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Governance of the IMF

Decision Making, Institutional Oversight, Transparency, and Accountability

Leo Van Houtven

INTERNATIONAL MONETARY FUND
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Contents

Preface

The author, Leo Van Houtven, is President of the Per Jacobsson Foundation, which was established in honor of the former Managing Director of the IMF (1956–63). The Foundation sponsors lectures in international finance and monetary cooperation in the context of the Annual Meetings of the IMF and, on a number of occasions, of the Bank for International Settlements in Switzerland. The author made his career in the IMF. From 1977 through 1996, he was the Secretary of the IMF and in 1987 he received the additional title of Counsellor to the Managing Director.

The views expressed in this essay are those of the author and should not be attributed to the IMF. The author continues to benefit greatly from his contacts and discussions with former colleagues on the IMF's Executive Board and on the staff. He wishes to thank Christian Brachet, Eduard Brau, François Gianviti, Luc Hubloue, Azizali Mohammed, Alexander Mountford, P.R. Narvekar, Barry Newman, and J.J. Polak for their stimulating comments on the essay in progress. The author is responsible for remaining weaknesses. He also wishes to thank Ian McDonald, who edited the text, Marina Primorac, who coordinated the production, and Nabila Salah for her administrative assistance throughout the project.

List of Abbreviations

BIS	Bank for International Settlements
EMS	European Monetary System
ESAF	Enhanced Structural Adjustment Facility
DDS	Data Dissemination Standard
FSAP	Financial Sector Assessment Program
GAB	General Arrangements to Borrow
HIPC	Heavily Indebted Poor Countries
IAIS	International Association of Insurance Supervisors
IBRD	International Bank for Reconstruction and Development (World Bank)
IEO	Independent Evaluation Office
IMF	International Monetary Fund
IMFC	International Monetary and Financial Committee
IOSCO	International Organization of Securities Commissions
NAB	New Arrangements to Borrow
NAFTA	North American Free Trade Area
NGO	Nongovernmental organization
OECD	Organization for Economic Development and Cooperation
PDR	Policy Development and Review Department
PFP	Policy Framework Paper
PIN	Public (formerly Press) Information Notice
PRGF	Poverty Reduction and Growth Facility
ROSC	Report on Observance of Standards and Codes
SDR	Special Drawing Right
SRF	Supplementary Reserve Facility
WTO	World Trade Organization

I.

Introduction

Remarkable efforts were made at international institution building toward the end of World War II. In addition to the establishment of the United Nations, the global political organization, they involved the creation of the International Monetary Fund (IMF), the International Bank for Reconstruction and Development (World Bank), and the General Agreement on Tariffs and Trade, the forerunner of the World Trade Organization (WTO). They became the key institutions in the financial, developmental, and trade fields. Today, nearly six decades later, the world's trade and financial systems have been fundamentally transformed with the pervasive postwar controls abandoned in favor of a system closer to one of globalized free markets. At the same time, the community of nations has become vastly more diversified. The number of independent countries has tripled or quadrupled and these countries demonstrate remarkably different cultural identities, levels of development and welfare, and experience with self-determination.

As global integration progresses, there will be a growing need for regional and international cooperation and for institutions to ensure the availability of public goods and services. The case for an International Environment Organization, as well as that for strengthening the International Labor Organization, has repeatedly been made. The recent establishment of the Financial Stability Forum was a step toward much needed collaboration to improve the soundness of financial systems worldwide. In addition, the case has been put forward for creating an Economic Security Council within the United Nations, as an overarching body to consider the global aspects and interlinkages among economic, financial, and social issues.[1]

However, the political constituency and public support for new or stronger international organizations is not large. While it is generally agreed that the international financial institutions made a major contribution over the past decades to the unprecedented integration and growth of the world economy, the question has increasingly arisen in the 1990s whether the institutional arrangements and rules of the game have devel-

[1]Report of the Commission on Global Governance, 1995.

oped sufficiently to give all countries a fair opportunity to participate effectively in equitable trade and financial organizations. A key issue is whether the mandates of the existing organizations remain relevant, and their legitimacy and governance structure are adequate to serve the needs of the global community in the early twenty-first century. This is not universally accepted: many leaders in developing countries, and in civil society groups, decry the perceived lopsidedness of international financial governance, in the IMF and the World Bank as well as in the WTO, which they see as instruments of the rich countries. Moreover, the Asian crisis of 1997–98 raised questions regarding the benefits of financial globalization, particularly for emerging market economies, while the perception—right or wrong—that the IMF's adjustment remedy caused social suffering put the searchlights of official and academic circles and of the media on IMF governance and accountability.

One group of IMF critics essentially argues that, in the present globalized environment, the community of nations does not need the regulatory function and the surveillance of the IMF and that IMF advice and financing are often misdirected and a source of "moral hazard." The report to the U.S. Congress of the Meltzer Commission (see p. 41) published in 2000, essentially proposed to eliminate the muscle of surveillance and the IMF's authority to negotiate policy reform.

A much broader spectrum of critics has argued that the IMF charter and its purposes remain relevant in the context of the progressive global integration of the early twenty-first century but that, nevertheless, the IMF should be reformed to make it more democratic, more transparent, more accountable, and more participatory. The following are some of the main themes of recent literature on the governance of the international monetary system:

- The IMF is considered undemocratic because the large majority of the membership, the developing and transition countries, who are in practice the borrowers from the IMF, are minority shareholders, while the relatively small group of industrial countries holds 60 percent of the voting power.
- The selection process for the Managing Director should be reformed because it has been shown to lack procedural guidelines and transparency.
- The industrial countries are seen to be dominant in the oversight of the IMF through the Executive Board, while there is perceived to be inadequate representation of the developing countries.

- It is difficult to grasp how the IMF's rule of decision making by consensus works and whether it adequately protects the rights of minority shareholders.
- At the political level, there is no effective counterweight to the power of the Group of Seven major industrial countries, and the oversight role of the International Monetary and Financial Committee (or of its predecessor, the Interim Committee) should be more participatory and more effective on systemic issues.
- In its relations with the developing countries, the IMF does not give adequate attention to the objective of growth and to equity issues, including the protection of the poor from the burden of adjustment policies.
- Apart from its accountability to member governments, the IMF should strengthen its dialogue with civil society and show a greater sense of accountability to public opinion.

This pamphlet is intended to provide an overview of the major aspects of governance of the International Monetary Fund. It is structured as follows.

- Section II deals with the structure and evolution of quotas and voting power in the IMF and reflects on the need to reduce distortions in the system and to make it more equitable, as well as on the importance for the IMF as a financial institution to maintain the confidence of its creditors.
- Section III examines the checks and balances in the governance of the IMF and reflects on the importance of harmonious collaboration among the Executive Board, the Managing Director, and the staff for the effective functioning of the institution.
- Section IV focuses on the work methods and decision making of the Executive Board and highlights the origin and rationale of the rule of decision making by consensus through which Board members seek to find common ground in their deliberations. Several instances of consensus building are described to illustrate this collaborative work method, which plays a key role in safeguarding the rights of the minority shareholders who are the vast majority of the members.
- The political oversight of the IMF by the Board of Governors through the Interim Committee and its successor, the International Monetary and Financial Committee, is examined in Section V. The effectiveness of—and the deficiencies in—this political oversight need to be seen in conjunction with the activities of groups of member countries—both from industrial countries and from developing countries—as well as the influence that individual member countries and regions attempt to exert on the agenda and decision making of the IMF.

- A case study of IMF governance in a financial crisis, specifically the Mexican crisis of 1994–95, is presented in Section VI.
- Section VII deals with strengthening the architecture and the transparency of the system, collaboration with civil society, and the refocusing of the IMF in the aftermath of the crises of the 1990s.
- Finally, an appraisal of IMF governance is contained in Section VIII.

II.

Quotas and Voting Power in the IMF: A System That Calls for Greater Equity

Role of Quotas and the Debate on the Quota Formula

Each member country is assigned a quota, which is its participation in the capital of the IMF and determines its voting power. In addition, quotas determine each member's share in any allocations of SDRs. The original formula used at Bretton Woods for the calculation of the quotas of the 45 countries that participated in the conference included as economic variables national income, reserves, external trade, and export fluctuations. The quota formula was, and continues to be, directed in the first place at meeting the capital requirements of the institution.

On the occasion of the first reexamination of the Bretton Woods quota formula in the early 1960s, a multi-formula method was devised that included the choice of assigning differing weights for national income, on the one hand, and for current external payments and the variability of current receipts, on the other. With the flexibility that this provided, national income became a major weight in the formula for most industrial and other large countries, while current payments and variability of current receipts became important components for small open economies and for most developing countries. Since the early 1980s, the variables in the quota formula have included GNP, official reserves, current external payments and receipts, the variability of current receipts, and the ratio of current receipts to GNP.

The IMF's Articles of Agreement provide for general reviews of quotas at intervals of no more than five years. The key issues in these quinquennial reviews include (1) the size of the overall increase, which needs to be considered in the light of the medium-term outlook for the world economy and the role of the IMF in the financing of payments imbalances that may arise; and (2) the distribution of the overall increase between equiproportional increases for all members and selective increases for certain countries—typically rapidly growing economies for whom the "actual quota" is seriously "out of line" with the "calculated quota."

The scope for selective increases is limited because an increase in the share of total quotas—and, hence, in voting percentage—for one member will automatically reduce the voting power of all other members. Most members—and particularly the developing countries—are anxious not to see their quota share in the total IMF decline and have tended to favor equiproportional increases in quotas.

Over the years, the equiproportional element has averaged about 70 percent of the overall quota increases. An important argument for selective increases—in addition to the matter of equity that is associated with "out-of-lineness"—is the capacity of the candidates for such increases to provide liquidity to the IMF. This was a priority under the Seventh Review in 1978, when the quota share of the major oil-exporting countries was doubled at the expense of that of the industrial countries, that is, without infringing on the quota share of the other developing countries.

Total quotas have diminished rapidly in relation to the size of the world economy and world trade; actual quotas also have trailed increasingly behind calculated quotas. Among the reasons for these developments were (1) the growing access to world capital markets and the increased recourse to floating exchange rates, which have obviated the need for industrial countries to use the IMF's resources; (2) the rapid dismantling of controls over international capital transactions in advanced and in emerging market economies, together with the expanding access to international capital markets by a growing number of countries; (3) the creation in the late 1980s of a special financing window, separate from the IMF's quota resources, the Enhanced Structural Adjustment Facility (ESAF), now the Poverty Reduction and Growth Facility (PRGF), which strengthened the IMF's ability to assist poor developing countries and became the principal instrument for financial assistance—at low cost and for longer terms—to a group of about 80 IMF members.

Since the late 1970s, the quota share of the developing countries has averaged about 37.5 percent and their voting share around 40 percent. The difference is accounted for by the provision in the Articles of Agreement (Article XII, section 5) of 250 basic votes for each member in addition to one vote per SDR 100,000 of its quota. Until the mid-1970s, basic votes as a percentage of total votes remained above 10 percent; since then, however, successive general increases in quotas have reduced the share of basic votes to barely 2 percent in 2002. In the meantime, the number of developing countries in the total IMF membership has continued to grow to 85 percent of the total membership, that is, 159 versus 24 industrial countries.

The developing countries have, repeatedly, urged that a new quota formula, including such elements as population and a poverty index, be devised that would give them a larger voice in the IMF. Moreover, as the industrial countries have ceased using IMF resources, this has diminished the characteristic of the IMF as a "credit union" where members are at times lenders and become borrowers at other times and the rules of the credit union are set by all and for all. This development has affected the balance in the relationship between the two groups of members and—as will be seen in Section IV—it has accentuated the importance of decision making by consensus to protect the interests of the developing countries that are the minority shareholders.

The creditors, from their side, have emphasized the importance of the quota formula in the financing of the IMF, while the IMF's policy on access to its financial resources was designed to be responsive to the financing needs of members.[2] They have also noted that the application of the quota formula had favored the developing countries, as demonstrated by the fact that aggregate "actual quotas" of the developing countries equaled about 60 percent of their "calculated quotas," while the aggregate "actual quotas" of the industrial countries were only about 32.5 percent of their "calculated quotas." The industrial countries have further observed that their share in global GNP continues to rise and that variables such as capital movements and access to capital markets, which favor them, should be captured in the quota formula. The developing countries have countered that imprudent lending by financial institutions of industrial countries and myopic reactions of the markets played a big role in the financial crises of the past decade and the ensuing contagion.

Further Work Toward Correcting Distortions and Enhancing Equity in Voting Power

While the developing countries have not formulated a target share of quotas and voting power for their group, it is realistic to assume that they

[2]Access policies on the use of IMF resources are reviewed annually. During most of the 1990s, the net cumulative access limit in terms of a member's quota has been 300 percent. The provision for higher "exceptional" access, which was used on several occasions during the financial crises of the past decade, was abolished in the context of the latest review of the IMF's financing facilities (see Section VII).

will aim for the highest share that would be compatible with the maintenance of a modest overall majority of voting power in the hands of the industrial countries who are the predominant group of creditor countries. Since the IMF is a financial institution and needs to maintain the confidence of its creditors, it is generally agreed among the membership that the industrial countries, which are the predominant creditors of the IMF, should remain majority shareholders.

The work of the Quota Formula Review Group, a group of external experts that was established in 1999 at the urging of the developing countries, and the further work of the staff have demonstrated that it is not possible, on the basis of the existing quota formula, to obtain calculated quotas that would meaningfully increase the quota share of the developing countries. In other words, there is no quota formula that is sensible from a financial perspective and that would also solve the governance issue.[3]

Altering the balance in the voting power between the industrial and the developing countries can be achieved either through changes in the distribution of quota shares or through an increase in basic votes or through a combination of both methods. A practical way forward would require a consensual decision taken at the political level on the future voting shares of the two groups of countries, with the share of the industrial countries continuing to be larger than that of the developing countries.

Over the years, various proposals have been examined to increase the number of basic votes, which would be particularly beneficial to the smallest developing countries. Such an increase, however, requires an amendment of the Articles of Agreement and the necessary broad consensus around a proposal has not materialized.

Devising a special quota formula for developing countries—with its own set of variables and their relative weights—would be an alternative approach to raise their quota and voting shares. That could prove to be a complex and possibly divisive process, however, and would also raise new issues.

With regard to the group of industrial countries, the objective of better balance with the developing countries would require a reduction in their

[3]The Executive Board rejected the recommendations of the Quota Formula Review Group because, counterproductively, they would have meant a further increase in the quota share of the industrial countries.

aggregate voting and quota shares. It would be an opportunity to tackle the complex issue of the appropriate distribution of quotas and voting power between the European Union, the United States (or North America), and Japan (or the rapidly growing countries of Asia). In the past, the sizable weights attached to foreign trade and official foreign reserves served the Western European countries well when regional integration had not yet proceeded far and they needed large quotas given the very open nature of their economies. Today, however, most of them have one currency, one exchange rate, and one regional balance of payments.

In early 2002, the aggregate voting power of the 15 members of the European Union was 29.9 percent,[4] well in excess of the voting power of the United States, 17.2 percent, and of Japan, 6.2 percent—or of the Asian region as a whole, 18.0 percent. In the future, following the lead of the Quota Formula Review Group, GDP is likely to become the prime variable in quota calculations for industrial countries, while the role of reserves and foreign trade would decline. In that connection, it is useful to note that the 1999 GDP of the United States was $9.3 trillion, compared with an aggregate GDP of the 15 members of the European Union of $8.5 trillion and Japan's GDP of $4.5 trillion.

The gradual reduction, over time, of the share of EU quotas and voting power to bring them better in line with those of the other major industrial countries or areas would be complex. It is accepted that, unless and until a group of members becomes a single country, each would continue as a separate member of the IMF. At the same time, the EU members are, no doubt, reflecting on the significant initiatives that will be required to promote a gradual adjustment. In that connection, the "foreign" character of intra-European trade, particularly that of EMU members, has become open to question. It should also be kept in mind that, for the purpose of IMF quota calculations, a technique exists, and has been used in some cases, to adjust data on current account transactions in some countries to exclude certain receipts and payments in order to avoid exaggerating the size of the external sector. The use of that technique, which could be done in stages, would facilitate a downward adjustment of the 15 EU quotas.

[4]The proposed enlargement of the European Union by an additional 10 countries to a total of 25, through the accession of Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovak Republic, and Slovenia would further raise the EU's aggregate voting power by 2.8 percent to 32.8 percent.

Japan desires to bring its quota and voting power more closely in line with its place in the world economy, even though the stagnation of its economy in the past decade has weakened that claim. The rapidly growing countries of the Asian region as a whole also stress that their quota shares should adequately reflect their present position in the world economy.

Calculations for recent quinquennial quota reviews suggested that the quota share of the United States was broadly in line with its global economic strength. However, following the exceptional growth of the U.S. economy compared with other regions of the world in the 1990s, updated calculations on the basis of the present quota formula may well suggest a higher quota share for the United States. Thus, there appears to be no economic rationale—as suggested by some—for the United States to reduce its weight as the principal shareholder of the IMF.

III.

Checks and Balances in the Governance of the IMF

The manner in which member countries interact with the IMF, and in which the Executive Board, the Managing Director, and the staff work together in conducting the IMF's business are key elements in its governance, but they are not always understood or seen to be transparent. In one view, the major industrial countries, led by the United States, impose their will on the rest of the membership because they are the majority stockholders of the IMF. Another view is that the prestige of the Managing Director or the monolithic strength of the staff overshadows the Executive Board. A further view is that the practice of consensus decision making in the Board (see Section IV) drowns the voices of the developing countries and of those advocating change and reform. The activities of civil society groups have also highlighted the importance of transparency for the IMF, which should explain itself better to the general public (see Section VII).

The leadership of the United States and of the other major industrial countries in the international monetary system is recognized by all. However, the Group of Seven is not a single unified force: the United States, Western Europe, and Japan frequently differ on major issues of policy and management; their record of mutual surveillance is not impressive and each has different regional links. Effective governance of the IMF requires that the benefits and burdens of membership should be equitably distributed among the participants. The diversity of interests among the IMF's worldwide membership has encouraged consensus decision making as a major feature of IMF governance. The development of IMF policies is a slow process of thorough and deliberate consideration by the Executive Board, the management, and the staff of all the angles of an issue in order to come to a view that all, or at least a great majority, of the members can support. The developing countries have always attached great importance to consensus building because it assures the thorough consideration of all points of view and avoids premature closure through up or down voting.

At its insistence, the United States, through the size of its quota share, obtained veto power over some key decisions in the management of the IMF, such as admission of new members, increases in quotas, allocations of Special Drawing Rights (SDRs), and amendments of the Articles of

Agreement. However, these veto powers can also be exercised by groups of other members who, together, hold the requisite voting power. In that regard, the Western European countries insisted on a veto power over the key decisions relating to the SDR and, earlier on, over the major lending decisions of the IMF that would involve the activation of the General Arrangements to Borrow (GAB).[5] In 1994, the developing countries blocked a proposal by the major industrial countries for an allocation of SDRs that they regarded as unsatisfactory.

The developing countries as a group also have effectively used their veto power over important financial decisions of the IMF, which require a special majority of 70 percent of the total voting power. The most recent use of that power was in the fall of 2000 when the developing countries defeated proposals by the Group of Seven to raise the rate of charge on the use of IMF resources.

Voting majorities in the IMF are among the important checks and balances in IMF decision making (Appendix I). In the Second Amendment of the Articles, which spelled out the IMF's task to exercise firm surveillance over the exchange rate policies of members, the number of provisions subject to special majorities more than doubled to over fifty. This increase was due in large part to the novelty of certain provisions and to the increased provision of enabling powers, while the higher special majority was raised to 85 percent in order to maintain the veto power of the United States.

The authority and wide-ranging tasks of the IMF can affect the welfare of citizens in many countries and it is, therefore, important that major decisions should command very wide support. However, special majorities are a double-edged sword: while the developing countries decried the 85 percent majority required to allocate SDRs, they welcomed the opportunity it gave them to oppose an amendment of the Articles that would give the IMF jurisdiction to pursue freedom of capital movements. Thus, the 85 percent majority that is required for an amendment of the Articles is both a protection of the system and a hindrance against change.

The Managing Director brings to his position his own vision on how to carry forward the IMF's mandate for the management of the international monetary system. While he does not have voting power in the Board, except

[5]The General Arrangements to Borrow were set up in 1962 by the Group of 10 industrial countries (Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, the United Kingdom, the United States, and, later, Switzerland).

in the unlikely event of a tie, the Managing Director's authority and prestige can be very considerable. Pierre-Paul Schweitzer, as Managing Director (1963–73), successfully resisted the pressure of the Group of 10 industrial countries to place decision making on the deliberate creation of international reserve assets outside the IMF. In 1971, he took the position that a general currency realignment among the industrial countries should include a devaluation of the U.S. dollar in terms of gold. Following the breakdown of the par value system in the early 1970s, he convinced members that the IMF was the right locus for the negotiation of reform of the system.

In the early 1980s, the then Managing Director Jacques de Larosière (1978–86), brought the international banks around to endorse his approach of concerted lending, including rescheduling of a country's debt, on a case-by-case basis, as a prior condition for the extension of IMF credit. Upon his arrival in the IMF, Michel Camdessus (1987–2000) hammered out the new financing window, the ESAF, for low-cost, longer-term funding of structural adjustment programs for the poorer countries. During the Mexican and Asian crises of the 1990s, when the IMF found itself, de facto, in a position of lender of last resort, Mr. Camdessus staked his authority on large-scale financing packages for Mexico, Korea, Thailand, and Indonesia in order to stem the slide of their currencies and the collapse of their banking and corporate sectors.

Finally, the staff is the third partner in the governance of the IMF. The staff conducts the surveillance missions with members and the discussions on the use of IMF resources. The staff produces the documents on the basis of which the Board deliberates and is an active participant in Board discussions. New policy proposals originating with members or Executive Directors are channeled by the Managing Director for further elaboration to the staff, which has the institutional memory to anchor new proposals in the precedents, policies, and legal framework of the institution.

The following paragraphs provide further commentary on the tasks of the Executive Board, the Managing Director, and the staff. The next section discusses decision making in the Board, where Executive Directors, management, and staff work together to conduct the business of the IMF.

The Executive Board

The mandate of the IMF and the good governance of the international monetary system require a strong Executive Board. The Executive Board has a central role in policy formulation and in decision making in the institution. The Board exercises all the powers for conducting the IMF's business except those that the Articles of Agreement have reserved for the Board of Governors, which is the supreme organ of the IMF. Decision making by consensus has, from the outset, been a central feature of the Board's work.[6]

The nature of the body that would conduct the operations of the IMF and exercise all the powers that the Board of Governors had not specifically reserved for itself was a subject of considerable debate during the negotiations at Bretton Woods. Some participants, like the United States, held the view that the Executive Board should function in continuous session while others, including the United Kingdom, had a preference for a body composed of top national officers with political responsibilities, who would function in their capitals and meet at headquarters as needed for the business of the IMF. Underlying this debate were distinct philosophies regarding the need for continuous oversight by a body of experts versus less continuous but high-level political oversight from capitals.

The question of political oversight by national capitals of the business of the IMF has resurfaced time and again. The establishment of the Interim Committee of the Board of Governors on the International Monetary System (Interim Committee) in 1974 was a major decision of governance. Over a period of a quarter century, the Interim Committee collaborated closely with the Board. Building on that experience, the decision in 2000 to transform the Interim Committee into the International Monetary and Financial Committee (IMFC) and to establish a group of IMFC Deputies was made in the expectation that it should raise the effectiveness of the political oversight of the IMF in the era of global capital markets and of closer interaction between the economic policies and performance of members.

Executive Board meetings are chaired by the Managing Director and, in his absence, by a Deputy Managing Director. The Board is "in continuous session," that is, it meets as often as the business at hand requires. Total Board meeting time averages more than 12 hours a week and over 600

[6]The role of the World Bank's Executive Board has been more limited because its charter did not confer on that institution powers that impinge on the sovereignty of its member states. In the chapter on governance in the World Bank history (Kapur, Lewis, and Webb, 1997, Volume I), Devesh Kapur barely mentions the Bank's Executive Board.

hours per year, which demonstrates the intense oversight exercised by the Board on the activities of the IMF. Nearly one-third of Board meeting time is devoted to policy issues, about 60 percent to surveillance, and the remainder to administrative and budgetary matters. In its decisions on policy issues, the Board makes extensive use of review clauses, particularly when it is breaking new ground and wishes to look again at the working of a policy in light of experience. In the area of surveillance, the Board holds periodic discussions on the world economic outlook and the outlook for international capital markets; it discusses Article IV consultation reports with individual countries, of which there are between 120 and 130 scheduled each year. All requests for the use of IMF resources and their reviews also require Board approval. The periodicity of reviews depends on the requirements of conditionality and on the envisaged path of progress toward restoring the borrower's external viability. During the crisis years of the 1990s, the Board often scheduled monthly reviews of the use of IMF financial resources and of developments in the affected countries. Executive Directors also meet frequently in informal Board sessions to discuss more freely sensitive issues such as developments in foreign exchange markets or recent developments in countries that are using, or may need to have recourse to, IMF resources.

The industrial countries have the necessary manpower in their capitals to follow IMF affairs closely, and their Executive Directors are often selected from the senior civil servants. However, some industrial countries tend to retain decision-making power in their capitals, thereby running the risk of reducing the authority and effectiveness of their Executive Directors. For their part, the developing countries and emerging market economies have become acutely aware of the importance of having strong representatives in the Board to defend their interests and to assist capitals in discussions of IMF financial assistance and the policy conditions attached thereto.

Each of the five members with the largest quotas is entitled to appoint an Executive Director. The remaining members elect other Directors. An appointed Director serves at the pleasure of the appointing member, while an elected Director serves for a two-year term. Each Director appoints an Alternate Director who has full powers when the former is not present. In a number of constituencies, the Executive Director is selected by the country with the largest voting power in the group while, in others, there are rotation arrangements. In the early years of the IMF, several alternates were of the same nationality as the Director. That is no longer the case in multi-country constituencies, which reflects both the growth of the total membership and the intense interest of members in IMF affairs.

A two-year election term for an Executive Director is probably too short to master the complexities of IMF policies and decision making. However, the prescription of a longer term of election would require an amendment of the Articles of Agreement. As a practical matter, in a number of constituencies, Executive Directors are reelected to serve more than two years; in others, a future Director first comes on board as an Alternate Director or an Advisor, or may serve first as an Executive Director in the Bank. Some Executive Directors serve simultaneously in the World Bank.

The increased emphasis on transparency and accountability led the Board, in 2000, to establish an Independent Evaluation Office (IEO), which should reinforce the credibility of the IMF's work outside the institution. The IEO Director consults with and informs the Board but is not obligated to report to management and is operationally independent. Publication of the IEO findings will enhance the accountability of the whole process.[7]

The Managing Director

The Managing Director is both Chairman of the Board and chief executive officer of the institution. The position of the Managing Director is one of the most influential official functions today in the world of international finance. Through his visits to member countries and contacts with ministers, central bank governors, and high officials of members and international bodies, the Managing Director operates continuously at the political level while he is at the same time Chairman of the Executive Board and head of the staff. With the ever-growing pressures of Board and staff work, the number of Deputy Managing Directors was raised in 1994 from one to three, which also provided an occasion to enhance the regional diversity of the team. The Managing Director–Deputy Managing Director team is complemented by a few Counsellors selected from the top staff.

[7]Following the promulgation of a Code of Conduct for the staff in 1998, the Executive Board adopted a similar code for itself in 2000, including the same financial disclosure requirements as for senior staff, and set up an Ethics Committee to examine issues as necessary and report to the Board for disposition.

In contrast with the consensual manner of appointment of earlier Managing Directors, the selection of the successor to Jacques de Larosière was complicated by two candidacies: Michel Camdessus, Governor of the Banque de France, and Onno Ruding, Minister of Finance of the Netherlands and Chairman of the Interim Committee. After time-consuming consultations, Mr. Ruding withdrew and Mr. Camdessus was selected with the unanimous support of the Board.

The selection of the successor to Mr. Camdessus was even more time-consuming and brought into focus the absence of procedural guidelines. The failure of the German authorities to ascertain the broad acceptability among the membership of the candidate whom they first proposed complicated the process. Many IMF members also voiced the view that there was no rationale for maintaining the unwritten rule that the Managing Director should be a Western European and that the President of the World Bank should be a U.S. national. The candidacies of Stanley Fischer of the United States (who was then First Deputy Managing Director of the IMF), on the initiative of a number of developing countries, and of Eisaku Sakakibara of Japan for the position underscored that view.

After agreement had been reached on a new German candidate, Horst Köhler, Executive Board working groups were established in both the IMF and the World Bank to put forward procedural guidelines for the selection of their chief executives. The joint report of the working groups recommended that, as a first step in the process, the Executive Directors would decide on the required qualifications of candidates and establish an advisory group. This would include eminent persons from academia, international affairs, banking, and finance, supported by executive search expertise, to review and assess potential candidates who should enjoy their government's support. The Executive Directors would consider the advisory group's assessments, establish an initial short list and, following consultations with their capitals, a final short list of candidates on the basis of which the definitive choice would be made. The working groups also recommended that there should be no age limit for the two chief executives and that, normally, they should not be expected to serve more than two five-year terms. In the case of the IMF, the adoption of the latter recommendations would require changes in the By-Laws.

The Staff

The IMF staff is a tightly structured, hierarchic, and homogeneous meritocracy. Most of the professional staff are economists. Functional and area departments and their divisions dominate the organization chart. The divisions and their "desks" are the central points from which the IMF exercises its surveillance and financing functions. The major steps in the organizational ladder are economist, division chief, and department head. The staff's responsibilities focus on bilateral and multilateral surveillance, conducting periodic Article IV consultations with members, discussions with members on the use of IMF resources, the preparation of IMF policy papers, systemic and operational research, and technical assistance activities. The further broadening of the core tasks of the IMF in the 1990s in areas such as the soundness of financial institutions, standards and codes of good policy practices, structural reform, the integration of poor developing countries in the global economy, the pursuit of transparency, and outreach to civil society groups has required increases in personnel from a number of different disciplines, which tends to weaken the homogenous character of the staff. At the end of December 2001, the IMF staff totaled about 2,650, with an additional 330 contractual staff.

All papers, briefing documents containing the instructions or objectives of missions in the field, Article IV consultation reports, requests for use of IMF resources and their reviews, policy and operational papers, and the like pass through an interdepartmental clearance process before they are submitted to management for final approval and circulation to the Executive Board. The Policy Development and Review department (PDR) has a central role in the clearance process in order to secure conformity with standards and policies and to ensure evenhanded treatment in the exercise of IMF surveillance and in the application of IMF policies on the use of its resources.

The view is sometimes expressed that the IMF's system of oversight of staff work and internal clearance of papers stifles dissent and that papers have been homogenized before they reach management or the Board. While it is important to iron out differences during the drafting of reports, it would be difficult to stifle dissent in an institution like the IMF where staff members eagerly argue for their views and welcome a battle to win their case. If the matter is important, they will ensure that management becomes aware of the issues. Moreover, Board members have their offices under the same roof as the staff and contacts between the staff and Board members' offices are an intrinsic part of the work atmosphere. Thus, Executive Directors are often aware of differences of views within the staff. Of course, delicate issues may arise in cases when the need for disclosure of information to Executive Directors appears difficult to reconcile with the requirements of confidentiality of a member country.

IV.

Consensus Decision Making in a Cooperative Institution

In any discussion of decision making in the IMF, it is useful to examine first the size and composition of the Board in order to better visualize the complex forces that are at work among the 24 Executive Directors. There follows an outline of the general approach to consensus decision making, with indications where the system does or does not apply, together with several practical examples of the consensus method at work, as well as of the role of Executive Board minutes and of the summing up in decision making. The need to protect the consensus model is discussed in light of the importance of safeguarding the rights of minority shareholders.

Size and Composition of the Board: A Global Roundtable

At the Inaugural Meeting in 1946, the Executive Board consisted of 12 Directors. The five members with the largest quotas were the United States, the United Kingdom, China, France, and India. The seven other Board members were elected by constituencies. The formation of "constituencies," which, together, elect an Executive Director, is a political matter that is left to the members. While geographical considerations have generally been important in the formation of constituencies, a number of constituencies have, traditionally, included both industrial and developing members or members from different regions.

As a result of the rapid increase in IMF membership, the size of the Board grew to 20 Executive Directors in 1964, when the IMF had 93 members. In 1970, Japan replaced India as one of the five appointed Board members. Germany had replaced the Republic of China (Taiwan) in that group in 1960. Between 1964 and 1980, IMF membership rose by a further 40 countries but the increase was absorbed among the 15 existing constituencies.

The number of Board members, nevertheless, rose to 21 in 1978, when Saudi Arabia became entitled to appoint an Executive Director because the Saudi riyal was one of the two currencies that had been most used in IMF transactions in the preceding two years. In 1980, the size of the Board was further increased to 22 when the government of the People's Republic of China undertook the representation of China, and China's quota was raised to a level that would make it possible for that country to elect an Executive Director by itself. In 1981, an ad hoc increase in Saudi Arabia's quota gave that country the same scope.

The dissolution of the Soviet Union prompted the influx in 1990–92 of Russia, the other countries of the former Soviet Union, and some other formerly centrally planned economies. Switzerland, which had long contemplated IMF membership, finally also took the vow. As a result, the size of the Board was raised to 24. The size of Russia's quota made it possible for that country to elect an Executive Director by itself. The other new members joined the existing Belgian, Netherlands, or Nordic constituencies, or the new group headed by Switzerland. As a result, these four Western European constituencies each include industrial, middle income, and developing countries, thereby mirroring the diversity of IMF membership.

The constituency headed by Australia includes a similar broad diversity of country composition. And there are two constituencies headed by members of the Group of Seven—that is, Canada and Italy—that include other industrial, middle income, and developing countries. Together, the seven "mixed constituencies" comprise 70 members; in Board discussions, they often hold the middle ground between the Group of Five major industrial countries and the 12 developing country groups (including Russia).

The most striking aspect in the regional distribution of Board seats is the heavy presence of Western Europe, with eight Executive Directors—one-third of the total Board—with an aggregate voting power of 36.3 percent.[8] As explained in Section III, this was due to historical circumstances in the development of IMF quotas, when the weight attached to foreign trade and reserves served the European countries well at a time when their regional integration had only begun to develop. However, this heavy Western European presence is now increasingly seen as justifying a downward correction, taking into account the strides made toward European Union.

Appendix II lists the composition of the Executive Board with the voting power of each Executive Director as well as the composition of the constituencies in May 2002. Based on the nationality of the Executive Directors, the broad regional distribution of Board seats was then, and remains, as follows:

- five from the Western Hemisphere: Canada, and the United States, and three from Latin America and the Caribbean;

[8]The Western European presence in the Board grows to nine Executive Directors when Spain holds that position in the Latin American constituency that it shares with Mexico, Venezuela, and the Central American countries.

- eight from Western Europe: Belgium, France, Germany, Italy, the Netherlands, the Nordic countries, Switzerland, and the United Kingdom;
- five from Asia-Australia-Pacific: Australia, China, India, Indonesia-Thailand, and Japan;
- three from the Middle East: Egypt, Iran, and Saudi Arabia;
- two from sub-Saharan Africa, including predominantly Anglophone and Francophone countries; and
- one from Russia.

In early 2002, total membership in the IMF was 183 countries,[9] or nearly twice the number of members—93—in 1964, while in the same period the size of the Executive Board rose only from 20 to 24. In addition to the five members with the largest quotas who appoint their Executive Director—the United States, Japan, Germany, France, and the United Kingdom—there were three constituencies of "one"—China, Russia, and Saudi Arabia. Board membership is evenly divided between 12 Executive Directors from industrial countries and 12 from developing countries (including Russia). The average size of each of the 16 multicountry constituencies is nearly 11 countries, which imposes a large burden on their Executive Directors. The reduction, over time, of the share of EU quotas and voting power and of the European Union's representation in the Board would facilitate the emergence in the Board of a majority of Executive Directors from developing countries, while the industrial countries would remain majority shareholders.

The strength of the voting power in May 2002 ranged from 17.2 percent for the U.S. Executive Director to 1.2 percent for the Francophone African constituency, which includes 23 members. The average voting strength per constituency is about 3.2 percent. Constituencies with less than 2.5 percent of the voting power include the Brazilian group, the Indian group, the Iranian group, the Argentinean-Chilean group, and the Francophone African group. The low voting strength of the two sub-Saharan constituencies, which together amount to 4.4 percent, is among the issues of concern in the size and structure of the Board in view of the exceptionally large number of member countries in the sub-Saharan groups, 45, many of whom have policy programs with the IMF and need technical assistance as well.

The Second Amendment of the Articles of Agreement in 1978 specified a Board of 20 Directors (5 appointed and 15 elected Directors) with the

[9]A new country, East Timor, applied for membership in March 2002.

proviso that "for the purpose of each regular election of Executive Directors, the Board of Governors, by an eighty-five percent majority of the total voting power may increase or decrease the number of elected Directors." Since the Second Amendment, IMF membership has increased by 57 countries, which have added, on average, nearly 4 countries to each constituency. While the great diversity of the global membership and the average size of the constituencies are arguments advanced for considering a further increase in the size of the Board, efficiency of decision making and management of the IMF would be better served by a smaller Board.

General Approach to Consensus Building in the Board

The rule of consensus decision making was adopted at the outset when the IMF was dominated by the political and voting power of the United States and the United Kingdom. In the view of the founding members, the jurisdiction and far-reaching mandate of the new institution, with a diverse membership and differing interests, called for a cooperative framework in which policy would be set by all and for all. Rule C-10 of the IMF's Rules and Regulations prescribes that "The Chairman shall ordinarily ascertain the sense of the meeting, in lieu of a formal vote." Thus, from the early days of the IMF, the Executive Board, management, and staff developed working methods to establish common ground among the members in setting policy. When, about three decades later, the industrial countries gradually ceased to use IMF resources and became the predominant class of IMF creditor countries, it was understood by all that consensus decision making should continue in order to maintain the cooperative character of the IMF; safeguard the interests of the developing and transition countries who are, de facto, the users of IMF resources; maintain a reasonable balance between the interests of debtors and creditors; and—ultimately—protect the rights and interests of the minority shareholders.

The Board works as a college of officials who devote themselves full time to the tasks and purposes of the IMF. The "sense of the meeting," which the chairman must ascertain, is a position that is supported by Executive Directors having sufficient votes to carry the question if a vote were taken. "Consensus" denotes unanimity. While unanimity remains the objective, the Chairman and the Board view the achievement of "a large majority" as sufficient for many decisions. Executive Directors are not subject to time constraints in expressing their positions, reservations, and questions, including often successive interventions in response to questions and arguments of others. In that environment, the influence of an individual Director on IMF policies and decisions can—and frequently does—reach well beyond his or her voting power. Technical expertise is important, persuasiveness counts a great deal, diplomacy, sense of timing, and length of service all have an impact on the influence that an Executive Director can exert. It is a well-established practice that, on policy issues, all Directors intervene in successive "tours de table." The minutes of Board meetings record all interventions by Executive Directors, management, and staff; they constitute the legislative or policymaking record of the Board's activities. The system thus ensures that consensus decision making is fully compatible with accountability.

Consensus building on important policy issues is often a difficult and time-consuming process. Initial positions staked out by Executive Directors may appear irreconcilable; polite discourse may mask sharp dispute and tension; and, occasionally, the mood of the Board can become fractious. On complex issues there is, generally, an understanding that "nothing will be decided until everything is agreed." This practice offers valuable protection to the developing countries because interrelated issues may well involve financial matters, such as the rate of charge or the rate of remuneration, or other issues requiring a special voting majority for decision making. It provides the developing countries as a group with a potential veto power to ensure that the package as a whole would be acceptable to them. That was most recently the case in the fall of 2000 during the review of IMF financing facilities, when the developing countries defeated a proposal of the Group of Seven regarding the rate of charge on the use of IMF resources and, instead, formulated a revised proposal that was acceptable to the Board as a whole.

Debate and reflection continue inside the Board as well as in informal gatherings of Executive Directors and exchanges of views with the Managing Director and with the staff, which stands ready to participate in the Board's search for ways forward and to prepare additional material to make sure that all avenues are explored in the search for workable solutions. When members belonging to a given constituency hold differing views on a subject, the Executive Director can put the differing views on record but cannot split his or her vote. The resolution of such conflicts is for each Director to decide and any Director remains free to record an abstention or an objection to a particular decision. The system has a tempering impact and evidence shows that the decisions that finally result may well be the best that could be taken under the circumstances. The stature of the Managing Director as Chairman of the Board adds much weight to his interventions. Directors will use informal contacts with the Managing Director to indicate where room for flexibility may be found. Directors also often turn to the Dean—the longest-serving Board member—for guidance in the Board's work and for assistance in formulating possible ways forward in a difficult debate or in finding areas for compromise and resolution.

In line with the policies pursued since the mid-1990s to improve transparency, public information on Board activities is now being made available on a daily basis (see p. 60). Moreover, a growing number of members have agreed to the publication of country papers and the Chairman's summing up of Article IV consultations in the Board (Public Information Notices, or PINs). However, while archival material generally becomes part of the public record after five years, there remains a time lag of 20 years in the case of minutes of Board meetings. An increasing number of "informal" Board meetings are also taking place without detailed record keeping.

Consensus Building and Decision Making in Practice

The search for consensus applies principally in policy formulation by the Executive Board. In discussions on the application of surveillance, such as Article IV consultations, and in the world economic outlook and capital markets discussions, each speaker states his or her views, including agreements or disagreements with the staff paper, with the authorities of a member, or with other speakers.

Requests for use of IMF resources and their reviews are considered by the Board as formal proposals of the Managing Director. In order for the staff to engage in program discussions with a member and to accept a package of policies as fulfilling the standard quality, the Board will accept the Managing Director's judgment in all but the rarest cases. A case of Board dissent that attracted much press comment related to Mexico's request for a Stand-by Arrangement, which the Board approved on February 1, 1995, with several Western European Board members abstaining on various grounds (see Section VI). Executive Directors who have reservations will put those in the record of the meeting. If they have serious reservations, they will fire warning shots by making such statements as "this should not constitute a precedent," or "we wish to review this case soonest," or "the staff should not do this again." Management and staff will carefully consider such comments for future reference.

For matters that require a special majority of 85 percent, or 70 percent of the total voting power, such as for a number of financial issues, Board consideration concludes with straight up or down voting on the proposal. Such housekeeping questions as the administrative budget are also among the issues for which there is typically straight up or down voting.

Let us now focus on some examples of policy consensus building in practice.

- ***Surveillance.*** Reviews of IMF surveillance take place every two years. A Board review of that subject—as well as of other major policy items—is, typically, initiated on the basis of a staff paper setting out the principal objectives of the policy, reviewing recent practice, and indicating where management and staff believe that changes in policies and practices may need to be considered. In the initial discussion, all Executive Directors will intervene extensively, a number of them on the basis of statements ("grays") that they have circulated beforehand to their colleagues, management, and staff. Assume now that the opening discussion reveals wide areas of disagreement among Directors regarding the future direction and objectives of the policy. The Managing Director will then call for a follow-up discussion for which he—or, at his direction, the staff—may circulate a memorandum suggesting possible avenues for reconciliation between conflicting approaches. All Executive Directors will, no doubt, actively participate in these follow-up discussions.

  When sufficient progress has been made to reduce sharp differences on the broad objectives of policy, the Managing Director will request the staff to draft detailed proposals for changes in policies and practices, building on the emerging areas of consensus. The new staff paper could well reopen areas of discord and the Managing Director's leadership will be required to steer the discussion forward. When considering specific policy proposals, the Chair will not be satisfied with a narrow "sense of the meeting" (that is, a narrow majority if the matter were to be put to a vote) but will urge the Board to consider matters until consensus is achieved or, at least, a very broad majority has emerged on the significant aspects of the policy review. In the nitty-gritty search for areas of consensus, Executive Directors will often indicate not only their preferred solutions, but also the "second-best" and "third-best" outcomes that they would or might find acceptable. In the end, the minutes of the meetings will not only show the positions of each Director but also how the positions evolved and were adjusted in the light of arguments of others and how a continuing give-and-take brought Board members to solutions that all, or almost all, found acceptable.

Following the above simulation of a major policy review, let us now summarize the record of the Board's consensus building in the late 1980s on two complex areas of policy. These are the establishment of the Enhanced Structural Adjustment Facility (ESAF), and the development of burden sharing and a collaborative strategy to deal with overdue financial obligations to the IMF, known as arrears.

- ***ESAF*** was a major innovation in IMF policy. It promoted structural adjustment in the poorest members—a group of about 80 countries—with most of the financing to be provided outside of the quota resources of the IMF by a number of industrial and middle-income developing countries in the form of loans and grants.[10] The target amount of the initial facility was SDR 6 billion. A special feature of the facility was the submission of a Policy Framework Paper (PFP), which set out public investment programs and financing needs over a period of three years, as well as the structural adjustment policies to reduce obstacles to sustainable growth and balance of payments viability. The PFP also sets out steps to protect the poorest from any adverse impact of the adjustment measures. Loans under the ESAF are highly concessional: an interest rate of 0.5 percent and repayments starting in the sixth year and ending 10 years after disbursement. Access ranges from an average of 150 percent of quota to a maximum access of 350 percent in exceptional cases.

  It required all the tenacity and diplomacy of the then Managing Director, Michel Camdessus, to convince the industrial countries that an ESAF fitted in the IMF as an appropriate instrument to support the economic reform efforts of a large group of poor countries and to serve as a catalyst for the necessary financing. Equally, the Managing Director had to cajole Executive Directors from developing countries into accepting the policy discipline of the PFP, quantitative targets on key variables, prior actions, progress toward program ownership by the borrowing countries, and other requirements. It took many hours of negotiation and the resourcefulness of the staff to clear the path toward a scheme that the entire Board could embrace.

[10]In addition to repayments of the 1976 Trust Fund loans, which had been financed by a share of Fund gold sales for the benefit of developing countries (see also Section VI).

ESAF became the principal vehicle of IMF assistance to its poorest members. The facility was renewed after 5 years and again after 10 years. An external evaluation of ESAF was undertaken and published in the late 1990s. Shortly thereafter, ESAF was converted into the Poverty Reduction and Growth Facility (PRGF) in the context of the debt relief initiative for the Heavily Indebted Poor Countries (HIPC).

- ***Overdue financial obligations*** to the IMF became a matter of increasing concern in the late 1980s. By April 30, 1990, 11 members had arrears totaling SDR 3.25 billion, with 4 members—Liberia, Peru, Sudan, and Zambia—accounting for the bulk of the problem. In order to protect the IMF's financial position, the Board developed burden-sharing arrangements in 1985. Without such arrangements, the whole burden of unpaid obligations would fall on the paying debtors, which would have been patently unfair. Since the sharing arrangements "dipped into the pockets" of both creditors and users of IMF resources, it required a great deal of calculation and negotiation to convince both groups that the proposed distribution of the burden was fair and reasonable.

  The strategy on arrears also involved the "carrot" for members in arrears to earn "rights"—based on a track record of policy performance and (modest) reductions of the arrears—toward IMF financing after the arrears would be cleared with the help of a "support group" of donors. And there was also a "stick" of remedial measures ranging from a declaration of noncooperation to the threat of compulsory withdrawal.

With the burden-sharing arrangements, the IMF's precautionary balances rose to a total that more than covered outstanding arrears plus an additional protection against the risks associated with the encashment of rights. More important, the strategy was successful in assisting several countries in clearing their arrears and in preventing the further growth of such arrears. At the end of the 2001 financial year, total arrears amounted to SDR 2.2 billion, with the Democratic Republic of the Congo, Liberia, Somalia, and Sudan accounting for over 95 percent of that sum.[11] The success of the strategy on overdue financial obligations remains an outstanding example of thel collaborative spirit of IMF debtors and creditors.

In the Board's work on surveillance and general policy formulation, decision making by consensus is complemented by the practice of conclud-

[11]The Democratic Republic of the Congo cleared its overdue obligations to the IMF in June 2002.

ing Board discussions with a "Chairman's Summing Up" or "Chairman's Concluding Remarks." The summing-up procedure was first prescribed in the context of the Second Amendment of the Articles as part of the procedures for annual consultations under the new Article IV, which mandates IMF surveillance over the economic policies of members. Since the late 1970s, the summing-up procedure has played an increasing role in decision making in the Board. It has become standard procedure not only for Article IV consultations but also to conclude Board consideration of policy items as well as for operational items such as requests for use of IMF resources and their periodic reviews.[12] The "Chairman's Concluding Remarks" have a more tentative character and are used to capture the progress of an ongoing policy debate or discussion of a country matter and to suggest how it can be carried forward.

The summing up aims to capture all the main strands of a Board discussion and to reflect differences between the Board's views and the positions of the staff. The summing up also needs to indicate clearly the aspects of the debate on which Directors generally agreed as well as where views differed among Directors. Precise indications on whether, for example, "a majority" or "some Directors" held this or that view is important. Significant dissent by some Directors from the views of others or from the positions taken by the staff needs to be captured in order to round off a summing up. The parts of a summing up that reflect the sense of the meeting have the character and effect of a Board decision.

Ordinarily, the summing up is made by the Chairman immediately after the end of the Board discussion, that is, after the staff's comments and answers to questions by Executive Directors. Board members then have an opportunity to voice suggestions for alterations to the text, which are considered immediately by Directors and the Chairman. Not infrequently, these sessions become vivid exchanges between Board members to give greater precision to their views or to the thrust of the comments in the summing up. For a country summing up, the Director of the country concerned can offer suggestions for factual correction or clarification. If, after

[12]Board consideration of operational matters, financial issues, requests for use of IMF resources, and other matters is concluded, as needed, with formal decisions for which drafts are provided by the Fund's legal department. The relevant decisions are published with commentary in the IMF's *Annual Report* and are periodically reprinted in the *Compendium on Legal Decisions*.

a Board meeting, substantive changes in the text should be suggested, the matter would normally be brought back to the Board for disposition. In the case of complex and multifaceted discussions such as the world economic outlook, international capital markets, or major operational policies, the Chairman may wish to reflect on the text of the summing up and postpone delivery until the next Board meeting, normally within 48 hours.

Protecting the Consensus Model and Safeguarding the Rights of Minority Shareholders in the IMF

The cooperative nature of consensus decision making promotes the search for common ground through the active participation of all who share the responsibility for formulating and implementing institutional policy. It is an approach that promotes thorough reflection, leading to middle-of-the-road solutions to reconcile differing interests of a large membership and willingness to revisit and review decisions in light of changed circumstances. As a result, consensus decision making has been of considerable benefit to the institution and its members and it has provided a particularly valuable protection to the interests of the developing countries. However, it is a feature that is neither self-preserving nor self-perpetuating. Indeed, it needs to be nurtured and protected in the face of developments that may become risks to the process:

1. Since the late 1970s, in the wake of the development of the international capital markets, the industrial countries have ceased using IMF resources. The IMF has, thereby, lost, in part, its characteristic of a "credit union," even though a number of middle-income and emerging-market countries have been, at times, lenders to, and at other times, borrowers of the IMF. As a result, special vigilance is required to ensure that the rules of the game continue to reflect a reasonable balance between the interests and requirements of lenders and borrowers.
2. The major industrial countries, the Group of Seven, which command close to one-half of the voting power in the IMF, have exhibited a growing tendency in recent years to act as a self-appointed steering group or "Directoire" of the IMF. Recent reports of the finance ministers to the heads of state and government at the annual summit meetings have sometimes tended to deal with IMF matters in a manner that raises the question of whether they will leave the Executive

Directors representing the Group of Seven countries with the necessary margin for discussion and room for give-and-take that is essential for consensus building.

3. The collaboration between the Interim Committee/IMFC and the Executive Board has had a positive impact on IMF decision making, with the Ministers giving political "advice" and the Board laboring until broadly acceptable solutions and compromises have emerged. It is important that the IMFC and its deputies endorse the consensus model of IMF decision making. To that effect, the deputies should avoid immersing themselves in what the Board does best.
4. Although Executive Directors are appointed or elected by members, they are officials of the IMF, responsible for conducting the business of the institution. Therefore, Executive Directors must have seniority in their capitals and should possess the necessary room for maneuver with regard to the "advice" or "directives" from their authorities.

Is there a risk that decision making by consensus in the IMF has been damaged in the light of the observations made above? Has criticism of the IMF in the legislatures of a number of member countries and by civil society organizations reduced the collaborative spirit of members? It is impossible to give firm answers or conclusive evidence one way or the other. What is clear, though, is that vigilance is needed to preserve and protect the mode of decision making in the IMF.

It is also clear from the foregoing that consensus decision making is an essential condition for safeguarding the rights of minority stockholders in the IMF. The prescription of special majorities of 70 and 85 percent of total voting power to take certain decisions (Appendix I) is supported both by the argument that important decisions should command wide support and by the consideration that groups of members—even a single member—should be in a position to prevent certain decisions from being taken.

V.

Enhancing Political Oversight of the International Monetary System

The Interim Committee was established in 1974 with a mandate to oversee the management and continued adaptation of the international monetary system. The Committee collaborated closely with the Executive Board and its work certainly enhanced policy formulation and decision making by the Board. A closer examination of the Committee's activities, however, suggests that stronger political leadership to improve economic performance and policies, particularly of the industrial countries, and to tackle emerging systemic issues resulting from the globalization of financial markets would have been useful. The Interim Committee was transformed into the IMFC in 1999 with a view to making political oversight more effective in a period of reform of the systemic architecture.

The periodic ministerial meetings—and the annual meetings of the Board of Governors—are preceded by regional caucuses, constituency meetings, and meetings of groups of members, among which the meetings of the Group of 24 developing countries and the Group of Seven major industrial countries are particularly important.[13] These groups promote the agendas of different constituencies within the membership. Individual member countries, particularly large shareholders, also tend to bring their weight to bear on the IMF's activities in the pursuit of their national foreign policy objectives. Both members and the media have expressed concern in recent years that the international financial agenda appears to be increasingly set in the annual summits of the major industrial countries.

The Interim Committee: A Mixed Leadership Record

From its first meetings in 1974–75, the Interim Committee had to grapple with the oil price shock, inflation, and recession in the world economy. The Committee endorsed the enhancement of IMF financing facilities to

[13]The activities of the Group of 10 industrial countries have taken a lower profile since the mid-1970s. The Deputies of the Group of 10 continue to make a valuable contribution with the preparation of special studies on systemic issues. IMF management and staff participate in the activities of the Group of 10.

assist members adversely affected by the oil crisis and accelerated increases in IMF quotas. The Committee also played a key role in the completion of the Second Amendment of the Articles of Agreement, including the obligations of members regarding exchange arrangements, the reduced role of gold in the international monetary system that was spelled out in the compromise that was reached at the Interim Committee's meeting in Jamaica in 1976, and the sale of a quantity of IMF gold to provide the resources for a Trust Fund to benefit low-income developing countries.

The positive record of the first meetings set the tone for the businesslike and cordial atmosphere that prevailed throughout the life of the Interim Committee, 1974–99. In view of the deteriorating economic prospects of the developing countries in the 1970s and early 1980s, the Committee facilitated IMF financing and eased the adjustment burden of the affected countries. When the Latin American debt crisis struck, the Interim Committee supported the lead given by the Managing Director to "bail in the banks" and other lenders to "fill the financing gaps" of strong adjustment programs. While several indebted countries found it very hard to stay the difficult course of adjustment, the lackluster policies of the industrial countries as a group also failed to provide the needed external environment for successful adjustment by the developing countries.

In the late 1980s and early 1990s, improved policies and the advancing globalization of financial markets stimulated an impressive economic performance of the developing countries that led the global upswing. Shortly thereafter, the financial crises that hit some of them acted as a rude reminder of the increased exposure of developing countries to external shocks. An unfortunate overall result of the last quarter of the twentieth century was that the prosperity gap between the developing countries as a group and the industrial world widened relentlessly.

In the context of the collaborative approach adopted in the late 1980s to eliminate arrears in financial obligations to the IMF, many developing countries—which had little to do with the excessive lending to a very few countries among them that accounted for the bulk of the arrears—took the view that they were pressured to endorse the Third Amendment of the Articles of Agreement, which was tied to the coming into effect of the increases in IMF quotas under the Ninth Quota Review. The amendment provided for the suspension of voting rights as an intermediate step following declaration of ineligibility, and for compulsory withdrawal of a member that remained in breach of its obligations under the Articles.

The developing countries have also been perturbed to see that successive general reviews of IMF quotas confirmed the dominance of the group of industrial countries and did not involve meaningful changes in the quota structure. While they had little alternative but to yield on the matter of the Third Amendment and on the lack of significant changes in the quota structure, they refused to do so on the question of a general allocation of SDRs. At the Interim Committee meeting in Madrid in 1994, the developing countries, led by Manmohan Singh, the Indian Finance Minister, blocked the proposal of the major industrial countries to allocate SDRs only to new members that had not received allocations. That action caused considerable discomfort among the industrial countries and demonstrated that the developing countries as a group could also use the instrument of veto power in the IMF.

The issue was subsequently tackled through the adoption in 1997 of the Fourth Amendment of the Articles of Agreement on a special one-time allocation of SDRs. This amendment is designed to enable all members to participate in the SDR system and to receive an equal share of cumulative allocations in relation to their quotas. As a result, cumulative SDR allocations would double to SDR 42.87 billion. As of mid-April 2002, 107 members accounting for 70.6 percent of the total voting power in the IMF had endorsed the fourth amendment. However, endorsement by the United States, which is required to reach the special majority of 85 percent, has not yet been forthcoming.

The Interim Committee worked closely with the Executive Board. The Board prepared issues for consideration by the Committee, which, in turn, endorsed prior Board decisions, offered its "advice" on pending matters, and set out the next set of issues on which it wished to receive the Board's input for review at the political level. As the Committee's deliberations evolved into a multilateral dialogue among officials with political responsibilities, they strengthened the reality of interdependence and cohesion among nations in the global financial framework of the IMF.

However, the Interim Committee was not forceful enough in the 1970s and 1980s in convincing the industrial countries to pursue fiscal discipline, restore price stability, and achieve exchange rate relationships that reflected economic fundamentals. The hesitancy of the Interim Committee in multilateral surveillance and international policy coordination was, in part, a reflection of the determination of the Group of Seven to keep the consideration of these issues to themselves, but the Group of Seven hardly proved more active. The Interim Committee attempted to provide more leadership on these issues in 1993 when it adopted a "Declaration on Cooperation for Sustained Global Expansion" to emphasize its determination to address the challenges and opportunities of the integrated world economy in a cooperative manner. In the fall of 1996, the Committee updated and broadened its 1993 declaration to take account of new challenges in the global environment, and designated it a "Partnership for Sustainable Global Growth." Less than a year later, the economic outlook became clouded by the Asian crisis and the Interim Committee refocused its attention on strengthening the architecture of the system. Earlier in the decade, however, the Committee had failed to give warning signals regarding the implications for the IMF and its members of the globalization of capital markets, and of exchange arrangements and domestic policies that were inconsistent with free capital flows.

The International Monetary and Financial Committee: Toward More Effective Systemic Oversight?

The financial crises of the 1990s heightened the awareness of the need for more effective political oversight of the IMF as part of a set of measures to strengthen the international monetary system. The Managing Director, Michel Camdessus, and some members of the Interim Committee favored its transformation into a decision-making council in the belief that increased involvement of members at the political level would strengthen the effective support of member countries for the institution at a time of strain. Most Committee members, however, remained of the view that, with further improvements, the existing arrangements would prove adequate. In fact, many developing countries remain averse to the creation of a council because of their concern that ministers from industrial countries would not have the inclination and patience for consensus building and would be tempted to settle issues through up or down voting. Some Committee members may also have hesitated to strengthen their political commitment to the institution at a time when IMF-supported programs in Asia, Russia, and elsewhere, as well as the slow progress with debt relief for the poorest countries, had come under increasing criticism in the media and from civil society groups.

In 1999, the Interim Committee was transformed into the IMFC. Members reaffirmed their support for "the IMF's unique role as the cornerstone of the international monetary and financial system." They also agreed, in order to strengthen the role of the IMFC, to create a group of Deputies to prepare the work of the Committee. In the past, the Interim Committee had deliberately not taken that step in order not to run the risk of weakening the authority of the Board. The Deputies enter a terrain where the Ministers and the Executive Board have felt at ease for many years. It is possible that the addition of the Deputies will strengthen political support for the IMF's tasks. But there is a risk that the Deputies may involve themselves too much in the tasks of the Board. Governance of the monetary and financial system requires both effective political leadership and a strong Executive Board.

Mr. Camdessus had proposed that the IMFC meet periodically—say, every two years—at the level of heads of state or government. This would enhance the legitimacy of the IMFC, and of the IMF, as the representative of the global community in financial affairs and, at the same time, constitute a counterweight to the summits of the heads of state or government of the major industrial countries.

While there has been little reaction to the proposal of Mr. Camdessus, the Group of Seven in 1999 sponsored the creation of two new groups outside the IMF. These are, first, the Group of 20, which brought the principal developing and emerging market economies together with the main industrial countries, and, second, the Financial Stability Forum, which brought together the principal international regulatory and supervisory authorities (see below, pp. 40–41). It is an open question, however, why the Group of Seven did not place the two new groups under the aegis of the IMF, whose top priority task of crisis prevention requires it to be a center of expertise on issues of financial sector soundness and, especially, financial sector issues of emerging market economies, which—as was demonstrated during the crises of the 1990s—can be particularly vulnerable to shifts in financial market sentiment and contagion effects.

The agendas of the IMFC have, thus far, followed in the footsteps of the Interim Committee. The new Committee called for a strengthening of the role of the IMF to underpin "the broader sharing of the benefits and opportunities of an open world economy" and to make "globalization work for the benefit of all." Its agenda continued to focus on aspects of crisis prevention and private sector involvement in crisis resolution. In 2001, the weakening economic prospects for the world economy and the policy responses of members in the aftermath of the terrorist attacks on the United

States of September 11 were the main topics on the agenda of the IMFC, together with the combating of money laundering and the financing of terrorism. The latter subject was further considered in the Committee's meeting of April 2002, together with the improving prospects of, and policy requirements for, the world economy and further consideration of issues of crisis prevention and resolution.

Joint meetings of the IMFC and the Development Committee,[14] an important innovation since the Prague Annual Meetings of September 2000, have dealt with poverty alleviation and growth enhancement in the poorest countries, the conversion of ESAF into the PRGF, and the division of tasks between the IMF and the Bank in connection with the PRGF and the HIPC.

The Intergovernmental Group of 24: Cohesion Weakened by Diverging Interests of Members

The Group of 24 was set up in 1971[15] and has established itself as the voice of the developing countries in international monetary affairs. The group has consistently supported the central role of the IMF in the system and has placed considerable emphasis on the importance of consensus building for decision making in the IMF. Over the years, the Deputies of the Group of 24—and of the Group of 10—have prepared a number of important parallel or complementary studies on issues in the management of the international monetary system for the attention of members of the Interim Committee, the IMFC, and Executive Directors. These have included studies on strengthening financial systems, issues in capital account liberalization, the architecture of the international financial system, crisis prevention and management, and the like. The studies have also focused on the implications of the economic policies of industrial countries for the developing world, on debt and poverty, HIPC and PRGF, good governance of nations, governance of the Bretton Woods institutions, issues of sub-Saharan Africa, and other topics.

[14]The Development Committee (the Joint Bank-Fund Committee on the Transfer of Real Resources to Developing Countries) was set up at the same time as the Interim Committee in 1974. Closer examination of Development Committee issues falls outside the scope of this pamphlet.

[15]The African, Asian, and Latin American regions each appointed eight members of the Group of 24, at the ministerial and deputy levels, with a rotating chairmanship of the group. The Managing Director and staff participate in the group's meetings.

The Group of 24 has judiciously focused its attention where it could build on earlier successes or on issues for which it could attract support from industrial countries. The Group has been successful in strengthening the voice of the developing countries in the Executive Board. It has not been successful in its efforts to raise the share of the developing countries in IMF quotas and voting power. It has not been successful either with its repeated calls for general allocations of SDRs but, as noted earlier, it was successful during the Annual Meetings in Madrid in 1994 in cementing the blocking minority against the proposal of the industrial countries to limit SDR allocations to new members that had not received allocations.

The internal cohesion of the developing countries as a group has tended to weaken in recent years as the vital interests of various sub-groups—including emerging markets, oil producers, and heavily indebted poor countries—have increasingly diverged. The creation in 1999 of the Group of 20 risks further diluting the cohesion of the Group of 24. The diverging interests among its members increasingly prevent the Group from exercising a counterweight to the Group of Seven and have affected its impact on the debate on reform of the architecture of the system.

The Group of Five and the Group of Seven: Leading or Overbearing?

The original intent of the Economic Summits of the major industrial countries, which were initiated in 1975,[16] was to improve the performance of the world economy and enhance policy coordination among the participating countries. Starting in 1982, the Managing Director of the IMF was invited to participate in the finance ministers' meetings on multilateral surveillance. At these meetings, the Managing Director, acting as a neutral authority, has presented an overview of the issues with particular reference to the international implications of each of the major countries' policies. He then makes recommendations on how to address these issues. Similarly, the IMF's Economic Counsellor has participated in the meetings of the Deputies on the topics of the world economic outlook and surveil-

[16]France, Germany, Italy, Japan, the United Kingdom, and the United States participated in the 1975 summit; Canada was included in 1976 and the President of the European Commission in 1977. The G-5 Finance Ministers continued to meet separately until after the 1987 Louvre Summit.

lance. From headquarters, the IMF staff has provided the required data and analysis. However, the Group of Five and the Group of Seven have insisted on keeping multilateral surveillance within their group and have not invited the Managing Director to participate in their consideration of the policy options he has outlined.

By the beginning of the second administration of U.S. President Ronald Reagan in 1985, it had become increasingly urgent to strengthen the fiscal position of the United States and to promote a decisive correction in the overvaluation of the U.S. dollar. Following preparatory meetings among the Group of Five in the spring and summer of 1985, a ministerial meeting was held at the Plaza hotel in New York City on September 22, 1985, that produced a commitment to continue joint market intervention to achieve a realignment of exchange rates. The IMF Managing Director at the time, Jacques de Larosière, was not invited to the meeting.

In the period from the Plaza Agreement of September 1985 through the Louvre Accord of February 1987 and the remainder of that year, the Group of Five finance ministers made a determined effort at economic policy coordination, promoting the convergence of favorable economic performance among the participating countries as well as exchange rate relationships that better reflected economic fundamentals. To guide their work, they used a set of indicators of economic policies and performance, with a particular view to examining their mutual compatibility. The IMF staff did the analytical work on indicators; the subject was examined by the Executive Board and figured more than once on the agenda of the Interim Committee. Thus, the Group of Five trusted the IMF as an objective analyst but continued to keep policy consideration of the issues within their Group. In the late 1980s, efforts at economic policy coordination subsided. New systemic issues took center stage, particularly the integration into the world economy of the countries of the former Soviet Union and other countries in that area, financial globalization, and, subsequently, the financial crises of the 1990s.

It is regrettable that the Group of Seven countries have shown little or no inclination to resume economic policy coordination or otherwise to strengthen their policy collaboration and to place it in the broader, more representative, context of the Interim Committee and the IMFC. A complex undertaking of that kind requires a sustained effort over time on the part of the participants—to which the IMF Managing Director and the staff could have contributed—to deepen their understanding of the issues and of each other's problems and priorities, and how to deal with them in an interdependent manner. Persistent efforts could, for example, have produced more pertinent insights of the structural weaknesses in the Japanese economy, of the need for greater flexibility in goods and labor markets in Western Europe, as well as of the forces that shaped the exceptional performance of the U.S. economy in the 1990s. In short, better leadership and collaboration among the Group of Seven could have improved their economic performance and that of the rest of the world.

The attitude of the Group of Seven regarding the IMFC also remains ambivalent. On the one hand, the Group of Seven endorsed the transformation of the Interim Committee into the IMFC and welcomed it as the representative body of the global membership of the IMF. On the other hand, however, the international financial agenda appears increasingly to be set at the annual summits and at other ministerial meetings of the Group. The Group's decisions in 1999 to sponsor the creation of the Group of 20 and of the Financial Stability Forum outside the IMF have added—rightly or wrongly—to the perception that the Group of Seven countries are determined to dominate the global financial agenda.

The Group of 20, comprising the Group of Seven and the principal developing and emerging market economies,[17] together with the European Union and the heads of the Bretton Woods institutions, was presented as a forum of systemically important countries "within the framework of the Bretton Woods institutional system" and as a forum in which emerging market economies can periodically meet with the major industrial countries. However, the mandate of the new group and its membership overlap largely with the IMFC, except that the Group of 20 excludes the large body of developing countries and is, thus, flawed in that it lacks balance and universality. Moreover, the IMF Executive Board was not involved in the creation of the Group of 20.

The Financial Stability Forum was established to identify and correct vulnerabilities in financial systems, improve the functioning of markets, reduce systemic risk, and enhance coordination and information exchange among the authorities responsible for financial stability. The Forum is chaired, in a personal capacity, by the General Manager of the Bank for International Settlements (BIS) and is organized as a group of 40 members

[17]Argentina, Australia, Brazil, China, India, Indonesia, Mexico, Russia, Saudi Arabia, South Africa, South Korea, and Turkey.

in which the Group of Seven countries have an absolute majority, with three members for each country. The Forum includes (1) the international regulators and supervisory groupings in the field of banking, securities, and insurance; (2) the main regulatory authorities of the Group of Seven countries, Australia, Hong Kong Special Administrative Region, the Netherlands, and Singapore; (3) the IMF, the World Bank, and the Organization for Economic Cooperation and Development (OECD) and (4) two technical committees of central bank experts. Together with the World Bank, the IMF cooperates with the Forum through the preparation of financial sector assessment programs of members. The Forum's responsibilities overlap in large part with the core financial tasks of the IMF, which should play a coordinating role in the areas that pertain to its mandate.

Competing Interests: The United States, Western Europe, and Japan and the Asian Region

Like the activities of groups of member countries, those of individual members directly affect the governance of the monetary system. In that regard, the United States is often referred to as the "Group of One." The United States played a unique role in the creation of the IMF. It undertook crucial responsibilities as guarantor of the fixed exchange rate system and stood ready to act as financier and global lender of last resort. Following the breakdown of the Bretton Woods system, the United States supported the formulation of the IMF's key mandate of surveillance over exchange rates. Other members continue to look to the United States for support of major new initiatives in international monetary affairs.

Sharply differing views about the U.S. role and the future of the IMF have recently emerged in official and quasi-official circles. The report of the Congressional Advisory Commission on International Financial Institutions, chaired by Professor Allan Meltzer of Carnegie Mellon University, was published in 2000. It denigrates the role and activities of the IMF, and its recommendations would effectively sideline the institution. IMF surveillance over the international monetary system and the world economy would be sharply reduced. The IMF would no longer have the authority to negotiate policy reform and its scope for financial assistance to its members would be curtailed. In its deliberations, the Meltzer Commission did not elicit the views of other IMF member countries and its report contained sharply dissenting views from several Commission members.

The U.S. Treasury Secretary, Lawrence Summers, in testimony on Capitol Hill, emphasized that a number of recommendations of the Meltzer report were contrary to the interest of the United States. At the same time, he said, the United States would insist on important reforms in the IMF, with regard to the emphasis of surveillance, the IMF's financing role, the sustainability of exchange rate regimes, and the continued involvement of the private sector in crisis prevention and resolution.

At about the same time, the Council on Foreign Relations, a U.S. nonpartisan national organization, created a task force to examine the roots of the financial crises and to formulate recommendations on strengthening the architecture of the system and refocusing the IMF. The recommendations focused on the following issues for which broad political support has been forthcoming: The IMF should provide financial assistance only when there are good prospects of resolving the underlying balance of payments problems, and should establish favorable lending terms for countries that have reduced their vulnerability and comply with international financial standards. Countries should shift the composition of capital inflows to longer term, less volatile flows, and are advised to maintain flexible exchange rate arrangements. The IMF should not lend to countries that maintain a pegged rate and it should have a leaner agenda with focus on crisis prevention. Large IMF rescue packages should be considered only for systemic cases and with very high support of the creditors. Collective action clauses should facilitate orderly debt rescheduling, with lenders carrying a fair share of the risk. Moral hazard should be avoided.

The intense interest of the United States in the IMF sometimes borders on a proprietary interest. More than any other member, the United States has viewed the IMF as an instrument of its foreign policy objectives. When the then Managing Director, Pierre-Paul Schweitzer, in 1971 suggested that a general currency realignment among the industrial countries should include a depreciation of the dollar, in terms of gold, the U.S. Treasury gave a negative signal regarding his possible selection for a further term at the head of the IMF. In the late 1980s, Michel Camdessus, as Managing Director, incurred the displeasure of the U.S. Treasury for not accepting its view that the Argentinean policy program merited continued support of the IMF. The veto power over major policy decisions has been an important instrument in the hands of the United States. The proximity of the IMF's headquarters to the U.S. Treasury has also added to the day-to-day influence of the host country.

The Western European countries, for their part, have focused in the 1980s and 1990s on the development of the European Union, the establishment of their common central bank, and the introduction of the euro, and have given considerably less priority to global monetary affairs than in the 1960s and 1970s, leaving the initiative to the United States. Europe's emphasis on its regional objectives is understandable, but it should have gone hand in hand with giving a higher priority to the management of the international monetary system, in which Europe's fundamental interest is as strong as that of the United States. As the European Union matures, it can soon be expected that it will seek to have a stronger voice in global monetary affairs.

Japan has been frustrated by the slowness of other IMF members to recognize its increased role in the world economy and its leadership position in Asia. Some in Japan were sharply critical of the manner in which the IMF tackled the Asian crisis. Japan also felt slighted when its proposal to create an Asian Monetary Fund was negatively received by other industrial countries and by the IMF. More recently, there has been increased recognition in Japan of the importance of the weaknesses in the corporate and financial sectors in the Asian crisis. Japan has also received broad support in its efforts to promote regional monetary cooperation in Asia, which until a few years ago was virtually nonexistent. Of course, other Asian countries such as China and India may also aspire to play a leading role in the development of regional cooperation. While Japan's crucial role in Asia and in the IMF is now better acknowledged, the further development of Japan's voice will depend on its success in revitalizing its economy. While China obtained satisfaction in its quest for a special increase in its quota in the IMF, when it resumed Chinese sovereignty over Hong Kong, the Asian region as a whole contends that its present position in the IMF does not adequately reflect the remarkable growth of the region in the past decades and its present place in the world economy.

As noted earlier, the limited occurrence of political decisions in the IMF has been remarkable. Nevertheless, it could not be expected that decisions would always be taken exclusively on technical grounds. Historically, the expulsion of Czechoslovakia and decisions on noncollaboration with South Africa, China, Uganda, Vietnam, and the Federal Republic of Yugoslavia were examples of political decisions affecting the IMF's relations with certain countries. Other authors[18] have drawn attention to some cases where

[18] See Finch (1989), Polak (1997), and Stiles (1990).

political pressures at times prevailed over technical judgment: Argentina, Egypt, Liberia, Sudan, and Zaïre. More recently, political pressures from major shareholders secured Board approval in mid-1998 for further financing of a program with Russia that promptly failed, damaging the Russian political and financial systems and confidence in the IMF. Attempts to influence the staff are another form of pressure. While they are difficult to track, there are sufficient indications that, in the charged atmosphere of the 1990s, contacts with staff by officials of member countries did not always respect the spirit of Article XII, Section 4 (c) on the importance of refraining from influencing staff in the discharge of their duties.

VI.

IMF Governance in a Crisis: Mexico, 1994–95

Mexico had begun to experience financial turbulence in March 1994 when strong growth and rising interest rates in the United States prompted investors to reassess portfolios in emerging markets while, on the domestic front, the assassination of presidential candidate Luis Donaldo Colosio heightened investors' concerns. When capital flight reached alarming proportions in March–April 1994, the authorities allowed the peso to depreciate to the top of the exchange rate band, doubled short-term interest rates, and obtained standby lines of credit from the United States, Canada, and the BIS. To reduce investors' concerns, the authorities replaced peso-denominated government debt by short-term instruments indexed to the U.S. dollar ("Tesobonos"). The vulnerability of the economy sharply increased when, in a few months' time, the issuance of Tesobonos increased by $22 billion.

The use of the exchange rate as a nominal anchor had led to a significant and persistant real effective appreciation of the peso during 1988–93. This appreciation and continued trade liberalization prompted a widening of the external current account to 6.5 percent of GDP in 1993 from 2 percent of GDP in 1988, and to 8 percent in 1994. While fiscal and wages discipline were maintained, persistent losses of foreign exchange reserves and declining stock market prices during 1994 became indicative of faltering confidence.

On December 20, 1994, shortly after President Ernesto Zedillo took office, the peso was suddenly devalued by 15 percent without flanking macroeconomic measures. A persistent hemorrhage of foreign exchange left the authorities with no alternative but to float the peso. These decisions had a devastating impact on confidence. With massive short-term foreign debt falling due for a total of approximately $50 billion in 1995 as a whole, the announcement, on January 2, 1995, of a U.S.-led swap package of $18 billion did not calm the financial markets.

The Mexican authorities were reluctant to request IMF financial assistance that, they thought, would not be helpful to resolve what they regarded as a confidence crisis. Moreover, Mexico had become a member of the OECD and the North American Free Trade Area (NAFTA) and believed its North American and European friends would extend it the necessary financing without IMF-type conditionality. In European capitals, however, the Mexican crisis and its contagion effects in the Latin American region were seen as problems for the United States to handle.

In late December 1994 and early January 1995, IMF staff missions held discussions with Mexican officials. The Managing Director, Michel Camdessus, met with the new Finance Secretary, Guillermo Ortiz, who announced that Mexico would seek IMF assistance. Mr. Camdessus then visited Mexico City for discussions with President Ernesto Zedillo. All through the month of January 1995, the Managing Director kept Board members informed in a series of confidential briefings.

On January 12, 1995, President Clinton requested the U.S. Congress to extend $40 billion in loan guarantees to Mexico. When it became clear that Congress—dominated by the Republican Party—would not give its support, the President withdrew his request on January 30 and announced that he would use his authority to provide Mexico with a much-reduced package of up to $20 billion in loans and loan guarantees through the Exchange Stabilization Fund.

The turn of events with regard to U.S. financial support and the state of extreme uncertainty in Mexico, pending the announcement of a comprehensive policy package, thrust the IMF, de facto, into a position of lender of last resort. This put an unprecedented responsibility on the Managing Director to act immediately and raise IMF financing to a level that would convince investors, cut short the slide in the markets, and mitigate the domestic impact of a crushing adjustment burden.

On January 31, 1995, the day after President Clinton scaled down the U.S. proposal of financial assistance, the Managing Director proposed to the Executive Board that the IMF provide Mexico with SDR 5.25 billion ($7.8 billion, equivalent to 300 percent of Mexico's quota) outright upon approval of a stand-by arrangement, rather than in several tranches as had been considered earlier. In addition, the IMF would stand ready to provide up to SDR 6.81 billion ($10 billion), unless that amount, or part thereof, could be raised from bilateral creditors. The formulation of the latter proposal should be seen in light of the fact that a package of $10 billion from industrial countries through the BIS was unlikely to materialize because of the rigid conditions that were attached to it. Under the circumstances, the Managing Director argued that the IMF had no alternative but to stand ready to provide the additional financing from its own resources.

In an evening meeting on February 1, 1995, which started at 6 p.m. and lasted until midnight, the Executive Board approved a stand-by arrangement for Mexico in the amounts mentioned above, the largest IMF financing package proposed up to that time; the arrangement would run from February 1, 1995 to August 15, 1996 and would be subject to four Board reviews during that period. Several Western European Board members abstained from voting on the package, however, on the arguments that the proposed financing was too large, that the immediate access to 300 percent of quota was excessive, and that the Mexican policy program was too weak and its assumptions too optimistic.

The arguments with regard to the quality of the Mexican program were well taken. The peso continued to slide until March 9, 1995, when President Zedillo and Finance Secretary Ortiz announced much-strengthened measures that would decisively improve the fiscal position for 1995, tighten monetary policy to provide the nominal anchor for the economy, free wage negotiations, and introduce measures to repair the banking system and the loan restructuring facilities. Shortly thereafter, the peso began to strengthen and Mexico soon regained access to international capital markets. By the third quarter of 1995, real GDP was already rising again, helped by the fact that the basic structure of the economy was in much better shape than before and by a favorable external environment. Nevertheless, the year 1995 as a whole was the worst for Mexico since the debt crisis, with output falling by 6 percent, unemployment doubling, prices rising by more than 50 percent, real wages falling by 11 percent, and the financial system in need of fundamental repair.

In the third review of the program, on December 15, 1995, Executive Directors observed that a new round of turbulence had hit Mexico in October–December 1995 and that the authorities had drawn further on the available IMF financing, to a total of SDR 10.6 billion at the end of 1995. In each of the first three reviews, many Directors noted with concern the delays in the availability of U.S. financing through the Exchange Stabilization Fund. Indeed, the U.S. Congress was looking closely over the shoulder of the Administration. The cost of using U.S. financial assistance was distinctly higher than the cost of IMF credit: in addition to all costs and fees, Mexico had to pay interest charges that covered the credit risk, had to deposit an assured source of repayment (the proceeds of oil export sales), and had to agree to use fiscal and monetary policy, including increases in interest rates as needed, to stabilize the peso. By the time of the fourth review, on August 2, 1996, economic recovery was clearly under way, financial markets had stabilized, the policy conditions of the agreement were observed with ample margins, and attention was shifting toward urgent structural reforms in the financial system, tax reform, social security reform, and privatization.

In the following years, Mexico's economic performance and external position continued to strengthen and major progress was made in implementing structural reforms. Mexico's determined policies were a wise strategy to avoid the turbulence occasioned by the Asian, Russian, and Brazilian crises. Before the end of 2000, Mexico's borrowing from the IMF had been completely repaid.

In the wake of the Mexican crisis, the Managing Director, Mr. Camdessus, was anxious to draw the lessons for the IMF and its members. Following extensive discussion—based in part on a confidential report on the crisis and Mexico's relations with the IMF, prepared by Sir Alan Whittome, a former senior staff member—the Executive Board took decisions that focused on four areas:

First, new internal procedures to foster a more effective and continuous dialogue in the intervals between regular annual consultations, particularly when countries have just completed an adjustment program with the IMF.

Second, stricter requirements for the regular and timely communication of key economic indicators and of standards for the publication of data to enable markets to function more efficiently. That initiative led to the establishment of the Special Data Dissemination Standard to which members with, or seeking, access to capital markets have been encouraged to subscribe.

Third, more focused scrutiny of the capital account of the balance of payments and the sustainability of capital flows, as well as increased emphasis on developments in the financial sector and in external debt management.

Fourth, more candid, sharp, and transparent surveillance. In its policy dialogue with members, the IMF should be more critical and its analysis more pointed. Informal Board meetings on sensitive country matters were organized, while world economic outlook discussions in the Board were supplemented by periodic discussions of financial markets.

The following observations should be added to conclude this survey of IMF governance and the Mexican crisis of 1994–95.

First, the magnitude of the financial assistance proposed on February 1, 1995, was justified in view of (1) the inevitable impact on market confidence of the scaling down—under pressure from the U.S. Congress—of the U.S. Administration's proposal of financial assistance to Mexico to $20 billion from $40 billion; (2) the size of Mexico's short-term external debt of about $50 billion falling due in 1995; (3) the fact that the $10 billion lending package from industrial countries through the BIS was loaded with conditions that proved to be unacceptable to the Mexican authorities; and (4) the continued slide of the peso, which risked becoming a rout in the absence of convincing adjustment policies, which materialized only in March 1995.

Second, the cost of the 1994–95 crisis for the Mexican economy was sharp but short because of the decisive support from the IMF and because the economy had become stronger and more shock resistant. In the 1982 crisis, Mexico had needed several years to recover because the underlying structures, particularly the corporate sector, financial markets, institutions, and legal system, were then much weaker.

Third, the Mexican crisis of 1994–95 was not the first crisis of financial globalization. In fact, the first crises of the new era occurred in Europe, among high-income, industrial countries, such as the Nordic banking crisis, which struck Finland, Norway, and Sweden between the late 1980s and the early 1990s, and the crises of the European Monetary System (EMS) in 1992–93. Several of the principal fault lines of the Nordic and EMS crises appeared again in the Mexican crisis and would reappear, in differing circumstances and degrees, in 1997–98 in the Asian crisis.

VII.

Implications for IMF Governance of the Financial Climate of the 1990s

Distinctive Features of the Crises, 1997–99

The IMF welcomed the unprecedented freedom and magnitude of capital movements in the 1990s as a result of financial market integration and liberalization. This was seen as enhancing the prospect for more efficient international allocation of financial resources, a lower cost of capital, and a higher pace of sustainable growth. In that climate, the IMF favored capital account liberalization and gave increasing thought to an amendment of the Articles of Agreement to extend the IMF's jurisdiction to cover restrictions on capital account transactions.

Rising capital flows, particularly to a group of middle-income and emerging market economies, and a remarkable growth performance of the developing countries as a group in the first half of the 1990s, were seen as illustrating the benefits of unhampered capital movements. However, failures of national policies and structural weaknesses led to a succession of financial crises in Asia—affecting particularly Indonesia, Korea, and Thailand—and in Russia and Brazil in the second half of the decade. Some of the failures and weaknesses had already appeared in the earlier Nordic, EMS, and Mexican crises, which suggest that the IMF should have been more vigilant to draw the lessons of those events in order to prevent their recurrence.

The principal policy failures and structural weaknesses in some or all of the above-mentioned countries included

- reliance on pegged exchange rates (which had been most valuable to these countries in achieving and maintaining reasonable price stability) and on the adequacy of large foreign exchange reserves to meet external requirements;
- poorly sequenced capital account liberalization, which did not adequately encourage inflows of long-term capital and relied, instead, on short-term flows that lenders could easily reverse;
- excessive short-term borrowing abroad, often without hedging, by the financial and corporate sectors;

- vulnerable financial systems, undercapitalized, poorly managed, inadequately regulated and supervised, and similar weaknesses in the corporate sector;
- lack of timely available and reliable financial statistics, particularly on the banking sector, foreign borrowing, external debt, and foreign exchange reserves; and
- internal governance issues and lack of transparency in public and private sector activities.

The countries most affected by the Asian crisis had rock-solid confidence in the economic strategy that for three decades had produced astounding results. When the crisis struck, the authorities of Korea and Thailand displayed admirable courage to overcome national denial and to subscribe to the IMF-supported programs whose thrust was on the restructuring of the corporate and financial sectors, flanked by decisions to float the exchange rates and by monetary and interest rate policies to overcome the exchange crisis. Fiscal policy was initially too cautious in view of the unanticipated severity of the economic downturn, and was promptly eased in order to support domestic expenditure while monetary restraint was adjusted in step with the return of confidence in the exchange rates. Structural reforms in the IMF-supported programs were initially too ambitious and were adjusted to support the return of confidence.

In Korea, the weight of the short-term external debt and the pace of capital flight created the spectrum that the country might have to default, but the endorsement by the president-elect of the major reforms embodied in the IMF-supported program made it possible to "bail in" the foreign banks with rollovers and extensions of maturities for some $22 billion in short-term debt. In Indonesia, the weight of the domestic governance problems, the related severe weaknesses in the corporate and financial spheres, and the ensuing political crisis added considerably to the hardship on the population and caused great delay in the initiation of corrective policies.

The progress of Russia's transition to a market economy, to which the IMF contributed sizable financial and technical assistance, suffered increasingly from shifting political priorities and nonobservance of policy commitments. The authorities met their growing inability to collect taxes with expensive short-term borrowing abroad, repayable in rubles, which strengthened the perception of market participants that the IMF would continue to provide finance to support Russia's fixed exchange rate. In 1997, speculative inflows into Russia's financial markets temporarily eased the external constraint. However, the tide shifted in the spring of 1998 when contagion reached Russia, prompting massive capital outflows, while interest rates on new Treasury bills rose to over 50 percent a year. Following unprecedented political pressure, the IMF announced a new package of financial assistance in mid-July 1998. Key conditions were promptly broken when the Duma refused to adopt certain tax legislation, while the first disbursement of $4.8 billion under the program was in no time absorbed in outflows of largely Russian capital.

Shortly thereafter, in August 1998, Russia devalued the ruble and defaulted on its Treasury bills. For market participants, the rules of the game had suddenly been turned around, with incalculable consequences for the health of the global financial markets, as illustrated by the enormous losses suffered by the U.S. corporation Long-Term Capital Management on its financial hedging operation, which required a U.S. Federal Reserve–led rescue operation to avoid a spectacular bankruptcy. Holders of Russian Treasury bills suffered major losses but, subsequently, Russia refinanced the bills in the form of three- to five-year ruble-denominated notes carrying interest rates ranging from 20 to 30 percent per annum, or, at the option of holder, in the form of eight-year U.S. dollar–denominated notes with an annual coupon of 5 percent.

In the third quarter of 1998, contagion shifted to Brazil and inflicted severe losses of that country's official reserves. In negotiating a program with the IMF, Brazil insisted on maintaining its pegged exchange rate because, in the view of the authorities, its abandonment would threaten to rekindle hyperinflation. Brazil's adjustment policy was based on a major tightening of fiscal policy to control a sizable budget deficit, which was largely financed with short-term borrowing abroad. The interest rates, of the order of 40 percent per annum, which the Bank of Brazil had to pay to entice foreigners to keep their money in the country, created unsustainable debt dynamics, as had been the case in Russia. Capital outflows widened again dangerously, and Brazil shifted to a flexible exchange rate in January 1999. Buttressed by supportive macroeconomic policies, the exchange rate soon strengthened and confidence in the domestic economy returned.

Strengthening the Financial Architecture

The crises prompted the development of a broad program of action to strengthen the financial architecture with a particular emphasis on crisis prevention and crisis resolution. Crisis prevention would be pursued through the strengthening of financial sectors and greater coherence of macroeconomic, exchange rate, and capital account policies, enhanced by policy transparency and the discipline of agreed standards and codes of good policy.

- The vulnerability of financial systems in virtually all major regions of the globe has become a major systemic threat in the environment of globalized financial markets. Financial vulnerabilities exist in countries at all levels of income and development, and the repair work becomes more complex and time-consuming the higher the degree of sophistication of the financial environment The global financial system today evolves at a great speed as a result of the continuing internationalization of financial operations, the development of new financial products and services, the consolidation of institutions, and the expanding group of "universal banks," which provide their clients with comprehensive packages of bank and nonbank financial services. As a result, there is a continuing catching-up process between supervision and regulation on the one hand, and the ever-evolving global financial market, on the other. Strengthening financial sector soundness is a daunting task that requires much increased national and international cooperation and institution building. The IMF's core task in strengthening financial systems is to address the linkages between the real economy and macro policies on the one hand and financial sector issues such as the priorities in financial sector reform on the other.[19]
- Inconsistencies between macroeconomic and exchange rate policies contributed importantly to the financial crises of the 1990s, when countries with pegged exchange rates suffered more than countries with floating rates. To be sure, each country is free to choose its exchange rate regime in light of its own circumstances and policies, but the key to a sustainable economic performance is the coherence between the exchange rate regime, the macroeconomic stance, and the resilience of the financial sector. In the current environment of volatile capital movements, countries generally will find it imperative to manage the exchange rate with adequate flexibility.
- Capital account liberalization should aim at stimulating inflows of long-term capital and discourage excessive inflows of short-term, eas-

[19]The IMF's task in protecting the integrity of the international monetary system requires it also to assess the standards of supervision of offshore financial centers and to involve itself in the financial aspects of money laundering.

ily reversible funds. Accurate data on the financial sector's shortterm foreign assets and liabilities are essential and the IMF has formulated guidelines for the management of foreign assets and external debt.[20] Controls on capital inflows can be useful on a temporary basis, but they create distortions and prevent countries from benefiting from the efficiency gains to be derived from global capital flows. While there is broad agreement in principle that the IMF is the appropriate body to have jurisdiction over members' elimination of remaining restrictions on capital movements, many developing countries have emphasized that the IMF already possessed considerable influence over the capital account through surveillance and conditionality. As a result, further work toward the adoption of an amendment of the Articles of Agreement has been deferred. Nevertheless, the practice of a number of countries to maintain capital controls because of financial sector weaknesses risks becoming a "poisonous mix" that retards corrective action. Member countries should, therefore, focus on suggestions to promote both the proper sequencing of capital account liberalization and the strengthening of the financial sector.

- The development and implementation of standards and codes of good practices have been a major initiative of the 1990s to improve economic performance, strengthen capacity building, and reduce policy vulnerability. The work in standard setting is divided among international institutions according to their areas of expertise.[21] Standards and codes will assist surveillance in measuring progress in capacity building and policy performance as well as in the availability and accuracy of data. The reservations of a number of developing countries regarding the implementation of standards and codes reflect the concern that in their cases the quantity and detail of codes may be too exacting. Thus, adequate attention should be paid to differences in levels of development, and the IMF–World Bank Reports on Observance of Stan-

[20]The guidelines can be found on the IMF's external website: www.imf.org.

[21]The IMF has developed the Data Dissemination Standard (DDS), the Code of Good Practices in Fiscal Transparency, and the Code of Good Practices on Transparency in Monetary and Financial Policies. The Basel Committee on Banking Supervision leads on the Capital Accord and on the Core Principles of Banking Supervision, the International Organization of Securities Commissions (IOSCO) on Securities Markets, and the International Association of Insurance Supervisors (IAIS) on the insurance sector. The World Bank leads on the implementation of standards on corporate governance (which were developed by the OECD) and on Accounting/Auditing (for which standards were developed by the respective international associations). The Bank and the IMF collaborate on Reports on Observance of Standards and Codes (ROSCs).

dards and Codes (ROSCs) should be further refined in order to keep pace with the growing sophistication of the financial environment.

A great deal of work has recently been undertaken inside and outside the IMF on developing an orderly framework for restructuring unsustainable sovereign debt. Anne Krueger, the IMF's First Deputy Managing Director, has focused on the statutory approach of an international bankruptcy court to give a debtor country temporary protection from creditors to restructure unsustainable debt in an orderly way. In today's environment, with numerous creditors who may have different objectives, sovereign debt restructuring risks becoming a disorderly process in the event that some creditors hold out against an agreement reached by a large majority of creditors. A formal restructuring mechanism would prevent creditors from disrupting the negotiations as well as ensure responsible behavior of the debtor.

Under Ms. Krueger's plan, agreement reached by a supermajority of creditors would become binding on all. IMF endorsement of a request for debt restructuring would activate the standstill. The debtor must negotiate in good faith and act to get its policies back on track. To be effective, a formal bankruptcy court would need to have universal force of law, which could take years to materialize and could perhaps best be achieved through an amendment of the Articles of Agreement of the IMF.[22] Ms. Krueger has emphasized that the statutory approach need not involve a major extension of the IMF's legal authority. Instead, it could be agreed that control over the main decisions would rest with the debtor and a supermajority of the creditors.

The U.S. Treasury favors an alternative contractual approach involving collective action clauses in contracts that would determine the work-out process and how it could be initiated by the debtor. In the view of the U.S. Treasury, incentives could be provided for debtors to include these clauses in IMF borrowing arrangements. The decentralized approach, which has been supported by the Washington-based Institute of International Finance and by several other private financial sector groups, could prove workable but may well be subject to legal challenges in view of the diverse creditor base and the different legal jurisdictions involved. There is also the obvi-

[22]An amendment of the Articles of Agreement becomes binding on all member countries as soon as the required majority of 85 percent of the total voting power in the IMF has been achieved.

ous concern that the inclusion of collective action clauses in contracts would be resisted by lenders and would raise the cost of borrowing. In the meantime, the IMF should give further consideration to Ms. Krueger's statutory plan. In the process, the reservations that have been expressed from several sides with regard to an international judicial body to arbitrate disputes will have to be allayed.

Stanley Fischer, the former First Deputy Managing Director of the IMF, has argued that the monetary system needs a lender of last resort and that the IMF has, de facto, exercised that role, for example in the Mexican and Asian crises of the 1990s. While the IMF's money-creating powers are severely limited by the constraints on SDR allocations, it can act in concert with other official entities or call for activation of the GAB or the New Arrangements to Borrow (NAB)[23] to put together large lending packages. The introduction in 1997 of the Supplementary Reserve Facility (SRF), through which sizable credit can be made available for relatively short periods of time at penalty rates of interest, moved the IMF closer in the direction of a lender of last resort.

The IMF membership, however, remains divided on this issue. While most developing countries and emerging market economies would like to strengthen the IMF's lender-of-last-resort function, several industrial countries stress that the IMF is ill-equipped to undertake that role and that its addition to the IMF's traditional function of providing temporary balance of payments assistance would increase moral hazard resulting from continued lending by private financial institutions in the belief that the IMF would bail them out.

Collaboration Between Civil Society and the IMF

An active dialogue between civil society and the IMF began only in the 1990s—about a decade later than in the case of the World Bank—but it has since developed into a productive relationship that has markedly enhanced the IMF's institutional transparency and improved conditionality

[23]The NAB were concluded in 1998 with the GAB countries (see footnote 5 on page 12) and other countries that were deemed financially strong to lend resources to the IMF. The additional countries included Australia, Austria, Denmark, Finland, Korea, Kuwait, Luxembourg, Malaysia, Norway, Saudi Arabia, Singapore, Spain, Thailand, and the Hong Kong Monetary Authority. Together, the 25 participants in the NAB were ready to lend up to SDR 34 billion under the old and new arrangements together.

through greater country ownership of IMF-supported programs. Civil society has also been a persistent advocate of debt relief to the poorest countries and made a significant contribution to strengthening the Poverty Reduction and Growth Facility (PRGF) in the context of debt relief for the Heavily Indebted Poor Countries (HIPC). More broadly, the deepening relationship with civil society enhances IMF governance.

Civil society is loosely defined as the countless number and great diversity of organizations that develop in a society outside the realm of government. In addition to nongovernmental organizations (NGOs), which mushroomed in the 1980s and 1990s, civil society includes business and labor organizations, church and charitable groups, political parties, and cultural and academic institutions, etc. Most civil society groups pursue policy and advocacy agendas with respect to governance and aim to advance the welfare of certain groups in society. A democratic environment provides the best breeding ground for civil society.

The number of civil society groups, worldwide, that focus on the activities of the international financial institutions is known to run into the thousands. NGOs in developed countries (so-called northern civil society groups) are generally well established, have working relationships with their governments, and have international ties. Northern NGOs have also become increasingly important channels of official development assistance. A number of northern organizations pursue objectives in the fields of the environment or of labor standards, or seek to limit the pace of global economic integration. These are not acceptable to their southern counterparts, the civil society groups in developing countries. The latter typically seek to advance the goals of sustainable development and economic integration. Southern civil society groups are often less well organized and dependent for their financing on northern organizations. Moreover, many southern civil society groups have an arm's-length relationship with their governments and may be allied with political opposition groups.

Civil society groups regard IMF accountability to its member governments—and, through them, to their legislatures and electorates—as too distant and decry it as ineffective, especially for an institution whose mandate can affect the welfare of millions of people. They emphasize that, in the 1990s, when public opinion became increasingly sensitive to their criticism of the efficacy of IMF policies and their impact on the poorest, a number of governments echoed that criticism and distanced themselves from the IMF's decisions. The recent experience, therefore, supports the view that the growing involvement of civil society groups in a triangular relationship with the IMF and with the electorates of members should improve the governance and accountability of the IMF and its effectiveness. Continuing dialogue will be needed to reduce the regrettable degree of mistrust and lack of understanding of the IMF in many civil society groups. The IMF should also address more effectively some of civil society groups' concerns, such as the impact of free trade and globalization on some developing countries.

Civil society groups have strongly supported the transformation of IMF program design and conditionality to "program ownership" by the country concerned. They increasingly accept the validity of the IMF's policy approach to fostering sustainable growth and the importance for all members, especially the poorest, of price stability and fiscal discipline in order to free resources for social priorities. In their view, governments should be the generators of change and the agents of adjustment. The growing emphasis on governance issues in adjustment programs further highlights the importance of country "ownership." Governance issues focus on avoidance of misallocation of resources through corruption, prestige projects, and excessive military spending; on the implementation of standards of policy; on the protection of the poorest from the burdens of adjustment; and on other measures. The IMF now requires that Poverty Reduction Strategy Papers for PRGF countries should be produced through a participatory process involving civil society and development partners.

The evolving relationship between the IMF and civil society is promising but requires more depth. Thus far, the collaboration has remained informal and it would be helpful if the Executive Board established a framework for its further development—globally and regionally—while confirming the IMF's accountability to member governments through the Board of Governors and the Executive Board. At the same time, civil society groups, particularly the large ones that have acquired name recognition and influence, as well as those that channel sizable amounts of official development assistance, need to ensure their own accountability, legitimacy, and good governance.

The Pursuit of IMF Transparency

Until the late 1980s, institutional transparency was not high on the agenda of the IMF. The IMF generally followed the practices of member countries, particularly their central banks and ministries of finance, which valued the confidentiality of their relationship with the IMF. The IMF saw itself as a technical institution, accountable to its member governments and with little need to explain itself to the broader public. Its main publications were addressed to specialists. In l963, the quarterly publication *Finance & Development* was created to access a broader public on IMF and Bank issues and, in the early 1970s, the biweekly *IMF Survey* was launched to improve the dissemination of current information on IMF activities and international monetary issues.

While there had been a press office in the IMF since the early days, it was not until the early 1980s that an External Relations Department was created. This made a major contribution to improving the public's understanding of the IMF's activities and the importance of sound policies for sustainable growth, as well as to strengthening the IMF's relations with civil society and the media. The range of IMF publications was broadened to include the Occasional Papers series, the biannual *World Economic Outlook,* and the World Economic and Financial Surveys. Nevertheless, external relations activities remained constrained by the prevailing view in the Board and in capitals that greater openness of the IMF's activities, such as with regard to the annual consultations with members or in the context of negotiations for the use of IMF financial resources, could be harmful to the confidentiality of IMF relations with its members.

From his arrival in the IMF in 1987, Mr. Camdessus was increasingly active in sharpening the public's awareness of IMF activities and international monetary issues. In the mid-1990s, transparency became a key issue in the calls for monetary reform. Since then, remarkable progress has been made in a short period of time through an extensive program of publications and outreach as well as through intensive use of the IMF's website on the Internet (www.imf.org). The institutional discourse has been broadened to cover extensively church groups, labor leaders, NGOs, and other layers of civil society, and it has become the practice to seek input of all such groups in the development of many policy initiatives. Overseas information and public affairs work have acquired a global reach. Press notices, fact sheets, issue briefs, management statements, communiqués, and other releases have multiplied. The publication of policy papers, as well as of the Chairman's summings up of Board discussions of policy issues, has become an integral part of the IMF's practices. The policy papers for ministerial meetings and the semiannual work programs of the Board are also made public.

At the same time, rapid progress has been made to secure the collaboration of members for the voluntary publication of IMF country papers. A first phase involved the publication of background material to Article IV consultation papers and of documents detailing national authorities' policy intentions in support of requests for the use of IMF financial resources. PRGF papers and other material relating to the HIPC initiative were also published. Widespread support has been forthcoming for the publication of the Chairman's summings up of Board discussions concluding Article IV consultations—the Public Information Notices (PINs). PINs are also used for the Chairman's statements summarizing Board discussions regarding requests for the use of IMF financial resources.

Finally, the publication of the staff reports on the annual Article IV consultations with members—which until a few years ago was staunchly resisted by a number of members, both industrial and developing—is increasingly becoming accepted practice to enhance transparency and accountability. While publication of Article IV reports does not appear to have adversely affected the candor of the discussions, there is concern that loss of frankness might develop or that a trend toward negotiated documents might emerge. In order to strike the right balance between transparency and confidentiality, the Board has decided that any deletions before publication will be limited to highly market-sensitive information on exchange rates and interest rates.

In 1998, the Board also began to commission external evaluations of key activities of the institution such as surveillance, IMF research, the ESAF, and the IMF's budgetary process. A major further step to strengthen IMF accountability was taken in early 2000 with the decision to establish an IEO: the IEO Director is independent of IMF management and operates at arm's length from the Executive Board. IEO reports will be published.

The "conversion" of the IMF in the second half of the 1990s into a transparent institution was a major step in the right direction. The IMF now provides daily accounts of its activities and its website offers extensive assistance to those who wish to remain abreast of developments and policies of the institution. While the public record appears impressive, further improvements are possible, such as through shortening of the time period (presently 20 years) for minutes of Board meetings to become publicly available. Moreover, in recent years, there has been a large increase in informal Board meetings and other gatherings of Executive Directors with management for which no official record is being kept. The public needs to be assured that there is no backsliding in transparency. Public consultation on new policy proposals could be expanded and the public should have better information on how policy formulation in the IMF takes place and how decisions are made. On the other hand, the view has been voiced that IMF transparency could have reached the point where it may not always be compatible with the members' need or right for confidentiality or where conflicts could arise with the IMF's own operational requirements. In fact, there has been growing concern that the generalized publication of Article IV consultation reports and country reports on the use of IMF resources as well as ROSCs and FSAP (Financial Sector Assessment Program) reports could, in fact, be used to turn the IMF into a rating agency.

The Task of Refocusing the IMF

"Refocusing" has been a continuous process in the life of the IMF, as changing circumstances in the world economy have required it to redefine and reassess its priorities. This has had a salutary impact on the IMF's development and governance. In that regard, one of the remarkable developments of the past quarter century has been that the developing countries have occupied an increasingly central position in the institution's functioning. Earlier, the IMF's institutional focus had remained largely on the industrial countries. However, in the 1980s, the deterioration of living conditions in many developing countries and the Latin American debt crisis led the IMF to strengthen its focus on growth, structural adjustment, and external debt management in developing countries. In the 1990s, the transformation of centrally planned economies into free market societies and the issues of poverty alleviation in the poorest countries, as well as concerns regarding the functioning of global financial markets and the soundness of financial systems, have prompted a major widening of the core tasks of the IMF, tested its rapid response capability, increased technical assistance needs of many members, and led to increased collaboration between the IMF and other specialized institutions.

On the efforts made to strengthen the financial architecture, it should be kept in mind that the countries most affected by the crises of the 1990s have rebounded remarkably well, with the exception of Indonesia where governance issues and a protracted political crisis have retarded the positive impact of corrective policies. Mexico recorded rapid growth throughout the second half of the decade, supported by consistent macroeconomic policies and structural reforms that shielded Mexico from further contagion. Korea's sharp rebound in 1999–2000 was spearheaded by wide-ranging structural reforms. Subsequently, the changing fortunes of the technology sector hit Korea hard, but in 2002 the outlook improved again. Korea has completed early repayment of its borrowing from the IMF, while the reforms of the corporate and financial sectors proceed. Thailand's internal and external adjustment has proceeded satisfactorily but economic reactivation has remained modest because structural reforms have been less dynamic than required. Since the crisis of 1998, rapid growth in Russia has been accompanied by strong fiscal and external positions. Inflation and capital outflows remain areas of concern, while structural reforms focus on the investment climate and on the financial sector. Finally, Brazil enjoyed a strong recovery in 2000, supported by cautious monetary and fiscal policies. Sizable foreign direct investment covered the external current account deficit and the external position was healthy. The credit for these remarkable achievements should go to the countries concerned but the thrust of the IMF-supported programs—and the financing packages—must also have had a distinct impact on the speedy and sustained results that followed.

Surveillance continues to be the key instrument for crisis prevention. In that regard, the IMF has taken the lead in concerted vigilance over the soundness of financial systems—a task that, until a few years ago, remained largely with national authorities. The FSAPs, which the IMF undertakes jointly with the World Bank, strengthen the monitoring of financial systems, and assist in the identification of vulnerabilities and priorities for development and correction. They check the health of a wide range of financial institutions and markets. At the current pace of about 24 FSAPs a year, the reports are an important assessment of financial standards and of gaps in institutional infrastructure.

The IMF's work on FSAPs and on ROSCs needs to be further deepened and kept up to date with the increasing degree of sophistication and internationalization of the financial environment. Work in these areas is also strengthening collaboration with the Financial Stability Forum, the BIS, and the Basel Committee on Banking Supervision. The Capital Markets Consultative Group and the IMF's International Capital Markets Department are enhancing the analysis of global capital flows. Quarterly global financial reports provide the overview for comprehensive and integrated surveillance of the markets. The IMF's work on financial stability policy in an increasingly complex global environment has added a major area of surveillance work for the Executive Board and for the staff, which needed to recruit a sizable number of people with relevant academic or work experience.

The IMF's financing facilities have been reviewed to make them more effective in preventing and responding to crises and to avoid excessively large or prolonged use of IMF resources. Future use of the Extended Fund Facility is to be limited to cases where major structural reforms are needed, such as transition economies and future graduates of PRGFs. The prequalification guidelines for the Contingent Credit Facility, which offers a precautionary credit line to countries that follow demonstrably sound policies but believe that they could be vulnerable to contagion from elsewhere, have been made more attractive. However, the facility has thus far not been used and further reforms appear to be needed to avoid the perception that recourse to the facility would be perceived as an indication of weakness. Moreover, the critical issue of access to IMF resources in capital account crises needs to be further clarified.

IMF conditionality has also been reviewed and simplified with the objective of strengthening country ownership of IMF programs, which is increasingly seen as essential for effective program implementation and for the fruitful collaboration between the member and the IMF. The emphasis on structural conditionality was cut back. Clearer lines have been drawn to identify whether structural conditions are essential to achieve IMF macroeconomic objectives and to achieve an efficient division of labor in this area with the World Bank and regional development banks.

The current Managing Director, Horst Köhler, and the Executive Board feel strongly that the IMF should play an active part in making global economic integration work for the benefit of all members. Therefore, the IMF should remain engaged in the poor developing countries through the PRGF and the HIPC Initiative. Reducing world poverty requires sustained global expansion, and the industrial countries must recognize that it is in their own interest to come forward with bold initiatives to open their markets, to provide generous debt relief and higher levels of official development assistance. While the World Bank takes the lead in poverty reduction initiatives and the provision of basic social services, the IMF, through its surveillance activities, should encourage members to implement consistent policies, to strengthen their institutions and governance, and to tap the energies of the private sector. Collaboration and coordination of views with the World Bank have, thus, become increasingly important. Particular attention is being devoted to ensure the internal coherence and mutual compatibility between IMF policy advice and Bank programs in developing countries. This collaborative effort has involved the development of a new set of procedures for staff work and Executive Board decisions in both institutions, as well as occasional joint meetings of the IMFC and the Development Committee.

The IMF should also remain a strong force in favor of continued global trade liberalization. Industrial countries should abolish constraints on imports, particularly of agricultural products, textiles, and other labor-intensive manufactures from poor developing countries, for which market access is essential for sustainable growth. At the same time, the inflow of foreign labor in industrial countries and imports of goods and services from developing countries have contributed to the maintenance of cost and price stability in the industrial world.

The interest of the developing countries in the WTO continues to grow and the recent accession of China to membership has been a milestone toward the WTO becoming a global institution. In response to the concerns of the developing countries that they would be at a disadvantage vis-à-vis others in the complex, legal environment of the trade dispute settlement procedure, the WTO has been making efforts to improve its transparency and to demonstrate that trade rules would be secure for all. The IMF strongly supports the WTO's initiative to launch a new round of global trade liberalization.

VIII.

An Appraisal of IMF Governance

The IMF's mandate, established in the Bretton Woods agreement of 1944, to maintain orderly exchange arrangements was unprecedented and required members of the new institution to give up part of their authority over an important instrument of national economic policy. To be able to accept the obligations of membership, including the rule-based fixed exchange rate system and the code of conduct in international economic relations that required them to pursue the external (current account) convertibility of their currencies, members insisted on close oversight of the IMF through a Board of Governors that would take key political decisions and an Executive Board, chaired by the Managing Director, that would be in charge of day-to-day management.

Three decades later, after the breakdown of the par value system, the creation of the Interim Committee to oversee the reform and the continued adaptation of the international monetary system were major steps toward strengthening the governance structure of the IMF at a time of considerable turbulence in the system and in the world economy. The quarter-century experience of joint oversight of the IMF by the Interim Committee and the Board has been fruitful. The Interim Committee gave "political advice" to the Board on major issues while respecting the Board's authority over the day-to-day business of the IMF. Nevertheless, the experience demonstrated that the Interim Committee should have insisted that the IMF's multilateral surveillance over its major industrial members was strengthened. The Committee should also have been more vigilant in focusing the attention of members on the implications of the globalization of capital markets for the evolution of the international monetary system and for national economic strategies. Moreover, during the 1990s, the major industrial countries exerted a growing political influence in the management of IMF affairs during a period of financial crises. With the transformation of the Interim Committee into the IMFC in 1999 and the creation of a group of Deputies to the IMFC, the search for more effective and balanced political oversight of the IMF continues.

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The system of quotas and voting power in the IMF has, over the years, created distortions and lacks equity. A group of 24 industrial countries controls 60 percent of the voting power, while more than 85 percent of the membership—159 out of 183 IMF members—together, hold only 40 percent of the votes. The imbalance reflects the fact that, in order to meet the capital requirements of the institution, quotas attempt to reflect the economic and financial importance of members in the world economy. However, in today's global IMF, quotas and voting power have acquired a broader meaning. The existing imbalance is seen as evidence of the lopsidedness of governance of the international monetary system. Thus, a more equal distribution of quotas and voting power between the developing world and the industrial countries should enhance the IMF's governance and credibility. At the same time, the IMF, as a financial institution, must maintain the confidence of the creditor countries. It is, therefore, essential that the membership reach the consensual decision that the industrial countries, who are the preponderant group of creditor countries, should remain majority shareholders, a position that will be supported by the capital markets and will be strengthened by the fact that the weight of the industrial countries in the world economy continues to grow.

The combined voting strength of the 15 member states of the European Union (29.9 percent), which is very much larger than that of the United States (17.2 percent) or that of the Asian region as a whole (18.0 percent), and the heavy presence of Western Europe in the Board, with 8 (and periodically 9) Executive Directors, one-third (or more) of the total Board, have become distortions that call for correction in the light of the sustained progress toward European Union as well as through technical adjustments in the application of the quota formula. In the process, Europe's voting power and its representation in the Board would be reduced and equity in the system would be enhanced by the emergence, over time, of a majority in the number of Executive Directors from emerging market economies and developing countries in the Board, while the industrial countries, the predominant creditors of the IMF, would remain majority shareholders.

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Intensive collaboration between the Executive Board, the Managing Director, and the staff has been a basic feature of IMF governance from the outset. All aspects of the IMF's work take place under the supervision of the Board, which is—literally and figuratively—"in continuous session." Executive Directors channel the views of their authorities, thus providing the link that secures the input and support of capitals; at the same time, they are officials of the IMF who form a college that is responsible for "conducting the business of the IMF." The Managing Director has the multiple tasks of being the principal spokesman of the IMF and of maintaining contacts with members at the political level while at the same time functioning as Chairman of the Board and head of the staff. Good governance of the IMF requires that the chief executive be selected in a transparent and consensual manner.

Effective governance of the IMF demands that the institutional benefits and burdens are equitably shared among the membership and that checks and balances operate efficiently in decision making. The development of IMF policies is a process of deliberate and thorough consideration by the Executive Board, the management, and the staff of all the aspects of an issue in order to arrive at decisions that all, or nearly all, can support. Qualified majorities of the total voting power for certain decisions are important to ensure that major decisions command very wide support. Judicious restraint and reflection are required in the use of veto power. Special voting majorities are a double-edged sword of protection as well as hindrance against change. The high majority required for amendment of the Articles of Agreement ensures thorough consideration of proposals for major change, and a steady course in the governance of the IMF.

Decision making by consensus in the Executive Board was adopted at the outset, in order to ensure that policies in the new institution would be set in a collaborative manner by all and for all. The value of that approach was confirmed over time and particularly since the late 1970s, when the industrial countries ceased to use the IMF's resources and the membership became divided between a group of creditor countries and a group of de facto users of IMF financial resources. Consensus decision making is a hallmark of the IMF and provides valuable protection for developing countries who are the minority shareholders. Special vigilance is required to ensure that the rules of the game continue to reflect a reasonable balance between different groups of members. This has been highlighted in recent years when the Group of Seven showed an increasing tendency to project themselves as a "steering group" or "Directoire" of the IMF, which might not always leave enough room to promote consensus building. While the consensual method has been embraced by all, it is not a miracle solution and it needs to be actively protected because, as can be expected in human affairs, issues do arise in which the force of voting power strongly comes to the fore.

In this essay, the process of consensus building in the Executive Board has been explained in some detail and has been illustrated by several examples. The strength of argument and personality, the timing and manner of presentation, and the power of persuasion of individual Executive Directors are essential elements in the way in which the Board comes to decisions. Moreover, in policy debates, the constituencies that are led by Directors from small industrial countries but also include middle-income and developing countries frequently occupy the "middle ground" between the Directors from major industrial countries and the constituencies of developing countries. The views of the Directors from developing countries often find a receptive ear with colleagues from the "mixed" constituencies, whose positions are carefully calibrated to reflect the diversity of views among the countries in their groups. Similarly, the Executive Directors from major industrial countries look to their colleagues from mixed constituencies for avenues toward broadly acceptable solutions. Experience has amply demonstrated that with good arguments and good tactics the developing countries turned many Board debates and decisions in their favor. In fact, the developing countries are acutely aware of the importance of electing strong personalities to defend their interests in the Board.

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The objective of the conversion in 1999 of the Interim Committee into the IMFC and the creation of a group of Deputies was that it should provide more effective political guidance of the IMF in its core tasks of crisis prevention and crisis resolution, and of making global economic integration work for the benefit of all member countries, including the poorest. In that regard, it is important that the IMFC and the Deputies avoid immersing themselves in what the Board does best, while Executive Directors should have the necessary support from their capitals to conduct the IMF's business. The conversion of the IMFC into a decision-making council—a move that was turned down in 1999—remains an option, but is not necessarily the solution. There is the legitimate concern that, in a council, members from industrial countries may not always show the necessary patience and willingness to work toward consensus and may be tempted to settle issues through up or down voting.

The former Managing Director, Michel Camdessus, proposed that the IMFC meet periodically at the level of heads of state or of government. This would greatly enhance the legitimacy of the IMFC, and of the IMF, as the representative of the global community in financial affairs. It would also constitute an important counterweight to the economic summits of the major industrial countries. While there has been little reaction to the suggestion of Michel Camdessus, the Group of Seven proceeded in 1999 with the creation of two new groups outside the IMF, the Financial Stability Forum and the Group of 20. The raison d'être of both groups overlaps in large part with the core responsibility of crisis prevention of the IMF and suggests that the Group of Seven remains ambivalent about the IMF and the IMFC.

The more accountable the IMF is to the totality of its members, the stronger its legitimacy, particularly in dealing with issues that infringe on national sovereignty. Political oversight and accountability should involve members sharing in the responsibility for the decisions taken by the institution. Political oversight should not be confused with arm twisting by individual members or groups of members that interferes with consensus building. The leadership and the impulse of the Group of Seven are essential toward the resolution of the major issues in the management of the international monetary system. However, it is important for the balanced and cooperative working of the system and for its accountability that the Group of Seven exert their influence within the global framework of the IMFC and the Board, rather than appear to impose it from "above." In that regard, the credibility of the Group of Seven would be much enhanced if multilateral surveillance of their group—which has lost muscle in recent years—were revitalized.

The role and the vision of the United States in the mission of the IMF are unique. Over the years, U.S. support for the IMF has been forthcoming in critical moments and it remains essential for important policy initiatives. The U.S. Congress is keenly aware of the country's premier position in the IMF. While the European countries have generally supported the IMF, they have left the United States—too long—alone in the driver's seat because of Europe's absorbing focus on regional union, and the creation of a common currency and of a common central bank. From a different corner of the globe, the ambition of Japan and of other countries in the Asian region for recognition of their increased role in the global economy appears legitimate.

* * *

For decades, the IMF failed to recognize the importance of transparency; its internal culture and the attitudes of member countries encouraged confidentiality. This strengthened the view prevailing on the outside that the IMF believed that it was answerable only to itself. External pressures on the IMF for transparency led by civil society, as well as a result of the impact of the financial crises of the 1990s, have had a salutary effect. The IMF now strives to be a transparent institution through a comprehensive program of publication of its internal documents. The policy of external evaluation of core activities and the establishment of an IEO add to a solid public record. Nevertheless, further progress can be achieved such as through a more forthcoming policy with regard to the public availability of minutes of Executive Board meetings, while public opinion needs to be reassured that there will be no backsliding in transparency.

Civil society has had a notable impact in enhancing IMF transparency as well as on other areas of concern such as country ownership of IMF programs and comprehensive debt relief for the HIPC. Civil society's growing involvement in the triangular relationship with the IMF and with the electorates of members should assist in promoting improved governance and equity of the global financial system. The IMF should deepen its collaboration with civil society and make sustained efforts to explain itself better to the electorates of members. It would also appear to be timely for the Board to establish a framework for the further development of a fruitful relationship with civil society. However, the criteria that must guide the IMF in its actions will differ from—and could occasionally conflict with—those that guide civil society. The IMF cannot have a multiplication of stakeholders; its accountability must remain with its member governments.

* * *

IMF activities have, over time, focused increasingly on the developing countries, which are now much more integrated in the international economy than half a century ago, even though the weight of the industrial economies in the global economy continues to grow. Developments in the 1990s have accelerated this structural process with important implications for IMF governance that continue to evolve. The emphasis on poverty reduction and debt relief for a number of the poorest countries is being pursued jointly by the IMF and the World Bank, with the impetus, at the ministerial level, of joint working meetings of the IMFC and the Development Committee. The searchlight on the weaknesses in financial sectors around the globe, and particularly those in middle-income, capital-importing countries that can be subject to sudden shifts in market sentiment, has prompted the addition to the IMF's core tasks of issues in financial sector stability that, until recently, had remained largely with national authorities and whose resolution requires a sustained strengthening of international collaboration. The participatory process of IMF policy formulation, involving civil society and the outreach to the electorates of members, needs to be further developed while IMF transparency is consolidated. The emphasis on country "ownership" of policies, as well as on governance issues of member countries, should be seen in a similar light. The IMF must also be responsive to a vastly broadened array of technical assistance needs of members, such as in institution building. The addition of major new tasks, such as those just referred to, requires much increased time and specialized knowledge on the part of the Board and of the staff. For years, the workloads of the Board and the staff have been excessive, while attempts to streamline operations were limited because of the Board's laudable insistence on its central role in conducting the business of the IMF and the general desire to maintain a lean and homogenous staff. In order to maintain the standards of IMF governance, these issues require fresh and sustained efforts to raise institutional efficiency.

The countries most affected by the financial crises of the 1990s—with the exception of Indonesia, due largely to internal governance issues—have rebounded markedly, with strong growth, consistent macroeconomic policies, and structural reforms. The authorities of Mexico, Korea, Thailand, Russia, and Brazil should be commended for their achievements. The thrust of the IMF-supported programs and the size of the financing packages contributed to these remarkable results. Nevertheless, the perceived risk of moral hazard and concerns regarding the sustainability of external debt of individual countries have had an impact on the view that the IMF should reduce its financing role.

Further work is in progress to develop two, possibly complementary, approaches to sovereign debt restructuring, the statutory approach in which the debtor and a supermajority of creditors take the decisions, and the market-based approach involving collective action clauses in contracts. The IMF's financing role will also need to remain aligned and responsive to changing global economic conditions. This includes the flexible setting of access limits for "traditional" balance of payments needs, as well as access limits for capital account crises, including the issue of "exceptional circumstances" that call for commensurate access. The precise dimension of moral hazard, thus far mainly perception rather than hard evidence, also needs to be clarified. Moreover, circumstances may well recur in which the IMF would find itself in a position of lender of last resort. Financial crises will occur again, unexpectedly, and IMF governance needs to ensure that the institution remains ready to deal effectively with its fundamental tasks of systemic oversight and of providing policy advice and finance, thereby giving "confidence to members . . . under adequate safeguards . . . providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity" (Article I –v).

Washington, D.C., June 2002

Appendix I.

Voting Majorities in the IMF

The IMF operates on the basis of weighted voting power of its members. Ordinarily, decisions require a simple majority of the votes cast but special majorities are needed for certain decisions as specified in the Articles of Agreement. The original Articles required special majorities for 9 categories of decisions. In the first amendment, that number rose to 21 and in the second amendment it more than doubled again to over 50. At the same time, the number of special majorities was simplified and reduced to two: 70 percent and 85 percent. The third amendment added one category of special voting majority.

The increased prescription of special voting majorities was supported on the argument that the expanded responsibilities of the IMF required that important policy decisions should command very wide support. However, it also heightened the concern that it would become very difficult to garner the necessary consensus to take major decisions, such as the 85 percent majorities required to approve quota increases, to allocate SDRs, to establish the Council, and other matters. At the same time, it reflected the insistence not only of the United States and of Europe but also, for example, of a group of developing countries to be able to protect their interests through the veto power.

The need for flexibility in the management of the international monetary system following the breakdown of the par value rule led to increased use of "enabling powers" that required special majorities. The novelty of certain provisions was also seen as justifying special voting majorities, such as for several decisions relating to the SDR regime or for sales of gold by the IMF.

Several decisions subject to special majorities can be expected to be taken only in exceptional circumstances—for example, the enforcement of pressures on a member, the suspension of voting rights, and the compulsory withdrawal.

While the Board of Governors has made the maximum delegation of authority to the Executive Board, there remain 13 categories of decisions—most of them relating to adjustment of quotas, to allocation or cancellation of SDRs, to the Council, and to the size of the Executive Board—that cannot be delegated to the Executive Board and nearly all of which require 85 percent of the total voting power. Of the more than 40 categories of decisions requiring special voting majorities that can be taken by the Executive Board, 16 require 85 percent of the total voting power. Most of the remaining categories of decisions relate to financial and operational issues for which the 70 percent majority of the voting power was justified in order to safeguard interests of both debtors and creditors.

Appendix II. IMF Executive Directors and Voting Power

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[1]	Percent of IMF Total[2]
APPOINTED				
Vacant *Meg Lundsager*	United States	371,743	371,743	17.16
Ken Yagi *Haruyuki Toyama*	Japan	133,378	133,378	6.16
Karlheinz Bischofberger *Ruediger von Kleist*	Germany	130,332	130,332	6.02
Pierre Duquesne *Sébastien Boitreaud*	France	107,635	107,635	4.97
Tom Scholar *Martin Brooke*	United Kingdom	107,635	107,635	4.97
ELECTED				
Willy Kiekens	Austria	18,973		
(Belgium)	Belarus	4,114		
Johann Prader	Belgium	46,302		
(Austria)	Czech Republic	8,443		
	Hungary	10,634		
	Kazakhstan	3,907		
	Luxembourg	3,041		
	Slovak Republic	3,825		
	Slovenia	2,567		
	Turkey	9,890	111,696	5.16
J. de Beaufort Wijnholds	Armenia	1,170		
(Netherlands)	Bosnia and Herzegovina	1,941		
Yuriy G. Yakusha	Bulgaria	6,652		
(Ukraine)	Croatia	3,901		
	Cyprus	1,646		
	Georgia	1,753		
	Israel	9,532		
	Macedonia, former Yugoslav Republic of	939		
	Moldova	1,482		
	Netherlands	51,874		
	Romania	10,552		
	Ukraine	13,970	105,412	4.87

IMF EXECUTIVE DIRECTORS AND VOTING POWER *(CONTINUED)*

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[1]	Percent of IMF Total[2]
ELECTED *(continued)*				
Fernando Varela	Costa Rica	1,891		
(Spain)	El Salvador	1,963		
Hernán Oyarzábal	Guatemala	2,352		
(Venezuela)	Honduras	1,545		
	Mexico	26,108		
	Nicaragua	1,550		
	Spain	30,739		
	Venezuela	26,841	92,989	4.29
Pier Carlo Padoan	Albania	737		
(Italy)	Greece	8,480		
Harilaos Vittas	Italy	70,805		
(Greece)	Malta	1,270		
	Portugal	8,924		
	San Marino	420	90,636	4.18
Ian E. Bennett	Antigua and Barbuda	385		
(Canada)	Bahamas, The	1,553		
Nioclás A. O'Murchú	Barbados	925		
(Ireland)	Belize	438		
	Canada	63,942		
	Dominica	332		
	Grenada	367		
	Ireland	8,634		
	Jamaica	2,985		
	St. Kitts and Nevis	339		
	St. Lucia	403		
	St. Vincent and the Grenadines	333	80,636	3.72
Ólafur Ísleifsson	Denmark	16,678		
(Iceland)	Estonia	902		
Benny Andersen	Finland	12,888		
(Denmark)	Iceland	1,426		
	Latvia	1,518		
	Lithuania	1,692		
	Norway	16,967		
	Sweden	24,205	76,276	3.52

IMF EXECUTIVE DIRECTORS AND VOTING POWER *(CONTINUED)*

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[1]	Percent of IMF Total[2]
ELECTED *(continued)*				
Michael J. Callaghan	Australia	32,614		
(Australia)	Kiribati	306		
Diwa Guinigundo	Korea	16,586		
(Philippines)	Marshall Islands	275		
	Micronesia, Federated States of	301		
	Mongolia	761		
	New Zealand	9,196		
	Palau	281		
	Papua New Guinea	1,566		
	Philippines	9,049		
	Samoa	366		
	Seychelles	338		
	Solomon Islands	354		
	Vanuatu	420	72,413	3.34
Sulaiman M. Al-Turki	Saudi Arabia	70,105	70,105	3.24
(Saudi Arabia)				
Ahmed Saleh Alosaimi				
(Saudi Arabia)				
Cyrus D.R. Rustomjee	Angola	3,113		
(South Africa)	Botswana	880		
Ismaila Usman	Burundi	1,020		
(Nigeria)	Eritrea	409		
	Ethiopia	1,587		
	Gambia, The	561		
	Kenya	2,964		
	Lesotho	599		
	Liberia	963		
	Malawi	944		
	Mozambique	1,386		
	Namibia	1,615		
	Nigeria	17,782		
	Sierra Leone	1,287		
	South Africa	18,935		
	Sudan	1,947		
	Swaziland	757		
	Tanzania	2,239		
	Uganda	2,055		
	Zambia	5,141		
	Zimbabwe	3,784	69,968	3.23

IMF Executive Directors and Voting Power *(continued)*

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[1]	Percent of IMF Total[2]
ELECTED *(continued)*				
Dono Iskandar	Brunei Darussalam	1,750		
Djojosubroto	Cambodia	1,125		
(Indonesia)	Fiji	953		
Kwok Mun Low	Indonesia	21,043		
(Singapore)	Lao People's Democratic Republic	779		
	Malaysia	15,116		
	Myanmar	2,834		
	Nepal	963		
	Singapore	8,875		
	Thailand	11,069		
	Tonga	319		
	Vietnam	3,541	68,367	3.16
A. Shakour Shaalan	Bahrain, Kingdom of	1,600		
(Egypt)	Egypt	9,687		
Mohamad Chatah	Iraq	5,290		
(Lebanon)	Jordan	1,955		
	Kuwait	14,061		
	Lebanon	2,280		
	Libya	11,487		
	Maldives	332		
	Oman	2,190		
	Qatar	2,888		
	Syrian Arab Republic	3,186		
	United Arab Emirates	6,367		
	Yemen, Republic of	2,685	64,008	2.95
WEI Benhua (China)	China	63,942	63,942	2.95
WANG Xiaoyi (China)				
Aleksei V. Mozhin (Russia)	Russia	59,704	59,704	2.76
Andrei Lushin (Russia)				
Roberto F. Cippa	Azerbaijan	1,859		
(Switzerland)	Kyrgyz Republic	1,138		
Wieslaw Szczuka	Poland	13,940		
(Poland)	Switzerland	34,835		
	Tajikistan	1,120		
	Turkmenistan	1,002		
	Uzbekistan	3,006	56,900	2.63

IMF Executive Directors and Voting Power *(continued)*

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[1]	Percent of IMF Total[2]
ELECTED *(continued)*				
Murilo Portugal	Brazil	30,611		
(Brazil)	Colombia	7,990		
Roberto Junguito	Dominican Republic	2,439		
(Colombia)	Ecuador	3,273		
	Guyana	1,159		
	Haiti	857		
	Panama	2,316		
	Suriname	1,171		
	Trinidad and Tobago	3,606	53,422	2.47
Vijay L. Kelkar	Bangladesh	5,583		
(India)	Bhutan	313		
R.A. Jayatissa	India	41,832		
(Sri Lanka)	Sri Lanka	4,384	52,112	2.41
Abbas Mirakhor	Algeria	12,797		
(Islamic Republic of Iran)	Ghana	3,940		
Mohammed Daïri	Iran, Islamic			
(Morocco)	Republic of	15,222		
	Morocco	6,132		
	Pakistan	10,587		
	Tunisia	3,115	51,793	2.39
A. Guillermo Zoccali	Argentina	21,421		
(Argentina)	Bolivia	1,965		
Guillermo Le Fort	Chile	8,811		
(Chile)	Paraguay	1,249		
	Peru	6,634		
	Uruguay	3,315	43,395	2.00

IMF EXECUTIVE DIRECTORS AND VOTING POWER *(CONCLUDED)*

Director *Alternate*	Casting Votes of	Votes by Country	Total Votes[1]	Percent of IMF Total[2]
ELECTED *(concluded)*				
Alexandre Barro	Benin	869		
Chambrier	Burkina Faso	852		
(Gabon)	Cameroon	2,107		
Damian Ondo Mañe	Cape Verde	346		
(Equatorial Guinea)	Central African Republic	807		
	Chad	810		
	Comoros	339		
	Congo, Republic of	1,096		
	Côte d'Ivoire	3,502		
	Djibouti	409		
	Equatorial Guinea	576		
	Gabon	1,793		
	Guinea	1,321		
	Guinea-Bissau	392		
	Madagascar	1,472		
	Mali	1,183		
	Mauritania	894		
	Mauritius	1,266		
	Niger	908		
	Rwanda	1,051		
	São Tomé and Príncipe	324		
	Senegal	1,868		
	Togo	984	25,169	1.16
			2,159,666[3,4]	99.71[5]

[1]Voting power varies on certain matters pertaining to the General Department with use of the IMF's resources in that Department.

[2]Percentages of total votes 2,166,739 in the General Department and the Special Drawing Rights Department.

[3]This total does not include the votes of the Islamic State of Afghanistan, Somalia, and the Federal Republic of Yugoslavia, which did not participate in the 2000 Regular Election of Executive Directors. The total votes of these members is 7,073—0.33 percent of those in the General Department and Special Drawing Rights Department.

[4]This total does not include the votes of the Democratic Republic of the Congo, which were suspended effective June 2, 1994 pursuant to Article XXVI, Section 2(b) of the Articles of Agreement. The Democratic Republic of the Congo cleared its overdue obligations to the IMF in June 2002.

[5]This figure may differ from the sum of the percentages shown for individual Directors because of rounding.

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