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How do the International Monetary Fund's loan and aid policies affect sub-Saharan African countries? [The controversial surrounding conditionality]

OVERVIEW:

Conditionality is the requirement(s) placed on the usage or distribution of money lent to another country. It is most associated with aid money. The donor country requires that the country receiving the funds adhere certain rules directing the use of fund. Conditions can range from provisions to reduce corruption to more controversial requests, such as improvement in human rights or reduction in deficit spending.

IMF lending has always involved policy conditions. Until the early 1980s, IMF conditionality largely focused on macroeconomic policies. Subsequently, the complexity and scope of structural conditions increased, reflecting the IMF's growing involvement in low-income and transition countries, where severe structural problems hampered economic stability and growth.

DETERMINATION OF THE IMF LOAN PROGRAMS:

Participation in an IMF program is a joint decision between a member country and the IMF. Countries that are experiencing economic difficulties come to the IMF for a financial arrangement.[1] Then the IMF determines whether the country meets the Fund's criteria for

[1] Barro, Robert J., and Jong-Wha Lee. "IMF Programs: Who Is Chosen and What Are the Effects?" *IMF Programs: Who Is Chosen and What Are the Effects?* (2003): 1-66. Web. 15 July 2017.

approval. In this section, we estimate the economic and institutional variables that influence the size and frequency of IMF lending.

<u>ISSUE:</u>

In recent years, there has been many criticism and concerns surrounding the approaches adopted by the IMF in formulating their policies, and the way that they are governed. This includes the social and economic impact these policies have on the population of countries who avail themselves of financial assistance from these two institutions, and accountability for these impacts.

Many people claim that these conditions are often designed to compromise not only the economic sovereignty of the receiving countries, but also their political structure. The fact that the conditions are too intrusive has generated a lot of backlash from other countries, and so did the so-called “structural adjustments” that the receiving countries had to meet to be eligible for the loan.

These loan conditionalities are attached based on what is termed the ‘Washington Consensus’, focusing on liberalisation of trade, investment and the financial sector —, deregulation and privatisation of nationalised industries. Often, these conditionalities are attached without regard for the borrower countries’ individual circumstances and the prescriptive recommendations by the IMF fail to resolve the economic problems faced by these countries.

IMF conditionalities may additionally result in the loss of a state’s authority to govern its own economy as national economic policies are predetermined under IMF packages. Issues of representation are raised as a consequence of the shift in the regulation of national economies from state governments to a Washington-based financial institution in which most developing countries hold little voting power. IMF packages have also been associated with negative social outcomes such as reduced investment in public health and education.

It is essential for the committee to identify and evaluate the current conditionalities and other policies implemented by the IMF upon granting loans or aid that may be of hindrance to economically developing countries within Africa (sub-Saharan countries for example).

FURTHER RESOURCES:

http://www.globalization101.org/why-is-the-imf-controversial/

http://www.economicshelp.org/blog/glossary/imf-criticism/

What are the issues in the design of the IMF programmes and how do they affect developing countries within Africa?

The debate on the ability of international financial institutions to influence reform in other countries had its peak about five years ago, when the U.S. Congress created the IFIAC. The IFIAC assessed the role and effectiveness of the World Bank, the International Monetary Fund, the regional development banks, the Bank of International Settlements, and the World Trade Organization[2].

When it came to the IMF, IFIAC concluded that the work of this organization left many questioning its works and the way it approaches in helping countries in need. Some of the conclusions are as follows[2].

[2] Eiras, Ana. "IMF and World Bank Intervention: A Problem, Not a Solution." *Heritage Org*. Heritage Org, 17 Sept. 2003. Web. 15 July 2017. <http://www.heritage.org/monetary-policy/report/imf-and-world-bank-intervention-problem-not-solution>.

1. The IMF has given too little attention to improving financial structures in developing countries and too much to expensive rescue operations. Its system of short-term crisis management is too costly, its responses too slow, its advice often incorrect, and its efforts to influence policy and practice too intrusive.
2. High cost and low effectiveness characterize many development bank operations as well. The World Bank's evaluation of its own performance in Africa found a 73% failure rate.... In reducing poverty and promoting the creation and development of markets and institutional structures that facilitate development, the record of the World Bank and the regional development banks leaves much room for improvement.

It is of benefit to the committee if delegates are able to focus on current and past programmes in breaking down its' effectiveness. It is important to ask the following questions:

1. How have the following programmes helped propel countries in need forward?
2. What are some past and present programmes that have failed or succeeded?
3. What changes have been made to the design of a program in order to cater to a country's needs?
4. Evaluating the benefits and limitations of programs

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