International Monetary Fund: Success and Failure in Africa

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Abstract

The IMF is an organization that consists of 185 countries and is involved in a broad range of economic questions. The main goal of the IMF is to safeguard the financial stability in the world. This financial stability is seen as an important global public good. This paper investigates the main successes and failures of the IMF. The first sub-question will be about the main goals of the IMF. The next two questions are about the fundamental conditions for a well-functioning international organization and the successes and criticisms of the IMF in the past. The last part of the paper consists of the data-research. Three possible connections will be examined. First I will research the connection between the uses of IMF credits, corrected for the country's GDP-size in relation with average annual GDP growth. Second I will discuss the connection between average annual gross capital formation growth and the use of IMF credit. The last question is: "To what kind of African countries does the money of the IMF go to?"

Contents

1 Introduction

This paper is about the IMF. It discusses the IMF goals and work approach in general, its successes and failures and provides where and how the IMF could improve its functioning. The general question is: "What are the main successes and failures of the IMF?". This question is interesting because the IMF is an organization that consists of 185 countries and is involved in a broad range of economic questions (IMF, 2008). These days, nearly all of the countries in the world experience lower economic growth than a few years ago. The reason of this is the credit crisis, which arose in the United States in the summer of 2007 with problems on the sub-prime market. The credit crisis is the term for the crisis on the financial markets. In September 2008 it became clear to the main economic leaders in the world that a new crisis was going on. Some large banks in the United States got into trouble and the banking system seized up because of mutual distrust (NRC-newspaper, 2008). While the problems of the financial system expanded, the growth of real economy also slowed down. In November 2008 expectations of heavy recessions in large parts of the world were made and the panic and distrust in the financial system was rooted.

The link to the IMF with the credit crisis is easily made, since the main goal of the IMF is to safeguard the financial stability in the world. This financial stability is seen as an important global public good. Besides the IMF organizations like the G8, the Bank for International Settlements and the OECD also consider world financial stability (Molle, 2003). Now it is a good moment to consider whether or not the IMF has success or that it has to improve their functioning.

In this paper the main themes are the following:

- Transparency
- Accountability

- Overhead costs & Efficiency
- Contribution of the IMF to economic growth in Africa
- IMF Conditionality

In the main part of this paper I will first describe a justification of the subject of my paper. After that I will answer the sub-questions. In the first sub-question I will discuss the main goals of the IMF and the work-approach of the IMF. After that I will investigate what an ideal international organization should look like. The third sub-question is about the successes of the IMF. This sub-question also discusses main criticisms. The next and last sub-question is about the data analysis following from the findings in the sub-question 1, 2 and 3. Finally I will come to a conclusion and will give some recommendations.

2 Justification of the subject

This paper about the IMF is of economic, social en political importance. The economic importance is the most evident. When we look at the goals of the IMF, which will be discussed in chapter 3 and also the actual situation of the world economy the economic importance is clear.

The political relevance of the subject is visible when we describe the IMF as an international organization. A large group of countries work together in the IMF, so the amount of stakeholders is large. It is a good thing for the participating countries to look to the successes and failures. This paper also describes the IMF deals with corruption of African governments.

The social importance is the least relevant for this paper. About this it is worthwhile to mention that social importance starts in the roots of the IMF. The organization is created to improve economic circumstances in the whole world. The world population benefits from this and this paper provides them with knowledge of the IMF functioning today.

3. The main goals of the IMF

In this sub-question I will discuss important features of the IMF that will provide a good basis for the next three sub-questions, which deal with an ideal international organization and the successes and failures of the IMF. This sub-question sets out the main goals of the IMF.

The IMF as an institution plays a major role in running the market in our global economy. The IMF is established with certain goals and over times some more goals were added (Allegret and Dulbecco, 2006). From the annual year report we can conclude that the main mission of the IMF is: "to help ensure stability in the international system". The main public good here is: financial stability. We can distinguish several objectives that all belong to the main goal, a stable global macro-economic system. Below I will discuss the five most important objectives (Molle, 2003; IMF annual report, 2007).

3.1 Technical assistance: the IMF mainly assists poorer countries with trainings and advice how to upgrade their institutions and how to design macro-economic, structural and financial policies. It provides technical assistance to its members and is highly valuable in general, because it has a staff which draws on an unparalleled range of experience.

3.2 It undertakes surveillance of the global economy and the economies of its members. It also publishes reports. The task of surveillance contains: to oversee the international monetary system and monitor the financial and economic policies of its members. The IMF is tracking economic developments (research, statistics, forecasts, and analysis based on tracking of global, regional, and individual economies and markets). When countries are hit by a monetary shock the IMF tries to shorten the duration and lessen the degree of disequilibrium in the international balances of that member.

3.3 The IMF imposed upon itself a task to lend to its member countries. When the IMF makes resources available to a member country, it does so under an agreed arrangement. These conditions are known as IMF-conditionality. It consists of qualitative and quantitative features. More about IMF-conditionality will be in the second part of chapter 5.

3.4 Most international monetary problems end up in the IMF; it's an institution for consultation and cooperation on international monetary problems.

3.5 One of the most challenging goals is the next one: contribute to the capacity of the least-developed-countries (LDCs) to catch-up. Initially, the IMF focused on macro-economic adjustments when providing sufficient capital to LDCs but the IMF is increasingly involved in micro and policy adjustment by stressing conditionality. When applying conditionality it can ask a country to take a number of policy measures. Sometimes the IMF can even ask to embark upon in-depth reforms when the IMF thinks that these measures are important to solve fundamental problems which were the reason for financial problems.

To fulfill these objectives with success the IMF has to work in such a way that it gives the participating countries enough financial stability. To be capable to do this an organization like the IMF needs different important properties. The following things come up when analyzing the objectives: stock of knowledge, financial capital, participation of countries, trust, transparency, efficiency and for instance good communication.

4 What are fundamental conditions for a well-functioning international organization?

In this sub-question I will discuss best practices for a well-functioning international organization. Why do they actually exist? International organizations are created as a response to problems of incomplete information, transaction costs and other barriers to Pareto efficiency and welfare improvements (Barnett 1999). As we will see, there are a lot of different things to focus on when creating a good organization.

4.1 Participation

Many authors discussed best practices for an ideal aid agency. For instance economist Woods (2000) in his paper about good governance which we will discuss beyond. International organizations need widespread political support and local participation. Beside local, they also need a great universal participation (Woods, 1999). It is also important that the decision makers make contact with stakeholders about their program and policies. Participation can be created by working together with local citizens and policy-makers when making new policies and programs. This ensures local commitment and action in implementation and maintaining them. The reason for this is because a strong correlation is found between ownership and the satisfactoriness of program outcomes (Woods, 2000).

4.2 Specialization, selectivity, aid channels and costs

Easterly and Pfutze (2008) mention four dimensions that are very important. Before these four can be discussed, transparency is said as a crucial point because without transparency all other evaluations of best practice are impossible. These four dimensions are: "specialization", "selectivity", "ineffective aid channels" and "overhead costs". Specialization measures the degree of fragmentation of aid. Too much fragmentation diminishes the effectiveness of aid. Selectivity measures the extent to which aid avoids the corrupt autocrats and goes directly to the poorest countries. The term ineffective aid channels measures the extent to which aid is tied to political objectives or consists of food aid or technical assistance. The last one, overhead costs measure an agency's administrative costs relative to the amount of aid given (Easterly and Pfutze, 2008).

4.3 Transparency matters

Transparency, as said, is not only important in itself, but is also linked to all the other dimensions. Transparency can raise reputation of an organization. Transparency will be a relevant consideration in any area where bureaucrats choose policies based on anticipated outcomes, and where actual outcomes are affected by unanticipated events. If the forecasts upon which policy choices are based remain secret, then the fact that bureaucrats have incomplete control over outcomes creates a potential for moral hazard (Stasavage, 2003). The best direct way to eliminate such problems with moral hazard is to make the behavior of an agent of an organization more observable. This can be achieved through administrative procedures that have to be published periodically, for instance every year. This leads to more transparency about the organization. If, transparency can be combined with accountability provisions, socially undesirable outcomes can be avoided. Accountability provisions allow other parties to override bureaucratic decisions or easily dismiss agency officials.

4.4 Accountability

Mussa and Savastano (1999) discuss accountability as a desirable thing within international organizations. The goal is to ensure that political actions are predictable, non-arbitrary and procedurally fair. Decision-makers must be answerable for their decisions and there have to be rules and limits on the exercise of power (Mussa and Savastano, 1999).

4.5 Governance

Good governance strengthens the institutional framework of government. This means strengthening the rule of law and the predictability and impartiality of its enforcement. It must prevent the organization from corruption and rent-seeking by focusing on transparency and information flows. Enough information must be released. The decision-makers in the government have to be a reflection of the members of the organization. Equality in an international organization can prevent unrest (Woods, 2000). Beside equality, also capability of the directors is very important. It is a known fact that the world is undergoing a transition. Global changes are happening on fronts like information technology, management processes and organizational dynamics. Adler and Gundersen (2008) argue that only those directors survive who understand the international sophistications specifically with reference to the organizational behavior.

5 What are the successes of the IMF and in which way can the IMF being criticized?

This sub-question consists of two paragraphs. The first one is about generally seen positive aspects of the IMF. The second discusses things for which the IMF is criticized.

5.1 Successes of the IMF

The IMF can be complimented with some major achievements. The IMF has contributed to the notion that it is important to maintain a stable economic environment and financial system, which both have a positive influence on economic growth. With the setting of standards all the 185 participating countries in the IMF do the best to succeed. The goals of the IMF are great and it has contributed to create the right conditions for saving and investment. It also transmits the right signals in terms of prices and policy measures.

In addition, the IMF has assisted countries with a sudden imbalance or shock. With this assistance these countries had more financial power to survive. Two actual examples are Serbia and Romania. Both countries received in March 2009 emergency credits of the IMF, respectively 3 and 20 billion dollars. These credits are used to survive the recession and to restructure the economy. In Romania the economic success in the years before the credit crisis was for the main part caused by the huge inflow of foreign capital. This inflow vanished when the credit crisis started. These IMF credits however cannot be used without conditions, Serbia for instance has to raise taxes and diminish their public expenses. Romania has to strengthen fiscal policy further to reduce governments financing needs and improve long-term fiscal sustainability (NRC-newspaper, 2009; IMF survey). These conditions are controversial and the IMF is being criticized at some more points.

Also the view about corruption can be seen as a positive aspect of the IMF. The IMF is as one might expect, against corruption because of the consequences of corruption and the view of the participating countries. The main consequences of corruption that make it necessary to tackle it are:

1) Lowers incentives to investments. Corruption acts like a tax, business-men are in uncertainty. Afterwards corrupt government officials can claim part of the proceeds of the enterprise. Corruption lowers investment and lowers economic growth.
2) Corruption contains the possibility that it will reduce the effectiveness of aid. Aid in some situations can only support unproductive and wasteful government expenditures. The paper of the IMF says: "In cases where governance is judged to be especially poor, some donors have scaled back their assistance". The question rises how the IMF deals with this. I am going to research this in chapter 6, test 7 (Mauro, 1997).

3) Furthermore corruption can lead to a distortion of the government expenditures and it can cause a lower quality of infrastructure and public services. When corruption takes the form of tax evasion (aid evasion) there is a loss of tax revenue, which cannot be used to improve the economic situation in the relevant country.

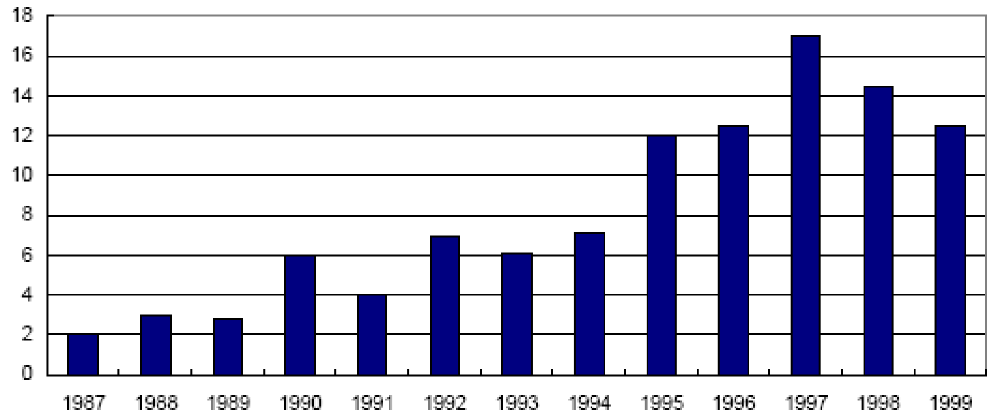
5.2 Criticisms about IMF conditionality, accountability and African aid

Besides the positive points which are mentioned above the IMF is also being criticized for their work.

5.2.1 IMF conditionality

There is much discussion about IMF conditionality. Conditionality specifies policies, performance criteria and standards which borrowing countries must satisfy to receive resources from the Fund. The amount of conditions has increased strongly over time. Between 1952 and 1973 the average was 4.23 conditions, between 1991 and 2000 this was 12.42. In the figure below this trend is evident. Two developments can explain this increase. The first is that the IMF has a growing influence on domestic affairs. The second is that the IMF has more government-related conditions in their programs.

AVERAGE NUMBER OF STRUCTURAL CONDITIONS PER PROGRAMME YEAR,[a] 1987–1999



Source: International Monetary Fund, MONA database; and country papers.
a Total number of structural performance criteria, benchmarks, prior actions, and conditions for completion of review stand-by, EFF, and SAF/ESAF/PRGF-supported programmes, adjusted for differences of programme length.

These days, the IMF makes more use of procedural conditionality then target conditionality. Target measures can be met in each way countries choose. Procedures specify both ends and means by requiring countries to implement a single onetime action. With this shift the IMF becomes more involved in micro-economic circumstances instead of fiscal and monetary macro-economic areas.

There is a lot of controversy about conditionality and it is rising, because the conditions that the IMF has attached to loans become more detailed and cover more areas of government policy.

Opponents of more IMF conditionality are often a member of the LDC's which make use of the loans most. They say it puts an unnecessary pressure on their operations. In some cases the conditions can lead to social unrest, to disruption of economic activity and, in the end, to disruption of national institutions essential for economic growth. Some claim that the IMF is based on a model of Western values and it's a form of ideological imperialism. This claim is often heard together with unequal treatment: the idea that it would not ask such reforms from major developed countries. Possible reasons for inefficiency of conditionality are: 1) Growing number of conditions makes it more difficult and too complex to monitor. 2) The proliferation of (structural) conditions makes conditionality too intrusive and costly. Countries will wait till the situation becomes extreme dangerous. 3) Conditionality seems ineffective in inducing policy changes. Two stakeholders: the borrowers do not see the withholding of funds as a credible threat and conditionality effectiveness is undermined because of difficulties in monitoring compliance. 4) The one-size-fits-all approach does not work. The IMF does not sufficiently invest in obtaining knowledge of initial conditions, for instance political factors and cultural environment.

Proponents of more detailed conditionality exist. They favor more conditionality and their arguments are: (1) Opposition of the ruling elite in countries must be vanished and good conditions for economic growth have to be implemented and (2) Prevention that the loans can be used for bad policy and more moral hazard problems. The tax payer has to be protected.

The main challenge for the IMF in this question is to build coherence between global governance and domestic objectives.

5.2.2 IMF accountability

These days, the IMF has to perform a much broader range of tasks than before, which implies that a broader range of people are affected. This raises the trouble with accountability. The role of the IMF is expanded, but the accountability is not. The

IMF, and also the Worldbank are regularly accused of being secretive, unaccountable and ineffective. Shareholders are demanding the IMF to become more transparent, more accountable and more participatory. The troubles with the accountability start in the top of the organization and in the lines downwards. Representatives in the board of the IMF are inadequate in two respects. First, the Board does not adequately represent all members. Take for instance the general manager of the IMF. Since the establishment of the IMF this has always been a European, while the head of the Worldbank is an American. It fails to represent members of the countries with the most intensive relationships, like the African countries. In chapter 5.2.3 I discuss criticism that has to do with Africa in more detail. Second, the representatives in the board of the institutions are too distant from the governments they represent and from the stakeholders who are most affected by the work of the IMF. The chain is in practice long and imperfect. Further on the head of the board is selected by a non-transparent process which excludes most countries.

5.2.3 Loans to African countries

A major challenge of the IMF is to contribute to the capacity of the least-developed-countries to catch-up. IMF lending achieved poor results in Africa. Analysis of 53 countries in Africa between 1990 and 2000 shows that the IMF loans-for-reform contract lacks credibility because donor countries intervene to prevent rigorous enforcement. The experience of several decades is that policies in Africa persist, programs are not implemented and still the lending continues. Some groups have the criticism that the IMF encourages the wrong policies; this implies a changed policy advice and relaxes conditionality. Other economists suggest that the IMF should be reformed to enforce the existing conditions more consistently. The question is here whether the problems are caused by the IMF agency or by the donor countries? Some people argue that the IMF is an agency without the will to enforce its principal's interests. The author and other people argue that the major donor countries interfere.

The paper of Stone shows strong support for the commitment hypothesis. “IMF program conditions are enforced less rigorously when the borrowing countries receive large amounts of United States aid, belong to postcolonial international institutions that link them to France or Britain, or have voting postures in the United Nations similar to France.” In chapter 6 test 1 till 3 I am going to research the relation between the use of IMF credit (conditions must be satisfied by donor countries) and the average annual GDP growth.

6 Data-research

This sub-question consists of several research-questions. The questions will be examined by a cross-section analysis of 52 countries. I will examine the conclusions of the tests and how these can be linked to the theory of earlier sub-questions.

I have collected data for three different research questions, discussed in section 6.1, 6.2 and 6.3. First I will research the relation between the uses of IMF credits, corrected for the country’s GDP-size in relation with average annual GDP growth. Second I will discuss the relation between average annual gross capital formation growth and the uses of IMF credit. Last but not least, I focus on the question: “To what kind of African countries does the money of the IMF go to?” First I will give some general information about the data, after that I set out the procedure of the research and at the end I will link the findings of the research to the theory.

In the data analysis, the focus on the data is for the time period: 01-01-1985 till 31-12-2007 (23 years). 52 of the 53 countries of Africa are included, however some statistics are missing. Egypt is missing because their data is mainly for the Asian part of Egypt. For the missing data of other countries I inserted “999” in place so the statistical software recognizes it as a missing element. In the test I made use of a correlation and a regression test, where the last one is the main test and the first one is an indication of a relation between variables. A correlation test is a good way to see whether or not two variables are correlated. The regression test tests whether or not the outcome (for instance "Gdp growth per capita") can be predicted from a single predictor (for instance: "Use of IMF credit/Total GdpCountry"). The significance level that is used to judge the hypothesis is 0.1. If the t-value is less than the significance level the H0-hypothesis will be rejected. The significance level judges whether or not we have a significant result for one of the two tests. Beside the t-value I look at the sign of the regression coefficient which shows whether the effect is positive or negative. Test 1 till 3 in section 6.1 are about the use of IMF credit and GDP per capita growth, test 4 till 6 in section 6.2 are about the use of the IMF credit and the growth of gross capital formation. The last test 7, in section 6.3, researches how the IMF deals with corruption.

The procedure of each test is the following:

A. Mention of the research-question

B. Draw up a H_0 & H_1 (alternative) Hypothesis

C. Outcome of correlation and regression tests in tables. In the correlation test is beside the correlation coefficient the significance level given. Below is an overview of the numbering of tables.

D. Conclusion (Do we keep or reject the H_0-hypothesis?)

Table	Content	Table	Content
1.1	Correlation-test 1	4.2	Regression-test 4
1.2	Regression-test 1	5.1	Correlation-test 5
2.1	Correlation-test 2	5.2	Regression-test 5
2.2	Regression-test 2	6.1	Correlation-test 6
3.1	Correlation-test 3	6.2	Regression-test 6
3.2	Regression-test 3	7.1	Correlation-test 7
4.1	Correlation-test 4	7.2	Regression-test 7

6.1 Use of IMF-credit and GDP per capita growth

In section 6.1.1, 6.1.2 and 6.1.3 I discuss test 1, 2 and 3 respectively. Section 6.1.4 deals with the discussion of the test results.

6.1.1 Test 1

A. Is there a relation between the use of IMF credit between 1985 and 1989 and average annual GDP per capita growth between 01-01-1990 and 31-12-1994?

B. *H_0-hypothesis:* There is no relation between the IMF credit between 1985 and 1989, corrected for total GDP of a country and the average annual GDP per capita growth between 01-01-1990 and 31-12-1994.

H_1-hypothesis: Positive sign: the higher the IMF credit between 1985 and 1989, corrected for total GDP of a country, the higher the average annual GDP per capita growth between 01-01-1990 and 31-12-1994. A negative sign of the regression means the opposite.

C. Table 1.1 and table 1.2

Correlation	AvgIMFloan8589	GDPcapita90	AvgGDPgrowthJan90Dec94
AvgIMFloan8589	1	-0.151 [0.318]	-0.094 [0.54]
GDPcapita90	-0.151 [0.318]	1	0.246 [0.096]
AvgGDPgrowthJan90Dec94	-0.094 [0.54]	0.246 [0.096]	1

Model Summary	Dependant variable: average real growth of per capita GDP (90-94)					
R	0.252		Coefficient	Std. Error	t-value	Sign.
R square	0.063	Constant	-2.852	1.106	-2.58	0.013
Adj. R square	0.019	GDPcapita90	0.001	0.001	1.565	0.125
Durbin-Watson	2.141	AvgIMFloan (85-89)	-1.413	3.639	-0.388	0.7

D. The H_0-hypothesis is not rejected at a significance level of 0,1. The t-values is 0.700

this is higher than 0.1. That means we presume that H0 is true. The regression coefficient of Avg.IMFloan8589 is not significant.

6.1.2 Test 2

A. Is there a relation between the use of IMF credit between 1992 and 1996 and average annual GDP per capita growth between 01-01-1997 and 31-12-2001?

B. *H_0-hypothesis:* There is no relation between the IMF credit between 1992 and 1996, corrected for total GDP of a country and the average annual GDP per capita growth between 01-01-1997 and 31-12-2001.

H_1-hypothesis: Positive sign: the higher the IMF credit between 1992 and 1996, corrected for total GDP of a country, the higher the average annual GDP per capita growth between 01-01-1997 and 31-12-2001. A negative sign of the regression means the opposite.

C. Table 2.1 and table 2.2

Correlation	AvgIMFloan9296	GDPcapita97	AvgGDPgrowthJan97Dec01
AvgIMFloan9296	1	-0.157 [0.298]	0.776 [0.000]
GDPcapita97	-0.157 [0.298]	1	0.100 [0.494]
AvgGDPgrowthJan97Dec01	0.776 [0.000]	0.100 [0.494]	1

Model Summary	Dependant variable: average real growth of per capita GDP (97-01)					
R	0.797		Coefficient	Std. Error	t-value	Sign.
R square	0.635	Constant	-0.302	0.513	-0.589	0.559
Adj. R square	0.618	GDPcapita97	0.001	0	1.96	0.056
Durbin-Watson	1.791	AvgIMFloan(92-96)	11.607	1.346	8.622	0.000

D. The H_0-hypothesis is rejected at a significance level of 0.1. This means we presume that H_1 is true. The regression coefficient of Avg.IMFloan9296 is significant and the regression coefficient is positive. The higher the IMF credit between 1992 and 1996, corrected for total GDP of a country, the higher the average annual GDP per capita growth between 01-01-1997 and 31-12-2001.

6.1.3 Test 3

A. Is there a relation between the use of IMF credit between 1998 and 2002 and average annual GDP per capita growth between 01-01-2003 and 31-12-2007? B. *H_0-hypothesis:* There is no relation between the IMF credit between 1998 and 2002, corrected for total GDP of a country and the average annual GDP per capita growth between 01-01-2003 and 31-12-2007.

H_1-hypothesis: Positive sign: the higher the IMF credit between 1998 and 2002, corrected for total GDP of a country, the higher the average annual GDP per capita growth between 01-01-2003 and 31-12-2007. A negative sign of the regression means the opposite.

C. Table 3.1 and 3.2

Correlation	AvgIMFloan9802	GdpCapita03	AvgGDPgrowthJan03Dec07
AvgIMFloan9802	1	-0.22 [0.137]	-0.196 [0.193]
GdpCapita03	-0.22 [0.137]	1	0.137 [0.348]
AvgGDPgrowthJan03Dec07	-0.196 [0.193]	0.137 [0.348]	1

Model Summary	Dependant variable: average real growth of per capita GDP (03-07)					
R	0.196		Coefficient	Std. Error	t-value	Sign.
R square	0.039	Constant	0.583		4.784	0
Adj. R square	-0.006	GDPcapita03	0	0.016	0.106	0.916
Durbin-Watson	2.422	AvgIMFloan (98-02)	3.048	0.199	1.299	0.201

D. The H_0-hypothesis is not rejected at a significance level of 0.1. This means we presume that H_0 is true. The regression coefficient of Avg.IMFloan9802 is not significant and there is no significant effect.

6.1.4 Discussion of the results

Test 1 till 3 were trying to find an answer on the question "Is there a relation between the use of IMF credit and average annual GDP per capita growth?" for different time periods. Test 1 and 3 give no significant regression coefficients. H_0 is not rejected but the relation between a higher GDP growth per capita and a higher IMF loan is not evident. The discussed IMF conditionality in chapter 5 can cause this. Maybe the LDC's are true when they argue that IMF conditionality puts an unnecessary pressure on their operations. Test 2 however gives a significant result. A higher IMF-loan increases the GDP per capita growth on average. This result is very significant and can be seen as positive since the goal of the IMF-loans is to provide money for better economic circumstances. The Durbin-Watson statistic of the regression is acceptable; this test statistic is used to see whether or not there is autocorrelation in the residuals from a regression analysis. A number between 1.5 and 2.5 is good, no or just a little autocorrelation. We can conclude that the IMF is on the right way to accomplish a major challenge: contribute to the capacity of the least-developed-countries to catch-up. But, the result could have been more evident with three positive, significant regression coefficients.

6.2 Use of IMF-credit and gross capital formation growth

In section 6.2.1, 6.2.2 and 6.2.3 I discuss test 4, 5 and 6 respectively. Section 6.2.4 deals with the discussion of the test results.

6.2.1 Test 4

A. Is there a relation between the use of IMF credit between 1985 and 1989, corrected for total GDP of a country and average annual gross capital formation growth between 01-01-1990 and 31-12-1994?

B. *H_0-hypothesis:* There is no relation between the IMF credit between 1985 and 1989, corrected for total GDP of a country and average annual gross capital formation growth between 01-01-1990 and 31-12-1994.

H_1-hypothesis: Positive sign: the higher the IMF credit between 1985 and 1989, corrected for total GDP of a country, the higher the average annual GDP per capita growth between 01-01-1990 and 31-12-1994. A negative sign of the regression means the opposite.

C. Table 4.1 and 4.2

Correlation	AvgGRSinvGrowthJan90Dec94	GrossInv90	AvgIMFloan8589
AvgGRSinvGrowthJan90Dec94	1	-0.102 [0.514]	0.091 [0.568]
GrossInv90	-0.102 [0.514]	1	-0.102 [0.505]
AvgIMFloan8589	0.091 [0.568]	-0.102 [0.505]	1

Model Summary	Dependant variable: average gross capital formation growth (90-94)					
R	0.127		Coefficient	Std. Error	t-value	Sign.
R square	0.016	Constant	2		0.65	0.52
Adj. R square	-0.034	GrossInv90	0	0.089	0.559	0.579
Durbin-Watson	1.846	AvgIMFloan(85-89)	7.304	0.081	0.509	0.613

D. The test does not reject H_0. The regression coefficient of AvgIMFloan8589 is not significant. There is no significant effect.

6.2.2 Test 5

A. Is there a relation between the use of IMF credit between 1992 and 1996, corrected for total GDP of a country and average gross capital formation growth between 01-01-1997 and 31-12-2001?

B. *H_0-hypothesis:* There is no relation between the IMF credit between 1992 and 1996, corrected for total GDP of a country and average annual gross capital formation growth between 01-01-1997 and 31-12-2001.

H_1-hypothesis: Positive sign: the higher the IMF credit between 1992 and 1996, corrected for total GDP of a country, the higher the average annual GDP per capita growth between 01-01-1997 and 31-12-2001. A negative sign of the regression means the opposite.

C. Table 5.1 and 5.2

Correlation	AvgGRSinvGrowthJan97Dec01	GrossInv97	AvgIMFloan9296
AvgGRSinvGrowthJan97Dec01	1	0.039 [0.794]	-0.049 [0.752]
GrossInv97	0.039 [0.794]	1	-0.127 [0.411]
AvgIMFloan9296	-0.049 [0.752]	-0.127 [0.411]	1

Model Summary	Dependant variable: average gross capital formation growth (97-01)					
R	0.067		Coefficient	Std. Error	t-value	Sign.
R square	0.005	Constant	5.928		0.687	0.496
Adj. R square	-0.044	GrossInv97	0	0.047	0.297	0.768
Durbin-Watson	2.089	AvgIMFloan (92-96)	44.005	0.043	0.274	0.785

D. The test does not reject H_0. The regression coefficient of AvgIMFloan9296 is not significant.

6.2.3 Test 6

A. Is there a relation between the use of IMF credit between 1998 and 2002 and average gross capital formation growth between 01-01-2003 and 31-12-2007?

B. *H_0-hypothesis:* There is no relation between the IMF credit between 1998 and 2002, corrected for total GDP of a country and average annual gross capital formation growth between 01-01-2003 and 31-12-2007.

H_1-hypothesis: Positive sign: the higher the IMF credit between 1998 and 2002, corrected for total GDP of a country, the higher the average annual GDP per capita growth between 01-01-2003 and 31-12-2007. A negative sign of the regression means the opposite.

C. Table 6.1 and 6.2

Correlation	AvgGRSinvGrowthJan03Dec07	GrossInv03	AvgIMFloan9802
AvgGRSinvGrowthJan03Dec07	1	0.064 [0.695]	0.290 [0.078]
GrossInv03	0.064 [0.695]	1	-0.144 [0.339]
AvgIMFloan9802	0.290 [0.078]	-0.144 [0.339]	1

Model Summary	Dependant variable: average gross capital formation growth (03-07)					
R	0.231		Coefficient	Std. Error	t-value	Sign.
R square	0.053	Constant	2.285		7.815	0
Adj. R square	0	GrossInv03	0	0.122	0.728	0.472
Durbin-Watson	2.697	AvgIMFloan (98-02)	12.461	0.219	1.308	0.199

D. The test does not reject H_0. The regression coefficient of AvgIMFloan9802 is not significant. There is no significant effect.

6.2.4 Discussion of results

Unfortunately no signs of the regression coefficients of average IMF-loan are significant. The best regression test is test 6. The regression coefficient is positive, but it is not significant. Further the R-squares of the tests are low. It is the proportion of variability in a data set that is accounted for by the statistical model. It provides a measure of how well future outcomes are likely to be predicted by the model.

We do find a significant correlation. In test 6, we see that there is a positive correlation between average growth of gross investment formation between 2003 and 2007 and the average IMF-loan a country received between 1998 and 2002. The correlation coefficient is 0.29 and is significant (0.074 <0.1). The idea behind a positive relation between the IMF loan and an average higher loan is the following: more money available for investment results in better and more investments in social infrastructure and this lead to an average higher growth rate of gross capital formation.

6.3 Use of IMF-credit and Corruption Perceptions Index

The first section gives an introduction of the corruption perceptions index. Section 6.3.2 discusses test 7. Section 6.3.3 deals with the discussion of the test results.

The research question is whether or not the loans of the IMF go to reliable countries. The paper uses the following variables: "Use of IMF-credit" between 2005 and 2007 and the Corruption Perceptions Index. The variable "Use of IMF-credit" is corrected for the size of the countries. The corruption perception index is the average of the indexes of 2005, 2006 and 2007. For a few countries one or two years are missing, the CPI is therefore the average of the two years or the single available year.

The TI Corruption Perceptions Index (CPI) ranks countries in terms of the degree to which corruption is perceived to exist among public officials and politicians. It is a composite index, drawing on corruption-related data in expert surveys carried out by a variety of reputable institutions. It reflects the views of business people and analysts from around the world, including experts who are locals in the countries evaluated. The CPI focuses on corruption in the public sector and defines corruption as the abuse of public office for private gain. The higher the score is, the better the corruption perceptions index of a country. The list of the indexes is in the appendix.

6.3.2 Test 7

A. How does the IMF deal with transparency / corruption? Do countries with a good score on the CPI receive higher loans?

B. *H_0-hypothesis:* There is no relation between the Use of the IMF credit between 2005 and 2007 and the Corruption Perceptions Index.

H_1-hypothesis: Positive sign: the better a country scores on the Corruption Perception Index, the higher the loans of the IMF to that country. A negative sign of the regression means the opposite.

C. Table 7.1 and 7.2

Correlation	Average IMF-loan 2005-2007	Avg.CPIindex0507	Avg.GDPgrowthJan02-Dec04
Average IMF-loan 2005-2007	1	-0.27 [0.064]	
Avg.CPIindex0507	-0.27 [0.064]	1	0.024 [0.870]
Avg.GDPgrowthJan02-Dec04		0.024 [0.870]	1

Model Summary	Dependant variable: average IMF loan (05-07)					
R	0.231		Coefficient	Std. Error	t-value	Sign.
R square	0.053	Constant	0.04		2.78	0.01
Adj. R square	0	AvgCPI (05-07)	0.01	0.235	1.8	0.09
Durbin-Watson	2.697	Avg.GDPgrowth0204	0.01	0.381	2.8	0.01

D. The H_0-hypothesis is rejected at a significance level of 0.1. This means that H1 is true. There is a significant indication that countries which are less transparent/reliable (low CPI) receive relative higher loans of the IMF, because of the negative regression coefficient.

6.3.3 Discussion of result

Both the Average CPI-index between 2005 and 2007 and the average GDP growth between January 2002 and December 2004 have a significant impact on the average IMF-loan a African country received between 2005 and 2007. The IMF-loan, corrected for country size, was relatively lower with a higher GDP growth in the years before and with a lower CPI-index.

That countries receive a lower loan when GDP growth was higher in the years before can be caused because it is less necessary to assist when a higher GDP growth attracts more foreign direct investment. Less assistance is necessary. To examine this idea I do a regression test. As the dependant variable I take the growth of the average foreign direct investment flow between 2003 and 2007. As independent variable I take the average GDP growth between January 1997 and December 2001. A significant positive coefficient is the outcome. The higher the average GDP growth between January 1997 and December 2001, the higher the foreign average direct investment between 2003 and 2007. When countries received a higher IMF loan, they could generate a higher GDP growth (see test 1/2/3) and they could attract more FDI to be self-sufficiency. This is what I also discussed in sub-question 1 as one of the most important objectives.

More striking and unexpected is the result of the relation of the CPI-index and the height of the loan. Countries which are more corrupt receive relative higher loans. In chapter 5 we saw that in an IMF-paper was said: "In cases where governance is judged to be especially poor, some donors have scaled back their assistance". For the IMF the opposite seems to hold. The result can be caused by several things, for instance:

1) Countries are not transparent. Leaders give a worse view about the country so the IMF provides a higher loan. The IMF research about where the money goes is not good enough.
2) This relation is caused because the IMF conscious sends more money to improve the situation.
3) The corrupt countries have more power and have better bargaining positions.

Unless that selectivity in chapter 4 was mentioned as one of the things of best practice for an international organization, the IMF scores badly on this item. Selectivity measures the extent to which aid avoid corrupts autocrats and goes to the poorest countries. This means there is space in the IMF for improvement.

7. Conclusions

The IMF has become the most important international organization that safeguards the financial stability in the world. By answering four sub-questions in the main part of the paper I have searched for an answer on the general question: "What are the main successes and failures of the IMF?" In the first sub-question I have discussed the objectives of the IMF. These are the most important goals:

1) Surveillance of the global economy
2) Technical assistance
3) Lending to member countries
4) Solve monetary problems.
5) Contribute to the capacity of the least-developed-countries.

In sub-question 2 I have searched an answer for what the best practices are for an international organization. What are the necessary characteristics of such a great international organization? Below is a list of 9 really important core results that are important to have in reaching the goals of the organization.

1) Create local / national and universal participation.
2) Be focused on specialization; too much fragmentation of aid is ineffective.
3) Stay selective; make sure you avoid corruption and help the poorest countries.
4) Avoid the use of ineffective aid channels.
5) Make the overhead costs of the organization as low as possible.
6) Be a transparent organization; transparency raises reputation.
7) Accountability is necessary to ensure that political actions are predictable, non-arbitrary and procedurally fair.
8) Good governance strengthens the institutional framework of government. This means strengthening the rule of law and the predictability and impartiality of its enforcement.
9) Contact stakeholders to ensure commitment and action.

In sub-question 3 and 4 I have discussed important criticisms, successes and the data analysis. Most important conclusions are the following:

Successes:
1) The goals of the IMF are great and it has contributed to create the right conditions for saving and investment and it also transmit the right signals in terms of prices and policy measures.
2) The IMF contributed a lot to countries with shocks or sudden imbalances. With financial support these countries could survive a recession by extra financial power.
3) As positive and important for the data-research can be mentioned the IMF view about corruption, the IMF is certainly against it. This is important because the IMF will do its best to send our money to the least corrupt countries in this area.

Criticisms:

1) There is much controversy about conditionality and it is rising because of the conditions that the IMF has attached to loans. They become more detailed and cover more areas of government policy. This can lead to ineffectiveness of loans.

2) There is trouble with the accountability of the IMF. Shareholders are demanding the IMF to become more transparent, more accountable and more participatory. The problems start in the top of the organization. The chain is in practice long and imperfect.

3) The IMF is also criticized for their loans to African countries, this sometimes in combination with the IMF conditionality. The conditions that LDC's have to implement would be too western. The experience of several decades shows that policies in Africa persist, programs are not implemented and still the lending continues.

Data analysis:

In test 1 till 3 I looked whether or not a significant relation could be found between the height of an IMF-loan in a period of five years and the average annual growth per capita in the five year afterwards. Test 1 and 3 give no significant regression coefficient. It is possible that this has to do with IMF conditionality, the conditions put too much pressure on other things and the money cannot be used to increase the average annual growth level. Test 2 is significant. Every dollar more the countries loan between 1992 and 1996 raises annual GDP growth per capita between 1997 and 2001 significantly.

In test 4 till 6 I examined whether or not a significant relation could be found between the height of an IMF-loan in a period of five years and the average annual gross capital formation growth in the five year afterwards. No significant regression coefficients are found. We do find a significant correlation (0.29) between average growth of gross investment formation between 2003 and 2007 and the average IMF-loan a country received between 1998 and 2002.

Test 7 studied whether or not IMF-loans go to reliable countries. The test gives an unexpected outcome, the higher the CPI-index, the lower the IMF-loan corrected for country size. The Corruption Perceptions Index (CPI) ranks countries in terms of the degree to which corruption is perceived to exist among public officials and politicians. This outcome can be disturbing, but it depends on the factor that causes this relation.

Overall there is hope for the IMF that it really does contribute to the economic circumstances in African countries. Looking at the main objectives it is very important that this kind of organizations exists. But the IMF has to be more selective when assisting the world. Furthermore it is necessary to examine the real causes of the negative relation between the score on the Corruption Perception Index and the height of an IMF-loan. More corruption and receiving a higher loan sounds unacceptable to me.

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9. Appendix

The appendix consists of the corruption perceptions indexes (2005, 2006 and 2007) for all African countries.

Country Name	2005	2006	2007	Average					
Algeria	2.8	3.1	3	3	Libya	2.5	2.7	2.5	2.6
Angola	2	2.2	2.2	2.1	Madagascar	2.8	3.1	3.2	3
Benin	2.9	2.5	2.7	2.7	Malawi	2.8	2.7	2.7	2.7
Botswana	5.9	5.6	5.4	5.6	Mali	2.9	2.8	2.7	2.8
Burkina Faso	3.4	3.2	2.9	3.2	Mauritania	999	3.1	2.6	2.9
Burundi	2.3	2.4	2.5	2.4	Mauritius	4.8	5.1	4.7	4.9
Cameroon	2.2	2.3	2.4	2.3	Morocco	3.2	3.2	3.5	3.3
Cape Verde	999	999	4.9	4.9	Mozambique	2.8	2.8	2.8	2.8
Central African Rep.	999	2.4	2	2.2	Namibia	4.3	4.1	4.5	4.3
Chad	1.7	2	1.8	1.8	Niger	2.4	2.3	2.6	2.4
Comoros	999	999	2.6	2.6	Nigeria	1.9	2.2	2.2	2.1
Congo, Dem. Rep.	2.1	2	1.9	2	Rwanda	3.1	2.5	2.8	2.8
Congo, Rep.	2.3	2.2	2.1	2.2	Sao Tome and Principe	999	999	2.7	2.7
Cote d'Ivoire	1.9	2.1	2.1	2	Senegal	3.2	3.3	3.6	3.4
Djibouti	999	999	2.9	2.9	Seychelles	4	3.6	4.5	4
Equatorial Guinea	1.9	2.1	1.9	2	Sierra Leone	2.4	2.2	2.1	2.2
Eritrea	2.6	2.9	2.8	2.8	Somalia	2.1	999	1.4	1.8
Ethiopia	2.2	2.4	2.4	2.3	South Africa	4.5	4.6	5.1	4.7
Gabon	2.9	3	3.3	3.1	Sri Lanka	3.2	3.1	3.2	3.2
Gambia, The	2.7	2.5	2.3	2.5	Sudan	2.1	2	1.8	2
Ghana	3.5	3.3	3.7	3.5	Swaziland	2.7	2.5	3.3	2.8
Guinea-Bissau	999	999	2.2	2.2	Togo	999	2.4	2.3	2.4
Guinea	999	1.9	1.9	1.9	Tunisia	4.9	4.6	4.2	4.6
Kenya	2.1	2.2	2.1	2.1	Uganda	2.5	2.7	2.8	2.7
Lesotho	3.4	3.2	3.3	3.3	Zambia	2.6	2.6	2.6	2.6
Liberia	2.2	999	2.1	2.2	Zimbabwe	2.6	2.4	2.1	2.4