Anatomy of a disaster: the IMF’s war on corruption in Indonesia and the effects of structural adjustment

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NOTE

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Chapter 8

Whither the IMF? Lessons from Indonesia

The world has changed beyond all recognition. Instead of 50 states, there are now about 200 nations. The majority of the IFIs’ ‘clients’ now are developing world nations. Debtor nations contribute 75% of the IMF’s income. But their voting power remains marginal at best. (Anver Versi, 2007)

This chapter is divided into two distinct sections: the preliminary part shall examine the reformation (or lack therefore) of international institutions, specifically the IMF, in the aftermath of the Asian crisis. The second part shall address Indonesia post-IMF in the period under the new President Susilo Bambang Yudhoyono.

8.1 Background

The call to reform the Bretton Woods and other major international institutions has been mounting over the past decade. However, in the wake of recent global and regional financial crises, as well as internal tensions within these institutions, the reform agenda can no longer be brushed aside as unnecessary. From the latter part of the 1980s and throughout the 1990s, the activity of the Fund, World Bank and other multilateral lenders grew, but the success rate of their programs did not improve. The major critics, both from within and outside the institutions, argue that their programs are faulty and their governance is out of date. Therefore there is an undeniable need to undertake reform. The initial part of this chapter will discuss the central debates surrounding the problems that have been identified by observers, the recommended solutions and the recent changes the Fund has made in order to address these problems.

In 2007 issues of international institutional governance, transparency and accountability were further cast into the public spotlight when Paul Wolfowitz, president of the IMF’s sister institution the World Bank, begrudgingly resigned upon the admission he had arranged for a pay rise for his girlfriend, Shaha Riza, who also worked at the Bank. However, this was not the only nepotistic activity that Wolfowitz has been accused of during his time at the Bank. It has also been noted that he chose “to

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bring on board [at the Bank] ‘close associates and supporters’ of the Bush administrations’ so-called ‘war on terror’’. This event lends evidence to mounting criticisms over the Bretton Woods institutions’ arbitrary application of policies and practices, which appear to be enforced more stringently in the developing world than in regards to the industrialised states. Wolfowitz headed the Bank’s massive anti-corruption drive, whereby countries that did not comply with new, strict anti-corruption polices were to be denied funding. Thus the authority and advice, which an already shaky World Bank dished out to an array of debtor countries throughout the developing world, has been further de-legitimised as result of the Wolfowitz affair. What is interesting, is that the corrupt and nepotistic behaviour of the Suharts of the developing world have constantly been seen as the cause for the underdevelopment, economic crises, and other development/growth related problems in their countries. By this logic therefore, why has Wolfowitz not been held accountable for the recent problems in the global financial system? Does he not also deserve to be considered in a manner similar to that of Suharto? Arguably Wolfowitz was never responsible for reducing poverty, while Suharto was. Despite the shortcomings of Suharto’s tenure as president, including problems of corruption, lack of democratic governance and high levels of corruption, Suharto indeed delivered sustainable economic development and across the board improvements in the standard of living. Wolfowitz can make no such claim to contributing to growth in the developing world.

In heading up the World Bank from 2005 Wolfowitz vehemently pursued anti-corruption strategy and policies. His single-minded approach resulted in multiple suspensions and terminations of funding for pre-approved poverty reduction and development projects in the developing world. Wolfowitz maintained that corruption was the primary cause of poverty and impeded growth, and that the issue should assume absolute priority at the Bank. While it may be argued that Wolfowitz’s predecessor James Wolfensohn also emphasised the need to reduce corruption in the developing world, Wolfensohn’s primary concerns lay with poverty alleviation and development. In 2005, the year that he became president of the World Bank, Wolfowitz terminated funding for a number of ‘corrupt’ countries, including the Republic of Congo, despite

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protests from IMF and World Bank in-country staff. On 6 January 2006 the World Bank deferred around $124 million in financing to Chad, and terminated around $35 million of funds to Bangladesh. In the same month Wolfowitz threatened to suspend $375 million in World Bank and multilateral donor funding to Ethiopia citing corruption as the reason. Perhaps the most outrageous case involved a threatened suspension of $400 million in Bank and multilateral funding to Ecuador when then President Dr Palacio amended the law so that a portion of Ecuador’s oil windfall revenues could be redirected towards social spending. Subsequently, in September 2005, the Bank announced that it would suspend $100 million to Ecuador. Amongst a number of other countries, India and Kenya’s funds were suspended by Wolfowitz on grounds of corruption, although he did not consult the board of the Bank on the decision. He later also ordered the suspension of aid to Uzbekistan because the government expelled US soldiers, which lends support to the argument that the World Bank is often used as a tool of US policy.

While one of the main concerns expressed by institutions such as the World Bank and the IMF about the problem of corruption is the danger of private interests being pursued through public channels. In the sunset of his short tenure as president of the Bank, the neo-conservative Wolfowitz indicated the financing for family planning services in Africa would be vastly reduced or abolished. According to an article at the time,

…the banks’ team leader for Madagascar indicated that one of two managing directors appointed by Wolfowitz ordered the removal of all references to family planning from a document laying out strategy for the African nation. And a draft of the bank’s long-term health program strategy, overseen by the same official makes almost no mention of family planning, suggesting a wider rollback may be underway.

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Wolfowitz’s preoccupation with corruption while he was World Bank president was pursued to the detriment of growth and development in the developing world. Perhaps the lesson here is not to put an architect of war in charge of a development institution. An article in The New York Times reported that Wolfowitz’s ‘punishment’ of corrupt countries was considered by many officials from within and outside the bank the bank as largely arbitrary “in a way that jeopardizes the bank’s longtime mission to reduce poverty”.\(^{10}\) One senior Bank official commented that “It was the unpredictability...he would be very tough on Kenya and not as tough on Ethiopia...If you can’t rationalise it makes you nervous”\(^{11}\). While the IMF and World Bank were so keen to get rid of Suharto because of his corrupt behavior, the difference here is that while the New Order may have been corrupt, the President was able to achieve substantial reductions in poverty and promote economic growth. On the other hand, the World Bank President’s obsession with corruption directly and indirectly increased poverty. There was a definable period during the New Order where corruption and economic growth co-existed, but Wolfowitz’s refusal to move away from corruption in favour of development had ramifications that were felt most pertinently by the poorest strata of society in those already poor countries to which funding was cut or suspended. This demonstrates that those who run the institution neither understand the intricacies of political-economic relations in the developing world, but incorrectly expect to provide workable inherently western-based solutions.

Not long after Wolfowitz’s departure, the British Chancellor of the Exchequer, Alistair Darling, called for a thoroughly revised, more transparent, selection process for the managing director of the International Monetary Fund. In fact, both the 1997 Asian and 1998 Latin crises, topped off with the Wolfowitz affair, have bought into the media spotlight issues of structure, governance, accountability, and appropriateness not only of the World Bank, but of all major international institutions, such as the IMF, the Bank for International Settlements WTO, ADB, the Inter-American Development Bank, the African Development Bank, APEC, and the UN, that have been long-contested by academics and other observers. Of these, however, the World Bank and IMF have received the most attention in the debate over international institutional reform as they


are regarded as central to the operations of the international financial architecture. As Joseph Stiglitz notes, “So far the debate about the reform of the international economic architecture in the aftermath of the global financial crisis has gone nowhere, other than a growing consensus that reforms need to be made and that at the center of those reforms must be changes in the IMF”.  

8.2 The Changing Role of the IMF and the Necessity of Reform

The roles of the IMF and World Bank today are a far cry from the original mandates that were commissioned in 1944 at Bretton Woods. The IMF’s primary responsibilities then were to ensure the maintenance of the fixed exchange rate system under the Gold Standard and to monitor economies in order to prevent debilitating balance-of-payments problems. From the 1970s onwards, the role of the Fund expanded dramatically as it implemented structural adjustment programs in Latin America during the 1980s crises, provided programs for the Soviet Union during the early 1990s, and carried out extensive programs during the Asian financial crisis of 1997-1998. The expansion of the Fund’s operations during this period also saw it play a major advisory role in developing countries, whereby it advocated free market policies, with the security that “conditional finance” would be extended in the case of economic turbulence. The rise of these mega loans from the Fund was also accompanied with conditionality, an issue that has commanded much debate both within the Fund and amongst its advisors and commentators. In fact, as has been carefully documented in Chapter Six, the 1997-1998 Asian crisis and Mexican Crisis of 1994-1995 have also provoked serious debate regarding the ability (or lack thereof) of the Fund to assist in the prevention of economic/financial crises.

Today the Fund predominately deploys its policies through conditional lending, technical advisory and assistance services, and analytical research. Its membership has vastly increased, from forty-five in 1944, to a hundred and eighty-four. We also know that the world in which the IMF and World Bank were established is vastly different from the climate in which they operate today. However, as Thirkell-White notes, while the Fund’s operations may be dramatically changed, the accompanying procedural and decision making changes have not simultaneously taken place, which has resulted in an institutional power structure that continually fails to represent members equitably.

The absence of an egalitarian system of governance has in turn had a direct influence on IMF economic culture and program formulation, whereby policies are formulated largely by the industrialised states, but the subsequent programs are applied in the developing world. A former Executive Director of the IMF, Cyrus Rustomjee, sees that the current challenge for the IMF is to “…identify the process which can unlock the current impasse between developing and industrialised countries- largely represented by debtors and creditors respectively, on the issue of improved developing country influence in the decision making process of the IMF Executive Board”.

In fact, it is only in the last decade, or since the Asian financial crisis, that there has been a significant call from Western commentators and those representing western institutions, organizations, and states, to revisit the role of international institutions- a matter that the developing world has been calling for over at least the last two decades. This concern is an indication that the operations of the IFI’s are outdated and becoming less effective, itself evidence that the institutions themselves are losing relevance in a modern international financial framework.

Amongst this clamour of calls for reform, was Sachs’ particularly scathing comment in 1999 that the IMF had scored five out of five, that is “…five big rescue package since mid-1997, and five big failures”. This was a reference to the IMF

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structural adjustment directives in Brazil, Thailand, Indonesia, Korea, and Russia. In the same year, US Treasury Secretary Lawrence H Summer, although perhaps not as overtly critical as Sachs, noted in reference to the IMF and World Bank that “the best organizations are constantly reinventing themselves. The same should be true of international organizations. This is a matter of policies and procedures, but also and perhaps most crucially of culture and orientation”.\(^{20}\) In early 2007, the then Chancellor of Exchequer Gordon Brown (later Prime Minister of the United Kingdom) called for the urgent reform of the UN, World Bank and IMF, due to the drastically outdated nature of those institutions’ *modus operandi*.\(^{21}\) And of course, the ever vigilant Joseph E Stiglitz, former vice president of the World Bank pointed out the contradictions in the Fund’s orientation and structure. He noted that the Fund’s absolute belief in the efficiency of markets and the subsequent inefficiency of governance is difficult to reconcile, given that the IMF, after all, is itself a governmental body, and many of the arguments concerning governmental inefficiency and incompetence hold with equal or stronger force at the international level than they do at the national level. From this perspective, the IMF’s economists would expect an international governmental body such as itself to be marked by failures\(^{22}\)

There have even been extensive debates over whether or not the continued existence of the Fund, and various other international institutions is justified or relevant in the current global economic system.\(^{23}\)

The Fund’s response to such criticisms, while concurring with the argument for change, has been somewhat ambivalent. According to Truman, IMF Managing Director, Rodrigo de Rato, “…suggests that the Fund can rest on its 60-year history of accomplishments, but he also acknowledges the need for changes”.\(^{24}\) Urges for reform

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\(^{21}\) A. Versi, ‘Reform World Bank, IMF’, p. 11.


have been made directly to the Fund and the Bank, in recent joint annual meetings,\(^{25}\) and the IMF is currently undertaking an internal review under the auspices of de Rato. The Fund also produced a number of objectives for reform in its 2005 medium strategy report. These were:

- make surveillance more effective,
- adapt to new challenges and needs in different member countries
- help build institutions and capacity
- prioritise and reorganize IMF work within a prudent medium-term budget, and
- address the governance issues of fair quotas and voice (representation) in the Fund.\(^{26}\)

Also, at the end of June 2007, Rodrigo de Rato announced his resignation, but also announced a new merit based process that the Fund will adopt to appoint the new Managing Director.\(^{27}\) The specific changes that have been made by the Fund will be discussed in further detail throughout the remainder of this chapter. However, one question remains somewhat troubling, 'why has the Fund only now responded to calls for reform when they have come from the west, and why has it continuously failed to listen to calls from its biggest clients, debtor nations from the developing world?'

Another question that requires clarification is, whether this discussion on reform is *justified* and *valid*? Is there evidence, rather than speculative debate, to suggest that the World Bank and IMF have major problems? Was the East Asian debacle an exception, or an addition to an otherwise unimpressive track record? Two major reports were released that addressed the viability of, major problems with, and recommended reform of the IMF (and other international institutions). The first Report, *Safeguarding Prosperity in a Global Financial System: The Future International Financial Architecture* (henceforth the Task Force Report), was compiled by a Task Force for the Council on Foreign Relations, headed by Peter G. Peterson (The Blackstone Group), Morris Goldstein (Institute for International Economics), and Carla A. Hills (Institute for International Economics), in late 1999. The second, the International Institutional Advisory Commission (IIAC), was established by the US Congress as part of $18


billion conditional funding to the IMF in 1998. This indicates that even before lessons could be drawn from the Asian crisis, there was concern in the US Congress about the ongoing role of the major international financial institutions. The IIAC carried out an in-depth assessment of the IMF, World Bank, Inter-American Development Bank, Asian Development Bank, African Development Bank, the WTO, and the Bank for International Settlements. In 2000, the IIAC published a report titled, Report of the International Financial Institution Advisory Commission (IFIAIC), or as it is more commonly known, the Meltzer Report after the Chair Allan Meltzer. Although there were a number of different findings between the reports, both reports cited serious structural, governance, procedural, and program problems with the Fund.

Both the reports flagged the problem of the Fund’s flawed track record and discussed it at length, but both reports rejected proposals to abolish the IMF.28 Importantly, the Task Force Report stressed how essential it is that Fund operates effectively, so that crises do not have the debilitating economic impact that they have so far. According to the Task Force Report, it cost a minimum of one-tenth of the national income each for over twelve different countries that have experienced economic or banking crises over the last twenty years. An effective IMF should be able to assist in averting these crises, or at least assist in their management so that they are not so costly-and the Fund requires serious reform in order to effectively undertake this role.29 Nor was the Meltzer Report very flattering about the IMF’s track record, commenting that lending has generally produced results that are of neither social nor economic benefit to the debtor countries, yet still protect private lenders.30 Both reports also contend that the IMF has failed to provide programs for their clients that would ensure economic growth and stability and have therefore also failed in maintaining a system that is not subject to international financial crises. The Meltzer Report’s comments on the World Bank point to a track record that is no better than the Fund’s, stating that the Bank’s “…evaluation of its own performance in Africa found a 73% failure rate”31. Subsequently, the Task Force Report made seven key recommendations:

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1. Greater rewards for joining the ‘good housekeeping club’;
2. Capital flows- avoiding too much of a good thing;
3. The private sector: promote fair burden-sharing and market discipline;
4. Just say no to pegged exchange rates;
5. IMF crisis lending: less will do more;
6. Refocus the IMF and World Bank: back to basics; and
7. Generate political support for and ownership of financial reforms.\textsuperscript{32}

Furthermore, a number of individuals involved with the Meltzer Report “…agreed that the institutions should continue if properly reformed to eliminate overlap and conflict, increase transparency and accountability, return to or assume specific functions, and become more effective”\textsuperscript{33} and among other things, addressed below, recommended unanimously that the IMF, World Bank and regional development banks “should write-off in their entirety all claims against heavily indebted poor countries (HIPCS)”\textsuperscript{34}.

Other observers, too, point to the mediocre performance of the Bretton Woods institutions and their primary operations. Lee maintains that the IMF’s loans to Argentina for 34 years (out of the 45 years it has been a member) is demonstrative of the Fund’s inability to provide a program that will ensure “sustainable growth and development” for its debtor nations. Subsequently, by way of central reserves, Argentina decided to cut its ties with the IMF in January 2006 and repaid its outstanding US$9.6 billion in one go.\textsuperscript{35} This was accomplished with the support of Venezuela who contributed US$2.5 billion towards Argentina’s repayments\textsuperscript{36}, as part of the regional anti-IMF backlash. Nor have the structural adjustment programs served to reduce poverty, rather, they have served to induce poverty through the ‘four steps to damnation’, that is, “privatisation; capital market liberalisation; market-based pricing

\textsuperscript{32} Council on Foreign Relations, \textit{Safeguarding Prosperity in a Global Financial System}, p. 3. For more detail on this point see pp. 8-9 of the report.

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leading to IMF-inspired rioting; and the opening of the market to free trade”.37 Neither, does it seem that the Fund’s programs have had a positive effect on much needed FDI levels.38 In an in-depth study on the subject, Jensen concludes that “IMF programs...have a negative impact on FDI inflows”39. Perhaps the proof is in the pudding, that is, the best indication that the IMF’s activities are indeed ineffective, or even destructive, in the developing world is the increasing number of countries- of which Uruguay has been one of the most recent- that have opted to decline loans from the IMF or to repay their debts earlier than scheduled. Uruguay concluded its repayments by 2006, despite the scheduled debt graduation being 2010.40 Even those countries that are seeing out the full tenure of their loans are increasingly refusing to adhere to the Fund’s demands. For example, in 1998 the Russian parliament refused to adhere to a series of IMF-dictated tax reforms.41 Indeed, the overall frequency of loans from the IMF and World Bank have declined substantially in the last few years. In 2003 the Fund’s loans stood at $100 billion but by April 2007 they had decreased to a mere $13 billion with a very real possibility of further downsizing as Turkey is looking to repay their remaining $9 billion.42 It has been suggested that this is also indicative of an overall reduction in the Fund and Bank’s sphere of global influence, which is evidenced by talks of an Asian monetary fund and the Chiang Mai Initiative.43 The Asian monetary fund was originally suggested by Japan, to be funded primarily by Japan at a total of around $100 billion, during the 1997-1998, however, the idea did not eventuate at the time because of disapproval from the US, EU and IMF. A reformation of the Fund’s approach to that of collaborative rather than prescriptive decision-making would assist in the formulation of strategies that would be in the economic interest of debtor countries. This in turn would validate and strengthen the IMF’s position as an ILLR. It is these issues and the debates that surround them which we will now explore.

38 FDI particularly is important because it is longer-term capital, therefore more sustained and less volatile, rather than just foreign investment, which may be short-term capital.
43 Y. C. Park and Y. Wang, ‘The Chiang Mai Initiative and Beyond’, World Economy, 28(1), Jan 2005, pp. 91-21. The Chiang Mai Initiative (CMI) was launched at the 6 May 2000 APEC meeting, the CMI proposes regional lending cooperation, and unlike the IMF and the proposed Asian monetary fund, financing would be conditionality free.
Thus far we have established that the IMF’s performance has been somewhat dismal, particularly during the last two decades, however, we are yet to establish exactly what the specific problems are. There is a degree of consensus on the major problems, and issues that require reform, namely, surveillance, governance, member representation and quota formulas, but there is a complete lack of consensus on solutions both within the Fund and externally.

Some commentators have regarded the apparent decline in the IMF’s sphere of influence as evidence that the Fund is no longer necessary and should be abolished.\textsuperscript{44} When assessing the validity of the Fund’s (and Bank’s) existence, the question is often asked, \textit{would we establish the Fund today if it did not already exist?} Edwards argues that the abolition of the IMF is necessary as a reform of the institution would be insufficient. Instead, he proposes to abolish the Fund, and in its stead, establish a set of three smaller and more specialised institutions, whereby the operations are separated out.\textsuperscript{45} This set of institutions would comprise of a Global Information Agency – which carries out rating and risk management; a Contingent Global Financial Facility - which deals with countries certified by the Global Information Agency that then would have access to credit lines in times of liquidity squeeze in order to prevent crises before they happen; and finally a Global Restructuring Agency - that would ‘clean up’ crisis management.\textsuperscript{46} However, would this really solve the problem of the IMF? Would it really make a difference or is this seeming proposal to abolish the IMF merely an extensive reform and the addition of a new name? The micro structure of the Fund needs to be addressed, not just the macro, otherwise Edward’s proposal would effectively result in a group of mini IMF’s. Edwards himself states that the “…new institutions could be partially staffed by current IMF professionals. Other experts, however, would have to come from the private sector”\textsuperscript{47} This fails to address the problematic nature of IMF programs, which are primarily geared towards protecting private creditors and economic concurrence with neo-liberal market fundamentalism.

\textsuperscript{44} See, for example, K. Danaher, \textit{10 Reasons to Abolish the IMF & World Bank}, Seven Stories Press, New York, 2004.
\textsuperscript{46} S. Edwards, ‘Abolish the IMF’, p. 12.
\textsuperscript{47} S. Edwards, ‘Abolish the IMF’, p. 12.
However, from both sides of the reform debate there appears to be something of a consensus (albeit contested to a degree) maintaining that the abolition of the IMF is not desirable. Both the Task Force and Meltzer Reports explored an option that would not necessarily render a desirable outcome. In his address, Lawrence Summer, whilst noting problematic elements of the IMF that require reform, also referred to it as an ‘indispensable’ institution.\textsuperscript{48} Truman too, establishes at the outset of his study on reforming the IMF that “the world needs a strong and effective International Monetary Fund...as the principle multilateral institution responsible for international economic and financial stability”.\textsuperscript{49} While there are major problems with the IMF, it is true that there needs to be an international institution that has the capacity to accommodate states during times of crisis, and prevent or at least minimise global financial volatility, which is the cause of shocks and subsequent crises. Volatility cannot merely be avoided by sound in-house economic management by states, as the boom and bust cycle is undoubtedly a condition inherent to global capitalism. Therefore, short of getting rid of capitalism, it is necessary to have an institution to deal with such occurrences. However, it is apparent that both through its management of five major crisis, and currently, the IMF has failed in this duty.

The next section will examine in more detail the major problems, the recommended solutions, and any changes that the Fund may have made thus far. Two pillars of reform need to occur, and each is as important as the other. The first is procedural, that is, the procedures and processes behind the governance and structure of the Fund in terms of representation, accountability and transparency. The second is operational, that is, scope, mandate, programs and lending related conditionality. The operational pillar is also obviously influenced by the former procedural pillar. The three recommendations that I would like to propose for the Fund are as follows:

- increased transparency;
- a level of intervention restricted (no more enormous bail outs); and
- review and reform of loan programs and conditionality (serve to limit mandate).

\textsuperscript{48} L. H Summers, “The Right Kind of IMF for a Stable Global Financial System”.
\textsuperscript{49} E. E. Truman, \textit{A Strategy for IMF Reform}, p. 1.
8.3 Representative and Procedural Problems

The biggest criticism of the Fund’s governance structure is the problem of the ‘democracy deficit’, whereby the developing states are severely under-represented and the industrialised states have the largest amount of power despite the former being the biggest borrowers. Thus the debtor states are subject to programs and conditionalities that are formulated by creditor states. This disproportionate dispersion of power is a bone of contention as the Fund’s debtors feel that it is inequitable that they have virtually no say in the running of the institution and the programs that it carries out especially because those decisions have a direct impact on their state sovereignty, governments, economies, and populations. The issue came to a head after the Asian financial crisis as the representatives of states in the region did not possess adequate authority in the Fund to influence the programs and decisions in the region.\textsuperscript{50}

Since its inception, the key positions of the Fund and the World Bank have continually been held by individuals from creditor countries, that is from the U. S. and Europe, who subsequently wield the most power over decisions and processes. During the selection of former IMF Managing Director Rodrigo de Rato, former chief economist Ken Rogoff openly protested the process, saying that “There are good candidates from Latin America, India and Europe. And even if they choose a European, it shouldn’t be something Europeans decide behind closed doors. The process should be open. The legitimacy of the organization is undermined by the opaque process”\textsuperscript{51}. However, the process of selection for the Managing Director of the Fund has recently come under review as it has received criticism for being non-transparent and Euro/Washington-centric. In fact even de Rato himself, who resigned in October 2007 asked that the new candidates be “considered of the…[stipulated]…candidate profile, without geographical preferences”\textsuperscript{52}.

Representation and quota share (or Special Drawing Rights, SDRs) is another area under governance that requires rigorous reform, as the current allocations are outdated and inequitable. Rustomjee argues that the current Board representation is undemocratic and “…does not promote the principles of consensus, cooperation,

\textsuperscript{50} E. E. Truman, \textit{A Strategy for IMF Reform}, p. 62.
collaboration and multilateralism upon which the IMF was founded”. The developing world is severely under represented in terms of both board seats and quota shares. Only one country, the US, holds the effective power of veto, while votes held by other, larger groups of countries are disproportionately small. For example, the Group of 24 sub Saharan African countries comprise a mere 1.39 per cent of the vote, yet the US holds 16.79 per cent, Japan 6.02 per cent, Germany 5.88 per cent, France 4.86 and the UK 4.86 (together comprising 38.4 per cent). In fact, the G7 countries make up a total of 47 per cent of voting, which is based, like shares, on the total SDRs held by any one state. Truman points to a study by Vijay Kelkar et al which notes “…that the combined votes on the IMF Executive Board of Brazil, China, and India, are 19 per cent less than the combined votes of Belgium, Italy and the Netherlands at the same time (2000-01) that their combined GDPs at market exchange rates are 23 per cent higher, their GDPs at purchasing power parity…are four times higher, and their populations are 29 times higher”.

Similarly, Dieter contends that the Asian bloc is inadequately represented on counts of both population and economic size. Despite China’s sizeable economy, Dieter shows that Italy still holds more votes, and Sweden holds more power than Indonesia, despite Indonesia’s population and the fact that it has been a major client of the Fund in the past.56

Thus representation is a pertinent but unresolved issue that affects the majority of members. The Twelfth Quota Review, the most recent quota review, neglected to amend quota shares in a manner of any real substance. Therefore, decision making is still generally not in the interest of emerging market economies, unless it is also in the interest of rich countries. A consequence of mis-aligned representation is that the Executive Directors who are responsible for country blocs (rather than directly responsible to only one country) are subject to a much heavier workload as, one, they are accountable to a number of countries, and two, unlike the creditor countries, most developing countries are clients. This also means that there are less resources per

country for developing blocs that are not as informed as developed countries.\textsuperscript{58} Furthermore, Meltzer contends that the accountability of the Fund needs to be reformed, as the representatives of the Executive Board are no longer representative of IMF membership, which has increased three-fold since establishment. Most countries, other than the major economies, are not directly represented. The majority of governments are therefore not directly involved in the IMF’s decision making.\textsuperscript{59} Stiglitz suggests, furthermore, that the failures of IMF programs may lie in the choice of central bankers as board members, and recommends a more holistic approach whereby the representatives have a broader appreciation for the overall economy of their country, and that presidents and prime ministers are also directly involved.\textsuperscript{60}

It is important to assess the attempt, if any, that the Fund has made to amend the standing problems. The evidence thus far is that changes are starting to occur, but very slowly. At the end of 2006, under the auspices of Managing Director Rodrigo de Rato, the Fund committed to governance-related changes in the future. These included a realignment of quotas, an increase in basic votes and more resources for the African chairs as part of the ‘Quota and Voice Reform’ strategy.\textsuperscript{61} Subsequently, China, Korea, Mexico and Turkey have had quota increases. The new strategy will also seek to further align quota shares so that the larger economies are recognised, and increase the participation capacity of the low-income member states.\textsuperscript{62} Yet Stiglitz has raised an important concern, that is, that reform of the IMF cannot just consist of a re-shuffling of quotas and seats, but also must include the broader involvement of other actors.

Consultation with national parliaments would encourage the contribution of local knowledge to Fund decisions and programs and subsequently increase program ownership.\textsuperscript{63} Boediono, from the Central Bank, Indonesia, argues that a large part of the program failure in Indonesia can be attributed to the absence of involvement of the

\textsuperscript{58} C. Rustonjee, 'Improving Southern Voice on the IMF Board', p. 14.
\textsuperscript{60} J. E. Stiglitz, 'Democratizing the International Monetary Fund and the World Bank', pp. 132-133
\textsuperscript{63} G. C. Yen, 'Bringing More Voices into the Policy Debate', in B. Carin and A. Wood (eds), \textit{Accountability of the International Monetary Fund}, Ashgate, Burlington, 2005, pp. 65-66.
government or other in-country actors. Other actors that should be involved in the Fund include NGOs, government institutions and other specialised interest groups. This would help to create broader, better fitting programs and ensure that the governance process in general was more transparent. This sort of participation may help to alter the market-based approach to all programs that is currently the case in the IMF. We shall look at this in more detail in the next section.

8.4 Accountability and Transparency

The IMF has been described as having a “reputation as one of the world’s most secretive organizations”. The decisions behind the processes, policies and programs of the IMF are generally not transparent and thus it is difficult to establish a system of accountability. While there has been a wider publication of information since 1997, documents, negotiations and other information continue to be released on a discretionary basis only, and the minutes of the IMF Executive Board remain unpublished. Furthermore, Lee contends that much of the information that is released is only disclosed after an event or process, which defeats the purpose of publication in order to enter into deliberation with NGOs, investors, trade unions and other interested external parties. Brown argues that the mere publication of information (even in a timely manner) is unsatisfactory, as it fails to expose how such decisions are reached. Such a lack of accountability and transparency is not only problematic in regards to the lack of deliberation about the structure and governance of the organisation (as discussed above) but also denies external parties an insight into why programs may fail or have problematic ramifications. Stiglitz asserts that the Fund’s “...effectiveness and credibility as an advisor are undermined by its refusal to lay out clearly the consequences of its actions and by the fact that it has lost touch with basic

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economics”. Such poor programs have implications largely for the populations of the
countries in which they are implemented. He states that the “people in East Asia who
were thrown out of jobs as a result of the excessively contractionary monetary and fiscal
policies, or whose firms were thrown into bankruptcy have no recourse”. Consequently, the governments of these countries rather than the IMF are held
accountable and criticised for drops in standard of living as a result of these programs.
For example, the mass social unrest that occurred after the IMF insisted that the
Indonesian government cut petrol and food staple subsidies to promote the
‘liberalisation’ of Bulog at a time of rising poverty, impacted most heavily upon the
poor. Suharto was forced to resign a short time after as the population blamed him for
the state of the economy. To add insult to injury it is also the poorest strata of society
that has paid most heavily in Indonesia for the bad economic decisions of the IMF in the
aftermath of the crisis. This argument makes light of the seemingly confusing decisions
made by the Fund, particularly in their program formulation, that decisions are often
based on what Stiglitz refers to as economic ideology rather than facts. The lack of
accountability is further compounded by the IMF’s multitude of objectives, which
means that if one objective is not met then it can be claimed that another objective was
actually being pursued.

A more transparent Fund that is open to the scrutiny and criticism of external
actors would serve to prevent this from continuing. However, the Fund does make a
pertinent point in justifying closed negotiations in that the involved parties can express
views more freely. Furthermore, in certain instances it is preferable that country
information remains confidential. For example, during the Asian financial crisis,
negative investor sentiment was compounded as the Fund’s reports emphasised the dire
economic situation of the countries involved.

In 2001 the Independent Evaluation Office (IEO) of the IMF was established on
the basis that it would deliver evaluations to the Fund on its operations, enhance the

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Summer 2001, pp. 16-17.

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Fund’s general reputation, serve as a regulating body to improve governance and de-
mystify processes within the Fund. However, it is debateable as to how independent
the IEO actually is. In a recent enquiry the IEO found “…no evidence that the IMF as
an institution used its leverage to push countries to move faster than they were willing
to go in liberalizing their capital account transactions” Yet, given the weight of
evidence of IMF interventions, such a judgement appears somewhat biased, inaccurate,
and ahistorical.

8.5 Changes in Role, Mandate and Operations

As with other major financial institutions, the role of the IMF has changed
costantly in response to global events and overall structural deviations in the
international financial system. For example, the change of mandate after the Gold
Standard was discarded was quite deliberate and obvious, but other events such as the
debt crises of the 1980s and the financial crises in Asia and Latin America saw an
unprecedented expansion in role that was not included in formal mandate changes. Thus
after the crisis, the Fund saw its operations expand substantially after it assumed new
duties and responsibilities. Technically, the Fund’s mandate should be limited to the
prevention of volatility in the international financial system, crisis prevention, and
short-term assistance during times of country crisis. However, this is not the case- the
Fund’s actual operations extend far beyond these responsibilities. For example, the issue
of capital account liberalisation has not yet been adequately addressed. While there is
no mandate in the Articles of Agreement that the Fund include capital account
liberalisation as part of its conditions, it was included as part of conditionality for the
East Asian country loans. However, to some degree, the Fund appears to have learnt
some lessons in regard to this issue. A 2004 IEO report stated that in the wake of the
East Asian crisis, IMF staff had recognised the need for strong domestic financial
conditions before attempting to apply capital account liberalisation strategies, otherwise
the effects are very damaging. So while there is a recognition amongst staff that
changes should be made in regard to advocating capital account liberalisation, the
institutional process has failed to formally clarify its position on the issue.

76 E. E. Truman, A Strategy for IMF Reform, p. 54.
Century, Institute for International Economics, Special Report 19, April 2006, p. 188.
Head, in fact, has gone so far as to say that of late the Fund has “extended its operations into areas in which it has no authority and no competence”. Its original role of ensuring international financial stability and short-term lending for balance of payments problems has been severely over-extended. Lee contends that the metamorphosis of short-term loans to long-term structural adjustment packages has seen the Fund operate in a manner which is highly interventionist in the domestic economic and political processes of the poor countries, often to their detriment. This was no more evident than in Indonesia, and the role that the IMF played in contributing to Suharto’s political downfall. Hanke reports that at his retirement Michel Camdessus “...proudly proclaimed: ‘We created the conditions that obliged President Suharto to leave his job.”. Truman recommends that the Fund wind back its scope and focus solely on financial shocks and financial sector vulnerabilities and that technical assistance should be relegated to the World Bank as part of its development programs.

The Fund argues that surveillance is a cornerstone of IMF policy as pervasive monitoring will help identify economic vulnerabilities, remedy economic problems before they become debilitating, and ultimately avert crises. A large part of surveillance is based upon ensuring that good governance and more specifically anti-corruption policies are established and maintained, especially in poor countries, as a crisis prevention strategy. Therefore, in order for the IMF to legitimise the current and proposed levels of surveillance in-country without being perceived as excessively interventionist, it is imperative that corruption is still regarded as the primary cause of crises. This ideology enables the IMF to exercise extended influence in countries that are regarded at ‘problematically corrupt’ and the premise that those countries and indeed the global economy may be protected from volatile fluctuations and crises. Surveillance is currently carried out primarily through the Financial Sector Assessment Program and the Reports on the Observance of Standards and Codes (ROSCs). The Fund itself states that

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80 S. Lee, ‘The International Monetary Fund’, p. 284.
The IMF was urged in 1996 by its Board of Governors to 'promote good governance in all its aspects, including by ensuring the rule of law, improving the efficiency and accountability of the public sector, and tackling corruption, as essential elements of a framework within which economies can prosper'. Since then, the IMF’s role in promoting good governance has expanded considerably, while still being limited to economic aspects of governance that could have a significant macroeconomic impact.\(^{85}\)

Dodge and Murray\(^{84}\) assert that an increase in international surveillance is an integral element in reforming the IMF. This begs the question, however - what if they get it wrong again? The call for the Fund to conduct market-based surveillance in a umpire capacity reeks of universal blanket policies, which undeniably contributed to the exacerbation of the crisis in East Asia. They argue that the ‘talented staff of the IMF certainly have a long history of expertise in this area from years of conducting surveillance, and this expertise should be used to maximum potential’.\(^{85}\) However, we are yet to see an instance where this surveillance has served to prevent or remedy a crisis to a substantial level.

Former IMF Managing Director de Rato proposed a role that is even more pervasive, whereby domestic economic policies would come under Fund surveillance. This flies in the face of some of the major criticisms levelled at the Fund, that is, that it should not intervene in domestic economic and political processes, and furthermore fails to solve the problem of the debate over market oriented policies. On 15 June 2007, the IMF produced a new Decision on Bilateral Surveillance over Members’ Policies, a replacement of an earlier Decision from 1977, the Decision on Surveillance over Exchange Rate Policies. While the Fund propagates that this new Decision is still primarily to help countries manage their exchange rates effectively and prevent external instability, the mandate afforded to the Fund as a result of this is extensive. Members are required to pursue policies whereby they do not intervene in their exchange rate so as to prevent unfair competitive advantage and external instability that may affect other members. However, allowing the market to set the rate of exchange without exception


may leave countries vulnerable to speculative trading during times of internal or external volatility, which would further exacerbate the impact of a currency. As has been demonstrated with the case of Malaysia, aversion towards maintaining a floated exchange rate for a limited amount of time may prove more successful in averting a financial downwards spiral.

The Fund has concluded that the best way to ensure that suitable policy on this is being pursued is through extensive surveillance of member countries’ microeconomic, macroeconomic and financial system. Furthermore, the Decision stipulates that non-compliant members (ie. those who intervene in their exchange rate or do not have desirable economic policies, which may lead to them manipulating their exchange rate in an attempt to counter subsequent economic problems) warrant a ‘discussion’ with the Fund so that the policies may be rectified.\footnote{IMF, ‘IMF Executive Board Adopts New Decision on Bilateral Surveillance Over Members' Policies’, PIN No. 07/69, www.imf.org/external/np/sec/pr/2007/pr0769.htm, (date of access 21 June 2007).} It is interesting to observe here that the Fund has decided to revise its stance on surveillance at a juncture where China has been manipulating its currency within a restricted band in order to gain a somewhat competitive advantage in international trade and commerce.

The concept of naming and shaming countries that are non-compliant with IMF advice is also just as misguided as such an amount of power would provide the Fund with an excessive amount of leverage. This is particularly pertinent given that the policies that the Fund is advocating appear not to have positive economic impacts in the countries in which they are applied. Furthermore, such moves towards greater surveillance serve to re-align the Fund’s capacity more towards a credit rating agency rather than a lender. A system of increased surveillance would only work well once the governance and accountability system within the Fund are more transparent and therefore subject to deliberation outside the immediate powers of the Executive Directors. This would provide a platform upon which program formulation and execution would be a more consultative, thus less market-based, process.

The nature of Fund lending took on an ever-changing role from the 1980s onwards. Rather than temporary loans to assist capital account deficits, the trend, particularly during the 1990s, was that of ‘mega’ packages, which were structured in a
manner geared to bailing out lenders and ultimately as a vehicle to implement neo-
liberal economics. The East Asian crisis was a pivotal point in the Fund’s history, as the
degree of intervention was far more intrusive and packages totalling $120 billion for the
region, which included a record size package of $65 billion for South Korea were far
bigger than in the past. Thus the Fund emerged from the crisis with a re-aligned and
over-extended mandate. Meltzer argues that the implementation of ‘Washington
Consensus’ principles as per Fund conditionality does not necessarily ensure financial
stability. He finds conditionality problematic as the “IMF should give advice, but it
should not tie the advice to assistance”. 87 This point is often ignored in debates over
reforming the Fund, as the focus is generally on how to ensure in-country compliance
with the institution’s style of economics, not whether or not these principles are
necessarily appropriate. Thus, if the Fund were allowed an increased mandate to dictate
the conditions to which its loans are tied, then faulty economic analysis could result in
even worse conditions, for example, in the case of Indonesia. However, when countries
are given agency to implement their own rehabilitative policies, the success rate has
been rather more positive, for example, the continuance of the computer chip industry
and the establishment of a social safety net by the South Korean government despite the
Fund’s advice, had a positive impact of the country’s recovery. Bird concurs with this
position, stating that “Even when high conditionality is appropriate, there is a strong and
growing consensus that programmes work best when the underlying policies are
‘owned’ by the relevant government” 88. Vreeland contends that the IMF has realised
that micro conditionality is not effective as it does not necessarily produce the desired
reforms in the debtor countries regardless of appropriateness. Instead he suggests a
reform of the Fund where there is no conditionality, or if there is conditionality that it
will not hurt the poor. 89 However, while the extent of conditionality has indeed been
scaled down very recently, so that the ‘Christmas Tree’ approach 90 is no longer
prevalent, the central principles of market fundamentalism are still applied to all
programs.

161-162.
90 Term used by Corden in reference to the 117 conditionalties imposed by the IMF in Indonesia. Corden
criticises the IMF for “hanging numerous conditions on the tree of conditionality” M. Corden, The Asian
For different reasons, no-one thinks that the huge lending quotas that were allocated by the IMF during the Latin and Asian crises are appropriate.\(^{91}\) There is a general consensus, although for different reasons, that the Fund should abandon what Vines and Gilbert term ‘jumbo loans’ as the likelihood of repayment is questionable, and the effectiveness of such loans is problematic. Most commentators from both sides of the debate argue against the huge lending quotas that were allocated by the Fund during the Latin and Asian crises, as they have been deemed inappropriate. Ultimately, the ‘jumbo loans’ of the past have served predominately to bail out creditors, for which the local populations have to pay.\(^{92}\) Thus if creditors are left to broker a rescheduling of repayments with debtors directly, there is really little need for such large packages. Furthermore, IMF packages have served not only to hurt debtor countries’ economies and local populations, but have also failed to reinvigorate the anticipated inflow of foreign capital. Jensen’s study found that foreign investors and a Brazilian Central Bank representative “…argued that IMF capital had a positive impact on investors, but IMF conditions did not”.\(^{93}\) In response to such criticisms the Fund established two new facilities in 1999, the Contingent Credit Lines (CCL) and Poverty Reduction Growth Facility (PRGF) so as to help its poorest and most vulnerable members.

The CCL was established in 1999 by the Fund and expired under the discretion of the IMF Executive Board on 30 November 2003.\(^{94}\) Its intended function was that of a precautionary facility for members that were at risk of contagion effects of financial crisis, but whose external payments were sound.\(^{95}\) Countries eligible for the facility had to adhere to four central criteria, that is, to establish the promotion of sound economic and financial policies in-country, thus making them unlikely candidates for IMF resources except to prevent contagion; maintenance of policies that reflected a convergence towards international standards; “constructive [and responsible] relations with private creditors” so as to restrict vulnerability to external weakness; and sound macroeconomic and financial policies which were open to adjustment if required.\(^{96}\)

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95. IMF, ‘The IMF’s Contingent Credit Lines (CCL)’. 
96. IMF, ‘The IMF’s Contingent Credit Lines (CCL)’. 

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However, the CCL was not undertaken by any member country. The IMF concluded that possible reasons for the aversion towards the facility were that:

Potentially eligible countries may have lacked confidence that a CCL would be viewed as a sign of strength rather than weakness. These countries may also have been concerned about the risk of negative fallout if they were to be considered ineligible at a future date. There had been some uncertainty about whether Fund resources under a CCL would in fact be readily available in the event of need, as the release of funds would require Executive Board approval. And, finally, many potential eligible countries had reduced their vulnerability to external shocks through reserve accumulation, the adoption of flexible exchange rates, and other reforms, reducing their perceived demand for insurance in the form of a CCL.\textsuperscript{97}

Another author suggests that the general aversion to the CCL is that it represents yet another Fund facility that increased the institution’s authority rather than a reform.\textsuperscript{98} Thus, countries would tend not to use this facility for the same reasons behind the post-crisis convergence away from borrowing from the IMF, after the detrimental impact that Fund programs in the 1990s. Finally, the CCL was not exempt from conditionality, thus countries still had to comply with Fund-style criteria in order to qualify.

In September 1999, the Poverty Reduction Growth Facility (PRGF) was established with an explicit focus towards reducing poverty and promoting growth in poor countries. Eligible PRGF countries are financed through the joint World Bank-IMF HIPC initiative. The Facility proposed a departure from the usual lending criteria and prescription such as austerity measures, and instead, allowed increased public expenditure and a focus on, what is deemed ‘pro-poor’ spending by the Fund.\textsuperscript{99} In their initial eligibility application, governments produce PRGF papers that have been formulated through deliberation with civil society. To date around 36 countries have been involved in the PRGF. In light of some of the aforementioned criticisms of the Fund, the PRGF processes were developed specifically in a manner that was

\textsuperscript{97} IMF, ‘The IMF’s Contingent Credit Lines (CCL)’.
consultative rather than prescriptive. This approach has been considered more productive and successful because governments retain ‘ownership’ of their loan and program. However, there have been criticisms that the PRGF cannot reconcile its two objectives of promoting growth and reducing poverty simultaneously. The Facility continues to use GDP and standard, but outdated economic measurements which may be indicative of economic activity, but are not necessarily indicators that adequately reflect poverty. One author contends that the Fund has continued its pre-occupation with curbing inflation (in fact one study points to developing countries being able to deal with 11-12% inflation, versus 1-3% for industrialised countries\(^{100}\)) and that while Tanzania, Mali and Bolivia\(^{101}\) have maintained inflation to under 5%, government social spending and employment strategies have suffered.\(^{102}\)

While the PRGF does differ from former Fund programs, as social impact is assessed and the leniency for policy flexibility is greater, it has still been ultimately rendered largely ineffective for two primary reasons. First, the infamous IMF blanket macroeconomic remedy is still being promoted by IMF staff in the PRGF countries, which fails to address the poverty problem, and second the IMF is not a poverty reduction institution thus the staff lack adequate expertise. Lee concurs, arguing that the Poverty Reduction Strategy Papers (PRSPs) initiative has not been effective in its overall goal of poverty reduction and that while piecemeal changes have occurred, it still relies on ‘Washington Consensus’ style principles.\(^{103}\) The organisation Drop the Debt also recognised that the CCL and PRGF initiatives were not effective nor successful and thus called for IMF and World Bank grant amnesty to the 22 HIPC countries, instead of just creating new lending facilities. By Drop the Debt estimates, the World Bank and IMF would incur costs of US$215 million per annum and US$287 million per annum respectively to write of their claims completely against these countries.\(^{104}\) The IMF and World Bank’s response to this initiative however was somewhat resistant, insisting that 100 per cent cancellation for the HICPs was unfair:

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\(^{101}\) As part of the PRGF.


\(^{103}\) S. Lee, ‘The International Monetary Fund’, p. 294.

\(^{104}\) S. Lee, ‘The International Monetary Fund’, p. 295.
Total debt cancellation for those countries alone would come at the expense of other borrowing countries, including those non-HIPC’s which are home to 80 percent of the developing world’s poor. Those who call for 100 percent cancellation for the HIPC’s alone, must recognize that this would be inequitable for other poor countries.105

Despite attempts to reform and introduce new facilities so that they may be more successful than in the past, it is undeniable that the central tenets of the IMF programs need to be radically altered, as to date they have a record of harming both the economy and more importantly the local populations in more ways than what is resultant from the immediate economic changes. Peet and Born point to the other consequences felt by local populations such as the many people [that] have been killed during IMF austerity protests- at least tens of thousands, and perhaps a hundred thousand. The number of people who die as a result of the social and economic effects of IMF austerity programmes has never been reliably estimated, although by one account 6 million Africa, Asian and Latin American children are said to each year from the effects of structural adjustment.106

It is essential that the Fund depart from its absolutist ideology of neo-liberal economics as to date it has failed to prove that such a course is effective. However, the Fund’s ongoing pursuance of programs that ultimately fail begs the question, why are they continually being pursued and in whose interests are they being pursued. Peet and Born also adopt a similar attitude to Stiglitz in regard to the Fund’s pursuance of belief over fact, stating that “…the IMF adheres to neoliberal economic thought in the production of policy prescriptions on grounds of faith, rather than the foundation of proven science. The main question becomes why and how a certain belief was adopted, and why it continues to be accepted as a matter of faith”.107

Program conditionality demands that poor countries implement austerity programs, abolish subsidies, and reduce public expenditure particularly in the education

107 R. Peet with B. Born et. al, Unholy Trinity, p. 103.
and health sectors, but does not require the creditor countries to do so.\textsuperscript{108} All the while capital from rich countries is allowed to infiltrate the economies of poor countries with little to no regulation, thus further destroying the already debilitated domestic economies of the developing world. Therefore it would appear that programs implemented in debtor countries service the interests of foreign markets and creditors to the detriment of the economy and population of their countries. Yet even this juncture is problematic, as evidence in this thesis and other research suggests that IMF programs do not have a positive impact on FDI inflows.\textsuperscript{109} Programs often result in the repayment of creditors at the expense of the domestic economy and the civil population who is subject to public expenditure cuts as part of austerity measures implemented to enable repayment. For example, the discussion in Chapter Six that refers to spending cuts to social services in Indonesia and removal of fuel and food staple subsidies had a direct impact on the Indonesian civil population, most pertinently the poorest strata.

How does the IMF explain the trend of program failures? It blames the governments of debtor countries, as Jeffrey Sachs has noted, “When things go wrong with IMF-led programs, as they seem inevitably to do these days, much of the establishment can be heard saying that all is for the best, or that any faults lie with the countries receiving IMF loans, not with the designs of the IMF. It’s time to get serious. The IMF is working with the wrong economic model of the World”\textsuperscript{110}. Sachs goes on to cite the Brazilian case, whereby the loan of $41 bn was ultimately paid for by the people of Brazil who were subject to increasingly poor economic conditions and as per IMF requirement, no social safety net.\textsuperscript{111} Jensen concurs, arguing that the Fund is not blameless, rather it is the institutions’ policies that are inadequate and program failure is not exclusively the result of poor implementation on the government’s part.\textsuperscript{112}

This thesis has demonstrated that neo-liberal remedies do not promote growth in the developing world nor do they ensure a stable international financial architecture. The convergence upon this ideology, as pursued in the most absolutist form by the Fund, of privatisation and opening up the market, renders the economies of developing

\begin{itemize}
  \item A. Versi, ‘Reform World Bank, IMF’, p. 11.
  \item See, for example: N. M. Jensen, \textit{National-States and the Multinational Corporation}, p. 145.
  \item N. M. Jensen, \textit{Nation-States and the Multinational Corporation}, p. 133.
\end{itemize}
and poor countries fragile and vulnerable to market flows, which of course is advantageous for currency traders and foreign investment. The multitude of new IMF models and multilateral models that have been proposed are all problematic because the financial system that the Fund and other IFI’s are promoting and managing is fundamentally flawed. Such a system is in dire need of radical reform, however, while it serves the interest of the handful who own it then this is an unlikely outcome in the foreseeable future. Onis criticises Fund programs for disregarding the option to improve the economy by strengthening the domestic economy through internal rather than external measures.\textsuperscript{113} Indeed, by propping up a domestic economy through internal measures, the risk of it being unfairly acquired at fire sale prices by foreign interests who then maintain a disproportionately large share may be avoided. This is preferable if the aim is to ensure that the domestic economy remains in the control of national rather than foreign interests.

During the Asian crisis, the failure of plan A (that is the IMF’s SAPs) prompted Paul Krugman to write an article that suggested Plan B, which is an alternative approach involving the implementation of exchange controls as a measure to pull the flailing economies out of the slump. This article is now famous for the Krugman’s foresight, and in hindsight many other economists now agree that temporary exchange controls were a more suitable solution.\textsuperscript{114} Other economists of international reputation have also presented alternative modes for sustainable development, some of which do require interventionist policies to maintain a stable international market place.\textsuperscript{115} It is not the intention to suggest here that all countries impose currency controls as a means to encourage growth, but rather to lend credence to solutions which differ from that of the IMF’s Washington Consensus strategy, and instead follow a framework or trajectory that will promote equitable international development. The success of the application of capital controls in Malaysia as a short-term solution to stem volatility is well documented and furthermore had long term impacts in Malaysia as it helped prevent the country descend into a crisis as devastating as those experienced in Indonesia, Thailand and Korea. As Lee asks, “...can sustainability and economic growth both for the world

\textsuperscript{113} Z. Onis, ‘Varieties and Crises of Neoliberal Globalisation: Argentina, Turkey and the IMF’, Third World Quarterly, 27(2), January 2006, p. 244.
\textsuperscript{114} P. Krugman, ‘Saving Asia: It’s Time to get Radical’, Fortune, 138(5), 7 September 1998, \textit{passim}.
economy as a whole and for developing economies in particular be achieved without a fundamental reassessment of the IMF’s programmes and policies, and the neo-liberal orthodoxy underpinning them?"\textsuperscript{116} The path that is currently being pursued by IMF would suggest that unless extensive reform occurs throughout all major international institutions, but specifically the IMF, and subsequently the international financial architecture, world growth and development will continue on a course that benefits a privileged few, to the detriment of the overwhelming majority. However, we have also seen a rejection by the developing world of the IMF and its neo-liberal based prescriptions, evidenced by the early repayment of debt and the pursuance of alternative channels for loans. The reformation of the IMF’s economic ethos and organisational structure would potentially provide a platform for it to regain international influence of an economically constructive rather than destructive nature. We shall now turn to the changes made in Indonesia during the recent post-IMF phase.

8.6 IMF in the Rear View Mirror

*Indonesian democracy is still a work in progress: An authoritarian, centralised regime has been replaced with one whose elaborate checks and balances are only beginning to be tested. Some constitutional tweaks may be needed but, mainly, politicians and officials need more time to learn on the job.*

*(Anonymous, 2007)*\textsuperscript{117}

At his inauguration speech on 20 October 2004, President Susilo Bambang Yudhoyono admitted “I am not Superman”,\textsuperscript{118} however, thus far his very brief time in office has brought about some very significant changes. In 2006, President Yudhoyono announced the very deliberate decision to repay outstanding IMF debt that year, rather than remain on a program projected to terminate in 2010. Subsequently as of October 2006 Indonesia has been debt free, and therefore under no obligation, to the IMF.\textsuperscript{119} Thus, similar to other former IMF debtors such as Uruguay and Argentina, President

\textsuperscript{116} S. Lee, ‘The International Monetary Fund’, p. 288.

\textsuperscript{117} Anonymous, ‘Asia: Old Soldiers Who Refuse to Fade Away; Indonesia’, *The Economist*, 382(8514), 3 February 2007, p. 58.


Yudhoyono has been at liberty to adopt a more direct approach to Indonesia’s economic growth and re-employ the state as a vehicle for development once more. Politically, Indonesia’s first directly elected president has trodden somewhat carefully in an effort to strike a precarious balance between both wielding the power necessary to engender some change and avoiding the scenario of his predecessors whereby the attempt to rule with an iron fist ensured their undoing. Rather than clumsily trying to create overly-rapid change, he has prioritised the pursuit of real development through political and economic stability.

There was little popular confidence in SBY’s first cabinet, as a number of the members appointed by President Yudhoyono were considered a politically compromising choice. The appointment of Aburizal Bakrie to the post of Co-ordinating Minister for the Economy raised questions of accountability given Bakrie’s status as one of Indonesia’s most well known pribumi tycoons. Also Jusuf Anwar’s appointment as Finance Minister was considered somewhat confusing as he was a relatively low profile bureaucrat at the time. However, by December 2005, the cabinet was re-shuffled and Aburizal Bakrie was replaced as Co-ordinating Minister for Economy by the reputable Boediono, who was previously appointed as Minister of Finance and Deputy Governor of the Bank of Indonesia. Also, the President appointed Sri Mulyani Indrawati, a US educated economist as Finance Minister to replace Jusuf Anwar.

Early in 2007 President Yudhoyono was subject to accusations by Try Sutrisno and Tyasno Sudarto, former army chiefs, of economic mismanagement particularly in the areas of unemployment and inflation. While there have been attempts to undermine the president by various military factions and sub-groups in response to the slow but sure extraction of TNI businesses, they lack adequate collective power and popular civil support to present a resistance of any real substance.

In the chaos which has ensued after the crisis, a romantic nostalgia for the stability provided by the Suharto regime has emerged throughout multiple strata of Indonesian society. Perhaps President Yudhoyono has recognised this, as tenets of

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Suharto-style economies are increasingly evident whereby national development remains a priority. According to McGibbon, President Yudhoyono’s anti corruption initiatives have been partially effective as there has been a succession of arrests and charges against governors, individuals from the national legislature, and district heads.\(^{123}\) However, as at June 2008 the anti-corruption drive has yet to substantially affect the president’s own cabinet and other prominent political figures as doing so would compromise the key national priority; the maintenance of political and economic stability.

Since Indonesia has been released from the shackles of IMF conditionality, the necessary planning and agency required to formulate and pursue an autonomous economic development plan has indeed returned to the government. Accordingly, President Yudhoyono has re-asserted the importance of the state as a central actor in the promotion of national development. The active hand of the state through economic steering is increasingly evident. While a suspended privatisation program has been reinvigorated, it is now directed by the central government, rather than being the free-for-all sell off that was commanded by the IMF. Attracting FDI was an integral element of the 2005 ‘Development Plan’, which focused upon strengthening the country’s infrastructure.\(^{124}\) The five-year plan has a budget of around $145 billion. as the President predicted that foreign investors would account for around $90 billion.\(^{125}\) The plan thus far, although a little shaky, is proving to be somewhat successful. A 2007 report stated that “in the past two years [FDI] has returned to the levels it reached before the 1997 financial crisis”.\(^{126}\) President Yudhoyono is also intent on speeding up Indonesia’s notoriously slow bureaucracy and has had some mixed results. To tackle the ongoing problems that foreign investors have been dealing with between the regional, central governments and corresponding institutions and agencies, BKPM has launched a one-stop shop for foreign investors. Foreign investment is also regulated (although not in a manner comparable to regulation under the New Order) in order to prevent a further contraction in the domestic economy. For example, the US$5.2 million acquisition of

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HM Sampoerna by Philip Morris has seen a retention of the 40,000 strong workforce and managing director Angky Camaro.\textsuperscript{127}

In developing regulation to protect business, Government Regulation 2/2006 on Mechanisms for Procurement of Loans and/or Receipt of Grants and distribution of Foreign Loans and/or Grants has been procured. Effectively this means that any government ministry, institution, or enterprise is disallowed direct access to foreign loans or grants.\textsuperscript{128} GR 2/2006 has been implemented in an effort to avoid a repeat of the enormous amount of debt accumulated that impacted so substantially on the severity of the crisis. While such manoeuvres are unashambly interventionist, such economic steering is required if Indonesia is to achieve real and sustainable development in the near future. The government-directed regulation of overseas borrowing at is one essential ingredient in both promoting sustainable growth but also preventing a relapse into crisis.

The changes that have been initiated since the accession of President Yudhoyono seem to be beginning to have some positive impacts. It appears that foreign investment is beginning to show a definite interest and is trickling back to Indonesia. A report in Business Weekly observed that “Behind the grim realities, you sense something more in this sprawling archipelago: the scent of money”\textsuperscript{129}. Furthermore, Tempo reported on BKPM’s announcement in early July 2007 that new foreign investment has increased from US$3.5 billion for the first quarter of 2006, to US$4.1 billion in the same quarter for 2007, which is a 16.8 per cent increase. The figure is comparable with the 1996 figure of US$6.2 billion.\textsuperscript{130} Much of the foreign interest is stemming predominately from businesspeople in the US and China mainly in the automotive manufacture industry, and oil, mining and gas. However, US investors are hesitant due to the persistent problem of the long bureaucracy. Despite Indonesia being considered a better investment target than Malaysia, there have been no new US investors.\textsuperscript{131} Yet the interest is there, and with such a strong government there is a very real possibility that FDI levels will again flourish under this new quasi-regulated mode of economics. The

\textsuperscript{130} Anonymous, ‘Not Just a ‘Fling’, Tempo, 24-30 July 2007, p. 35.
\textsuperscript{131} Anonymous, ‘Not Just a ‘Fling’, Tempo, 24-30 July 2007, p. 35.
next chapter will draw together this discussion and that of previous chapters in order to formulate some conclusions on the role of the state and international institutions in national development.