IMF and Monetary Reforms: Middle Eastern Perspectives

Conference Report

The Centre for International Governance Innovation

March 10, 2008

"As for the future role of the IMF, I would like to see the IMF engaged in and more focused on supporting countries in facing the impact of economic reform programs on the welfare of the people. This is of a great importance to us in Jordan."

H.E. Dr. Hamed Kasasbeh
Jordanian Minister of Finance

Up to now, the debate about International Monetary Fund (IMF) reform has been shaped largely by conversations among policy makers and scholars from countries of the Organisation for Economic Co-operation and Development (OECD). To remedy this imbalance, The Centre for International Governance Innovation (CIGI) sponsored a regional workshop in Amman, Jordan, on 10 March 2008 at which representatives from Middle Eastern countries debated their needs and priorities for future services from the IMF. In addition to four other meetings that covered Asia, Central Asia, Africa, and Latin America, the meeting in Jordan provided an opportunity to articulate a Middle Eastern perspective on the future global systemic needs that a reformed IMF should be prepared to address.

The Middle East is a key stakeholder in the context of IMF reform. The Fund's involvement in the region dates back to its inception as an organization. Iraq and Egypt were both original members and other Middle Eastern countries joined between 1945 and 1965. The region consists of countries that have been both debtors and creditors and today it continues to have varying levels of IMF involvement — from Iraq's classification as a post-conflict state and borrower of Fund resources, to the status of Saudi Arabia as a creditor to the Fund.

Moreover, due to the largest proven oil reserves in the world, the region is an important source of world liquidity and investment, and home of some of the largest sovereign wealth funds in the world, such as the Qatar Investment Authority, Dubai International Capital, and the Abu Dhabi Investment Authority. The concern coming from several OECD governments that the growth of these funds may "politicize" international financial markets has placed the IMF at the forefront of initiatives to craft a voluntary code of conduct for sovereign wealth funds and intensify its dialogue with key actors in the region.

The meeting in Amman brought together senior officials and scholars from Arab Middle East countries, along with a select group of other invitees, to articulate a Middle East perspective on this topic. The discussion explored the history and experiences of Lebanon, Iraq, Jordan, the Palestinian National Authority, Saudi Arabia and Egypt with the IMF, and highlighted the particular nuances of the IMF reform debate for the Middle East. In particular, three questions drove the discussion:

1. What is the future role for the IMF in the region?
2. How would the IMF need to be restructured to fulfil that role?
3. What are the obstacles and opportunities for deeper cooperation in the region?

The next section of the report summarizes the conference's findings concerning the role of the IMF in the Middle East and how its shortcomings could be addressed. The third section will discuss more directly the reform of the Fund's governance from a Middle East perspective, as well as the possibilities for monetary cooperation in the region.

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Table 1 - Middle Eastern countries' involvement with the IMF

	Countries' IMF Quotas	% of Total Quota	Latest Financing Arrangements	Outstanding Purchases and Loans	Number of Agreements since 1984
Algeria	1.254,70	0,577%	22 May 1995 (Extended Financing Facility)	None	4
Morocco	588,2	0,271%	31 Jan. 1992 (Stand-by)	None	6
Jordan	170,5	0,078%	3 July 2002 (Stand-by)	External Arrangements SDR 49.07	6
Egypt	943,7	0,434%	11 Oct. 1996 (Stand-by)	None	4
Lebanon	203	0,093%	None	Post-Conflict Assistance SDR 50.75	None
Palestinian Authority	N/A	N/A	N/A	N/A	N/A
Saudi Arabia	6.985,50	3,215%	None	None	None
Iraq	1.188,40	0,547%	19 Dec. 2007 (Stand-by)	None	2
Total IMF Quota in millions (March 2008)	217300				

Source: http://www.imf.org/external/country/index.htm
See Country Profiles

Functional Issues

The role of the IMF in the Middle East

There is an increasingly common perception that the influence of the IMF has been diminishing in the last decade for reasons that include the decline in the demand for its loans and increasing criticisms directed toward the institution from both creditor and debtor countries. Although the IMF does not face a crisis of legitimacy in the Middle East as severe as in other regional contexts, it is important to consider how its role in this region has evolved in recent years, and whether it has actually diminished. Table 1 on this page describes the IMF involvement in the Middle East, and highlights the varying positions within the Fund of several Middle Eastern countries.

Arab countries have made only limited use of IMF resources, and the region as a whole is a net creditor in the international financial system. Notwithstanding this history, the Fund continues to play a role in some Middle Eastern countries. Some salient examples include Jordan and Egypt, where the IMF supported successful adjustment programs during the Gulf crisis. In more recent years, the Fund has responded to the military conflicts in the region by providing "Emergency Post-Conflict Assistance" loans to Iraq in 2004 (US$435 million) and to Lebanon in 2006 (US$76.8 million).

However, the provision of emergency financing is certainly not the only role played by the Fund in the Middle East, and probably not even the most important among its activities. Several commentators at the Amman meeting remarked on the importance of the technical assistance provided by the IMF in the region. For instance, the Palestinian Monetary Authority greatly benefits from IMF technical assistance, including capacity-building measures in the conduct of monetary policy and data collection and support in formulating reform measures as part of its Development Plan. Equally important is the "seal of approval" that the

Fund provides to the economic policies of Middle Eastern countries. In a politicized environment such as the one in which the Palestinian Monetary Authority operates, the IMF seal of approval has been important to strengthen the credibility of the Palestinian policies. In the case of Jordan, the IMF's "seal of approval" had the important effect of lowering the risk premium.

Finally, the IMF has played an important role in debt management in the Middle East. The Palestinian Monetary Authority has benefited from IMF support in conducting a debt sustainability analysis and coordinating different donors. In the Iraqi case, the IMF played a crucial role by categorizing Iraq as a post-conflict country and thereby making it eligible for 80 percent debt relief at the Paris Club debt restructuring negotiations in 2004. Finally, in the case of Lebanon, the IMF seal of approval to the reform policies of the Lebanese government was important in facilitating the loan package put together by political allies in the Paris III conference in 2007, which helped the country to secure cash for the due debt service and to provide economic support for the postwar reconstruction.

Shortcomings and solutions from the Middle East perspective

The discussion on regional perspectives highlighted not only successes but also shortcomings that characterize the IMF involvement in the Middle East. Three aspects of IMF operations appear particularly problematic to Middle Eastern countries: (1) the engagement of IMF staff on the ground; (2) the content of IMF advice; and (3) the inability to influence exchange rates coordination among major currencies.

First, significant shortcomings emerge directly from the engagement of IMF staff on the ground and the self-perpetuating culture of the IMF bureaucracy. Due to the high turnover and limited presence of IMF resident staff, a lack of in-depth knowledge of the country being visited by a mission is more the rule than the exception. This often leads to a repetition of what has been said in earlier reports. The timeliness in the delivery of IMF reports is also in some cases inadequate, and country authorities as well as private actors, notably investment banks and rating agencies, are quite often ahead of IMF teams. Despite this, IMF reports remain particularly valuable due to the Fund's independent mandate that strengthens the credibility of its advice.

Second, weaknesses in IMF intervention cannot be entirely remedied by simply improving the staff presence on the ground. From a Middle East perspective, a change in the content of this advice is probably more important. IMF advice needs to be customized and more empirically—rather than theoretically-grounded. While the Fund often acts in a too standardized and conventional way, the IMF approach in the Middle East should be tailor-made, drawing from the various country experiences. Moreover, several Middle Eastern countries would like the IMF to pay greater attention to welfare issues and social impact in its technical assistance. Such advice should not see stability and growth as antagonistic to each other.

A third key issue for Middle Eastern financial authorities is the IMF's role in relation to exchange rate coordination among the major currencies. Given that some countries in the region peg their currency to the US dollar, the region is particularly exposed to instability in the exchange rate and the depreciation of the US dollar. Not only is advice needed on exchange rate policy but also the IMF should play a role in fostering coordination among the developed economies and in finding a solution to persistent global imbalances. In the words of one participant, there is a danger that "the rest of us will be hurt by a conflict we have nothing to do with."

Governance Reforms and Representation Issues

To address the shortcomings identified in the previous section, some reforms should be undertaken in the governance of the Fund and in its relation with regional initiatives. This section addresses these issues from a Middle East perspective.

Representation

The IMF should be responsive to requests from Middle Eastern member states to hire more staff from the region. Relative to the quotas of Arab countries, the Middle East is hugely under-represented in the institution's staffing, since there is no Arab staff member at a director level and too few senior Arab staff.

Due to historical factors the region is over-represented at the Board level. Current proposals on the table for a new formula on quota allocation may lead to a weakened position of Middle Eastern countries on the IMF Board, and because of this the current proposals have been opposed by the Executive Directors representing Middle Eastern countries. While it is recognized as imperative and legitimate to adjust quotas to reflect members' weights in the global economy and to give larger weight to countries outside the United States and European Union, Middle Eastern creditor countries maintain that there must be limits on such adjustment because quotas determine the availability of resources to the Fund. From a Middle East perspective, the adjustment in quota should keep in mind the need to preserve regional and geographical balances.

Regional cooperation

Outside the IMF, there is a range of regional cooperation opportunities possible for Middle Eastern countries, from regular policy dialogue to monetary union. Given the large current account surplus enjoyed by Middle Eastern oil exporting countries, as well as their ample liquidity, the region could benefit from a form of regional framework on the monitoring and management of capital flows, such as foreign investments. The abundant liquidity available in the Middle East can be channelled to long-term investments in the region instead of investments in more developed countries. Such increased investment could lead to an increase in intra-regional cooperation and trade and bring closer monetary cooperation. The IMF could play a vital role in promoting regional investments, advising capital-importing countries on how to attract investments from neighbours with abundant liquidity. A reformed IMF should continue to play a role in the region, even when deepened regional cooperation takes place.

Whether increased regional investment cooperation is feasible depends primarily not on the IMF but on the political will of the same Middle Eastern countries to solve the issue of scarce high return investment opportunities in the region and deal with the different political regimes and exchange rate policies.

Conclusion

The main points of discussion in Amman indicated that the IMF still has a role to play in the region, mainly in the areas of technical assistance, debt management, and in providing a "seal of approval" to policies developed by national authorities. This will require a more assertive role by authorities in devising policies and seeking very specific advice on matters in which the IMF has expertise, such as exchange rate policy. Advice from the IMF needs to be more rigorous, empirically-grounded and tailor-made to the situation of the country in question, while the engagement of the staff on the ground should be continuous.

Better representation, both in terms of staff and giving larger weight to non-US/non-E.U. countries is needed, while the adjustment in quota should keep in mind the need to preserve regional and geographical balances. A reformed IMF should not only deal more effectively with global imbalances, but can also play a useful role in increasing regional investment cooperation.

Policy Recommendations

- Need for more timely and continuous engagement of the IMF staff on the ground.
- Need for more empirically grounded and tailor made technical assistance. More attention to welfare issues.
- Need for exchange rate coordination between the major international currencies in order to avoid negative externalities on the region.
- Greater Arab representation in the IMF staff. Need to preserve regional and geographical balance in the Executive Board.
- Regional framework to promote capital flows to finance long-term investments in the capital-importing countries in the region.

Workshop participants:

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Dr. Rania Al-Mashat
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Related CIGI Publications

Canada and the Middle East: In Theory and Practice
Edited by Paul Heinbecker and Bessma Momani
CIGI/Wilfrid Laurier University Press
October 2007

Canada's Economic Interests in the Middle East
Bessma Momani and Agata Antkiewicz, *Working Paper #26*
July 2007

Beyond the International Monetary Fund: The Broader Institutional Arrangements in Global Financial Governance
Tony Porter, *Working Paper #19*
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February 2007

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February 2007

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 gouvern-ment du Canada pour sa contribution à son Fonds de dotation.

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