The Role of the IMF in Low-Income Countries[1]
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First, let me thank Oxfam—Ms Romero and Ms Stuart, in particular—for inviting me to join such a distinguished Panel today. The pleasure of being here is compounded by the fact that I spent some of the most rewarding years of my professional life in this institution.

The questions posed to this Panel by Ms. Romero are all challenging indeed and, let me be straight, there are no clear-cut answers. In my brief remarks:

1) I'll touch upon *why* the IMF should engage with low-income countries and *how*.
2) I'll then review the status of the IMF's policies towards low-income member countries by pointing to the main challenges.
3) Given the time constraints, I won't be able to elaborate on the governance issue but I had a chance to express my views on this in a paper published last year with Professor Ngaire Woods [in the References].

Historical background

To be sure, even the Founding Fathers of the institution had trouble grappling with these issues. Convened at the end of the Second World War, the Bretton Woods Conference aimed to establish a universal financial and economic order, with generally applicable solutions to the problems of the world. The participants carefully avoided distinguishing between groups of members in drafting the IMF's Articles of Agreement. The Indian delegation proposed a reference to the role of the IMF in low-income countries to be

[1] See http://www.imf.org/external/np/exr/seminars/2007/092407.htm.

added in the section devoted to the "purpose" of the Fund in Article I, but this proposal was ruled out [James, 2007].

In all fairness, it was only in subsequent years that the developing world would define itself politically and economically. Politically, as low-income countries would acquire independence from their colonial powers. Economically, as the international community would start contemplating the challenges of these countries within the broader framework of development.

As the newly independent low-income countries would join the membership of this institution, the Fund would gradually find itself drawn into an endless debate, one that continues at this very moment here. Only a few days ago, for instance, I was looking at the IMF's website and the headline read something along the lines of "The IMF moves to clarify its role in low-income countries."

Should the IMF be engaged with low-income countries?

So, should the IMF be *effectively* engaged with low-income countries? The answer is, of course, "yes." And, just to be clear, this goes well beyond the simple heuristic observation that low-income countries as a group now account for the largest share of the Fund's clientele.
In fact [see Lombardi 2005 and 2007]:

> 1) The IMF is a universal institution of 185 members, of which 78 (or 42 percent) are low-income countries. The purposes of the IMF, as set out in Article I, apply to low-income countries as much as they do to all the other members[2];
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> 2) The IMF mainly exerts an informational role for the benefit of its membership by providing a *bundled* set of activities that include lending, policy advice and

[2] Article I, Section 2 lists as one of the purposes of the institution "to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy."

capacity building. Low-income members stand to potentially enjoy the greatest benefits, given the lack of incentives of the private sector to undertake costly information-gathering activities.

Despite all sorts of resistance coming from within and outside the institution, the IMF has now definitely acknowledged that it has a role to play vis-à-vis this group of its membership. This goes to the full credit of the institution.

The “how-to’s,” however, are no less important than the “whether to do it or not.” In low-income economies, the policy space is not neatly partitioned between poverty-reducing and “traditional” macro policies. For instance, macro policies tend to affect the efficiency with which economic growth translates into poverty reduction. Operationally, this points to the need for greater awareness of the social impact of key macro policies and of the trade-offs involved in the various policy mixes embedded in program design and in the IMF’s policy advice. Thus, any assessment of the effectiveness of the IMF’s role should, then, consider the extent to which this dimension has been operationalized in the institution’s policy toolkit. I’m afraid that, in this area, the scoreboard is less favorable.

Are the IMF’s policies toward low-income countries effective?

Evidence available so far points to some tensions [see IEO (2005 and 2007) and Oxfam (2007)], such as:

1. poverty and social impact analysis (PSIA) has not systematically informed distributional aspects in PRGF-program design, despite Board-approved policies that it should;

2. the need to include sectoral aspects (e.g. health, education, and infrastructures) in the analysis of aid absorptive capacity, beyond the traditional macro aspects;

3. the need to make more effective use of the PRSP as a basis for the PRGF rather than the other way round.

In all three respects, it is possible to observe a common pattern: that the IMF is definitely doing something, just not enough—and by its own standards.

1. Take the social impact analysis, for instance. In 2005, the IMF set up a stand-alone PSIA unit, going beyond the advice given by the External Panel on the Evaluation of ESAF in 1998, which recommended instead to rely on the World Bank. Yet, there appears to be no evidence of any material influence of PSIAs on PRGF program design, although their findings are duly reported in PRGF documents [IEO, 2007].

2. Take, too, the analysis of absorptive capacity. It mainly focuses on issues such as "Dutch Disease" and competitiveness, which the IMF's IEO found of no concern for the levels of aid inflows under discussion.
In assessing external financing requirements, the IMF does sound donors before coming up with an aid figure that reflects what is likely to be available. This figure is then fed into the medium-term macroeconomic and expenditure planning as well as donor aid plans. The issue, however, is that once this forecast becomes the IMF's own assessment, it does indeed carry weight with regard to donor ability and willingness to fulfill commitments [see Lombardi and Woods, 2007]. In other words, the very fact that the IMF says that a certain level of aid inflow is likely to materialize affects the likelihood that such an assessment will come true. So why not fully leverage on this by highlighting *more ambitious but still feasible* aid scenarios, consistent, of course, with country absorptive capacity? Why not assist member countries in designing macro frameworks compatible with such alternative assessments? This would certainly be consistent with the findings of the literature on the catalytic role of the IMF, findings that have generally found more robust evidence in the case of low-income countries [see Lombardi 2005 and 2007].

3. Finally, take the relationship between the PRGF and the PRSP. When the latter was introduced, it was meant to reflect national ownership of underlying

economic policies with the PRGF expected to draw from the PRSP to ensure adequate ownership of the program itself. Once again, the evidence appears to be more controversial. The IEO reports that only half of the staff surveyed admitted to using the work and the experience of country authorities for PRGF-program design [Figure 3.1 p. 21, IEO, 2007]. Similarly, only about a third agreed that the PRSP provides the basis for PRGF-program design [Figure 4.1 p. 28, IEO, 2007].

I will give you just one more example and then conclude. A publication from the IMF in 2003 lists contributions made by the IMF on macroeconomic research in low-income countries. They include about a thousand research papers in seven analytical categories, including growth and poverty, fiscal and monetary policy, financial market issues and structural reforms, and so on. Yet, again, zero percent of operational staff uses the findings of the IMF research department in their operational work, according to the IEO [2007].

Looking forward…

What to make of this? Looking forward, the Fund should consider the following three challenges:

1. how to fully operationalize its own policies against transparent and internationally agreed-upon benchmarks for which the institution should be held accountable. Mixed signals should be avoided such as, for instance, endorsing the MDGs without operationalizing the related implications;
2. how to leverage its coordinating role, and *proactively* partner with the World Bank and donors in highlighting *more ambitious but still feasible* external financial requirements;
3. how to frame more effectively the partnership with the World Bank, beyond the usual statement that cooperation is important. The experience shows that when the *incentives* to cooperate have been fully institutionalized (such as in the case of FSAP, HIPC, Debt Sustainability Framework), the results follow.

The institutional and human capital of the IMF is huge, we all know that, but its weight, I'm afraid, has yet to be thrown in low-income countries.

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