IMF and Monetary Reforms: Central Asian Perspectives

Conference Report

The Centre for International Governance Innovation

May 21, 2008

On May 21, 2008, senior policy makers from Mongolia and Central Asian countries met in Bishkek, Kyrgyzstan, to discuss their experiences with the International Monetary Fund (IMF), IMF reform and regional cooperation. The evolution of this region's relationship with the IMF was discussed in the morning session, while in the afternoon, the required changes in the IMF and its governance structure were discussed together with the scope for regional cooperation.

With the collapse of the former Soviet Union, economic arrangements in Central Asia changed dramatically. Once parts of a larger whole, the newly independent states were forced towards self-sufficiency. For example, in Kyrgyzstan, a manufacturing hub since the Second World War, the new Russian republic literally dismantled factories and flew parts back to Russia never to return. Countries in the region experienced substantial declines in their economies: 25 percent in Mongolia, 40 percent in Kazakhstan, 50 percent in Kyrgyzstan and 60 percent in Tajikistan. (There are no reliable statistics for Uzbekistan and Turkmenistan.) While literacy remained high, so too did unemployment and malnutrition. Suddenly – independent countries were challenged with establishing governments as well as economies. In the reaction against Communism and central planning in the region, the IMF and World Bank were welcomed, along with free market capitalism.

Most Central Asian countries have enjoyed substantial rates of growth, with significant aid from multilateral banks and investment for extractive industries, from the private sector. Oil and gas, especially in Kazakhstan and Turkmenistan, and mining in Mongolia, have raised national GDPs. Some regional economies, notably Uzbekistan, have responded by exporting labour to Russia and relying on workers' remittances. Countries bordering Afghanistan in the south have been affected by the opium trade, as well as the increased regional presence of the US military. More recently, tourism in the region has increased.

The IMF, and the World Bank, have provided extensive training for government ministries and staff, and drafted sample laws for banking and finance. The World Bank and European Bank of Reconstruction and Development (EBRD) have invested heavily in infrastructure, and the World Bank in social programs. The IMF's emphasis on privatization of state-owned enterprises resulted in sales to new national oligarchs and monopolies, without reducing unemployment or furthering poverty reduction. These privatizations have triggered the most extensive opposition to the Fund's Central Asian policies.

The Fund continues to work with the region's governments, but not with the intensity of the 1990s. The IMF can be expected to work with countries as they address soaring commodity prices and the accompanying threat of inflation. Challenges for the Fund include tailoring policies and technical assistance to specific countries, and addressing persistent high-rates of inequality since the collapse of centralized economies.

This conference report was prepared by Farid Boussaid (Oxford University) and Jo Marie Griesgraber (New Rules for Global Finance Coalition).

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Functional Issues

IMF and Country Interaction

In its interaction with a country, the IMF deals with a limited set of actors, mostly the Central Bank and the Ministry of Finance. There is little interaction with the population at large through civil society organizations. The few attempts that have been made to engage with these organizations in a comprehensive way were mere window dressing and token acts.

According to many commentators, the IMF has too strong a role in the aid architecture, given that its "seal of approval" is used as a signaling mechanism by donors. Furthermore, the Fund attempts to overrule or influence the decisions of other international financial institutions to conform to its agenda. On the national level, there is evidence that the IMF has attempted to influence domestic decision-making processes such as the nomination of a new central bank governor.

Within a country, the IMF works very closely with the Ministry of Finance and with elites who tend to be isolated from the rest of the population. Most of the programs need to be carried out by lower-level officials who are quite often unaware of the discussions led by more senior officials. Practical implementation issues therefore do not feed back to IMF staff. The opinions of national authorities do not seem to be taken on board by the staff. This renders the dealings between Fund staff and national authorities less interactive than they should be and lacking in meaningful dialogue.

Governance and Representation

There are important global changes taking place, but there seems to be no adaptation by the international institutions to the new environment. It is vital that they do adapt given the important challenges that must be faced. There is a governance problem within the IMF; it lacks oversight and is too dominated by members of the G8.

The Central Asian states are generally content with the representation by their respective Executive Directors. In some cases, more visits and interaction between the developing nations' Executive Directors and the other constituency members whom they represent is desired. The difficulty lies more in the interaction between the Executive Director and staff and the fact that Executive Directors, even those of developed nations, experience difficulty in having their views accepted by staff. These countries quite often resort to alternative measures like using major shareholders (US, Russia) to lobby the higher echelons of the IMF hierarchy.

In light of their experience, Central Asian shareholder countries have a keen interest in reforming the IMF. However, the general feeling in the region is that the reform agenda is mainly driven by the developed nations. This has added to the decrease in trust in these countries have in the IMF. The reform process currently lacks transparency, and there is too little involvement of less developed members of the IMF.

In terms of categorization of countries, the Central Asian countries are now part of the Middle East region, while the Caucasus countries are part of the European region. This is one obstacle to the effective representation of this region. It would be more logical to cluster these countries together, given their shared historical legacies.

Policy Advice

IMF staff uses a specific orthodox theoretical approach to the problems facing member countries that does not take into account important differences between countries, the strength of their respective institutions, or domestic market forces. IMF reports do not reflect the reality of the fiscal challenge and are too often focused on short-term growth, with less attention given to substantive issues.

Second, when it comes to the trade-off between inflation and unemployment, the Fund has a preference for inflation control. In addition, the reports that the IMF prepares on smaller countries tend to lack thorough analysis and recommendations, while reports on economically advanced countries with more seasoned civil servants tend to be more nuanced and in depth. The IMF is not flexible in its recommendations and its policy advice is too often "one-size-fits all" based on the African experience and less on the situation of ex-communist states. The IMF quite often overlooks important factors like the role that remittances can play or the problem of capital flight.

The criteria and indicators included in the reports sometimes lack proper justification and are frequently set too high. The reports are too focused on reaching targets and indicators. As a consequence, programs are less institutionalized in debtor countries. Furthermore, the focus on indicators leaves the IMF ignorant of the social costs involved in reaching targets. Not enough consideration is given to welfare issues and the programs are often perceived as serving external interests rather than national priorities. In general, IMF staff fail to take into account the impact of their recommendations in the specific country context. The missions are often too short for bureaucrats to fully grasp developments within a country, and changes occur in recommendations when new staff are appointed — hence consistency of policy advice is lacking. Data on which the recommendations are based is quite often inaccurate and the IMF is often unaware of the use of flawed statistics.

Regional Cooperation

In terms of regional cooperation, the Central Asian countries and Mongolia do cooperate and have significant bilateral ties. Issues addressed at these meetings range from political and cultural issues to the discussion of energy and economic subjects.

The cooperation framework that has the potential to bear fruits is the Shanghai Cooperation Organization.[1] Countries also cooperate through such initiatives as meetings of central bank governors to discuss banking oversight and payments systems. However, support is lacking from the international financial institutions to aide Central Asian states in their attempts to strengthen regional ties.

Technical Assistance

The effectiveness of the Fund's technical assistance in the region is often limited because the work of seasoned consultants is sometimes ignored or the IMF's own staff lack the requisite skill, knowledge and experience for the tasks at hand. As a result the technical assistance offered is inadequate.

Policy Recommendations

The general feeling among the representatives present was that the IMF is less needed in Central Asia than in some other regions due to the fact that there are fewer government debt problems due to write-offs, and that, furthermore, the region's officials have built up enough experience to devise appropriate policies. Nonetheless, the participants appreciate the role that the Fund has played in the past in providing discipline to national authorities. The Fund provided a useful role pushing these countries to adopt reform measures, and in some cases exposed the incompetence of certain high-level politicians in debtor countries. Given its capacity and unique knowledge of macroeconomic policy, there is potential for a reformed IMF to become a leading agency again. This role change should be effected gradually.

Several possible recommendations for the reform agenda emerged from the meeting:

- *Role*: The IMF should not provide credit, but rather act as a think tank, share its expertise, and help governments identify the missing elements in their economic policies. Capacity building should become a core activity with more focus on the local context, while at the same time transmitting knowledge of global developments to the local level. Capacity building should be targeted towards different segments of society, including the private sector and civil society.
- *Representation*: The current governance structure should be adapted to address imbalances. The chairman of the Board should not be the Managing Director, but should be elected by the Board. The Managing Director would not have to wear two hats, that of chairman of the Board as well as the head of staff.
- *Structure*: An appeals committee should be established to give countries the chance to raise issues regarding specific recommendations made by the Fund's staff. Disagreements on program details can be reviewed by such a standing committee. This step could also provide a mechanism to help ensure that Executive Director directives are implemented by staff.
- Steps should be taken to strengthen links between the IMF and other donors and institutions so that more attention can be devoted to balancing short-term stabilization costs with long-term growth objectives.

[1] The Shanghai Cooperation Organization (SCO) was established on June 15, 2001 in Shanghai by six countries — People's Republic of China, Russian Federation, the Republic of Kazakhstan, the Republic of Kyrgyzstan, the Republic of Tajikistan, and the Republic of Uzbekistan. Mongolia, India, Pakistan and Iran have the status of observers.
Among its objectives, the organization aims to:
- Develop multilateral cooperation aimed at supporting and strengthening peace, security and stability in the region; promoting a new democratic, fair and rational political and economic international order;
- Facilitate overall balanced economic growth and social and cultural development in the region through synergy of initiatives based on equal partnership in order to achieve constant increase of living standards and improvement of living conditions of the population;
- Coordinate approaches to integration into world economy.

- The Fund should reach out to broader segments of society. Local contexts should be taken into account, thereby leading to more suitable advice with a better chance of it being implemented.
- There should be less replacement of staff and longer country missions in order to ensure deeper knowledge of the economic situation and consistency of advice.
- Dialogue between the government and Fund staff should be a two-way process. One way to make this happen is for both the IMF and the government to jointly sign a program. This way there is some kind of ownership by the IMF as well. Whether this is legally feasible remains to be seen.
- Advice by the IMF needs to be more rigorous, empirically grounded and tailor-made to the circumstances of the country in question. The inclusion of alternative policies should be allowed in order to give a country the flexibility to reach its targets.
- The Fund should devote attention to the regional and bilateral cooperation agreements in place and their potential.
- Advice provided by the IMF needs a stronger focus on transparency and accuracy of data.

Workshop Participants

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Who We Are

The Centre for International Governance Innovation is a Canadian-based, independent, nonpartisan think tank that addresses international governance challenges. Led by a group of experienced practitioners and distinguished academics, CIGI supports research, forms networks, advances policy debate, builds capacity, and generates ideas for multilateral governance improvements. Conducting an active agenda of research, events, and publications, CIGI's interdisciplinary work includes collaboration with policy, business and academic communities around the world.

CIGI's work is organized into six broad issue areas: shifting global power; environment and resources; health and social governance; trade and finance; international law, institutions and diplomacy; and global and human security. Research is spearheaded by CIGI's distinguished fellows who comprise leading economists and political scientists with rich international experience and policy expertise.

CIGI has also developed IGLOO™ (International Governance Leaders and Organizations Online). IGLOO is an online network that facilitates knowledge exchange between individuals and organizations studying, working or advising on global issues. Thousands of researchers, practitioners, educators and students use IGLOO to connect, share and exchange knowledge regardless of social, political and geographical boundaries.

CIGI was founded in 2002 by Jim Balsillie, co-CEO of RIM (Research In Motion), and collaborates with and gratefully acknowledges support from a number of strategic partners, in particular the Government of Canada and the Government of Ontario. CIGI gratefully acknowledges the contribution of the Government of Canada to its endowment Fund.

Le CIGI a été fondé en 2002 par Jim Balsillie, co-chef de la direction de RIM (Research In Motion). Il collabore avec de nombreux partenaires stratégiques et exprime sa reconnaissance du soutien reçu de ceux-ci, notamment de l'appui reçu du gouvernement du Canada et de celui du gouvernement de l'Ontario. Le CIGI exprime sa reconnaissance envers le gouvernment du Canada pour sa contribution à son Fonds de dotation.

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