

BESSMA MOMANI
MARK R. HIBBEN

WHAT'S WRONG WITH THE IMF

AND HOW TO FIX IT



“This book draws upon the authors’ broad experience to paint a portrait of an institution under challenge and highlights changes that could strengthen the IMF. It should be read by students, policy analysts, and officials alike for its timely insights.”

**Thomas A. Bernes, Distinguished Fellow and former President,
Centre for International Governance Innovation**

“There are some problems no government can fix without cooperation. That’s why the IMF is needed. This useful book sets out some of the critiques of the IMF along with ideas about reforms which could help the institution do better.”

Ngairé Woods, University of Oxford

The IMF stands at a crossroad. Derided as increasingly irrelevant in the first decade of the new millennium, the Fund has had its power and prestige restored by the fallout from the 2008 global financial crisis. But will the resurgent IMF assert a more just and sustainable macroeconomic model and provide a voice for poor and marginalized people around the globe? Or will enduring weaknesses within the IMF mean it fails to address these issues?

In this book, Bessma Momani and Mark R. Hibben dissect the variables and institutional dynamics at play in IMF governance, surveillance, lending, and capacity development to expose the fundamental barriers to change. Identifying four areas that could “fix” the IMF, they show how these genuine and workable solutions can give the IMF the effectiveness and legitimacy it needs to positively shape twenty-first-century global governance and push back against volatile and regressive forces in the international political economy.

BESSMA MOMANI is Professor of Political Science at the Balsillie School of International Affairs and the University of Waterloo, Senior Fellow at the Centre for International Governance Innovation, and a Non-Resident Fellow at the Brookings Institution.

MARK R. HIBBEN is Assistant Professor of Political Science at St Joseph’s College of Maine, USA.

polity

www.politybooks.com

Cover illustration:
Jon Boyes/Getty

Cover design by
Rawshock Design

Printed in Great Britain



WHAT'S WRONG WITH THE IMF AND HOW TO FIX IT

MOMANI
HIBBEN

polity

What's Wrong with the IMF and How to Fix It

BESSMA MOMANI

MARK R. HIBBEN

polity

Copyright © Bessma Momani, Mark R. Hibben 2018

The right of Bessma Momani, Mark R. Hibben to be identified as Author of this Work has been asserted in accordance with the UK Copyright, Designs and Patents Act 1988.

First published in 2018 by Polity Press

Polity Press
65 Bridge Street
Cambridge CB2 1UR, UK

Polity Press
101 Station Landing, Suite 300
Medford, MA 02155, USA

All rights reserved. Except for the quotation of short passages for the purpose of criticism and review, no part of this publication may be reproduced, stored in a retrieval system or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior permission of the publisher.

ISBN-13: 978-1-5095-0966-9
ISBN-13: 978-1-5095-0967-6 (pb)

A catalogue record for this book is available from the British Library.

Typeset in 10.25 on 13 pt Scala by Servis Filmsetting Ltd, Stockport, Cheshire
Printed and bound in the UK by CPI Group (UK) Ltd, Croydon

The publisher has used its best endeavours to ensure that the URLs for external websites referred to in this book are correct and active at the time of going to press. However, the publisher has no responsibility for the websites and can make no guarantee that a site will remain live or that the content is or will remain appropriate.

Every effort has been made to trace all copyright holders, but if any have been inadvertently overlooked the publisher will be pleased to include any necessary credits in any subsequent reprint or edition.

For further information on Polity, visit our website: politybooks.com

What's Wrong with the IMF and How to Fix It

What's Wrong Series

Paul Harris, *What's Wrong with Climate Politics and How to Fix It*

Simon Hix, *What's Wrong with the European Union and How to Fix It*

Bill Jordan, *What's Wrong with Social Policy and How to Fix It*

Thomas G. Weiss, *What's Wrong with the United Nations and How to Fix It, 3rd edition*

Rorden Wilkinson, *What's Wrong with the WTO and How to Fix It*

Preface

Debates over the failings of international organizations like the United Nations, the World Trade Organization, and of course the International Monetary Fund (IMF) are among the most pressing issues in global governance. Born out of the spirit of liberal multilateralism following World War II, these institutions and their beliefs are under direct attack by the new politics of reactionary nationalism across Europe and in the United States. In writing this book between 2015 and 2017, we thus find ourselves embedded in a critical historical moment in our analysis of the IMF. In the face of the rising tide of reactionary nationalism, the direction of the IMF's future actions and degree of effectiveness will strengthen or help unravel the world's commitment to liberal global governance.

While ultimately champions of the institution, we recognize the multiple areas of controversy tied to the IMF. For many in the developing world, the IMF has been appropriately criticized for its inaction, for its "one size fits all" policies which do not consider local context, and for the imbalance of power among its members, with the most powerful dominating it. The Fund's current engagement in the troubled Eurozone also highlights the tension born out of deeply held norms that generally champion austerity. The IMF's past response to the debt crisis of the 1980s and Asian crisis of the late 1990s also highlight pockets of institutional dysfunction that produced devastating effects on the lives of millions of people across the globe. However, the Fund has

demonstrated it can learn from its mistakes. Particularly in the time period following the 2008 global financial crisis, the IMF has implemented effective policy reforms and has served as an important voice and advocate for many of the world's poorest people. This is most salient currently in its commitment to "inclusive growth" and the United Nations' Sustainable Development Goals.

This book looks ahead by diagnosing the failures and inconsistencies of the IMF and offering perspectives on the future role of the Fund. The book is part of a series of analyses of global institutions and issues, published by Polity Press. It draws on what we have previously written and presented through various publications and presentations; but also on the work of many other scholars looking at emerging mechanisms of financial governance at the global and regional levels. It seeks to push this literature forward by including in its analysis the democratization of decision-making within the IMF and the development of partnerships between the IMF and other regional and global financial institutions, but most of all by offering recommendations for closing the much-criticized "hypocrisy gap" of the IMF. In contrast to most literature on the IMF, we do not simply focus on the inefficiency of the institution but we consider how to "fix" it by highlighting informal processes of policy formation within the IMF, a critical issue that has not been sufficiently addressed in the literature. There is a possibility for substantial shift in the focus of the IMF through a more developed collaboration with international governance organizations and non-governmental organizations. This could lead to better performance by the IMF in its traditionally mandated areas and the inclusion of social outcomes in its policy formulation. This shift could create a synergy between the IMF and emerging countries. This is one of the possibilities following the institutional arrangements after the

2008 economic crisis. The other side of the coin would see an entrenchment of the influence of the most powerful states, and especially of the United States, the only member state enjoying single-handed veto power. Institutional memory would then participate in pushing the IMF further into what it has traditionally been: an insular community of macro-economists far removed from local dynamics.

While writing this book, we have attempted through conferences and publications to increase the interest of scholars and students alike in global financial arrangements and the challenges ahead for the IMF. We have both published extensively on the IMF; on the drivers of change within the IMF, on its policies in specific countries, on emerging regional financial mechanisms, and on the possibility of reform of the Fund. This book is not our first collaboration but it is the most significant one. Bessma Momani's interest in the IMF and global financial governance stemmed from her background in international political economy (IPE) and her analysis of IMF–Egyptian negotiations of the 1990s while a doctoral student at Western University. Bessma teaches courses on the IMF and on IPE at the University of Waterloo and the Balsillie School of International Affairs, and she has consulted for the IMF and its Independent Evaluation Office. She is also a non-resident senior fellow at Brookings Institution and the Centre for International Governance Innovation. Mark Hibben's PhD thesis at Syracuse University addressed reform of the IMF in the "post-Washington Consensus." His current research interests are in the politics of development in the "post-Washington Consensus," with a consideration of the discourses on inequality and how Keynesianism shapes the policy choices of the IMF and the World Bank. The collaboration between the two Bretton Woods organizations and its impact on development outcomes is also one of his areas of interest. Mark teaches political science at St. Joseph's College of Maine,

Standish. Bessma was the external examiner at Mark's PhD dissertation defense at Syracuse University and since then they have published and presented together on IMF reform.

What's Wrong with the IMF and How to Fix It is the result of a close collaboration, with each author contributing to every chapter. Bessma Momani is the main author of chapters 2, 3, 6, 7, and 9 while Mark Hibben is the main author of chapters 1, 4, 5, 8, and 10. But this book, from its inception to publication, is the fruit of equal effort from both authors and teachers, interested in pushing forward the debate over IMF reform. It is targeted at students, scholars, IMF experts, and a general audience. With its two distinct parts, "Diagnosing the Ills" and "Finding a Cure," *What's Wrong with the IMF* is a must-have for all those interested in global financial regulation and the challenges ahead for the IMF.

Acknowledgments

As we reflect on the completion of this book, we are humbled by the “village” of colleagues, IMF staff and administration, institutional support, and family that ultimately made this project possible. Many thanks first to various colleagues who provided feedback on chapters in the book. Specifically, thanks to Anton Malkin, Skylar Brooks, Dustyn Lanz, and Eric Helleiner, who have previously co-authored work with Bessma Momani that has been featured in the book. Particularly invaluable to the project was the difficult editing and indexing work undertaken by doctoral candidate Ousmane Diallo.

IMF staff and administration also were extremely generous with time and access. Special thanks to IMF archivist Premela Isaac and staff in the IMF’s communication department, including Marjorie Henriquez and Jeremy Marks. Thank you also to staff from multiple departments who gave us time and were willing to provide frank assessment of the IMF’s strengths and weaknesses. Thanks to the Independent Evaluation Office’s Miguel de Las Casas for input on a number of chapters, although we may continue to have different takes on some issues. Financial and moral support also came from our home institutions, the University of Waterloo, Balsillie School of International Affairs, and Saint Joseph’s College of Maine. Bessma would like to acknowledge that research for this book was supported by the Social Science and Humanities Research Council of Canada. Finally, the patience

of our families and partners was the final foundational piece that allowed us to focus our efforts and push through to completion.

Tables

4.1	IMF lending facilities	86
5.1	IMF trust funds for capacity development	98
8.1	Six economic schools of thought and IMF influence	160

Abbreviations

The full meaning of abbreviations is explained when they are first mentioned in the book. After that, acronyms are exclusively used except for very common terms such as “United States” or “United Kingdom.”

ADB	Asian Development Bank
AfDB	African Development Bank
AFRITAC	Africa Regional Technical Assistance Center
AIIB	Asian Infrastructure Investment Bank
AML/CFT	anti-money laundering and combating the financing of terrorism
ATI	Africa Training Institute
BIS	Bank for International Settlements
BRICS	Brazil, Russia, India, China, and South Africa
BTC	Joint Regional Training Center for Latin America in Brazil
CCB	Committee on Capacity Building
CD	capacity development
CSO	civil society organization
CTP	Joint China–IMF Training Program
ECB	European Central Bank
ECF	Extended Credit Facility
ED	executive director
EFF	Extended Fund Facility
e-GDDS	Enhanced General Data Dissemination System
EP	Economist Program

ESAF	Enhanced Structural Adjustment Facility
EU	European Union
EURODAD	European Network on Debt and Development
EWE	Early Warning Exercise
EWG	Early Warning Group
FCL	Flexible Credit Line
FDI	foreign direct investment
FfD	Financing for Development
FM	Fiscal Monitor
FSAP	Financial Sector Assessment Program
FSB	Financial Stability Board
FSF	Financial Stability Forum
FY	Fiscal Year
G7	Group of Seven
G10	Group of Ten
G20	Group of Twenty
GAB	General Agreements to Borrow
GATT	General Agreement on Tariffs and Trade
GDDS	General Data Dissemination System
GDP	gross domestic product
GFSR	<i>Global Financial Stability Report</i>
HIPC	Heavily Indebted Poor Countries
IBRD	International Bank for Reconstruction and Development
ICD	Institute for Capacity Development
ICU	International Clearing Union
IDA	International Development Association
IEO	Independent Evaluation Office
IET	Internal Economics Training
IFC	International Finance Corporation
IGN	Interim Guidance Note
IGO	intergovernmental organization
IMF	International Monetary Fund

IMFC	International Monetary and Financial Committee
IO	international organization
ISI	import substitution industrialization
JMAP	Joint Management Action Plan
JPA	Joint Partnership for Africa
JSAN	Joint Staff Advisory Note
JVI	Joint Vienna Institute
LIC	low-income country
LIDC	low-income developing country
LOI	letter of intent
MAP	Mutual Assessment Process
MD	managing director
MDG	Millennium Development Goal
MDRI	Multilateral Debt Relief Initiative
MEFP	Memoranda of Economic and Financial Policies
MOOC	massive open online course
NAB	New Arrangements to Borrow
NGO	non-governmental organization
OBOR	One Belt, One Road
OECD	Organization for Economic Co-operation and Development
PFP	policy framework paper
PLL	Precautionary and Liquidity Line
PRGF	Poverty Reduction and Growth Facility
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper
PSI	Policy Support Instrument
QPC	quantitative performance criteria
RCF	Rapid Credit Facility
RFI	Rapid Financing Instrument
ROSCs	Reports on the Observance of Standards and Codes
RSN	Regional Strategy Note