IMF Mandate Consultation

Full Submissions May, 2010

Name	Organization	Country	
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COMMENT # 1

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The question how the Fund's financing instruments can be enhanced to provide credible alternatives to reserve accumulation for precautionary reasons is easy to answer: by obeying the IMF's present statutes. The IMF's Articles of Agreement clearly stipulate the right to capital controls, even explicitly restricting the use of Fund resources to finance speculative outflows. In open and customary violation of its statutes, the IMF has made its Southern members resists from exercising their membership right and financed such outflows, at great costs to these countries. Pursuant to Art. VI(3) it is a membership right to "exercise such controls as are necessary to regulate international capital movements, but no member may exercise these controls in a manner which will restrict payments for current transactions". Art. XXX(d) defines these as "not for the purpose of transferring capital", including "Payments of moderate (emph. KR) amount of amortization of loans or for depreciation of direct investments", or "moderate remittances for family living expenses". Although this definition is somewhat opaque, even restricting flows such as amortizations is a member's right.

In addition to any member's right to capital controls, the IMF is not allowed to finance outflows as e.g. in Asia 1997-8. Art. VI(1)(a) expressly forbids using "the Fund's general resources to meet a large and sustained outflow of capital". The IMF may but is not obliged to request controls to prevent such use of its general resources and sanction members failing to exercise appropriate controls by declaring them ineligible to use IMF resources. Article VI(1)(a) stipulates very clearly: "A member may not use the Fund's general resources to meet a large or sustained outflow of capital except as provided in Section 2 of this Article [refers to reserve tranche purchases KR], and the Fund may request a member to exercise controls to prevent such use of the general resources of the Fund. If, after receiving such a request, a member fails to exercise appropriate controls, the Fund may declare the member ineligible to use the general resources of the Fund." By financing large and sustained outflows in East Asia and elsewhere, the IMF clearly and openly violated its own Articles of Agreement, inflicting considerable damage on its member countries.

The intentions of its statutes are clear. However, when it comes to protecting the rights of developing members, legal regulations and obligations seem apparently insignificant. Art.VI (1)(b)(ii) allows members to meet outflows "out of a member's own resources, but members undertake that such capital movements will be in accordance with the purposes of the Fund." Members are encouraged not to finance large and sustained capital outflows. Even current transactions can be restricted with the Fund's approval if necessary. The fact that IMF is allowed – even encouraged – to request controls from a member and that the ban on using its funds is corroborated by the IMF's authority to prevent this by sanctions if members fail to obey, shows quite a difference between the way the IMF should function according to its statutes, and the way it actually does. Although its own statute empowers the IMF to demand controls, it has never done so. Its statutes clearly show that it is not supposed to press for liberalization of capital movements in the way it has actually done. Clearly, Asian countries had not only the right to control capital outflows some ten years ago, as the IMF had to admit when Malaysia courageously and successfully exercised it, the Fund's forcing members to finance large and sustained outflows by speculators is definitely a violation of the IMF's own constitution.

Members have always had the right to stop amortizations. In 1997-8 there was no obligation to finance outflows fully, indeed statutes did not suppose this to happen. If statutes were obeyed extremely high reserves against capital account crises would be unnecessary. Several Asian countries accumulate them now at great costs in order to shield against calling in the IMF again. Exercising their statutory rights would be cheaper and not expose them to the blame of contributing to "global imbalances", thus being somehow “responsible” for the present US-made crisis. Forgoing the right to capital controls makes increased stocks of international reserves necessary. These practically sterilised reserves could alternatively be used either for anti-poverty measures, debt service or Keynesian policies. Reserves are costly, because interest revenues (often from US Treasury bonds) they earn are a fraction of what countries have to pay for borrowing. Developing Countries face substantial annual costs that could be avoided by exercising statutory rights. Nevertheless, these reserves were made one of the widely-used targets of poverty reduction strategies in Africa. The IMF has blocked ODA-inflows destined to finance the MDGs in order to stock up reserves in poor countries to defend open capital accounts. This money is lost for poverty eradication or financing the MDGs. Obeying one’s own statutes is the cornerstone of the Rule of Law and good governance – without enforcing this self-evident necessity any other reform will remain fairly useless. Exercising one’s membership rights is a credible and better alternative to excessive reserve accumulation for precautionary reasons.

Name	Organization	Country
Gerry Helleiner	University of Toronto	Canada

COMMENT # 2

SOME ELEMENTS OF IMPROVED GLOBAL FINANCIAL GOVERNANCE

Gerry Helleiner, University of Toronto

[WIDER 25th anniversary panel on Global Governance and the Triple Crisis, Helsinki, May 14th, 2010]

Since “globalization” first became the buzzword of the chattering classes in the middle-to-late 1980s there has certainly been more than enough speaking and writing on the need for more effective global governance (to which I have myself contributed, and so has WIDER). Is it possible to say anything new about it? At the level of generalities and principles probably not. The “triple crisis” to which the WIDER conference organizers usefully call our attention– in finance, food security and climate change – also seems to me too broad a target for useful further thinking on governance. Perhaps more to the point, others here are far, far better qualified than I to speak/write on food and climate issues. So I will confine my attention to the governance of global finance and, more particularly, some of its key institutional machinery. (I note in passing that the provision of adequate levels of finance will be essential elements of effective governance arrangements for the addressing of food needs and climate change.) Rather than offering some unattainable “ideal” I suggest steps that can, and I believe probably will, take important elements of global financial governance in desirable directions.

I start with what some may call an assumption but I prefer to call a bald fact. The central global institutions of financial governance, the Bretton Woods twins – the IMF and World Bank - are incapable of reforming themselves to the degree that has become necessary for their key functions to be performed effectively in the future. These key functions include the provision of adequate global and international liquidity; the assurance of adequate levels of long-term finance for global development; the management of international financial crises; and the development of knowledge so as to enable the provision of technically sound advice in these spheres. To my mind, effectiveness incorporates not only such conventional attributes as sufficient funding, professionalism in staff and management, and efficiency; crucially, it also includes fairness, trust on the part of those it governs and, in short, legitimacy. Especially in the latter spheres, the IMF and World Bank fall short. The accidents of their history have left them both with peculiar governing structures – above all, inappropriate representational and leadership selection arrangements – and, largely in consequence, widespread distrust of their analyses and advice.

In much of the developing world it is taken as given that both the IMF and the World Bank have frequently offered seriously inappropriate advice, advice that seemed based on ill-informed, biased or politically determined “analyses”. The IMF, which used to proclaim, in defense of its practices, that it was not a development institution, now has most analysts at last firmly agreeing, despite the fact that it has since introduced development and poverty reduction into its vocabulary. The Bank’s apparent fixation, regardless of local circumstances, on market solutions has not been universally appreciated...or helpful. So frequently have the Bretton Woods twins proffered questionable advice that when they offer sound advice it too is now suspect. The financial crisis and recession of the past two years have brought IMF and Bank activities, *faute de mieux*, back to life after prior near-death experiences. There have been both expansion and innovation in the Bretton Woods institutions, particularly in the IMF. But both continue to face crises of legitimacy; and both have proven incapable of more than marginal changes in their governance arrangements. Neither has a legitimate future without more serious change, change which the current governance system renders impossible or, at best, extremely unlikely. What is to be done? I believe that a route through this apparent impasse exists. It is not a quick fix. A quick fix does not exist. I believe that hope lies, rather, in gradual change in desirable directions. There are two dimensions to the desirable change that I believe may be possible. The first is the gradual decentralization of significant responsibility and financial power from the Bretton Woods institutions to existing (and perhaps new) regional and sub-regional bodies. The second is the merger, within the latter bodies, of responsibilities for development finance and the provision of liquidity.

1a) Decentralization of development finance

Regional and sub-regional development banks already exist. Their governance and staffing much better reflect the knowledge and interests of their clientele than the Washington institutions ever can. A much greater degree of developing country "ownership", that critical aspiration of the Paris Declaration on aid effectiveness and the subsequent Accra Plan of Action, can be found in these development banks. Decision making systems, including those for leader selection, are still sometimes imperfect but their output (decisions) better reflect local experience and carry greater legitimacy than those in the World Bank. Formal voting strength is not the only, or even the primary, indicator of legitimacy; still, it is significant that in the Inter-American Development Bank, developing countries already carry 50 percent of the voting power.

Where development investments aspire to meet global or trans-regional objectives there is an obvious logic in a prominent or even dominant World Bank role. Where, however, investments are intended to address national or regional aspirations – even if they are consistent with global ones -why should a global institution be the key decision maker? The World Bank's staff and Executive Board are ill-suited, and have frequently proven themselves inept, for decision making or advice as to local policies and/or the direction of investments in individual country circumstances. They cannot and should not be expected to know what is likely to be best (and politically feasible), for instance, for the Tanzanian or Indonesian or Bolivian rural sectors. Moreover, if accumulation of relevant development-related knowledge and expertise are to be objectives, are they not more likely to be effectively pursued, and utilized, when undertaken "closer to the ground", in a more decentralized manner? Overconcentration of such knowledge, and attendant power, in Washington has surely not been socially productive. (There would obviously still be much to be gained, and nothing should be done to discourage, wider exchange of such experience and knowledge.) In short, there should be a more conscious effort to translate the principle of "subsidiarity" into the practice of internationally supported development finance.

1b) Decentralization of shorter-term balance of payments finance

In international monetary matters (indeed in food security, climate change and virtually all other issues of global importance) the exact same arguments and principles (of subsidiarity) should apply. In this instance, however, the regional and sub-regional institutions for IMF-type activities are still weak or non-existent.

If anything, the record and reputation of the IMF in the developing countries has been even worse than that of the World Bank. Yet it continues to play the role of monitor, arbiter and *de facto* gatekeeper for both official and private external funding for even the smallest of these countries. Its role should be strong at the global level, stronger than it now is, for instance in the assurance of appropriate levels of overall global liquidity, and influence upon countries' behavior when they are of systemic significance, or potentially so. (In fact, because of their ready access to alternative sources of finance the IMF has to date been singularly ineffective in its capacity to influence the behavior of those countries that are of greatest systemic significance. There will also be debate about which countries so qualify for IMF attention; in some instances, as in the recent Greek experience, the IMF may join with regional sources of finance.) But to ask it, with its limited human resources, to prescribe macro-economic policy and conditions for external support in every country in the world is to encourage the "one-size-fits-all" approach for which it has quite properly been so criticized. In particular, the IMF has, until very recently, rarely attempted to take account of broader national development or poverty reduction aspirations in its policy prescriptions. Distrust of the conditions likely to be attached to its loans has generated undue reserve accumulation throughout the developing world. In Hirschman's terms, voice has not registered; loyalty has gone; exit has been seen as the only option. But individual national reserve accumulation can be unnecessarily costly and inefficient. There are better alternatives – through, for instance, reserve pooling, collective borrowing and reciprocal credit (swap) agreements; or even, in some instances, monetary unions. The Chiang Mai arrangements have made a serious start in Asia, and there have long been (less ambitious) initiatives, or at least discussions, in Latin America and Africa. There are bound to be more.

2) Merging development and balance of payments finance

Now for the second prong of my story. The weakness of existing regional monetary agreements can and, I believe should, be seen as an advantage rather than a problem in the building of better international financial governance. The opportunities for more imaginative and desirable regional financial institutions have not been foreclosed, as in Washington, by encrusted vested interests within inappropriately specialized existing bodies. Many have been the borrowers' lamentations in recent years over the overlapping mandates, inconsistent advice and inter-institutional infighting as between the IMF and World Bank. It would make far more sense for decisions and conditionalities concerning development finance, notably program support, to be handled by the same financial institution as finance that is essentially meant to address balance of payments shocks. Many, particularly in developing countries, have yearned for a Fund-Bank merger but this is clearly not to be; and, as far as the leading countries are concerned, this is probably just as well. But developing countries have a ready-made opportunity to do things more sensibly. By adding international "monetary" finance to the mandates of existing (and, if my first point of reform is undertaken, significantly strengthened) regional and sub-regional development banks they can simultaneously achieve both the prospect of more consistent/coherent financial decision making and more appropriate governance. Indeed it should be a relatively small step from program finance for development, already recognized as within existing mandates, to shorter-term balance of payments finance (which, formally, is not). Experimentation in this sphere should therefore be possible without major institutional change. (It may be worth noting that Harry Dexter White's proposal for an Inter-American Development Bank in 1940, sort of a "first draft" of what was to become the Bretton Woods institutions, combined short-term currency stabilization finance and long-term development finance within the same institution.) Such a merger of financial support activities could have the further benefit of encouraging more effective coordination at the national level of the policies of Central Banks, and Treasuries. (Developing countries' balance of payments problems are typically either fiscal in their origins or can only be adequately addressed through fiscal action rather than purely monetary policy.)

Further problems

The changes in direction that I am suggesting do not address all governance problems, not even all those associated with legitimacy. The problem of adequate "voice" for the poorest and smallest will obviously remain. Their capacity to influence decision making on issues affecting them may be as limited within regional institutions as it is in global ones; conceivably it may even be less. In recent years, the need for their "ownership" of programs financed externally has been particularly stressed in aid donor circles, not in the BASIC countries. (Their input is also noticeably absent from G20 meetings). The most that they can probably continue to expect is some form of representation. It should also go without saying that efforts to reform the governance of the Bretton Woods institutions should continue.

The appropriate governance of private financial flows and markets is another major issue for the coming years, and I have not touched upon it. The principle of subsidiarity might well be deployed in this area as well. On the other hand, in this instance the distinction between short-term and longer-term (private) financial flows may be a critical element in the formulation of policy and concomitant governance arrangements. Nor have I even mentioned the role of the dollar, renminbi, euro or SDR.Could these do-able directional changes nonetheless not constitute significant elements, and offer more hope, in current efforts to build more effective and sustainable institutional arrangements in international finance than anything else now on the table?

Name	Organization	Country
Mohammed Amin Adam, National Oil Coordinator	Publish What You Pay	Ghana

COMMENT # 3

THE ROLE OF THE INTERNATIONAL MONETARY FUND AND THE GLOBAL ECONOMIC CRISIS – THE SEARCH FOR A NEW MANDATE OR NEW IMAGE?

The establishment of the International Monetary Fund (IMF) was conceived in 1944 following the need for a global economic cooperation to address the effects of 'competitive devaluations' which led to the 'Great Depression of the 1930s'. The original aims of the Fund as outlined in Article 1 of the Articles of Agreement included the promotion of international financial cooperation, facilitation of the expansion and balanced growth of international trade, promotion of exchange stability, assisting in the establishment of a multilateral system of payments and extending financial and technical resources to member countries going through balance of payment difficulties. However, over the years, the IMF has become overwhelmed due in part to the inconsistency in the growth of the global economy and the varying challenges facing its member countries, the increased globalization of economic policies and the state of the global political economy. Thus, not only the end of the 'cold war' and the emergence of the 'technology war', the rise of the Asian tigers and its subsequent Asian crisis, the increased liberalization and openness of African economies and improved governance, and eventually not only the realization of the height of capitalism in the United States and its consequential global financial crises; made the role of the IMF heavily undermined as a credible institution capable of leading the global move for economic and financial stability but also the IMF itself lost the confidence of global citizens as a savior especially those of the developing world because of its past policies. Some countries actually weaned themselves from the Fund. Therefore, the urgency with which the Fund had to review its mandate after the global financial crisis could not be underestimated if it was to become relevant again. Thus, the Fund by circumstances has boldly reviewed its mandate to respond effectively to the lessons of the financial crisis and set in motion mechanisms for restoring financial stability. By this, the Fund is seeking to extend its mandate beyond its traditional balance of payment support to financial stability based on sound regulation of the global financial system.

The policy reforms of the Fund include;

- (i) Doubling of member countries' access to Fund resources
- (ii) Streamlined approach to remove the stigma of borrowing
- (iii) New flexible credit line for strong-performing economies
- (iv) Reform does away with 'hard' structural conditionality and
- (v) New focus on objectives rather than specific actions.

Thus the new IMF will see changes in its fiscal, lending and social protection policies which will likely improve on the economic performance of member countries but may also undermine sound economic logic with negative long-term effects if member countries do not improve on the political economy of public financial management. However, the changes also have implications for the Fund's image. They demonstrate the inappropriateness of structural adjustments lending and emphasizes counter-cyclical measures as the right policy for offsetting the capital shortfalls in the global economy. In this paper, I have attempted an examination of the historical image of the Fund, its emphasis on transparency and accountability as important features of the political economy, and its relationship with civil society. I have also made some suggestions and highlighted the role of member countries whose ultimate responsibility must be to ensure that the policy changes benefit their citizens.

THE IMAGE OF THE FUND

The image of the Fund has been battered over several years now due to its conditionality policy, social protection and debt relief programs among others. The structural adjustment policies they prescribed for low income countries with 'above-the-bar' conditionalities actually worsened the economies of member countries that sought the Fund's support. These were the days when the Fund was accused of the use of 'the one model fit all' approach to development policy without regards to the different socioeconomic and political peculiarities of different countries. One notable opponent of the IMF policy then, Kenneth Kaunda once remarked 'the IMF doesn't care whether you are suffering from economic malaria, bilharzias or broken legs, they will always give you quinine' whilst Kwame Nkrumah described the IMF as a neo-colonial legacy whose 'ghost must not be allowed to resurrect'.

One notion that dominated the debate in the developing world about the Fund's operations was that it did not believe in social protection and the interest of poor segments of society. This was attributed to the imposition of structural conditionalities such as cost-recovery in education, cash and carry in health accessibility, divestiture of national strategic assets, removal of subsidies from agriculture and petroleum products, redeployment or retrenchment of labor, employment freezing, cuts in expenditures among others. Whilst there is economic reason to justify the appropriateness of each of these policies, the timing for the introduction of these policies coincided with the hard times in the development phase of most countries and also, the explanations surrounding their introduction were not only inadequate but were also too technical for the ordinary man to understand. In addition the macroeconomic environment of most member countries was weak whiles state institutions were run down. The Fund certainly must be blamed for not conducting policy impact assessment before introducing those policies to its members.

Certainly, some of these structural policies were socially inappropriate but the long term effects of not implementing those policies were more socially catastrophic. Therefore, between the two devils, our countries needed to choose the lesser devil.

It is also true that the management of our economies was overshadowed by grand and petty corruption, financial mismanagement and absence of transparency and accountability mechanisms, which eroded compromised the quality of life of the people. There were mass demonstrations against conditionalities an the recent demonstrations in Greece even when there are no conditionalities attached to the US$30 billion support extended to the country brings bitter memories of the structural adjustment periods.

It is therefore refreshing that the Fund has strategically 'discontinued with structural performance criteria' for its loans unless they are 'critical to the recovery of a country'.

This is a strong departure which could likely improve on the Fund's image, but to what extent has the Fund communicated this to the wider global audience? Now, most developing countries are implementing the same policies on their own volition without any institution imposing them. Yet the IMF is still being blamed because most of the governments point their citizens to the IMF to absolve themselves from blame.

It is heart- warming to note that under its current reforms, the Fund has introduced a new concessionary lending facility to low income countries until 2012 at zero interests and without any conditionality to mitigate the cost of the global financial crises. But whether the requirements for disbursement constitute conditionalities or not must be situated against the conditionalities of the structural adjustment lending.

What is worrying however about these concessionary loans is the possibility of abuse by beneficiary countries due to the lack of conditionalities attached to them. In countries where the governance and accountability mechanisms are weak, those loans may be misappropriated. It is therefore very important that the Fund immediately formulates an expenditure tracking and spending efficiency models to monitor the utilization of these loans for the benefit of the people.

I also think that the completion date for the new concessionary facility in 2012 may not be appropriate because the inconsistency in the global economic recovery and the increasing debt vulnerability of developing countries following the financial crisis will continue to undermine the economies of these countries.

In the case of social protection, the Fund has now responded positively and loudly by giving a strong indication of its social protection policy under which member countries are being encouraged to increase social - and poverty – related spending to appreciable percentages of GDP. The cases of Tajikistan and Ghana are clear examples.

The problem of the Fund which is not helping its image in spite of its policy reforms is its inability to communicate its policies effectively to global audience especially those in developing countries. As a matter of urgency, the Fund requires a strong public relations program to expand its outreach to member countries covering civil society, academic and research institutions, the media and the smaller communities who have long suffered the structural adjustment conditionalities.

The Fund has also failed to let global citizens appreciate its internal governance mechanisms. Most people do not know that the Board of Governors of the IMF consist of one Governor of Central Bank from each member country and 24 of them sit on the International Monetary and Finance Committee (IMFC). The Fund is also accountable to the governments of all its member countries. Therefore if there are bad decisions taken by the Fund, it is taken by the Governors of our countries.

The problem with the Fund's internal governance is that some countries are better represented than others. The 16% shareholding by the United States is unjustifiable and does not make decisions of the Board reflect the general conditions in all member countries. Moreover the US has a veto and the approval of major decisions by 85% of the Board is impossible without US support. This should be changed if the Fund is to convince the world that it is democratic and promotes fairness and equity in its decisions.

By its accountability to the governments of member countries and the requirement of government's approval for disclosures of country information deny citizens of member countries the ownership of the Fund. The Fund should therefore demystify the notion that it belongs to the governments and not the citizens. One way to do this is to allow civil society members to attend the Funds Board of Governors and the IMFC meetings as accredited observers. This will constitute a strong check on how the governors of our central Banks take decisions on our behalf. Negotiated agreements between the Fund and our governments must also be published by our governments in local newspapers.

Some have questioned the genuineness of the Fund in its debt relief programs particularly through the initiative on Highly Indebted Poor Countries (HIPC) and argue that debt relief must be unconditional. Whiles this sound acceptable to indebted countries, the judicious use of the savings from non-payment of debts has often been questionable. Therefore countries that have gone through HIPC have returned to low debt sustainability levels as a percentage of GDP. I am not a fun of conditionalities but those that will promote transparency and accountability in the use of savings from debt relief are necessary to ensure those savings are not dissipated and create room for countries to start another cycle of excessive borrowing.

TRANSPARENCY AND ACCOUNTABILITY

The Fund places significant premium on good governance practices such as anti-corruption, transparency and accountability. Thus, manuals such as the 'Code of Good Practices on Fiscal Transparency', the 'Code of Good Practice on Transparency in Monetary and Financial Policies, and the 'Special Data Dissemination Standard' are some of the tools the Fund uses to promote good governance in its member countries. The Fund's support for the EITI in resource rich countries and its 'Guide on Resource Revenue Transparency', also promotes transparency in payments and receipts of resource revenues. It is also on record that the Fund uses compliance with governance standards as well as 'adequate systems' of public expenditure tracking as conditionality in its lending programs to developing countries.

It must be noted however that most of these tools are guidelines whose compliance is relative to the subjective analysis by Fund's staff. This gives room for manipulation where countries pretend to comply with standards and after the Fund's review, return to old order. The enforcement of governance standards as a condition for financial support has not been effective over the years because member countries are the shareholders of the Fund which has led to some countries with low observance of poor

governance standards receiving financial support from the Fund in the past.
The Fund should now insist on member countries legislating transparency and accountability initiatives and help set up an independent international body founded on the principles of the Peer Review Mechanism, to assess the compliance of governments with the laws. This is the opportune time to do this as countries who left the IMF and went to the capital market or China associated with low governance standards for financial support have desperately returned to the Fund following the global financial crisis. It is also important to note the weaknesses of the EITI because of its narrow scope and therefore the need to promote EITI++ in resource rich countries covering regulatory transparency and expenditure accountability.
Another issue worth considering is data accountability. The Fund through its surveillance and periodic reviews assesses the quality and timeliness of data provided by member countries in their Article IV which is usually published on the Fund's website. But it is also important to verify the accuracy of these figures by subjecting them to domestic validation by a council of civil society and think tanks to determine its accuracy. For instance, the figures provided by Ghana to the EITI Board for mining receipts for 2005 was US$44,654,643 whiles mining receipts for the same year as it appears on the IMF Article IV (2008) was US$66,000,000 with a discrepancy of about US$ 21,345,357. While such discrepancies might not be intentional, they gave room to suspicion and undermined confidence in public financial management. It is therefore necessary to have alternative views on government data to ensure appropriate internal reconciliation so as not to paint a wrong picture of the economy.

THE IMF AND CIVIL SOCEITY

The relationship between the Fund and civil society organizations in its member countries has improved significantly in recent times; the engagement of civil society in member countries during the Fund's missions has improved openness of the policy environment and accommodation of alternative views contrary to the previous monopolization of the policy space by the governments of our countries. The Civil Society Policy Forum at the Spring Meetings has further shown the Fund's commitment to strengthen its relationship with civil society.
What the Fund needs to do now is take a departure from its long held policy of dealing with only the governments of our countries in the provision of technical assistance. The increased realization of the complementary policy roles of civil society provides sufficient evidence for the Fund's technical assistance programs to be extended to them to ensure that they effectively engage their governments. Technical support such as data, computers and equipments for research and training are some of the essential instruments for effective policy engagement. There is no reason why the Fund allows civil society to participate in its reviews of policies and programs such as 'the Fund's involvement in international trade policy issues', 'data provision to the Fund by member countries for the purposes of surveillance' and yet jettisons its responsibility to provide them with technical assistance.

CONCLUSIONS

It must be noted that the original mandate of the IMF has not changed much except the extension to global financial stability as a consequence of the global financial crisis. What The Fund is doing now are policy reforms to enable it meet its mandate, which is quite positive and will certainly renew its relevance to the developing world in particular. It is also significantly revealing that the strong derive towards high governance standards and the abandonment of structural conditionality will continue to bolster the image of the IMF as a global leader in building a political economy which can support sound and effective public financial management whilst providing appropriate safety nets for the vulnerable in the society. Certainly, member countries have the ultimate responsibility to manage the resources borrowed from the Fund including the flexible and concessionary loans and the decision of the Fund to open a new Technical Assistance Centre in Accra is an indication of Fund's responsiveness to the needs of its members. In these days, structural conditionalities are unnecessary because macroeconomic management of developing countries has improved significantly. What is required now is advisory. Civil society should be strengthened through capacity building and advocacy funding to effectively provide the checks on corruption, financial indiscipline and mismanagement of resources. In particular, new standards should be introduced with strong local involvement on how concessionary loans are managed. This will ensure that beneficiary countries do not take such loans as 'Christmas bonuses' and abuse those concessions which are largely meant to bring relief to the citizens.
The Fund may also consider direct support to the productive sectors of the economies of their members by incorporating the private sector into its new programs under its new policy. This will make its support more visible rather always strengthening the international reserves of member countries for exchange stability which does not translate to economic growth within the short to the medium terms.

Name	Organization	Country
Gloria Bartoli, Chief Economist of SACE, Prof. International Economic Institutions, LUISS		Italy

COMMENT # 4

The IMF indicated global imbalances as a major source of instability for the global economy since 2005; in 2007, the IMF board approved an enhanced multilateral surveillance in order to reduce such imbalances, without any effect. The IMF implemented a program to assess the stability of national financial systems at the end of the 90s, but wasn't able to assess the US financial system because of the refusal of the US authorities. The IMF has a tool to contribute to global liquidity and to increase the stability of the international monetary system, the SDRs, but the US blocked all issues of such a currency for more than a decade. In other words, enlarging the mandate of the IMF in the fields of surveillance , lending and preventing financial crisis, although overdue, will be useless without 2 preconditions: 1) ending the veto power of the US on all important decisions of the Fund, either by reducing their quota or reducing the threshold for important decisions to 70% from the present 85%, as suggested by the Manuel Commission. 2) ending the asymmetry of treatment between countries in surplus and countries in deficit of BOP and between countries which ask for loans and the ones which don't. Only after these reforms, the IMF could be considered a genuine multilateral organization to be trusted also by Europeans and developing countries and it will have the power to prevent financial crisis, not only manage them.

Name	Organization	Country
Saman Kelegama	Institute of Policy Studies	Sri Lanka

COMMENT # 5

My suggestion is that when the IMF looks at the macroeconomic situation there is a concern over how it examines the fiscal deficit. Many developing countries face large fiscal deficits from time to time -- sometimes exceeding 10 % of GDP. Sometimes the deficit may be due to major public investment programs -- an investment for future private sector activities and improving the efficiency in the economy (reducing ICOR). Thus my suggestion is that IMF when looking at the fiscal deficit (which is basically the Income Statement of the government) also looks at the Balance Sheet (assets and liabilities) and if the solvency ratio is satisfactory the IMF should not impose drastic conditions on immediate reduction of budget deficit by about 3% of GDP when imposing conditionalities with a loan. A satisfactory Balance Sheet indicates that the fiscal deficit may be sustainable, especially after the major public investments are over with.

Name	Organization	Country
Liliane Kilunga	Stichting CS Bon Berger	Togo

COMMENT # 6

QUE CE QUE NOUS ATTENDONS DE IMF APRES LA RECESSION GENERALE?

Cette récession dans laquelle est plongé le monde économique à des répercutions néfastes et rapides sur l'ensemble de la mode vie humaine.
Ainsi il est d'intérêt capital que le monde entier soit mobilisé pour sauver le monde.

Que sera le rôle de FMI?

1. Le FMI doit jouer le rôle de promouvoir l'accroissement des emplois dans le cadre de soutenir les secteurs privés et les ONG qui sont des engins incontournables dans le processus du développement économiques et sociaux des pays Africains.

Comment procéder ?

Le FMI va créé un système de la police internationale qui jouera le rôle de s'assurer de bon fonctionnement des ONG dans les pays des exercices de leurs fonctions c'est-à-dire d'avoir la garantie maximum que les ONG peuvent fonctionner dans la sécurités totale jusqu'à l'aboutissement de son objectif.
Cette police va aussi contrôler le mandat des ONG c'est-à-dire son bon fonctionnement jusqu'à atteindre le but; car le financement pour soutenir tel ou tel pays pauvre ou en difficulté peut avoir lieu, mais l'essentiel c'est d'atteindre l'objectif ainsi il ya espoir de récolter dans son investissement.

Nous avons par exemple le problème de chômage des jeunes en Afrique. Tout d'abords parce qu'il n ya pas assez d'emplois, en suite les vieux qui ont occupés les postes depuis 80 ans ils ne veulent lâchez pour allez en pension. Ainsi des milliers des jeunes ayant étudiés pendant 15, 20 ans à l'université se retrouve chômeurs. Que ce qu'ils vont penser, immigrer à la recherche d'une vie meilleure et ceci perturbe le système dans tous les cotés.
Une chose est vrai est que les immigrés peuvent qui vivent dans la zone Euro peuvent changer les situations dans leur pays d'origine il suffit qu'il y est une main forte qui les soutiennent et c'est l'un des plus importants rôles que peut jouer le FMI pour arrêter la pauvreté dans les pays Africains par exemples. Car les ONG que forment ces différents immigrés ont d'influences néfastes dans leur pays d'origine du point de vue sociaux-culturel et économiques. Ces groupes atteignent la base qui est la population dont le gouvernement n'écoutent jamais. Et si tu veux bien construire il te faut une base solide, une bonne fondation, mais la fondation est bafouée.

Name	Organization	Country
Peter Chowla	Bretton Woods Project	United Kingdom

COMMENT # 7

I. IMF MANDATE NEEDS FUNDAMENTAL RETHINK

Overview

The IMF launched a review of its mandate in January, with two background papers and a narrow public consultation period ending 15 May 2010. The decades old development crisis and the recent financial crisis have both shown that the international financial architecture is failing to deliver equity, sustainability, and justice. This paper is the Bretton Woods Project's contribution to that debate. It argues that the IMF needs to fundamentally rethink its role, and return closer to its original purpose, focusing on three key areas: reform of the international monetary system; surveillance over the policies of systemically important countries; and providing rapid access, conditionality-free finance to countries facing crisis. The last such IMF mandate review, launched by then managing director Rodrigo de Rato in 2005, resulted in little change apart from the failed multilateral consultation process on global imbalances. Hopefully this one will be different. It was therefore disappointing to note that the Fund's background papers seem to suggest a lack of ambition, for example by repeatedly stressing how difficult it would be to do anything that would require changes to the IMF's articles of agreement. The flaws in the global financial architecture in general, and the IMF in particular, are too great for anything but a fundamental and rigorous review. Part of the IMF's problem is that none of the potential Fund role changes can be considered outside the lenses of legitimacy and governance. The IMF will continue to suffer from mistrust especially from Southern countries as long as the US maintains a veto and Europeans maintain overrepresentation on the board and in quota shares. Fundamental governance reform (the planned reforms for this year fall far short of this) must go hand-in-hand with mandate reform. As set out in our common European civil society position, previously discussed with European executive directors and governments, we believe this should include: double majority decision making based on countries, quota formula reform to reflect a democratic element, board reform to ensure European consolidation and more accountability, open and merit-based selection of all senior management, and dramatically improved participation and transparency.

Surveillance and crisis prevention

The Fund must become more even-handed in its surveillance, and focus on improving and adding teeth to its multilateral surveillance of systemically important countries. Developing countries have long complained that the IMF has no ability to make non-borrowing rich countries consider the external impact of their domestic policies, but frequently rebukes developing country borrowers over domestic political choices. This was borne out in the recent Independent Evaluation Office report on the IMF's relations with members. One clear potential value-addition of an international institution such as the IMF is to look at the policies of systemically important countries and the impacts they have on other countries – the so-called spillovers. An IMF with democratized, more accountable governance could become the venue for discussion of economic policies and their spillovers, as part of the IMF's mandate to ensure economic stability and prosperity. Systemically important countries must be willing to negotiate, where necessary, changes to their economic policies that are damaging other countries, and the IMF must be empowered in this area to enforce negotiated and agreed solutions. Enforcement mechanisms would need to be designed, but the evidence from the evolution of the WTO is that this is possible. The focus on spillovers should take the IMF away from surveillance that is narrowly bilateral and concerned mainly with domestic stability. If this requires an amendment to the articles, then that should be supported, but other administrative means could be used to achieve the same result. Secondly, the issue of capital controls is fundamentally important. The staff position note which argued that capital controls should be a part of country toolkits to combat destabilizing capital flows is a start. However it carries no political weight as a staff opinion and does not go far enough: any perception of capital controls as a temporary, short-term quick-fix solution to deal with volatile capital flows is unlikely to succeed. Rather capital controls should be seen as one of the policy instruments in the hands of governments to pursue independent economic policy making, growth and financial stability. As at the founding of the IMF, capital controls should be available to all members, and the IMF should be stand ready to help countries design smart controls that are more than just temporary band-aids. The issue of financial sector surveillance is crucially important, but a democratically reformed IMF should play a tightly defined role. It is clear that developing countries have been negatively impacted by the regulatory failures in the developed world. We have argued for an international regulatory body that would put justice, equity, sustainability, policy space (not liberalization and deregulation) and developing country interests at its heart, but recognize that this may be a distance away. The Financial Stability Board has been created to address some of the severe gaps in financial regulation and supervision at the international level. However, the FSB has a serious deficit in its governance and transparency, with most countries excluded from membership, and woeful participation by most of those affected by its discussions, and it does not appear to be pursuing adequate regulation of the entire financial system. It is clearly not sensible for the IMF to take on a financial regulatory and supervisory role. However a democratized IMF should greatly improve its treatment of the financial sector in its multilateral surveillance of systemically important countries and institutions.

Crisis resolution and IMF facilities

A democratically reformed IMF should focus on providing rapid, adequate, conditionality-free emergency finance to countries in trouble, rather than continuing to attach counter-productive conditionality. We argued before and during the crisis that countries needed much larger levels of resources but only if they come without conditionality. The IMF has a short-term liquidity role to play, but has unnecessarily constrained access to its resources – especially when the crisis shows that economic shocks which they did not create, damage developing countries and their economic prospects. The rapid, low-conditionality Flexible Credit Line (FCL) is proving to be popular with the small number of countries able to access it – with Mexico, Poland and Colombia renewing or potentially planning to do so. We support greatly expanding access to the FCL, which would mean much more flexible ex-ante qualification criteria. Low-income countries (LICs) clearly need liquidity in times of crisis, just as middle-income countries do. The provision of some special drawing rights (SDRs) to LICs in 2009 was a step in the right direction (though most of the allocation went to developed countries), and more steps need to be taken on this (see below). However LICs also need an FCL-like facility, something we called for at the time the FCL was created and again when LIC facilities were revamped last year. Short-term, un-conditional and high-access finance is very important in dealing with economic shocks. This could be accomplished through greatly expanding the size and availability of the Rapid Credit Facility. Alternatively and preferably, in order to retain similarity between concessional and non-concessional facilities, a new concessional FCL should be created. Other innovative ways of providing conditionality-free, rapid access finance or support to countries facing crisis should be urgently considered, such as guaranteeing new debt issuances of governments as proposed in the IMF staff paper for the mandate review. This should not be construed as arguing for the IMF to play a larger role in LICs. As we have argued in the past the IMF is not a development finance institutions and should stop acting like one. With a new focus at the IMF on economic spillovers and the monetary system (see below), the IMF needs to shed some of the roles that are not squarely part of its mandate. That would mean an end to medium- to long-term finance, aid signaling and other problematic aspects of the IMF's involvement in LICs. These ideas are well supported across the spectrum from many parts of the US government, to NGOs and academics, to the Malan experts committee and most recently Supachai Panitchpakdi, former Thai deputy prime minister and current secretary general of UNCTAD.

International monetary system reform

The international monetary framework which emerged after the collapse of the Bretton Woods system in the 1970s has proved volatile, damaging and prone to crises. It is time for a fundamental redesign and the introduction of a global reserve currency, to help stabilise international exchange rates, smooth commodity prices, promote international economic cooperation, and prevent future financial crises. Many developing countries will continue to attempt to run surpluses and stockpile reserves until there are resolutions to the stigma and conditionality problem associated with emergency support and a fix to the global monetary system. There are two main requirements: a global reserve currency not based on the dollar, and a system of managing exchange rates to deal with systemic imbalances. On the former, with radical improvements in IMF governance, the special drawing right (SDR) could serve as the cornerstone of a new monetary system. It will need reforms, but they are not technically unfeasible, they only require political will. SDRs issuance should become regular, automatic, and not strictly along the lines of the IMF quota formula, with the ability for larger counter-cyclical issuance at times of need. SDRs should be commercialized (e.g. trade invoicing, commodity pricing) and become more broadly used, something the IMF can encourage through a number of measures to improving settlement, trade and use of SDRs.

Second, along with capital control techniques, the international monetary system must ensure that the burdens of adjustment to imbalances fall equally between surplus and deficit countries. As the Greek crisis has shown, asymmetric adjustment is problematic. One way to achieve this would be to go back to some of the ideas proposed by John Maynard Keynes in the run up to the original Bretton Woods conference – an international currency union. Adapting these proposals to the modern context will be necessary, but not impossible, UNCTAD has already started work on elaborating the use of a constant real exchange rate rule.

Conclusion – balance needed

The world needs an international financial and monetary system that enhances equity, sustainability and justice; not one that detracts from it. The IMF and its shareholders have a key opportunity at this time – with the financial crisis fresh in our memories and the dawn of a new global geopolitical arrangement. The IMF, if it is to be useful, must radically change. That means reducing its power and roles in some areas while enhancing them in others. It is time for:

- Fundamental and comprehensive governance reform of the IMF;
- A refocusing of the institution on three goals: reform of the international monetary system; surveillance over the policies of systemically important countries; and providing rapid access, conditionality-free finance to countries facing crisis:
    - Ensuring the IMF has traction over the policies of systemically important countries that have spillover effects, with special emphasis on the impacts on the poorest and most vulnerable countries;
    - Ensuring the stability of a new monetary system based on SDRs (or some other new reserve asset) and an international currency union.
    - Creating a set of crisis resolution facilities with sufficient resources and no conditionality and ending the IMF's continuing pursuit of development finance (recurrent and long-term lending, as opposed to short-term balance of payment crisis support) and other roles outside its mandate and area of expertise.

Name	Organization	Country
Pamela Gomez, Policy Adviser IFI Relations	Oxfam International	United States

COMMENT # 8

Oxfam International submission to the International Monetary Fund consultation on reform of its mandate

We welcome this opportunity to share our views as the International Monetary Fund (IMF) debates important proposals intended to strengthen the institution's ability to confront future financial and economic crises.

Surveillance

The G-20 at its London Summit in April 2009 asserted that to avoid a repetition of the global economic crisis it is essential to significantly strengthen national and global institutions for oversight, supervision and regulation of financial markets and financial institutions. As a result this concern, the G-20 London Summit mandated that the Basel-based Financial Stability Forum should expand its authority and incorporate the active membership of all G-20 countries. The newly constituted entity, the Financial Stability Board (FSB), has begun to develop and issue international guidelines and principles on regulation of the financial sector. The membership of this body consists solely of representatives of G-20 governments and of international institutions. FSB guidelines will also have distributional consequences for the vast majority of other countries of the world which have been excluded from the G-20. These countries will be subject to spill-over effects from financial sector and other economic policies that G-20 member states adopt — or fail to adopt. We are concerned that the FSB does not include representation from governments of low income countries. As such, we view with considerable unease the IMF's potential role in surveillance associated with these guidelines, which have been developed without the participation of the majority of the world's countries.

- As an institution with the broad membership of 186 countries of the world, we urge the IMF to speak out about the lack of representation of low income country countries on the FSB. The IMF's role in surveillance of principles developed by such a body does not contribute to its institutional legitimacy.
- The IMF should strengthen its surveillance of systematically important countries, so that it is of the same rigor as that applied to low income countries. This would reduce prospects of a future global crisis. We welcome efforts to ensure that IMF monitoring and policy dialogue (surveillance) of systemically important countries is more even-

handed and effective, however there is more to be achieved in this area. This includes the systematic incorporation of analysis of the distributional impact of fiscal, monetary and exchange rate policies in its surveillance activities. Routine incorporation of such analysis would strength the traction of policy dialogues associated with surveillance activities in G-20 countries. In other countries, we view such analysis as essential to accurately evaluating spill-over effects.

- In low income countries, there should be *ex ante* distributional analysis of proposed policies, particularly those mandated as lending conditions. There should also be a systematic *ex poste* evaluation of their outcomes. This should include evaluation of progress in achieving the Millennium Development Goals.

Lending Capacity

The Fund has stated that it is currently considering changes to its lending facilities, including increased lending limits and adjustments to the terms and manner in which funds are made available. We understand that the Fund is seeking this increase in lending capacity to provide improved crisis response. The intention is to provide a credible alternative to countries that have currently built up their currency reserves as a precaution against a financial crisis.

The Fund maintains that these additional funds are needed to ensure that it can react with speed, sufficiently large cash infusions in multiple countries.

- However, we urge that the IMFs ensures that any precautionary or other crisis prevention funding does not compete with or displace funding needed for the Fund's low income country concessional lending.
- The IMF should provide short-term, high-access finance – without conditions –for low income countries to assist them in dealing with economic shocks and other spill-overs.

Governance

We welcomed the Executive's Board's recent report to the International Monetary and Finance Committee on the Reform of Fund Governance noting that governance reforms would include a comprehensive action agenda. We believe that absent such governance reform the institution has limited prospects of achieving increased traction with respect to its surveillance activities.

The September 2009 G-20 meeting in Pittsburg stated is commitment "to protecting the voting share of the poorest in the IMF." We were very disappointed by the decision taken at the recent Spring Meetings regarding quota reform at the World Bank and strongly urge that the IMF not breach this commitment in a similar way.

- We strongly urge that voting shares and representation on the Executive Board and Board of Governors of poor countries are increased. This should include the adoption of a double-majority voting system. Decisions by the boards should be made only when both a majority of member governments agree and the decision garners support of a majority of votes.
- Furthermore, we urge stepped up efforts to achieve progress on other governance reform measures, including on the merit-based appointment of senior management including the managing director, and the promotion of staff diversity. We would welcome progress on implementation of the Fund's newly introduced Diversity Scorecard, and the recognition that staffs diverse by nationality, gender, education and experience are essential for the institution's effectiveness and legitimacy.

Potential Amendments to the Articles of Agreement

As discussion on these important mandate issues develops, we understand that amendment to the Fund's Articles of Agreement may be necessary. We therefore urge that the articles be amended so as to:

- Authorize the Fund to provide grants as well as loans to its members in exceptional circumstances. Grants should not become the IMF's standard financing mechanism for any member, but should be possible under clearly defined, limited circumstances. These should include natural disasters, as well as for certain types of economic shocks, defined as events beyond the control of the authorities of the member country, with a significant negative impact on the economy. We believe that such authority would have been necessary to provide appropriate support to Haiti in the wake of the January earthquake, as well as the recent global economic crisis.

- Explicitly recognize poverty reduction as part of the Fund's mission in the Articles. We welcome the Fund's description of its activities in its external materials as, "working to foster global monetary cooperation, secure financial stability, facilitate international trade, *promote high employment and sustainable economic growth, and reduce poverty around the world*." We urge that promotion of high employment, sustainable economic growth and poverty reduction be officially incorporated into in the Fund's Articles of Agreement as part of its mission. We believe that this would be an important recognition of the need to shift the perspective of the institution, especially in low income countries, from an orientation of short-term balance of payment support to one more consistent with the support of long term developmental needs, including meeting the Millennium Development Goals.

Name	Organization	Country
Per Kurowski, Former Executive Director of the World Bank 2002-2004	New-Rules for Global Finance Coalition of the USA, and Voice and Noise Foundation	Venezuela

COMMENT # 9

We have bank regulations that say that if a bank relends our deposits to a sovereign rated AAA, then it needs no capital at all, meaning unlimited leverage; if it lends to a sovereign that has been rated A+ to A, or to a private client rated AAA, then it needs only 1.6 percent capital, implying a leverage of 62.5 to 1; but when lending to small businesses and entrepreneurs, those on whom we depend so much for our jobs, those who cannot afford being rated by the raters, those who the banks are supposed to help while they make it to the capital markets, then the banks are required to have 8 percent in capital and need to limit their leverage to 12.5 to 1,

This is insane, not only because it discriminates unfairly against the natural clients of the banks;
but also because it gives immense powers to human fallible credit rating agencies, also open to capture; but also because it subsidizes the risk aversion that already exists in the market;
but also because it turns our bankers into automats following credit ratings like if it was a financial GPS; but also because it forces the banks to react instantaneously to the same downgrading making all take the same exit at the high-way at the same time and increasing the chances of a crash;
but also because going after AAAs probably defines the mother of all pro-cyclical regulations;
but also because when something goes wrong, as it must sooner or later, even with AAAs, the banks are left with no capital at all when we most need them to lend;
but also because it assumes the existence of real and abundant AAAs even though this must be the most scarce specie of them all;
but also because it assumes that risk lies more in what is perceived as risky than in what is perceived as not risky and which is of course pure nonsense;
but also because I cannot really think of one single bank crisis set off by something perceived as risky;
but also because the biggest profits are obtained by squeezing in under what a real AAA's roof should look like, as bad as possible credit risks, placing us on a very slippery slope;
but also because I could go on and on with more similar arguments:

I knew it was all insane, and I made most of those arguments above even while an Executive Director of the World Bank 2002-2004, and I read and heard much similar criticism in the pre Basel II debates. Unfortunately, no one in the World Bank could really do much about it, because, you see, the World Bank, a development entity, has, as I see it, been tricked into having to be quite silent on financial regulations, all in the name of an outright crazy "harmonization" with the IMF, a more disciplinary entity. On March 18 when discussing at the Board "Strengthening IMF-World Bank Collaboration on Country Programs and Conditionality" with respect to Basel II I stated "This is very clearly a case where there is a good reason for a very strong interchange of opinions between the Fund and the Bank." Of course no such discussion occurred and in June 2004 the G10 approved Basel II. The explanation for the silence we can find in a document attached for the September 27, 1999 meeting of the Development Committee "Progress Report: The World Bank Group's Role in Strengthening the New International" and that states: "To strengthen collaboration in the financial sector, a joint **Bank-Fund Financial Sector Liaison Committee** was established in 1998. Enhanced collaboration is also reflected in the **Financial Sector Assessment Programs (FSAP),** jointly undertaken by the Bank and the Fund, which aim at assessing a country's financial sector strength and vulnerabilities and at identifying reform priorities in the context of the Fund's surveillance and the Bank's financial sector development work." And, though I cannot prove it I have the impression that the discussions in the "Bank-Fund Financial Sector Liaison Committee have not been sufficiently lively and, as to the FSAP, I refer to the following that I wrote in my Voice and Noise 2006.

The Financial Sector Assessment Handbook—a postscript: In September 2005, the World Bank and The International Monetary Fund published the Financial Sector Assessment Handbook and as I read it, it is a perfect example of what I mean by excessive harmonization, so I need to make a special comment here. You might have already read extensively in the chapter "BASEL—Regulating for what?" about my strong belief that the world is giving too much emphasis to how to avoid crises potentially occurring in the financial sector, as opposed to how that sector is performing its role intermediating credits, generating growth, and distributing opportunities for access to capital. Yes, bank crises are setbacks, but, if in their wake they leave continuous step-by-step advances in development, we might still prefer that to a financial sector that receives a perfect bill of health but does little for the rest of the economy. In fact, such avoidance of a crisis is most probably just a temporary mirage. Developing is balancing various risks, not looking to eliminate one.

Well, in this handbook, which is more than 450 pages long, only a very few pages, perhaps fewer than ten, salute the flag of assessing and helping the banks perform their true function in development, the WB's basic agenda. Instead, most of this handbook centers on how to supervise banks and minimize the risk of bank failures, the IMF's basic agenda. Chapter Four contains most of the little there is about development, and "4.6.4 Development Obstacles Imposed by Unwarranted Prudential Regulation," gives us sixteen complete lines about how entry or start-up regulation and uneven supervisory practices can hamper competitiveness and create "undue reliance on tools that are likely to disadvantage small new firms (such as excessive mandatory collateralization requirements for bank loans)." If I have ever seen what amounts to mere flag-waving, this is it, but, on the other hand, I must admit that these flag-wavers are at least quite transparent. Under the interesting subtitle "The Demand-Side Reviews and the Effect of Finance on the Real Sector," we can read, "development assessments are interested in the users and the extent to which the financial services they receive (including from abroad) are adequate to their needs. Development assessments must express a general view on this issue, though in many countries, especially low-income countries, *detailed quantification may be beyond the scope of the assessment.*
Friends, I rest my case. It is quite obvious that on this vital issue, the World Bank has been harmoniously silenced. End of quote**.** Therefore, my IMF friends, all I want to suggest at this moment, for the good of the IMF, the World Bank and of course for all the rest of us, as a fundamental piece of any IMF reform, is that you… scrap all harmonization agreements and start debating with the World Bank openly the issue of what our banks are really for, because, if you haven't noticed it, there is not a word about the purpose of banks in the 347 pages of Basel II. Let me before ending also restate my fundamental argument by making a reference to some briefs paragraphs that are also included in my Voice and Noise, 2006

We need to make more transparent our harmonization.
Some of my colleagues have expressed concerns that the paper leaves open the possibility that the World Bank Group and the International Monetary Fund may express divergent views in their assessments. But to me it would be very disappointing if diversity of opinions is not brought to the forefront of the debate, truly transparently. We and the International Monetary Fund have different development agenda, and sometimes and somehow they could be in conflict. Nothing's wrong with that! What we cannot do is to sweep our differences under the rug in the name of some wrongly understood harmonization. What we need to do is to learn to take more of the full debates to the different capitals instead of the prefabricated and well-packaged consensus. Otherwise instead of having Good Cop–Bad Cop strategy discussion we might end up with just a totally Blah Cop. End of quote. I sincerely appreciate this opportunity to put forward my arguments again. I cannot swear we would have been able to avoid this crisis but I can swear that had the economists at the World Bank (and even some at the IMF) been totally free to voice their concerns about the absurdity of the regulations coming out from Basel, we would have had a much better chance of it. Below I will include part of what I said on this as an ED issue and if you want to see what I said about Basel regulations before and while an ED at the Bank you can find it in: http://baselcommittee.blogspot.com/
And, since then in: "Voice and Noise on Subprime Banking Regulations", "Tea with FT" especially under the label of Subprime Banking Regulations, "Finance for Development" and of course the not so serious but too serious "AAA-bomb". Also searching the web you will find quite a lot in: Global Crisis Debate Vox; The Baseline Scenario; Cafe Hayek; Dani Rodrik's Weblog … and even in some of the World Bank and IMF blogs. Now if by chance what you were really looking for is a beginner's but all inclusive explanation of the cause of the financial crisis, written for dummies, non experts and bank regulators then I invite you to READ IT HERE