

## **Fourth Roundtable with Local and International NGOs: Conditionality**

*February 11, 2004*

*IMF Resident Representative Office in Phnom Penh*

The fourth IMF-NGO roundtable was held on February 11, 2004. Participants discussed the basis for and merits of conditionality, notably under IMF programs.

The IMF Resident Representative made a PowerPoint presentation covering briefly the rationale for IMF conditionality and the various instruments used in practice. He also made brief remarks about the manner in which IMF conditionality has evolved over time. He stressed the fact that Fund conditionality is founded on IMF members' shared view that access to the IMF's financial resources ought to be conditional on the adoption of policies that, in time, lead to a reversal of the need for such support. The need for balance of payments support can arise from internal or external influences, and in almost all circumstances requires policy changes to reverse the balance of payments difficulties and establish sustainable economic growth. In practice, the Fund tries to uphold two principles in the use of conditionality. First, it needs to be applied uniformly among members; for any degree of needed adjustment, the degree should be roughly equivalent across members. Second, conditionality must be flexible; conditions specific to each country need to be considered in the design of conditionalities. Safeguarding the Fund's resources so that they may be available to their members over time is a key underpinning of conditionality.

Conditionalities are laid out in a *letter of intent* and, often, in a *memorandum of economic and financial policies*. Conditionalities take the form of prior actions, performance criteria (both quantitative and structural), and structural benchmarks. Conditionality has evolved over the years. Initially focused on macroeconomic policies, they have been broadened and deepened over the years in recognition of the complexity of structural adjustment. Following a recent review of conditionality, the Fund has sought to streamline conditionality. This entails focusing more sharply the conditions attached to receiving financial support on the one hand and, on the other hand, being flexible and responsive in discussing alternatives with the countries.

The IMF Resident Representative concluded by saying that his experience in Cambodia to-date had left him with the impression that a large proportion of the NGO community was supportive of conditionality, at least in Cambodia.

The representative of *NGO Forum* noted that there are, in a sense, two alternative views in the NGO community. One view is that conditionality is a breach of national sovereignty and is undemocratic. This view is often held by NGOs in countries where there is some expectation that government will be responsive to the democratic will of the people. An opposing view is that conditionality is needed to ensure governments keep their commitments to improved governance. This view is common in countries like Cambodia, where there is little expectation of improved governance without donor pressure.

Nevertheless, governments should still be allowed to make rational policy decisions without being forced through conditionality down a particular development path. On issues where the IMF's major shareholders may have a conflict of interest (including possibly trade policy), conditionality may be seen as unfair.

A representative of Oxfam (U.K.) questioned the effectiveness of conditionality if the government suffers no consequence from its failure to respect reform commitments. The IMF Resident Representative shared this concern, and explained the difference between a structural performance *criterion* and a structural *benchmark*, stressing that failure to respect the former required a request for the granting of a *waiver* by the Executive Board. Oxfam also questioned how effective a role the NGO community—and civil society more broadly—could play in helping to shape reform agenda when the macro framework was already agreed *before* the participatory process gets underway. Oxfam felt that civil society could be more effective if it were able to influence directly the macro framework, since the latter was seen by Oxfam as underpinning everything else. Finally, Oxfam expressed some skepticism about the ability of some senior officials, however reform-minded, to actually deliver on commitments given the power structure in Cambodia at present.

The roundtable also discussed briefly the range of reform areas in which the Fund had been placing emphasis, and in which it would likely continue to do so and, in turn, to consider conditionalities. These included reforms in budget formulation and execution, revenue mobilization, governance in general, financial sector reforms, appropriate management of natural resources, etc. In regard to expenditure policies under Fund programs, the representative of NGO Forum welcomed the flexibility that the IMF had been showing in recent years in regard to some aspects of conditionality in Cambodia. He noted in particular the lesser emphasis by the Fund on cutting social spending. While acknowledging that the PRSP process world wide was having a positive impact on making budgets more pro-poor, the IMF Resident Representative also noted, however, that the IMF had urged the Royal Government of Cambodia since at least the mid-1990s to restructure its spending away from defense and security toward social sectors.