Part IV
Reforming the IMF

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The Future Role of the IMF: A Developing Country Point of View

Aziz Ali Mohammed

I Introduction

This paper seeks to address some of the issues that have arisen out of the recent worldwide debates on the future role of the International Monetary Fund in the wake of its management of the Mexican, Asian, Russian and Brazilian financial crises. The debates have been particularly intense in the United States during and since the passage of legislation in the US Congress authorising an increase in the US quota and its credit line in the New Arrangements to Borrow (NAB) and following the submission of a report by a US Congressional Commission headed by Alan Meltzer.[1]

At one extreme is a position taken by conservatives like George Schultz (a former US Treasury Secretary) who proposes the abolition of the IMF on the ground that its crisis lending operations generate an unacceptable degree of moral hazard for the private financial system as well as for sovereign borrowers. In the same camp are abolitionists on the far left of the political spectrum who regard the IMF as the modern-day replacement of 18th century "gunboat" diplomacy. They are convinced that the IMF serves the imperialist designs of its principal shareholders, and imposes harsh conditionalities on the populations of poor countries to ensure the servicing of debts owed to creditor governments and financial institutions in the advanced capitalist countries. Others with a less hostile orientation advocate the merging of the IMF into the World Bank Group.

At the other extreme is the view that if the IMF did not exist, it would have to be invented. It is regarded by its supporters as playing a constructive role as an international credit cooperative serving its universal membership with impartial macroeconomic policy advice, technical assistance and financing for countries encountering temporary balance of payments problems. At this end of the spectrum, the debate focuses on how to enlarge its role in the global economy in a variety of ways, for instance, as a genuine lender of last resort and as a creator of international liquidity through its prototype SDR mechanism; as an umpire in orderly debt nego-

1 International Financial Institutions Advisory Commission (IFIAC), *Report*, March 8, 2000.

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tiations between private and official creditors and their sovereign debtors; as an international authority endowed with powers to declare a "standstill" on legal actions that private creditors might take to enforce their claims on sovereign debtors; and finally, as an overseer of the international monetary system through the exercise of effective surveillance over the exchange rate policies of the major international currency countries.

Within this broad range of views, a series of intermediate positions have been advanced by official and non-official groups, including academics and representatives of non-governmental organisations and by representatives of developing countries.[2] The majority of the Meltzer Commission would restrict the IMF to a crisis prevention and response role through very short-term, essentially unconditional liquidity support for a limited number of relatively strong emerging countries that would have pre-qualified for IMF assistance. It would also eliminate the Poverty Reduction and Growth Facility (PRGF), restrict IMF surveillance to non-OECD member countries and write off all IMF claims against its HIPC members. However, four members of the Meltzer Commission take a sharply different view on some of the major recommendations made by the Commission's majority.[3] In an address in London,[4] delivered late last year, the US Treasury Secretary Larry Summers observed that "to say that the IMF is indispensable is not to say that we can be satisfied with the one we now have." He then proceeds to argue that in a world dominated by private capital flows, the IMF must accept "a more selective role that is focused on emergency situations" and "a more limited role in the poorest countries focused on growth and poverty reduction." The PRGF would be maintained and selectivity in respect to other transactions would be enforced by lending for shorter maturity and at higher interest charges. The US

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2 The US Treasury, responding to the IFIAC Report in a document dated June 8, 2000, finds itself "in fundamental disagreement" with that Report's core recommendations for further reform. Among recent reports from US non-official bodies, mention may be made of three: (1) Council on Foreign Relations Independent Task Force Report, *The Future of the International Financial Architecture*, New York, September, 1999; (2) International Center for Monetary and Banking Studies and Center for Economic Policy Research, *An Independent and Accountable IMF*, Geneva and London, 1999; (3) Overseas Development Council Report, *The Future Role of the IMF in Development*, Washington, D.C., April 2000. An unofficial G-24 position is articulated in a paper prepared by Montek Ahluwalia entitled "The IMF and the World Bank in the New Financial Architecture", in *International Monetary and Financial Issues for the 1990s*, Vol. XI, New York and Geneva, United Nations, 1999. Official G-24 positions are stated in the press communiqués of the Group issued in September 1999 and April 2000 (reproduced in the *IMF Survey*).

3 Joint Dissenting Statement signed by four members: C. Fred Bergsten, Richard Huber, Jerome Levinson and Esteban Edward Torres; three of them did not sign the main Report.

4 "The Right Kind of IMF for a Stable Global System" delivered at the London Business School, December 14, 1999.

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Treasury response broadly follows along the lines of the Summers London address.

In another recent report from official sources,[5] the United Kingdom Treasury Committee is not convinced that "the IMF has the correct expertise to undertake major debt relief programmes in developing countries." It wants the IMF to "pull back from such programmes and concentrate on its original mandate." It warns that unless the roles of the IMF and WB Group are clarified, "the level of overlap increases the argument for a merger." In a major area of the Fund's work, i.e. on codes, international standards and financial regulation, the Committee urges that this work be given a "higher priority".

The positions articulated in the preceding paragraphs by authoritative sources in some of the principal shareholder members of the Fund stand in contrast to several major addresses delivered by the former Managing Director of the IMF, Michel Camdessus, in the days just prior to his retirement[6] and the submission made by Stanley Fischer, First Deputy Managing Director, to the Meltzer Commission.[7] Finally, the new Managing Director of the IMF, Horst Köhler, has begun to articulate his preliminary thinking on the role of the Fund.[8]

In the following sections, the main issues regarding the Fund's role are discussed using the arguments of the protagonists but without identifying the source of each argument. Rather, the objective is to present both sides of the issue as a backdrop to articulating a developing country position.

II Issues Arising from Recent Policy Declarations and Reports

There are several issues that have been the subject of contention in recent days: they concern, almost exclusively, the relationship of the IMF to emerging market economies and other developing countries. This might appear natural since the financial crises that have engendered the current debates were centred in this group of countries. There are, however, another set of issues that cover the relations of the IMF with its major shareholders that are notable for their absence from these discussions – issues such as:

5 HM Treasury, Third Report, Treasury Committee, Session 1999-2000.

6 Remarks at the Council on Foreign Relations entitled "An Agenda for the IMF at the Start of the 21st Century" (New York) and at the Institute for the Study of Diplomacy, School of Foreign Service, Georgetown University entitled "The IMF We Need" (both in February 2000).

7 Presentation to the IFIAC, February 2, 2000.

8 Notably, in a speech delivered to the International Monetary Conference in Paris, May 30, 2000. (*IMF Survey*, Vol. 29, No. 11, June 5, 2000).

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- the global implications of exchange rate movements among the principal international currencies about which IMF surveillance has little to say, despite the fact that their fluctuations are major contributors to financial disturbance in other countries;
- the distribution of voting power in the institution that derives historically from an arbitrary quota allocation formula designed to perpetuate industrial country dominance;
- the internal governance of the institution through the interaction of the Executive Board with management and staff and the influence exerted on the latter by a powerful sub-set of the membership;
- the asymmetric character of the conditions being imposed on debtor countries affected by financial crises versus the reluctance to apply a corresponding set of obligations for transparency, accountability and equity on financial institutions in the capital market centre countries.

The following paragraphs do not focus on the foregoing industrial country related issues: they are restricted to considering issues that are currently on the table with respect to developing countries. Some of the argumentation is inevitably repetitive since the issues are overlapping.

Country Eligibility for IMF Assistance

As noted earlier, a strong case has been made for restricting the Fund's financing role to emerging market economies in financial crises and to provide them with short-term emergency loans at penalty interest rates. The basic argument for restricting the IMF role to that of a quasi-lender of last resort in a limited number of cases is that Fund operations generate moral hazard for both private lenders and sovereign borrowers. The Fund's intervention is said to allow short-term creditors (such as the international banks whose claims are not "marked to market") to be paid off in full and, in the case of other creditors, its action is said to delay mutually negotiated debt workouts. Much is made of the "ambiguous" evidence of the impact of Fund programmes in many countries and their usefulness is said to be confined only to cases where financial crises in "systemically significant" countries can produce, through contagion, serious consequences for otherwise solvent trading and investment partners.

The fundamental flaw in arguing from the evidence of past IMF programmes is that it fails to consider the counterfactual. The "before" and "after" dichotomy leaves no room for "with" and "without" considerations, i.e. what would have transpired if the Fund had not intervened. The austerities that are attributed to "IMF programmes" are typically the consequence of a balance of payments constraint arising from events (e.g. sharp reversals in private capital flows) and/or policies that were in play *prior* to

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the Fund's intervention. The availability of IMF financial assistance relaxes that constraint somewhat and makes for a more orderly and less burdensome adjustment process than would otherwise have become unavoidable. Moreover, the argument for restricting Fund action to countries that are "systemically significant" assumes that these can be unequivocally identified in advance. As Michel Camdessus asks: "Who prior to July 1997 would have regarded Thailand as belonging to the 'systemically significant' category?"

The growing integration of an increasing number of developing countries into global financial markets has created a powerful case for treating member countries of the IMF on a more, rather than a less, equal basis when it comes to access to IMF financial support. Also not to be ignored are the legal rights and obligations of members as laid down in the Fund's Articles of Agreement and the accumulated precedents and practices of the Fund, as they have evolved over the past fifty years. These create a case for universal access to the resources of a credit cooperative to which all members continue to contribute.

IMF Involvement in Poverty Alleviation and Debt Reduction (HIPC) Cases

The principal argument for pulling the IMF out of the poverty alleviation area is that as a short-term balance of payments adjustment lender, its core competency is, and should remain, macroeconomic policy analysis. The IMF is said to lack the wide expertise required to deal with poverty issues,[9] which have deep-rooted structural and institutional causes, and which are only treatable over the very long term. There is also the argument that if the IMF were to try to build its expertise in the poverty area, this would add to the degree of overlap that already prevails vis-à-vis the World Bank Group and would strengthen the argument for merging the two institutions. Finally, there is a strongly held view on the part of some in the NGO community that by clothing it with the mantle of poverty – by changing the name of the Enhanced Structural Adjustment Facility (ESAF) to the Poverty Reduction and Growth Facility (PRGF) – G-7 governments are seeking to maintain the IMF's traditional role as gate-keeper for debt

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9 As an example, Paul Collier and Jan Willem Gunning argue that "both the sectoral and the household-level analyses needed for a reasonable estimation of the social consequences of adjustment & are beyond the Fund's traditional expertise ... Fund staff have been recruited for their expertise in macroeconomics." (Collier, Paul and Jan Willem Gunning, "The IMF's Role in Structural Adjustment", in *Economic Journal*, Royal Economic Society, Vol. 109, November 1999, pp. 634-651).

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relief operations, thereby justifying the application of IMF conditionality for even the poorest of its member countries.

There are several counter-arguments to the preceding view. Poverty alleviation is simply not possible without a strong macroeconomic policy environment and the IMF has a unique expertise to design the essential policy requirements in this crucial sphere. But advice is not likely to be seriously taken unless there is a promise of financial help to go with it. This is not a matter of "bribing" decisionmakers to undertake reform. Rather, it is only realistic to recognise that countries are not monolithic entities and that the pressures exerted by the spending Ministries (like the military) for larger budgets are difficult to resist unless policymakers concerned with financial sustainability and poverty reduction can deploy some countervailing arguments in support of their recommendations. Indeed, there are always interest groups that are beneficiaries of the status quo (e.g. they would rather hire child labour instead of paying adult wages) and who are apt to be well represented within the governing circles of many countries. Reformers within governments must be able to point to some visible, palpable benefit from pursuing pro-poor policies and this means that the IMF must have resources to offer to back up good advice and technical assistance. Moreover, as pointed out by Stanley Fischer, "governments and markets alike appear to place greater value on financial agreements with the Fund, possibly because the provision of resources is still seen to represent a greater commitment by the official sector."[10]

The IMF has a long record of working with the poorer countries in its membership who are just as likely as better-off countries to suffer balance of payments difficulties from a variety of causes, including terms of trade shocks, crop failures, export market disruptions and natural disasters, not to mention bad economic management. The international community has recognised that poor countries will need IMF help but cannot afford to pay regular Fund charges. It has therefore been willing to entrust the IMF with the necessary means to subsidise its dealings with these members rather than depriving them of the right of access enjoyed by all members under the Articles of Agreement.

The launching of the Initiative for the Highly Indebted Poor Countries (HIPC) in 1996, and its enhancement in 1999, has reinforced the need for an IMF role that it has traditionally played in the Paris Club and in its handling of the Latin American debt problems of the 1980s and of the transitional countries in the 1990s. Creditor countries want debt relief

10 Op.cit., fn. 7 *supra*.

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offered under the HIPC to be used to enlarge spending for poverty alleviation and also an assurance that the debtor country will follow prudent macroeconomic policies to prevent the recurrence of a debt problem. They have authorised the IMF to mobilise a part of its "hidden" reserve (in the shape of gold holdings that are carried on its books at much below current market price) in order to enable the IMF to provide relief on its own claims against HIPC-eligible countries. The IMF has also been able to mobilise additional bilateral funding from as many as 93 of its members (which indicates that a large number of developing country members have contributed) to the PRGF-HIPC Trust for an amount exceeding $1.5 billion (by the end of April 2000). There is no assurance – indeed, a strong risk – that a large part of the bilateral commitments obtained by the IMF would simply fall away because donor governments might be unwilling to go back to their legislative bodies to authorise the switching of appropriations to the World Bank if the PRGF were to be transfered to that institution.

Nor should IMF involvement necessarily require that it develop its own intensive expertise in all aspects of poverty alleviation. The IMF management has recognised the need for close coordination and for a clear delineation of responsibilities between the IMF and the World Bank. Stanley Fischer, the First Deputy Managing Director, in his presentation to the Meltzer Commission, has gone on record to the effect that

> the World Bank *will take the lead* in helping countries formulate their poverty reduction strategies *and in lending for those purposes*. For its part, the IMF has to take into account the fiscal implications of anti-poverty programmes when designing the macroeconomic framework. Together with the World Bank, it needs to ensure that the impact of the necessary macroeconomic measures on the poor has been properly analysed and the potential adverse effects minimised – *the latter typically by means of World Bank supported programmes*[11] (emphasis supplied).

Similar views are attributed to the new Managing Director. Moreover, as argued elsewhere,[12] the deadline-driven country focus of the IMF work

11 The US Treasury response takes a similar line when arguing that there has to be "a clear division of labor between the World Bank and the IMF, with the Bank taking the lead in providing advice on the design of growth-enhancing national poverty reduction strategies and structural reforms while the Fund will focus on promoting sound macroeconomic policy and structural reforms in related areas, such as tax policy and fiscal management." (op.cit, fn. 2 *supra*, pp. 22-23).

12 A paper on the "Future Role of the World Bank Group" prepared by the present author for the Commonwealth Secretariat seminar, June 22-23, 2000, mimeo.

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environment provides an essential complement to the undoubted expertise that the World Bank and the other regional development banks must deploy in the poverty reduction area. Hence developing countries will want the IMF to remain involved to ensure timely outcomes in the poverty reduction and HIPC areas.

IMF as the Lender of Last Resort

There is a general acceptance of the proposition that the IMF is the "closest that the international financial system has to a lender of last resort"[13] but an unwillingness "to confirm the IMF in this role" or to accept the logical implications of its playing this role in an effective manner. These implications were spelt out in two papers prepared for the G-24 Research Programme in September 1999.[14] These ideas received support in one of the pre-retirement speeches of Michel Camdessus in which he proposed that

> in the event of a systemic credit crunch" the IMF be "authorised to inject additional liquidity - and to withdraw it when the need has passed – in a manner analogous to that of a national central bank, through the creation and selective allocation of SDRs.[15]

The Independent Task Force of the Council on Foreign Relations proposed a "contagion facility (that) would be funded by pooling a one-off allocation of SDR."[16]

These proposals have met with strong objection from those preoccupied with the moral hazard problem and even supporters have contemplated invoking such a facility in "rare situations of widespread cross-border contagion of financial crises where failure to intervene would threaten the performance of the world economy."[17] However, it is essential to have in place a simple mechanism that could decisively underpin confidence in the international system when confronting speculative excesses in private financial markets. The need for some such mechanism has clearly intensified in light of the continued volatility of private capital flows and the

13 Op.cit., fn. 6 *supra*.

14 Montek S. Ahluwalia, "The IMF and the World Bank in the New Financial Architecture", and Aziz Ali Mohammed, "Adequacy of International Liquidity in the Current Financial Environment", in *International Monetary and Financial Issues for the 1990s*, Vol. XI, United Nations, 1999.

15 Op.cit., fn. 6 *supra*.

16 Op.cit., fn. 5 *supra*.

17 *Ibid*.

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powerful resistance of private sector interests to official proposals for their involvement in the management of financial crises. Hence developing countries would continue to press for an exploration of the merits of establishing an effective international lender of last resort, i.e. one able to create international liquidity freely and to deploy it rapidly to deal with widespread financial crises.

The Role of the IMF in Debt Negotiations

Even without a genuine Lender of Last Resort facility, the IMF has tried to provide large multiples of borrowing country quotas to crisis affected countries as well as to call on the multilateral development banks and individual governments for support. Apart from the problems encountered in obtaining funding, these operations are said to have generated unacceptable moral hazard for the private financial system. The solution for both these problems has been sought in options for involving the private sector in the resolution of financial crisis. Little progress is noticeable because of wide differences of approach among the major financial authorities and the powerful resistance of the private financial services industry, except in the area of encouraging the use of collective action clauses in international bond contracts. From a developing country point of view, the issue needs to be framed in a broader context: that of evolving a more *orderly* as well as a more *equitable* set of arrangements to treat the problems of sovereign debtors. The objective should be to create an appropriate sharing of costs and responsibilities between them and their creditors, whether private or official.

In the absence of an international bankruptcy code, the existing patchwork makes for long delays in reaching agreements during which considerable, if not irretrievable, damage is incurred by the debtor country. A first step in achieving an orderly debt workout, and "the key to stopping an international financial panic, is a temporary standstill on international debt payments, much like the payments standstill that features prominently in most domestic bankruptcy proceedings."[18] While voluntary market-based standstills are much to be preferred, a mandatory stay on legal action by creditors has been proposed through a modification or a re-interpretation of Article VIII.2b of the IMF Articles. The chances of the latter option being implemented are minimal if it requires an amendment of the Articles. However, the possibility of the debtor country being able to declare a standstill – allied with some form of official acknowledgement

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18 Steven Radelet, "Orderly Workouts for Cross-Border Private Debt", in op.cit., Vol. XI, fn. 12 *supra*.

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such as an IMF "comfort letter" – is essential as a means of bringing otherwise recalcitrant creditors to the table for negotiations.

Once a standstill is in place, it would be possible to move to an orderly debt workout. Where the problem is essentially that of liquidity (here defined to mean a situation where a rapid return to market access on reasonable terms is deemed likely), it might be sufficient to arrange debt roll-overs with the help of an IMF-supported programme that serves a catalytic function. A more radical idea envisages roll-overs built into all foreign currency lending contracts by way of a *universal debt roll-over option with a penalty* (UDROP) which the borrower would exercise at its own discretion for a specified period (three to six months) at a penalty rate and for a second time at a higher penalty rate.[19]

Where more than liquidity difficulties are evident, it would be necessary to visualise debt restructuring, and in extreme cases, even debt write-offs. The criteria for such debt relief operations would have to be carefully defined as developing countries would not wish their market access prospects to be harmed by the possibility of a too easy activation of such radical solutions. The framework for operations should also clarify the IMF role. This role is apt to be a delicate one, especially if the IMF itself is a creditor and claims a "preferred creditor" status. In any case, it is essential to respect the principle that the IMF is not a party to the negotiations between the debtor country and its creditors. "Developing countries would expect the IMF only to play the role of facilitator – and not an arbiter – for an agreement between countries and (their) private commercial creditors."[20]

Surveillance Issues: Whom Does the IMF Serve?

A number of issues are in contention in the area of surveillance, of which two are of particular interest to developing countries: the content of surveillance and its primary purpose. The first issue relates to scope and coverage, i.e. whether surveillance should be restricted to the core competency of the IMF – macroeconomic policy and sound financial management – or cover wider ground, including in particular, the monitoring of international standards and codes. There has been a growing feeling among IMF critics that "mission creep" has tended to enlarge the coverage of the surveillance exercise to the detriment of its operational focus and that it has moved the IMF into areas where it has no comparative advantage. On the other hand, it has been argued that "effective, credible policy

19 Willem H. Buiter and Ann C. Sibert, 1998, cited by S. Radelet, *ibid*.
20 Speech of the President of the Central Reserve Bank of Peru, Dr. German Suarez, inaugurating the 12th Technical Group Meeting of the G-24, Lima, March 2000.

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implementation hinges on the broader issues of sound economic institutions, structural reforms and the implementation of international standards."[21] Developing countries have been especially concerned about IMF monitoring of the observance of standards and codes as a typical example of "mission creep" and fear that the exercise might evolve from surveillance into conditionality. There is also an apprehension that they would be placed at a disadvantage in capital markets if they are to be judged on the basis of their ability to observe complex standards that might be appropriate for advanced countries but are much too onerous for them, given the stage of development of their own financial markets and regulatory institutions.

Developing countries reject the notion that surveillance should be exercised on a selective basis (as proposed, for instance, by the Meltzer Commission, which would exempt OECD members). Given the cardinal importance of the principle of the uniformity of treatment of members that is enshrined in the Fund's Articles of Agreement, such an opting-out provision would not be acceptable on equity grounds alone.

Another issue in the surveillance area is its primary purpose. Should it be the prevention of financial crises through conveying to member countries – and to markets – its assessment of financial vulnerabilities and the timely issuance of "early warnings"? Or should the purpose of surveillance be restricted to knowledge transfer of "best practices" in the areas of Fund competency? The controversial issue here is how much disclosure of surveillance conclusions should enter the public domain as a crisis prevention imperative. In recent times, critics have argued that IMF surveillance failed to detect vulnerabilities in particular countries and failed to provide early warning on their likely onset. Transparency and disclosure have been justified on the ground that the focus of surveillance should shift from "collecting and sharing information within the club of nations to promoting the collection and dissemination of information for markets and investors."[22]

The issue goes to the *raison d'être* of a public intergovernmental institution. Whom does the IMF serve? – its member governments or the private financial services industry, which is mainly located in a few industrial countries? As a cooperative of governments, the IMF cannot be expected to issue public warnings that are likely to become self-fulfilling prophecies. Nor should insistence on IMF transparency be pushed to the point where it begins to affect the trust of governments in the confidentiality of their exchanges with the institution in the course of exercising the surveillance function. Developing countries would also resist the IMF being pushed into the role of a super-rating agency for the benefit of private markets.

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21 ODC Report, op.cit., fn. 2 *supra*.
22 Op.cit, fn. 4 *supra*, Summers.

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IMF Conditionality: Making a Bad Situation Worse

The issue of conditionality has always been a contentious one and has spurred intense debate after IMF interventions in the East Asian countries[23] and the subsequent crises in Russia and Brazil. The main charge made by the critics is that by insisting on fiscal austerity, high interest rates and exchange rate depreciations in the former group of countries and by initially supporting fixed exchange rates in the two latter cases and then reversing course, the IMF prescriptions made a bad situation worse. There is no question that operating in an environment of unparalleled crisis and with either incomplete or inaccurate data, the IMF was forced to make major decisions under enormous time and data constraints. That mistakes were made is now accepted and the IMF did reverse course, but a good deal of damage was done in the interim. There is also a view that in the East Asian programmes, the number and variety of conditions applied were excessive (e.g. the first Indonesian programme included more than a hundred conditions) and that the difficulty of meeting them greatly delayed the return of confidence.

There is growing understanding of the importance of "ownership" of programmes by the borrowing country authorities and a recognition that conditionality might be undermining ownership and thereby contributing to programme failure. The Meltzer Commission, for instance, has recommended that the IMF be precluded from conditioning its support to member countries on the achievement of economic reforms. Conservatives, like Martin Feldstein in the United States, have argued that the structural conditions incorporated into Fund programmes have constituted unwarranted intrusion into the national sovereignty of members. At the other end of the spectrum, liberal advocates, including many in the NGO communities, have demonstrated against the "austerity prescriptions" in IMF programmes as imposing enormous costs on both debtor governments and on the general population, especially wage-earners.

It was noted in an earlier part of this paper that the austerities attributed to IMF programmes are typically the consequence of a balance of payments constraint arising from events and/or policies that were in play prior to the IMF's intervention. It was also observed that there are always contending factions within governments and IMF conditions, including "prior conditions", are frequently used by country officials advocating reform policies as a means of overcoming resistance from other parts of the official apparatus. Developing countries would nevertheless welcome simplifica-

23 The most acrid critique was launched by Joseph Stiglitz, former World Bank Chief Economist, in an article in the *New Republic*, April 17, 2000.

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tion of IMF conditionality and urge that it be more sharply focused on macroeconomic policies and on those structural reforms that are strictly "macro-relevant". There is also need for greater flexibility in the content and design of programmes on the part of the IMF, when these are proposed by member authorities, in the interest of strengthening their sense of ownership and the chances of success of programmes. Finally, developing countries would continue to resist political economy conditions that are increasingly being applied under the rubric of "governance conditionality."[24]

Capital Account Liberalisation

The issue of Capital Account Liberalisation has tended to recede somewhat from the peak of interest reached at the Annual Meetings of the IMF in Hong Kong in 1997 when recommendations were made for investing the IMF with statutory authority to promote capital liberalisation. A number of studies conducted both inside and outside the IMF subsequently have reached a position that is less ideological; support for opening capital accounts has been qualified with cautions about the process being gradual, orderly and properly sequenced. Developing countries would, however, prefer a Fund position accepting the possibility of capital controls as a regular instrument of national policy rather than regarding them as a temporary device to deal with emergency situations in countries with poor prudential regulation. This recognition is particularly necessary in dealing with the issue of the choice of exchange regimes. Developing countries are being pushed to choose between "corner" solutions: either free-floats or currency-board arrangements. They might well prefer intermediate regimes supported by capital controls, whether of a market-oriented character (as in Chile and Colombia) or of an administrative nature.

IMF Facilities

The subject of IMF facilities is obviously tied in with decisions on the future scope of IMF activities. This paper has argued that the IMF has a lending role with all its members and not only with a sub-set of emerging market countries. Hence the standby arrangement remains the main instrument for providing balance of payments support in all cases where that is required for dealing with current account disequilibria. For coun-

24 For an analysis of this subject, see Devesh Kapur and Richard Webb, "Governance-Related Conditionalities of the IFIs", presented to the XII Technical Group Meeting of the Intergovernmental Group of 24 in Lima, Peru, March 2000, mimeo.

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tries closely integrated with private capital markets and subject to capital account dislocations, the Supplemental Reserve Facility (SRF) with its premium rates of interest and faster repayment periods that was created in 1997 is essential; it has already demonstrated its usefulness in two large programme cases, Korea and Brazil. The IMF concessional facility, previously known as ESAF and re-christened as PRGF, remains necessary for the benefit of the poorer member countries that cannot pay the Fund's regular charges. The PRGF plays a critical role in defining the conditions for HIPC-eligible countries. Once that exercise is completed, it should be possible to revert to the ESAF designation for the Fund's concessional lending window, if only to put to rest much of the semantic confusion on the appropriateness of the Fund's involvement in poverty alleviation and to focus on the World Bank Group's leading role in this area. Another facility that needs to continue is the CCFF which was designed to help countries subjected to external shocks substantially beyond their control. The latter concept could be extended to cover cases where countries are hit by contagion even though they have been pursuing reasonably sound economic policies. In the same category is the emergency lending that the IMF provides to countries affected by natural disasters.

Two facilities in contention are the Extended Fund Facility (EFF) which enables the IMF to make longer-term loans to members experiencing a payments problem with a structural origin and the Contingent Credit Line (CCL) introduced in 1998 but for which there have been no takers to date. As regards the former, the US Treasury has argued for a limited use of this vehicle – to support "those few, carefully targeted cases where bold structural reforms are needed to secure stabilisation and where the balance of payments benefits of structural reforms may require a long time to appear and where countries have limited capital market access."[25] Since one assumes that the IMF carefully targets the use of its resources, there should be no reason to limit the use of the EFF to a few cases only, perhaps with the exception as an instrument in the hands of principal shareholders like the United States to make "case-by-case" judgements on individual country access to the EFF. There is growing pressure, however, to raise the cost of using Fund resources where its claims remain outstanding for longer periods of time, as in the case of the EFF, and these pressures will need to be resisted.

Turning to the other facility, the CCL was introduced in April 1999 as a deterrent to speculative attack resulting from contagion for otherwise well-managed countries. The CCL has not been activated to date. There is some indication that countries have been hesitant for fear that even

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25 US Treasury response, p. 21.

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applying for it might trigger adverse market speculation. Despite the fairly stringent "pre-qualification" requirements for eligibility, the IMF has retained review safeguards that detract from assured access. Yet such safeguards would appear essential, given the political contingency that a CCL negotiated with one government might be activated by a successor regime whose commitment to pursue previously agreed policies remained untested. Indeed, the uncertainty about such a new government's policies might itself serve to trigger the speculative attack for which the CCL would be activated. Given these political realities, one might wonder if a CCL type facility might ever prove practicable enough to attract much use, despite additional financial incentives that might be offered, such as reducing commitment fees or interest charges. However, developing countries would not resist "the idea that countries should be able to borrow more, and/or borrow more easily, and/or borrow more cheaply...if they have pre-satisfied certain conditions."[26]

Governance

The subject of governance has many dimensions. The most topical issue is the choice of the IMF Managing Director and whether one should take for granted the pre-eminence of the Europeans in making that choice as a counterpart to the US deciding the choice of the President of the World Bank. While an initiative taken by the Executive Directors representing the developing countries (the so-called G-11) never did enter the public domain, it is reliably understood to have been the basis of a consensus reached in the full Executive Board that this "very important decision" would be based on a discussion of "the exceptional qualities that the next MD will require" and that "the process for choosing the best person for the job from the possible candidates will, *through the Board*, *involve all the members of the Fund*"[27] (italics supplied). Whether the eventual outcome met the Board's intent is a matter for dispute. However, there is little doubt that the decision of the Directors representing African country constituencies to nominate First Deputy Managing Director Stanley Fischer created the opportunity for a second choice in a process in which the first choice would have been accepted by default.[28] It is now generally conceded that the process of selecting the chief executives of the major international agencies calls for urgent review.

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26 John Williamson, "The Role of the IMF: A Guide to the Reports", Institute of International Economics, Washington, D.C., May 2000, mimeo.
27 IMF Press Release No. 99/56 dated 11/23/99.
28 See Devesh Kapur, "Cascading Frustrations: Leadership Selection in International Organizations", Harvard University, April 2000, mimeo.

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Behind this recent episode of choosing a new Managing Director, however, there loom larger issues about the exercise of political power within the IMF, as determined by the distribution of quotas and the special majority requirements for important decisions. The original concept of the Fund as a credit cooperative has eroded because industrial countries have not needed to borrow from the IMF (the last transactions took place in 1976). With the membership split between "structural" creditors and "structural" debtors, the former group has felt no compunctions about elaborating conditions to be applied to the latter group, since these would not apply to themselves. The current quota distribution also makes it possible for the industrial countries in the G-7 to take decisions which they are able to push through the Bretton Woods institutions. In that sense, these institutions serve a "legitimising" function for decisions already taken by a small sub-set of the membership. The special majority requirement of 85 percent of total voting power for certain decisions gives effective veto power to the United States which enjoys a 17.5 share in total votes. A quota increase in the US requires Congressional approval. As a condition for granting approval, US legislators have attached strictures of a quite egregious character on the IMF. Moreover, since an overall quota increase requires an 85 percent majority decision, it is effectively subject to a US Congressional veto.[29] The US Administration has prevailed upon other members of the IMF to accept these strictures on the plea that otherwise there could be be no quota increase at all.

There is little possibility of achieving changes in Fund governance that would entail an amendment of the Articles of Agreement, if only because the US Congress would not be expected to agree to the surrender of its veto power. Hence the only possibility for incremental change could come from modifications in quota distribution currently under discussion by a special Committee appointed by the Fund.[30] Possibilities for some realignment of voting power emerge from the growing weight of the Asian countries in the global economy and with corresponding reduction in the representation of European countries.

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29 Williamson (op.cit., fn. 26 *supra*) quotes a recent study on Fund governance in which the authors cite the conditionality unilaterally imposed by the US Congress on the Fund "as intolerable for a multilateral institution." Askari Hossein and Semir Chebil, "Reforming the IMF: Some Organizational and Operational Issues", in *Banca Nazionale del Lavoro Quarterly Review*, 1999.

30 The Committee was headed by Professor Richard Cooper of Harvard University. Its "Report to the IMF Executive Board of the Quota Formula Review Group" (IMF, 2000) is available at www.imf.org/external/np/tre/quota/2000/eng/qfrg/report/index.htm.

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III Summary and Conclusions

This paper has argued that the IMF has a surveillance and lending role vis-à-vis all its members, and especially in respect of the poorest countries in the context of the HIPC Initiative. Once that debt relief exercise is completed, the PRGF should revert to the ESAF as the concessional window for traditional IMF lending operations in countries unable to pay regular IMF charges. In relation to crisis management, an extension of the IMF role as an effective lender of last resort is advocated as well as a clarification of its role in debt workouts. The surveillance function is seen as critical to the crisis prevention role, although a cautionary note is injected on how the IMF monitors the observance of international standards and codes. Transparency in IMF assessments should not cross the line where it begins to affect the trust of governments in the confidentiality of their exchanges with the institution. Nor should the IMF be pushed into issuing early warnings or serving as a super-rating agency for the benefit of private markets. The conditionality associated with IMF-supported programmes is acceptable, provided it focuses on macro-relevant issues and avoids "governance" prescriptions. In the interest of promoting ownership, a more flexible approach on the part of the IMF to the content and design of programmes proposed by member authorities is recommended. This paper notes that while the IMF role in capital account liberalisation has been s uitably delimited, the Fund should also recognise capital controls as a regular instrument of policy that could facilitate the choice of intermediate exchange regimes. Finally, this paper looked at some issues on the internal governance of the IMF, including the choice of its chief executive, the exercise of political power by a small sub-set of the membership and the case for a realignment of voting power.

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Comment on "The Future Role of the IMF: A Developing Country Point of View," by Aziz Ali Mohammed

Howard Brown

This is a very good paper. It is balanced, it sets out the issues very well, and for the most part, I agree with the conclusions. One minor criticism of Aziz Ali's paper, however, is that it doesn't provide us with an answer to the question, "what do developing countries want?"

In discussing IMF reform, we need to start with a clear idea of what we want the Fund to do, and a clear idea of what the problems are that prevent it from fulfilling that mission. In other words, the diagnosis should come before a prescription. Looking at this from the perspective of a finance minister from an emerging market, what I would want is to never see the IMF in my capital again – with the exception of a short meeting around the Article IV review. In short, what we should be trying to do is put the Fund out of business – or at least the crisis lending business line. How can we do this? I think there are three areas on which we need to focus.

Standards and Codes

Clearly, the most important priority is to go back to basics and strengthen both macro and structural domestic policies. This has always been central to the Fund. It is the primary purpose of surveillance. The issue has become more controversial, however, with the increasing focus on standards and codes. Here, Aziz Ali asks a question: Should surveillance focus on transferring cutting-edge knowledge through standards and codes? Or should it be an instrument of crisis prevention? This is one of the rare instances where I disagree with him, because it seems to me that crisis prevention is exactly the goal of standards and codes.

Many emerging markets argue that the implementation of standards and codes has to take account of individual country circumstances, has to reflect their priorities, and needs to be paced appropriately. I agree entirely. But pacing can't be a synonym for inaction.

I am mystified by the opposition of some countries to the application of the Basel Core Principles. Given the importance of bank intermediation in

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most emerging markets, the role of banking problems in the genesis of financial crises, and the cost of resolving banking crises, this would seem to me to be a high priority for all emerging markets.

Conditionality

A second area for focus is conditionality. The track record shows that Fund conditionality has not been as effective as we would like. Twenty-eight countries have had Fund programmes for 5 or more of the past 15 years - although sometimes these programmes were inactive. Aziz Ali mentions the criticisms that were made of Fund programmes in Asia. In this regard, we need to distinguish between criticisms of individual programmes and criticisms of the model.

Clearly, some of the Fund's initial programmes in Asia were too tight. That mistake was recognised relatively early and rectified. That doesn't mean, however, that the model is fundamentally wrong. Those who argue that the Fund should not require macro tightening in a crisis need to show how the external financing constraint is going to be met. As we all know, the purpose of macro tightening is to reconcile domestic absorption with external financing.

One way to strengthen conditionality is to encourage countries to put the right policies in place before, rather than after, a crisis has hit. It is not credible for us to say, as the Meltzer Commission recommended, that we will lend only to countries that have the right policies. The fundamental reason we lend to countries in crisis is not altruism, but self-interest based on the externalities involved. Those externalities, and hence the rationale for Fund lending, will be present whether or not the country has done the right thing before the crisis. That said, Fund policies and programmes should create incentives for *a priori* action. In this regard, the Contingent Credit Line (CCL) clearly hasn't delivered and needs to be looked at closely.

Bankruptcy Regimes and Standstills

A third issue that needs to be resolved in helping the emerging markets to emerge is the question of private sector involvement. In fact, this is probably the wrong question. The right question should be the role of the official sector in crisis resolution, because we should be able to take for granted that private sector creditors will be involved.

One way to do this is to strengthen domestic bankruptcy regimes. Creditors who can put confidence in an honest, transparent and fair bankruptcy regime will be much less likely to flee at the first sign of trouble.

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Second, the official sector can provide a framework that will foster the cooperative resolution of crises. One element of such a framework is a standstill. Here, Aziz Ali argues that “the chances of the latter option being implemented are minimal.” I disagree. Certainly, such an option will not be implemented this year. But the analytical logic for a standstill as part of the toolkit is overwhelming and I believe political opinion has swung in this direction as well.

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Comment on “The Future Role of the IMF: A Developing Country Point of View,” by Aziz Ali Mohammed

Ariel Buira

I am in broad agreement with Aziz Ali’s paper which is a very good review and competent summary of the issues on the table in Washington. However, there are some key issues that are not on the table in Washington that should be equally considered and this comment mentions a few of them. These issues may be important for developing countries and for the future of the international monetary system.

The paper occasionally gets a little side-tracked discussing issues that are probably on the table but, to my mind, are not central to the discussion on the future role of the IMF. Examples of this are Aziz Ali’s discussion of the case for poverty alleviation and the discussion of who can have access to Fund resources.

As for the first point of poverty reduction, I don’t have strong views. Poverty alleviation is greatly facilitated by a stable macroeconomic environment and while one should be grateful for every effort to reduce poverty in developing countries, particularly in the poorest countries, the focus of the Fund, to my mind, is on macroeconomic sustainability. The Fund has no particular advantage or qualification to play any leading role on the issues of poverty reduction. This, to me, is a case of mission creep or a concession to pressures on the Fund to act on this issue.

In my view, the appropriate focus on poverty for the Fund would concern Fund-supported programmes. Too often these programmes centre on fiscal austerity and on the reduction of aggregate demand which by their very nature tend to impose a heavy burden of adjustment on the poorest sections of society. They do this both in terms of unemployment and a reduction of real income, real wages. If one is interested in poverty alleviation, what one should probably do is consider the fiscal costs of extending some kind of safety net or protection to these groups and try and include these measures as part of the programme.

The second issue Aziz Ali mentions is access to the Fund. However, apart from the Meltzer Report’s view, the idea of restricting access to the Fund to emerging market countries is not really an issue because it both goes against the IMF’s Articles of Agreement and would not command broad support amongst the membership.

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Key Issues

As a key issue, I would raise the question of the size of the Fund itself. Keynes spoke of a Fund that would be equivalent to 30 percent of world trade. Today, because capital movements have become much more important than trade imbalances, for purposes of avoiding balance of payments crises, perhaps one should think of a much larger sum than 30 percent of world trade. In reality, however, what we have is a Fund that is less than 3 percent. The far too small size of the Fund is the source of many of the problems that have emerged.

Another crucial question I would ask, as a member of a developing country, is what should be the role of the Fund when the next financial crisis occurs, as it surely will, resulting from sudden reversals of capital flows. I tend to agree with the answer given by Aziz Ali that you really have two options: use either the lender of last resort to restore confidence or, if you cannot obtain adequate provision of finance, capital controls and debt standstills. This is the logic of the current situation; this is what we have learned from the past crises.

However, the question still remains of whether the Fund has really been successful in crisis prevention. I am not sure I would agree with Amar Bhattacharya's view. I don't think it has been very successful, because there have been too many crises already. Therefore, the real issue is: what should the Fund do better?

What should the role of the Fund be in crisis prevention? Should the Fund develop into a lender of last resort and should SDR allocations be used for this purpose? In my mind, this would be the logical evolution of the system. In an integrated, global financial system you have to have a Fund that has the capacity to act as a lender of last resort for the whole system and to generate the liquidity as required.

An even broader question is: how can we obtain the benefits of globalisation while minimising its economic costs? A subsidiary to this question is: can the Fund, the World Bank, the WTO and, possibly, the ILO, the UN and UNCTAD develop common goals and help develop common strategies so that one can try to obtain these goals?

Article I of the Fund's Articles says that it should provide support to countries to avoid measures destructive of national and international prosperity. Is the financial support of the Fund sufficient to fulfil this objective? If you look at what has been happening, I think the answer is clearly "no". It was Amar who said that the "punishment was not commensurate with the crime."

There are a number of other issues that have to do with surveillance. For instance, what can the Fund do to help the countries or the system

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deal with the risks posed by asset price inflation? Is this a problem? I think it is. What should the Fund do if these risks materialise in the US? Is the Fund ready to respond?

We have been talking about the ways to get the private sector involved in the issue of debt. The logic is that private sector investors and lenders obtain a high premium from their operations in developing countries because there is a high risk. So when the risk materialises let them take the hit. Let them share in the costs of adjustment.

Since international financial institutions are widely perceived to lack political legitimacy, how can they be made more representative? Can we move from a system centred on one or a very few countries – what one might call an "imperial system" – into a system where decisionmaking allows much wider participation of the membership? Shouldn't we have a system in which broader interests are taken into account?

The issues of debt and private sector participation are a bit of the same order: how can we move from a case-by-case discretionary approach where the discretion is exercised by the G-1, G-5 or G-7 to a situation in which there are rules and principles for a solution that apply equally to all.

Other Important Issues

Other issues come to mind. On surveillance: how stable is an international monetary financial system based on a currency of a country that runs large and persistent external deficits? Should the Fund be worrying about this? Is this not a matter for surveillance? This is a question similar to the one about asset price inflation.

There are also issues that have to do with stability in major industrial countries. We saw the failure of LTCM in Fall 1998 that put a number of major financial institutions in jeopardy. It was close. What would have happened if another institution or speculative hedge fund had failed at about the same time? This raises another question. Can one rely on the internal models of banks and other financial institutions to deal with systemic risks? Or should the Fund or another institution look into this and take a more integral approach in its surveillance? Who is going to supervise these huge integrated financial institutions comprised of huge banks, insurance companies and other financial institutions? Who has the power to supervise them? Can we move from "general recommendations" and "codes of conduct" to actual rules? Can we subject these institutions to rules?

The issue of regionalism ties into the question of a lender of last resort. I currently live in what one would call a "small emerging market economy" with a rather poor record of fiscal management in the 1980s and early

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1990s, with a public debt of over 100 percent of GDP and with very little progress until now on structural adjustment. But since this country, Greece, happens to be a member of the European Union, its currency was not attacked when Korea's, Russia's, Thailand's, Indonesia's and whoever else's currency was. So there is maybe some merit to regional groupings. Maybe this is what the Fund should recommend to those who are not members of groupings?

Yung Chul Park told us about the problems Korea faced in trying to fund a Contingency Credit Line (CCL) from the private sector. He found it impossible. Why should we try to re-invent the CCL when the institution entrusted with this responsibility, the IMF, is not playing its role?

There is also the issue of voting power within the IMF. You might have read what Raymond Mikesell wrote some time ago about how in 1944 he was asked by Harry Dexter White to develop the formula for the quotas (to be calculated on the basis of gold holdings, national income estimates, and average imports and exports).[1] The instruction he received was that he should find a formula that would give the US about 30 percent of the quotas, Britain about half of the US quota, Russia an amount just under that of Britain, and China somewhat less. The poor fellow didn't have a computer at the time so he had to spend several days with his calculator playing around with different variables and different weights for different variables to achieve a formula that roughly approximated this result. After all this effort he came up a with a formula and presented it to the ministers of the Bretton Woods meetings. He had the suspicion that, although he tried to present this as a very technical and scientific exercise, several of the people there were rather sceptical. However, the fact is that this original formula is still the basis of the formulas we are using today. They have had some adjustments, but this is the essence of the quota exercise. Voting power is determined on this basis.

That's not the full story, of course. You know that voting power has two components. Each country has 250 basic votes just for being a member and a vote for every 100,000 SDRs in their quota. In the beginning, with about 40 members, basic votes accounted for 12 percent or so of the total votes. Today, despite the entry of some 140 new member countries, the basic votes account for little over 2 percent. This has changed the balance of voting power in favour of the larger members. You have weighted voting and although most decisions are taken by a simple majority there are a number of decisions that require a qualified majority. At the Bretton Woods Convention, the idea was that you would have only two cases in

1 Raymond F. Mikesell, *The Bretton Woods Debates: A Memoir*, Essays in International Finance No. 192, March 1994.

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which a qualified majority would be used, one being adjustments in quotas. But then, as it turned out, the Articles of Agreement envisaged qualified majorities in nine areas. With the First Amendment, this rose to 18 and with the Second Amendment qualified majorities were required for 53 subjects.

The obvious explanation for the increase in qualified majorities is to protect particular interests that could be affected by a simple majority decision. Decisions subject to qualified majority can only be taken with a consent of members having a high proportion of the total votes. The US has around 17.5 percent of the votes. The concentration of voting power in the hands of major industrial countries ensures that they have the determining influence in the Fund. On top of this some have sought actual veto power either for themselves or a very few countries with similar interests. Today, 18 decisions require an 85 percent majority. That is, one country can veto it. Twenty-one other questions must be decided by a 70 percent majority and thus can be vetoed by the Group of Five.

What decisions require qualified majorities? Quota sizes (and with quota sizes goes the size of the Fund), rates of charges, exchange rate arrangements, issues of SDRs, policies of access to IMF resources, payments to the IMF, the use of the Fund's gold and currency reserves, investment of IMF accounts, publications of reports, remuneration of creditor positions, and temporary suspension of IMF operations: i.e. almost any significant decision is taken by a very few.

Amongst the other important issues that one could also consider are some of the standard issues we have been worrying about for some time, for example, issues like international liquidity and its distribution. Access to international liquidity is a problem for 130 or 140 member countries, but this is not an issue that is currently being considered as part of the reform agenda.

There is also the question of the adjustment process, including the problem of asymmetry and how to deal with structural disequilibria and the correction of balance of payments imbalances without taking measures that are destructive to international and national prosperity. But perhaps the most urgent question today remains: how does one respond to a financial crisis triggered by capital outflows in a manner that is consistent with the IMF's Articles of Agreement?

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Floor Discussion of "Reforming the IMF"

Voting Power and Governance

Referring to the recent painful process of European countries in selecting an acceptable candidate as the new Managing Director of the Fund, Howard Brown observed that "governance really is a contentious issue." Brown said that even the Europeans acknowledged that it would be the last time the selection would happen in such an awkward way. "Indeed, the Board of the Fund has formed a group to make some recommendations as to what the process should be the next time. At the end of the day, we should go for the best person, be it from Germany, Mexico or whatever country."

Regarding the current distribution of quotas and voting power among Fund members, Brown expressed scepticism about the likelihood that the new quota formulas proposed by an outside panel of experts (chaired by Richard Cooper of Harvard University) would be adopted. "Something like 18 of the current 24 members on the Board would lose quotas under the Cooper formula and I expect them to oppose it. But more importantly, a change in the formula is neither necessary nor sufficient to solve the problem. The bigger problem is not the gap between calculated quotas and the actual positions of the member countries in the world economy, but between the calculated quotas and the actual quotas – that's where the anomaly is."

According to Brown there is also a more general problem that is related to, but also separate from, the quota question. "It is the problem of representation on the Board of the Fund. Europe is overrepresented on the Board by one, given their current quotas, and Asia is underrepresented by one, given their actual quotas. The problem is: who are you going to knock off? That's a difficult choice, so I think it is more likely that we will solve this problem by expanding the Board – that's the easy way out."

Godert Posthumus, who was a member of the IMF's Board from 1986 to 1994, suggested a more radical way to address the representation problem. "I agree with those who argue that the current quota formula has to be changed in order to give the developing countries a larger share in the decisionmaking. In my view, the system is completely ossified at the moment and it will be extremely difficult to make any changes whatsoever. The only way I see to set the thing moving – which would not require the immediate support by the whole Fund community – is that Europe takes

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an initiative. Europe should be willing to say: 'We, the EMU, need only one chair, that's enough for us.' Once you do that, you lose a lot of chairs of course, and this might trigger a debate among the constituencies and the whole thing might start to move."

Ngaire Woods agreed with Howard Brown that the new quota formula proposed by Richard Cooper and his group would not solve the problem of underrepresentation of developing countries. "The real solution lies in something that the Cooper Commission wanted to look at but wasn't able to and that is the link between the quotas or voting power, the members' contributions, and their participation in decisionmaking. The real challenge is to think about what the links are, or should be, between the stakes that the different countries and groups of countries have and the different categories of decisionmaking. That is the first priority issue if you want to establish more equal representation in the IMF."

Woods also elaborated on the need for external evaluation of the Fund's policies and programmes. In her view, the IMF is not an institution that has a culture of accepting criticism from the outside. She stressed that the proposal for external evaluation currently on the table "is a very weak and very residual evaluation unit that would have almost no teeth" and advocated that governments sitting on the Board push for "a much more robust external evaluation office."

Another proposal which, according to Woods, developing and industrialised countries should look at more seriously, is the role that an internal ombudsman within the IMF could play to deal with complaints of peoples and groups in countries where the Fund is working. "I am extremely concerned about the fact that this role has fallen into the hands of a small number of NGOs who have no clear transparency nor accountability to groups within the countries that are affected by Fund programmes. Instead of responding in an ad hoc way to these NGOs, the Fund should create an apparatus within its own walls to deal effectively with some of the complaints that are filtering through these NGOs. In my view, an ombudsman could nicely fulfil that role, just as it does in domestic systems. It's a responsibility the Fund should pick up and take on itself."

Adjustment and Ownership

Ruman Faruqi recalled a G-24 study of several years ago, which argued that the traditional Fund programmes, focusing on short-term balance of payments support, were not relevant to a large body of the Fund's membership. "The nature of programmes and the solutions to be proposed ought to take into account the differences rather than the one-size-fit-all programmes. For many of the developing economies, the adjustment proc-

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ess takes much longer and involves structural changes in order for the macro stabilisation to stick. To say that there is only one type of stabilisation and that the Fund was originally created to support that particular type of adjustment is to define the Fund's role too narrowly. If you look at its original role, it was intended to support stabilisation but also growth and capital flows."

Roy Culpeper said that he was astonished not to hear any reference to the issue of ownership of policy in the context of conditionality. "I thought we had reached agreement that unless policy conditions find some domestic residence, they're not going to fly. The empirical evidence point in that direction. Now with the Participatory Poverty Reduction Strategy Papers (PRSP) and the Poverty Reduction and Growth Facility (PRGF), no matter where it's parked, the issue of how you make ownership fly is going to come to the fore, particularly if ownership entails the advancement of a policy package by a country which is non-orthodox. If a country comes forth with a non-orthodox macroeconomic policy package which commands a certain amount of domestic consensus, it would be interesting to see how the Bretton Woods institutions would react. That is the other side of ownership: whether we really mean it. Are the countries only supposed to own the policy packages that will fly in Washington or are they supposed to own the policy package that they want to endorse and implement?"

The Role of the Fund and the Meltzer Report

With regard to the future role of the IMF, Yilmaz Akyüz argued that it was high-time to go back to the drawing board. "As much as I disagree with the Meltzer Report, I feel that we must go back to the drawing board because the patch has become bigger than the hole. We have been patching the system since the 1960s and creating all kinds of mechanisms, facilities, functions, and changing them in response to events in an ad hoc way. The Meltzer Report effectively says: 'The IMF is not in the current account financing business anymore and should not be in the development finance business anymore, it should focus on capital account issues, safety and stability of the financial system, and so on.' This is big thinking, whether you like it or not. It is not about patching the system.

We have been discussing whether we want a lender of last resort, standstill and other mechanisms regarding crisis prevention. Whether this debate will lead to a new institution with a focused objective, I don't know. Instead of patching these mechanisms onto the IMF, I suggest that we start with the problems and then see how we can reform the IMF to deal with those problems. Do we agree on the original objective of the IMF: adjustment to balance of payments shocks in order to prevent deflation, promote

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employment? Or is this function to be taken over by private banks? If the IMF is to behave pro-cyclically, like private markets, then what do we need the IMF for?

In that respect, I don't mind discussing approaches like the one the Meltzer report has. We have to put all of the questions on the table and ask: 'What kind of institution do we need? What kind of global financial system do we want?' rather than take the existing system and mechanisms as given. Otherwise we will still be talking about what to do with the IMF twenty years from now."

Amar Bhattacharya agreed that one should begin with some basics. "Clearly the context has changed and perhaps one way to look at it is: what are the implications for economic and financial governance more broadly and within that, what is the role of the IMF? Whereas the Meltzer Commission comes back with a reductionist view of the world, one could come to the opposite conclusion and say, if anything, one needs to step up the level of economic and global governance, not step down. In that context, I have the following question: should the Fund focus on its main areas of competence being systemic instability as a mandate and macroeconomic policy as a competence?

On the other hand, we increasingly recognise the difficulty of compartmentalising the agenda as narrowly as we would like. In many ways, the nature of shocks has changed; the narrow macro agenda is less important and less interesting, and in many areas we are not looking at a narrow Fund agenda. For example, we no longer talk of surveillance but of enhanced surveillance to include areas outside the narrow ambit of the Fund. When we talk about crisis prevention we are not talking about macroeconomic stability but about elements like financial sector strength and many of the underpinnings that go with it. Even when we talk about crisis response there is a short-run response and there is a response beyond that in terms of dealing with financial corporate distress and social safety nets. We also talk about poverty reduction or longer-term adjustment in developing countries. Finally, we have a new area which Yilmaz hasn't mentioned but is implicit in his comments, which is that there is some global public policy which has to be delivered. The Fund's domains in global public policy have to do with macro policy coordination and making the G-1 or G-3 or whatever behave. There is also the issue of international norms, rules of the game, and agreements. Then there are areas which fall more into the banks' and other institutions' domains, e.g. communicable diseases, environment, and knowledge.

You could think of that as the collective action areas within which the Fund has to behave. The question I have is: what are the international governance mechanisms, as opposed to the governance mechanisms nar-

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rowly for the Fund, that will deliver at the collective level what you want? Is it to come up with new groups? Is it maybe the collection of these things that will deliver it?”

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