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## Working Well with Others? The IMF as Team Player

**T**he IMF is an independent agency, but it does not function in a vacuum. As the IMF involved itself more deeply and broadly with countries' structural policies in the 1990s, the issue of political accountability became more pronounced.

The management of the IMF is formally accountable to member countries through its Executive Board and Board of Governors. These bodies are typically delegated oversight through the countries' ministries of finance and central banks. That left four potential gaps in the 1990s. First, the ability of Executive Directors or Governors to influence IMF management was limited by the complexity of reaching consensus within those two Boards. Second, national parliaments or other legislative bodies had only an indirect role through whatever influence they had over the administration of the government. Third, even within each national government, the influence of ministries other than finance—including those with responsibilities for social expenditure or foreign affairs—was indirect and limited. Fourth, other supranational bodies, including the United Nations (UN), had little role in the IMF other than through the power to persuade Fund management or, perhaps, world opinion.

Compounding these limitations was the absence of an effective multilateral political organization to oversee the spectrum of agencies concerned with various aspects of international policy. The UN Security Council played that role on security issues, but no similar body existed for economic and social issues. The Economic and Social Council of the UN (ECOSOC) was created for this purpose in 1946, but with limited powers. Work by multilateral agencies—including the IMF—on economic development, international trade and finance, and the economic and social effects of issues such as population growth, depletion of natural resources, and climate change was conducted in a “silo” pattern by a host of separate agencies. These circumstances enabled the IMF to react quickly in response to financial crises, but made it more difficult to develop comprehensive solutions to underlying problems.

In August 1993, Jacques Delors (president of the European Commission) proposed the creation of an Economic Security Council, analogous to the UN Security Council. This new council would have replaced or supplemented ECOSOC to coordinate and oversee the work of the IMF, the World Bank, the International Labor Organization (ILO), the General Agreement on Tariffs and Trade (GATT), and other multilateral

agencies with economic responsibilities. In Delors's view, such a council would be able to integrate and reconcile countries' economic and social objectives, which would otherwise continue to be a source of conflict.<sup>1</sup> Delors pressed for the plan for at least two years, but it did not gain traction within the groups of major industrial and creditor countries or within these agencies, and it gradually slipped from view.<sup>2</sup> However, an ever-increasing need for mutual cooperation, consultation, and collaboration remained. This chapter reviews the way in which those processes played out in the course of the decade.

## No Agency Is an Island

The IMF interacted regularly with a broad range of multilateral institutions. Its most direct and frequent interactions were with its "sister" organization, the World Bank Group. Although the Fund and the Bank had a common parentage, they did not always find it easy to work together effectively.

## The Bretton Woods Twins

The original idea, as conceived at Bretton Woods, was quite simple. The World Bank ("Miss Bank," in John Maynard Keynes's felicitous phrase) would make long-term loans, mostly for large public sector projects, initially for postwar reconstruction and later for economic development. Her twin brother ("Master Fund") would lend money for short periods to help countries stabilize their finances.<sup>3</sup> The two activities were to be quite distinct, and there would be no need for the two to collaborate or even consult each other on a regular basis. Over time, as the IMF began lending for longer periods and advising countries on structural as well as macroeconomic policies, and as the World Bank began lending for general development—"structural adjustment" and poverty reduction—more than for specific projects, each inevitably began encroaching on the other's traditional territory. Cooperation and collaboration became essential, but cultural identities and institutional

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<sup>1</sup>See "Créer un Conseil de Sécurité Économique," interview with Jacques Delors, *Ouest-France* (August 28, 1993). Delors formally launched the proposal at a speech in Lorient, France, the following day. Also see "EC Chief Proposes Economic Security Council," Reuters News (August 28, 1993).

<sup>2</sup>IMF Managing Director Michel Camdessus opposed the idea on the grounds that it would undermine the authority of the Fund's Executive Board; see his report at EBM/96/12 (February 12, 1996), p. 3.

<sup>3</sup>Keynes christened the IMF and the World Bank as "twins" in a speech at the inaugural meeting of Governors, in Savannah, Georgia (United States), in March 1946. The speech was reproduced in full in Harrod (1951), pp. 631–32.

jealousies made an effective relationship difficult to achieve (see Boughton, 2001, pp. 995–1005; and Malan, 2007, Section 2).

By 1990, the two institutions, which faced each other across 19th Street in north-west Washington, DC, had agreed in very broad, general terms how to divide responsibilities between them. The 1989 “Concordat” assigned responsibility to the IMF for all purely macroeconomic issues and to the World Bank for most structural issues.<sup>4</sup> That left a lot of ambiguity as fodder for turf disputes. The Bank still regarded any issue that affected a country’s development prospects as its legitimate concern, even if it was a purely macroeconomic matter such as exchange rate policy or a financial issue such as the strength and oversight of banks and other financial institutions. The IMF still regarded any issue that affected a country’s financial stability as its legitimate concern, even if it was a purely structural matter about which it had relatively little expertise, such as privatization policy. Maintaining an overvalued exchange rate could damage a country’s competitiveness in international markets and thus weaken the government’s ability to carry out a development program supported by the Bank. Failure to privatize inefficient, corrupt, or heavily subsidized state-owned enterprises could damage a country’s financial stability and thus weaken the government’s ability to carry out an economic reform program supported by the IMF. Such overlaps gave rise to legitimate issues and made a strict delineation of responsibilities impractical and impossible to define properly.

The overlap in responsibilities increased substantially in the 1980s and even more so in the 1990s. The chief causes in the 1980s were the 1980 decision by the World Bank to begin making Structural Adjustment Loans, the onset of the international debt crisis in 1982, and the establishment of the Structural Adjustment Facility (SAF) and the Enhanced SAF (ESAF) in the Fund in 1985 and 1987, respectively. In the 1990s, further increases in overlap were engendered by the involvement of both institutions in the transition economies of the countries of the former Soviet Union and other formerly socialist states; by the persistence of payments arrears to both institutions by several countries; by the establishment of the Heavily Indebted Poor Countries (HIPC) Initiative as a joint venture in 1986; and by the intensification of the Fund’s interest in structural issues in both its surveillance activities and its conditional lending.

In April 1992, the Managing Director of the Fund (Michel Camdessus) and the President of the World Bank (Lewis T. Preston) issued an addendum to the Concordat spelling out the way their institutions were supposed to work together in assisting the states of the former Soviet Union. The addendum committed the staffs to cooperate at all stages of work, from the assessment of countries’ needs and the prioritization of reforms, to the development and negotiation of programs, coordination with other

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<sup>4</sup>For the full text of the Concordat, see Boughton (2001), pp. 1056–62.

institutions whenever needed, and the assessment and mobilization of overall financial assistance.<sup>5</sup>

The addendum to the Concordat outlined an ambitious agenda. If successful, it would usher in a new era of cooperation far beyond the standard practice up to that point. In particular, the addendum envisaged the preparation of “comprehensive tripartite documents,” which would set out a medium-term economic strategy for each country. These documents were to be prepared jointly by the staffs of the Fund and the Bank and the national authorities. Management saw this process as essential for proper coordination—not only of the two Bretton Woods institutions, but also the European Bank for Reconstruction and Development (EBRD) and donor countries—for assisting countries that were going to need to put major structural changes in place while trying to maintain some measure of financial stability.

The precedent for tripartite documents was the preparation of Policy Framework Papers (PFPs) for countries applying for loans on concessional terms from the special funds administered by the IMF and the World Bank. Since the time the PFP process had been set up in 1986, some Executive Directors from middle-income developing countries had feared that the Bank and the Fund might try to extend the process and subject them to the same requirements. When Alexandre Kafka (Brazil) saw the proposed addendum, he objected and called for a discussion of it by the Executive Board. He got a little support on the substantive issue, but most Directors agreed with Camdessus that a system of formal coordination was necessary in these circumstances. Jack Boorman (Director, Policy Development and Review Department) assured the Board that the new process would be applied flexibly, and the Board agreed to go along with it.<sup>6</sup>

The addendum seems to have served to spur cooperation, but the envisaged practice of jointly producing formal documents similar to PFPs did not materialize.<sup>7</sup> The informality of Bank-Fund collaboration had the advantage of not impeding either institution’s assistance to transition countries, but problems slipped through the cracks occasionally. Perhaps the most serious example arose in 1995, when the Russian Federation inaugurated a privatization program eventually known as “loans for shares.” As explained in Chapter 7, this scheme allowed a few well-connected Russians to buy large state-owned enterprises at auction, at prices well below true market value.

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<sup>5</sup>“Bank/Fund Collaboration on the States of the Former Soviet Union,” EBD/92/97 (April 29, 1992).

<sup>6</sup>Minutes of EBM/92/67 (May 27, 1992), pp. 18–35. Support for Kafka’s objection came from Godert A. Posthumus (Netherlands), who was concerned about a blurring of institutional responsibilities (p. 26), and from Renato Filosa (Italy), who was concerned about adding a time-consuming layer of bureaucracy to the Fund’s work practices (p. 28).

<sup>7</sup>When an Executive Director asked John Odling-Smee (Director, European II Department) whether the staff would prepare a tripartite document for Russia, he replied that “there did not appear to be an immediate need to formalize arrangements in a document. The staff would certainly continue to work closely with the World Bank on structural issues and on the program in general.” Minutes of EBM/92/102 (August 5, 1992), p. 33. That turned out to be the general approach.

Although the Fund was negotiating terms for a stand-by arrangement at the time, no one on the staff questioned the propriety or wisdom of the scheme, apparently because they believed that the World Bank staff would spot any problems. The scheme gave rise to a powerful class of extremely wealthy individuals popularly known as oligarchs, with disastrous economic, political, and social consequences. Whether the Bretton Woods institutions could have done anything to stop it is doubtful, but the failure to raise an alarm was a clear institutional fault.

The Fund and the Bank continued to refine their collaboration procedures throughout the 1990s. As an early example, the approval of Rights Accumulation Programs (RAPs) in 1990 for countries with payments arrears to the Fund (see Chapter 16) required close collaboration for clearing arrears. Even if a country was current in its obligations to the World Bank, the Bank's help was needed to arrange for donor financing at the completion of the program. The 1991 RAP for Zambia raised an additional issue. The Bank was prepared to lend to Zambia through its Special Program of Assistance for Africa, but that would require Zambia to repay the Bank first and the Fund only later. On an ad hoc basis, the two institutions agreed on procedures for the sequential clearance of arrears and for an overall plan to provide ongoing financial assistance afterward.<sup>8</sup> A year later, in parallel with the RAP for Peru, the Bank developed a "workout" arrangement that enabled it to prepare a lending program once Peru cleared its arrears to both institutions.

In 1995, the staffs jointly developed new procedures for cooperating on public expenditure issues, including annual reviews of general policy advice and meetings between country teams to develop common agendas, priorities, and work programs.<sup>9</sup> The next year, the Group of Ten (G10) commissioned Mario Draghi (director general of the Italian Treasury and chairman of the G10 finance deputies) to prepare a report on financial stability in emerging economies. An outcome of that report, which was endorsed at the Group of Eight (G8) summit meeting in Denver, Colorado (United States), in June 1997, was a request for the Bank and the Fund to improve their cooperation in their efforts to strengthen financial systems in emerging markets. This was an area in which both the Bank and the Fund had interests and responsibilities, but the staffs had not yet developed uniform procedures to ensure that their work was comprehensive but not duplicative.

In August 1997, just as the Asian financial crisis was unfolding, the staffs circulated a joint paper responding to the Draghi report. Although written in broad and general terms, it promised close collaboration in all relevant areas, from the general evaluation of member countries' financial systems to advice on restructuring and to the handling of crisis situations. On the whole, the Executive Board was not convinced that these promises would suffice to produce adequate cooperation in what was becoming a

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<sup>8</sup>For an overview, see "Six-Monthly Report on Overdue Financial Obligations to the Fund—Progress under the Strengthened Cooperative Strategy," EBS/91/41 (March 12, 1991), pp. 8–16.

<sup>9</sup>"Bank-Fund Collaboration on Public Expenditure Work," EBD/95/123 (September 7, 1995).

crucial field, especially for the Fund. The Board called for further work, and in September 1998 the staffs produced a more detailed set of proposals. That report set out specific procedures and established a Bank-Fund Financial Sector Liaison Committee to oversee the process.<sup>10</sup> As discussed in Chapter 4, the work of the committee soon led to the joint Financial Sector Assessment Program, which became a major ongoing Bank-Fund program in the following decade.

Also in 1997–98, the Fund commissioned an internal review and then an external review of ESAF operations. Both reviews called for better coordination with the World Bank Group’s International Development Association. The two institutions were lending to the same low-income countries—the Fund in support of macroeconomic stabilization, the Bank in support of development programs—both with the overall goal of promoting sustainable economic growth. Coordination was hampered not only by a lack of formal guidance and procedures, but also by suspicion and antagonism on the part of staff on both sides of 19th Street. To untangle this knot, the staffs proposed a pilot program. For a few select countries, they would try to work together and with the national authorities to develop comprehensive strategies aimed at accelerating reforms, particularly for public expenditure and financial sectors; limit any adverse social effects of reforms; and attract additional credits, including from international private sector investors, to help finance longer-term productive investment.<sup>11</sup>

Finally, in time for the IMF/World Bank Annual Meetings in September 1998, Camdessus and World Bank President James D. Wolfensohn issued a comprehensive report on collaboration that reaffirmed and updated the Concordat.<sup>12</sup> It summarized and synthesized the procedural changes put in place since 1989 and formalized the institutional arrangements for ensuring effective collaboration. By then, as the document explained, Camdessus and Wolfensohn were meeting on a set schedule to discuss any issues that had to be resolved at the highest level. Similarly, the Fund’s Deputy Managing Directors and their Bank counterparts (known as Managing Directors) were meeting regularly. At the operational level, Boorman and Masood Ahmed (Vice President of the World Bank and head of its Poverty Reduction and Economic Management Network) had responsibility for guiding the collaboration process.

Judging how well collaboration worked in the 1990s is a matter of perspective. Camdessus’s and Wolfensohn’s working relationship appeared to be cordial and productive, but Wolfensohn reportedly spoke disdainfully about Camdessus within the Bank and even talked about preparing for “war” with the IMF (Mallaby, 2004,

<sup>10</sup>The first paper was “Bank-Fund Collaboration in Strengthening Financial Sectors,” SM/97/200 (August 1, 1997). It was discussed at EBM/97/85 (August 22, 1997). The follow-up paper was “Review of Bank-Fund Collaboration in Strengthening Financial Sectors,” SM/98/224 (September 2, 1998).

<sup>11</sup>See “Distilling the Lessons from the ESAF Reviews” (July 1998), accessed at <http://www.imf.org/external/pubs/ft/distill/index.HTM>. For more on the ESAF reviews, see “From the ESAF to the Poverty Reduction and Growth Facility, 1999” in Chapter 13, p. 643.

<sup>12</sup>This report may be accessed at <http://www.imf.org/external/pubs/ft/history/2011/index.htm>.

pp. 209–10). Some IMF mission chiefs had effective working relationships with the corresponding country directors in the Bank, while others found the Bank staff to be slow to respond or indifferent to the Fund's needs. Correspondingly, some Bank staff found their Fund counterparts to be dogmatic and quick to draw conclusions. The glass was half full, but the shortfall was a continuing source of concern.<sup>13</sup>

## Other Multilateral Agencies

In addition to its interactions with the World Bank, the IMF had regular but generally less frequent contacts with a wide range of other multilateral agencies. This group included organizations concerned with general macroeconomic and structural issues such as the Organization for Economic Cooperation and Development (OECD), where IMF staff regularly attended meetings of the Economic Policy Committee and its working parties; and various regional groups such as the European Union and the Association of South-East Asian Nations. It included institutions concerned primarily with finance, such as the Bank for International Settlements (BIS), where the Fund's Managing Director often attended meetings of the governing board, and the two staffs occasionally interacted on projects; and the Paris Club of official bilateral creditors, which depended heavily on the Fund for certification of sound policies in countries applying for debt relief. In the context of concessional lending and the clearance of arrears, the group included collections of donor countries, both in the formal sense of the aid agencies of groups such as the European Union and in the more ad hoc formulation of donor groupings for specific low-income countries. It included agencies concerned primarily with trade, in particular the GATT and its successor, the World Trade Organization (WTO). It included the UN General Assembly and several UN agencies such as the UN Development Program (UNDP), the International Labor Organization, and the UN Children's Fund (UNICEF), where staff collaborated from time to time.<sup>14</sup>

In the 1990s, the IMF's relations evolved in important ways vis-à-vis the UN. In addition, three new institutions—the European Bank for Reconstruction and Development, the World Trade Organization, and the Financial Stability Forum—required close cooperation from the Fund.

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<sup>13</sup>In 2007, the Fund and the Bank commissioned an external review panel, chaired by Pedro Malan (former finance minister of Brazil), to recommend additional measures to improve collaboration; see Malan (2007).

<sup>14</sup>Relations with most of these agencies during the 1980s were covered in Boughton (2001), pp. 1005–17.

### **United Nations**

As a “specialized agency” of the United Nations, the IMF operates under an agreement with the UN that grants it autonomy in all of its decisions. Although the UN General Assembly has no authority over the IMF, the Fund has a responsibility to consult and interact with the UN and its other relevant agencies on matters of mutual interest. That liaison became more frequent and detailed in the 1980s and still more so in the 1990s. Throughout this period, the Managing Director participated in meetings of the UN’s Administrative Council on Coordination and in ECOSOC, both of which met regularly at the agency head level. On two occasions in 1999, the Fund’s Executive Directors met as a group with the ECOSOC ambassadors. The Fund maintained liaison offices at UN headquarters in New York and in Geneva, where the GATT and a number of UN agencies were located. Fund staff, both from those offices and from headquarters, participated in agency deliberations. Under the terms of a 1989 agreement, the Fund conducted UNDP-financed training and technical assistance projects for member countries.<sup>15</sup> Also at the country level, the Fund’s Resident Representatives generally maintained working relationships with the UN’s local staff.<sup>16</sup>

As the IMF accepted a more extensive role in advising countries on structural policies, it relied increasingly on the UN to establish goals and standards on many issues. Camdessus participated in a series of high-level UN-sponsored international conferences in the 1990s that bore on topics that were becoming more important to the IMF. Three conferences were particularly consequential:

- The UN Conference on Environment and Development, held in Rio de Janeiro, Brazil, in June 1992, provided a framework for the IMF’s new focus on environmental sustainability in its policy advice.<sup>17</sup>
- The International Conference on Population and Development, held in Cairo, Egypt, in September 1994, resulted in a Program of Action, which the Fund supported through its efforts to persuade countries to cut back on unproductive spending and increase spending on social programs.<sup>18</sup>
- In March 2005, the UN-sponsored World Summit for Social Development in Copenhagen, Denmark, reinforced the impetus for the Fund to help

<sup>15</sup>See “Technical Cooperation Agreement between the IMF and the UNDP,” PR/89/33 (July 17, 1989). For the text of the Executing Agency Agreement, see [http://untreaty.un.org/unts/60001\\_120000/25/13/00048628.pdf](http://untreaty.un.org/unts/60001_120000/25/13/00048628.pdf).

<sup>16</sup>An overview of the Fund’s relations with the UN in the 1990s was set out in “IMF-UN Collaboration,” SM/97/114 (May 7, 1997).

<sup>17</sup>“United Nations Conference on Environment and Development,” SM/92/147 (July 31, 1992); and “Outcome of the United Nations Conference on Environment and Development,” DC/92/18 (September 1, 1992). Camdessus addressed the plenary session of the summit conference, and two IMF staff attended. On the Fund’s focus on environmental issues, see Chapter 4.

<sup>18</sup>Camdessus’s speech to the Cairo conference (MD/Sp/94/11, September 7, 1994) stressed the importance of “high-quality growth” as an overarching objective of the Fund’s policy advice.



countries redirect spending toward social programs. It also spurred the Fund to strengthen its liaison with the ILO in Geneva.<sup>19</sup>

In addition, staff participated in the Fourth World Conference on Women in Beijing (September 1995). That meeting produced a detailed declaration that included several goals that further informed the Fund's work on social issues. More directly, it persuaded Camdessus to initiate a program to promote greater diversity on the staff, directed by a newly appointed Special Advisor on Diversity. That program led to substantial increases in the proportion of women in senior managerial posts at the Fund.<sup>20</sup>

One practical field in which the IMF played an important role in the work of the UN was in international statistics. Notably, Fund staff participated actively in the preparation of the 1993 revision of the System of National Accounts, which serves as the main conceptual framework for the consistent preparation and presentation of macroeconomic data across countries. The 1993 System of National Accounts was developed and published jointly by the UN, the IMF, the World Bank, the OECD, and the European Commission.

### **Regional Development Banks**

At the beginning of the 1990s, three regional development banks provided specialized lending, technical assistance, and training to their respective member countries: the African Development Bank, based in Abidjan, Côte d'Ivoire; the Asian Development Bank (AsDB), with headquarters in Manila, the Philippines; and the Washington-based Inter-American Development Bank. In general, the IMF's interactions with these institutions were similar to those with the World Bank, though less formalized and less frequent. Whenever the Fund was lending to a country that was also borrowing from one of the regional banks, the staffs would coordinate their efforts, but on a case-by-case basis as circumstances warranted.

The dismantling of the Berlin Wall in November 1989 inspired President François Mitterrand of France to call for the establishment of a new regional bank to help finance the restructuring of Central and Eastern European countries into market economies. An international agreement established the EBRD the following year, and it began operating in 1991 with headquarters in London.

Collaboration between the IMF and the EBRD began immediately. EBRD staff participated in the preparation of the initial study of the Soviet economy, which was led by the IMF and published by the World Bank in 1991. (The Paris-based OECD also

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<sup>19</sup>See Camdessus's speech to the Copenhagen conference, MD/Sp/95/4 (March 7, 1995). The staff also prepared and circulated a background paper for the conference, "Social Dimensions of the IMF's Policy Dialogue," SM/95/13 (January 19, 1995). In October 1995, the Interim Committee spelled out specific avenues for cooperation between the Fund and the ILO; communiqué (October 8, 1995), paragraph 12; *Annual Report 1996*, p. 203.

<sup>20</sup>For a review, see speech by Margaret R. Kelly (Director, Human Resources Department) to a special session of the UN General Assembly (June 5, 2000); accessed at <http://www.imf.org/external/np/speeches/2000/060500a.htm>.

participated.) In 1992, the EBRD and the IMF joined forces with the BIS, the OECD, the World Bank, and the government of Austria to found the Joint Vienna Institute as a training center for officials from transition countries. In the field, the Fund and the EBRD coordinated their technical assistance operations, with each concentrating on its own area of expertise. Throughout the 1990s, the EBRD focused primarily on countries' restructuring needs, while the Fund had primary responsibility for macroeconomic policy advice.

### **World Trade Organization**

The WTO came into being in January 1995 as a replacement for the GATT. The IMF had a well-established formal relationship with the GATT, under which the GATT had oversight of member countries' trade restrictions and the Fund had oversight of currency exchange restrictions related to international trade. (A gap existed in that system, in that the membership of the GATT was much smaller than that of the Fund.) The two institutions shared information routinely and served as observers in certain meetings of the other's principal bodies. The Fund supported the various rounds of GATT negotiations to reduce tariffs and other trade barriers, both publicly and by helping countries adopt policies conducive and appropriate to open trade regimes. Fund staff participated actively in the GATT Committee on Balance of Payments Restrictions.

The creation of the WTO did not fundamentally alter these working relationships, except that the WTO had a permanent Geneva-based secretariat with which the IMF could interact more extensively. The Fund immediately signaled its readiness to intensify working relationships accordingly.<sup>21</sup> In December 1996, the WTO held its first ministerial conference, in Singapore. Camdessus represented the IMF, gave an upbeat speech about the complementarity of the WTO and the Fund, and signed a formal agreement of cooperation that defined the future working relationship.<sup>22</sup>

Relations proceeded smoothly, although the Fund got entangled in the web of anti-globalization protests that were aimed principally at the WTO in the late 1990s. Those protests culminated in the disruption of the WTO ministerial meeting in Seattle, Washington (United States), at the end of November 1999. When the street protests grew violent, many delegates were unable to get to the meetings, which were then seriously delayed. Both Camdessus and Stanley Fischer (First Deputy Managing Director) attended the Seattle meetings. Camdessus—when he was finally able to deliver his address—made the case for open trade as essential for the reduction of global poverty: exactly the opposite of what many of the protesters seemed to believe.<sup>23</sup>

<sup>21</sup>See minutes of EBM/95/1 (January 6, 1995), especially the Chairman's concluding remarks, pp. 56–59; and "Fund/WTO Collaboration—Next Steps," EB/CGATT/95/1 (March 9, 1995).

<sup>22</sup>This agreement may be accessed at <http://www.imf.org/external/pubs/ft/history/2011/index.htm>.

<sup>23</sup>See "A New Round of Trade Negotiations: An IMF Perspective," remarks by Camdessus to the Third Ministerial Conference of the WTO in Seattle, MD/Sp/99/26 (November 30, 1999).

For the time being, the message was swallowed up by coverage of the demonstrators outside. Several years would elapse before trade liberalization would fully regain its momentum. In the meantime, antitrade demonstrators continued to try to disrupt the semiannual ministerial meetings of IMF and World Bank Governors held in Washington and abroad.

Fischer participated in a closed meeting in Seattle hosted by U.S. President Bill Clinton, who was trying to develop a strategy for integrating environmental and labor standards with the WTO's trade agenda. The IMF, the WTO, the World Bank, and several other multilateral organizations were implementing an "integrated framework" for providing trade-related technical assistance to low-income countries. The idea was to help the least-developed countries use international trade productively as part of their overall strategies to reduce poverty and achieve strong and sustainable growth. The Seattle meeting kicked off a general interagency review of the framework, which up to that point had fallen short of its objectives.<sup>24</sup>

### **Financial Stability Forum**

In the late summer and fall of 1998, the world economy was being rocked by a financial crisis that nearly brought down the Russian banking system and the too-large-to-fail hedge fund Long-Term Capital Management (LTCM), and that was threatening Brazil and other emerging markets. In response, the Group of Seven (G7) finance ministers and central bank governors asked Hans Tietmeyer (president of Deutsche Bundesbank) to prepare a report and recommend ways to enhance cooperation among national supervisory and regulatory agencies with oversight of financial institutions. Tietmeyer's report, issued in February 1999, noted that much work was already being done in various institutions, including the IMF. It rejected the notion that "sweeping changes" were needed. Instead, it recommended establishing a Financial Stability Forum (FSF) to bring together and coordinate existing efforts and thereby avoid both wasteful duplication of effort and the risk of gaps in coverage (Tietmeyer, 1999).

The G7 ministers and governors endorsed the Tietmeyer report at a meeting in Bonn, Germany, on February 20.<sup>25</sup> At the time, it appeared that relations between the FSF and the IMF were likely to be rocky. From the IMF's perspective, locating the new group in Basel, Switzerland, posed a potential threat to the legitimacy of the Fund's own growing responsibilities in oversight of financial sectors, and the FSF's limited membership could not be expected to provide global coverage. For their part,

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<sup>24</sup>The Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries was launched in October 1997 by the IMF, the UNDP, the UN Conference on Trade and Development (UNCTAD), the World Bank, the WTO, and the International Trade Centre. For Fischer's report on the Seattle meetings, see minutes of EBM/99/129 (December 3, 1999), pp. 3–4.

<sup>25</sup>"Communiqué of the G-7 Finance Ministers and Central Bank Governors," FO/DIS/99/24 (February 22, 1999); accessed at <http://www.g7.utoronto.ca/finance/fm022099.htm>.

the financial regulators setting up the FSF saw the Fund as an inappropriate institution for carrying out this task. The challenge was to find a way to delineate responsibilities so that each agency could contribute effectively in its own sphere.

Camdessus participated in the Bonn meeting, expressed his support for the establishment of the FSF, and agreed that the Fund would participate in the work of the new group. The G7 founded the FSF as a small organization with a secretariat based at the BIS in Basel and staffed by people consigned by the BIS, the IMF, the World Bank, France, and Singapore.<sup>26</sup> Andrew Crockett (general manager of the BIS) was named to chair the FSF for a three-year term. The forum itself was to meet roughly twice a year, normally in conjunction with the spring and fall meetings of the Interim Committee, beginning with a meeting at IMF headquarters in Washington on April 14, 1999. In September, the Interim Committee granted the FSF observer status and invited Crockett (who was already an observer in his capacity as head of the BIS) to report on the progress of the forum's work. By that time, membership in the forum had already expanded beyond the G7 to include Australia, Hong Kong SAR, the Netherlands, and Singapore.

For the first stage of its work, the FSF established three working groups to develop recommendations relating to "highly leveraged institutions" (hedge funds and the like), international capital flows, and offshore financial centers. IMF staff participated in each of these committees, which began work during 1999 and issued reports the following April.<sup>27</sup> By then, a generally smooth working relationship had been established.

#### **Other Stakeholders**

In addition to the institutions with which it had formal relationships, the IMF engaged from time to time with other stakeholders in the world economy. Many of those stakeholders were critical of the Fund's focus on financial stability, which seemed to conflict with the imperative to raise spending on health, education, and other basic human needs. More specifically, many people perceived the Fund to be focused excessively on imposing "austerity" on unfortunate countries, either through its conventional macroeconomic adjustment programs or through "shock therapy" in transition countries. The dominance of large creditor countries in the governance of the IMF reinforced the view that the Fund favored their interests over those of smaller and poorer countries.

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<sup>26</sup>In a related development in 1999, IMF staff participated in the work of the BIS Basel Committee on Banking Supervision; see "Staff Participation in Architecture Meetings," SEC/CIRC/99/72 (June 29, 1999).

<sup>27</sup>For more on the initial work of the FSF and the role of IMF staff, see "Financial Stability Forum—An Update of Activities—April-October 1999," SM/99/277 (November 19, 1999).

Engaging with one's critics is never easy. Part of the Fund's agenda in reacting to criticism was outreach, to try to clarify its views on the nature of the relationship between financial stability and economic development. For that purpose, Fund officials met occasionally with parliamentary and other legislative bodies, though usually informally to avoid conflict with the normal channels of communication that ran through a country's monetary authorities. Beginning in 1995, the Fund conducted a regular series of training seminars, mostly through the Joint Vienna Institute, for legislators from transition countries. A second part of the Fund's engagement agenda was to draw on the assistance and expertise of civil society, religious leaders, and academia to refine the Fund's policies, policy advice, and loan conditions to take better account of each country's social needs. The project to turn the Fund into a "listener" did not sit comfortably with the traditional culture of the institution, but it was taken seriously in the 1990s and was promoted by the Fund's management team.

### ***Nongovernmental Organizations***

Until the late 1990s, staff interaction with nongovernmental organizations (NGOs) was intermittent and often testy on both sides. Neither the Fund nor most NGOs saw the other as a natural ally, and the Fund's culture and traditions of secrecy and independence only increased the width of the gap.<sup>28</sup> As the Fund began opening up, publishing more of its papers and information on its website and in hard copy, and expanding its outreach programs, relations began to improve.

A notable example of interaction with NGOs came in 1999, when the IMF and the World Bank undertook to enhance the HIPC Initiative. This debt-relief program for low-income countries was being heavily criticized as offering too little relief too slowly to too few countries. The institutions were committed to improving it but were reluctant to weaken the strict qualification requirements. How could they deliver greater relief more quickly, while still ensuring that the relief would not be wasted by countries with inadequate policy reforms?

As part of the preparation for a review of the initiative, the staff solicited inputs from the public through a posting on the IMF website and by holding a series of public seminars in both developing and advanced countries. Within a few months, more than 40 NGOs, several multilateral agencies, and a number of individuals had submitted

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<sup>28</sup>Aside from outreach activities by staff, most of which were organized by the External Relations Department, Camdessus made a point of addressing the broad ethical and social context of the Fund's work in speeches to NGOs. In 1994, for example, he addressed a Washington meeting of church leaders on "an integrated approach to development: ethics, the economy, and the social issue," MD/SP/94/1 (January 13, 1994). In Dublin that summer, he addressed the Irish Debt and Development Coalition (a group of 70 NGOs working to persuade creditors to forgive debts of low-income countries) on "economic progress in the developing countries and the role of the IMF," MD/SP/94/7 (June 10, 1994). He glumly reported that the audience in Dublin seemed "skeptical . . . driven more by ideology and a bureaucratic approach . . . than by a desire to listen to the Fund's point of view"; minutes of EBM/94/54 (June 17, 1994), p. 3.

comments and proposals, which the staff then circulated in full to the Fund's Executive Directors. Organizations submitting material included advocacy NGOs such as Bread for the World, Friends of the Earth, Jubilee 2000, the Mozambican Debt Group, and Oxfam International; religious groups such as the All African Council of Churches, Catholic Relief Services, Christian Aid, and the Vatican; multilateral institutions; and academics and other involved individuals. To promote the digestion of these submissions, the staff summarized the key points in a separate paper.<sup>29</sup>

By presenting the NGO proposals to the Executive Board in a framework that stressed what could be achieved and how the proposals might improve the HIPC Initiative, the staff allied itself with at least some of the civil society concerns about the limitations of the original initiative. At the same time, some of the advocacy groups lobbied the U.S. Congress and other national legislative bodies in favor of increasing budget support for the initiative. After some discussion, the Fund and the World Bank approved a number of changes to accelerate the relief schedule and sharply increase the size of the program and thus the depth of debt relief that it could provide (on which, see Chapter 13). The outreach program and the implicit alliance with NGOs were judged to be a success. When the Fund undertook to revise its conditionality guidelines in 2001, it again drew heavily on interaction with external stakeholders to develop specific proposals.

### **Academia**

Throughout the 1990s, the most troubling criticism of the IMF came from highly respected academic economists rather than from individuals or groups pursuing political interests. In most cases, disputes arose over specific issues about which legitimate opinions could differ. The most prominent examples related to the Fund's handling of the East Asian financial crises in 1997–98. As output losses piled up in Thailand, Indonesia, and the Republic of Korea, many economists questioned whether the Fund had reacted appropriately or had just jerked its institutional knee and demanded austerity as it allegedly had in every previous crisis. Even if the tone of the debate was occasionally less than genteel and the censure too often overstated (as discussed in Chapters 11 and 12), the Fund had to—and did—take the academic criticism to heart and refine its models and its policy advice accordingly.

As a general practice, the IMF frequently reached out to academic economists for both technical and policy advice. As Director of Research from 1986 to 1991, Jacob A. Frenkel—a highly regarded academic economist in his own right—recruited an impressive group of university professors, including Joshua Aizenman, Guillermo Calvo, W. Max Corden, and Assaf Razin, to spend a few months or years at the Fund

<sup>29</sup>“HIPC Initiative—Perspectives on the Current Framework and Options for Change,” EBS/99/52 (April 2, 1999); and Suppl. 1, Volumes I and II (April 12, 1999). The World Bank conducted a similar outreach campaign in parallel with that of the Fund.

pursuing their own research on Fund-related projects and mentoring the career staff. Frenkel's successor, Michael Mussa, continued that practice and brought in senior economists such as Willem Buiter, Barry Eichengreen, and Nouriel Roubini. Separately, the IMF Institute organized internal training courses and seminars that were often taught by leading academics.

Interaction between the IMF and external analysts was not always smooth, especially when the Fund was thrust into a central role in managing financial crises. In a few cases, criticism of the Fund became sufficiently entrenched to make productive dialogue difficult. One such case involved Harvard University Professor Jeffrey D. Sachs. In the 1980s, Sachs advised several governments in Latin America that were negotiating programs with the IMF, most prominently Bolivia. That work sometimes put him in conflict with the Fund because Sachs pressed for debt relief for Latin America long before the Fund and its major creditor members were willing to go along. Most of the time the relationship was cordial. Sachs was an occasional visiting scholar in the Fund's Research Department, and he generally supported the Fund's macroeconomic policy advice. In 1989–90, Sachs was an advisor to the newly elected government of Poland, and his input was valued by the Fund staff team as they helped the authorities devise a radical reform program. This tense but productive interaction then deteriorated.

In the early 1990s, Sachs was an advisor to the Russian government and was lobbying publicly for massive additional financial support for Russia. Throughout 1991 and 1992, he tried to convince western governments, particularly that of the United States, to recognize that Russia needed both direct financial aid and forgiveness of much of its Soviet-era debt, or else its economy would face a rapid slide into the chaos of hyperinflation. As detailed in Chapter 7, the amount of western aid fell far short of what Sachs and others calculated to be needed. By the fall of 1992, Sachs was convinced that the IMF was a major part of the problem, because of a tendency to just “take directions from western governments” and not act on what it knew to be an impending humanitarian disaster. In a letter to the *Washington Post* coauthored with David Lipton, Sachs complained about the Fund's “dreary record” in Russia, its “blunders,” and its “remarkably bad advice.” Getting more personal, he urged the U.S. Congress to condition any quota increase for the Fund on “fundamental management changes.” The Fund quickly returned fire, and the *Post* published a reply by Deputy Managing Director Richard D. Erb on what he called the “faulty analysis” of Lipton and Sachs.<sup>30</sup>

For the rest of the decade, Sachs continued to criticize the IMF, mostly from afar. Although many on the staff readily acknowledged that much of his criticism was well taken, they also felt that the passion level had to be toned down before a useful

<sup>30</sup>Sachs and Lipton (1992), p. C1; and Erb (1992), p. A18. Lipton was a former IMF staff member who was then a Fellow at the Woodrow Wilson International Center for Scholars. The “take directions” accusation was in Sachs (1991).

dialogue could resume.<sup>31</sup> Eventually, a *rapprochement* of sorts occurred. In 2002, Sachs accepted an invitation to speak at the Fund's annual research conference, at which he called the Fund's record in low-income countries "dismal" but offered specific suggestions on ways to improve it.<sup>32</sup> In 2003, the Executive Board invited him back for a private seminar on the Fund's role in the global effort to achieve the Millennium Development Goals.

Another prominent case involved Joseph E. Stiglitz. Having already achieved academic fame as professor of economics at Princeton, Oxford, and Stanford universities, Stiglitz went to Washington in 1993 to join the Council of Economic Advisers under U.S. President Bill Clinton. He became council chairman in 1995, and in 1997 he was tapped to be Senior Vice President and Chief Economist at the World Bank. In that last post, with what the journalist Sebastian Mallaby characterized as "loud carping," he became one of the fiercest and most vocally persistent critics of the Bank's sister institution, the IMF (Mallaby, 2004, p. 210). Not content to criticize the Fund's policy advice, he chose to vent his frustration in personal terms that went well beyond Sachs's more muted phrases. The IMF, Stiglitz concluded, was staffed overwhelmingly by "older men" and "third-rank students from first-rate universities" who "act as if they are shouldering Rudyard Kipling's white man's burden" (Stiglitz, 2000). That and other intemperate diatribes saddened and angered staff at the IMF who had long admired Stiglitz's formidable technical contributions to economics (for which he was awarded the Nobel Prize in 2001). As with Sachs, the possibility of a meaningful dialogue was burned in the heat of passion.

## The IMF and the "G's"

In 1961, the central banks of the countries with the 10 largest economies formed a group that called itself the "Group of Ten" or G10. Their original purpose was to establish the General Arrangements to Borrow (GAB) with the IMF as a supplementary means of preserving the stability of their exchange rates. As the system of pegged but adjustable exchange rates that had been designed at Bretton Woods in 1944 came under increasing pressure in the late 1960s and early 1970s, the G10—

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<sup>31</sup>Part of the difficulty was that passion led easily to hyperbole, as in: "The IMF is so obsessed with price stability it doesn't think very hard about anything else," as Sachs wrote in the *Economist* (June 29, 1996). Such assertions were difficult for the staff to debate through rational discourse. Also see the discussion in Chapter 11, pp. 558–59, regarding the Fund's response to Sachs's (and Joseph Stiglitz's) criticism of its handling of the crises in East Asia in 1997–98; and the final section of Chapter 12 for a more detailed review of criticisms of the management of those crises.

<sup>32</sup>Sachs spoke at a panel discussion on "Promoting Better National Institutions: The Role of the IMF." The discussion was published in *IMF Staff Papers*, Vol. 50 (2003), Special Issue, pp. 21–41.



which dominated international finance at the time—came to constitute an informal and self-appointed steering committee for the international financial system.

Partly in response to the growing influence of the G10, developing countries formed the G77 in 1964 and then the much smaller but still broadly representative G24 in 1971. The G24 also gained an influential role, especially for the deliberations of the joint IMF–World Bank Development Committee.

In 1973, as exchange rates were beginning to fluctuate among the major currencies, the U.S. Treasury Secretary organized a small, informal group of leading industrial country finance ministers, which soon became known as the G5. Two years later, a slightly larger group of heads of state and government began holding annual summit meetings as the G7. By the late 1980s, that grouping had supplanted the G5 and was meeting regularly at both the summit and the ministerial levels.<sup>33</sup>

At the outset of the 1990s, the key groups for discussions of international finance and macroeconomic policy coordination were the G7 (industrial countries) and the G24 (developing countries). The G10 central banks also continued to meet to oversee the GAB and to discuss other matters of mutual interest.<sup>34</sup> By the end of the decade, each of those groups was continuing to meet and to play important systemic roles, but the old industrial country groups were gradually being overtaken by updated configurations. At the summit level, the G7 absorbed Russia into its group and became the G8, as discussed in Chapter 7. Then in 1999, the G20 aligned as a new group with a membership that included developing as well as industrial countries. (For the membership of these groups, see Table 3.1.)

## The Commanding Role of the Group of Seven

By far, the most important group with influence on the IMF in the 1990s was the G7. Its finance ministers and central bank governors met at least twice a year, immediately before the spring and fall meetings of the Fund’s Interim Committee, and usually one or two other times in response to specific events. At each of those meetings, the IMF Managing Director was invited to participate in the portion of the meeting covering global economic and financial developments, during which he summarized the world economic outlook and the key macroeconomic policy issues as seen by the IMF. When the group turned to a discussion of exchange rates and other intra-G7 policy issues, they closed the meeting, and Camdessus had to leave.

The ministerial meetings of the G7 typically concluded with a common position on IMF matters that were to be discussed by the full Interim Committee the next day.

<sup>33</sup>For more on the development of these various groups, their geographical dispersion, and their relationship to the IMF, see Boughton (2001), Chapter 4.

<sup>34</sup>Aside from meetings to discuss the IMF and the GAB, the main venue for G10 meetings was the BIS. At the finance deputies level, the OECD’s Working Party 3 had a similar membership.

### 3 WORKING WELL WITH OTHERS? THE IMF AS TEAM PLAYER

**Table 3.1. Major Country Groups in the 1990s**

G7	G8	G10	APEC	G20	G24
Canada	Canada	Canada	Canada	Canada	
France	France	France		France	
Germany	Germany	Germany		Germany	
Italy	Italy	Italy		Italy	
Japan	Japan	Japan	Japan	Japan	
United Kingdom	United Kingdom	United Kingdom		United Kingdom	
United States	United States	United States	United States	United States	
	Russian Fed.		Russian Fed. (1998)	Russian Fed.	
		Belgium			
		Netherlands			
		Sweden			
		Switzerland <sup>b</sup>			
			Australia	Australia	
		<i>Observers</i>	Brunei Darussalam		
		BIS	Chile (1994)		
		EU	China (1991)	China	
		IMF	Hong Kong <sup>a</sup> (1991)		
		OECD	Indonesia	Indonesia	
			Korea, Rep. of	Korea, Rep. of	
			Malaysia		
			Mexico (1993)	Mexico	Mexico
			New Zealand		
			Papua New Guinea (1993)		
			Peru (1998)		Peru
			Singapore		
			Taiwan Province of China (1991)		
			Thailand		
			Philippines		Philippines
			Vietnam (1998)		
				Argentina	Argentina
				Brazil	Brazil
				India	India
				Saudi Arabia	
				South Africa	South Africa
				Turkey	
				EU	
				<i>Participants</i>	Algeria
				IMF	Colombia
				World Bank	Dem. Rep. of the Congo
					Côte d'Ivoire
					Egypt
					Ethiopia
					Gabon
					Ghana
					Guatemala
					Iran, Islamic Rep. of
					Lebanon
					Nigeria
					Pakistan
					Sri Lanka
					Syrian Arab Republic
					Trinidad and Tobago
					Venezuela

Source: Author's compilation.

Note: APEC = Asia-Pacific Economic Cooperation.

<sup>a</sup>On July 1, 1997, the territory became the Hong Kong Special Administrative Region (SAR) of China.

<sup>b</sup>Switzerland became the eleventh member of the G10 in 1984.

All G7 participants were also represented on the committee and on the Fund’s Executive Board. On the Board, they controlled almost 50 percent of the voting power. The Interim Committee (or, from 1999, its successor the International Monetary and Financial Committee) was an advisory body that operated by consensus rather than by weighted voting. In most circumstances, however, the G7 had a controlling influence on the committee’s conclusions, both because of its high voting power in the Executive Board (which would have to adopt and implement any policies recommended by the ministerial committee) and because it would have already coalesced on a common position the previous day.

The G7 finance ministers also had a major advantage in that their heads of state or government were meeting annually in the world’s most highly publicized and closely watched summit meetings. Those summit meetings had begun with the express purpose of discussing international financial matters. Although the agendas had gradually broadened to focus more on security issues, economics and finance continued to be highlighted. Whenever the finance ministers needed an extra push to get their program accepted internationally, they could usually count on the summit leaders to include a related paragraph in their own communiqués.

A further reason for the effectiveness of the G7 was its “finance deputies” structure. Each meeting of the finance ministers was preceded by a meeting of deputy ministers, who not only prepared the agenda but also tried to reach consensus to the extent possible. Throughout the 1990s, the finance deputies included at least a few strong personalities and some highly skilled and experienced officials who were able to forge tentative agreements for their ministers to endorse. When Gordon Brown, the finance minister for the United Kingdom, was elected Chairman of the Interim Committee in 1999, he drew on his experience with the G7 structure to establish a similar system of deputies meetings for the committee.

A clear example of the G7’s operational role occurred in May 1990, when the group’s communiqué noted that the “Ministers and Governors . . . agreed that a 50 percent increase in IMF quotas would provide the Fund with the resources to fulfill its central responsibilities in the world economy. They also agreed on the need for strengthening the IMF arrears strategy as an integral part of the quota review.”<sup>35</sup> That agreement brought an end to a battle about whether and by how much to increase quotas in the Ninth General Review (Chapter 15) and linked that compromise to new punitive measures on countries with long-standing payments arrears to the Fund (Chapter 16). After a contentious debate, the Interim Committee ratified the package two days later. Similarly, in October 1998, G7 ministers endorsed the idea of the IMF providing “contingent finance” for countries with “sound policies.” Although the general idea had been debated for years without a resolution, the Interim Committee put it back on the agenda the day after the G7 met. The Fund established the “Contingent

<sup>35</sup>“Statement of the G7 Finance Ministers and Central Bank Governors” (May 6, 1990); accessed at <http://www.g7.utoronto.ca/finance/fm900506.htm>.

Credit Line” six months later (Chapter 5). These are but two examples of a general pattern established in the 1990s.

Ministers from developing countries, including those in the G24, were usually less cohesive, less able to muster a controlling bloc of votes, and less well supported by an analytical secretariat. An important exception to the limited effectiveness of the G24 arose in 1994, when ministers from developing countries blocked a proposal from the G7 for a one-time allocation of SDRs designed to benefit primarily the transition countries that had recently joined the IMF. As discussed in Chapter 15, developing countries saw the proposal as structured in ways that were antithetical to their own interests, and they succeeded in blocking it until it was suitably modified a few years later. That success, though, remained exceptional.

### **APEC and the Group of 20**

The dominance of the G7 did not go unchallenged. An Australian initiative led to the creation of the Asia-Pacific Economic Cooperation (APEC) forum in 1989, with 12 member countries (21 by the end of the 1990s) on both sides of the Pacific Ocean (Table 3.1). By 1994, APEC had evolved from an informal forum into a large regional body with an ambitious goal of gradually converting the whole region into a free trade area. Instead of meeting only at the general ministerial level, it had also become a forum for political leaders meeting at the summit level. Its membership included the three main industrial countries outside of Europe (Canada, Japan, and the United States), smaller industrial countries (Australia and New Zealand), and several of the newly emerging market powers (all the “Asian tigers” plus Mexico and Chile).<sup>36</sup> In 1998, APEC membership expanded again to include Peru, Russia, and Vietnam.

The 1993 APEC summit, held on the northwest Pacific coast of the United States, called for APEC finance ministers to begin meeting annually. At the first such meeting, in Honolulu, Hawaii (United States), APEC ministers asked the IMF to prepare a study of capital flows “into and within” the region. That study (Khan and Reinhart, 1995) analyzed the benefits and risks of the free flow of capital and highlighted the importance of strengthening banking systems and other financial sectors to minimize the risks. In 1995, again at the request of APEC ministers, IMF staff conducted a study of the effects of exchange rates on trade and investment in the region.<sup>37</sup>

Beginning at a meeting of APEC finance ministers in Kyoto, Japan, in March 1996, the Managing Director was usually invited to participate, similar to his participation

<sup>36</sup>In economics literature and journalism in the 1990s, the term “Asian tigers” was frequently applied to a loosely defined group of rapidly developing economies in east Asia. Here, it refers to the Asian developing countries in APEC, as listed in Table 3.1.

<sup>37</sup>“Exchange Rate Movements and their Impacts on Trade and Investment in the APEC Region,” SM/95/267 (October 12, 1995). The study was conducted by a Research Department staff team led by Takatoshi Ito (Senior Advisor).

in the G7 meetings. On that first occasion, Camdessus noted that global and regional economic prospects were bright, but he agreed with the ministers that the Pacific region was at risk from possible adverse shifts in sentiment by international financial markets.<sup>38</sup> A year later, that shift hit with a vengeance, first in Thailand and then across the whole spectrum of emerging-market countries. The role of APEC as a forum for bringing those countries together with the advanced economies where financial markets were headquartered was manifest.

The next breakthrough came at an APEC summit meeting in Vancouver, British Columbia (Canada), in November 1997. The Asian financial crisis was at full steam: the economies of Thailand and Indonesia had already boiled over, and Korea was about to blow. Many of the finance officials who accompanied their political leaders to Vancouver had just been to Manila, where U.S.-led opposition had killed a Japanese proposal for an Asian Monetary Fund that would have weakened the regional influence of the IMF. In its place, they had agreed on the Manila Framework as an ongoing regional process to supplement and complement the IMF (see Chapter 12). To solidify that outcome, the APEC heads of state and government reaffirmed that “the [global] role of the IMF remains central. . . . We urge rapid implementation of the Manila Framework.”<sup>39</sup>

To push ahead with the financial reform agenda, the political leaders in Vancouver directed APEC’s finance ministers and central bank governors to work toward further development of financial and capital markets to promote “freer and stable capital flows in the region.” At the same time, U.S. President Clinton initiated a redirection of that effort to include countries well beyond the Pacific rim. When the U.S. Treasury organized the next round of finance meetings, it included several non-APEC members, including all the European members of the G7, the Latin American powers Argentina and Brazil, and such other emerging markets as India, Poland, and South Africa. It left out several of the smaller APEC members that were less relevant to the financial reform agenda. This new grouping met first at the deputies level in February 1998, at the Willard Hotel in Washington. It thus became known briefly as the Willard Group. By the time it met at the ministerial level in April, also in Washington, it was calling itself the Group of 22.

Initially, the major focus of the work of the Group of 22 was to improve oversight and coordination of supervision, standard setting, and governance of financial sectors. The Asian crisis had revealed severe weaknesses in those domains and had underscored the need to link macroeconomic analysis and financial sector development. Accordingly, the group commissioned three working parties to prepare reports on strengthening financial systems, enhancing transparency and accountability, and managing

<sup>38</sup>Report by the Managing Director at EBM/96/24 (March 20, 1996), pp. 3–4.

<sup>39</sup>“APEC Economic Leaders’ Declaration: Connecting the APEC Community,” issued in Vancouver, Canada, November 25, 1997; accessed at [http://www.apec.org/apec/leaders\\_\\_declaration.html](http://www.apec.org/apec/leaders__declaration.html).

international financial crises. IMF staff were invited to participate in each working party as observers. The groups produced reports that were discussed at a second ministerial meeting in the margins of the IMF/World Bank Annual Meetings in October 1998.<sup>40</sup>

For a brief period in 1999, this new group expanded to become the Group of 33. In that guise, it held a series of seminars on issues related to the international financial system. Then, in preparation for the annual G8 summit in Cologne, Germany, in June 1999, the G7 finance ministers pledged to “work together to establish an informal mechanism for dialogue among systemically important countries within the framework of the Bretton Woods institutional system.”<sup>41</sup> The G7 ministers and governors followed up by organizing a meeting of themselves along with ministers and governors from 12 other countries and the European Union, in Berlin, Germany, in December 1999. That configuration proved to be a success, and the G20 was born.

APEC continued to meet as a regional forum, but the G20 was destined to become the main body for steering the discussion of financial matters at the global level. The Managing Director of the IMF, the President of the World Bank Group, and the Chairs of the International Monetary and Financial Committee and the Development Committee participated as permanent *ex officio* observers. Fund staff helped prepare background documentation for the G20 meetings and participated as observers in the deputies’ meetings. Although the G20 lacked the constituency structure that enabled the ministerial committees of the Fund and the Bank to represent nearly all of the world’s countries, it was far more representative than the G7 and included all the systemically important emerging-market and advanced economies. The participation of emerging-market countries greatly enriched the ability of policymakers in advanced countries to understand the way international capital markets were really functioning. The creation of the G20 thus bridged a gap in the architecture and offered some hope for a more effective and legitimate steering system for the twenty-first century.<sup>42</sup>

## Transparency and External Relations

From its inception in the aftermath of the Second World War, the IMF operated largely in secrecy with little direct contact with the general public. As a financial institution and a confidential advisor to governments and central banks, the Fund would have faced a conflict if it had chosen to discuss publicly the details of its

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<sup>40</sup>See “Reports on the International Financial Architecture” (October 1998), at <http://www.imf.org/external/np/g22/>. Jack Boorman was the IMF observer for each of the working groups.

<sup>41</sup>“Report of G7 Finance Ministers to the Köln Economic Summit, Cologne, Germany, 18–20 June, 1999”; accessed at <http://www.g8.utoronto.ca/finance/fm061999.htm>.

<sup>42</sup>For a detailed official history of the origins and first decade of the G20, see <http://www.g20.utoronto.ca/docs/g20history.pdf>. The membership of the G20 is listed in Table 3.1.

operations or its advice. Until the 1980s, the main vehicles for publishing its work were its *Annual Reports*, its research journal *IMF Staff Papers*, the monthly *International Financial Statistics* and other statistical publications, and—from 1969—the periodic volumes of *History* of which the present volume is the latest. The launch of the *World Economic Outlook* reports and the Occasional Papers series in 1980 opened a chink in the citadel, but the principle that privacy trumped transparency remained intact.

In the course of the 1990s, the culture of the IMF shifted massively toward transparency. The change did not come easily.

Those who opposed opening the Fund to public discourse raised several issues. First, the willingness of country authorities to divulge confidential information to the Fund could be compromised if the Fund adopted a policy of releasing more information to the public. Second, Fund advice could be less effective in persuading governments to change course if made publicly rather than in confidence to the authorities, owing to possible political ramifications. Third, national ownership of good economic policies could be threatened if those policies came to be associated publicly with the IMF rather than with the government. Fourth, confidentiality was inherent in financial relationships. Even though the Fund was not a bank, it was a lender, and it had to negotiate the terms of its lending. Opening that process to public scrutiny could lead to political opposition that, in turn, could undermine the success of the negotiations. Fifth, the staff's ability to be forthright in its reporting could be undermined if its reports were destined for publication, either because of reluctance to embarrass a member government or because of concern that a forthright analysis of a country's economic problems could undermine confidence and worsen the outcome.

These were strong arguments in favor of the status quo, but privacy also had its costs. First, the secrecy of the Fund's deliberations and of its interactions with members inevitably damaged the Fund's credibility with those who were excluded, especially because of widespread perceptions that a few major creditor countries dominated the Fund's decision making. Second, such secrecy inhibited public dialogue about how the institution could be improved. Third, by the 1980s secrecy was hampering the Fund's ability to provide clear signals to commercial creditors, potential creditors, and investors. In the 1990s, that failing was becoming increasingly troubling as private lending spread to more and more countries, as those countries became increasingly dependent on private financing, and as private creditors and investors remained reliant on signals from the Fund as a major input to their assessments of creditworthiness.

In the early 1990s, a wide crack opened in the wall of secrecy when a number of national central banks began adopting inflation-targeting strategies (see Chapter 1). An integral part of any inflation-targeting regime is clear communication to the public, so that the central bank's policy actions will be transmitted efficiently to financial markets. Suddenly, it became commonplace for central bank governors and other senior officials to speak publicly about current policy decisions. Periodic publications became more current and detailed. It was not yet a universal revolution, but

the demonstration effect was powerful.<sup>43</sup> The rationale for the IMF to restrict its own dissemination of views on and advice to central banks was correspondingly weakened. One of the strongest academic advocates for transparency in policymaking at that time was Stanley Fischer. His arrival at the Fund in 1994 as First Deputy Managing Director helped greatly to guide the cultural transformation. On his departure seven years later, he regarded the “transparency revolution” at the Fund as one of the most important changes during his tenure.<sup>44</sup>

Much of the initial internal pressure for change came from the United States. During the 1990 review of Fund surveillance, Thomas C. Dawson II (United States) emphasized his authorities’ preference for “disseminating the Fund’s views on member countries to the public,” and he complained that the staff seemed “leery of letting too much sun to shine on exchanges between the Fund and its members.”<sup>45</sup> By the time of the 1994 conference in Madrid commemorating the fiftieth anniversary of Bretton Woods, the view that the Fund should be open and transparent was almost universally accepted, at least as a general principle.<sup>46</sup> Specific support for publication of Article IV consultation reports took several more years to achieve a majority, during which time the Fund gradually began publishing more and more summary information on the conclusions of selected consultations (see Chapter 4).

By the end of the decade, this form of transparency had become a generally accepted principle in most regions of the world, but with qualifications. The 1998 report of the G22 working group on transparency and accountability, cochaired by Mervyn King of the Bank of England and Andrew Sheng of the Hong Kong Monetary Authority, gave a strong push to the Fund and other international financial institutions. The report concluded these agencies should “adopt a presumption in favor of the release of information, except where release might compromise confidentiality.” It supported the publication of most Fund-related documents, including Letters of Intent, Public Information Notices, Policy Framework Papers, and background papers to consultations, but the group could not agree to a recommendation to publish full staff reports.<sup>47</sup> Nonetheless, the following year the Fund began publishing the full text of its staff reports, though only with the concurrence of the country concerned.

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<sup>43</sup>For an overview and analysis of these developments, see Mishkin (2007), Chapter 5. For an analysis of the rationale for central bank secrecy, see Lewis (1991).

<sup>44</sup>Stanley Fischer, “Farewell to the IMF Executive Board” (August 30, 2001); accessed at <http://www.imf.org/external/np/speeches/2001/083001.htm>.

<sup>45</sup>Minutes of EBM/90/108 (July 9, 1990), p. 36. U.S. attitudes on transparency evolved during the 1980s. As described in Boughton (2001, pp. 145–46), in 1985 the U.S. Executive Director blocked—over the objections of most other Directors—publication of an analytical study of U.S. fiscal policy that the country’s authorities felt was politically sensitive. Even at that time, however, U.S. officials generally were pressing for publication of more documents by the Fund.

<sup>46</sup>See Boughton and Lateef (1995), especially the summary on p. 19.

<sup>47</sup>“Report of the Working Group on Accountability and Transparency” (October 1998); accessed at <http://www.imf.org/external/np/g22/>.



Another important manifestation of the cultural shift was the decision to open the Fund's archives to public use. Article IX, Section 5, of the Fund's Articles of Agreement states unequivocally: "The archives of the Fund shall be inviolable." For the first 50 years, the Fund took that rule literally. Anyone not on the staff who wanted access to official documents of the Fund would have to make a specific application, normally through the Executive Director for his or her country. If the document pertained to another country, the Executive Director for that country would also have to acquiesce. The request would then be circulated to the full Executive Board. In the absence of any objection, it would be deemed approved on lapse of time. Typically in the 1980s and early 1990s, the Fund would receive a handful of such requests each year, most of which would concern research related to incidents three or more decades earlier. Most requests would be approved, but the complex approval process was sufficiently daunting and complex to discourage many researchers from applying.<sup>48</sup>

In December 1994, Camdessus proposed opening the archives to the general public for documents that were at least 30 years old. The Board signaled its general approval for the proposal, which was similar to policies adopted earlier by a number of major central banks and other institutions.<sup>49</sup> Preparation of the archives for public use took another year, and the Board gave its formal approval in January 1996. The U.S. Executive Director, Karin Lissakers, argued in favor of a shorter release date—possibly as short as 10 years—while a few Directors expressed concerns about compromising confidentiality. At the end of the debate, the 30-year rule was adopted as proposed.<sup>50</sup>

Shortly after opening the archives, the Fund established an external website, <http://www.imf.org>. The site went live in September 1996 with general information about the Fund and access to current publicly available documents such as the *Annual Report*, press releases, and the Data Dissemination Standards Bulletin Board. The Fund subsequently began publishing more documents, including Public Information Notices and Staff Reports, and the number and range of documents available through the site grew dramatically. By the end of the 1990s, web-based publication was the norm.

<sup>48</sup>As of late 1995, the Fund had approved a total of only about 30 requests: roughly two a year since the first access guidelines were approved in August 1981. (Before 1981, the Fund had granted access to archival documents for an external researcher only once, in 1963.) See "Opening of the Fund Archives," SM/95/303 (December 1, 1995), p. 3n; and minutes of EBM/81/118 (August 31, 1981), pp. 19–23.

<sup>49</sup>Minutes of EBM/94/110 (December 15, 1994), pp. 34–87.

<sup>50</sup>Minutes of EBM/96/2 (January 17, 1996), pp. 55–66. The release dates were subsequently shortened. In March 1999 (with an effective date of September 9), the Fund agreed to grant public access to most Executive Board documents (other than minutes of Board meetings) that were more than five years old and to other Fund documents (including Board minutes and internal memorandums) that were more than 20 years old. In November 2002, Executive Board minutes were made available with a 10-year delay. In April 2003, the release date was shortened to 10 years for most other documents related to Board meetings. In all cases, a general exception was specified for documents classified "Strictly Confidential" or "Secret."

The controversies that swirled around the Fund's handling of the Asian financial crisis of 1997–98 persuaded Fund management to step up engagement with the public, including with parliaments and other legislative bodies that would have to approve future increases in financing for the institution. Funding for the New Arrangements to Borrow (NAB) and the quota increases under the Eleventh General Review both depended crucially on approval by the U.S. Congress. To nudge congressional consideration along, in the first quarter of 1998 Camdessus accepted invitations from the U.S. Senate Budget Committee, the House Banking and Financial Services Committee, and the Congressional Black Caucus, and met informally and privately with them to brief their members on the key issues. Senior staff also briefed a number of members of Congress or their staffs. In October, both houses of Congress approved the enabling legislation. The perceived success of this effort eventually led to the establishment of a permanent and broad program for outreach to legislative bodies in all member countries.

Also in the late 1990s, the Fund decided to commission external evaluations of its work in selected areas. Camdessus made a cautious start in this direction in 1995 when he asked a retired department director, L. Alan Whittome, to prepare a report on weaknesses in IMF surveillance. This decision was cautious, not only because Whittome was too close to be considered an external evaluator, but also because the report was held in strict secrecy within the Executive Board and a very small group of senior staff (see Chapters 4 and 10). Nonetheless, it set a precedent through its frank and thorough examination of the shortcomings that had prevented the Fund from identifying the problems that led to the Mexican peso crisis that began in 1994.

The Whittome report was followed in 1998 by an evaluation of the ESAF by a group of external experts led by Kwesi Botchwey, a former finance minister of Ghana who was then with the Harvard Institute for International Development. Similarly, in 1999 an external committee led by John Crow, a former governor of the Bank of Canada, prepared a report on the conduct of Fund surveillance. Both the Botchwey report and the Crow report were published and posted on the IMF website. By then, management and the Executive Board were satisfied that external evaluation served a useful purpose for the Fund. The stage was set for the creation of a permanent Independent Evaluation Office in 2000.<sup>51</sup>

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<sup>51</sup>See “Evaluation of IMF Work,” accessed at <http://www.imf.org/external/np/eval/index.htm>, and the Independent Evaluation Office (IEO) website, <http://www.ieo-imf.org/>. Two other external evaluation reports were initiated in 1999 and completed in 2000, before the establishment of the IEO: one on IMF research, led by Frederic S. Mishkin, professor of economics at Columbia University (New York); and one on the adequacy of procedures for determining quotas in the Fund, led by Richard N. Cooper, professor of economics at Harvard University. The Mishkin report may be accessed at the first website listed in this note. For the Cooper report, see <http://www.imf.org/external/np/sec/nb/2000/nb0090.htm> and Chapter 15.

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