Passage of revised public compensation legislation - by October 30, 2009.
- ✓ Presentation of fiscal responsibility legislation to parliament and preparation of an implementation plan - by November 30, 2009.
- ✓ Passage of amendments to the banking and winding-up laws to enhance the bank resolution framework, in consultation with the IMF - by November 30, 2009.
- ✓ Passage of revised pension legislation - by December 31, 2009.

In trying to assess any changes that have taken place regarding conditionality, I suggest we take a look at the conditions imposed in an earlier SBA, namely the 2001 one. I have chosen to look at this arrangement and not the 2004 one, because the latter was treated as precautionary, and no disbursements took place.

Thus, in the 2001 IMF staff report conditionality included:

▪ Prior Actions

1. Fiscal Policy
    - ✓ The submission of the 2001 budget, as agreed with IMF staff, to parliament.
    - ✓ Cancellation of the Emergency Ordinance 195/2000 on VAT and customs duties exemptions for selected state-owned companies effective immediately, except for Termoelectrica for which the cancellation will be effective as of March 1, 2002.
    - ✓ Establishment of a registry of local authority foreign borrowing.
2. Incomes Policy and Arrears Reduction

- ✓ Approval by the government of the program for containing wages and reducing employment in regies autonomes and state-owned commercial companies, and approval of the Ministry of Finance norms for elaborating the budgets of the state-owned companies, which will be published in the Official Gazette.
- ✓ Government decision increasing the economy-wide minimum wage to no more than lei 1.75 million as of March 1, 2002.

3. Banking Privatisation and Supervision
   - ✓ Government approval of a privatization strategy for BCR involving the complete sale of the state's share of the capital to strategic banking investor.
   - ✓ Issuance of new ordinances amending and completing the baking laws in the following three priority areas: bank ownership transfers; immunity and legal protection for banking supervisors; and stricter criteria for the fit and proper test.
4. Energy Sector Reform
   - ✓ Increase in end-user electricity prices by 3.6 percent, and increase of Termoelectrica's heating producer price to the equivalent of US$15/Gcal, on October 1, 2001.
   - ✓ Establishment of fully functioning escrow accounts for consumer payment of heating supplied by Termoelectrica, and by natural gas provided by Distrigaz Nord and Sud to district heating suppliers.
   - ✓ Submission by the Ministry of Industry of the September monthly report, to be shared with IMF and World Bank staff, on the implementation of measures to improve collections of Distrigaz Nord and Distrigaz Sud.

- Structural Performance Criteria
  - ✓ Announcement of tender for BCR by end-February 2002.
  - ✓ Completion of the privatization of BCR by end-December 2002.
  - ✓ Approval of the budgets of regies autonomes and state-owned commercial companies, consistent with the wage policy objectives for 2002 by end-December 2001.
  - ✓ The implementation of the authorities' plan to increase electricity and heating prices.
- Structural Benchmarks

- ✓ Privatisation of at least 4 companies with more than 1000 employees by end-October 2001, and at least another 4 by end-December 2001, and a further 4 companies by end-March 2002. Commencement of legal proceedings for the liquidation of at least 15 companies which are nonviable by end-October, and another 20 companies by end-December 2001.
- ✓ The regulation on loan classification and provisioning, to be revised by end-October 2001, and brought into force by July 2002.
- ✓ Elimination of custom duty and VAT exemptions for raw materials for small and medium-sized enterprises under Law 133/1999, by end-December 2001.
- ✓ Submission of monthly reports on the implementation of measures to improve collections of Distrigaz Nord and Distrigaz Sud.

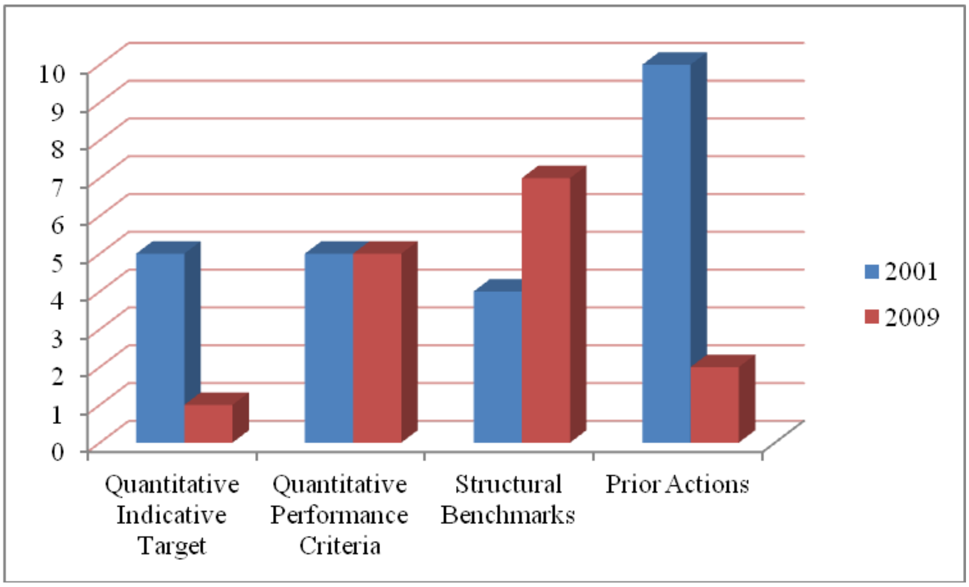
- Quantitative Performance Criteria
  - ✓ Ceilings on the average net domestic assets of the National Bank of Romania
  - ✓ Ceilings on the cumulative deficit of the consolidated general government
  - ✓ Ceilings on aggregate wage bill of monitored state-owned enterprises
  - ✓ Floors on cumulative aggregate collection rates of Distrigaz Sud, Distrigaz Nord, and Termoelectrica
  - ✓ Ceilings on the assumption of enterprise debt to banks by the consolidated general government and on the issuance of domestic government guarantees on bank lending to enterprises
  - ✓ Ceilings on contracting or guaranteeing of external debt
- Quantitative Indicative Target
  - ✓ Targets for floor on net foreign assets of the National Bank of Romania
  - ✓ Indicative target for ceilings on arrears of monitored state-owned enterprises to the consolidated general government
  - ✓ Indicative targets for ceilings on average reserve money
  - ✓ Indicative targets for ceilings on broad money
  - ✓ Indicative targets for ceilings on banking sector's total exposure to state-owned enterprises (IMF, 2001b).

Table 9. Number of conditions in Romania's 2001 and 2009 SBAs

	2001	**2009**
Quantitative Indicative Target	5	1
Quantitative Performance Criteria	5	5
Structural Benchmarks	4	7
Prior Actions	10	2

Source: Compiled data from IMF reports

Figure 6. Number of conditions in Romania's 2001 and 2009 SBAs



Source: Compiled data from IMF reports

From the data presented above, one can draw the conclusion that conditionality has suffered changes from one arrangement to the other. While the number of quantitative performance criteria has stayed the same, there is a clear reduction of the prior actions – from 10 in 2001 to 2 in 2009 – and of the quantitative indicative targets – 5 as compared to 1.

Considering the fact that prior actions have to be met before the approval of the programme, one could argue that in 2001 it was much more difficult to gain access to a loan, due to the wide range of prior actions, which covered a variety of sectors. The situation was different in 2009, where Romania had to meet only two prior actions, but this might be a consequence of the fact that, in the context of the crisis, the need for a loan was much more critical.

As far as structural benchmarks are concerned, the numbers are reversed, as there were only 4 in the 2001 arrangement, compared to 7 in the 2009 one. However, although the number of these conditions has risen, one could argue that the 2009 structural benchmarks focused more on the IMF's core areas of expertise, as opposed to the 2001 ones, which continued to push forward privatisation. Moreover, the 2001 SBA also included 4 structural performance criteria, in comparison to the 2009 one, where these conditions are absent. This comes as a confirmation of the fact that in March 2009 the IMF announced that it would abolish this type of conditions (www.imf.org).

Grabel (2010) has investigated the characteristics of the IMF programmes in the context of the current financial crisis and has come to the conclusion that they differentiate themselves from previous arrangements through three basic features.

First of all, areas covered by conditionality have been narrowed down and consequently certain reforms, like privatisation and liberalisation tend not to be emphasized as much as before. This has been the case with Romania's 2009 SBA as well, where there is no reference to privatisation in the conditionality section, as opposed to the 2001 SBA where privatisation is one of the main objectives of the arrangement. Moreover, according to Budau *et al* (2001) privatisation was one of the five main core areas of the IMF programmes before 2001 as well.

Second, Grabel (2010) argues that in the context of the crisis the IMF has showed a greater degree of flexibility when countries fail to meet their fiscal targets. Since domestic and world economic growth decelerated and various countries experienced political and social tensions, the IMF was willing to allow some of these countries to relax the fiscal targets set in their SBAs. One can identify this flexibility in Romania's case, if we consider that initially, under the agreement, the budget deficit was not supposed to exceed 5.1% of GDP in 2009 and had to be below 3% of GDP by 2011 but, in August 2009, the IMF allowed Romania to raise its budget deficit target to 7.3% of GDP for 2009 and less than 6% for 2010.

Third, Grabel (2010) notes that the more recent SBAs also differentiate themselves from previous ones through the emphasis placed by the IMF on the importance of social protection for the poor and vulnerable, this probably coming as a reaction to accusations which the Fund had to face regarding its disregard to human rights concerns. In the 2009 IMF staff report for Romania it is stipulated that "the government is committed to cushioning the effects of the fiscal adjustment and budget reforms by boosting social safety net spending and safeguarding capital spending" (2009: 15) and therefore an additional RON 250 million would be spent for improving the social safety net in 2009 and RON 500 million in 2010 for protecting the most vulnerable groups. Moreover, as far as public wages and pensions are concerned, the government promised "to take steps to protect the lowest wage employees and the poorest pensioners" (ibid).

However, the issue of protecting the poor and vulnerable is a much more complex one and therefore deserves further discussion. Grabel (2010) is right to argue that the IMF showed more interest toward this problem by committing the Romanian government to consider the rights of the most impoverished, but this comes somehow in contradiction to one of the structural benchmarks in the conditionality section which imposes a reform of the pensions system.

Consequently, although the Romanian government committed itself in one of the letters of intent to "protect the more vulnerable members of society" by keeping "the minimum wages and pensions unchanged" it also stipulated in the same letter that it would implement by June 1st, 2010 "a 15 percent cut in pensions and other social transfers" (IMF report, 2009). The decision to cut pensions raised a lot of controversy and protests and it was eventually declared unconstitutional by the Constitutional Court.

Still, Iordanescu (2009) argues that one must also take into consideration the fact that the Fund only imposes some macro-structural targets that need to be attained in order for money to be disbursed, but it never decides how these targets should be met. This is left entirely to the decision of the borrowing government. Therefore it was not the IMF that decided to cut pensions by 15%, but the Romanian government. However, it is also true that in the context of the financial crisis, there was no room for easy policy choices.

Gabor (2010) has also engaged with the programmes approved by the IMF in the context of the current crisis. Her account is far less optimistic than Grabel's, suggesting that in Eastern Europe the Fund has pushed unnecessary fiscal austerity and privileged private financial interests.

According to Gabor (2010) "the new conditionality policies promised increased flexibility, minimal structural conditions and mainstreaming inflation targeting as the new economics of crisis" (2010: 808). However, inflation targeting, the monetary policy framework used in Romania's case as well, gave rise to criticism which "questioned the wisdom of instituting a policy more concerned with inflation than unemployment as the framework for addressing crises, particularly since it suited the financial sector rather than development agendas" (ibid).

Moreover, Gabor (2010) argues that "inflation targeting models do not have a well-developed theory of fiscal policy" and that consequently "the IMF's focus on fiscal conditions conflicts with promises to address the theoretical shortcomings of financial programming" (2010: 810).

Therefore, country programmes went through the typically messy processes of implementing multiple rounds of spending cuts and Gabor (2010) notes that "the increased leverage allowed the IMF to demand additional structural reforms such as changes to pensions, contradicting its promise to reduce the structural component of conditionality" (2010: 811). Moreover, the IMF advised tax reforms – such as higher VAT rates and excises – which although were supposed to shift the burden of taxation to consumption, had the result of further depressing private demand and job creation. The social impact of this was that unemployment doubled in Romania to around 8 percent.

Continuing her critique of the IMF's recent SBAs in Eastern Europe, Gabor (2010) argues that they prove how the Fund's position regarding exchange rate interventions under inflation targeting is heavy politicised. She finds that the Fund "demands exchange rate flexibility when central banks want to curb the negative effects of large capital inflows on export competitiveness", "but it endorses interventions tailored to protecting private banks' loans portfolios", suggesting that "the IMF's new crisis economics is unsuitable for countries highly exposed to tensions in international financial markets" (2010: 812). This leads Gabor (2010) to conclude that behind its rhetoric of flexibility, the IMF is still advising pro-cyclical policies.

The IMF's conditionality narrated the crisis as a consequence of government spending and not of the banking sector's financial practices, which led to the Fund identifying fiscal austerity as the key policy objective. Consequently, SBA targets envisaged cuts in real spending in order to outpace the predicted contraction in revenue, and this prompted critiques that the Fund is still insisting on its traditional contractionary policies, causing Gabor (2010) to suggest that IMF conditionality has changed little from the financial programming days.

Other critics have also argued that in spite of the IMF's promises for greater flexibility in fiscal and monetary policies in the context of the current crisis, loans offered to countries like Romania, Latvia and Armenia show that the Fund is still pushing tight fiscal policy and single-digit inflation (www.brettonwoodsproject.org).

CHAPTER 6: CONCLUSIONS

Conditionality, the practice of the IMF offering financial assistance in return of the implementation of specific policies, has become a more and more controversial issue over the years.

As discussed in previous sections, the Fund has responded to critics by arguing that it has a strong rationale for maintaining its grip on conditionality. Some of the justifications for attaching conditions to IMF loans include: preventing the borrowing country from abusing the money and remaining dependent on further transfers, constraining the problem of moral hazard and ensuring that countries are able to repay the money they borrowed from the Fund.

However, conditionality has come a long way since 1969, when this principle was formally included in the Fund's Articles of Agreement. Whereas in the beginning IMF's conditionality was less specific and only covered a small range of policies, over time borrowing countries were faced with more and more conditions in their agreements.

The increase in conditionality was significant during the 1980s and 1990s, especially in the context of the Asian crisis, when the IMF was met with a rising demand for its money. By this time, one had witnessed not only an increase in the number of conditions, but also a widening of the areas covered by conditionality.

Faced with strong criticism for its actions, the IMF promised to streamline its conditionality by approving in 2002 a new set of Conditionality Guidelines and thus committing itself to reducing the number of conditions attached to its loans and increasing ownership of the borrowing governments. However, studies conducted after this streamlining initiative have shown that no significant change had taken place at the IMF: not only was there no change in the number of conditions, but their distribution was also kept unchanged.

Although the streamlining initiative was not successful in achieving what it had promised, more positive prospects have risen in the context of the current global financial crisis, which led to the IMF introducing some significant reforms in its practices. Some of these include the Flexible Credit Line (FCL), inaugurated in March 2009, and the abolishment of structural performance criteria from Fund agreements.

These reforms which have taken place in recent years have led some researchers to think we might witness the fraying of the fabric of neo-liberalism as the core doctrine of the IMF, while others, more reserved, argue that the reforms represent only small steps, but ones in the right direction and that hopefully they will represent the start of a complete overhaul of IMF policy conditionality.

The Fund was also faced with criticism coming from different NGOs and human rights defenders who tend to agree that the stringent conditions imposed by this institution have negative effects on the lives of individuals and can lead to human rights abuses. Although the Fund has argued that the responsibility of protecting human rights lies with the borrowing governments, it has tried to adapt its mechanisms to protecting the most vulnerable individuals in recent years. However, simply reducing the number of conditions is not enough to increase ownership and ensure that the rights of the individuals are respected.

The IMF still needs to work on improving its human rights record and there are several actions it could take in this respect:

- first of all, the IMF should consider including human rights in the conditions they force upon governments as it is clear that these conditions have a direct impact on the integrity of rights;
- second, the IMF has also been accused of being too secretive and not taking into account the different needs of its borrower countries. In this respect, the institution should try to improve its transparency by offering more public documentation and explaining the rationale behind its decisions. Human rights have the tendency to fall behind the economic "improvements" within the countries receiving assistance, but this should not be the case for an institution which is supposed to be a development agency. Therefore, by increasing its transparency and providing explanations for its conditions and lending terms the IMF might improve this faulty area of its activities.
- third, the IMF claims that it promotes human rights through its poverty-reduction programs, but in fact its mechanisms so far have led to the restriction of different rights, such as the rights of a worker. Freezing wages and cutting pensions do not bring people out of poverty but have the exact opposite effect and the Fund should therefore try to come up with different solutions in its programmes.
- a forth important step in this direction would be to make sure that before it recommends a course of action, the Fund has thoroughly explored the impact of that action on poor people by conducting country-led Poverty and Social Impact Analysis.

As far as Romania’s case is concerned, one has seen some changes regarding conditionality in the 2009 agreement which was supposed to help the country redress its economy in the context of the crisis. In comparison to previous agreements, the IMF has shown a greater flexibility and has also tried to limit the sphere of its conditionality to core areas of Fund expertise, instead of pushing through privatisation in various sectors, as was the case in previous programmes.

Still, more reticent observers have criticised the IMF for using an inflation targeting model in Romania’s case. Moreover, they argue that although the Fund has dropped structural performance criteria, this has not prevented it from further imposing structural reforms, such as changes to the pensions system, contradictory to its proclaimed interest in protecting the poor and vulnerable.

All in all, although some changes seem to have emerged, it is still too soon for one to declare that conditionality has been reformed. In order to test whether these changes were a result of the IMF’s commitment to modernizing its mechanisms or whether they were simply triggered by the devastating effects of the global financial crisis one would have to continue looking at future agreements and the conditionality attached to them.

In this context, Romania’s case could be further researched, since this country has signed a new agreement with the IMF in March 2011.

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