# International Monetary Fund (IMF)

## I. Introduction

[1] The International Monetary Fund (IMF) is an → international organization comprised of 190 member countries and tasked with providing balance of payments relief to governments experiencing unsustainable levels of external debt. It is arguably the world's most powerful agent of economic reform. Not only is it central to the functioning of the world economy in providing financial resources during economic crises, but it has also played a decisive role in the development trajectories of countries – usually, although not exclusively, developing countries – throughout the world (see also → Sustainable Development). In exchange for access to financial assistance, national governments must agree to a list of policy reforms aimed at balancing the budget and improving debt sustainability. This practice, known as 'conditionality', affords the IMF substantial domestic policy influence, with major implications for the enjoyment of human rights and realization of → Sustainable Development Goals (SDGs) (→ Human Rights Conditionality).

## II. Legal framework

[2] The IMF's origins can be traced to the Bretton Woods Conference in July 1944, which laid the foundations of the post-Second World War economic order. In response to appeals for a system of global financial governance and greater international economic cooperation, the IMF was established in 1945 (→ Development Cooperation). Its original role was to oversee the system of pegged exchange rates of member governments and make financial resources available to those facing balance of payments crises. But following the shift to floating exchange rates in 1973, only the second facet endured.

[3] The IMF is located in Washington, DC, and headed by a Managing Director who is, by convention, a European national – since October 2019 Kristalina Georgieva from Bulgaria. It is staffed by technocrats trained in neoclassical economics at elite universities, typically in the United States or United Kingdom. The organization is governed by an Executive Board that meets up to three times per week, composed of 24 Executive Directors elected by member countries to decide on a range of key issues, including the approval of loans and the establishment of organizational policies.

[4] The institutional setup of the IMF reinforces dominance by the United States and other economically powerful countries that contribute to its resource base. In contrast to many other international organizations, their voting power is linked to this dominance. The United States holds the largest block of voting shares (16.5 per cent of votes in 2021), followed by Japan (6.2 per cent), China (6.1 per cent), Germany (5.3 per cent), France (4.0 per cent), United Kingdom (4.0 per

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cent), Russia (2.6 per cent), and Saudi Arabia (2.0 per cent). These eight shareholders elect their own Executive Directors – whereas other countries must form constituencies (except for Syria which is represented by the Russian Executive Director) – and institutional reforms concerning debt relief and lending facilities are typically spearheaded by them. The most important decisions, such as changes to the mandate, require a super-majority of 85 per cent, giving veto power to the United States. Resistance to organizational changes that would grant greater influence to developing countries remains a major bone of contention.

[5] The IMF engages in three main operational activities. First, the organization conducts regular surveillance missions, in which it monitors economic performance and risks at the national, regional and global levels. These missions form the basis of non-binding policy advice communicated to countries via annual discussions, called 'Article IV consultations'. The IMF's second core activity is the provision of technical assistance and training on economic issues to central banks, finance ministries and statistical agencies. It is delivered via a combination of short-term staff missions, long-term in-country placements of resident advisors and regional capacity development centres. Third, the IMF lends to countries experiencing balance of payments crises. In exchange for financial support, borrowing countries must agree to a package of obligatory policy reforms, or conditionality, administered through a lending programme lasting from six months to four years. Loan disbursements are phased over the duration in tranches, contingent upon the implementation of policy reforms assessed on a quarterly or bi-annual basis.

## III. Conditional lending

[6] Among its various activities, the IMF's conditional lending practices have attracted the most attention and controversy. The purpose of conditionality is to avert moral hazard: the risk that countries continue to adopt unsustainable policies in anticipation of additional IMF lending. These policy reforms are typically aimed at making the fiscal and debt situation sustainable, improving competitiveness and boosting economic growth. Conditionality has thus afforded the IMF substantial policy influence on struggling countries throughout the world.

[7] Over the years, IMF conditionality has changed significantly. Until the 1980s, the IMF primarily required reforms to fiscal, monetary and exchange rate policies with the aim of controlling inflation, stabilizing currencies and reaching sustainable balance of payments. These reforms appeared in loan documents as a series of quantifiable targets, such as reductions in the fiscal deficit and money supply (→ Austerity Measures). While painful to local populations, programmes were short-term in nature and did not disrupt the relative role of states and markets in domestic economies – a matter considered beyond the IMF's mandate.

[8] In the mid-1980s, the IMF introduced a series of lending programmes targeting structural change. The term 'structural adjustment policies' became shorthand for an extensive range of reforms designed by the IMF to promote fundamental, comprehensive and enduring overhaul of a borrowing country's policy arrangements. Against a background of debt crises, these programmes became ubiquitous, achieving notoriety for requiring developing countries to implement market-liberalizing reforms. Along with austerity measures, the scope of conditionality expanded to additional policy pillars: first, the elimination of barriers to trade and the movement of international finance in order to facilitate access to international markets and promote foreign direct investment; second, repeal of government rules, regulations and checks and balances surrounding economic activity – such as industry entry criteria and labour standards – to abolish perceived inefficiencies in the functioning of the private sector; third, the selling of state-owned enterprises and natural resources to the private sector, with the aim of improving the economic management of these industries.

[9] By the 1990s, the practice of conditionality had become a staple vehicle for implementing the transition to capitalism in post-communist countries. Securing compliance with these prescriptions was achieved not only via the threat of suspending loans to recipient governments, but also through encouraging closer relationships between the IMF, the → World Bank, various regional development banks and private creditors (→ Development Finance). Multilateral agencies harmonized and upheld one another's conditions, while the presence of IMF programmes served as a 'seal of approval' that could catalyse debt relief from donor governments and mobilize financial flows from private international capital.

[10] The IMF was widely criticized in subsequent years, especially following their handling of financial crises in Mexico, East Asia, Russia and Argentina. The organization had promised that

painful austerity reforms would be justified in the long run by sustained economic growth, which failed to materialize. Faced with disconfirming evidence, the IMF's view was that their programmes had paid insufficient attention to the institutions that allow markets to function, such as laws and judicial systems, but that the underlying market-liberalizing impetus was essentially correct (→ Good Governance). By the early 2000s, in response to extensive criticism from civil society, the IMF pledged to strengthen the pro-poor orientation of their programmes.

[11] Following the onset of the European sovereign debt crisis in the late 2000s, IMF lending programmes – typically in collaboration with European Union institutions – spread to the advanced European economies of Greece, Iceland, Ireland, Portugal and Cyprus. These programmes were akin to those implemented elsewhere insofar as they relied on extensive market-liberalizing conditionality.

## IV. Evaluation

[12] IMF conditionality has introduced human rights challenges via multiple channels, with greatest bearing on laws and principles related to health, labour and civil and political rights.

### *1. Health rights*

[13] IMF conditionality affects the fulfilment of the right to quality and affordable healthcare, as codified in the 1966 → International Covenant on Economic, Social and Cultural Rights (ICESCR) and expanded upon in General Comment No 14 issued by the UN Committee on Economic, Social and Cultural Rights in 2000 (→ Health, Right to). The ICESCR and General Comment No 14 enshrine these rights as obligations that must be adhered to by international organizations (CESCR, *Statement: Public Debt, Austerity Measures and the ICESCR* [2016]).

[14] In order to shelter sensitive expenditures from austerity measures, the past decade has seen the IMF increasingly incorporate priority spending targets that stipulate minimum expenditures on health and education. However, poverty reduction is typically accorded subsidiary importance to fiscal measures. Priority spending targets are usually non-binding conditions that serve as markers for broader progress assessment and do not lead to automatic suspension of the loan if unmet, whereas fiscal deficit targets are binding. Furthermore, priority spending targets are observed only half of the time, whereas fiscal deficit floors are almost always met (Kentikelenis *et al* [2016]).

[15] In response to the IMF's austerity drive, governments cut social spending, limiting the accessibility and affordability of health care. A study focusing on West African countries between 1995 and 2014 found that, on average, each additional IMF condition reduced government health expenditure per capita by 0.25 per cent (Stubbs *et al* [2017]). Another study of 137 developing countries from 1980 to 2014 showed that IMF reforms lowered health system access and increased neonatal mortality (Forster *et al* [2020]). In lending programmes of advanced European economies, the → UN Human Rights Council concluded that government spending cuts translated into healthcare staff layoffs, hospital bed reductions and increased waiting times for medical treatment. In developing countries, the IMF instructed governments to undertake redundancies, hiring freezes and wage cuts that impeded the ability to hire, adequately remunerate and retain healthcare professionals.

[16] Aside from austerity, the IMF pushed for the introduction of user fees for access to healthcare and co-payments for medicines and services. As a result, vulnerable populations reduced their use of such services due to the prohibitive costs. In recent years, the IMF policy consensus vis-à-vis developing countries moved away from reliance on such policies. Yet, recent lending programmes in advanced European economies advocated the introduction or increase of user fees and co-payments, and increased the stringency of eligibility criteria for subsidized health services.

[17] The IMF also sought to enhance the private sector's role in healthcare provision by endorsing deregulation of the health sector. Those able to afford private care gained access to a broader bundle of services. However, when coupled with austerity-driven rollbacks, government health provision was restricted to a limited array of services or outsourced to → non-governmental organizations, which were often less equipped to provide comprehensive health services of sufficient quality. Lending programmes are also linked to health system decentralization – the transference of fiscal and operational responsibilities to the subnational level. In principle, decentralization can make health systems more responsive to local needs. But in practice it exacerbated local institutional weaknesses that impaired responses to nationwide disease outbreak, as occurred during the 2014-16 West African Ebola virus epidemic.

*2. Labour rights*

[18] Human rights challenges emerge from IMF conditionality in terms of rights to participate in work, to → freedom of association, to just working conditions and to not be unfairly deprived of work – as contained in the 1966 → International Covenant on Civil and Political Rights (ICCPR), the ICESCR and the 1998 → International Labour Organization (ILO) Declaration on Fundamental Principles and Rights at Work (see also → Work, Right to; → Trade Union Rights). The UN Committee on Economic, Social and Cultural Rights, in its 2005 General Comment No 18, also stressed that international financial institutions like the IMF must adhere to these protections in their lending programmes.

[19] The majority of IMF-mandated labour reforms are wage caps and employment limits, which curtail the right to participate in work and diminished working conditions. A study of 93 countries from 1980 to 2014 found governments cut the public sector wage bill only when explicitly set out as a condition, but backslid towards higher expenditure once programmes ended (Rickard and Caraway [2019]). Despite IMF claims to have since abandoned such practices, in the past decade public sector salary freezes and restrictions on hiring were introduced in Cyprus, Greece, Ireland, Portugal and Tunisia, amongst others. Studies link layoffs incorporated in lending programmes to declines in unionization rates – since labour unions are typically more prevalent in the public sector – and to an expansion in the informal sector.

[20] IMF lending programmes also feature reforms geared towards a fundamental transformation of labour laws and social security institutions. The organization's rationale is based on supply-side economics, which posits that firms invest more when labour markets are flexible and when the costs associated with labour protections are low. The IMF promotes labour laws that legalize temporary work contracts, extend probation periods, remove barriers to firing workers, reduce employee entitlements and dismantle rights to participate in trade unions and for employees to bargain with employers collectively. A study of 70 developing countries from 1980 to 2014 demonstrated that IMF labour market reforms weaken both individual and collective labour rights laws (Reinsberg *et al*, *The Political Economy of Labor Market Deregulation* [2019]). Additional studies show that the more a country participates in lending programmes, the weaker are its labour laws and the poorer its protection of labour rights in practice. Regarding social security institutions, IMF programmes have targeted pensions with cuts and required legislation raising the retirement age, as occurred in the past decade in – *inter alia* – Romania and Portugal. In addition, the IMF has called for reforms to state-owned enterprises, which are viewed as a key source of the public deficits underpinning many of the economic problems that see countries turn to them for loans. These reforms have mandated reductions in entitlements for employees in state-owned enterprises, jeopardizing the right to decent working conditions. In 2016, the UN Human Rights Council concluded that IMF reforms contravened international human rights obligations by eroding labour rights (HRC, *Report of the Independent Expert* [2016]).

*3. Civil and political rights*

[21] IMF conditionality influences state responsibilities with respect to civil and political rights codified in the ICCPR. Research linking lending programmes to rights violations identifies two pathways. The first is that the imposition of policies that transfer power from the state to the market increases rights abuses by weakening the government's ability to enforce rights. The protection of civil rights, for example, requires government expenditures for properly trained and adequately compensated judges, police and military, as well as institutions to monitor the activities of enforcement entities. A study of developing countries from 1985 to 2014 showed that IMF structural reforms – especially those pertaining to privatisation, price deregulation and public sector employment – reduced state capacity (Reinsberg *et al*, *The World System and the Hollowing Out of State Capacity* [2019]).

[22] Even so, the evidence on how IMF conditionality influences democratic rights is mixed. While an earlier generation of studies found it reduced aggregate levels of democracy, new research contradicts these findings. A study of 120 developing countries between 1971 and 2007 observed a modest but positive impact on democracy (Nelson and Wallace [2017]). The authors argue that autocratic regimes have less capacity to repress opposition when under a tighter budget constraint imposed by the IMF, allowing greater levels of political competition to emerge. Similarly, a study of 131 developing countries between 1981 and 2003 showed that while lending programmes resulted in increased hardship for the

poor, greater civil conflict and more repression of human rights, they also induced some democratic reform, including fairer elections and greater freedom of speech (Abouharb and Cingranelli [2007]).

[23] The second is that hardships caused by IMF conditionality result in increased social protest and instability, leading to violent repression by the ruling government. The pattern of events in Bolivia typifies this argument. Limited progress under a 15-year stint of successive lending programmes came to a head in the early 2000s, following increases in unemployment and poverty, reductions in real wages, cuts in social expenditures and – most infamously – the privatization and subsequent price hikes of the city of Cochabamba's water system. Those most adversely affected responded with a spate of militant anti-government protests, to which the government responded by declaring a → state of emergency and increasing its use of force against protestors. In Turkey, social unrest followed an announcement that the democratically elected government had signed an IMF programme in June 1980 and, by September of that year, the military dissolved parliament and suspended civilian political institutions. Cross-national empirical studies support the notion that lending programmes increase incidents of mass demonstrations, strikes, conflict and coups d'états.

## V. Conclusion and outlook

[24] The impact of the IMF on human rights has been the topic of sustained attention in global policy debates. By offering loans in exchange for policy reforms, the IMF gained momentous influence over the policy direction of governments throughout the world. It overhauled the institutions of borrowing countries via austerity, liberalization, deregulation and privatization. These changes brought about mostly perverse implications for the enjoyment of health, labour and civil and political rights, and the legacy of such policies will impact the ability of countries to meet SDG targets.

[25] If human rights commitments are to be met, a fundamental reorientation of the IMF's activities is needed. Human rights experts have called for a shift from *managing* negative human rights effects caused by conditionality – for instance, via priority spending targets – to *avoiding* policies that pose risks. They recommend that → human rights impact assessments involving consultation with public health experts, trade unions, the ILO and the UN Human Rights Council be undertaken before commencing a programme. They also appeal for programmes to be regularly reviewed and evaluated not just in relation to economic targets but also against reductions in poverty and social exclusion. Moving forward, the SDGs offer a template to structure these policy debates and present an opportunity for the IMF to fundamentally transform their policies and practices.

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