



# IMF Policy Discussion Paper

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## The IMF and Civil Society Organizations: Striking A Balance

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## **IMF Policy Discussion Paper**

External Relations Department and Policy Development and Review Department

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#### **Abstract**

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In the space of just a few years, the term “civil society” has entered the international policy vocabulary in many contexts. The IMF's engagement with civil society organizations (CSOs) raises several broad questions: Which CSOs have been, and should be, engaged by the Fund? What questions should IMF-CSO engagement address? What are the limits to the dialogue? This paper examines the evolution of IMF-civil society relations and their effects on the Fund. It also seeks to identify the tensions that underlie the relationship.

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## **THE IMF AND CIVIL SOCIETY ORGANIZATIONS: STRIKING A BALANCE**

**Thomas C. Dawson and Gita Bhatt**

### **Introduction**

As recently as 1995, one writer referred to the “eclipse” of civil society by government and market forces.<sup>1</sup> Yet in the last few years, and especially since the Seattle meeting of the World Trade Organization (WTO) in November 1999, protesting civil society organizations (CSOs), especially nongovernmental organizations (NGOs) have grabbed newspaper headlines on several occasions. Their targets: the international financial institutions, the industrial country governments, and multinational corporations. Their actions: not only violent protests that naturally attract media attention, but also non-violent campaigns for such causes as debt reduction for poor countries. An astonishing revival, by any standards.

Until the mid-1990s, the International Monetary Fund (IMF) attracted only limited and sporadic attention from CSOs, most prominently in countries implementing adjustment policies with IMF support. However, civil society opposition to the Fund intensified in the latter half of the 1990s. The Asian financial crisis that erupted in mid-1997, and the IMF’s role in managing that crisis, added impetus to protests against the IMF. Developments in east Asia drew attention to the risks and costs of globalization, particularly the globalization of finance, and some saw the IMF as leading the process. This perception added fuel to the more familiar protests against the IMF’s alleged role in imposing “austerity” on countries in difficulty – and especially on the poor in those countries.

A common theme for many of these campaigns has been questions of economic and social justice.<sup>2</sup> Many CSOs – and NGOs in particular – see themselves as representing the broad public interest and as having a role in ensuring that individuals participate directly in shaping the rules of the international economic system.

The IMF and the World Bank have often proved attractive as targets of CSO campaigns for several reasons. First, both institutions are highly visible and are seen as exceptionally powerful. Second, in campaigners' eyes, the two institutions are the principal architects and proponents of globalization. Third, the Bretton Woods institutions are viewed as an important channel through which CSOs can confront country governments worldwide, especially industrial ones. Finally, CSOs increasingly realize that they need to tackle economic and financial issues at the global level.

At the same time, however, CSOs have frequently characterized the IMF as an unapproachable, secretive, undemocratic organization that is resistant to public opinion and participation. From the IMF's standpoint, it seems that CSOs often have little understanding – and indeed are confused – about the Fund's role and operations. Consequently, the IMF has had, for the most part, an uneasy relationship with civil society. More recently, however, there has been increasing recognition, on both sides, that IMF-CSO relations need not be adversarial. In fact, several initiatives over the last few years have demonstrated that the IMF and civil society groups can relate more constructively.

IMF-civil society engagement raises several broad questions that this paper seeks to address:

- Which CSOs have been, and should be, engaged by the IMF? After all, civil society organizations are highly diverse. They include business associations, policy research institutes, media, academics, labor unions, religious groups, and NGOs (see Box 1). In particular, NGOs represent a small, powerful subset of civil society organizations with diverse goals, activities, positions, and structures: advocacy groups and service providers; national and international bodies; those based in the “North” and those based in the “South”; community-based; faith-based; and so on. Many CSOs lean to the left politically, while others are conservative or neoliberal. Moreover, the groups with which the IMF should engage may vary widely from country to country.

- What questions should IMF-civil society engagement address? Broad issues have included debt relief, the distribution of the burdens of structural adjustment, poverty reduction, and globalization. Since these matters lie at the core of the IMF's work, many CSOs have called for reform of the institution.
- What are the limits to the IMF's engagement with civil society? The IMF is responsible to governments, which are, in most cases, accountable to their populations through reasonably well-defined democratic processes. In contrast, the constituencies and representativeness of many CSOs are often unclear.

This paper examines the evolution of IMF-civil society relations and their effects on the nature of the IMF's work, focusing particularly on NGOs.

### **The IMF's Role in Global Finance**

The IMF was established in 1944 to help restore world economic stability and growth in the aftermath of global depression and world war. The IMF was founded on simple, but enduring principles: namely, that all countries share certain basic economic goals – including high levels of employment and income – and that these goals can be best achieved if countries maintain open payment systems and orderly exchange arrangements. Countries should avoid competitive exchange depreciations and work together through the IMF to make the international monetary system function more smoothly, including through financial assistance for countries undergoing balance of payments adjustment. The world economy has experienced a number of ups and downs in the intervening years, but the validity of this approach has stood the test of time. Indeed, the countries that adhered to it saw trade expand, national incomes rise, and employment grow, bringing the world more than a half-century of unparalleled prosperity.

Of course, the world economy has become much more complex than it was when the IMF first opened its doors. For one thing, the volume of private capital flows has grown substantially. In addition, the system of pegged but adjustable exchange rates has been

superseded by a variety of exchange rate arrangements. Meanwhile, the membership of the Fund has expanded from some 40 countries in 1947 to 183 today.

Over the course of these developments, the IMF itself has had to evolve and adapt. During its first two decades, the IMF's role as a lender was episodic and minor. Subsequently, however, demands on the IMF began to expand.<sup>3</sup> Industrial countries did not draw on IMF resources after the mid-1970s, but the IMF was successively faced with increased demands from various sources: countries hit by the debt crisis of the 1980s; low-income countries, mostly in Africa, needing structural adjustment; new members in central and eastern Europe and the former Soviet Union; and, most recently, middle-income countries suffering from sudden, large outflows of capital. The IMF has been at the center of international efforts to manage and resolve these crises. Global economic and financial integration has made the IMF's mandate even more relevant today.

Yet for all the changes in the world economy and at the IMF, some things have remained unchanged: notably, the emphasis on sound economic policies at the national level and effective monetary cooperation at the international level. What is often overlooked in discussions about the IMF is that it is not simply a source of financing or a mechanism for crisis management. The IMF's policy advice – which it provides as part of its “surveillance” of its member countries' policies – lies at the heart of all its work. Every IMF member country is obliged to consult annually with the Fund. At this time, the IMF staff prepares an in-depth analysis of the economy and policy advice for discussion by the representatives of all member countries in the IMF's Executive Board. In the process, the experience of individual countries is discussed and the lessons are disseminated throughout the membership. IMF surveillance plays an important role in promoting economic growth and financial stability.

## **The Evolution of IMF-Civil Society Relations**

The recent history of civil society organizations has mirrored recent changes in the world economy. Many CSOs are now organized on an international basis or have cross-border affiliations. Today, over 20,000 transnational NGO networks are active on the world stage.<sup>4</sup>

In some industrial countries, CSOs have become a significant political force, often endowed with considerable financial resources and technical skills. In the international arena, these Northern CSOs have formed alliances or networks with Southern CSOs.<sup>5</sup> It is increasingly difficult for governments to dismiss CSOs as having no political standing. For international financial institutions, they loom large at seminars, meetings, and protests.

Many CSOs have come to focus on issues of global finance. Some seek to inform their members and the public at large about what they consider to be the inequities of the prevailing system. Some aim to influence decisionmakers at national and international levels through the media. Others seek to influence or enforce specific policy changes. CSOs in these groups include advocacy NGOs, such as Oxfam and Friends of the Earth, in the international sphere; the Bretton Woods Project in Europe; the Association of Latin American Advocacy Organizations (ALOP) in Latin America; the Forum of African Voluntary Development Organizations (FAVDO) in Africa; faith-based groups, such as International Cooperation for Development and Solidarity (CIDSE) and the Association of World Council of Churches and related Development Organizations (APRODEV), in Europe; and labor organizations, such as the International Confederation of Free Trade Unions (ICFTU) and the Asia Labor Network. In addition, several economic research institutions or politically linked think tanks critically follow the work of the IMF.

In the early 1980s, the Swiss Coalition of Development Organizations in Berne and various research institutes (including the Overseas Development Institute in London and the Overseas Development Council in Washington) expressed concerns about IMF prescriptions and, in particular, about what they alleged to be harmful effects on the poor of IMF-supported



adjustment programs. In the mid-1980s, political reactions, even riots, occurred in several program countries (c.g. Jamaica, Bolivia, and Zambia) against World Bank and IMF-supported structural adjustment policies. Large street demonstrations at the 1988 Annual Meetings in Berlin were a new experience for the IMF and its member governments.<sup>6</sup>

Starting from about 1989, CSOs – particularly U.S.-based NGOs – began to look *systematically* into the operations of the IMF. Initially, Friends of the Earth-US and the Environmental Policy Institute, among others, began to seek from the IMF information and answers to their concerns on what they alleged to be adverse social and environmental impacts of conditionality<sup>7</sup> in IMF-supported programs.<sup>8</sup>

To press for changes at the IMF, these groups lobbied the United States Congress to withhold its support for a possible increase in IMF quotas unless specific steps were taken to ensure that social and environmental considerations were addressed in IMF-supported programs. Effective campaigning by these groups led the Congress to pass legislation seeking IMF reform.

As criticism of structural adjustment programs continued, together with public pressure to relieve the multilateral debt burdens of the poorest countries, the IMF's relations with civil society organizations began to expand. The Asian financial crisis thrust the Fund into the public eye more than ever before. The adverse social impact of the crises increased the volume of an already loud CSO voice at the international level, as well as in the afflicted countries themselves. The IMF's approach to crisis management was called into question from all sides of the political spectrum. Some critics even questioned the Fund's *raison d'être*. The IMF came under pressure to address issues raised by CSOs and other critics on the need to improve crisis prevention and resolution through reform of the international financial system and economic policy improvements in emerging market countries.

The concerns of civil society groups *vis-à-vis* the IMF have thus evolved over the years. Criticisms of IMF conditionality and alleged pains of the associated structural adjustment are long standing. Campaigns for debt reduction or outright debt cancellation – and charges that the IMF is an obstacle to debt relief – have become familiar since the mid-1990s. More recently, CSOs have attacked various aspects of globalization, and the IMF as an agent partly responsible for driving that process.

### **Allies or Adversaries?**

The degree of opposition to the IMF and criticisms of it have varied widely among CSOs. In this respect three different groups can be distinguished.<sup>9</sup>

- Some CSOs concur with the broad objectives and policies of the IMF and accept the validity of the methodology and framework used by the Fund in formulating policy advice. These groups have little argument with the desirability, in general, of an open international system of trade and exchange, disciplined macroeconomic policies, and market-based structural policies. Disagreements between these CSOs and the Fund tend to be limited, relating to policy priorities and sequencing. Economic research institutes and other think tanks (e.g., the Institute for International Economics and the Brookings Institution), business associations (e.g., the Bretton Woods Committee), and perhaps a majority of professional economists can be counted in this group.
- A second group of CSOs accepts the need for the IMF but seeks major reform of the institution – both its policy directions and its operating procedures. The majority of the NGOs and labor organizations with which the IMF engages belong to this group. They are willing to interact constructively with the IMF but criticize much of its work. Among these reformers there are at least two schools of thought on how the IMF should be redirected. One, including many labor, environmental, and religious groups, would like the IMF to extend its policy recommendations into areas such as social protection, environmental policy, military expenditure, and gender issues. They call on the IMF to

enforce what they call “positive conditionality.”<sup>10</sup> A second group would prefer a more streamlined and focused IMF, working in closer coordination with other international organizations. These reformers include the Bretton Woods Project in the United Kingdom, *Agir Ici* in France, the European Debt and Development Network (EURODAD), the Central and Eastern European Bank Watch, and the Washington-based Development GAP.

- A third group of CSOs can be called abolitionists. They are much less interested in engagement with the IMF and rather seek its dissolution or at least a significant reduction in its influence. These radical voices have come from various political corners: ultra-free market advocates, nationalists, environmentalists, feminists, and religious revivalists. Proponents on the left in this group tend to view IMF policies as reflecting the interests of banks and multinational corporations, particularly from the United States. Examples of abolitionists include the Fifty Years Is Enough Campaign, the Center for Economic and Policy Research, the Rain Forest Action Network, Global Exchange, Focus on the Global South, and the more recent Initiative Against Economic Globalization – Prague 2000 (INPEG).

The distinction between reformers and abolitionists sometimes blurs. Some groups have shown a mix of the two tendencies at different times (e.g., Friends of the Earth and the World Development Movement in the United Kingdom). Individual activists, too, have shifted their approach over time or between audiences.

The IMF’s engagement with the first group of CSOs takes place in seminars and other meetings where the technical aspects of the IMF’s work are discussed, and also in written correspondence. Various departments of the IMF regularly organize seminars, conferences, and fora with academics and representatives from think tanks. For example, in April 2001 the IMF’s Research Department held a two-day workshop on macroeconomic policies and poverty reduction, bringing together experts from academia and other international financial institutions. These groups have generally had ready access to the Fund staff.

It is difficult for the IMF to engage with the third group, both because of the general disinclination of these CSOs to engage with the international institutions and because there appears to be little common ground for debate. These CSOs pursue their objective of abolition in the court of public opinion, with governments, and in the streets.

The IMF engages constructively with the second group--its reformist critics--in a variety of ways. Both the channels of contact and the actual interchanges with these CSOs have multiplied in recent years. Fund Management has held regular exchanges with representatives of NGOs and faith-based organizations, including Jubilee 2000; Oxfam; Caritas International; CIDSE; and *Results International*, a Northern NGO that lobbies parliaments on issues of poverty and hunger. Likewise, members of the IMF's Executive Board have made themselves available for discussions with civil society groups. For example, in May 2000 the heads of Oxfam U.K. and U.S. addressed both the IMF and the World Bank Boards on issues related to debt relief and poverty reduction.

IMF staff have increasingly briefed civil society groups, particularly NGOs, on policy developments and consulted them on issues such as debt relief and poverty reduction strategies. Both in Washington and in the field, the IMF and the World Bank have organized many meetings and workshops to discuss these issues and identify opportunities to work together.

The IMF has also organized numerous conferences and seminars with civil society participation. For instance, the Fund held high-level conferences on income distribution in 1995 and on economic policy and equity in 1998. Here, senior policymakers, academics, religious leaders, and labor representatives from around the world discussed the issues faced by governments seeking to formulate and implement equitable policies. Similarly, two conferences were held in 1993 and 1995 on the links between macroeconomics and the environment. More recently, in June and July 2001, the IMF held two high-level conferences on conditionality and ownership in Berlin and in Tokyo, respectively, inviting representatives from borrowing and creditor countries, international organizations, and civil society representatives. IMF senior staff have also participated regularly in seminars or conferences held by various civil society groups.

The Fund is also giving liaison with CSOs a higher profile at the country level. IMF resident representatives (that is, staff stationed in-country) have begun meeting with international and local NGOs to share information and discuss issues of mutual concern. IMF teams on official visits to member countries now routinely meet with trade unions. Listening to labor unions' views on economic and social conditions in the country has improved the IMF's understanding of how the labor market works. The Fund has also made conscious efforts to engage international labor leaders through the ICFTU, the World Confederation of Labor (WCL), and the International Labor Organization (ILO). For example, in Indonesia and Korea during the Asian crisis, the IMF met frequently with union leaders, religious leaders, students, and others to understand their concerns, explain the rationale of the reform program in these countries, and respond to criticism. Senior staff also addressed the broader population through TV interviews and newspaper articles.

In addition to these formal meetings, the IMF's External Relations Department in 1996 initiated a twice-a-year "Dear Friend" letter to keep CSOs informed about major developments. This letter, also translated into French and Spanish, now reaches more than a thousand NGOs and faith-based organizations in both the industrial and the developing world. The External Relations Department also conducts information missions to member countries that always include sessions with local NGOs. For example, a 2½-day seminar with NGO representatives was held in Yaoundé, Cameroon, in January 1999. A seminar with civil society groups on social issues took place in Nigeria in September 1999. A seminar for NGOs was held in Zambia in April 2000. In March 2000 and February 2001, the Fund organized a workshop for U.S.-based NGOs on the IMF's financial programming framework and the process behind IMF-supported programs. Additional IMF seminars and workshops with NGOs have taken place in France, the United Kingdom, Switzerland (for the Geneva 2000 summit), and the Nordic countries. The IMF has also held regional seminars for civil society representatives in central and eastern Europe (July 2000) and east Asia (January 2001).

As a result of such interactions, many reformers among CSOs now display greater understanding of Fund policy advice and the underlying economic policy framework. Several

propositions now command broad consensus: These CSOs accept that economic growth is necessary (though not sufficient) for poverty reduction, that macroeconomic discipline and market-oriented policies help to generate sustained growth, and that financial assistance must be accompanied by policy conditions. However, reformist circles remain concerned with the Fund's priorities, the sequencing of policy measures, and the speed of policy implementation. And the nature of disagreements is often due to differences in perception, interpretation, perspective, and framework.<sup>11</sup>

The IMF, too, better understands the criticisms leveled at it and has adapted its policies as a result. CSOs have exerted some influence on the IMF in the policy areas noted below.

### **Focal Concerns of IMF-Civil Society Engagement**

Three sets of issues are the focus of IMF-civil society engagement: structural adjustment, debt relief, and the regulation of global finance.

#### *Structural adjustment and the poor*

Until the early 1980s, IMF-supported programs in low-income countries were relatively narrow in policy content and generally short in duration. These programs addressed balance of payments problems through the correction of fiscal imbalances (including by reducing inefficient public expenditure and raising tax revenues); curbs on credit growth; and, in many cases, currency devaluations. Critics questioned the Fund's emphasis on budget deficits and demand compression. They argued that improved economic growth through supply-side reforms could contribute to balance of payments correction as well as higher living standards. They also charged the Fund with a lack of attention to income distribution.<sup>12</sup> Many also accused the Fund of ignoring political realities that led governments to cut social expenditures while protecting more powerful interests. The disappointing growth performance of many developing countries in the early 1980s added to these concerns.

However, the IMF revised its approach partly as a result of the Latin American debt crisis in 1982 and the subsequent financial difficulties of a number of African countries. Also drawing from lessons learned, Fund conditionality was expanded to include structural reforms. This shift reflected the fact that the difficulties of many developing countries were not simply manifestations of macroeconomic imbalances, but rather a reflection of structural problems that made it difficult to fix imbalances quickly. Economic stabilization and adjustment thus required structural reforms. The vehicles for deeper Fund involvement in the poorest countries were the concessional Structural Adjustment Facility (SAF), established in 1986, and the Enhanced Structural Adjustment Facility (ESAF), which replaced the SAF in 1987.

Even programs so broadened, however, often proved less than successful in achieving stability and growth, at least initially. Lack of commitment by government authorities to program objectives and policies was (and continues to be) an important source of failure in some Fund-supported programs.<sup>13</sup> Adverse commodity price movements, natural disasters, and civil or cross-border conflicts also undermined some programs. To counter criticism that its adjustment policies hurt the poor, or that export promotion encouraged environmental destruction, the Fund sought to widen the scope of policy commitments in the programs it supported. To different degrees in different countries, the IMF pressed – often together with the World Bank – for improvements in the quality of public expenditure and for increased transparency and accountability in government and corporate affairs. Meanwhile, the short-term social costs of adjustment were to be addressed through adequate and affordable social safety nets.

This broadened scope of IMF policy concerns met with mixed reactions. Some observers applauded the Fund for tackling the structural problems and governance issues that, in many countries, stood in the way of healthy economic growth. But others charged that the IMF was intruding too far into the domestic affairs of sovereign states and thus weakening national ownership of economic policies.

Criticisms of the ESAF intensified in the mid- to late- 1990s, particularly in the context of the Heavily Indebted Poor Country (HIPC) Initiative. This program, adopted in 1996,

allowed for debt relief conditioned on sustained adherence to ESAF-supported programs. Civil society critics perceived the conditionality to be onerous, saw the time frame of debt relief as too long, and questioned the effectiveness of the approach to poverty reduction.<sup>14</sup>

Internal and external evaluations of the ESAF,<sup>15</sup> together with constructive suggestions of CSOs and other commentators, brought changes designed to ensure that Fund-supported programs in low-income countries would contribute more effectively to poverty reduction. To increase the effectiveness of programs, it was essential to strengthen country ownership: the programs must be designed by the governments themselves (albeit with advice and support from the international institutions) with civil society involvement.

Concurrently, the Fund and the Bank attempted to develop a comprehensive and integrated approach to poverty reduction and growth that would answer the calls of their civil society and other critics. The result was the proposal for country-owned and country-developed Poverty Reduction Strategy Papers (PRSPs). Since 1999, low-income countries applying for debt relief or new concessional loans from the Fund and Bank are required to develop their own PRSP through a consultative process that involves wide and substantive participation by civil society, including the poor. In line with this thinking, the Fund converted the ESAF into the Poverty Reduction and Growth Facility (PRGF) to support the implementation of countries' poverty reduction strategies: poverty reduction is now an explicit objective of IMF-supported adjustment programs for low-income countries.

### *Debt relief and poverty reduction*

In 1993-94 the European Network for Debt and Development launched a campaign with its affiliates in 16 countries to reduce the burden of multilateral debt in low-income countries. Its campaign partners included Oxfam; the Debt and Development Coalition, Ireland; the Nordic Network on Debt and Development; the Swiss Coalition; and the Bonn-based NGO, World Economy, Ecology, and Development (WEED). The Jubilee 2000 campaign for debt



cancellation, launched in 1996 and endorsed by prominent religious leaders, extended beyond Western Europe.

In the debate on debt issues, the IMF and the World Bank initially resisted rescheduling or reducing their own claims, citing legal impediments and the financial cost. However, as popular and parliamentary support for debt relief mounted, the shareholders of the Fund and the Bank relented, and the HIPC Initiative was launched. The resources required for debt reduction were found in the contributions from member countries and, for the Fund, the increased value of its gold holdings. The HIPC Initiative was enhanced in 1999 with terms for broader, deeper, and faster debt relief linked to poverty reduction programs.

From the start, the HIPC process has benefited from consultations with CSOs in all parts of the world. The Fund and the Bank have had more than 150 seminars, meetings, conferences, and other opportunities for dialogue with NGOs, schools, churches, journalists, the private sector, and the public at large on all aspects of the Initiative. The IMF and the World Bank have also invited the public to share their views on the HIPC Initiative, including through the IMF website. Views have been sought both on technical aspects of the initiative (e.g., definitions of debt sustainability, time frames, and links to policy reform) and on questions about the relationships among debt relief, social policies, and poverty reduction.

There is no doubt that pressure from CSOs, especially through the Jubilee 2000 campaign, led the Group of Seven major industrial country governments, in particular, to agree to enhancements of the HIPC Initiative in 1999.<sup>16</sup> A number of CSOs produced detailed and insightful analyses of the HIPC Initiative and debt relief more broadly. This input was incorporated into the Joint IMF-World Bank Board proposals for enhancing the Initiative. However, criticism continues. Some argue that the Initiative is progressing too slowly, partly because of the way that it ties debt relief to programs of economic adjustment and reform. Another criticism is that the amount of debt relief is inadequate: Jubilee 2000 has called for total debt forgiveness.

The IMF continues to emphasize that debt relief alone cannot reduce poverty. It has to be accompanied by policies that ensure that the resources released through debt relief are not wasted, that the debt problem does not recur, and that the economy achieves growth and poverty reduction. The issues of structural adjustment, debt relief, and poverty reduction are inextricably interrelated.

### *Globalization and the regulation of global finance*

A common view among many NGOs is that financial crises are less the fault of the countries involved than of the system that generates volatility in global finance. What shocked the world most about the Asian financial crisis were the sudden loss of confidence in economies that had been regarded as spectacular performers; the consequent large-scale capital flight and dramatic erosion of international reserves; and the depth of the output decline that followed. Policy weaknesses in the countries concerned became more apparent as the causes of the Asian crisis were examined. The crisis made it clear that economies open to international financial flows must have strong financial institutions, as well as disciplined economic policies, if they are to avoid financial crises or limit their repercussions.

The Asian crisis is now behind us, and the economies have been recovering. However, access to foreign capital is critical to growth for developing economies, and many CSOs have expressed concern that other countries might become subject to similar crises if they are left at the “mercy” of volatile capital associated with globalization. The IMF is at the forefront of efforts to strengthen the international financial architecture, including through stronger domestic financial systems and upgraded IMF surveillance. For instance, the IMF and the World Bank are conducting “health checks” of a country’s financial system or Financial Sector Assessment Programs (FSAPs) in several countries every year and intend to provide technical assistance to address the identified vulnerabilities and risks. In addition, the IMF participates in many joint forums with regulators in the banking, securities, and insurance markets. Many CSOs have been keen to be consulted on these issues—one of the newest areas for CSO activism. For example, some NGOs have met with IMF staff to discuss various proposals related to new rules for the

financial system and how they can be altered to provide more protection and stability. More recently, the Bretton Woods Project and Oxfam jointly organized a meeting with NGOs, academics, government officials, and staff from the IMF and World Bank to discuss the implications of capital account liberalization for poverty reduction in developing countries.

### **Time for a Change: The Question of Institutional Reform**

In addition to advocating changes in policy, CSOs have sought to alter the IMF's working methods and organization. There have been calls for greater transparency and accountability of the Fund and its operations, for democratizing the IMF through a reallocation of votes between member countries, and for improving its governance. In a number of ways, the IMF has changed in the directions proposed.

Impetus for these changes has come from within the IMF, as well as through pressure from CSOs and other outside forces. The IMF is, after all, a dynamic institution that has evolved since its foundation in response to changes in the needs of its member countries and developments in the world economy. Hence, on questions of institutional reform the IMF and CSOs have had some broadly similar objectives.

#### *Country ownership*

As indicated in the previous section, the scope of IMF policy conditionality has long been a point of contention, and the controversies have intensified in the wake of IMF involvement in recent crises. The debate has also moved beyond technical questions, with a good deal of new thinking on whether IMF conditionality undermines "ownership" of programs by the borrowing countries and thereby contributes to program failure.

In fact, the IMF has in recent years increasingly accepted the need for improved country ownership of policy programs. It is crucial to the sustainability and success of IMF-supported programs that they are widely understood, debated, and broadly supported by the people of the

countries implementing them. In addition, the IMF is no longer as prepared as it once was to accept the role of scapegoat whom the borrowing government could blame for the country's hardships.

The new PRSP process offers one avenue to enhance country ownership. The PRSP is intended to reflect the outcomes of an open participatory process involving government (including multiple ministries and agencies within the government sector), civil society, and relevant international institutions and donors. These discussions can give serious consideration to different designs and time paths for the implementation of an adjustment program. More recently, the IMF's Managing Director, Horst Köhler, has proposed streamlining and re-focusing IMF conditionality, both to reinforce country ownership of IMF-supported programs and to concentrate on the Fund's core responsibilities for monetary, fiscal, exchange rate, and financial sector policies.<sup>17</sup> Of course, it will take some time before the benefits of greater ownership become apparent. It must also be recognized that in crisis situations, the need to act decisively may limit the extent to which such participatory processes are possible.

### *Transparency*

A second major institutional criticism of the IMF has related to the limited transparency of its operations.<sup>18</sup> CSOs have demanded more transparency on the grounds that the IMF is an agent both for its member governments and for all people who are affected by its programs; therefore, it is obliged to make information on its own processes and policies accessible to all concerned. Since the IMF is a central player in the management of the global economy, CSOs argue, it must also promote transparency as key to good governance. Indeed, CSOs claim that, without informed participation by all affected circles, policy decisions will overlook important inputs and will lack the legitimacy that only the public voice can bring.

Thanks in part to CSOs' requests for information, the IMF has in recent years vastly extended its publication policy so as to enhance its transparency. A high proportion of the IMF's official Executive Board documents are now posted on the IMF website. These include documents explaining Fund-supported programs, documents related to the periodic discussions

that the IMF holds with each member country (“Article IV consultations”), key documents on general Fund policy, reports of internal and external evaluations of Fund activities, detailed information on the IMF’s financial accounts, and more. Chairman’s summaries of most Board discussions are made public in Public Information Notices on the website as well as in the IMF’s Annual Report. Most files in the IMF’s archives that are over five years old have been declassified. In parallel, the IMF is also supporting member countries’ efforts to adopt standards of good practice in several areas related to transparency: for example, in the area of data dissemination standards.

However, it must be recognized that the IMF cannot go public with all the content of its discussions with a member government. The IMF has to strike a balance between openness and the need to provide its members with candid and confidential advice.

#### *Accountability*

CSOs have sometimes accused the IMF of believing in the infallibility of its own prescriptions and of turning a deaf ear to other suggestions. External evaluation is an indispensable way to provide an organization with unbiased assessments of its activities. Between 1996 and 1999, the IMF commissioned three external evaluations by independent panels: on ESAF programs; on IMF surveillance activities, and on IMF research activities. Each of these evaluations was made public. The IMF also invited public responses to the ESAF evaluation. A further step toward evaluation was taken in September 2000. After conducting several internal and external assessments and reviewing inputs from the NGO sector,<sup>19</sup> the Executive Board decided to establish an independent evaluation office (EVO). This office, which became operational in August 2001, will be independent of IMF management, and its work program will be made public. It is presumed that most findings of the EVO’s work will also be made public.

### *Governance of the IMF*

Finally, civil society critics have urged that developing countries should gain a greater say in the decisions of international financial institutions. Consideration has been given to increasing the influence of developing countries in the IMF by revisiting voting shares or possibly by changing the number of seats that developing countries occupy on the IMF Executive Board. In addition, new international fora have been created that give more representation to the developing countries. The Group of 20 (G-20) stands out in this regard.

### **Forms of IMF-Civil Society Engagement**

Engagement implies a reciprocal relationship between two parties. The most basic form of interchange between the IMF and CSOs has been the **provision of information**, which is a prerequisite for all other types of engagement. Outreach efforts by staff in the External Relations Department of the Fund have provided large amounts of information on the activities of the IMF. Much of this information has been supplied in response to specific requests. These have stemmed, in part, from calls for transparency from various segments of civil society.

Conversely, CSOs have also kept the IMF informed of their activities and agendas. They have published their analyses of the Fund's programs and have disseminated (including to IMF staff) a wide variety of materials that espouse their concerns. Many CSOs also maintain websites where information about their activities can be accessed directly.

In specific contexts and instances, the IMF and CSOs have shared information. Both parties clearly benefit from exchange of information on issues of shared interest. CSOs can serve as conduits of "local knowledge," which may be valuable to the Fund in assessing the impact of the reform process. CSOs can also be useful intermediaries in explaining the short- and long-term effects of Fund-supported policies. Likewise, the IMF's perspective on country prospects and developments can broaden CSOs' understanding of the economic factors at play.

Very often, IMF staff and senior management have shared platforms with CSO representatives at seminars, workshops, and similar events. At the IMF/World Bank Annual Meetings of recent years, CSOs and the two institutions have participated in seminars and panel discussions. Debates have been lively and, occasionally, acrimonious.

Issues like debt relief, structural adjustment, and poverty reduction have been subjects of **sustained discussion and dialogue**, rather than the occasional information-sharing described above. While debates tended to be highly polarized just five years ago, the scale and quality of dialogue with some CSOs have improved, with mutual respect and a willingness to listen on both sides. This high-quality exchange has been evident in substantive discussions on debt relief and poverty reduction, where representatives of certain NGOs and religious groups have discussed the minutiae of debt reduction procedures with IMF staff. However, as discussed in the next section, the quality of dialogue has been uneven.

In a few cases, CSOs and the Fund have been allies in a tactical sense. For instance, the IMF and CSOs have worked toward the same end (though independently of each other) in garnering support in the U.S. Congress to fund debt relief. Similarly, many NGOs have – like the Fund – repeatedly argued that markets in industrial countries should be more open to the exports of developing countries. In addition, both the IMF and many NGOs have called for increased aid and other development finance.

### **Limits to Dialogue**

As preceding sections have indicated, contacts between the IMF and CSOs have become more frequent and the discussions more substantive. Even some of the Fund's harshest critics acknowledge that the institution took major steps to open up in the 1990s and that the IMF's outreach initiatives have entailed substantive dialogue.

However, the quality of dialogue has varied among interlocutors and situations. Many IMF staff have been frustrated with what they regard as unproductive discussions with some

CSOs who simply lobby for a fixed set of outcomes. It is often felt that single-interest groups do not think about trade-offs in policy or consider broad development issues that challenge the narrower causes they advocate.

IMF staff have also noted that many groups seem only to criticize and do not suggest practicable alternatives. In other cases, where constructive dialogue appears to take place in private and campaigners acknowledge the positive shifts taking place within the IMF, in public the same individuals only criticize the institution.

Some other IMF staff have also been struck by how ill-informed many CSO criticisms of the IMF are, even at a basic level. Staff cite the inaccuracy of information that many CSOs disseminate. For instance, figures on debt relief or debt service relative to social spending have very often been wrong – and have remained unchanged even after the Fund has offered clarification of the figures.

On their part, many reformist CSOs, in both the North and the South, have been unhappy with what they see as a general reluctance in the IMF to consider seriously fundamental challenges to prevailing policy frameworks. They are frustrated by what they view as the IMF's "textbook" macroeconomic arguments that fail to address key social and political concerns. CSOs often view meetings with IMF resident representatives and senior staff as important, but they have often felt that IMF staff use these occasions to "correct" and "educate" CSOs, rather than to listen and learn from their alternative perspectives on IMF programs. These CSOs also suspect that such conversations have little impact on the Fund's policy recommendations.

The IMF has recognized the need to explain itself better and to reach out more to civil society, but it has also worried about the balance that it needs to strike in dealing with CSOs, in particular NGOs. While IMF management and staff may, and should, consult with CSOs and listen and learn from various views, they are acutely aware that their institution is governed by, and accountable to, its member governments. It is primarily through those member governments



that the views of citizens – including as articulated through CSOs – should be conveyed to the IMF.

Not surprisingly, the Fund's member countries have expressed, through the Executive Board, widely different views on the merits of IMF-civil society interaction. Government representatives have questioned the legitimacy of NGOs, especially those which are based in the North and have disproportionate influence in global fora. Whom do these organizations represent? While many Northern-based NGOs have established links with Southern NGOs or have taken individuals from the South on to their staff, most of them lack any direct experience in the South. This leads many governments in the South to raise the issue of legitimacy.

Board members have also raised questions about NGO transparency and accountability. Do some NGOs have dubious hidden allegiances – e.g., through financing by particular groups, wealthy individual donors, or private businesses? Do they have hidden agendas – for example, the protection of certain business interests from international competition? Many groups do not publish annual reports, do not disseminate their mission statements broadly, and do not reveal the sources of their funds. All too often, they are not clear about how they have arrived at the positions they take.

Labor unions, on the other hand, may have a better claim to legitimacy as partners in dialogue with the IMF. These bodies have substantial dues-paying memberships, and their officers are usually elected democratically. Partly as a consequence of this, the IMF has often been more comfortable engaging in discussion with labor organizations.

The biggest challenge facing more effective CSO engagement with the IMF is that there is no single coherent CSO position or agenda. The wide array of actors makes it very difficult for the IMF to assess the representativeness of the many groups that seek to engage with it. Many, while calling for democratization of the IMF and other international bodies, have done little to establish their own democratic credentials, in terms of who they represent and to whom they are accountable.

The IMF has grappled with this issue of NGO legitimacy, in particular, and considered the need to discriminate even more carefully in deciding which organizations to engage in an ongoing dialogue. One criterion for such selection could be the extent to which NGOs have operations on the ground in developing countries. Another possible criterion, suggested by some, would be to rely on codes of conduct that lay out minimum standards for NGO integrity and performance, monitored largely through self-regulation.<sup>20</sup>

None of this is to deny the possibility or desirability of deeper IMF-CSO engagement. Indeed, IMF management has recognized the need for continuous contact with CSOs within countries and the benefits it can derive from such constructive contacts. The voice of CSOs adds an essential layer of checks and balances to the international system, and helps to ensure that excluded voices are heard. The IMF appreciates what it can learn, especially from CSOs that are actively engaged in development work. But development of the relationships between the IMF and NGOs will depend on efforts and good will from both sides. As the IMF takes into account what it learns from dialogue with civil society, so, too, civil society should attempt to appreciate the work of the IMF and the context in which that work is undertaken.

## **Lessons Learned**

Despite the short history of IMF-CSO relations, both sides have surely profited from the experience. There is no doubt that dialogue with CSOs has affected Fund policies and improved the quality of Fund advice. Perhaps the IMF's outreach to CSOs has also informed and affected their views. What are the main lessons that have emerged from this interaction? Seven points may be highlighted.

1. Dialogue is good, but informed dialogue is better. There is certainly scope for greater mutual trust and for a more open two-way critical and creative dialogue. The Fund has listened carefully to the concerns of civil society in the recent past and will continue to do so in the future. But the IMF's efforts should be reciprocated by greater effort on the part of civil society to understand the Fund, its objectives, and its mandate. All parties – member country

governments, the Fund, and civil society – must understand their respective constraints and opportunities.

2. CSOs need to be more cautious in inferring causal connections between the macroeconomic policies that the Fund recommends and undesirable economic and social outcomes. For example, certain NGOs have made the claim that IMF-supported policies of fiscal responsibility have caused countless infant deaths in poor countries. Such emotive charges impede serious dialogue.

3. Many CSOs appear to seek engagement with the Fund as a way to increase their own credibility and standing with member governments. However, CSOs can add real value by building coalitions at the national or local level to support pro-poor reform. Perhaps direct engagement with their own governments would go a long way toward strengthening their own legitimacy and increasing their possibilities to engage more constructively with the IMF in policy discussions.

4. Active participation by CSOs in consultation with the governments of member countries on policies can make a substantial contribution to building ownership of policy programs. The PRSP process provides a major new opportunity for CSOs, member governments, and the Fund to work together in a truly consultative process. CSOs can play a key role in monitoring PRSPs and ensuring that the negotiation and implementation of these strategies are broadly based and draw as much as possible on local knowledge.

5. The IMF needs to take a more strategic approach to its engagement with civil society in place of the somewhat ad hoc approach of the past. Already, a strategy is being developed to increase the involvement of IMF resident representatives in dialogue with civil society. The Fund plans to organize more regional seminars for local CSOs where specific country and regional issues can be discussed, while on a parallel track engaging with CSOs on broader policy issues. But flexibility remains essential, especially given that countries and contexts vary so much.

6. The IMF needs to address more actively and persuasively the widespread fears of globalization. The antiglobalization movement reflects some very real concerns: decision-taking in the interests of corporations rather than people, poverty and inequality, environmental degradation, etc. In the areas for which it has some responsibility, the IMF needs to make its views and thinking – on both the benefits and the risks of globalization – more accessible.

7. Finally, the IMF's economic analysis and policy advice need to be realistic and practical taking fully into account the particular circumstances of each country, and appropriately open to ideas outside mainstream economics.

These lessons point to the need for changes in attitudes and culture on the part of both the IMF and civil society groups. Genuine partnership requires a willingness to listen to and understand each other's point of view. The Fund may need to work harder at being more open and flexible, at understanding the political and cultural constraints facing the economies of poor countries, and at listening to and learning from alternative views. CSOs, on the other hand, need more of the discipline of objective analysis and a greater understanding of economic realities and the nature of the IMF's mandate and role.

Many will be skeptical about the prospects for such changes. Yet, as John Ikenberry has noted, "there are junctures or breakpoints where possibilities for major change are particularly great." At such times, he continues, "the removal of obstacles to change occurs simultaneously with the presence of impulses to change."<sup>21</sup> Perhaps we are at such a time.

Box 1

**CSOs are Highly Diverse**

<b>Function of CSOs</b>	<b>Examples of CSOs</b>
<b>Representation</b> <i>(Organizations that aggregate citizen voice)</i>	Labor unions Women's associations Churches and faith-based organizations NGO networks
<b>Technical Expertise</b> <i>(Organizations that provide information and advice and lobby on particular issues)</i>	Advocacy NGOs Think tanks and research groups Professional and business associations News media groups
<b>Capacity Building</b> <i>(Organizations that provide support to other CSOs, including funding)</i>	Foundations (local and international) NGO support organizations Training organizations
<b>Service Delivery</b> <i>(Organizations that implement development projects or provide services)</i>	Informal, grass roots, and community-based associations Operational NGOs (local and international)
Source: The World Bank	

## Endnotes

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<sup>1</sup> Benjamin Barber, *Jihad vs. McWorld: How Globalism and Tribalism are Shaping the World* (New York: Ballantine Books, 1995).

<sup>2</sup> Cf. Robert O'Brien, Anne Marie Goetz, Jan Aart Scholte and Marc Williams, *Contesting Global Governance: Multilateral Economic Institutions and Global Social Movements* (Cambridge: Cambridge University Press, 2000).

<sup>3</sup> James Boughton, *The IMF and the Silent Revolution: Global Finance and Development in the 1980s* (Washington, DC: International Monetary Fund, 2000).

<sup>4</sup> Michael Edwards, *NGO Rights and Responsibilities: A New Deal for Global Governance* (London: Foreign Policy Centre, 2000), p.9.

<sup>5</sup> John Clark, *Democratizing Development: The Role of Voluntary Agencies* (London: Earthscan, 1991); Michael Edwards and David Hulme (eds), *NGO Performance and Accountability: Beyond the Magic Bullet* (London: Earthscan, 1995).

<sup>6</sup> Boris Bernstein and James M. Boughton, "Adjusting to Development: The IMF and the Poor," (Washington DC: IMF Papers on Policy Analysis and Assessments PPAA/93/4).

<sup>7</sup> The IMF lends to countries that have a balance of payment need under "adequate safeguards." These safeguards involve policy actions – so-called conditionality – that the borrowing country agrees to undertake to qualify for the loan. Policy conditions in an IMF-supported program are negotiated between the Fund and the borrowing country. They typically cover macroeconomic policies (i.e., monetary and fiscal policies), exchange rate policy, and a range of structural policies (e.g., financial sector policies, trade policy, reform of public enterprises, etc.).

<sup>8</sup> Marijke Torfs and James Barnes, Letter from Friends of the Earth-US to the IMF Managing Director (then Michel Camdessus), 21 March 1991.

<sup>9</sup> Cf. Jan Aart Scholte, "The IMF Meets Civil Society," *Finance & Development*, Vol. 35, No. 3 (September 1998), pp. 42-5; Scholte, "In the Foothills: Relations between the IMF and Civil Society," in Richard A. Higgott, Geoffrey R.D. Underhill and Andreas Bieler (eds), *Non-State Actors in the Global System* (London: Routledge, 2000), p. 261.

<sup>10</sup> Many of these groups have come to the conclusion that they can get more leverage for their objectives if they can have them included as performance criteria in IMF programs—rather than pursue them through the agencies or IFIs with more specialized mandates but with less financial leverage.

<sup>11</sup> Ravi Kanbur, "Economic Policy, Distribution and Poverty: The Nature of Disagreements" (January 2000, available via the Internet at <http://www.people.cornell.edu/pages/sk145/>)

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- <sup>12</sup> Morris Goldstein, "IMF Structural Programs" (Washington: Institute of International Economics, 2000, paper available via the Internet at [www.iie.com](http://www.iie.com)); Tony Killick, *IMF Programmes in Developing Countries: Design and Impact* (London and New York: Routledge, 1995).
- <sup>13</sup> *The ESAF at Ten Years: Economic Adjustment and Reform in Low-Income Countries* (Washington, DC: IMF Occasional Paper No. 156, 1997).
- <sup>14</sup> *ESAF: Is It Working?* (Washington DC: IMF Pamphlet, 1999).
- <sup>15</sup> Kwesi Botchwey, Paul Collier, Jan Willem Gunning and Koichi Hamada, *Report to the Group of Independent Persons Appointed to Conduct an Evaluation of Certain Aspects of the Enhanced Structural Adjustment Facility* (Washington, DC: International Monetary Fund, 1998).
- <sup>16</sup> <http://www.oneworld.org/jubilee2000>; [www.j2000usa.org/j2000](http://www.j2000usa.org/j2000).
- <sup>17</sup> Horst Köhler, "Address to the Board of Governors of the Fund," Prague, 26 September 2000, at <http://www.imf.org/external/np/speeches/2000/092600.htm>.
- <sup>18</sup> "IMF Study Group Report: Transparency and Evaluation" (Washington, DC: Center of Concern, April 1998) [unpublished]; Ann M. Florini, "Does the Invisible Hand Need a Transparent Glove? The Politics of Transparency" (Paper prepared for the Annual World Bank Conference on Development Economics, Washington DC, April 1999).
- <sup>19</sup> Angela Wood and Carol Welch, *Policing the Policemen – The Case for an Independent Evaluation Mechanism of the IMF* (London/Washington, DC: Bretton Woods Project and Friends of the Earth-US, 1998).
- <sup>20</sup> Cf. Edwards, *NGO Rights and Responsibilities*.
- <sup>21</sup> G. John Ikenberry, "The Political Origins of Bretton Woods," in Michael D. Bordo and Barry Eichengreen (eds), *A Retrospective on the Bretton Woods System: Lessons for International Monetary Reform* (Chicago, IL: University of Chicago Press, 1993).