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The IMF and the global economy: implications for developing countries

Frances Stewart and Valpy FitzGerald*

This paper reviews the functioning of the IMF in relation to its own objectives, as laid down in the Articles of Agreement, and the needs of developing countries. It finds serious deficiencies in its functioning as a global financial institution. It typically takes a country-by-country stand, and has failed to find soultions to global problems, such as the debt problem of the 1980s, or the need to coordinate national economic policies. The IMF has not been able to deal satisfactorily with the growth and fluctuations in international financial capital flows. There have also been serious deficiencies in the IMF treatment of individual developing countries, with a tendency to be excessively deflationary with harsh consequences for the poor in developing countries. The paper concludes with nine proposals for reform. An appendix provides a rough costing of these proposals.

* Queen Elizabeth House, University of Oxford

Introduction

The fundamental objective of the IMF was laid out in the first of its Articles of Agreement when it was established in 1944:

> to facilitate the expansion of balanced growth in international trade, and 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.

This objective still expresses the aspirations most would have for an international monetary authority. Hence any assessment of Fund performance over the years must consider how far it has been fulfilled and what, if any, changes are needed to improve its performance.

The IMF is the major global player in international monetary matters. When it was founded it was expected that its actions would be directed to developed countries and not developing countries, who were then, for the most part, only bit players (or still under colonial tutelage). However, in practice most of its lending (almost all in recent years) has been to developing countries: for them, but not for developed countries, the Fund has had a major policy-making role. Hence the performance of the Fund should be assessed at two levels: first, as the one institution able to take public action with respect to global monetary matters; and secondly, in terms of the impact of its activities on the economies of developing countries.

The Fund and the Global Economy

The success of the post-second world war economy has generally been viewed as a success for the Bretton Woods system. Competitive devaluation and tariff escalation were avoided; currency convertibility, tariffs, other trade restrictions and capital controls were successively reduced; economic growth was maintained with some blips but no devastating world recessions, and many developing countries achieved major economic and social progress. However, it would be wrong to deduce from this that the IMF has successfully fulfilled the intentions of its founders, or that today it functions in the way that is needed of a global monetary authority. In the first place, much of the success of the Bretton Woods era was not due to the Bretton Woods institutions but to other factors; and secondly, the IMF has made serious errors of commission and omission, with respect to the functioning of the world economy generally, and developing countries in particular. For developing countries, it has enforced financial discipline but at a high cost in terms of loss in output growth and increased poverty.

The IMF in fact had little to do with the sustained world economic recovery and growth from 1945 to 1980. Major factors responsible included the Marshall and Dodge Plans - which permitted Europe and Japan to combine economic expansion with moves towards trade and currency convertibility; negotiations for freer trade conducted by GATT; the institution of the European Community which contributed to recovery and growth in Europe; the success of many of the newly independent developing countries in raising savings and investment, extending education and health services and generally providing the necessary conditions for agricultural and industrial development. The IMF contributed little to these efforts.

Despite being the one global player on the scene, the IMF has rarely taken a global view, rather examining countries one-by-one, and not adding up the consequences for the world economy of its advice to individual countries. There are many instances when the failure to take a global view has permitted deterioration in the world economy, while the advice given to individual countries has compounded rather than alleviated the initial situation. For example:

- the massive recycling of petrodollars during the 1970s took place largely through the commercial banking system: the IMF did not play a central role in this recycling process. The IMF (and the World Bank) did manage to channel some funds towards the poorer countries seriously affected by the new oil price regime, and although this had considerable welfare benefits, it did not significantly affect world financial markets. More seriously, neither the Fund nor the BIS (nor the respective national authorities) appear to have attempted to exercise ex ante control over the larger borrowing governments nor, as importantly, over the lending banks to prevent the accumulation of bad debt.
- in the world recession of the early 1980s, the fund made no global proposals for coordinated reflation, nor did it issue additional liquidity in the form of SDRs to support reflation, while

the many countries seeking funds and policy-advice from the Fund were told to *cut* expenditure, thus adding to world recession;

- as commodity prices fell to unprecedented levels in the 1980s, the Fund made no suggestions for world action (e.g. by coordinated taxes on commodities,or production cutbacks and quotas), but told individual producing countries in foreign exchange difficulties to improve the incentives for the production of commodities, irrespective of the world price elasticities of these commodities. The result was to increase commodity production, reduce commodity prices further, and in some cases (e.g. cocoa) to reduce the net foreign exchange earnings of countries which succeeded in expanding production.

- during the debt crisis of the 1980s, the Fund put forward no proposals for systemic reform, but insisted that individual debtors pay their debts in full, which required harsh cutbacks in output and consumption, and still did not eliminate the problem. The debt situation turned round not because of the actions of the Fund but because of imaginative proposals and action by Brady, the Treasury Secretary in the US.

- in the late 1980s, the process of privatization and financial liberalization attracted a new type of foreign investor - institutional fund managers - to 'emerging markets'. These new capital flows of the 1990s were not regulated by the IMF either, which was unable to overcome the asymmetric information and agency problems which inevitably arose and culminated in another Mexican collapse in 1994-5. Once again, the US Treasury was forced to intervene in order to bail out US investors; a key element of the rescue operation being the largest loan in IMF history - which was arranged in record time without rigorous conditionality. The Fund continues to advocate deregulation to individual countries, despite the potential havoc this may cause, and has made no proposals for international regulation.
- just as a number of OECD countries were expressing doubt as to the value of IMF to international economic management, the end of the Cold War in 1989 gave a new role to the Fund as the administrator of the radical liberalization of the Eastern European economies - a role it could take on because it was the only institution with the staff and a well defined economic model to undertake the task after its experience in Latin America. However, the relative success of this transitional role in Eastern Europe (which has now been replaced by

the longer-term tasks of industrial modernization) had little to do with the regulation of global capital markets.

The role of the Fund in the 1990s

With the Cold War at an end, the debt crisis apparently resolved and widespread agreement on economic policy, it seemed at the close of the 1980s that the developing countries would be the main beneficiaries of a dynamic world economy. The extension of free trade throughout the world and the integration of capital markets implied a truly 'global economy' where poor countries with sound economic policies could now expect rapid export growth and massive foreign investment inflows to support efficient production structures and economic growth, and to eliminate poverty. However, during the 1990s this optimism has been rapidly eroded as the chronic instability in global financial markets has revealed both the limitations of international regulatory institutions and the risks to developing countries of rapid integration to global markets.

The role of the IMF under these circumstances is to provide - along with other "global" institutions such as the Bank of International Settlements (BIS), the World Trade Organisation (WTO) and the OECD - apppropriate institutional support for an orderly global capital market that can promote trade and investment finance worldwide in line with its Articles of Agreement.

Continued instability in foreign exchange markets - particularly the strains within the EMS and the decline of the dollar during the 1990s - has led to renewed interest in the possible role of the IMF in preventing and managing crises in international financial markets. As the capacity (and willingness) of the US authorities to continue as the world's central banker has declined, and the German and Japanese authorities have apparently been unable to share the burden effectively, this is perhaps not surprising. Indeed, the Bretton Woods Commission is quite clear that the degree of volatility under floating exchange rates since 1971 has been associated with lower growth rates, and strongly recommends a return to an administered (ie flexible) fixed-rate system coordinated by the IMF in representation of the G7.

None the less, the standard paradigm for the structural adjustment of developing economies still identifies the world market as an efficient allocator of global resources. Openness as a development strategy "constitutes perhaps the most important opportunity for raising the welfare of both developing and industrial countries in the long term..." (World Bank, 1995, v).[1] However, despite this optimism about global integration, it is widely agreed that in practice international financial instability has slowed growth in the industrial economies, excluded developing countries from global capital markets and led to switchback style economic fortunes for some developing countries which are intergated into the world system, notably, in recent years, Mexico.

Developing countries rely on capital flows to sustain investment and suffer disproportionately from international financial volatility in a number of ways, among which the most important are:

- i) exchange rate instability, high interest rates and low investment slow down growth in OECD countries, and thus export demand from the rest of the world;
- ii) high interest rates raise the cost of debt service and cause fiscal strain in LDCs, causing macroeconomic instability and reducing private investment;
- iii) global market uncertainty excludes many developing countries from access to private capital flows, and subjects others to destabilizing volatility in flows;
- iv) the inability of capital markets to work out debt burdens in response to insolvency imposes a long-term resource burden on poorer countries and further reduces their attractiveness to foreign investors;
- v) the more vulnerable LDCs become subject to policy conditionality that goes beyond ensuring that international obligations are met and raises questions of sovereignty.

The concern of the founding fathers of the IMF at Bretton Woods as to the consequences of volatile capital flows were not only conditioned by the immediate post-War circumstances but also by their fear of the consequences of a return to unfettered private capital movements which had caused such instability in the inter-War period. Keynes' perception of uncertainty

[1] World Bank, 1995, *Global Economic Prospects and the Developing Countries* (Washington DC: World Bank)

as a driving force in market sentiment, and the consequent need for institutional structures to reduce uncertainty and promote productive investment, seems more relevant than ever.

In sum, the tasks required of a global financial regulator today have two dimensions that also characterize central banking in a closed economy: (a) the provision of liquidity as 'lender of last resort' to smooth temporary fluctuations in market sentiment; and (b) the establishment of an orderly financial market by prudential regulation of the financial intermediaries themselves.

Global lender-of the-last resort

The Fund is the most plausible candidate for this role of providing 'backstop finance' on a regular basis. The G7 central banks (and those of the G3 in particular) have of course been responsible for the major rescue operations in post-War history, but they lack any institutional apparatus. While for the European Union the existing coordination mechanism based on the Bundesbank should evolve into the European Monetary Institute by the end of the century, this will not be extended to global coverage. The Bank of International Settlements has only provided bridging finance in the past, and does not have any developing country participation or operating experience in stabilization programmes.

Although the IMF was originally conceived as a potential lender of last resort, this was foreseen as a "current account" problem, and Article VI specifically precluded lending to finance a capital outflow - which the same article implied should be handled by administrative controls. However, in practice Article VI is not applied and the Fund now argues against capital controls (although it does appear to support various sterilization measures) so that logically this preclusion should not prove a real obstacle.

The coverage of any such scheme would presumably be limited to non-industrial countries, and would depend on whether fixed exchange rates are felt to be a desirable policy. On the assumption that flexible parities remain the rule, then such intervention would mainly be justified in cases of indebted countries at the margin of the private capital market. Moreover, even this category could be reduced by arguing that last-resort lending should be restricted to cases where default would pose a systemic threat, spilling over into a withdrawal of funds from neighbouring or similar countries.

The proposal by the IMF to create a new *short term financing facility* (STFF)[2] which could be disbursed very rapidly to counter swings in market sentiment and speculative pressures which do not reflect economic fundamentals represents a move towards fulfilling the lender-of-the-last resort role. It would complement the Fund's existing facilities for countering perverse capital movements, particularly in two difficult situations involving critical discontinuities where support must be immediate if it is to be effective at all: (a) the defence of an exchange rate peg; and (b) illiquidity causing default risk. Coverage under the proposal would be limited to some fifty (mainly upper middle-income countries) which have a high degree of involvement in the international capital market. The terms of access would be based on specific 'drawing right' provisions made under the regular Article IV consultation, in cases where the Fund determined that country has a sound policy record and no fundamental balance of payments problem. This could be made automatic and thus very rapid, but only at some risk to the Fund - particularly if it ended up effectively funding (and thus enabling) capital flight. The level of access (which could be arranged in tranches) would need to be commensurate with potential reserve losses - although without fully financing capital flight but rather relying on positive signalling effects on markets - and could reach 300% of quota. However, the maturity of the loans would be short (three months) and if the problem persisted it could be replaced by a normal standby or extended arrangement.

Ideally, the source of the funds required for this purpose should be provided by new sources of liquidity - at best the issue of SDRs or at least the expenditure of the excess reserves of surplus economies such as Japan - as proposed by the IMF Managing Director at the Copenhagen Social Summit in March 1995. The proposal to use SDRs for this purpose has its roots in the Keynes Plan at the original Bretton Woods conference, which included the automatic use of reserves of surplus countries for operations by the Fund. It would involve modification of Article XVIII which requires SDRs to be allocated pro rata to existing quotas (a restriction which is already under strain due to the current G7 proposal to allocation the

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[2] See M. Camdessus, "Short-Term Financing Facility" paper presented to the IMF Executive Board, 26 September 1994.

first SDR increase since 1981 to the transition economies).

If the conversion of SDRs into a true fiduciary reserve asset is not acceptable to the more conservative members of the G7, the STFF could be financed by the IMF borrowing on financial markets, effectively creating liquidity by converting long-term liabilities into short-term assets. As in the case of the World Bank, the willingness to subscribe would not arise from the quality of IMF assets (ie the STFF loans) but rather their underwriting by the G3. Assuming that this would be forthcoming, the relevant criterion becomes the likely effectiveness of such a scheme. On the one hand, like all last-resort lending, it could delay adjustment rather than make it easier and thus requires fine judgement as to future government behaviour - even though the 'moral hazard' dilemma would clearly apply more to the creditors than to the debtors in such circumstances. On the other, the speed of intervention is crucial in such cases, and thus automatic access on country request (or at most on approval by Fund executives) would be necessary - which would effectively disenfranchise the Executive Board. Thus the quality of the Fund's assessment is crucial in determining whether the effects will be positive and in giving the right signals to international capital markets - particularly where by definition it is necessary to intervene *against* prevailing market sentiment.

The scale of intervention in three recent crises gives some idea of the funding problem involved in global central banking were countries of any size to be involved. In one day in early June 1995, the G3 central banks spent $20 billion in supporting the dollar - an effect which lasted for little more than a week. During the 1992 ERM crisis, some $130bn was mobilised (mainly by the Bundesbank) in defence of the currencies of Denmark, Ireland, Italy, Portugal, Spain and the UK - countries whose combined IMF quotas were $23 billion, and thus under the proposed 300% rule could have drawn only $70 billion. In the Mexican crisis, $50 billion was eventually needed for the rescue plan.

At first sight, the recent Mexican crisis appears to be a good example of the potential use of such a STFF: in fact the initial IMF access offered to Mexico of $7.8 billion was three times quota, but this was rapidly raised to $ 17.8 billion (ie seven times quota). Even though this was only a third of the $50 billion required for the rescue plan, it was widely regarded at the time as an impressive display of flexibility by the Fund faced by the threat of a systemic threat to world capital markets (or at least emerging markets). However, in retrospect the episode can be seen as evidence of the continued power of the US Treasury to change the unwritten rules in support of US investors, while the nature of the operation (refinancing Mexican treasury bills) was such that medium-term rather than short-term resources were clearly needed. In this context, the Mexican experience does not seem to be a promising example of Fund management as it did not warn either side adequately before the event - although neither did the leading private sector ratings agencies. Even after the event the Fund could not decide on the origins of the problem, offering three alternative explanations for the excessive current account deficit generated by the private sector which it had not previously thought significant.[3]

There are a number of potential externalities arising from effective large-scale intervention in support of capital markets. First, the potential 'crowding in' of foreign investment as a consequence of increased confidence arising from an IMF support operation might be accompanied by a 'crowding out' of other lending activities of the Fund. Clearly this is much more likely if it were financed from the Fund's regular resources (or gold sales) than if special arrangements were made for a special issue of SDRs or to borrow from another source such as the General Agreement to Borrow (GAB) or directly from the market. Second, there would be a general gain if the creation of the new facility reinvigorated the Fund as part of a stronger system of global economic management - particularly if this involved the active participation of industrial economies and greater coordination of their macroeconomic (and thus exchange rate) policies. Cooperative handling of problems of debt overhang, transition to market systems and access to capital markets would benefit not only the country directly involved but also other LDCs in similar situations - both through a learning process and enhanced investor confidence. Third, if the financing of the STFF involves the provision of liquidity rather than insistence on recessionary stabilization programmes this should help to sustain steady global demand growth.

Global financial regulation

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[3] IMF, 1995, *World Economic Outlook* Washington DC: International Monetary Fund

A logical complement to discretionary intervention in order to compensate for market failure *ex post* is the reorganization of markets themselves in order to reduce the likelihood of such failure *ex ante*. Indeed, the effectiveness of international public institutions - which range from securities market regulators to the Bretton Woods bodies themselves - should be judged in terms of their ability to maintain an orderly market and stimulate real investment, growth and employment on a global scale.

The rapid development of international financial markets in recent years has had a paradoxical consequence. On the one hand, the increased marketability of assets has lead to increased liquidity - thus decreasing the need for access to official borrowing in the case of most middle-income countries and many of the larger low-income countries such as India and China. On the other hand, this liquidity has increased systemic risk because collapse or insolvency can be rapidly transmitted from one market or institution to another. Indeed it has been apparent for some time that this problem is particularly acute where regulatory systems have incomplete coverage or overlap in an inconsistent manner, creating opportunities for speculative profits: "there is a growing tendency to build financial links along regulatory fault lines where the responsibility for supervisory oversight is weak, divided or clouded".[4]

From the point of view of non-industrial countries, there are particular problems arising from this process: (a) the need for greater investor protection and incentives in order to encourage longer term investment; (b) the threat of contagion from default in the region spreading to other neighbours; and (c) the additional macroeconomic instability caused by fluctuations in narrow and shallow domestic security markets which attract foreign capital inflows.

The maintenance of stable access to international capital markets is crucial - particularly under conditions of exogenous shocks - so as to permit high levels of investment leading to sustainable growth of output, productivity and employment. Global central banking thus requires a combination of crisis intervention and prudential regulation - not just the provision of liquidity as lender of last resort. Given that liquidity in a complex global capital market is more a matter of asset preference than one of money supply as such effective intervention

[4] Federal Reserve Bank of New York, *Annual Report 1985*.

requies adequate regulation and conversely.

To date, the global regulatory functions have been undertaken by the BIS, a pre-Bretton Woods institution, having been founded in 1930 as a means of payments crisis prevention - which coordinates the increasingly autonomous OECD central banks and focuses on maintaining payments systems rather than provision of liquidity. Such prudential regulation is becoming more important as international capital flows shift from public to private sectors. The object of the BIS in practice is to curb excessive risk taking by lenders *ex ante* (instead of helping borrowers *ex post* as the Fund does) through regulations as to the asset portfolios of financial intermediaries. Although it does act as a coordinator of leading central banks in crisis situations (eg the 1995 Mexican crisis) it does not make loans itself except in the form of bridging finance.

At present the Basle rules on capital adequacy refer only to banks although the BIS sees a clear need to extend them to securities firms, to define clearly the jurisdictions of national regulators and to define the role of internal risk management systems. This is a particular problem because deposit insurance and lender-of-last-resort facilities are normally only available to banks, so that other intermediaries are more liable to collapse. In contrast, the European Commission's Capital Adequacy Directive of 1993 applies to both credit institutions and securities firms, and takes certain unsettled obligations explicitly into account. There is also a marked trend towards allowing supervisory recognition of an institution's internal market risk management model, in order to cope with derivative trading and complex portfolios - which the traditional capital adequacy rules (based on the nature of the counterparty and the credit risk involved on individual asset classes) cannot do.

Given the similarity in the concerns and functions of the duty of oversight of payment and settlement systems on the one hand, and those of prudential regulation and supervision on the other, it is not surprising that both functions are usually performed by central banks in the domestic context, either directly or indirectly through a financial superintendency. Historically, both functions have their origin in the role of central bank as an ultimate supplier of a risk-free medium to the financial system: the provision of liquidity is the last line of defence in the containment of systemic crises. As the BIS puts it:

> " Distinguishing solvency from mere liquidity problems is a difficult task; it becomes practically impossible without the necessary advance knowledge of the financial condition of participants .... the information needs of the central bank are an important dimension of the problem of the organisation of the lines of defence to deal with systemic risk ... (as) ... the progressive expansion in the sphere of markets and hence in trading can be expected to further heighten the risks involved in the execution of financial transactions or by the intermediaries facilitating their completion."[5]

The integration of financial supervision systems within the US and within the European Union, both currently under way, may provide a model for eventual global arrangements. Unfortunately the other line of advance, that of international coordination between domestic security regulators (through the International Organization of Securities Commissions) has made little progress in establishing a parallel for securities firms to want the Basle accord has done for banking - mainly because of disagreement between the US and other fifty member countries. In contrast, considerable progress has been made by OECD countries towards the integration of regulations on direct foreign investment, although this is unlikely to be extended under the WTO umbrella because of the unwillingness of developing countries to liberalize as quickly as industrialized ones.

The non-industrial countries probably have more to gain from a rule-based system than from a discretionary one, because although the latter allows their special circumstances to be recognized in a crisis, the former would recognize them as partners in a global system. Establishing global rules is difficult, as the experience of the Uruguay Round indicates, and there may appear to be some operational benefit from establishing systems in particular regions or groups of countries; but in the case of capital markets, an incomplete system is an invitation to speculation and evasion unless the cost of exclusion is a real deterrent.

The Bretton Woods Commission felt that "the time is now ripe to restore the original focus of the Fund on international monetary issues" and strongly recommended that "the IMF should be given a central role in coordinating macroeconomic policies and in developing and

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[5] BIS, 1994, *Annual Report, 1994,* 191-2,(Basle: Bank for International Settlements)

implementing monetary reforms", but believed that this would require two previous steps: "first, the major industrial countries should strengthen their fiscal and monetary policies and achieve greater overall macroeconomic convergence; and second, these countries should establish a more formal system of coordination, involving form and credible commitments, to support these policy improvements and avoid excessive exchange rate misalignments and volatility".[6]

The Mexican crisis of 1994, however, was an indication that the IMF is not currrently taking a lead role in global financial coordination as noted earlier. The underwriting of the refinancing of Mexico's short-term debt in early 1995 required unprecedented coordination between the US Treasury, the International Monetary Fund and the Bank of International Settlements, and thus presented a very good example of the operational problems raised by international crisis management. But at the Toronto G7 meeting, despite formal agreement on the support package, strong resentment remained among other members who did not feel that adequate prior consultation had taken place on an operation to acquire one-third of Mexican debt, while the absence of adequate and timely information on international asset risk and the inability (or unwillingness) of markets to handle long-term debt problems seems to have been at the heart of the Mexican problem - which the IMF neither foresaw nor prevented. This is not a problem confined to emerging markets subject to unforeseeable political and economic shocks: the debt problem in a number of smaller OECD economies will probably require coordinated international action in coming years in order to prevent financial market instability from bringing the current global economic recovery to a halt.

Setting up a structure of surveillance and early warning in order to monitor and respond to emerging crises is essential. However, it is not entirely clear that the IMF is the best institution to do this; the Fund would require considerable enhancement of its powers, which are essentially confined to making funding conditional on the fiscal and monetary policy stance of a borrowing government. The Fund cannot conduct the kind of open-market operations or impose the temporary administrative regulation of capital flows required in international

[6] Bretton Woods Commission, 1994, *Bretton Woods: looking to the future* A-4,5 (Washington DC: Bretton Woods Commission)

emergencies - powers which are normally conferred on central banks in order to cope with financial crises at the national level. Nor can it conduct prudential regulation of lending institutions to prevent losses on unsafe asset portfolios leading to systemic risks. Without such powers, or close cooperation with those national or international institutions which might have (or obtain) these powers, it is very difficult to see how the International Monetary Fund can fulfil the task with which it was entrusted at Bretton Woods - above all by regulating lenders as well as borrowers, as national financial authorities do as a matter of course.

From most perspectives, it must be concluded that the Fund has failed as a global institution overseeing global economic policy. Two exceptions to this should be noted. One was with the issue of SDRs in the 1970s, when the Fund did take a global perspective and global action over world liquidity. But this was not repeated even when it seemed particularly needed in the 1980s. The second is that the Fund has helped impart a philosophy of financial discipline to the world economy, reflecting its own essentially monetarist philosophy. Yet there has not been any massive turnaround; inflation, on average, has actually increased in Africa and even in Latin America (largely due to the very high inflation rate in Brazil); fiscal imbalances remain as large as ever in Africa, though they have been eliminated in Latin America; the current account deficit was as large in Latin America in 1992 as it was in 1982; it had been reduced, mainly as a consequence of lack of finance, in Africa.

The IMF and individual countries

In practice, given its neglect of global functions, the IMF's impact has been almost exclusively through its dealings with individual countries, for whom it provides balance of payments support. Initially, this was provided mainly to developed countries, according to need and without policy conditionality.[7] For example, in 1946, the Managing Director of the Fund stated that the fund could be considered as " sort of automatic machine selling foreign exchange to members within certain limits."[8] However, in 1952 policy conditionality was

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[7] See S. Dell, 1981, 'On being grandmotherly: the evolution of IMF conditionality', Princeton Essays in International Finance, no. 144.

[8] quoted in Dell, p 8.

introduced, in response to US pressure, and this has been progressively tightened over the years. From the 1960s developing countries began to be important clients of the Fund, although lending continued to developed countries until the late 1970s. Since then, IMF lending has been confined to developing and transition countries. The policy conditionality of the Fund has grown in influence over the decades as the number of countries involved has risen (typically under ten in any year in the 1950s; up to 25 in the 1960s and 1970s; up to 46 in the 1980s; rising to 53 in 1992), and as the period of time for which individual countries had arrangements with the Fund increased - for example in SubSaharan Africa thirteen countries had Fund programmes for five or more years in the 1980s.

Fund lending to individual countries raises three types of question: (i)the legitimacy and mode of agreement of the conditions; (ii) the content and impact of the policy conditions; (iii) the adequacy and terms of the financial flows.

(i) *Legitimacy and mode of agreement of Fund conditionality.* Any institution (e.g. a commercial bank) which is lending and expects repayment is entitled to some sort of guarantee that repayment will occur. Since countries cannot (or at least do not) present collateral, policy conditionality substitutes for this to provide the assurance that policy changes will be undertaken which generate the resources necessary for repayment. From this perspective, policy conditionality is perfectly legitimate. But there are many alternative policy packages which would offer the promise of generating enough foreign exchange to guarantee repayment. The Fund, however, insists on just one of these alternatives - its own policy package. While conditionality as such is legitimate, it should be confined to making sure that some policies are adopted that will bring about the probability of repayment, not to a particular package of policies as Fund conditionality is. The Fund, therefore, goes beyond the limits of legitimate conditionality, if this is interpreted as a requirement that any lender is justified in imposing.

Secondly, there is the issue of how Fund conditions are arrived at. The justification for legitimacy suggested above would lead to the conclusion that the borrower should offer a set of policies to the Fund, which in turn may discuss/negotiate with the borrower until agreement is reached. In a sense the borrower would impose its *own* conditionality, sometimes described as *self-conditionality*. This type of conditionality would have the considerable advantage, from the perspective of effectiveness, that self-selected policies are more likely to be adopted, supported and sustained. It is widely acknowledged that lack of 'ownership' has been a major cause of deficiencies in Fund and World Bank programmes. Self-conditionality would solve the ownership problem.

However, the reality is very different. Fund officials devise the basic frameworks of the programmes with little contribution from local officials. Most programmes contain a near identical set of policies; differences lie in the magnitudes, sequencing and so on, and in these areas local people may make some contribution. Fund teams do much of their work in Washington, arriving in a country with much of the programme prepared and stay for two or three weeks. These are the policy programmes which will determine most elements of economic policies for several years - levels of government expenditure and taxation, the exchange rate, price policy etc. Yet local inputs are very small, and Fund knowledge of the countries typically unimpressive. While the international community advocates democracy and participation, it turns a blind eye to the fact that the major economic decisions of Fund-borrowing countries are taken in Washington. As already noted, this mode of reaching 'agreement' has a price, not only in terms of participation, but also the effectiveness of the policies. In some cases, policy agreement is followed by violent protests (e.g. in Zambia, Dominican Republic, Venezuela to mention just a few), which arise because the Fund technocrats do not understand local political realities.

We should note that countries which represent potential global threats (economically or politically) are treated differently - their programmes, e.g. that of Russia or Mexico when in crisis, are negotiated rapidly and with generous conditions. It is the relatively weak economies which face the standard treatment.

ii) *The content and impact of Fund policy conditions*

IMF policy packages are devised in the context of a simplistic rextbook view of the world, which does not take into account recent advances in theory, such as wqith respect to asymmetric information and endogenous growth. Control of monetary aggregates (in turn requiring control over public expenditure and budget deficits) are regarded as essential to control inflation and to improve the balance of trade, supported by exchange rate devaluation to provide the incentives for switching resources to the tradable sector[9]; price controls, trade restrictions and financial repression etc. are to be eliminated to permit market forces to bring about efficient resource allocation. There is a remarkable consistency about Fund policy packages - all include deflationary policies in the form of cutbacks in monetary aggregates, credit (especially to the public sector) and public expenditure; most include switching policies such as devaluation and price liberalisation; all include some efficiency promoting measures such as trade liberalisation, interest rate and price liberalisation. [10]

Some changes occurred towards the end of the 1980s in response to criticisms: the most substantive was the introduction of joint programmes with the World Bank for low-income countries (the Structural Adjustment Facility - SAF- and the Enhanced Structural Adjustment Facility -ESAF). These were longer term programmes and the conditions were jointly agreed with the World Bank. New objectives were also acknowledged: for example, economic growth was accepted as an objective in ESAF programmes, initiated in 1987, and in 1990 the Managing Director (Camdessus) stated that "Our prime objective is growth"[11]. Similarly, after the criticisms of UNICEF and others, Camdessus noted that 'macroeconomic policies can have strong effects on the distribution of income and on social equity and welfare. A responsible adjustment program must take these effects into account, particularly as they impinge on the most vulnerable or disadvantaged groups in society'[12] From 1988, each IMF county Mission was required to report on the poverty implications of country programmes. SAF/ESAF programmes are required to "identify measures that can help cushion the possible adverse effects of certain policies on vulnerable groups... *in ways consistent with the program's*

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[9] It should be noted that this represents a change in policy. In the early days the Fund favoured fixed exchange rates.

[10] See e.g. IMF, 1986, 'Fund-supported programs, fiscal policy and income distribution', *IMF Occasional Paper* 46, (Washington DC: IMF); T. Killick, *1995, IMF Programmes in Developing Countries* (London: ODI).

[11] Remarks to the UN, July 1990, quoted by J. Pollak, , 1991, 'The changing nature of IMF conditionality' *Princeton Essays in International Finance,* 184, p19.

[12] Speech to the US Chamber of Congress, March 26, 1990.

macroeconomic framework"[13] (our italics). Certain safety net measures have been introduced for the poor in some countries - e.g. the Dominican Republic. But a review of safety net measures introduced in association with adjustment policies shows that they are rather ineffective, reaching only a small fraction of those in need.[14] The basic design of the programmes as a whole has been unchanged as it is claimed that the existing policies are in fact those best suited to promote the interests of the poor.

> These [Fund] programs involve, first and foremost, macroeconomic discipline, beginning with the reductions of fiscal deficits and monetary measures aimed at achieving price stability and realistic exchange rates...*Let me say outright: these policies serve the poor, and we must do our utmost to implement them if we are to be efficient in the fight against poverty.* [15] (our italics)

The impact of Fund programmes

A priori one would expect the harsh deflation of Fund programmes to lead to lower output and employment and increased poverty at least in the short run, while inflation might be expected to be reduced. Cuts in government expenditure could be expected to reduce the availability of social sector services and economic infrastructure. In the longer run, the elimination of imbalances and greater efficiency of resource allocation might be expected to lead to a resumption of economic growth, offsetting earlier effects on employment and poverty. The 'switching' policies, devaluation in particular, might be expected to improve income distribution if the poor are heavily involved in tradable production (perhaps, for example, where labour-intensive manufactures respond to devaluation, or where peasant production caters for exports) but to worsen income distribution where tradables involve minerals (oil, copper etc.) and where the poor are heavily involved in non-tradable production, suffering cuts in employment and real wages (as in industry in Latin America). However, the

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[13] *IMF Annual Report*, 1991, 51-2.

[14] F. Stewart and W. van der Geest in F. Stewart, 1995, *Adjustment and Poverty: Options and Choices*, (London: Routledge).

[15] Statement by M.Camdessus, Managing Director of the IMF to the UN Social and Economic Council, July 11 1990.

improvements would only occur if there were sufficient flexibility in the economy for significant export expansion, while many of the poor and vulnerable would inevitably be left out and suffer the hardships of rising food prices etc. because so many of the worst off are not in the workforce at all, because they are too old, too young or handicapped, while many others are not working in the export sectors but are scraping a living in the informal sector or in non-export agriculture.

On balance, IMF macro-policies can be expected to reduce incomes in the short to medium term and worsen poverty, the effects being greater the more the deflationary component and the less the switching component of policies. The weight given to deflation depends largely on the availability of funding. Any worsening of the position of the poor arising from macro-policies is likely to be compounded by meso-policies that form part of the policy-package - in particular by cuts in government-provided social services, by the introduction of charges for schools, health services and water, and by the withdrawal or reduction of food subsidies which are also typical components of the IMF policy package.

While negative effects are likely in the short to medium term, supporters of the policy package point out that some stabilisation/adjustment is essential in borrowing countries, whether supported by the Fund or not. Hence an assessment of what the alternative scenario would look like, which is unavoidably a speculative exercise, is necessary to assess the net effects of Fund programmes.

Empirical evidence shows that in the majority of countries adopting Fund programmes in the 1980s and 1990s, per capita incomes have been falling, and poverty worsening. The 1980s was a decade in which most African and Latin American countries were forced to borrow from the IMF. In both these regions average per capita incomes fell and poverty worsened significantly. However, as countries which went to the Fund did so because they were in acute economic difficulties, due to the debt crisis and falling commodity prices, some adjustment would have been necessary whether they received Fund support or not. Empirical evidence on the difference Fund programmes made is somewhat inconclusive: partly because of the difficulty of identifying an agreed 'counterfactual'; and partly because many countries which had Fund programmes also had World Bank programmes.

Most investigations have been concerned with the effects on macro-variables and not directly with poverty. The most reliable studies are those that try and incorporate the effects of other variables (e.g. terms of trade changes) as well as of Fund programmes and then compare countries with and without Fund programmes. One study for the period 1974-81 showed that the Fund programmes had *no* impact on balance of payments, growth or inflation.[16] A study of 1973-1988 showed positive effects on the balance of payments and inflation but negative effects on growth.[17] Numerous other studies using a variety of less reliable methodologies come to mixed results. Perhaps the most remarkable finding is the large number that show no impact of Fund programmes on the main macro variables.[18] The conclusion is a that there has been a small negative impact on growth of Fund programmes and little effect on other macro-variables.

The negative effect on growth can be expected to worsen poverty. For Latin America, comparisons between countries with and without Fund programmes showed that in the Fund-assisted countries the wage share fell, suggesting this was compounded by worsening income distribution. Elsewhere, systematic testing has not been undertaken because of inadequate data. In Africa, poverty has worsened in Fund-assisted countries, as well as in those countries without programmes mainly because of the poor growth performance. This does not seem to have been offset by any positive effects on income distribution, as is sometimes claimed.[19] While some of the poor benefited by improved prices for their export crops only a minority were involved in export production and many more were negatively affected by a combination of rising food prices, falling employment and worsening government services. In Asian countries, growth performance was positive among adjusting countries (though less than among other Asian countries) and this offset some tendency for worsening income distribution, so that poverty generally fell in adjusting countries.

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[16] M. Goldstein and P. Montiel, 1986, 'Evaluating Fund stabilisation programs with multi-country date: some methodological pitfalls', *IMF Staff Papers*, 33.

[17] M. Khan, 1990, 'The macro-economic effects of Fund-supported programs', *IMF Staff Papers*, 37.

[18] See summaries in Stewart, 1995, op. cit., Table 2.2 and Killick, 1995, op. cit., Chapter Three.

[19] E.g. by D.E. Sahn and others, 1996, 'Exchange rate, fiscal and agricultural policies in Africa: does adjustment hurt the poor?', *World Development*, 24.

To summarise: Given the most rosy interpretation, Fund programmes have done nothing for average incomes, or the poor, at a time when the position of people in general and the poor in particular was under threat from the worsening economic situation. Moreover, they have often not even achieved their stabilisation objectives.

Financing of programmes

The record of net flows from the Fund to developing countries is not impressive. In 1982, at the peak of the debt crisis, the net credit from the Fund to developing countries was $6.9b. Non-oil developing countries' deficit on current account of the balance of payments was $82b. in that year. Net credit rose to $11b. in 1983 (or nearly a fifth of the current account deficit, which had been squeezed due to lack of finance). But this was the peak flow. Net credit fell to $0.3b. in 1985 and from 1986 to 1990 inclusive was *negative*, the total outflow over these years from developing countries to the Fund being $15.5b., thus making a negative contribution to countries' efforts "to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity" (Articles of Agreement of the Fund, 1(v)). The net flow has continued to be negative for most years in the 1990s apart from the big loans involved in the Mexico rescue of 1994/5.

Moreover, Fund lending has tightened the debt situation of borrowing countries, by replacing trade and commercial debts - payments on which countries in difficulties may and do postpone - by its own loans which countries have to give the highest priority if they are to be able to borrow from the World Bank or the Paris Club.

The IMF is essentially a revolving fund whose loans have to be paid back after a short time, so its not surprising that its contribution in aggregate is near to zero. The Fund was initially designed for developed countries, which have a flexibility that makes it possible for them to turn round a deficit quickly. Moreover, the SDRs (and in Keynes' initial idea the *bancor*) would have permitted more and longer-term financing. Developing countries, especially poor primary producing developing countries, need more and longer term finance, so as to enable them to undertake new investments, promote education etc., all essential for adjustment. Hence the short term finance of the Fund is essentially unsuited to their problems. Moreover, along with the short-term funds come policies which require a short-term response, which, therefore, as noted above, are much too deflationary, with adverse consequences for growth, employment and poverty.

When Fund programmes are combined with World Bank programmes (as in ESAF) this problem is less acute, since more long-term finance is forthcoming. It remains true that these programmes too are essentially underfunded, and the policy package requested still has too large a deflationary component.

The funding needs of developing countries arise largely from the two problems of huge debt service bills and worsening commodity prices. If the Fund, in its role of global monetary institution, had produced a solution for these problems, then its own inadequate financing would have mattered much less. But it failed to do this so that its financing role was important, and here too it failed the countries most in need - in Africa and Latin America.

Conclusion

This note has reviewed the two major roles of the Fund - as global monetary institution; and as lender and policy-maker for individual developing countries. It has argued that the Fund has failed to make a significant contribution as a global monetary institution. It has not initiated solutions to major problems as they arose, ranging from recycling of oil-surpluses, to the debt and commodity price problems, to the volatility of private international capital flows that we have witnessed in the 1990s. In its fifty year history, the Fund has not performed the two major roles required of a global monetary institution - that of lender-of-the-last-resort or prudential regulator of international capital. These failures have increased the need for individual country finance; but as a revolving short-term financing institution, the Fund's finance has been negligible when most needed, dictating harsh policy advice. This financial constraint could have been relaxed by greater use of SDRs (or sale of the gold stocks). But the countries that govern the Fund rejected this option. The Managing Director has put forward some imaginative proposals in this regard which have been turned down by the developed countries.

The declared objectives of the Fund today include the promotion of growth and an improvement in the position of the poor. The earlier analysis indicates that to achieve this serious revision of Fund policies and lending are needed. The following are some suggestions:

1. A key factor is to reduce the deflationary element in programmes. This would not only mean less immediate costs for borrowers, but would also make it more likely that successful switching occurs, since investment is often essential to permit the necessary expansion of exports (or import-substitutes) and this will not be forthcoming if there are severe credit restraints and cuts in complementary public infrastructure expenditure.

2. To achieve a smaller deflationary element would usually require more *net financing*. This might consist of (i) more flows of finance from the Fund itself, aid donors or the private sector; (ii) reduced outflows on existing borrowing, through debt write-offs, debt rescheduling on generous terms, and/or reduced interest rates.

Any success in improving prices of exports, by schemes to sustain commodity prices, for example, would also reduce the need for finance.

3. Less emphasis should be placed on *cutting public expenditure* and more on *raising revenue* except in very heavily taxed countries. Government expenditure in infrastructure is necessary to help promote private investment; social sector expenditure is essential not only for its contribution to human wellbeing, but because education is one of the most important inputs into economic growth.

4. The introduction of user charges for health and education (apart from complex hospital procedures and tertiary education) should be avoided. These charges invariably hit the poor and deter users. Exemption schemes do not work adequately.

5. In most situations food subsidies should be maintained, although the incidence should be examined and 'poor people's foods' subsidised. Even if they do not reach all the poor, and if better off people get access to them, food subsidies almost always have a significant positive effect on the nutrition of the poor. When other policies are being introduced that are liable to

hurt the poor, consideration should be given to introducing food subsidies.

6. Government expenditure reviews should ensure that priority expenditures (primary health and education, much economic infrastructure) are not cut in any general expenditure cuts.

7. 'Safety nets' during stabilisation should be reconsidered. Current programmes often consist mainly of projects for civil servants who have lost their jobs. They do not reach most of the poor. Employment schemes which are open-ended and offer employment at very low wages to anyone who comes forward are much more effective, as experience in Chile and Maharashtra has shown. These should be supplemented by schemes to provide credit and technology for the low-income.

8. *Targets* of Fund programmes should include growth of per capita incomes and poverty reduction (reflecting the new objectives) and these elements should be *monitored as* carefully as money supply, inflation rates etc. are currently monitored.

9. In general, the fund should be less dogmatic and ideological on how the objectives of stabilisation, growth and poverty reduction are to be achieved. They should be ready to comment on alternative programmes that countries put forward and to recognise that there are alternative routes to the same end, particularly in the light of the dubious record of their own programmes in achieving these objectives.

Finally, there is also some current debate as to the governance of the IMF itself on two distinct yet related issues. On the one hand, there is concern that the directors are insufficiently senior to take major decisions, so finance ministers must be convened to take them - with a loss of the speed and discretion which are essential for effective central banking (BWC, 1994). A more regulatory stance might reduce the need for such delegates, but an enhanced international role (even as executive secretariat to some international body) would once again require directors with authority both among their peers and with their home government. On the other hand, there is a longstanding criticism that the IMF board reflects the industrial-country 'shareholders': even taking into account the non-industrial countries' share in world output their representation should be greater, but this should not be obtained at the cost of reducing the Fund's potential power to regulate the G7 policies. Once again, a more regulatory (rather than interventionist) approach would reduce the fears of all parties and make a balanced solution more likely. This might take the form an 'economic security' body similar to the UN Security Council with permanent G7 membership and rotating minority membership from the Rest of the World.[20]

The world urgently needs a global institution which will oversee the world economy; coordinate reflationary or deflationary action; consider and recommend action on major global issues such as debt, capital movements, commodities, etc. The IMF has failed to do this. Either it should be asked to perform these functions or a new global institution should be developed to do so, such as an Economic and Social Security Council at the United Nations.

[20] See F.Stewart and S.Daws, 'The case for an Economic and Social Security Council at the United Nations', *Viewpoint* 10, Jan. 1996.

Appendix

Costing reforms proposed concerning the operations of the International Monetary Fund

In our evidence to the Treasury Committee on the International Monetary Fund of November 4th 1996 we agreed to supply the Committee with a note estimating the cost of the proposals we had made concerning the IMF in the conclusion of our written evidence. This note provides such an estimate.

The one proposal that would require additional foreign finance is the proposal that the deflationary element in Fund programmes should be reduced.

Costs of avoiding deflationary programmes

A major reason why IMF programmes tend to be deflationary is a shortage of foreign finance. This shortage concerns *net availability of foreign finance*. Net foreign finance is the balance of gross inflows of aid and private finance less outflows for interest payments and amortisation. Hence additional net finance can be achieved in a variety of ways, i.e. (i)increasing gross inflows of aid or private finance; (ii)reduced interest rates on existing debt; (iii)delayed (or cancelled) payments on debt.

Given current export earnings, the availability of net foreign finance determines the level of imports a country can afford. Imports may consist of (a) imports for consumption; (b)imports which form current inputs into domestic production - e.g. parts, fertiliser, etc.; and (c)investment goods. The trade liberalisation programmes of the IMF typically raise imports for consumption. Given this, the productive imports, (b) and (c) tend to be squeezed when there is a shortage of finance. But squeezing (b) leads to a fall in current production, while reducing (c) means that future growth is adversely affected, while the economy's ability to reorient itself towards new types of import substitutes and exports is constrained by lack of investment.

Adjustment with growth and poverty reduction requires a rise in imports for inputs and investment, which means a rise in net foreign finance sufficient for this and to finance any rise in imports of consumption goods associated with the liberalisation.

In the 1980s, there was insufficient net finance in both Latin America and Africa, but Asia managed well because of its rapid export growth and inflows of foreign private capital. The Latin American situation has been turned round as a result of the Brady Plan, which released resources previously devoted to debt servicing, and the large inflow of private foreign capital that followed. As a result growth and poverty reduction resumed in Latin America in the 1990s. It is Sub-Saharan Africa (SSA) that is suffering today from a shortage of net finance. This is a major reason why adjustment has not been combined with growth and poverty reduction in many countries in Africa. The 'success' cases, including Ghana and Uganda, *have* been generously financed, and both started their adjustment with relatively small debt servicing. Underlying the shortage of net finance in SSA is the continuing poor terms of trade, so that despite increases in export volumes, real earnings have not kept pace. Therefore,the main need is for additional financing to permit a sufficient level and growth of imports in SSA.

SSA's foreign exchange problems began around 1980 when the terms of trade began to move adversely, and an import squeeze was initiated.

As can be seen from table 1, total imports fell by 2.4% p.a. from 1980-94 (falling in the 1980s and with some recovery in the 1990s.) Imports per capita fell by 5.3% p.a. These figures relate to imports valued at current price dollars. In volume terms, they did even worse (by about 1% p.a.).

Table 1

SubSaharan Africa: Imports, growth and investment, 1980-1994

	1980-90	1990-94	1980-94
Imports, $m. value, % p.a.	- 3.7	+ 1.8	- 2.4
Imports $m.p. cap., % p.a.	- 6.7	- 0.9	- 5.3
GDP	+ 1.7	+ 0.7	+ 1.5
GDP p.capita	- 1.3	- 1.8	- 1.4
Investment,	- 4.1	- 0.4	- 3.1
Exports, $m.% p.a.	+ 1.1	+ 0.9	+ 1.0

Source: World Bank, *World Development Report 1996*

The import squeeze was a major element holding back economic growth. Despite the fall in imports GDP managed to grow by a small amount, but much less than the growth in population, and per capita GDP fell, as did investment.

For positive growth in per capita incomes, import volumes need to grow by a minimum of 4% p.a. (i.e. by at least one percentage point more than the growth in population). Given the slow growth in export earnings, this requires additional financing of 3% of the current value of imports, or, in 1993 values, by $2.8 billion for SSA as a whole. This is equivalent to one fifth of present grants (aid) to SSA or between one quarter and one fifth of total debt servicing in 1993.[21]

The IMF is not the place to look for this additional financing because it requires rapid repayment. For this reason its record in transferring resources to SSA has been extremely poor in recent years, with negative net flows from 1988 to 1993, and positive flows of only $0.5b. and $0.6b. in 1994 and 1995. The finance needs to come from some combination of debt

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[21] Data derived from the World Bank, *World Debt Tables 1994-5*.

write-off and additional grant aid.

$2.8b. represents only 3.7% of all DAC aid (1994), and could be achieved by drastically reducing aid to middle and high income developing countries. If instead it were to be realised by an increase in aid proportionately from all DAC countries, the British contribution would be $118m.

SSA's fundamental foreign exchange problems arise from worsening commodity prices and a failure to diversify into potentially fast growing manufactured exports. The commodity price question has proved difficult to tackle, but renewed international attention to it is warranted. Diversification into manufactured exports could only be achieved if SSA has the resources to spend on education, training and physical investment. Hence it does not represent an alternative to more generous current financing, but rather more current financing is essential for it. Ten years of more generous finance for SSA, focused on developing human capital and diversifying the economy, could lead to a situation in which export earnings and private finance are sufficient to generate an adequate growth in imports.

The other proposals in the evidence to the Committee

The other proposals all involve redirection of *domestic* resources:
- The proposal that governments of adjusting developing countries should place more emphasis on revenue raising and less on expenditure reduction, except in very heavily taxed countries, would raise revenue, releasing resources for other uses.
- The proposal that user charges for health and education should be avoided, apart from those for complex health procedures and tertiary education, would cost governments little since at present user charges generally raise only a small fraction of revenue (a maximum of 3% of total government revenue and typically below 1/2%). This could be recovered by the introduction of charges on complex health procedures and tertiary education.
- The proposal that food subsidies on 'poor people's foods' should be maintained (or introduced) could be financed by a small increase in indirect taxation on luxury commodities (including petroleum). Subsidies on foods consumed mainly by upper income groups (e.g. meat) should be withdrawn.

- The proposal that priority expenditures which benefit the poor should be protected in any expenditure cuts could be financed by larger cuts of low priority expenditures, such as defence expenditure. Priority expenditures directed towards the poor rarely exceed 10% of government expenditure, and is usually significantly less than defence expenditure's share. With total expenditure cuts of 5%, protection of priority items against such cuts would involve at most 1/2% of government expenditure. This could be financed by a double cut in defence expenditure (i.e. by 10% instead of 5%).
- The proposal to redesign safety nets so as to replace the Social Funds by open-ended employment schemes at low-wages in part involves a switching of the existing expenditures currently devoted to Social Funds. It may involve some additional expenditures which could be financed by extra taxes or charges on those who benefit from the results of the employment (as in the case of the Maharashtra Employment Scheme) and other revenue-raising measures (e.g. local taxation). Additional foreign resources are not needed. The most successful schemes, including the extensive schemes in Chile in the early 1980s and the Maharashtra Employment Scheme were domestically financed.
- The last two proposals concern monitoring and ideology and have no resource implications.