Fourth Pillar Recommendations from Civil Society
Preliminary Summary of Principles, Issues and Recommendations

This document responds to the Fourth Pillar request of the Managing Director to New Rules to prepare a summary of civil society[1] recommendations on IMF Governance Reform. It is based on consultations with representatives of the many CSOs that are actively participating in the Fourth Pillar process (See: www.thefourthpillar.ning.com).[2]

The discussion and recommendations included in this document primarily address short-term governance reforms, many of which are possible within the existing IMF Articles. Many CSOs believe significant additional reforms will be needed to transform the IMF into the institution the 21st Century financial system requires.[3] Many of these issues—such as the coherence among international organizations (including the IMF) and international standards, as well as conditionality—will be discussed fully in the longer Fourth Pillar paper to be submitted to the IMF in early September, 2009.[4]

The first section of this paper focuses on Transparency and Accountability; the second on Voice and Representation; and the third on specific reforms for the Executive Board and Management.

I. Transparency and Accountability:

There is broad consensus among responding CSOs that only if the Fund's governing bodies and management are held accountable for their actions or inactions will changes in IMF governing structures actually bring about changes in the outcomes of IMF actions. The true test of the seriousness of the IMF will be seen on the ground, in the results of IMF programs and advice. "Accountability" as viewed by CSOs includes four dimensions: a) Transparency, b) Evaluation, c) Participation, and d) External Complaint Mechanism.[5]

Transparency: a policy framework should be established and should be appropriate for a public institution, funded by the public (i.e., tax payers' money), and which frequently serves a *de facto* legislative function especially vis-à-vis borrowing members.

- The Disclosure Policy should clearly establish the presumption of disclosure, with narrow and explicit exceptions, and include an appeals process in case documents are delayed,

[1] The IMF includes grass-roots organizations, non-governmental organizations, media, for-profit organizations, and the academy in its definition of "civil society."
[2] This document is not a consensus document. It is written by New Rules, consolidating recommendations that were submitted to www.thefourthpillar.org . It does not incorporate the views of those who want the IMF closed.
[3] See submissions by Barry Herman; Anthony Elson; Daniel Bradlow at http://www.thefourthpillar.org/, and Center of Concern, Rethinking Bretton Woods, 1994, with resulting 5 volumes co-edited by Jo Marie Griesgraber and Bernhard Gunter (Pluto Press: 1994-1996).
[4] CSOs raised serious issues about IMF collaboration with the United Nations' the relationship between IMF policies, especially conditionalities (and their impact) with international legal standards, especially human rights, including labor rights and indigenous rights; as well as reconciling a growth model of development with environmental or climate change crisis. There were also calls for consistent and inclusive treatment of national parliaments, affected peoples, and civil society in general. These discussions can be viewed at the Fourth Pillar website.
[5] See: Report of the High-Level Panel on IMF Board Accountability 2005 at www.new-rules.org, and One World Trust (2005): Pathways to Accountability – the Global Accountability Framework, London One World Trust, http://www.oneworldtrust.org/index.php?option=com_docman&task=doc_download&gid=210&Itemid=55

refused or excessively redacted.[6] The Disclosure Policy should include policy documents prior to going to the Board for discussion as well as Executive Board discussions (transcripts) and decisions with action or vote taken.

- The presumption of public access to documents must apply to archives, with materials available on the internet. The current requirement to come in person to Washington is a burden on the researcher and inhibits pursuit of knowledge.
- The IMF needs to prepare and publish in an easily accessible form its operating policies and procedures so that all stakeholders, including IMF staff, can know how the IMF is expected to conducts its operations and they can hold the IMF accountable for complying with these policies and procedures.[7]

Evaluation should be undertaken, ideally in an inclusive manner, from the "the bottom up" and from "the top down", including by national parliaments.[8] At a minimum, the traditional principal/agent model (presented here) should be implemented.[9] Thus evaluation should be undertaken:

- Of the Executive Board by the Board of Governors (or by the Council, if established);
- Of each Executive Director by the members of his/her constituency;
- Of the Managing Director and Deputy Managing Directors by the Executive Board;
- Evaluation should be regular, usually annual, and presumes a written job description, and clear and objective performance criteria.

Participation should be increased on two levels, those of Shareholders and of Stakeholders:

- *Of Shareholders:* Formally, the IMF Articles of Agreement establish an organization of equal sovereign states, that functions like a co-op, where all contribute and all can borrow, and those contributing more money receive a higher share of the votes. This *de jure* arrangement does not play out in practice. The *de facto* power dynamics are described in both the Woods and Lombardi article[10] as well as in the four regional reports of the "Bringing Balance to IMF Reform Debate" project of New Rules, Centre for International Governance Innovation (CIGI), and the Global Economic Governance Programme at Oxford.[11]

  CSO recommendations to redress the imbalance of power in practice within the IMF are found in the second section on "Voice and Representation."

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[6] See: Global Transparency Initiative on the IMF at http://www.ifitransparency.org/resources.shtml?x=67288; GTI's Model Disclosure for the World Bank at http://www.bicusa.org/en/Article.11212.aspx; also International Aid Transparency at www.aidtransparency.net

[7] See Ombudsman discussion.

[8] See: submission by Barry Herman (http://www.thefourthpillar.org); and his comments on the same site: "The UN should become the forum for forging the coherence of international policy in monetary, financial, trade and development policies and operations." See also Hammer, Michael (2009): The time is now. Parliaments need to assert their role in ensuring the G20 members deliver on the Washington and London programme of work, One World Trust Briefing Paper No 118, London, One World Trust, http://www.oneworldtrust.org/index.php?option=com_docman&task=doc_download&gid=370&Itemid=55

[9] See: http://halifaxinitiative.orr/updir/PolicyBrief-Parl Acct1.pdf)

[10] Woods and Lombardi analyze the divisive dynamics between creditor and borrowers reinforced through the distribution of votes, chair, and informal power in "Uneven patterns of governance: how developing countries are represented in the IMF" at: http://api.ning.com/files/meuHBgMMJWFT5CNpnogWjhbmwvpJt*3zm4-d3GDWEoUyu1SZK9KUX01i96917fay6q-MciNkc0SUrlixoNzRXFYxk5RQu7ra/woodslombardiRIPE.pdf.

[11] http://thefourthpillar.ning.com/forum/topics/new-rules-for-global-finance-1

Of Stakeholders:[12]

- Affected populations constitute the group of stakeholders that does not currently have a channel for communicating with the Board or of holding anyone at the IMF directly accountable, yet they are the most directly affected by IMF policies and action.
- Stakeholders, especially affected people, have a Right to Know in a timely manner and in an accessible format what is proposed that will impact their country and their livelihoods; they should be able to have their voices heard by national and IMF decision makers, and to be responded to in a respectful, informed and timely manner.
- The Executive Board should annually commission public opinion surveys of the IMF in selected countries that have new programs and/or are large recipients of IMF programs and in selected countries that do not have significant IMF programs.
- There is a lack of clarity in and by the Fund regarding CSOs. Formally, or *de jure* the IMF is comprised solely of sovereign state-members, and only consults with finance ministries and/or central banks. However, the world has changed considerably since 1944 in the understanding and practice of democracy. The IMF, as noted above, is a public institution, and therefore the "public" including through civil society organizations has a right to information and to meaningful engagement with the IMF. To date, the IMF has not enshrined its vision and approach for engagement with CSOs in formal policy, and existing guidance of 2003 does not meet the good practice benchmark of providing explanations in case those recommendations are not taken on board.[13]

<u>External Complaint Mechanism:</u>[14]

- Accountability requires that a *complaint mechanism* to receive complaints from external stakeholders be available to remedy the situation as well to contribute to the future design of better programs. A core element of the complaint mechanism would be a new office of an Ombudsman.
    - An ombudsman[15] would be empowered to receive and investigate complaints from external non-state stakeholders alleging that they have been harmed by the IMF's failure to act in compliance with its own policies and procedures or by IMF acting out of compliance with the rule of law in the recipient country;
    - The Ombudsman, who would be independent of Fund management, would be appointed by and report directly to the Board/Council;
    - The Ombudsman would make an independent investigation, report its findings to the Board/ Council, make recommendations arising from its findings, which the Board/Council would decide to accept/ reject and would publish an annual report on its activities and on the lessons it has learned about IMF operations and their impact on people in its member states.
    - For the effective functioning of the external complaint mechanism, at the local level local language anonymous hotlines and other platforms are essential to promote a culture of whistle blowing.[16]

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[12] civil society, non-governmental organizations, media, for-profit organizations, academy

[13] See IMF (2003): Guide for Staff Relations with Civil Society Organizations, 10 October 2003, http://www.imf.org/external/np/cso/eng/2003/101003.htm. This document is not a formally Executive Board endorsed policy.

[14] See Bradlow chapter in book edited by Carin and Woods at: http://api.ning.com/files/wQOuBgAjrtsprFgZNJArmel9Xu0VbYcuKFtuXU7PX*AYBumwz3j6ByORKA6Wfmfnuhnrtt2ya7OmouG7Bz7fQVIrIPyRna-4/IMFOMBUDCARINWOODBOOK.pdf

[15] Language provided by Bradlow, 6 July 2009.

[16] Kulan Amin of Transparency International, commenting at www.thefourthpillar.ning.com.

- Through the use of *ex ante poverty impact assessments*, the IMF can be better positioned to anticipate the likely outcomes or impacts of any recommended policies on the poor and the environment. and modify any previously required/recommended conditions) [17]
- Those people affected by the implementation of any recommended IMF policies have the right to know beforehand, and to have any pain suffered by the poorest minimized and unavoidable costs compensated.

While in comparison to 2006[18] the IMF has made some progress in terms of review and reform processes to strengthen its accountability capabilities in these and other accountability policy areas, overall the IMF continues to display unfulfilled learning and reform potentials in comparison to many other global organizations and good practice benchmarks.

II. Voice and Representation:

In April 2008 the IMF Board of Governors approved very modest reforms to voice and representation on the Executive Board. Evidence that those reforms did not resolve the IMF's legitimacy problem (also referred to as its "democracy deficit") is found in the outcome documents of the Washington and London summits of 20 leading economic powers. The G20 committed themselves to increased reform of the IMF governance, including giving added voice to the poorest countries. Indeed the G20 moved the IMF quota reform timetable forward, calling for completion of the negotiations no later than January 2011. [19]

Any reform of the IMF Voice and Representation must be genuine reform, *promoting principles of increased democratic representation and greater voice to the least developed countries.*

- *Greater democratic representation* can be advanced through steps such as consideration of population, purchasing power parity, and basic votes in the Quota Formula, having all EDs elected,[20] and by rough parity between creditor and borrower members.[21]
- *Greater voice for borrowing countries*, especially the low income countries, can be enhanced through increased use of the Double Majority,[22] fewer special majority votes, and a full-time resident board which gives LIC representatives greater access to management, more powerful members, and to more complete information.

III. Executive Organization and Management:

[17] See: Bernhard Gunter et al. in Theme Issue of *Development Policy Review*, vol. 23, #3, May 2005, "Analysing Macro-Poverty Linkages." New Rules is currently working with the University of Sussex to develop a relatively inexpensive rapid assessment tool for use by the IMF and by in-country teams.
[18] See for more detail One World Trust (2006): The 2006 Global Accountability Report - Holding Power to Account http://www.oneworldtrust.org/index.php?option=com_docman&task=doc_download&gid=203&Itemid=55 and the associated IMF specific accountability profile http://www.oneworldtrust.org/index.php?option=com_docman&task=doc_download&gid=92&Itemid=55
[19] The Manuel Commission on IMF governance reform recommends completion by April 2010.
[20] Proposed by the U.S. Treasury in 2008.
[21] See: R. Bryant, "Reform of IMF Quota Shares and Voting Shares: A Missed Opportunity," April, 2008 at www.Brookings.edu .
[22] Peter Chowla , Jeffrey Oatham and Claire Wren (2007): Bridging the democratic deficit: Double majority decision making and the IMF, One World Trust—Bretton Woods Project Briefing,at http://www.brettonwoodsproject.org/doc/wbimfgov/DoubleMajority_IMF.pdf and http://www.oneworldtrust.org/index.php?option=com_docman&task=doc_download&gid=116&Itemid=55

The IMF's Executive Organization and Management is a crucial element in the global perception of the IMF's governance. Civil Society recommendations concerning changes in IMF internal governance arrangements include:

Regarding the Executive Board:

- Many CSOs recognize the merits of a constituency arrangement, provided it is reconfigured.[23]
- Executive Directors from multi-country constituencies should report regularly to each national parliament within their constituency—a practice some EDs already carry out. Additional ways to hold EDs accountable to their constituencies should be explored and implemented.
- Industrialized countries, especially from Europe, are over-represented.
- CSOs believe of more importance than the number of Executive Directors is first, the ability of each ED to effectively represent his/her constituency, and second, the distribution of votes among the EDs.

Regarding the Council relatively little has surfaced about CSO preferences. There is support to the extent the Council would engage senior political officials, and because Councilors could divide their votes to reflect different opinions among the members of the constituency. This would be a welcome addition to the Executive Directors voting abilities as well.

Regarding the Managing Director civil society respondents:

- Unanimously support selection of the MD based solely on merit, without regard to nationality;
- Expect the election is done solely by the Executive Board (or Council, if established) without pre-selection by any sub-group of powerful countries; and
- Expect the pre-circulation of a clear job description.

The separation of Management and Board/IMFC/Council**:**

- The MD should no longer Chair the Executive Board, rather the Dean of the Board, or another ED elected by the EDs from among their members should serve as the Chair of the Board;[24]
- Only EDs should chair Board Committees, especially the Budget and Personnel Committees;
- The Secretary of the Board should be hired by the Executive Board, and work for the Executive Board;[25]
- The Executive Board should have its own legal counsel, separate from the counsel that works for the MD.[26]

Continuing process of review and management reform, short and long term, to assure needed adjustments to IMF performance of its roles and responsibilities in the rapidly changing dynamics of achieving global financial stability and development.

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[23] See Woods and Lombardi, "Uneven patterns of governance: how developing countries are represented in the IMF" At http://api.ning.com/files/meuHBgMMJWFT5CNpnogWjhbmwvpJt*3zm4-d3GDWEoUyu1SZK9KUX01i96917fay6q-MciNkc0SUrlixoNzRXFYxk5RQu7ra/woodslombardiRIPE.pdf.

[24] An anonymous comment about the need to strengthen the Board vis-à-vis the Managing Director recommended keeping Board and MD together: "(O)ne has to realize that the top management is practically selected by the G 7/8 and accountable to it. For this reason the Managing Director can and eventually does treat the Board as the fifth wheel of the car. He usually asks one of his deputies to chair the Board. That is why the managing Director should be asked to reduce his travel schedule and to spend more time with the Executive Directors."

[25] This recommendation is consistent with the Manuel Commission.

[26] This recommendation is consistent with the Manuel Commission.