Debt Relief by Means of Expertise or Politics:
Understanding the extent to which the IMF's Intervention in Lebanon is guided by Expertise or Politics.

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Abstract

This thesis explores the case of the International Monetary Fund's bailout agreement with the Lebanese state in 2022 to understand if it is guided by expertise or politics. Looking at two main contested theories on the behavior of International Organizations (IO's): whether they are autonomous entities where staff have authority and autonomy over their work, or are lack autonomy and are instead pressured by powerful member states. To explore this theoretically, this thesis utilizes the epistemic communities framework to explore the role of the staff in the IMF. Additionally examining asymmetries that may exist within epistemic communities and how this may affect expertise. It also uses the concepts of organizational slippage and risk ignorance to study the influence of member states on the IMF. The methodology followed in this thesis is qualitative and uses a process tracing of the evolution of IMF as an IO and its policies, as well as the IMF's work in Lebanon. To assess the extent to which the IMF's bailout is guided by expertise or policies the thesis uses the Lebanon staff-agreement as a case and examines how closely this agreement aligns with the internal policies of the IMF, as well as previous policy recommendations for the Lebanese state issued by the IMF. With close compliance to these policies indicating high autonomy of the staff with their work guided by expertise. Low compliance indicating high influence from member states, and thus being guided by politics.

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Acronyms and Abbreviations

BdL - Banque du Liban
BoPs - Balance of Payments
CEDRE - Conference for Economic Development and Reform
DSA - Debt Sustainability Analysis
DSF - Debt Sustainability Framework
ECB - European Central Bank
EdL - Electricité du Liban
EFF - Extended Fund Facility
EU - European Union
ESAF - Enhanced Structural Adjustment Facility
FDI - Foreign Direct Investment
FPM - Free Patriotic Movement
FSSA - Financial Sector Stability Assessment
IMF - International Monetary Fund
IO - International Organization
IT - Indicative Targets
IR - International Relations
SAF - Structural Adjustment Facility
SB - Structural Benchmarks
SBA - Stand-By Arrangements
SOE - State Owned Enterprise
LBP - Lebanese Pound
LEM - Lebanese Economic Monitor
LCPS - Lebanese Center for Policy Studies
LIC - Low-Income Countries
MENA - Middle East and North Africa
NGO - Non-governmental Organization
NNA - National News Agency
NOU - *Norges Offentlige Utredninger* (Official Norwegian Report)
PA - Prior Action
PFP - Policy Framework Paper
PFR - Public Finance Review
PRGF - Poverty Reduction and Growth Facility
SDR - Special Drawing Rights
US$ - United State Dollars
QPC - Quantitative Performance Criteria

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Chapter 1: Introduction

1.1 Lebanon and the International Monetary Fund

On April the 7th, 2022, a staff-level agreement was reached between the International Monetary Fund (IMF) and the Lebanese government. This process was initiated upon the request of Lebanese authorities amidst a severe economic crisis that had crippled the Lebanese economy (IMF, 2022a). A staff-level agreement of an approximate US$3 billion through an Extended Fund Facility (EFF) arrangement for the period of 46 months. The agreement is pending the approval of the IMF's Executive Board as well as the confirmation of commitment of other international partners' financial support. Tied to this agreement are specific conditionalities and Prior Actions (PAs) that the Lebanese government must fulfill in order to fully access these funds. These conditions include, but are not limited to: restructuring of the financial sector and external public debt, reforming State-Owned Enterprises (SOEs), as well as strengthening governance and anti-corruption (IMF, 2022a).

Lebanon finds itself currently at a crossroads, or rather, a critical juncture. It can agree to the conditions set forth by the IMF and its economic recovery plan and have full access to the US$3 billion, or refuse the agreement and devise its own economic recovery plan. However, an Economic Recovery Plan issued by the government in 2020 had stated that recovery is seemingly impossible without the support of the IMF (Tzannatos, 2020). This initial plan was ambitious in that the Lebanese authorities had bargained for a $10 billion injection from the IMF and other international funders. Claiming that that amount would support in adjusting the Balance of Payments (BoPs) and stabilizing the national currency's exchange rate (Yassin et al., 2020).

First requested in early 2020, it had taken 2 years of gridlock and negotiations between the Lebanese state and IMF staff until an agreement had been reached. Gridlock due to the state's lack of transparency in stating financial losses, and the IMF's unwillingness to concede on specific conditionalities (Chehayeb, 2021). Although the IMF's intervention seems inevitable, some are still cautious of the implications it will have on the country's economic future. These warning signs are being raised by both local and international experts and non-governmental organizations.

The likes of Oxfam (2020) and the Lebanese Center for Policy Studies (LCPS) (2020) forewarn of a business-as-usual approach from the IMF. Claiming that although previous IMF successes such as South Korea in 1997 and Portugal in 2011 may have yielded positive outcomes - this could not be guaranteed in a state with very weak governance and major fiscal imbalances. Oxfam (2020) warns that such consequences may include the widening of the income and wealth inequality gap as well as increasing poverty, and decreasing access to public services. While others paint an even more grim future, claiming that any plan followed by the current government status quo will inevitably fail due to rampant corruption (Brophy et al., 2021).

The short and long-term consequences of IMF bailouts have been rigorously examined since the institution's inception. The debate over its effectiveness remains a hotly contested issue. Proponents claim evidence of positive short and long-term impacts on various economic indicators such as inflation, balance of payments, and current accounts (Kahn, 2000). However, a considerable portion of studies examining IMF bailouts claim opposite effects on economic performance. Stating that recipient countries tend to be worse off after having received IMF funding and abiding by the conditions set forth by the institution (Dreher, 2006).

It is difficult to anticipate how a state's economic health will transform upon the injection of IMF funding. However, a considerable amount of studies conducted have shown not only a negative economic impact in the long-term, but also negative impacts on rule of law and democracy. Robert J. Barro and Jong-Wha Lee (2005) have shown that a higher rate of participation in IMF loans led to a reduction in economic growth - as well as small negative effects on rule of law. What is clear is that - whether negative or positive - IMF loans do shift the trajectory of recipient states. As such, it is crucial to understand what are the IMF's primary objectives and the role it seeks to fulfill.

As the *ex post* impacts of IMF bailouts have been heavily studied and critiqued - this will not be the focus of this thesis. Rather, this thesis will be looking into the history of the IMF in Lebanon and the process through which the current bailout was devised. It will be viewing the IMF as an expert International Organization (IO) and exploring the reasons behind its behavior. Looking at the IMF through the lens of contested theories on IO's and their behavior.

With the stakes being so high for the Lebanese state and its people - it becomes pertinent to look at the IMF's role as its last bastion. More specifically, looking at how the IMF as an IO treats such extreme situations. As will be explored later in the paper, the IO's long history has opened it to several evolutions as well as controversies. Noting that the Fund has been studied through many perspectives: either as an autonomous expert organization, or more of an expert organization driven by the desires of member states. This thesis will look into the Lebanese case to understand the main driver behind the IMF's intervention. By looking at the IMF's history and evolution, its history in Lebanon, as well as internal policies - many insights can be drawn to help answer this thesis' research question:

"To what extent is the IMF's intervention in Lebanon guided by expertise or politics?"

In order to gain these insights, this paper aims to further supplement contemporary discussions on how IO's behave and operate. To answer this question, the two main contrasting views - autonomous expertise or member state politics - will be examined in more depth within the case of Lebanon. To explore the expertise realm, the framework of epistemic communities introduced by Peter Haas (1992) will be used. It will serve as a lens through which the staff of the IMF as an epistemic community will be studied. To explore the politics realm, the concepts of organizational slippage and risk ignorance will be utilized.

The first step will be to understand what defines an epistemic community. The second step will be to look into how processes within these epistemic communities take shape and are formed. Third will be looking into how these epistemic communities evolve and behave once established. Looking at how much autonomy the staff members of the IMF (the epistemic community in this case) enjoy in their work. This will be determined by understanding the reasons behind the establishment of specific policies and protocols within the IMF - and how closely these protocols are being followed by the staff. Drawing on work from Chwieroth (2010) that placed significant focus on how the staff of the IMF were a key driver in the institution's evolution. Additionally, this thesis will look at asymmetries that exist within epistemic communities and how these may have manifested in the Lebanese case.

The second approach, the political, will be analyzed from a different framework. This will utilize concepts such as organizational slippage and risk ignorance. These concepts will form the theoretical framework to understand how the Fund behaves given its bureaucratic structure, its mandates, and policies. This will draw on the works of Penet (2018) which examined the Fund through an International Relations (IR) perspective and Babb (2003) and that has looked at the IMF through a sociological perspective. Looking at how powerful member states that possess large shares in the Fund dictate its practices and objectives. Giving importance to how ambiguous mandates and policies provide leeway for experts to maneuver around empirical evidence. Looking more specifically at the Lebanese case, this will be assessed by the degree of which these policies and have been diverged away from.

These insights will help us understand to what extent the IMF's intervention in Lebanon has been guided by hard-science or whether it has been science that is purposefully misconstrued to serve an ulterior political agenda. In order to achieve this, a process-tracing approach will be used in two different steps. The first step will be a process-tracing of the IMF as an expert institution - to understand its institutionalization and evolution, as well as existing administrative processes/practices and behaviors. This first step will feed into the second step - which will contextualize the IMF into Lebanon. A process-tracing that will look at the history and relationship of the two entities. The paper will rely heavily on a literature review of the IMF and its evolution. As well as an analysis of policy documents - namely the Article IV reports - published by the IMF which detail the institution's economic analysis of Lebanon.

1.2 Academic Relevance

The economic and political turmoil existing in Lebanon make it a very peculiar case to be studied. The extent to which it is an extreme case cannot be understated. On all levels there has been an economic collapse almost unrivaled in the modern world. This lends itself to be a very unique case to be studied with very particular and profound insights to be made. These insights will contribute to the on-going discussions and debates on how IO's behave. Thereby shedding more light on whether it is the internal staff that hold more influence over the operations of an IO, or whether the influence resides with the member states that comprise its shareholder body.

The contributions will further expand on Haas' (2006) conceptualization of the epistemic communities framework. However, instead of relying solely on Haas' framework - this paper will borrow from further expansions of it. It will include various elements of asymmetries highlighted by Holst and Molander (2018). Integrating different elements devised by other scholars into Haas' work will provide a unique application of this framework. This may serve as a basis for further development of the framework as it will also bring forth new insights as well as shortcomings.

Furthermore, as well as discussed in the theoretical framework section in this paper, there is an apparent lack of utilization of the epistemic communities framework in the 'developing world'. As it is always easier to study expert influence on bureaucratic structures when these structures are effective, clearly defined, and transparent. However, very few cases exist that study the impact of epistemic communities on policy-making within developing (or in Lebanon's case - regressing) countries. As such, not only would this paper contribute to added knowledge of theory application in non-Western states - it is also being applied in a very complex and extreme case.

Additionally, this paper will be placing the IMF under a microscope. On a technical level, it will be looking at the degree of compliance to its own internal policies and protocols in handling an extreme case like Lebanon. This will provide empirical insights into how an IO may utilize risk ignorance or experience organizational slippage in extreme cases.

1.3 Societal Relevance

The ultimate objective of this paper is to provide clarity to a highly contentious debate in Lebanon surrounding the IMF's intervention. Two contrasting narratives existing within Lebanon are: either that the IMF's intervention is the country's last life-line and that it is a trustworthy institution guided by scientific and expert knowledge, or that the IMF's intervention is first and foremost a political intervention into Lebanon and that their conditions may further destabilize the country. Noting that a further destabilized Lebanon can have severe implications on the already turbulent neighboring countries (mainly Syria) and the wider MENA region. In addition it can increase pressures on other entities such as the European Union (EU) and international humanitarian organizations.

This paper does not seek to forecast future events but rather understand the fundamentals of how the bailout agreement was met. These insights will elucidate the nature of the intentions of the IMF in Lebanon. Depending on the findings of this research it may either refute doubts regarding IMF expertise or intentions in developing states - or serve as a warning sign to future country recipients to reconsider approaching IMF funding. This paper will address questions on how these bailouts are designed and with what ultimate objective the IMF seeks to achieve.

1.4 Thesis Structure

In order to appropriately and most accurately answer the research question, the thesis will be structured as follows. First, an overview of the two main contrasting approaches to IO's and how they behave. This will be followed by an in-depth look at the epistemic communities theory, its arguments and its limitations; as well as how other scholars have expanded upon this theory to include various different elements that will be useful to our analysis. Second, an overview of the concepts of organizational slippage and risk ignorance by looking at how IO's, specifically, the IMF may be influenced by powerful member states. Third, these contrasting hypotheses that this paper seeks to study will be looking at the two main opposing theoretical expectations.

That will be followed by the research design section that will detail the methodology followed as well as the data that will be utilized, and the justification for the case selection. Next, the empirical results section of the paper that will provide the analysis of all the qualitative data gathered and its application into the theoretical framework that will be utilized. Finally these findings will feed into a conclusion that will address the research question posited, as well as into additional remarks on any identified limitations and points for future discussions and research.

Chapter 2: Theoretical Framework

2.1 Understanding the Behavior of International Organizations

In order to answer the research question, this thesis will be guided by two contesting theoretical approaches to understanding how International Organizations (IO's) operate and evolve. The first will look at the staff as agents of change within organizations. Wherein IO's operate as autonomous entities and staff enjoy agency and authority over their work and the development of mandates and policies. The second looks at IO's as tools utilized by powerful member states to dictate policy and operations of the IO. This view is rooted in the realm of international relations and studies the influence member states possess over IOs.

The staff focus builds upon sociological and constructivist perspectives on IO's. Initial approaches had looked at how the culture that existed within IOs would shape staff preferences, as well as determine how much space there was for change. However, organizational culture being an impetus for behavior and change proved difficult to define, measure, and determine (Meek, 1988). Instead, IO's began being viewed as autonomous actors - with power, authority, and autonomy. Barnett and Finnemore (2004) studied IO's as independent rational-legal entities. They argued that IO's utilized the authority granted to them to create autonomy. Stating that this is due to either "mission creep" or "organizational slippage". The former looks at how IO's expand their scope, mission, and responsibilities in a manner that is path-dependent. Whereas the latter looks at how ambiguities within mandates offer leeway's for IO's to maneuver around. And that these entities were guided by a mix of impartial knowledge as well as shared moral beliefs (Barnett et al., 2004).

Chwieroth (2010) zooms in further - focusing on how internal debates amongst the staff was a key driver for shaping the behavior of the organization. Using the Fund as a case, he looks specifically at how the IO's stance on issues pertaining to capital account liberalization had shifted drastically throughout the decades. As he states that previous literature on IO's were heavily state-centric or relied heavily on Principal-Agent approaches. Claiming that these studies focused primarily on the role of formal rules or the influence of member states on the IO; instead of focusing on more informal dynamics amongst the staff which offer deeper insights into the operations of the Fund in specific, and IO's in general. Furthermore, this perspective looks not only onto how policies within these IO's are developed and adopted. It also gives equal attention to how these policies are then interpreted and applied (Chwieroth, 2010).

However, both Chwieroth (2010) and Barnett et al. (2004) both concede to the notion that member states do to a certain degree influence IO's. This view is state-centric and stems from the fact that powerful member states are often major shareholders of IO's. Looking at the IMF, lending decisions taken may be determined by the political and/or economic objectives of member states (Dreher et al., 2013). Wherein objectives of the IO have shifted depending on the needs and objectives of member states (Desai et al., 2011). These perspectives look at the architecture of IO's to understand how these IOs' mandates dictate how they can be used. Similar to Barnett et al. (2004) this perspective also utilizes the idea of 'organizational slippage'. But rather than this being a process initiated by the entity itself (as had been the argument presented by Barenett et al. (2004)), it is a process utilized by member states to dictate IO behavior (Babb, 2003). However, this approach has been criticized for not giving enough attention to the fact that IO's do possess considerable autonomy and are not mere tools of member states (Chwieroth, 2010).

Looking at these two contrasting perspectives - this thesis will utilize both contesting frameworks to gain insights from each. To better understand the role of the staff within the Fund, the epistemic communities framework will be utilized. To look at the influence of member states, the concepts of organizational slippage and risk ignorance will be utilized.

First, epistemic communities framework was selected as it places the communities that exist within bureaucracies as the central focus of its analysis. Looking at how the experts come together and coordinate to eventually establish centralized bureaucratic structures. And how these experts then operate within these structures and evolve them. A limitation of this framework however is that it has not been given much attention since its inception (Dunlop, 2013). Other scholars such as Loblova (2017) and Holst and Molander (2018) further expanded upon the framework - adding more layers to its analysis. This thesis will be using further theoretical developments contributed by Holst and Molander (2018) to look at asymmetries that can exist within these communities.

Second, the organizational slippage and risk ignorance concepts were selected as they look at how member state influence manifests within these IO's. These concepts will mainly draw from other cases in which such mechanisms had manifested. Looking at the behavior of IO's and how they come to diverge from their own internal policies and protocols. This thesis will draw from the analysis by Penet (2018) and Babb (2003) in looking at the reasons that IO's stray away from these protocols. As well as looking at the consequences such decisions have once member states have strong influence on IO's.

2.2 Epistemic Communities

Tracing it to its original formulation by Peter M. Haas (1992) as a tool to explore the various approaches of knowledge-based experts influencing policy-making. This framework was created to address analytical gaps in the study of international relations. With international relations looking at international and domestic policies - the epistemic communities framework sought to erase these boundaries. These expert communities that existed within and in between states were largely ignored in contemporary studies yet were a main catalyst for development. The intention behind this framework was to form a bridge between positivist and relativist approaches (Adler et al., 1992).

As a first step, it is crucial to define what is meant by epistemic communities, what does it include, and how do they work. Claire A. Dunlop (2013) provides a succinct and detailed overview on the development of the framework. These experts were utilized to navigate decision-making and policy designing processes which were intrinsically technically complex as well as highly uncertain and with high risk. Dunlop (2013), however, is quick to point out that the framework of epistemic communities - though insightful - has still not received much attention since its inception.

In Haas' (1992) initial conception, he points to a belief system comprising four knowledge elements that these epistemic communities embody. First, a value-based ration for social action that stems from a shared set of principled and normative beliefs. Second, the analysis of issues and problems stems from shared causal beliefs. Wherein this guides their domain and serves as the basis when navigating complex and highly uncertain circumstances when creating linkages between policy actions and desired outcomes. Third, validity originates from collectively shared notions, in which knowledge is validated and weighted from an internally defined criteria. Four, the existence of a common policy enterprise, this provides a set of common practices commonly associated with a set of problems in which they direct their professional expertise into.

Haas (1992) also highlights the three central methods that epistemic communities use to support in the policy formulation process. These are: shedding light on cause-and-effect relationship to provide advice on policy outcomes of different actions, elucidating complex interlinkages between different problems and issues, as well as supporting states in defining their self-interest. Dunlop (2013) points out that this framework serves to complement other existing frameworks of policy-making such as rational choice, constructivism, and historical institutionalism. The framework of epistemic communities is not without its limitations and challenges. Such as understanding the internal workings, dynamics, and structures that exist within a community. These factors prove critical to our understanding of how belief systems within them are formed as well as how subsequent messaging is framed (Dunlop, 2013).

2.2.1 Uncertainty and Complexity

"How states identify their interests and recognize the latitude of actions deemed appropriate in specific issue-areas of policymaking are functions of the manner in which the problems are understood by the policymakers or are represented by those to whom they turn for advice under conditions of uncertainty." (pg.2, Haas, 1992)

At its very core, the inception of this framework by Haas (1992) was created in response to the growing uncertainties and complexities of problems in the modern world. There became an increasingly expanding gap between the skills and knowledge that decision makers had and the technical knowledge required to effectively address emerging problems. More specifically, as Haas (1992) points out, it is these highly complex problems that decision makers struggled with in order to define what reasonable solutions, but more importantly, to define what state interests are in responding to them. This also works under the assumption that state actors or decision makers tend to be both uncertainty reducers and power/wealth pursuers. Loblova (2017) asserts that for this process to begin - the initial inertia must be triggered by a demand from policymakers for expert input.

The void between states identifying their own self-interest, navigating high uncertainties and complexities of problems, and exploring viable solutions to problems is filled by epistemic communities. This is also where a hierarchy in power manifests as experts within these communities not only monopolize knowledge and information over important issues, they also dictate how these issues are framed and addressed. Ultimately, controlling the patterns of behavior that emerge in response to these contemporary issues (Haas, 1992). However, it is also critical to point out that these epistemic communities do not exist within an ideological vacuum. Rather, their knowledge production and interpretation of information is guided by a broader worldview (Haas, 1992).

So how exactly do epistemic communities play their role in helping decision makers navigate the hazards of uncertainty? Once their advice is requested or solicited, generally, the first step is decoding the various cause-and-effect relationships and expected outcomes from various policy options. The advice is given to further pinpoint the self-interest of the state. Once defined, the community itself can support the development of the policy. However, as Haas (1992) mentions, the nature of these policies are contingent on the reason for which these experts' support was initially requested.

2.2.2 Asymmetries in epistemic communities

Holst and Molander (2018) explore the idea of epistemic worries and - focusing on the asymmetries, disagreements and biases that exist within epistemic communities and their interactions with policymakers. They look at the Nordic style of Temporary Advisory Commissions to draw insights on how epistemic communities were leveraged to resolve governmental disagreements on policy issues of uncertainty. They focus on ten various elements that surround epistemic worries - of interest to this paper are the following: (1) *Expertise requires ‘normal science’ and political ‘well orderedness’,* (2) *Experts operate out of self-interest,* (3) *Scientific experts make cognitive errors,* (4) *Experts are ideologically biased,* and (5) *Scientists* *lack political judgment.* In their paper, they explore these elements and how they affected policy-making on the national level.

As for (1) and (2) they elaborate on how the effective utilization of their expertise in policy-making is necessitated by ‘normal science’ and ‘well orderedness’. That their expertise is really only useful and applicable under ‘normal’ circumstances. Stating that under cases of social, economic or political crises - the expertise of epistemic communities is very difficult to take advantage of. Where even within a well-functioning political system experts tend to favor outcomes that provide them with their own personal advantages. Points (3), (4), and (5) look further into the fallibility of experts, their ideological leanings, as well as their narrowed vision on the problems they are addressing. They claim that human error exists within expert communities, that they usually do not have the political knowledge that surround the policy areas that they are working within, as well as that experts also heavily favor policy areas that align with ideological preferences.

The paper had highlighted controversies and challenges that came to light in Norway during the development of the *Norges Offentlige Utredninger* (NOU) (Official Norwegian Reports). They found that several commissions had been “accused of producing poorly founded scenarios and long-term predictions based on uncertain, unlikely, or even random estimates.” (pg. 365, Holst et. al, 2018). Additionally, they bring forth the issue of experts potentially prioritizing self-interest over policy outcome. Pushing for policies that confirm past positions or bolster their own professional reputation. This also related to their argument that experts tend to be ideologically biased in their judgements.

The way that experts frame an issue or problem may already “set the stage” to having specific policies as the favorable solution to that issue. Holst et al. (2018) provide an example of how a commission of mostly economists were repeatedly accused of valuing neo-liberal and ‘market-conforming’ solutions to many areas of public administration and policy. Finally, they also look at how these experts tended to lack the sufficient political judgment in the policies that were proposed. Claiming that although their recommendations may have been the ‘right’ policy - it usually would not be feasible given the political climate of the state at the time.

It becomes clear upon reviewing current literature on epistemic communities that it is a highly flexible concept. This allows for multiple applications into a wide array of issues as well as levels of analysis (from local issues, to global issues). However, upon reviewing recent literature on epistemic communities, it becomes clear that most of the literary focus has been on examining epistemic communities in developed Western states - or even international communities emanating or originating from the developed West. This may prove to be quite limiting when looking at the developing world. This is due to the fact that unlike the West, many developing states struggle with clearly defined bureaucratic processes as a consequence of weak governance. Furthermore, policy-making and decision-making processes may not be as clearly defined as in a developed democracy. As such, locating for example 'points-of-access' of epistemic communities into these national bureaucracies may prove more challenging. General lack of transparency, an attribute quite common in developing states, places an additional barrier to understanding the internal workings of policy and decision-making (Fox, 2016).

2.3 Organizational Slippage and Risk Ignorance

"Ignorance is not the opposite of knowledge; it is a strategic mode of action from reflexive experts adjusting their diagnostics to larger concerns." (Penet, pg. 1033, 2018)

As aforementioned, the contrasting theoretical framework to the epistemic communities this paper will utilize is organizational slippage and risk ignorance. Broadly defined by Babb (2003), organizational slippage is a transformative process that changes the core objectives and goals that the organization was built upon. These goals serve both a cognitive and symbolic function. Such a process may occur rapidly, or be a long and drawn out one. Furthermore, such a divergence or transformation may take place due to three reasons: power of external actors, the legitimation of actors internally, as well as other models available within the environment surrounding an organization (Babb, 2003).

Such an approach to understanding IO's behavior is a sociological one as it seeks to understand why these IO's may develop into entities very different from what they initially intended to be. It looks at the circumstances under which IO's were formed. Where sociologists have observed that those founded through multilateral agreements tend to also have ambiguous mandates and charters.

This ambiguity may be a result of a contested process that is undertaken by the diversity of stakeholders involved in the process. As this ambiguity allows the organization to not only work towards its intended purpose but also to serve the needs of their constituent states (Babb, 2003).

Looking more specifically at a specific form of organizational slippage - is risk ignorance. Penet (2018) defines risk ignorance first and foremost as a strategic resource at the disposal of IO's. This resource is used as a means to achieve an end through the relaxation of accountability requirements. Furthermore, it is used to legitimize the pursuit of controversial projects that would typically not be possible if internal mandates are followed - however, are imposed upon them by key stakeholders. Penet (2018) looks deeply at the IMF's intervention in Greece in 2008 - especially at how ignorance was purposely manipulated.

He claims that defective elements of the programme that were pursued in Greece were intentionally obfuscated when communicating to the public. That experts knew of the negative long-term consequences of the programme - however, were ignoring them. This was due to pressures exerted upon them by private powerful shareholders so that they may secure their participation in the Greek bailout. Stating that the IMF played a very sensitive communicative function - in that it had to avoid any speculation from Greek citizens, the press, or internal and international markets that the IO was operating under external pressures (Penet, 2018).

Citing the work of Cooper et al. (2002) that explored the role of the IMF lending programs as a political tool. Penet (2018) further asserts that conditionality within the IMF is not an epistemic function that is shaped by science and belief systems. This would assume that experts within the IO enjoy a high degree of autonomy within their work. Rather, he points to studies on the prioritization of state interests on the operations of the IO. Claiming that powerful IMF shareholders such as the U.S. and Europe have traditionally sought to influence the programmes that are executed by the Fund as a means to serve for a political, geopolitical, or military end. The idea of Fund experts being exposed to external pressures is by no accounts a new one. Chwieroth (2007) also explores how U.S. policymakers and the U.S. Treasury made their views known within the Fund - these external pressures will be looked at further in the analysis section.

2.4 Utilization of the Theoretical Framework

In order to answer the research question posed by this thesis, one of the two following scenarios is expected to have taken place:

Scenario #1: Fund staff, as an epistemic community, enjoys significant autonomy and authority over their work within the IO. Little to no pressure from powerful member states dictate the work on the staff of the IO. This autonomy allows them to closely follow internal protocols and policies that have been established to reduce risk and increase probability of success of programmes. However, asymmetries within these epistemic communities may still exist and therefore may lead to mistakes and failures.

If **Scenario #1** has taken place then the following is to be expected: **Theoretical Expectation #1:** Staff of IO's have sufficient autonomy and authority over their work that allows them to abide by internal policies and expertise. If this exists then Fund staff would have complied with policies in the case of developing a bailout plan in the case of Lebanon.

Scenario #2: Fund staff do not enjoy autonomy and authority over their work at the IO due to the presence of pressures from powerful member states. Such pressure exists as member states use their position as shareholders within the IO to dictate objectives and operations. This will lead to possible organizational slippage or risk ignorance within the work of the IO. Diverging away from internal policies and protocols may increase risks and decrease probability of success.

If **Scenario #2** has taken place then the following is to be expected: **Theoretical Expectation #2:** Staff of IO's do not enjoy autonomy and authority over their work and therefore diverge away from internal policies and expertise. This will manifest in various contradictions that emerge between how the Fund has dealt with the case of Lebanon and what its internal policies dictate.

Chapter 3: Research Design

This section will cover the main elements of the methodology that will be used throughout the paper. This includes an overview of the research design, a justification for the case selection, the operationalization of concepts, explanation of independent and dependent variables, as well as data collection methods.

3.1 Methodology

This paper will be using deductive reasoning and is an explanatory research - focusing on the case of IMF intervention in Lebanon by looking at theories surrounding the IMF's behavior as an IO. Looking at how the various contrasting theories surrounding IO behavior manifest in the case of Lebanon. This study will rely heavily on qualitative methodology - namely, process-tracing of the history of the IMF as an institution and its operations in Lebanon. The benefits of using process tracing into such a case is that it allows for the analysis of trajectories of change and causation (Collier, 2011). This will enable us to understand why the IMF developed into the IO it is today, what led to the introduction of internal policies, as well as how it deals with extreme cases such as Lebanon.

3.2 Case Selection

As aforementioned, the two primary reasons for the selection of this case are the high societal relevance as this is an on-going process within Lebanon that will significantly alter its future trajectory, as well as the high degree of uniqueness of the case. The economy as a whole is in freefall with hyperinflation, skyrocketing rates of poverty, as well as an almost bankrupt state (Zavallis, 2020). This, however, does not take into account the failing governance structures that have led to the economic crisis. Neither does it take into account the very difficult position that Lebanon finds itself in politically both internally and externally.

Internally, decades of political gridlock and state capture has resulted in the hollowing out of the Lebanese state apparatus. Externally, Lebanon is a hub for proxy-wars between regional superpowers Saudi Arabia and Iran, global superpowers such as the EU, US and Russia, as well as constant threats from Israel from its southern border (Salem, 2006). As such, Lebanon is no stranger to external influence - wherein its contemporary internal politics has been surrendered to external powers. These influences may come about in a very explicit manner - such as the Saudi Kingdom forcing the Lebanese Prime Minister to resign (Narayan, 2017), or (more overtly) the presence of the Iranian backed militia group, Hezbollah. However, oftentimes these influences are not so explicit, and may come in the form of aid conditionalities as was witnessed with most recently the Conference for Economic Development and Reform through Enterprises (CEDRE) (Ouzzani, 2019).

This case with the IMF bailout strongly captures the reality of international experts exerting their influence on national policy making within a weak state. Given the high degree of uncertainty, risk, and complexity within the Lebanese case means that the state is highly reliant on accurate expert input as the consequences of poor economic policies are severe. Furthermore, these conditions may allow these experts to advocate for their own economic, political or ideological objectives regardless of what scientific evidence stipulates. As such, it provides a very unique case to look into how the IMF behaves in such an extreme situation.

3.3 Methods of Analysis and Data Collection

This research will start with a historical process tracing the IMF's evolution as an institution. From its formation to its present day, looking at the evolution of its ideology and operations. More specifically, this process tracing will look at how the IMF's position of conditionalities shifted. It will also look at how the nature, type, and quantity of these conditions changed throughout the decades following its inception. Looking at how various experiences had led to a change to its internal policies. This will provide us with insights on how the staff reacted to the change and how the staff carries about its current day-to-day work. This will provide insights into how the IMF Lebanon staff perceives its work in relation to bailouts and conditionalities. Allowing for a wider understanding of how the IMF behaves and how its staff operates internally.

The research will then narrow down into looking at how the IMF has operated in Lebanon since the year 2001. The IMF Article IV reports will be used to gain a deeper understanding of its analysis of its economic analysis of Lebanon. These reports provide a detailed analysis of the

IMF’s interpretation of the economic situation in Lebanon. Additionally, these reports include policy recommendations that the IMF provides the state on a regular basis. A process-tracing of these reports will provide insight on the evolution of the staff’s and institution’s position on Lebanon. Changes in their analysis and policy recommendations will feed into analyses of the current policy conditions placed on the bailout package.

The IMF’s stance on Lebanon throughout the 2000’s will also be analyzed in comparison to the “Ponzi Finance” report published by the World Bank (2022). The data and information that will be collected from these reports will provide insight into the IMF’s interpretation of the Lebanese system. This will be used to identify any cases of asymmetries that may have existed within the IMF staff as an epistemic community. As even the report published a few days prior to the economic collapse of Lebanon had no indication of such dire events unfolding. Aside from the Article IV reports - focus will be given to press releases by the IMF as well as their policy documents.

The information and data collected from these process tracing exercises will feed into the analysis and answering the research question. The analysis will look at how the IMF’s bailout plan in Lebanon aligns or diverges from previous recommendations provided to the Lebanese government by the Fund, as well as its own internal policies and rules surrounding debt relief. Close alignment with internal policies and previous recommendations will prove as reasoning that the IMF’s intervention is guided by expertise and learning from previous experiences. Whereas divergence from these policies may indicate that external pressures are being exerted on staff by member states - and therefore, the intervention being guided by politics.

The data collection will be a wide reading of the evolution of the IMF through desk research. The process tracing of the IMF in Lebanon will look at the Article IV reports published by the IMF through their website. This also includes various press releases that can also be found on their website. Furthermore, internal policies that guide the work of the IMF can be found on the institution's e-library. A list of the documents that have been used that are published by the IMF are included within **Appendix A**. Additionally, due to the lack of transparency and reports published by the Lebanese government, new reports will be used to track developments from the

Lebanese government. Looking particularly at developments surrounding the process of reaching a staff-level agreement with the IMF, as well as any new developments that may have taken place since then.

3.4 Operationalization and Variables

Independent Variable: Degree of autonomy and authority staff of IMF in Lebanon hold over their work.

The independent variable is the main focus of the contrasting theories that surround the theoretical literature on how IO's behave and evolve. This variable will be understood through the degree to which the staff have complied with internal policies and protocols. A high degree of compliance with internal policies indicates a high degree of autonomy with their work. Noting that these policies have been instituted to reduce risks of worsening economic conditions of recipient countries. As such, these policies have been set by IMF staff from previous learned experiences. A high degree of divergence from these policies indicates a low degree of autonomy and authority by staff. As these divergences would have been due to member state pressure on IMF staff.

Dependent Variable: Form of debt relief and conditionalities offered by the Fund staff to the Lebanese government.

The dependent variable will be the form of debt relief offered by the IMF staff and the conditionalities that are imposed within them. The nature of the agreement as well as the conditionalities attached to them vary on a case-by-case basis. Similarly, they may vary depending on how closely the IMF staff follow established policies and protocols. As such the type of agreement, size of the agreement, as well as types of conditionalities are all dependent upon the independent variable. As such, a high degree of autonomy would result in a varying form of debt relief and conditionalities than a low degree of autonomy.

3.5 Validity and Reliability

First, looking at the external validity of this thesis. This is generally defined as how generalizable the causal relationship between the variables may be to a wider population (Calder et al., 1982). Seeing as this thesis is specifically looking at Lebanon as a case - and that as mentioned, this case is an extreme case. It may be difficult to infer the findings of this case into any other case where the IMF has intervened. However, empirically, this thesis may be replicated onto another case where looking at how closely the IMF had complied with its internal policies may indicate level of influence from staff or member states. The majority of the data that has been compiled from the IMF was collected from the institution itself and its e-library. Furthermore, data and information from the Lebanese government was collected from well-reputed and credible news agencies.

Looking at the internal validity of this thesis. This means assessing the degree to which the independent variable that has been chosen is directly affecting the dependent variable and not due to other unaccounted factors (Calder et al., 1982). The selection of the degree of autonomy of staff to be measured by compliance to policies was chosen as it is the most feasible indicator to measure autonomy. However, this does not fully capture the reality of the internal formal and informal day-to-day operations of the Fund. Nor does it completely rule out the influence of member states if high compliance was found. Finally, there may be other stakeholders that have been involved – and subsequently exerted pressure - in the process of the bailout plan that have been unaccounted for in this thesis.

Chapter 4: Empirical Research

4.1 Founding of the International Monetary Fund

In order to understand the IMF as an institution today - one must first delve into its long and eventful history. To sketch out the process tracing that is conducted for the IMF - it will first look into the reasons for its inception, then the critical junctures that shaped its guiding ideology, and finally the process of evolution of its internal processes and protocols.

In the midst of the Second World War, July 1944, 44 delegations from various countries met at Bretton Woods. The objective of the meeting was to institute the bodies that were to govern the realm of international economic relations. This had come about after repeated previous failures to establish peace and economic cooperation amongst the world's major trading partners. Two main bodies had been birthed at that moment, the International Bank of Reconstruction and Development (today more known as the World Bank), and the International Monetary Fund. The former was tasked with supporting states in restoring economic activity, whereas the latter would primarily work on restoring currency convertibility as well as multilateral trade. These bodies were to play an active role towards eradicating trade barriers and facilitating international trade (Boughton, 2004).

Countries had resorted to protectionist policies to protect internal economies from the ills of an unregulated international trade. This included currency devaluations as well as punitive tariffs that had led to contractionist pressures on trade (Boughton, 2004). The U.S. and Great Britain delegations - headed by Harry Dexter White and John Maynard Keynes - played a critical role in the establishment of the IMF. The motivating factor behind their push for its institutionalization was to fend off a relapse into protectionism after the Second World War - and instead focusing on rebuilding and facilitating economic growth (Ahmed et al., 2018).

Other major events that had taken place in the decades prior to the IMF’s establishment further justified its creation. The Great Depression had brought forth the failures of the Versailles agreement - as well as the necessity for an international system that stabilized trade. Another critical element is that the Bretton Woods Conference (and establishment of the IMF) had occurred in the midst of the Second World War. Burghton (2004) argues that the Second World War played a fundamental role in the U.S.'s and the U.K.'s ability in establishing the IMF and creating a multilateral financial system. Such political and economic conditions that were created by the war had allowed the U.S. - through the IMF - to take virtual control over the world economy.

Establishing the financial structure of global trade on the U.S. dollar instead of a new currency under the creation of the IMF. Additionally, establishing the headquarters of the IMF in Washington D.C. in close proximity to the U.S. Treasury. As such, this meant that the IMF was purposefully and successfully sculpted by the U.S. to become a dollar-centric international institution. Additionally, as the U.S. was the main lender of its loanable resources - it effectively became the most dominant member state in decision-making surrounding lending practices (Ahmed et al., 2018).

Looking back into the contestation of theories surrounding the behavior of IO's - it may be pertinent to ask which approach may have taken precedence through the inception of the IMF. It is clear that there were many factors that had led to its establishment and creation of its mandate. As explored earlier, mandates that originate from multilateral agreements that are ambitious may tend to be more vague and ambiguous. With the IMF not being an exception to this rule (Babb, 2003). Furthermore, as mentioned, its proximity to the U.S. Treasury and the large role the U.S. played in its founding and operations indicates that there was significant influence from American policymakers into the operations of the Fund.

The IMF and its staff at the point of its inception may not completely fall under the Haas' (1992) definition of an epistemic community. Although it filled the role of international policy coordination through its exchange rate coordination - it however, had yet to fully evolve into the other main characteristics of an epistemic community. Namely, it did not play a significant role in supporting member states to understand cause-and-effect relationships in policy outcomes, nor did it support member states in identifying self-interest. The experts did however come together with a shared objective and set of beliefs in the importance of regulating and maintaining international trade. It is clear that the epistemic community that had taken part in the negotiations and development of the mandate played a crucial role in how the IO operated and its guiding ideology. Most specifically, John Keynes, as one of its pioneers that had played a critical role in shaping the early phases of the Fund.

4.2 The Many Evolutions of the IMF

4.2.1 Ideology and ideas in the IMF

Shifting forward a few decades, the IMF had grown from the bulwark of international exchange rates into also becoming a key lender for states with balance-of-payment deficits. However, these states sought IMF funding primarily to stabilize their local currencies. Furthermore, following a series of international crises that had occurred from the 1950's through to the 70's - the IMF had solidified its role as an international crisis manager. As these instances had significantly increased global demand for IMF lending, however, this had not resulted in an evolution of IMF operations (Garritsen de Vries, 1986). Seemingly becoming a first responder to international financial crises - the IMF became the leading institution to combat the woes of economic crises. Its role continued to expand well into the 90's through the Asian crises in 1997 and the Mexican crisis in 1994. Where it intervened, it sought to provide a temporary source of financing, introduce reform policies within recipient countries, as well as restore local market confidence (Boughton, 2000).

As the IMF's role expanded, so did its guiding ideology. Fundamentally, the IMF was established as a Keynesian institution. Keynesian macroeconomics had laid the foundation upon which the IMF was established. Built onto that came Jacques Polak in the 1950's that advanced the institution's policy on balance of payments. Stating that in order external payment deficits could be resolved by a reduction of domestic credit of the banking system if a country had a relatively fixed exchange rate (Polak, 1991). This idea had formed the bedrock for what became the model used for the basis of specifying conditionality and macroeconomic policy by IMF staff. Building onto Polak's model - came the Fleming-Mundell model. Essentially the new macroeconomic model placed heavy emphasis on the importance of capital mobility as a driver for economic growth. This thinking also infiltrated the macroeconomic policy advice that was given by IMF staff to recipient countries (Mundell, 2001).

Although the role of ideas and ideology within the IMF spans decades and is rich in contestation and significance - there is not enough room in this paper to fully cover all the changes that have occurred. However, the three mentioned: Keynesian macroeconomics, the Polak model, and the open-economy Fleming-Mundell model were three of the key foundational ideas that molded the IMF and its operations (Boughton, 2000). More importantly, is understanding how IMF macroeconomic policy advice, structural conditionality, and subsequent internal protocols had evolved within the institution. Noting that once incepted, it was not intended that the IMF give much attention to structural reform. As structural reform was a long and sluggish process - the IMF was seen more as a temporary intervenor. Reforms were only intended to correct a state's maladjustments of their balance of payments (Boughton, 2000).

As explored thus far, throughout the early inception of the Fund and towards the late 90's the epistemic community within the Fund had played a considerable role. With key members of the Fund's staff creating new models that would transform how the Fund operated and behaved. Though this list of influential staff members that changed the IMF is non-exhaustive, it gives a clear illustration of how internal ideas of the staff played a critical role in the evolution of the IO. Chwieroth (2010) also explores the gradual change that took place within the Fund in the 90's by focusing on the internal debates amongst the Fund staff. Grouping them into either the "gradualists" or the "big bang" groups. The former was the camp of staff members advocating for an approach of a gradual shift towards liberalizing for recipient countries. The latter camp pushed for a rapid 'big bang' move towards liberalization. The latter camp has been more successful in its internal advocacy. Ultimately achieving a goal of amending the Funds Articles of Agreement that gave the IO the formal mandate to push for liberalization and increased its jurisdiction of capital accounts of member states (Chwieroth, 2010).

Furthermore, as the IMF entered the 21st century - it had reached a point in its evolution wherein it could almost completely fall under Haas' definition of an epistemic community. Through internal debates and discussions there grew a consensus on shared principles and normative beliefs (Chwieroth, 2010). The Fund began playing the role of providing member states with policy advice on handling highly uncertain and complex crises, looking at cause-and-effect of policies and their outcomes, as well as supporting states in defining their self-interests. However, these massive changes in the organization's mandates also elucidate the ambiguity in which it was written in. It is clear that organizational slippage had taken place. With the nature of its work expanding considerably from exchange rate coordination to an international economic crisis manager.

As time had progressed new members of the epistemic community had built upon the works of those before. With Polak building upon the work of Keynes, and the Fleming-Mundell model stemming from the work of Polak. It becomes evident that ideas within the IMF are not static but in a constant process of evolution. It may also be argued that member states may have not played a significant role in the evolution of the Fund's ideology - these evolutions, however, may have led to increased interest from member states. For example, member states with an interest in capital mobility may have become more inclined to try and exert pressure on the IMF once the Fleming-Mundell model had been established.

4.2.2 Evolution of Agreements and Structural Conditionality

In the 1970's, the Extended Fund Facility (EFF) was born out of a realization that in some cases, the temporary adjustments to balance of payments that the IMF sought - required longer and more entrenched solutions. This was due to the nature of the maladjustments being rooted within the structures of the recipient states - rather than being purely economic in nature. However, this realization and alteration in course of action was strongly contested within the IMF - especially by Executive Directors of developing countries (IMF, 2001a). Disagreeing strongly with the extension of structural reforms as formal conditions for Fund loans. This resistance to structural conditionalities however was slowly breaking, moving in towards the 80's and the 90's (IMF, 2001a).

This breaking had overlapped with the increased momentum that the Fleming-Mundell model of capital mobility had been gaining within the institution. Before delving further into how these processes evolved - it is critical at this point to mention how the IMF defines conditionality. Taken from the IMF factsheet, the institution defines it as: "Conditionality covers the design of IMF-supported programs—that is, macroeconomic and structural policies—and the specific tools used to monitor progress toward goals outlined by the country in cooperation with the IMF." (IMF, 2021)

This form of monitoring comes in four forms: Prior Actions (PA), Quantitative Performance Criteria (QPCs), Indicative Targets (ITs), Structural Benchmarks (SBs) (IMF, 2021). To briefly cover each, PA's are preconditions that must be met by the recipient state in order to access funds. These PA's are put in place to increase the likelihood that a program meets its objectives. Such measures are increasingly important in cases with weak governance or a weak record for policy implementation. QPC's are precise measures used as structural measures that are deemed critical for the successful implementation of an adjustment program. These are time-specific, however, states may request a waiver to a deadline if an extension will allow for the success of the program in the near future. SBs are used to measure the implementation of reforms that were agreed upon - these are not as tightly linked to funding disbursements as QPC's are. IT's are another form of QPC's. They are quantitative indicators and are used for indicators that are considered uncertain due to economic trends. As uncertainty is reduced, these targets are changed into QPC's (IMF, 2021).

As the resistance internally to structural conditionalities decreased - its use expanded from less than 20% of agreements using them in the mid-80's to all arrangements including some form of condition by the mid 90's. Not only did their inclusion increase and become universal for all IMF agreements - so did the quantity of conditions attached to these agreements. From an average of two structural conditions to agreements in the late 80's - this number rapidly multiplied to an average of 7 in the mid 90's, and then increased again to 14 towards the late 90's (IMF, 2001a). As conditionalities became more common practice and gained more acceptance by Executive Directors of the Fund, they became more encroaching on various spheres of the state. The structural conditionalities began ranging from financial sector restructuring to reforms to governance. This was due mostly to an internal acknowledgement that to guarantee success of programs and subsequent economic growth, often structural reforms within the recipient states were necessitated (IMF, 2001a). Figure 1. Below provides an overview of the sectors that were targeted by these conditionalities from 1987 - 1999. As evidenced by it - the IMF moved away from its work on exchange rate and trade policies towards more privatization, fiscal sector and financial sector reform.

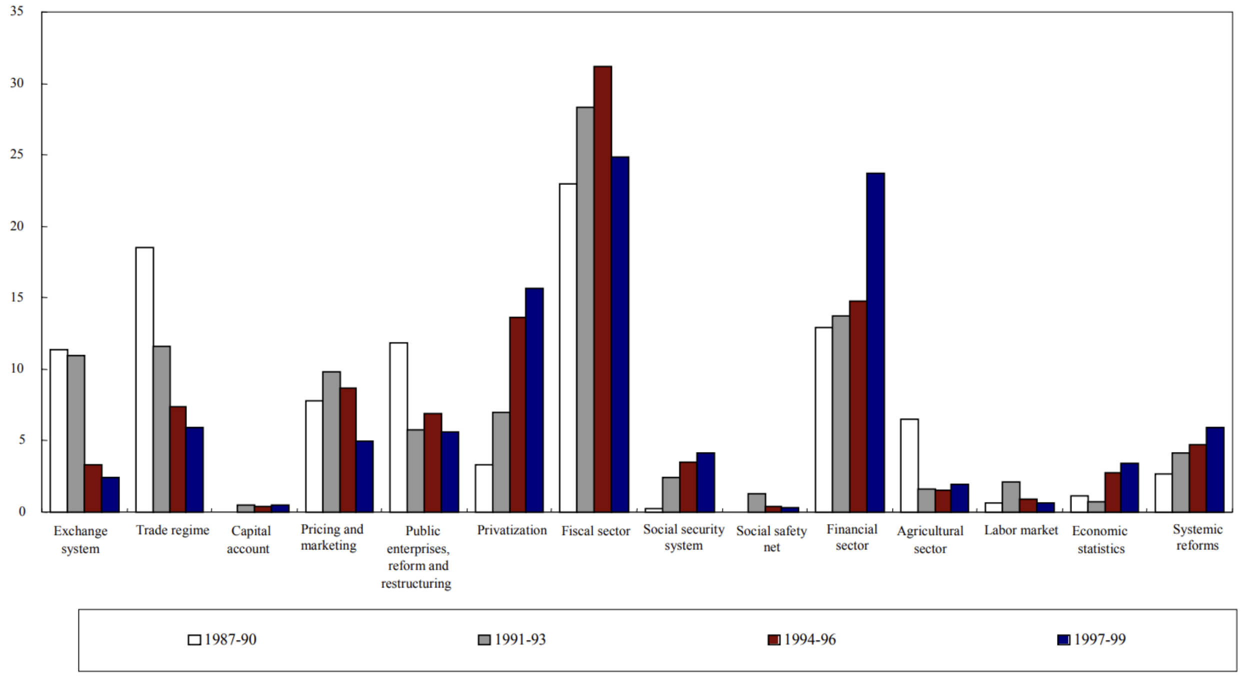

Figure 1. Structural Conditions by Economic Sector, 1987 - 1999 (In percent of total Structural Conditions) (pg. 24, IMF, 2001a)

This augmentation of its own mandate lent the institution to increasing critique. Feldstein (1998) examines the Fund's intervention in Asia, particularly in South Korea, Thailand, and Indonesia. Looking at how the Fund took advantage of the fact that these states requested the support of the Fund to push through reforms that were unrelated to the problems they were addressing. In Indonesia, for example, attached to the $40 billion loan package was an extensively detailed list of reforms that the Indonesian government was expected to introduce. These also included the manner of how to sell plywood and the price of gasoline. Arguing that the IMF had pushed through trade arrangements that were beneficial to major countries such as the US and Japan instead of solely looking at addressing the short term economic difficulties. That these cases were not critical enough to warrant such stringent conditionalities (Feldstein, 1998).

This enlargement of mandate and expansion of structural conditionality can be seen in the various forms of credit arrangements that were available through the Fund. The first form was Stand-By Arrangements (SBAs) established in 1952. They served as temporary and immediate sources of financing to address any BoP challenges. Conditionalities were slowly integrated into these and codified into guidelines by the 60's. Initially, these were conditions focusing on fiscal, monetary or exchange rate policies. However, towards the 80's they expanded to include structural reforms addressing the problems the financial sector may have been facing. In the mid 70's the Fund introduced the Extended Fund Facility (EFF), as previously mentioned these were introduced to tackle structural issues that had led to chronic or acute BoP's. These are generally drawn for a 3 to 4 year time period - with repayments spanning up till 10 years (IMF, 2001a).

Finally, is the Poverty Reduction and Growth Facility (PRGF) which was established in 1999. The PRGF was born out of the Structural Adjustment Facility (SAF) and the Enhanced Structural Adjustment Facility (ESAF). The SAF and ESAF were established in 1986 and 1987 respectively. These were sourced from trust funds - and are significantly more stringent in monitoring and conditionality. Recipients had to lay out a Policy Framework Paper (PFP) which was then used to design the foundations of the SAF/ESAF agreements (IMF, 2001a). Figure 2. shows how by 1999 all agreements had conditions set into them that covered all economic sectors.

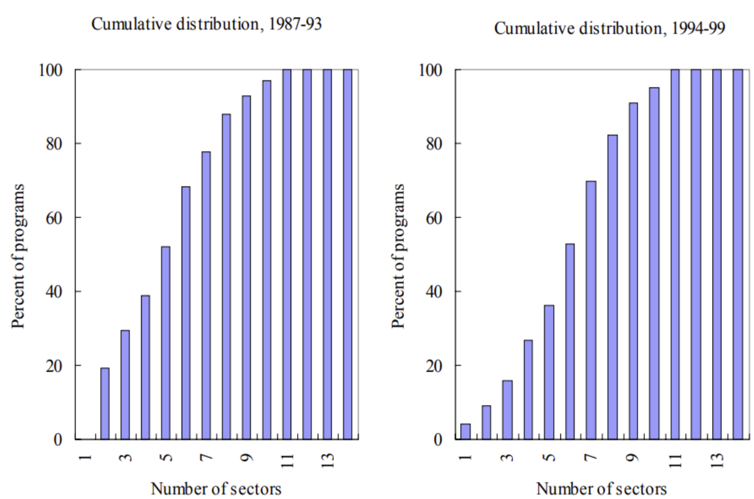

Figure 2. Frequency Distribution of Programs by Number of Structural Sectors Covered (pg. 22, IMF, 2001a)

It is critical to understand the catalyst behind such changes. Why was the IMF shifting its focus and strategy? Was this due to external pressures exerted from crediting member states or was there an internal ideological shift that caused this transformation? Babb (2003) provides a unique insight into this by looking at the evolution of the IMF through the lens of organizational slippage. Claiming that ambiguously or vaguely written mandates offer spaces of maneuverability. This may be seen with the cases of Korea, Thailand and Indonesia that were mentioned. Wherein the IMF may have been pressured by member states (Japan and U.S.) that had benefited from the conditionalities imposed upon them. Maneuvering around the IO's mandate to achieve an economic objective.

Although the U.S. Treasury held significant control over the IMF - staff economists within the Fund also pushed heavily for free market policies that the organization adopted. There was both an external and internal paradigm shift that simultaneously occurred - pushing the IMF from its Keynesian roots towards its neoliberal path. As such, it becomes evident that external pressure along with internal pressure is what had led to the IMF's evolution throughout the period from the 1940's towards the 21st century. Though it may be difficult to determine whether the internal or the external pressure played a larger role in the Fund's evolution – it is clear that they both played a significant role.

So what does the contemporary IMF look like? How did these fundamental shifts impact the organization moving into the 21st century? The IMF continued its path of controversial programs - starting in 2001 with Argentina. The Fund was accused of over lending sums that were not normally limited within the quota that the country could receive. Penet (2018) claims that the resources provided by the Fund were used to finance the capital flight that took place. Being used as a buffer to allow private creditors in the country to escape the consequences of their reckless lending behaviors. After its first intervention in Argentina, the country had announced a default a few months later. Leading to a second intervention by the Fund that focused primarily on systemic risks and internal governance (Graham et al., 2003).

After the dust had slightly settled in Argentina - the IMF awakened to the realization that tighter internal regulations were necessary. These internal procedures were to regulate exception lending and clear out some of the previously mentioned mandate ambiguities (Graham et al., 2003). In an attempt to reduce organizational slippage - the IMF introduced a Debt Sustainability Framework (DSF) and the Debt Sustainability Analysis (DSA) tool. Under these new protocols - the staff must determine to a high probability that the debt disbursed would remain sustainable. Meaning that if the staff could not guarantee debt sustainability through their proposed restructuring - a country would not be deemed eligible for funding. Penet (2018) argues that the "DSA substantiated the idea that loan decisions should be based on hard knowledge and cold (scientific) analysis rather than on hasty judgment and external (political) discretion" (pg. 1037, Penet, 2018). DSA's have three objectives as stated by the IMF: first, they are used to assess the existing debt structure and situation, second, anticipate far enough in the future to forecast any potential payment difficulties and when they may arise, third, in cases with difficulties are used to analyze in impacts of alternative policies aimed at debt-stabilization (IMF, 2017).

However, as evidenced by the case of Greece in 2008 - these policies were still manipulated and not practiced as intended. DSA's of Greece had shown that in order to achieve debt sustainability then a debt restructuring of the state was necessary. The initial findings of the IMF found that there was a high probability of debt unsustainability - and as such, the Fund pushed for restructuring. This was in stark contrast to the position that the European Central Bank (ECB) had taken in regards to Greece. Fearing that a restructuring may lead to a ripple effect on Spain and Italy. European policymakers were at odds with the IMF on how to handle the Greek case (Penet, 2018). The Europeans, however, could leverage their member state status within the IMF Board to sway the institution's stance. The IMF had instituted internal protocols that clearly stated if a DSA had shown a high probability of unsustainability, as such a restructuring was mandatory. As a result, the IMF had to breach their own established protocols. Surrendering to the demands of the ECB and European lawmakers (Penet, 2018).

The IMF continued its development of the DSF in collaboration with the World Bank. In 2017 they included new components such as the external DSA and a public DSA. The former looked at Foreign Direct Investment (FDI) as well as endogenous debt dynamics, while the latter looked at factors that were driven by fiscal balance (IMF, 2018a). Specific DSA's were also developed for Low-Income Countries (LICs). These LIC DSAs were used to monitor the sustainability of debt, anticipate any future crises, as well as guide any borrowing decisions of LICs (IMF, 2017).

The Fund and the World Bank are in periodic reviews of this Framework as it has become the guiding principle surrounding their operations. In 2018 for example, they expanded their understanding of debt-carrying capacity and integrated other elements into its measurement. Other additions included realism tools to study baseline projections, a recalibration of stress tests that would be conducted to examine potential scenarios (such as market shocks, natural disasters, etc.). As well as expanding their characterizations of Debt vulnerabilities (IMF, 2018a).

The DSF now, looking at both the public DSA and external DSA, categorizes countries into three different debt-carrying capacity categories: weak, strong, and medium (IMF, 2018a). Once categorized - the indicators used from their debt-burden thresholds are compared with risk signals to determine the ratings of a country's risk of external public debt distress. The four ratings assigned each to a country are: low risk, medium risk, high risk, or in debt distress. The DSF is used to understand the existing debt situation, and use that information to feed into the policy advice that the IMF (and World Bank) provide to countries (IMF, 2018a).

As can be noted thus far, it is evident that the internal policies that currently exist within the IMF were put in place to avoid repeated instances of failure. These policies were meant to safeguard the organization itself from asymmetries that may exist within its epistemic community. That may either be that the experts within the IO may have made cognitive errors. Or that due to them being ideologically biased they had pursued a ‘business-as-usual’ approach to all countries. Or that these scientists may have lacked political judgment when designing their intervention. However, even with these safeguards in place, member state pressure may force these experts to circumvent these safeguards. As was shown in the Greek case.

The following sections will look into how the Lebanon case reached the severity that it had. It will then briefly explore the banking and financial sector that had led to this crisis. Next, look at how the IMF had perceived the Lebanese case through the Article IV reports. And finally, looking at how the IMF would deal with a Lebanon-type case and how it is currently dealing with the Lebanese case.

4.3 A Series of Unfortunate Events

"Lebanon is enduring a severe and prolonged economic depression. According to the latest World Bank Lebanon Economic Monitor (LEM) released today, the economic and financial crisis is likely to rank in the top 10, possibly top 3, most severe crises episodes globally since the mid-nineteenth century." (World Bank Group, 2021)

Before beginning the process tracing of the IMF within Lebanon - first it is important to understand how Lebanon had reached such a dire situation. The above quote was the opening statement of the World Bank Group's press release that was issued on the 1st of June, 2021 (World Bank Group, 2021). A historic economic collapse that achieved a '*possibly top 3'* ranking in economic severity within a short span of nineteen months. In other words, the Lebanese economy had disintegrated from a dwindling yet somewhat stable economy in late-2019 (World Bank Group, 2019), to one of the most acute economic crises since the industrial revolution in mid-2021. Borrowing the book title of the American author, Lemony Snicket, the events that unfolded within Lebanon at the end of 2019 until when the World Bank report was published could briefly be described as "A Series of Unfortunate Events".

On the evening of October 17, 2019 a spring of widespread protests shook Lebanon that were primarily triggered by the Government's proposal to introduce a tax on the messaging application "Whatsapp" (BBC News, 2019). However, the cries of the Lebanese people seemingly instantly transformed from demanding a cancellation of the tax, to economic reforms to address people's grievances, to abolishing the entirety of the sectarian regime and establishment status quo along with all its figureheads (Sullivan, 2019). Within about two weeks of sustained and pressurized widespread grassroots protests, the Prime Minister at the time, Saad Hariri, had succumbed to its compression and resigned from his post (Qiblawi et al., 2019).

The facade of economic resilience that the Central Bank of Lebanon, Banque du Liban (BdL), had held for almost two decades, began to show its true fragility. For about two decades this resilience was applauded - even by the IMF. For example, in 2008 the institution had published a report entitled 'Weathering the Perfect Storms' (Gardner et al., 2008) to understand how a small state with a large public debt had managed to navigate through several crises.

However, away from the eyes of the public, and facilitated by the BdL and Lebanese banking system, privileged capital flight was well underway. Confidants, relatives, and partners of the Lebanese oligarchy were exploiting their business, familial, or sectarian relations with those in power to transfer out their massive sums of capital out of Lebanon (France 24, 2019). They foresaw the on-coming collapse and jumped ship in a privileged attempt to save their own assets and wealth. Adoration of the Lebanese financial system mutated into defamations. Globally, the Lebanese financial and monetary system infamously became known as a nationally regulated Ponzi Scheme (Heller, 2022) - even by the likes of the World Bank (World Bank Group, 2022).

A harsh fall from grace for the once adored BdL, and a disillusionment for the Lebanese public who now had all their savings stolen. Capital controls were swiftly imposed on small depositors by the Lebanese banks in an attempt to dam the tsunami of the rush-on-banks that occurred (Turak, 2019). Day after day the Lebanese Pound (LBP) lost its value. The BdL desperately held onto the long-term pegged currency policy that had sustained the LBP's value for well over two decades. However, on the 'black market' USD became increasingly scarce and expensive (Alami, 2019).

March 2020, only a few months after the October 17 Revolution, the Lebanese government announced its first lockdown in response to the COVID-19 pandemic (Sewell, 2020). Similar to most nations that introduced strict lockdowns - this came with a hefty economic toll. Unemployment was on the rise, poverty was on the rise, and inflation followed suit. In the same month, in an unprecedented move in Lebanon's modern history, the government had decided to default on its Eurobond debt (The Economist, 2020).

It cannot be understated how accurately this decision illustrates the severity of the bankruptcy of the Lebanese state. Even in the midst of the 15-year civil war that ravaged the country - the Lebanese state at the time was still able to meet its debt obligations (Azhari, 2020a). Defaulting on its loans had only added an instrument to the musical symphony of alarm bells that were ringing in Lebanon. To the government it seemed as though the symphony had landed on deaf ears, to investors and creditors the symphony was a sweet serenade that assured them to stay away from the Lebanese economy, and to the public, it was a screeching cacophony prophesying further anguish and despair.

4.4 Nationally Sanctioned Ponzi Scheme

Although the economic situation had gotten considerably worse since 2019 - the foundations of its demise were built within the financial sector's design. Named after the infamous Italian businessman, Charles Ponzi, a Ponzi Scheme is essentially a fraudulent investment scheme. Its structure relies on creating an illusion of a successful and sustainable business. Essentially providing payouts to old investors by using new capital received by new investors - thus, giving the illusion to old investors that profit is being made. As such, this model requires a consistent injection of finances from new investors and commitment from old investors (Corporate Finance Institute, 2020).

So what does this have to do with the Lebanese government? The Ponzi Scheme seems to have been the source of inspiration for macroeconomic and public financing schemes in Lebanon. In the "Message to the Lebanese People" section of a Public Finance Review (PFR) entitled "Ponzi Finance" issued by the World Bank Group in July 2022, they had decided to use two critical terms to define the economic situation in Lebanon: "The Deliberate Depression" and, more importantly, "Ponzi Finance" (World Bank Group, 2022).

The 1-page message to the Lebanese public is a bleak and somber obituary to the Lebanese financial system. In their opening paragraph stating: "It is important for the Lebanese people to realize that central features of the post-civil war economy—the economy of Lebanon's Second Republic—are gone, never to return. It is also important for them to know that this has been deliberate." (pg. 2, World Bank Group, 2022). Claiming that the political economic structure of the financial sector for the past 30 years has consistently prioritized elite capture of state resources for the benefit of a minority of economic benefactors. With a broad political consensus to protect and uphold a bankrupt economic system at the expense of the public. At this point of reading, it may be natural to ask "Why was this allowed to happen?" or "How could such a fraudulent system sustain itself for so long?" Providing an in-depth explanation to these questions is beyond the scope of this paper due to limitations of space - however, I will attempt to provide a brief overview.

October 22nd, 1989, the Ta'if Agreement had just been signed which signaled two major events, the slow conclusion of the bloody 15-year Lebanese Civil War, and the birth of what became known as The Second Republic of Lebanon. This agreement was essentially a power-sharing armistice between Christian and Muslim sect-leaders over the newly re-established state. Power-sharing agreements that were cemented with high bureaucratic posts and parliamentary seats that were reserved for specific sects. This agreed-upon democratic system had eventually reinvigorated itself into a system of political patronage that exercised control over both public and private spheres in Lebanon (Ezzeddine et al., 2020). The tentacles of the Elite and their patronage system grasped all branches of government, public administrations, state assets, as well as private businesses (Sheehi, 2021). Consequently, this overarching state capture meant that the political economy of Lebanon was redesigned as a tool to benefit the Elites' interests and their patrons (Assouad, 2021).

One of the major organs of this system was the Banque du Liban and its President, Riad Salemeh, who resided in his post since 1993. Salemeh is regarded as one of the engineers of the Lebanese financial and banking system. Or as he may be known today, as one of the main benefactors of Lebanon's Ponzi Finance. Having pegged the Lebanese Pound (LBP) at 1,500 to the US dollar - this became the bedrock of the Lebanese economy. To sustain the peg, the BdL had to guarantee a consistent inflow of capital into the Lebanese economy (Hubbard et al., 2021). Although for almost 2 decades the BdL had succeeded in guaranteeing inflows - it had also ballooned the debt-to-GDP ratio to one of the highest in the world. Furthermore, the World Bank report highlights what it calls 'quasi-fiscal operations' that had been taken by the BdL which were under-reported and unseen. Thus bringing into question the supervision of the banking sector (World Bank Group, 2022).

4.5 The International Monetary Fund and the Lebanese State

"They were encouraged with the FSSA report that indicated that the banks are relatively well capitalized, liquid, and profitable, and that the continuing growth of private financial savings rewards the emphasis of the authorities on the soundness and credibility of the banking system." - *(IMF, 2001b)*

Soon entering its 76th year of membership, the Lebanese state was one of the earlier members that had joined the IMF. Officially joining on the 14th of April, 1947, a mere 2 years after the institution's inception and 4 years after the states independence from French colonists. As of 2022, the state enjoys 633.5 Million in Special Drawing Rights (SDRs). Essentially, an SDR is a claim on freely usable currencies of IMF members - meaning that these SDRs can be exchanged for these currencies (IMF SDR Factsheet, 2022).

The first Article IV consultation published by the IMF on Lebanon was in 2001 (IMF, 2001b). When a country becomes a member state of the IMF it agrees to subject itself to a periodic inspection by the international community. The IMF terms this process as surveillance. They survey the country’s developments (economic and financial) with high level governmental and central bank officials. This is also coupled with the IMF providing policy advice on identified weaknesses or potential pitfalls that may create economic or financial vulnerabilities. As such, they provide crucial insights into the IMF’s position on state affairs.

Interestingly, since 2001, though Lebanon had a very turbulent post-war recovery in the two decades that followed - the tone of the Article IV reports had not changed much. The majority of the reports had focused on highlighting the urgency of attending to its increasingly high debt-to-GDP ratio and that economic growth was stagnant due to whatever crisis Lebanon was experiencing at the time. In the 2000’s it was stagnating due to slow postwar recovery, the Ex-Prime Minister’s, Rafik Harriri, assassination in 2005 or Israel's invasion in 2006. In the mid to late 2010’s it was stagnating due to the high influx of Syrian refugees or a spillover effect from the Syrian war. The last Article IV coincided with the 2019 October revolution that had triggered the economic collapse. Even that report had been mostly a repetition of what the IMF had stated years prior. Carrying barely any indication of the understanding or realization that Lebanon was on the brink of a major collapse.

4.5.1 Article IV Reports in the 2000’s (2001 - 2009)

In the years 2001 through 2009 - the Article IV reports were conducted quite regularly. With the only two exception years being 2002 and 2008. Delving further into the first half of the decade -

the following can be summarized from the Executive Board assessments of the Article IV reports that were published. The main focus of the IMF in Lebanon at the time was the re-establishment of confidence in the Lebanese economy and financial sector. Focusing on a Financial Sector Stability Assessment (FSSA) that was published in 2000 (IMF, 2001b, 2002, 2004a). This assessment praised the Lebanese banking sector for its liquidity, profitability, and well protected against several important sources of risks. In each report, a section was dedicated to the appreciation of the improvements made to banking supervision in Lebanon.

Additionally, the Paris II conference that was held in 2002 was a key focus of the IMF. Looking at actions that the Lebanese government and Central Bank were taking into various structural reforms. This included attempts to reduce the debt-to-GDP ratio, large-scale privatization within the state, as well as working towards macroeconomic stabilization (IMF, 2002). By 2005, the Fund having commemorated the government and Central Bank in managing to navigate spillover effects from the Iraq war as well as the assassination of Rafik Harriri (IMF, 2005).

In the second half of the 2000s - the IMF continued raising alarms of the increased debt ratio. Noting that debt reduction was critical for the long-term sustainability of the country as it was vulnerable to financial and political shocks. Having taken a more neutral stance on the exchange rate peg that had stabilized the Lebanese exchange rate to the dollar. Claiming that it served as an anchor for the Lebanese economy (IMF, 2006, 2007). Though the Fund was growing increasingly frustrated with the Lebanese state on its slow progress on structural reforms - it remained consistent with its praise of the banking sector. Particularly BdL’s ability to successfully intervene and maintain financial stability at the outset of the 2006 Israeli invasion (IMF, 2007).

The decade ended with the 2009 Article IV consultation publication. The Fund's assessment of the Lebanese economy and financial situation remained largely unchanged from the previous several years. Again, the report opened with applauds of the BdL’s and Lebanese economy’s resilience in the face of multiple crises. Focusing again on the necessity for further privatization, a reduction of the debt-to-GDP ratio, and reassuring its support on the monetary policy of safeguarding the exchange rate peg (IMF, 2009).

4.5.2 Article IV Reports 2010 - 2019

The Fund’s 2010 Article IV consultation report signaled a great start of the decade for Lebanon. The press release began with more admiration of the government’s ability to endure and successfully manage another crisis (though this time, a global crisis). Managing to build confidence due to a regained level of political stability as well as cautious macroeconomic management (IMF, 2010). This report was in contrast to most others as it was written during a period of economic prosperity for Lebanon. With its real GDP growth exceeding 8% that year - Lebanon was projected to experience further prosperity and growth. Though mostly positive, the report had still issued its warnings about Lebanon's exceptionally large debt-to-GDP ratio. Cautioning the Lebanese government that this is a great vulnerability with high risk, and may also result in the emergence of new vulnerabilities. Added on to that were further claims that the large banking sector was too highly reliant on continuous sources of short-term non-resident deposit inflows (IMF, 2010).

March 2011, an uprising took hold in neighboring Syria. What started as a popular protest movement, escalated into a protracted civil war, further evolving into a global proxy war that would continue well into the next decade. The growing conflict gripped the economic growth that Lebanon had experienced at the turn of the decade. Lebanon quickly became a country with the highest rate of refugees hosted per capita in the world (Christophersen, 2020). The economic troubles that Lebanon had begun experiencing were quickly reflected in the IMF’s Article IV reports. The 2011 report opened with a section entitled “A Lost Year” and subsequent sentence being “Growth has virtually come to a halt” (pg. 6, IMF, 2012). Reflecting the severity the conflict in Syria had tolled on the Lebanese economy.

This tone had continued well into the later end of the decade. Growth had plummeted from an impressive and healthy 8% to a mere 3%. This had also struck a blow to the confidence that the Lebanese market and government had been steadily growing. Fears and concerns of further spillovers from the Syrian conflict, the economic burden placed on Lebanon by the approximately 1 million refugees, and that government's inability to adequately respond to such a major crisis became the central theme of the Article IV reports (IMF, 2012, 2014).

Five years into the crisis - the themes focused on by the 2015 Article IV remained the same. Stressing the urgency of a reduction of public debt ratio (now more difficult due to the reduced growth), the need to focus on structural and fiscal reforms, and widening the government's tax base through the introduction of new taxes. Although the tone regarding government actions (or reactions) became increasingly stern and less congratulatory - its views of the banking sector remained largely the same. Directors commended the BdL for its ability to uphold macroeconomic stability in light of difficult circumstances. Furthermore, they reaffirmed their position on the exchange rate peg as a necessary tool to maintain economic stability (IMF, 2015).

The 2016 and 2018 Reports began reflecting a more grim economic reality for Lebanon. Reporting that the continuous deposit inflows growth that were sustaining commercial banks in Lebanon had begun to slow. The stable credit ratings that the Lebanese state had held with international ratings agencies began to decrease in rating. The Fund started focusing more on other structural reforms which included privatization of the electricity sector, tackling of widespread public sector corruption, as well as increasing investments into Lebanon's nascent oil and gas sector (IMF, 2017, 2018b). The issue of tackling corruption was rarely (if ever) mentioned in reports prior to the 2016 report. With the Fund becoming more vocal about it by 2018 with its recommendation of strengthening the regulatory framework of anti-corruption in Lebanon. As well as passing various laws that would protect whistleblowers, and increase transparency in public administrations (IMF, 2018b).

17th October 2019 - the IMF publishes its report on the state of the Lebanese economy coincidentally on the same day of the beginning of the October Revolution in Lebanon. Increasing pressures on structural reforms, specifically, the electricity sector, its anti-corruption measures, as well as widening the government's tax break. “The BdL has been the linchpin of financial stability and protecting the peg” (pg.16, IMF, 2019). Although the Fund had stressed the increasing costs that the peg is placing on the state's financial stability. Warning that the path that the Lebanese state was going through was unsustainable - and that the window for changing its course was growing narrower as time passed (IMF, 2019).

The Fund has not published an Article IV report on Lebanon since 2019.

4.5.3 The Bailout Deal

May 2020, for the first time since its membership, the Lebanese government officially requests financial support from the IMF. This came only two months after Lebanon's historic default on its Eurobond payment obligations in March 2020 (The Economist, 2020). This step was met with a lot of internal opposition, specifically from the Free Patriotic Movement (FPM) as well as its ally Hezbollah. After conceding and agreeing to approach the IMF - they had warned of conditions imposed by the IMF that would push a U.S. agenda that violates Lebanese sovereignty (Reuters, 2020a).

The Lebanese state had entered negotiations with an initial request of $10 billion USD to help kick-start the economy. Hoping that an injection of capital could support Lebanon's ability to pay its debt obligations as well as attract new creditors and investors back to Lebanon (Reuters, 2020b). However, just a few months later - negotiations between the IMF and the Lebanese government had stalled. Furthermore, members of the Lebanese negotiation team began resigning from their post. Citing the government's unwillingness to compromise to demands of the IMF (Azhari, 2020b). Specifically, the authorities denied an audit on the BdL, as well as to begin floating the long pegged exchange rate to a floating market-driven single exchange rate (Arabian Business, 2020). Additionally, the government had failed to agree upon a figure that stated the amount of losses to the financial sector.

Negotiations stalled. 13 months had passed with no progress being made on reaching an agreement. Hope glimmered with the formation of a new government under business magnate and former Prime Minister, Najib Mikati. Talks resumed with the IMF under new leadership and with a different negotiating team (France 24, 2021). With the Lebanese government having finally agreed upon a $69 billion figure of losses to the Lebanese financial sector - the authorities could head back to the negotiations table. By the end of 2021, reports were being published of an agreement potentially being made by the two parties (Reuters, 2021).

About 5 months later and a staff-level agreement was finally reached by the two parties. After 2 years of stalemate and failed negotiations - the Lebanese government and the Fund had finally agreed on a bailout plan (Kabalan, 2022). However, this plan included significant reform conditions that the Lebanese government is expected to complete in order to access the funding. Having entered negotiations requesting $10 billion USD - the final agreement that had been reached was an SDR of 2,173.9 million - which equates to an approximate $3 billion USD (IMF, 2022a).

The plan (IMF, 2022a) is based on five key pillars that are necessary to guarantee the restoration of the Lebanese economy:

1) A restructuring of the Lebanese financial sector in an effort to restore the viability of the commercial local banks as well as their ability to reallocate resources to support recovery.
2) A restructuring of the external public debt running parallel with fiscal reforms that would help reach a level of debt sustainability. This in turn would create fiscal space necessary to invest in reconstruction, social spending as well as infrastructure development.
3) Reforms to State-Owned Enterprises (SOEs) - focusing specifically at the Electricite du Liban (EdL), in an attempt to improve electricity provision.
4) Establishing and strengthening anti-corruption regulatory framework within the state. This includes anti-money laundry and combating financing of terrorism. As well as improvements to the governance and accountability framework of the central bank.
5) Creating a transparent and credible system for monetary and exchange rate.

Furthermore, attached to this is a list of PA’s that the Lebanese government is expected to complete prior to accessing any funding. Noting that the bailout plan is still pending the approval of the IMF Board - these are a few of the measures that the government is expected to fulfill (IMF, 2022a):

- A government approved strategy to restructure the banking sector which addresses the massive losses as well as protects small depositors;
- The initiation of an externally assisted evaluation of each of the 14 largest banks in the country by an international firm;
- Parliament passed legislation on emergency bank resolution to kick-start the restructuring of the financial sector, as well as a reformed banking secrecy law that brings the financial

sector up to international standards. This reform aims to remove institutional barriers to fighting corruption as well as detection and investigation of financial crimes;

- Completion of a special purpose audit on the foreign asset position of the BdL;
- An approved 2022 budget for the government;
- Unification of the exchange rate by the BdL
- Government approved a medium-term strategy for fiscal and debt restructuring.

However, as of September 2022, the IMF has been critical of the Lebanese government's progress towards fulfilling these obligations (IMF, 2022b). With the IMF Chief in Lebanon, Kristalina Georgieva, claiming that the country's authorities have yet to take steps towards the implementation of the PA's in order to access program funding (Reuters, 2022). Citing that political gridlock has led to another impasse in the country and has been hindering its ability to pursue progress on any of the required reforms. Furthermore, reports have been issued of the IMF Executive Board not including the Lebanese program on its Middle East and North Africa (MENA) discussions for 2022. This is due to the fact that the state only achieved 2 of the 8 PA's required (LBC, 2022). Further stalling any progress being made in accessing bailout funding.

4.6 Empirical Analysis

Understanding the extent to which the IMF's intervention is guided by politics or expertise we must look at how closely the bailout package aligns with the institution's internal policies. As mentioned earlier, under external political pressures staff tend to maneuver around these policies in order to reach their objectives. Whereas if these pressures do not exist, and the staff enjoys autonomy and control of his/her work - then expertise is the key driver. We will first look at how the IMF approached the Lebanese bailout case, its compliance to internal policies, as well as looking at any convergence or divergence with past policy recommendations. Finally, we will look at any asymmetries that may exist, as well as risk ignorance or organizational slippage that may have been utilized.

4.6.1 Bailout Plan: Expertise or Politics

Looking deeper at the current nature and terms of the agreement and how this aligns with IMF internal policies. First is the type of agreement that was agreed upon which is the Extended Fund

Facility (EFF). As stated by the IMF, the EFF is used in times of severe structural weaknesses that have resulted in medium-term balance of payments problems. This is different from other agreements as they tend to be more long-term (up to 4 years) and require more significant structural reforms to be made by the recipient country. The repayment period is prolonged as opposed to other agreements from 4.5 to 10 years (could be extended to 12) (IMF, 2021b). As stated by the Fund, these agreements have a strong focus on structural adjustments to tackle imbalances. Given the severity of the crisis in Lebanon as well as the nature of its crisis, being mainly structural and internal rather than external - the EFF seems as the most adequate course of action. As it tackles the root of the problems Lebanon has been facing as well as provides the state with sufficient time to implement the required deep reforms.

The second element of the agreement is the amount. Under the EFF the IMF has two courses to address financing needs of the country: Normal Access and Exceptional Access. Normal access is where the recipient country receives up to 145% annually of its SDR Quota (with a maximum of 435% of its quota over the life of the program). Exceptional access is decided on a case-by-case basis by the Board and is assessed under the IMF’s Exceptional Access Policy (IMF, 2021b). Exceptional access is used when a country requires financing that is higher than the threshold set out by the normal access. They are placed under a higher level of scrutiny and reporting requirements. Furthermore, the IMF must assess a high probability that debt will become sustainable upon the completion of the program (among other requirements) (IMF, 2004b).

The IMF in this case seems to have followed protocol and given the Lebanese state a normal access EFF. Given that the annual quota for Lebanon as of 2022 is 633.50 million SDR and the agreement is a total of 2,173 million SDR over 46 months. This figure is equivalent to US$3 billion - significantly lower than what the Lebanese state claims to require to cover losses which amounts to approximately US$ 10 billion. The Fund refused that figure as it deemed it too high of a value. This is another instance of the Fund following protocol as they did not over-loan the state past its threshold for normal access. Furthermore, it did not choose to allow Lebanon the exceptional access as it may not have been able to guarantee to a high probability that the program will achieve debt sustainability. Therefore, it is clear that in regards to the type and amount that was selected - the guiding principle for the staff was their expertise and internal policies.

Next step is looking at whether the conditions set forth by the bailout deal align with the policy recommendations that the IMF has been previously pursuing in Lebanon. This is where previous asymmetries manifest in some cases, the IMF has decided to take an opposing stance to what it was previously recommending.

Alignment of Previous Recommendations and Bailout Conditions

A vast majority of the conditions and prior actions set out by the Fund stem from policy recommendations in previous Article IV reports. For years the IMF had been pushing for fiscal and external debt restructuring in Lebanon to achieve debt sustainability and forewarning of it creating vulnerabilities. As such, it has remained as a key pillar in the conditions set forth by the bailout agreement. Furthermore, towards the end of the 2010's the Fund began pushing for structural reforms to anti-corruption and good governance. These reforms are also included as one of the five pillars of the package. This in addition to its reforms of SOE's, in particular Electricite du Liban (EdL).

Diversions from Previous Recommendations and New Additions

The Fund's stance on the pegged exchange rate had changed drastically after the crisis. Since the early 2000's the Fund's stance was in support for the peg and its role in maintaining economic stability. However, since the crisis the Fund's stance has shifted considerably and now requires that the Lebanese state floats its currency. A new addition is its requirement to restructure the banking sector in Lebanon - requiring new legislation such as the removal of banking secrecy in Lebanon. Requiring an external evaluation of all the 14 largest banks in Lebanon. This had not been the case previously. As Article IV reports repeatedly revered the strength of banking supervision and oversight in Lebanon.

4.6.2 Asymmetries in the IMF

Asymmetries in the IMF staff's work can have major long-term consequences on recipient countries. As noted, the case in Argentina where the Fund provided the state with too large an amount of funding and inevitably led to its defaulting. In addition to the Greek case where member state pressures had led to the staff obfuscating information and knowledge, as well as maneuvering around internal policies to achieve a specific objective. It is clear that these epistemic communities are not infallible and are susceptible to asymmetries.

The “Ponzi Finance” Report issued by the World Bank will be used as a backdrop of this analysis. Wherein the IMF had spent over 20 years acknowledging the financial stability that the government and BdL had secured for the country - it did not manage to uncover that the entire banking sector was built upon a fraudulent system. The IMF staff could have either: 1) lacked the knowledge, skills, or expertise to understand the inner workings of the financial system, 2) was ideologically biased in its neoliberal economics and staunch support for open capital movements that it paved the way for such systemic fraudulence, 3) that the staff lacked the political judgment to understand the political realm that controlled the banking sector in Lebanon.

Such a major oversight brings into question the legitimacy of the IMF’s expertise in understanding the political arena in Lebanon, but as well the inner workings of the banking sector in Lebanon. With several Article IV reports applauding the supervision of the banking sector in Lebanon as well as the government's ability to consistently encourage new in-flow of non-resident deposits into the country. It is those two major components that have contributed to the massive fallout of the Lebanese economy. However, another plausible scenario is that the staff had repeatedly utilized risk ignorance during their operations in Lebanon. Noting that though the Article IV reports had warned the state and the public of the negative long-term consequences of the massive high debt-to-GDP ratio - the messaging was purposefully obfuscated when communicating to the public. However, this is difficult to assess.

4.6.3 Organizational Slippage and Risk Ignorance

As explored in the process tracing section of this thesis - organizational slippage was a key in the evolution of the IMF. Similarly, risk ignorance was utilized by the IMF in some cases. Although difficult to what extent risk ignorance played in the Fund’s inability to flag the fraudulence that had occurred the Lebanese financial sector - it is easier to assess in the case of the bailout package. As stated, this research has found that the Fund has complied closely with internal policies when dealing with the Lebanese bailout. Similarly, noting that there have been some divergence from previous recommendations provided by the Fund to what is included within the conditionalities - may indicate that the Fund has taken into account these previous asymmetries that contribute to their inability to identify the Ponzi finance taking place.

As such, **Scenario #1** that had been set out in the theoretical framework section seems to have taken place. With the IMF staff having followed closely to the internal policies - they seem to enjoy considerable authority and autonomy over their work. With little divergence, aside from previous recommendations, to have been identified - it can be argued that little to no member state pressure has been exerted on the IMF staff. Furthermore, no instances of organizational slippage and risk ignorance seem to have taken place in the Lebanon case.

5. Conclusion

The conclusion section will detail key findings that have come from this research, in addition to the limitations of this thesis, contributions to literature as well as societal contributions. Additionally, this section will include suggestions and recommendations for further to be made on the behavior of IO's. Given the contested nature of the theories surrounding the behavior of IO's that have been mentioned in previous sections - this thesis does not seek to make claims on the validity of one approach over the other. Rather it seeks to elucidate that one specific approach had taken precedence in the case of the IMF and Lebanon.

The research question that was asked in this thesis was "*To what extent is the IMF's intervention in Lebanon guided by expertise or politics?"* In order to answer this question, the thesis delved into the contesting theories surrounding IO behavior. To further explore this contestation different frameworks were utilized to view the IMF as an organization and its staff. To look at expertise, the epistemic communities framework was used to explore the role of staff if they were autonomous and have authority over their own work and expertise. To look at politics, the organizational slippage and risk ignorance framework was used to determine whether member states dictate the operations of the Fund and place pressure on the Fund staff in Lebanon.

In order to explore these various theories and concepts two process tracings were done to gain insights on the behavior of the Fund as an IO. The first was a process tracing the inception and evolution of the Fund. Looking at the key roles that both the staff as well as member states had played in its formation and evolution. Delving deeper into critical points in the IO's transformation and change of ideology. This tracing provides insights into the reasons behind the vast shift that the Fund has undergone since its inception. Furthermore, it provided deeper understanding around various policies and protocols that had been instituted by the staff. Some of these policies stemming from past failures of mistakes of the Fund in recipient countries. These failed experiences became an impetus for change within the Fund and the way it carried out its lending and conditionalities.

The second process tracing was conducted in looking at the Fund's operations in Lebanon, specifically, the policy advice it had provided the Lebanese state since the 2000's. This process tracing used the Article IV reports that were issued since 2001 to look at the policy advice that the Fund issued regarding the state of the Lebanese economy. It allowed the Fund staff positions on key aspects of the Lebanese economy as a whole, and more specifically, the financial and banking sector. Furthermore, this section looked at whether the Fund had shifted its stance on any policy issues from 2001 until 2019. These recommendations were also analyzed in parallel with the 'Ponzi Finance' report that was issued by the World Bank. This analysis allowed to highlight asymmetries within the Fund's expertise as an epistemic community.

This thesis had set out two contrasting theoretical expectations and scenarios based on the two main contrasting theories on IO behavior. These scenarios anticipated which theoretical approach had taken precedence over the other in the case of Lebanon. To do so, this thesis looked at how the Fund had handled the process of reaching a staff-level bailout agreement with the Lebanese state. This process was analyzed in relation to the various policies on agreements and conditionalities that the Fund had instituted. Furthermore, this bailout agreement was analyzed in relation to the previous policy recommendations that the Fund had published for the Lebanese state. Highlighting divergences and convergences with these past policy recommendations and the policy conditionalities that were set in the bailout deal.

These process tracings and subsequent analyses had found that in the case of Lebanon, the Fund staff had complied closely with internal policies that had been set in the IO, as well as previous policy recommendations issued in Article IV reports. However, there have been some divergences from previous recommendations that were issued by the staff. As aforementioned, such a high degree of compliance to internal policies and protocols in dealing with the Lebanese bailout agreement indicates high autonomy and authority of the Fund staff in Lebanon. As such, this high degree of compliance also signifies that thus far no risk ignorance has been utilized by the Fund staff and no organizational slippage has taken place. Sticking closely with its policies and protocols in such a highly uncertain and complex case such as Lebanon, it is clear that expertise has taken precedence over politics.

It may be reasoned that due to the extreme nature of the case in Lebanon - its high uncertainty, risk, and complexity - that Fund staff are exercising high precautions. Although, this thesis does not entirely rule out the influence or interference of member states in the Fund staff operations. It does show that expertise has been the guiding principle of the Fund staff in the Lebanon case.

5.1 Contributions to Academic Literature

This thesis sought to contribute to the contestation in literature surrounding the behavior of IO's. By using a unique and extreme case to shed insight into how an IO would behave under such a particular situation.

The empirical contribution towards academic literature of this thesis lies in its operationalization of various concepts and frameworks to test the validity of the two contesting theories. Using the epistemic communities framework to understand the role of the staff within the IO. As well as using the risk ignorance and organizational slippage concepts to understand the role of member states as shareholders in influencing IO behavior. This was then operationalized by looking at the IMF's internal policies, previous recommendations, and bailout conditionalities to analyze the degree to which all these three aligned. Such an analysis provides critical insight into the predominant source of influence within these IO's. In this case, the autonomy and authority of local staff of the IO taking predominance over the member state shareholders.

Looking further into the epistemic communities framework - as aforementioned, this framework is seldom used in the context of the developing world. This thesis aimed to expand the utilization of this framework into a very particular and extreme case. Furthermore, adding onto it a layer of looking at the asymmetries that exist within these epistemic communities to more deeply understand the role that experts play in policymaking. This framework was also used to better define and understand the role that the experts within IO's play on a national and international level of policymaking. This thesis also contributed to the understanding of member state influence on IO's by utilizing the risk ignorance and organizational slippage concepts. Looking at previous experiences of the Fund staff and pressures that had been exerted onto them to diverge away from internal policies.

5.2 Limitations of the Research

The limitations of this thesis are as follows. First limitation is regarding how particular this study is. This thesis focused on a case that is very extreme - as such, it may be difficult to draw out inferences from this case as it may be considered an outlier. Given that although IMF assistance is requested by recipient states once a crisis has been experienced - these crises are not often as dire or severe as the case in Lebanon. Furthermore, it is critical to note that other countries have different political interests to member states - as such this may also significantly affect level of influence on IO operations.

Second limitation is the very limited data on the internal workings of the Fund. To fully understand and measure the extent to which member states or internal staff had influenced the case in Lebanon - other more in-depth data sources are required such as interviews with key staff or minutes of meetings. Which are very difficult to access. As such, this study used policy compliance as a proxy indicator to understand the level of autonomy of internal staff and influence of member states. However, full compliance is also difficult to measure as internal assessments and studies are not published by the Fund. For example, the Debt Sustainability Analysis (DSA) conducted by the Fund on Lebanon is not made public. Furthermore, other critical documents such as some Article IV reports were not published by the Fund.

Third limitation is that this is still a staff-level agreement and that the IMF Board approval is still pending - this final stage of the process may still be an avenue for member state interference. As noted, the approval of the agreement was delayed due to the non-compliance of the Lebanese state on PA’s. This may still mean that the agreement could be amended and altered due to pressures on the Fund staff by shareholder member states. Fourth is the very limited availability of data from the Lebanese government. Due to the lack of transparency of the Lebanese government - very limited data is published by the Lebanese government on its interactions with the IMF. It is difficult to gauge the level of influence IMF policy recommendations had on policy-making, as well as the role of the government in the Article IV report consultations.

5.3 Policy Implications and Future Research

Although the long-term impacts of the IMF conditionality on the Lebanese state and economy are very difficult to measure. The findings of this thesis point to a decreased risk of the Fund's intervention in worsening the economic situation in Lebanon. As the analysis has shown high compliance with internal policies - it is safe to infer that the conditionalities have been built upon empirical scientific evidence and not member state influence. Therefore, reducing the likelihood of a similar scenario such as Argentina or Greece unfolding within the Lebanese economy. With the policies being followed and the Fund staff not compromising on their conditionalities for reform - this increases the likelihood that the debt relief package may restore some stability back into the Lebanese economy.

However, as pointed out by the analysis on asymmetries that exist within epistemic communities and the failure of the IMF in forecasting such as collapse or flagging the 'Ponzi finance' scheme that was taking place in Lebanon. These experts are not infallible nor are their policies and safeguards. As such, though these policies may reduce the likelihood of failure - this likelihood still exists and must be taken into account when devising an economic recovery plan. As such, the Lebanese authorities should take IMF advice 'with a grain of salt'. Additionally, it is increasingly critical that the IMF staff not only explore the economic realm of the Lebanese state - but add equal attention to the political sphere in which the economy exists. Possibly introducing new assessments when analyzing countries - similar to the DSA - but that focus on political issues rather than mostly economic.

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Appendix A - IMF Documents and Publications Used

Title	Date	Accessed through
Public Information Notice: IMF Concludes Article IV Consultation with Lebanon	2001	https://www.imf.org/en/News/Articles/2015/09/28/04/53/pn01109
Public Information Notice: IMF Concludes 2002 Article IV Consultation with Lebanon	2002	**https://www.imf.org/en/News/Articles/2015/09/28/04/53/pn0336**
Public Information Notice: IMF Concludes 2004 Article IV Consultation with Lebanon	2004	https://www.imf.org/en/News/Articles/2015/09/28/04/53/pn0468
Lebanon -- 2005 Article IV Consultation Discussions, Preliminary Conclusions of the IMF Mission”	2005	https://www.imf.org/en/News/Articles/2015/09/28/04/52/mcs102805
Lebanon: 2006 Article IV Consultation—Staff Report; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Lebanon	2006	https://www.imf.org/external/pubs/ft/scr/2006/cr06201.pdf
Lebanon: 2007 Article IV Consultation—Staff Report; Staff Statement; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Lebanon	2007	https://www.imf.org/external/pubs/ft/scr/2007/cr07382.pdf
Lebanon: 2009 Article IV Consultation and Assessment of Performance Under the Program Supported by Emergency Post-Conflict Assistance—Staff Report; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Lebanon	2009	https://www.imf.org/external/pubs/ft/scr/2009/cr09131.pdf
Lebanon: 2010 Article IV Consultation: Staff Report; Staff Statement: Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Lebanon	2010	https://www.imf.org/en/Publications/CR/Issues/2016/12/31/Lebanon-2010-Article-IV-Consultation-Staff-Report-Staff-Statement-Public-Information-Notice-24261
Lebanon: 2011 Article IV Consultation: Staff Report; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Lebanon	2012	https://www.imf.org/en/Publications/CR/Issues/2016/12/31/Lebanon-2011-Article-IV-Consultation-Staff-Report-Public-Information-Notice-on-the-Executive-25723
2014 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; INFORMATIONAL ANNEX; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR LEBANON	2014	https://www.imf.org/external/pubs/ft/scr/2014/cr14237.pdf

2015 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; INFORMATIONAL ANNEX; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR LEBANON	2015	https://www.imf.org/external/pubs/ft/scr/2015/cr15190.pdf
2016 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; INFORMATIONAL ANNEX; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR LEBANON	2017	https://www.imf.org/en/Publications/CR/Issues/2017/01/24/Lebanon-2016-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-44572
Lebanon: Staff Concluding Statement of the 2018 Article IV Mission	2018	https://www.imf.org/en/News/Articles/2018/02/12/ms021218-lebanon-staff-concluding-statement-of-the-2018-article-iv-mission
2019 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; INFORMATIONAL ANNEX; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR LEBANON	2019	https://www.imf.org/en/Publications/CR/Issues/2019/10/17/Lebanon-2019-Article-IV-Consultation-Press-Release-Staff-Report-Informational-Annex-and-48733
CHAPTER 4 IMF Lending Policies and Conditionality	2001	https://www.elibrary.imf.org/display/book/9781589060623/ch004.xml?rskey=tblAtp&result=3
Factsheet: Debt Sustainability Analysis	2017	https://www.imf.org/external/pubs/ft/dsa/
Factsheet: IMF Lending	—	https://www.imf.org/en/About/Factsheets/IMF-Lending
Factsheet: Extended Fund Facility (EFF)	2021	https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/20/56/Extended-Fund-Facility
Factsheet: IMF Conditionality	2021	https://www.imf.org/en/About/Factsheets/Sheets/2016/08/02/21/28/IMF-Conditionality#:~:text=Prior%20actions.,the%20necessary%20foundation%20for%20success
The Debt Sustainability Framework for Low-Income Countries	2018	https://www.imf.org/external/pubs/ft/dsa/lic.htm

Review of Exceptional Access Policy	2004	https://www.elibrary.imf.org/view/journals/007/2004/014/article-A001-en.xml?rskey=NRpgBt&result=1
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