

Institution: University of Surrey
Unit of Assessment: UOA 18 Economics and Econometrics
Title of case study: Improving the policies and operations of the IMF
<p>1. Summary of the impact (indicative maximum 100 words)</p> <p>The role and operations of the IMF are of central importance to the efficient functioning of the world economy. Via a US\$360 billion budget, its policies exert a significant effect on the well-being of billions of people worldwide.</p> <p>Research at Surrey has challenged conventional thinking at the IMF and has been a key influence on changes to several of its policies involving participation in IMF programmes, their implementation, and their effects on other international capital flows. This case study focuses in particular on policy relating to IMF conditionality and lending, as well as the Fund's relationship with low income countries. It is often cited in IMF documents and has been used extensively by the IMF, central banks and aid agencies.</p>
<p>2. Underpinning research (indicative maximum 500 words)</p> <p>Despite its major importance to the world economy, much discussion of the IMF has historically lacked a strong base of sound research. Over a period of many years, Surrey has gained a strong reputation for providing research-based analysis of many of the Fund's operations, helping to inform and strengthen IMF lending and adjustment policies.</p> <p>Surrey research has been conducted under the umbrella of the Surrey Centre for International Economic Studies, of which Bird was Director and all authors named below were members. (It became the Centre for International Macroeconomic Studies in 2010). The research has focused on the various stages in the 'life cycle' of IMF programmes.</p> <p>The first stage relates to the factors determining whether or not countries turn to the Fund for assistance ('participation'). Surrey undertook the first academic study of this issue, spawning a growing literature to which economists and political scientists have subsequently contributed. Paper (1) provided a comprehensive large sample analysis of the role of economic, political and institutional factors and showed that, while a number of variables influence participation, the overall explanatory power of even the best fitting model is limited. Our subsequent research developed the analysis of participation. Paper (2), originally presented at the Annual Meetings of the American Economic Association, offered the first rigorous empirical analysis of the prolonged use of IMF resources, identifying the characteristics of 'IMF recidivists'. Another paper (3) showed that one model of participation does not fit all, with middle income countries turning to the IMF in different circumstances than low income ones. However, while the Fund was beginning to distinguish informally between different users, our research showed that its classification missed significant differences.</p> <p>The second stage of the life cycle of IMF programmes relates to the design and implementation of the conditions incorporated within them ('conditionality'). Surrey research was some of the first to analyse the implementation of IMF programmes using a framework that, again, integrated economic and political factors. Whilst the Fund was extending conditionality, Bird had noted circumstances when this could undermine ownership, commitment and credibility and threaten achievement of a programme's objectives. Paper (4) built on these ideas to provide a comprehensive empirical investigation of the implementation of IMF conditions, drawing on the theory of special interest groups and utilising new World Bank data. It showed that successful</p>

implementation was far from guaranteed and depended on the openness of economies and programme scale.

The third stage in the life cycle of programmes relates to their effects. The IMF has claimed that its programmes encourage other capital inflows. Bird (with Rowlands), was amongst the first to analyse and estimate this so-called 'catalytic effect' rigorously. Paper (5), for example, provided a comprehensive, disaggregated, investigation showing that the effect was nuanced, with much depending on the type of international capital, the particular IMF facility used and the economic circumstances of the countries involved. The research also examined *how* catalysis might work, distinguishing between conditionality and liquidity. In subsequent papers, the authors have been the first to use treatment effects models to examine the catalytic effect of IMF funds. Overall, the Surrey-based research has shown that the effect of IMF programmes on other capital flows may in some cases be significantly negative (or negligible). These findings have strongly challenged what was the conventional view of catalysis. In other research, paper (6) examines the effect of IMF programmes on aid flows, finding that the relationship is significantly different for aid than for private capital flows.

3. References to the research (indicative maximum of six references)

1. Bird & Rowlands (2001), 'IMF Lending: How Is It Affected by Economic, Political and Institutional Factors?' *Journal of Policy Reform*, 4 (3), pp 243-270.
2. Bird, Hussain & Joyce (2004), 'Many Happy Returns: Recidivism and the IMF' *Journal of International Money and Finance*, 23, pp 231-251.
3. Bird & Rowlands (2009), 'A Disaggregated Empirical Analysis of the Determinants of IMF Arrangements: Does One Model Fit All?' *Journal of International Development*, 21, pp 915-931.
4. Arpac, Bird & Mandilaras (2008), 'Stop Interrupting: An Empirical Analysis of the Implementation of IMF Programs,' *World Development*, 36 (9), pp1493-1513.
5. Bird & Rowlands (2002), 'Do IMF Programmes Have a Catalytic Effect on Other International Capital Flows?' *Oxford Development Studies*, 20 (3), pp 229-249.
6. Bird & Rowlands (2007), 'The IMF and the Mobilisation of Foreign Aid,' *Journal of Development Studies*, 43 (5), pp 856-870.

4. Details of the impact (indicative maximum 750 words)

The research described above has reached policy makers at the highest level across a range of global organisations and has had a clear influence on policy reform. It can be shown to have had "impacts on public policy", by "shaping and influencing policy made by" the IMF, the European Central Bank and the Bank of Canada, "stimulating and influencing policy debate by research evidence" leading to a "change in policy direction" and "implementation", and "enabling a challenge to conventional wisdom".

In the period since 2008 the IMF has reformed its lending facilities, by introducing a Flexible Credit Line and by modifying the range of facilities through which it assists low income countries, introducing the Poverty Reduction and Growth Trust, the Extended Credit Facility, the Standby Credit Facility and the Rapid Credit Facility. It has also significantly increased its lending capacity (recognizing that its catalytic effect is actually nuanced and muted) and approved an additional allocation of Special Drawing Rights. These reforms have been intended to improve country ownership and the implementation of programmes. Our research has had a clear and significant

impact on these policy changes. These are exemplified by the following detailed examples:

- (a) impact on changes in the IMF's policy towards the catalytic effects of its lending
- (b) impact on changes in the IMF's policy towards conditionality
- (c) impact on changes in the IMF's policy on debt sustainability
- (d) impact on stimulating policy debates within the IMF, ECB and central banks such as the Bank of Canada

(a) Impact on changes in the IMF's policy towards the catalytic effect of its lending

Since 2008, the IMF has evaluated when its lending benefits recipients (a 'catalytic effect'). [C2] describes our research here as exerting "significant impact on IMF thinking" about programmes and implementation since 2008. The testimony highlights several papers, especially paper (5), which "challenged the conventional view" originally within the IMF that its programs had a positive catalytic effect. It "contributed significantly to modifying the Fund's approach ... and its views regarding the adequacy of its resources", resulting in a series of reforms over recent years (listed above) and substantial increases in the Fund's lending capacity.

Testimony in [C3] cites Bird's research as having had "a particular influence" on the Fund's approach to the catalytic effect of lending programmes. The finding that this effect was often insignificant (or even negative) "played a key part in [the] shift in policy" towards increasing its programmes "enormously".

The impact of our work on the catalytic effect of aid is also apparent beyond the IMF. This is confirmed by [C5], which also comments that "Reforms since 2008 that have sought to expand the Fund's lending capacity ... reflects the impact" of our research.

(b) Impact on changes in the IMF's policy towards conditionality

Since 2008 the IMF has "overhauled" (according to [C1]) its guidelines on the conditions accompanying its funding ('conditionality'). Our role here is evident from [C1], which describes research led by Bird as "contributing to the debate on these issues within the Fund", with the change of policy coming "as a result". [C5] confirms this impact: "Further modifications to conditionality that are in the spirit of a more parsimonious approach have been made in the period since 2008 and have been significantly influenced by the debates that Bird's research helped stimulate."

(c) Impact on changes in the IMF's policy towards debt sustainability and low income countries

An important issue at the IMF since 2008 has been strengthening its role in low income countries (LICs) and reforms have been introduced to change the portfolio of lending facilities and substantially increase the resources available for LICs. [C4] cites papers (2) and (3) as being "important in helping to inform the policy debate" before stating that paper (6) "led [in 2009] to Bird being asked to participate in a project supervised by the Assistant Director of the IMF's Strategy and Policy Review Department, which focused on the Fund's role in economic development." This was designed to provide an informed basis for the design of future policy and "exerted an important impact on thinking at the Fund" (see [C4]) in terms of the Fund's recent transition from a 'financing' role towards a 'facilitating' one in relation to LICs.

(d) Impact on stimulating policy debates within the IMF, ECB and central banks including the Bank of Canada

In the above instances, our research can be directly related to specific changes in IMF programmes but testimony also confirms that this research is valued for its impact on thinking

within the Fund more broadly (see [C2] and [C4]) and outside it ([C5] and [C6]). Thus, [C2] remarks that “Altogether Bird’s research is highly respected at the IMF. It has always stimulated debate within the institution and, in the period since 2008 (as it did before), has exerted an important impact on the direction that reform has taken.” Further, outside the IMF, [C6] comments that, “Bird’s research has informed and stimulated debate in the ECB ... and has thus helped to shape policy debates within the ECB, including on the design of policy and the direction of policy reform.”

5. Sources to corroborate the impact (indicative maximum of 10 references)

Sources selected in line with REF Guidelines, Jan 2012, Part 2C, p, 72:

“Independent documentary evidence of links between research and claimed impacts.”

- [C1] Chief of European and Middle Eastern Division, IMF. (provided statement)
- [C2] Director of the Fiscal Affairs Department, IMF. (provided statement)
- [C3] Deputy Director of the Research Department, IMF. (provided statement)
- [C4] Division Chief, Concessional Financing (Finance Department), IMF (provided statement)
- [C5] Deputy Governor of the Bank of Canada. (provided statement)
- [C6] Senior Economist, International Relations and Cooperation Division, Directorate General International and European Relations, European Central Bank.

“Citation by international bodies such as ... the IMF” (We provide an indicative selection of IMF publications since 2008 which cite the research in Section 2)

- [C7] IMF Report on ‘Review of Facilities for Low Income Countries – Supplement 1, June, 2012. This cites papers (2) and (3).
- [C8] ‘Estimating Demand for IMF Financing by Low Income Countries in Response to Shocks,’ *IMF Working Paper*, 09/263. This cites papers (1), (3) and (4).
- [C9] ‘Business Cycle Fluctuations, Large Shocks and Development Aid: New Evidence,’ *IMF Working Paper*, 10/240. This cites paper (6).
- [C10] ‘What Determines IMF Involvement in Trade Policy?’ Independent Evaluation Office of the IMF *Background Paper*, 09/03. This cites paper (1).