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Global Institutional Reform

The Political Economy of IMF Surveillance

Domenico Lombardi
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Working Paper No.17
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The Political Economy of IMF Surveillance[*]

Domenico Lombardi
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[*] This project was started when Domenico Lombardi was at the IMF - the opinions expressed in this study are of the authors alone and do not involve the IMF, the World Bank, or any of their member countries. Since completing this working paper, we have received valuable comments and suggestions that will be fully incorporated in a revised version of the paper to be published later in the year. We would like to thank, but do not wish to implicate, Carlo Cottarelli, Graham Hacche, Gerry Helleiner, Louis Pauly, Maria Fabiana Viola, and the participants of the workshop, "*The Reform of Global Financial Governance: Whither the IMF?*" organised by The Centre for International Governance Innovation, Waterloo, Canada, 10 June 2006, for their comments on an earlier draft. This paper is co-released with the Global Economic Governance Programme at the University of Oxford.

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Thank you for your interest,

John English

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Abstract

This paper investigates the political economy foundations of International Monetary Fund (IMF) surveillance by developing a taxonomy that accounts for its differential impact across the membership and examine its rationale in light of how surveillance has historically affected members' economic policies. With powerful member countries now pressing for the IMF to strengthen surveillance, we identify the factors that would enable it to affect the policies of its member countries, exploring the impact that IMF's internal governance has on the effectiveness of both bilateral and multilateral surveillance and contrasting it with the experience of select international organizations.

1. Introduction

The International Monetary Fund (IMF) is in search of a new role, and not for the first time. Every decade or so, this international organization has relinquished some of its old responsibilities in the global system. In the early 1970s it ceased to oversee the Bretton Woods exchange rate system, and in so doing, lost its centrality as a multilateral forum for consultation on economic coordination. By the early 1980s it had found a new role at the heart of managing the emerging debt crisis, but a decade later the international financial risks of the debt crisis had abated and the IMF moved on into facilitating 'systemic transformation' in Russia and its former satellite states. As that role became less necessary, the Fund shifted focus to managing the Mexican, the East Asian and other financial crises in the 1990s by providing large emergency lending packages. Now, this job too, has diminished in importance.

Powerful countries in the IMF are pressing for the institution to reinvigorate its role as a multilateral forum of consultation or 'surveillance framework'. They want the IMF to focus more effectively on monitoring exchange rates and underlying macroeconomic policies, as well as on monitoring global economic trends.[1] Currently, the IMF is not alone in offering monitoring and information about national economic policies and global economic trends. The Organisation for Economic Co-operation and Development (OECD), private ratings agencies, the Bank for International Settlements, the World Bank, international investment banks, various United Nations agencies (including the Counter Terrorism Committee of the UN Security Council)

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[1] Timothy Adams, Remarks delivered at the seminar, "Working with the IMF to Strengthen Exchange Rate Surveillance," American Enterprise Institute, Washington, DC, 2 February 2006); and, Mervin King, "Reform of the International Monetary Fund," Speech at the Indian Council for Research on International Economic Relations (ICRIER) in New Delhi, India, 2006.

and regional organizations all provide at least some information that overlaps with the surveillance reports of the IMF. Many experts assert that the IMF is uniquely placed to provide information of a quality and depth beyond what these other institutions can offer, but they rarely analyse why this is the case or what impact IMF surveillance has on member states.

What is special about the IMF is that all 184 governments that belong to the organization have committed themselves to be part of a universal system of peer review and oversight. The IMF offers a multilateral forum for consultation and agreement among countries, or, to use the language of its constitution, "machinery for consultation and collaboration on international monetary problems".[2] It also offers a mechanism for implementing or fostering standards among members - through bilateral surveillance - that has both a voluntary and a compulsory element to it, as all members commit to regular Article IV consultations with the Fund. In addition, many members have volunteered to be part of a broader system of peer-reviewed standards and codes that began in 1999. Finally, the IMF has a large, highly trained technical staff that undertakes multilateral surveillance, monitors trends in the global economy, and feeds this information into discussions among governments about how they might better cooperate in monetary affairs.

But it is important to ask whether all of the Fund's surveillance work is effective. The argument in favour of strengthening surveillance assumes that the IMF, as a multilateral institution, is capable of influencing the judgments of all of its members. Many have long argued, however, that IMF surveillance *per se* has little if any effect on national governments that do not borrow

[2] Article 1, Articles of Agreement of the International Monetary Fund. Available Online: <http://www.imf.org/external/pubs/ft/aa/index.htm>.

from it. If this argument is correct, more surveillance by the IMF as it is currently constituted may not give the institution any greater influence. It is worth asking what kinds of changes to the IMF's mandate, governance and operations would be required for it more effectively to influence all of its members through surveillance.

This paper examines the rationale for strengthening IMF surveillance, investigating how the Fund's multilateral and bilateral surveillance affects members' policies.

2. The Evolution of IMF Surveillance

In a world buffeted by shocks and crises, it is the IMF's job to promote international monetary cooperation and financial stability. Effective surveillance has long been seen as a necessary foundation for this. Louis Pauly explains the task of surveillance using the metaphor of building a house - or at least its foundations and plumbing. While coordination among central bankers, bank supervisors, securities regulators, and accounting standards boards can reinforce the 'plumbing' of global finance, they can do little to affect the foundations, which are tied to the macroeconomic policies of states. If these move in distinctly different directions, they crack the foundations of 'global' finance.[3] Pauly presents surveillance as a politically feasible way to encourage macroeconomic policy coordination. The ideal is an "inclusive, symmetrical and effective" tool to promote necessary collaboration in an integrating world economy, which may help to "steer national policies" in a systemically constructive direction.[4] This assessment highlights the extent to which surveillance, to be effective, needs

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[3] Louis W. Pauly, *Who Elected the Bankers?* (Ithaca and London: Cornell University Press, 1997), 142.

[4] Ibid., 143; see also Pauly, "IMF Surveillance and the Legacy from Bretton Woods," in David Andrews, ed., *Bretton Woods Revisited* (Ithaca: Cornell University Press, 2007).

to be about more than the collection and analysis of information. A review of the history of IMF surveillance illuminates some of the features missing from contemporary surveillance.

Surveillance with Authority

During the first three decades of the IMF, the institution was the cornerstone of a rule-based system of exchange rates. The Bretton Woods economic order aimed to spur international trade and growth by ensuring that all countries made their currencies convertible and that the exchange rate system overall was stable. The system had entry requirements that were applied and monitored by the IMF. Once a country complied with the IMF's rules and was admitted to membership, its exchange rate was subjected to IMF scrutiny and could only be altered subject to rules upheld by the IMF.

The Fund's role in this was central. It had to press countries to make their currencies convertible for current account transactions. All members who had not lifted exchange restrictions in the five years after the IMF began operating, were required to hold regular consultations with the Fund under Article XIV. Exchange rates were the transparent anchors for ensuring international economic cooperation and every member of the IMF committed to a par value system - a fixed but alterable exchange rate - consistent with not imposing restrictions on current payments and transfers. While the Bretton Woods system lasted, the IMF conducted a form of surveillance that was both bilateral and multilateral by monitoring the sust-ainability of exchange rates and their consistency vis-à-vis the broader par value system.

Any member country which had not made its currency fully convertible had to consult with the IMF. In the Bretton Woods system these consultations continued even after countries had moved towards full convertibility, reflecting the desire of the United States for an 'activist' IMF to continue to monitor European economies, albeit - due to counter-balancing European demands - on a strictly 'voluntary' basis and alongside monitoring the US itself (the first such consultation was held with the United Kingdom in 1961). Additionally, the IMF needed to ascertain the eligibility of members to use Fund resources and, for those who did, to confirm their compliance with the conditionality attached to their respective financial arrangements.[5] To this end, the Fund began examining closely - and reporting on - the economic policies of prospective borrowers.

To some degree, the Bretton Woods system was self-enforcing. When a country's exchange rate was misaligned, this would show up in a balance of payments deficit or surplus. The Fund's role was both to monitor the situation and to lend to members that found themselves in a balance of payments deficit in order to ease their adjustment back to equilibrium. No member could change its exchange rate parities unilaterally, because the IMF would impose sanctions on any country that made changes that introduced a fundamental disequilibrium into the system.[6]

From the late 1960s the complexity of the linkages between national economic policies and their international spill-overs became more visible, and the IMF responded by developing a multilateral surveillance framework. In 1969, the first World Economic Outlook (WEO) contained macroeconomic projections for the seven largest industrial economies. In subsequent years, efforts focused on making the projections intrinsically consi-

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[5] On this, see IMF, *External Evaluation of IMF Surveillance*, Report by a Group of Independent Experts (Washington, DC: International Monetary Fund, 1999).
[6] Manuel Guitiàn, "The Unique Nature of the Responsibilities of the International Monetary Fund," *IMF Pamphlet Series*, no. 46 (Washington, DC: International Monetary Fund, 1992).

stent, and the report's multilateral nature was strengthened by the addition of a thorough discussion of devel-opments in the global economy, designed to guide economic decisions by national policymakers.[7] In 1974, the timing of the report was refined so that the WEO would be available in conjunction with the meetings of the Interim Committee and the Board of Governors. The WEO was intended to mediate between technocrats and politicians through the institutional channel established by the Committee of Twenty and, later, the Interim Committee (now the International Monetary and Financial Com-mittee, IMFC) and to provide periodic interplay between staff views - based on their bilateral surveillance activities - and country officials representing their authorities at meetings of the Executive Board.[8] The reality, however, has been somewhat different, not least because as the 1970s rolled onwards, the IMF became marginalized in discussions of global monetary cooperation.

Surveillance after Bretton Woods: Making Do with Little Authority

When the Bretton Woods system collapsed in the early 1970s, the IMF was no longer required to apply rules to any country wishing to alter its exchange rate. The major exchange rates were now freely floating. As a result, IMF surveillance changed. A new system of exchange rate surveillance was borne out of the break-down of the Bretton Woods system. After the fixed parities system was abandoned, the IMF Interim Committee met in Jamaica in 1976 and began amending the IMF's Articles of Agreement.

[7] As noted in Harold James, "The Historical Development of the Principle of Surveillance," *IMF Staff Papers*, vol. 42, no. 4 (Washington, DC: International Monetary Fund, 1995): 762-90.

[8] On the Committee of Twenty and the Interim Committee, see Margaret Garritsen de Vries, *The International Monetary Fund 1972-1978, Cooperation on Trial*, (Washington, DC: International Monetary Fund, 1985).

The result was the Second Amendment of 1978 which set up the framework for the Fund's modern surveillance function. In essence, the new framework overrode the desire of countries such as France for a new rule-based system. It reflected the wish of other member countries, led by the US, to create a flexible regime that would foster adjustment through regular consultations but allow individual countries themselves to create the conditions for attaining domestic macroeconomic objectives. This was a great change from the Bretton Woods regime where the anchor provided by the pegged exchange rate - overseen by the IMF - dictated the required internal adjustment.

The new system placed great weight on consultations and national-level responsibility in the absence of international rules. At the heart of the revised Article IV was a shift in authority back to member countries and away from the IMF. The IMF was still tasked by its members with helping them avoid the unilateral setting of exchange rate policies by individual nations, but members had taken back sovereignty over their economic policies, leaving the IMF few, if any, instruments with which to fulfil its task. This contradictory element in the Fund's mandate has not yet been resolved by the IMF membership.

By the late 1970s, even as the IMF attempted to enlarge its oversight over members' policies, its formal authority over them waned. Key member countries insisted on a vague role for the IMF with a permissive approach to Article IV consultations based on some loose 'principles' for identifying cases which "might indicate the need for discussion with a member".[9] Attempts to tighten these principles met with resistance from member countries.[10] As a result, bilateral surveillance evolved more by way of procedural adaptation

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[9] Such cases are listed in James Boughton, *The Silent Revolution* (Washington, DC: International Monetary Fund, 2001), 125.
[10] Ibid., 71-2.

than through the emergence of tighter or more specific rules.[11]

These developments contrasted with the initiative taken by some key members (US, UK, France, Germany, and Japan) to set up their own multilateral surveillance forum over monetary and exchange rate policies in 1982. While they agreed that the exercise would be conducted in cooperation with the IMF, it became clear at the start that the G5 (which became the G7 with the inclusion of Italy and Canada) would play a lead role. The IMF adapted to play a supporting informational part by providing an analytical framework and an internationally consistent database for G7 consultations. A division of labour soon materialized such that the IMF Managing Director would make a presentation to the G7 Finance Ministers on the international economic outlook and related policy options but then leave the meeting when participants would come to discuss such options.

The IMF worked with what little authority it had. Bilateral surveillance became the appraisal of exchange rate policies in the broad context of the sustainability of a country's external position, the latter being judged primarily against developments in fiscal and monetary policies, sometimes including even structural policies and - more recently - the financial sector. These appraisals established a regular mechanism for monitoring members' national economic policies whereby they would consult annually with the Fund over their exchange rate policies, with Article IV consultations now subsuming all the previous consultations under Articles VIII and XIV.

By now, the IMF has lost its credit union character, in which all members were deemed to be equally likely to apply for temporary balance of payments support to uphold the fixed exchange rate system. The membership became and remains segmented between

[11] Pauly, *Who Elected the Bankers?*

creditors and (potential) borrowers, that is, industrial versus developing countries.

Innovations in Surveillance without Authority

While bilateral surveillance has tip-toed forward, IMF staff have increased their reporting on the global economy. The aim has been to inform Board-level discussions among members and thereby to facilitate cooperation. In the aftermath of the Asian financial crises, and aware of the need to increase surveillance on financial sector issues, the Fund created a new international capital markets department - now merged into the monetary and financial stability department - which in turn launched the Global Financial Stability Report (GFSR) in 2001, replacing the IMF's International Capital Markets Report. With the aim of strengthening the focus on international financial markets, the Executive Board has also been discussing the latest developments in international financial markets in sessions called World Economics and Markets Developments (WEMD). These sessions are held about every two months, and they provide an opportunity for Board members to have a frank discussion about global issues in an informal setting.

Multilateral surveillance of more development-oriented issues took a new turn in 2003 with the launch of the Global Monitoring Report (GMR). This brought the IMF and the World Bank - which acts as the lead agency - into a joint monitoring exercise "to allow the Development Committee to regularly assess progress and to reinforce accountabilities among developing and developed countries, as well as institutional partners, for their policies and actions for achieving the Millennium Development Goals and related outcomes".[12] The Global Monitoring Report is intended

[12] "Development Committee Communiqué" (Washington, DC: World Bank/IMF, 13 April 2003). Available online: <http://www.imf.org/external/np/cm/2003/041303.htm>.

to inform the joint IMF-World Bank Development Committee and provide a strategic context for its discussions, just as the World Economic Outlook is intended to inform discussions held by the IMF's International Monetary and Financial Committee.

Finally, spurred by a number of recent initiatives in regional integration, including the development of the European Union, the IMF has increasingly used multilateral surveillance in an effort to better understand spill-overs and linkages at the regional level and to provide comparative analysis of developments and policies within regions. Table 1 provides a synopsis of the whole spectrum of current surveillance instruments.

Table 1. IMF Surveillance Instruments

Spatial Focus		Stage of Economic Development: Low-Income	Emerging	Advanced
	Global	WEO		
		GMR	GSFR	
			WEMD	
	Regional	Regional Outlooks, Monetary Unions		
	National	Art. IV Consultations, ROSCs, FSAPs		

The Fund has also added further to its bilateral work in recent years by developing a system of voluntary surveillance of codes and standards. This began in 1999 when the IMF and the World Bank launched the 'standards and codes' initiative in an effort to step up institutional reforms in their member countries. Building on previous economic research showing that the strength of a nation's institutional framework is a key determinant of economic growth and following the 1990s financial crises, which suggested that a high-quality institutional framework can be effective in managing the disruptive effects of financial crises, the initiative consists of twelve standards - covering policy transparency, financial sector regulation and supervision, and market integrity - that have been identified by the Financial Stability Forum as most relevant for strengthening financial systems.[13] These standards and codes broadly refer to the set of provisions relating to the institutional environment in which economic policies are formulated. In this respect they are intended to complement the 'traditional' surveillance mechanisms under Article IV, which focus on the actual economic policies of a member. Furthermore, the new standards and codes are designed to be absolutely voluntary - unlike Article IV surveillance which is mandatory on members, or Article VIII obligations which are legally binding.

According to the latest review,[14] participation in the standards and codes initiative exhibits an uneven regional pattern, with Eastern European and Latin American countries featuring higher participation than, say, Asian and African members. At the same time, the review also shows varying patterns of participation within the categories of advanced, emerging and other developing economies. The presumption about the new voluntary surveillance of the standards and codes initiative is that it provides information, dissemination of best practices, and peer review all of which contributes to standard-setting. We will return to consider how effective voluntary codes have been later in the paper.

Table 2 summarizes the forms of international cooperation available to the IMF. In recent times, the IMF's role has oscillated, shifting from ensuring a modest minimum requirement of international cooperation - in keeping with provisions contained

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[13] IMF and World Bank, "The Standards and Codes Initiative - Is it Effective? And How Can it Be Improved?" (Washington, DC: International Monetary Fund, 1 July 2005).
[14] Ibid.

Table 2. Modalities of IMF International Cooperation

Degree of Delegation		Indirect	Direct
	High	Art. VIII	Bretton Woods Par Value System
	Low	International Standards	G7 and Other Multilateral Fora

Modality of Engagement

in Article VIII; top-left corner of Table 2 - to providing background information to member-based fora such as the G7 to, more recently, becoming an overseer of international standards as a way of overcoming the lack of 'transparency' in a discretion-based system (bottom-left corner of Table 2). Underpinning these changes has been a shift in formal authority away from the institution and back towards its member countries. The following section examines the effects of this shift in terms of the impact of surveillance.

3. Is Surveillance Effective?

This section considers how and why IMF surveillance does or does not actually influence national policies or international cooperation by exploring some hypotheses about its effectiveness. The core explanations considered here are: first, that surveillance is, in essence, an information-gathering exercise which has little impact because the IMF has insufficient authority over its members to alter policy; second, surveillance is a projection of the power of the most powerful members of the IMF - a mechanism through which they transmit their preferences to members over whom they have some coercive power (such as borrowers); third, surveillance catalyses peer and market pressures which indirectly compel governments to take notice of it; and finally, surveillance provides a forum for learning and dialogue between expert IMF officials and interlocutors within member countries as well as among member states of the organization.

Surveillance as Window-Dressing

One account of IMF surveillance is that it has little or no impact on member countries. Surveillance exists purely as an elaborate *window-dressing* for the Fund to show that it is universal and to make (now public) judgments about all of its members and not just its poorer borrowers. The real work of the IMF, according to this account, lies in its conditional lending, where its judgments are translated into formally binding conditions which members must heed lest they put their loans at risk. Outside of conditionality, this argument goes, the IMF has no authority to enforce its judgments. Strong evidence for this position is found in the institution's attempts to conduct surveillance on wealthy non-borrowing members. As IMF historian James Boughton notes "nowhere is the difficulty of conducting surveillance more apparent than in the relations between the IMF and the major industrial countries".[15] After investigating three other perspectives on surveillance, we will return below to the possibility that it has little effect.

Surveillance as an Imposition of Standards

A second hypothesis differs slightly from the first by focussing on where IMF surveillance piggy-backs conditionality, working as an indirect *imposition of standards*. In this view, surveillance is a mechanism by which a small number of 'rule-making states' within the IMF foist a set of preferences dressed-up as universally beneficial standards on weaker 'rule-taking states'.

[15] Boughton, *The Silent Revolution*, 135.

Surveillance activities were instrumental in promoting debt restructuring in the context of the Latin American debt crisis in the 1980s, with the IMF monitoring performance of debtor countries under some schemes of enhanced surveillance that featured clear and transparent benchmarks against which to assess the performance of debtor members.[16] More recently, when the IMF set up the Contingent Credit Line in 1999 to help members weather financial contagion, it included subscription to specific standards as a criterion for access to this fast-disbursing facility.[17]

Surveillance as an imposition of standards is most readily observed in the IMF's relations with low-income countries who depend heavily on government-to-government development assistance. The IMF acts as a 'gatekeeper' for most official flows. For example, official debt restructuring is negotiated through the Paris Club - comprising all the main official creditors - which has traditionally required borrowers to be part of an IMF supported program before creditors will restructure or cancel the debt owed to them. Yet more tellingly, a recent survey undertaken by the IMF reports that 97 per cent of donor members use IMF assessments to inform their decisions about assistance to low-income countries. Another 77 per cent asked the IMF to report more regularly to the donor community so that such information could be better incorporated in their decisions while a further 60 per cent wished for such information to be backed by IMF lending arrangements.[18]

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[16] IMF, Policy Development and Review Department, *Signaling by the Fund - A Historical Review* (Washington, DC: International Monetary Fund, 16 July 2004).
[17] IMF, *International Standards and Fund Surveillance - Progress and Issues* (Washington, DC: International Monetary Fund, 1999). The facility, never used, was discontinued in 2003.05/177 (Washington, DC: International Monetary Fund, September 2005).
[18] IMF, Policy Development and Review Department, *Policy Support and Signaling in Low-Income Countries* (Washington, DC: International Monetary Fund, 10 June 2005); and, Domenico Lombardi, "The IMF's Role in Low-Income Countries: Issues and Challenges," *IMF Working Paper*, no. 05/177 (Washington, DC: International Monetary Fund, September 2005).

More recently, surveillance has been introduced into the gate-keeping role that the Fund previously discharged through conditional lending. In 2005, a new instrument was developed for those low-income members who do not need or want to enter into a financial arrangement with the Fund but still rely on assistance from donors. The Policy Support Instrument (PSI) is a hybrid of pure surveillance and a lending arrangement: an unfunded arrangement based on a quantitative macroeconomic framework. Countries that meet the expectations set out in the framework are given the Fund's stamp of approval. In the case of Nigeria, the first country to apply, the PSI has been instrumental to its receiving debt restructuring from the Paris Club.

Surveillance may well work as an extension of conditionality in aid-dependent countries. For borrowers with alternative sources of finance, however, surveillance may be understood better as catalyzing market pressures. To this we now turn.

Surveillance as a Catalyst for Peer and Market Pressure

A third account posits that countries use the surveillance process as a device to establish reputation.[19] To this end, the IMF's role in catalyzing peer and market pressures might be considered as comprising several elements, akin to standard-setting in other international forums.[20] The IMF provides a forum within which

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[19] Sylvia Maxfield, "Understanding the Political Implications of Financial Internationalization in Emerging Market Countries," *World Development*, vol. 26, no. 7 (July 1998): 1201-19; Herbert Oberhansli, "A Global Agreement for Private Investment and Regulatory Competition in Globalizing Markets," *Aussenwirtschift*, vol. 52, no. 3 (1997): 449-71; Hans-Werner Sinn, "The Competition between Competition Rules," *NBER Working Paper*, no. 7273 (Cambridge, MA: National Bureau of Economic Research, 1999); and, more recently, Beth A. Simmons, "International Law and State Behavior: Commitment and Compliance in International Monetary Affairs," *The American Political Science Review*, vol. 94, no. 4 (December 2000): 819-35.

[20] Kenneth Abbott and Duncan Snidal, "The International Standards Process: Setting and Applying Global Business Norms," in Peter Nobel, ed, *International Standards and the Law* (Bern: Staempfli, 2005).

'agreed-upon' rules are formulated. Subsequently, the institution monitors and disseminates information about compliance. This information is then picked up by investors and markets and serves - where it is positive - to bolster the credibility of compliant states through indirect pressures from their peers and from markets. In most standard-setting exercises, the process itself is an important step towards agreement and subsequent compliance.

Beth Simmons investigates how peer and market pressure operates in respect of the formal legal obligations spelt out in Article VIII of the IMF's Articles of Agreement, which deals with the general obligations of members.[21] In essence, these are rules agreed upon among member governments to ensure cooperation. Simmons argues that the driving factor behind a country's compliance with Article VIII is not the formal ability of the IMF to enforce the agreed-upon rules, but rather peer-pressure generated in a competitive institutional context. Countries seek to enhance the credibility of their commitments toward liberal policies by submitting them to outside scrutiny, distinguishing themselves from non-reformers. This is particularly obvious within regions where a member is more likely to make a commitment if other regional members have already done so. In practice, this results in standard-setting among self-selected groups that are a relatively open to trade and have healthier external positions. Simmons's work suggests that the IMF's more recent voluntary standards could have significant peer pressure effects.

In recent years, the IMF has developed both a Special Data Dissemination Standard (SDDS) and a simpler form of the same, the General Data Dissemination Standard (GDDS). The SDDS was established in 1996 to guide members that have, or that

[21] Simmons, "International Law and State Behavior." Her study focuses on Section 2 of Article VIII prohibiting restrictions on the making of payments and transfers for current international transactions.

might seek, access to international capital markets in the provision of their economic and financial data to the public. Although subscription to the standard is voluntary, it carries a commitment by a subscribing member to observe the standard and to provide descriptions of economic and financial data, advance release calendars, and other information about dissemination practices. Importantly, the SDDS was developed not as a legal rule to ensure cooperation among governments, but as a way to help individual countries access capital markets. The GDDS was created in 1997 to guide countries in the provision reliable economic, financial, and socio-demographic data. It is not explicitly aimed at enhancing market access, rather, it was conceived as a prior step, helping countries to develop a broader statistical capacity.

Alongside the elaboration of specific standards, such as the SDDS or the GDDS, the IMF is also engaged, with the World Bank, in monitoring countries' compliance with these and other standards through the reports on the observance of standards and codes (ROSCs) at the request of a member country. Like the SDDS, they provide certification to help countries access capital markets but they are also an instrument for monitoring cooperation - and particular agreements to cooperate - among members of the IMF, including most recently agreements about interdicting flows of terrorist financing. Since 1999, 723 assessments (ROSCs) and updates have been completed in 122 countries.[22] Most of them assess emerging market economies, followed by advanced economies and other developing countries.[23] On average, about seven standards out of twelve were assessed at least once in

[22] IMF and World Bank, "The Standards and Codes Initiative."
[23] Their participation rates stand at 93, 87 and 50 per cent, respectively.

emerging market economies, five in advanced economies and only four for developing economies.[24]

ROSCs summarize progress achieved in implementing standards, point to relevant institutional weaknesses, and include prioritized recommendations. They provide a textured and articulated assessment, however, rather than an 'on/off' signal corresponding to a 'pass/fail' assessment, and they are published only with the consent of the government concerned. These factors may make it difficult for outsiders to a ROSC process to discern the significance of ROSC-identified shortcomings and their relevance for macroeconomic and financial stability.

In looking at the evidence regarding whether these new voluntary standards and monitoring procedures produce compliance, we look for effects similar to those described by Simmons in relation to mandatory standards. Do the SDDS or the ROSC process create peer pressures among governments or explicit market pressures on governments to comply? Simmons's work is once again helpful. She documents varying delays in members 'subscribing' to the Article VIII upon joining the IMF membership, estimating that, on average, the probability of a member accepting the obligations spelled out in Article VIII are only 50 per cent within 31 years, increasing to 75 per cent only after 40 years.[25] In other words, countries do not rush to 'subscribe' to Article VIII even if they are compelled to do so

[24] The standards cover twelve areas related to policy transparency (data transparency through the SDDS and GDDS, fiscal transparency, and monetary and financial policy transparency); financial sector regulation and supervision (banking supervision, securities, insurance, payments systems, and anti-money laundering and combating the financing of terrorism); and market integrity (corporate governance, accounting, auditing, and insolvency and creditor rights). Anti-money laundering and combating the financing of terrorism was added in November 2002.

[25] Simmons, "International Law and State Behavior."

upon joining the IMF. Equally important is the evidence that the IMF does not try to enforce such an obligation through the conditionality associated to loan agreements. 'Subscription', instead, operates through strong peer pressure among countries with improving economic conditions. This evidence is borne out by her subsequent analysis of compliance to Article VIII, where she finds a relatively stronger evidence of peer pressure in comparison with variables proxying for economic conditions and market pressure, which exert only a second-order effect. She concludes that "the behavior of other countries, especially in one's own region, has far more influence on commitment and compliance that has generally been recognized".[26]

By the end of May 2005, 61 countries had subscribed to the SDDS. However, that they have signed up does not imply they are complying with the standard. In a study of SDDS compliance in East Asia, Andrew Walter contrasts the incentives countries face to sign up and implement the SDDS to their actual compliance. He defines implementation as the process of bringing a country's statutes and regulations into line with the agreed-upon standards; compliance occurs when countries' actual behaviour conforms to the prescriptions of the specific rule or standard. Walter argues that peer pressures exist on countries to sign up and implement. He finds much less evidence, however, of pressures to comply with implemented standards and uses this distinction to explain the fact that, while the IMF reports how many countries have signed up to SDDS, at the end of 2003 actual compliance with SDDS among IMF members was 29 per cent.[27]

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[26] Ibid., 832.
[27] Andrew Walter, "When Do Governments Comply with Voluntary Standards? The International Standards Project and East Asia since the Crisis," unpublished manuscript (London: London School of Economics, 2006), 17.

The IMF's internal review on the standards and codes initiative admits that "hard evidence on the impact of the initiative on countries' adherence to the standards is not available." It then concludes: "There is neither a mechanism to track systemically members' implementation of ROSC recommendations nor the extent and degree of their observance of the standard in all ROSCs. Also, for most countries, ROSCs have only been done once, so existing ROSCs do not yet provide much information on how observance has evolved over time".[28] Only in 2007 will the IMF begin to produce mandatory annual reports on SDDS observance.

From the gap between subscription to the SDDS and compliance, we can infer one of two things. If we believe that subscription to SDDS sends a positive signal to capital markets, then perhaps subscription alone fulfils subscribing countries' goals and compliance would bring no added benefits. In the words of Barry Eichengreen: "…Subscription status provides an objective indicator of countries' creditworthiness, providing an alternative to the judgments of commercial credit agencies. Investors might become reluctant to lend to countries that fail to subscribe to the standard or might use interest rate spreads to ration credit to them."[29] Alternatively, perhaps countries sign-up to the SDDS more to cooperate with the IMF than to signal to the markets, or, put another way, they sign up in order to send a political signal to the markets that they have IMF support. Accordingly, financial markets are relatively indifferent to SDDS, other standards as well as associated reports, given that market participants are most interested not in the actual standard, but rather in the simple signal of subscription.

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[28] IMF and World Bank, "The Standards and Codes Initiative," 21.

[29] Barry Eichengreen, *Toward a New International Financial Architecture* (Washington, DC: Institute for International Economics, 1999).

The latter finding is borne out by evidence gathered by Layna Mosley. In a survey of mutual fund managers regarding their use and knowledge about the data standard initiative, she finds that 84 per cent of them are, at most, only vaguely aware about the SDDS although they reported that information quality and data availability were important concerns.[30] The Financial Stability Forum has also found that markets participants' familiarity with the twelve key international standards varies widely, though it reports that the SDDS and the International Accounting Standard were the best known among these twelve and are viewed as particularly useful by market participants.[31]

In a study undertaken by the IMF, John Cady and Anthony Pellechio test whether subscription to the SDDS and the GDDS lowers borrowing costs for countries. Their econometric findings based on a sample of 26 emerging market and developing countries are that subscription to the SDDS does reduce market launch spreads, with subscription to the GDDS also producing a positive result.[32] The weakness of the study is that they test only the fact of subscription to the standards, they do not test whether market participants are interested in - or respond to - a record of compliance with the standard. This leaves open the question of whether the markets are responding to subscription *per se* as a signal - perhaps of willingness to cooperate with the IMF - or whether they are responding to the likelihood that a country, having in fact adopted a given standard, will comply with it.

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[30] Layna Mosley, "Attempting Global Standards: National Governments, International Finance, and the IMF's Data Regime," *Review of International Political Economy*, vol. 10, no. 2 (May 2003): 331-62.

[31] Financial Stability Forum (FSF), "Report of the Follow-Up Group on Incentives to Foster Implementation of Standards," Presented at the Meeting of the Financial Stability Forum, 7-8 September 2000.

[32] John Cady and Anthony Pellecchio, "Sovereign Borrowing Cost and the IMF's Data Standards Initiatives," *IMF Working Paper*, 06/78 (Washington, DC: International Monetary Fund).

As with the SDDS itself, the question arises as to why countries request a ROSC. Is it to signal to markets directly or to cooperate with the IMF? Certainly a country that regularly undertakes ROSCs is perceived by the IMF as being more cooperative with the institution than those countries that do not participate. The Executive Board sees this as an important way to ensure that member countries engage with the institution. Since the inception of the SDDS, the Board has reviewed the status of the initiative - mainly focusing on how many members have subscribed and how many more could subscribe - at regular intervals of about two years, while every quarter the staff compiles an update on the subscribers to the Initiative that is regularly circulated to the Board. Furthermore, standards and codes constitute part of the policy dialogue with the authorities in the context of bilateral surveillance missions and, as a result, the Article IV staff papers prepared for the Board report details on the extent to which the member has subscribed to - and has requested a ROSC in - the full spectrum of the current standards.

The IMF's internal review cites evidence that participation into the ROSC initiative has exhibited a degree of self-selection by best performers, that is, participating countries tend to be those with a more transparent and stronger policy setting. Rather than undertaking an assessment to inform subsequent reforms, countries have preferred to implement reforms at an earlier stage and then use the initiative as a 'certification' showing their compliance with a certain standard. This interpretation is consistent with the high rate of publication of ROSCs, at about 75 per cent, a figure that has been stable over time: most of the time, countries that have successfully completed a ROSC wish to signal this fact.

But to whom are they signalling? The latest IMF internal review reports the finding that "the use of ROSCs by market participants is low." Furthermore, "use does not appear to have increased in recent years: a survey conducted in 2003 reported similar results".[33] Even more surprising is the finding that market participants make greater use of Article IV consultation reports than the ROSCs themselves, even though such consultations (unlike the ROSCs) are not based on standards primarily designed to deliver information to market participants. Market participants note that a number of substantial changes would be necessary for ROSCs to be helpful to them. Among these, ROSCs would need to provide quantitative measures of compliance that could be included in risk models; to offer clearer conclusions, as they are too complicated and difficult to interpret; to be updated regularly, possibly annually; and, finally, to produce summaries of their ROSCs' conclusions and recommendations to be included in IMF country reports.

A few studies undertaken within the IMF itself have attempted to establish some links between adherence to international standards and measures of economic performance, though they face serious limitations due to short time series, limited availability of comparable data and, especially, the possible endogeneity of the decision to undertake a ROSC with other reforms.[34] What emerges is the conclusion that, even if subscription with standards would correlate with better access to capital markets, this outcome could

[33] IMF and World Bank, "The Standards and Codes Initiative," 24.
[34] Vasudevan Sundararajan, David Marston, and Ritu Basu, "Financial System Standards and Financial Stability - The Case of Basel Core Principles," *IMF Working Paper*, 01/62 (Washington, DC: International Monetary Fund, 2001); Richard Podpiera, "Does Compliance with Basel Core Principles Bring Any Measurable Benefits?" *IMF Working Paper*, 04/204 (Washington, DC: International Monetary Fund); Rachel Glennerster and Shin Yongseok, "Is Transparency Good for You, and Can the IMF Help?" *IMF Working Paper*, 03/132 (Washington, DC: International Monetary Fund, 2003); Lionel Price, "Standards and Codes - Their Impact on Sovereign Ratings," Special Report (London: Fitch Ratings, 2002); John Cady, "Does SDDS Subscription Reduce Borrowing Costs for Emerging Market Economies?" *IMF Working Paper*, 04/58 (Washington, DC: International Monetary Fund, 2004).

be equally attributed to the alternative competing hypothesis that countries sign up for the IMF's voluntary standards to signal their willingness to cooperate within the IMF.

From the perspective of the IMF itself (and of the World Bank), ROSCs have played an increasingly important role in informing the work of the institution by providing, for instance, the main criterion for prioritizing the provision of its free, but limited, technical assistance. Although acknowledging that "the initiative has significantly fallen short of its objective of informing market participants" and that "direct use of ROSCs by market participants cannot be expected to increase significantly without radical changes" the review concluded that there is "no strong reason to modify the scope or the governance of the initiative",[35] an assessment broadly shared by the Executive Board. All in all, this points to peer pressure among governments - and the desire politically to be seen to cooperate with the IMF - as a relatively stronger factor than market pressures in driving countries attitudes towards the IMF's standards and codes initiative. For our purposes it underscores the potential for surveillance as a form of multilateral cooperation drawing together members around shared commitments and standards.

Surveillance as Learning

The IMF describes its own responsibility in respect of surveillance as being "to encourage a dialogue among its member countries on the national and international consequences of their economic and financial policies, to promote external stability".[36] The view that this dialogue leads to `learning' has deep resonance

[35] IMF and World Bank, "The Standards and Codes Initiative," 27.
[36] IMF Surveillance - A Fact Sheet, August 2006; Available Online: <http://www.imf.org/external/np/exr/facts/surv.htm>.

among scholars of international relations who study the effects of international or transnational engagement by governments. From this genre of analysis we might cast *multilateral* surveillance as a process which creates a focal point for international cooperation - providing technical information that guides governments towards mutually advantageous goals, which they will reach only through cooperation - fostered by the IMF. Equally, bilateral surveillance can also be depicted as a forum for 'learning' whereby the process of consultation between national authorities and the IMF 'educates' the former thereby bringing about convergence towards internationally agreed-upon standards of behaviour.[37]

Multilateral Surveillance and Learning

Multilateral surveillance is an obvious way in which the IMF has potential as a forum for learning. Drawing on its universal membership and the fact that representatives from systemically important economies sit in its decision-making bodies, the IMF provides a forum in which countries can assess trends in the world economy, ascertaining mutually beneficial policies and cooperating to implement these. This role of providing collective solutions is a classic role for international institutions. High quality information is a crucial underpinning of the process of cooperation and the IMF, as a multilateral institution, is well-placed to collate and analyse information pooled from all of its members.

Multilateral surveillance, as mentioned above, hinges on two major reports on the global economy prepared by the IMF staff:

[37] Martha Finnemore and Kathryn Sikkink, "International Norm Dynamics and Political Change," *International Organization*, vol. 52, no. 4 (Autumn 1998): 887-917; Michael Barnett and Martha Finnemore, "The Politics, Power, and Pathologies of International Organizations," *International Organization*, vol. 53, no. 4 (Autumn 1999): 699-732; and, Bessma Momani, "Assessing the Utility of and Measuring Learning from Canada's IMF Article IV Consultation Reports," *Canadian Journal of Political Science*, vol. 39, no. 2 (June 2006): 249-69.

the World Economic Outlook and the Global Financial Stability Report. In theory, these documents are prepared to inform and stimulate discussions among the governments who belong to the IMF, and they might point to specific ways members should cooperate in monetary affairs to achieve goals which would otherwise not be attainable. In this way, the IMF would enable solutions to collective action problems, internalizing the externalities that would arise if each country were to set its policies independently. The IMF's own decision-making Executive Board, whose representatives serve in a dual capacity as country officials and administrators of the institution, could facilitate such a role.[38]

Current practice, however, highlights the limited involvement of this oversight body, pointing to the merely technical nature of the surveillance exercise. The WEO represents the final stage of a highly structured bureaucratic process. Following the meeting of the IMFC twice a year, the WEO cycle begins with a draft outline prepared by staff which is circulated throughout the research department and in other departments for comments. Once the outline has been cleared by management, the economists of the research department implement the research plan. Various country desks provide the research department with their forecasts, which are in turn aggregated and checked against those formulated through the department's multi-country econometric model. Through a series of iterations among the various country desks, a set of forecasts is then finalized in a manner that ensures its intrinsic consistency and that takes into account, by building on bilateral surveillance activities, relevant policy developments across member countries. Preliminary drafts of the WEO chapters

[38] On the role of the Executive Board in the governance of the IMF see Ngaire Woods and Domenico Lombardi, "Uneven Patterns of Governance: How Developing Countries are Represented in the IMF," *Review of International Political Economy*, vol. 13, no. 3 (February 2006): 480-515.

are circulated to the staff for comments. Eventually, following clearance by management, the WEO goes to the Board for discussion. The Board has a chance to provide comments that feed into a related summing-up of its discussions. Even then, however, about three quarters of the interventions concern merely factual clarifications, drafting suggestions, and other procedural comments, according to the findings of the IMF's Internal Evaluation Office. The WEO is then published with a disclaimer that the views expressed are those of the staff and should not be attributed to the Board, whose views are contained in a summing up enclosed to the publication.

The IEO also points to wide overlaps in the topics dealt with by G7 and G20 meetings and those raised in the WEO, and for only a small number of emerging policy issues did the WEO manage to precede relevant G7 or G20 discussions.[39] In any case, it is significant that the coverage of exchange rate issues by the WEO is limited and not particularly timely. The IEO found that that China's exchange rate, for instance, was not analyzed until the September 2005 WEO, well after the topic had become an important issue for policymakers and financial markets.

These arrangements appear peculiarly bureaucratic if one considers that the WEO is intended to provide a framework for discussions of the IMFC and cooperation on international economic policies. Rather than generating debate about urgent problems and possible cooperative solutions - or 'focal points' which could shift government policies - the report, due to the process by which it is produced, is almost guaranteed to eliminate the possibility of disagreement or debate. The limited involvement

[39] IMF, Independent Evaluation Office, "An Evaluation of the IMF's Multilateral Surveillance," Evaluation by the Independent Evaluation Office (IEO) of the IMF (Washington, DC: International Monetary Fund, 2005).

of the Executive Board in turn implies that the exercise has become focused on the report itself, rather than on the process of coordinating national member states' policies. Indeed, its very limited effect on national policies has recently been documented.[40]

One question the IMF and its evaluation office have focused on concerns whether or not the private sector uses the WEO or the GSFR. In the case of the GSFR, the main instrument for conducting multilateral surveillance of international capital markets, the IEO notes that market participants find little new market-related information in the report.[41] These reports have come to be viewed simply as public information rather than as building blocks for multilateral discussions. That said, in the case of the WEO, the IEO found that, in the view of the IMF staff, it was designed primarily for national policymakers, a view supported by further interviews with national authorities. In particular, more than 90 per cent of the staff surveyed responded that the WEO and the GFSR were for policymakers and public sector economists. While some 50 per cent also included academics and research institutes, almost no one referred to the private sector.

The more important question is actually whether the report helps to stimulate debate and provide new sets of cooperative solutions for members of the IMF. In 2005, the Executive Board devoted 13 meetings equivalent to 18 hours or 4.6 per cent of its time on multilateral (and regional) surveillance. A comparison with bilateral surveillance activities is striking: it spent 89 meetings, equivalent to 81 hours or 21 per cent of the time, on bilateral surveillance activities.[42] These figures are stable over time. The Fund's predominant orientation towards bilateral surveillance

[40] Ibid.
[41] Ibid.
[42] Ibid.

is borne out by an analysis of the allocation of staff. In 2005, the IEO found that only 2 per cent of staff worked on multilateral surveillance, another 1.6 per cent on regional surveillance, in contrast to 29 per cent of staff allocated to bilateral surveillance. In this vein, the biennial reviews of surveillance established in the late 1970s have consistently featured discussions on how to improve bilateral - rather than multilateral - surveillance, typically through procedural adaptation.

Surveillance has become a bureaucratic rather than a politically-engaging process and the concerns aired within the IMF about surveillance may not prove adequate enough to address this. They have focused on the need to more effectively integrate bilateral and multilateral surveillance,[43] perhaps in the hope of giving multilateral surveillance teeth by piggy-backing it on bilateral surveillance, possibly overestimating the effectiveness of bilateral surveillance as a learning process.

Bilateral Surveillance as Learning

Bilateral surveillance is thought to create collaborative processes in which views are exchanged and officials learn from one another. Article IV, which established the legal foundations of Fund surveillance, also acknowledges the collaborative nature of surveillance, stating that "each member undertakes to collaborate with the Fund and other members". By establishing a formal obligation for the members to collaborate, the article implicitly recognizes the IMF limited enforcement ability. Along similar lines, Article VIII, after describing the information that members must provide to the IMF "for the effective discharge of the Fund's

[43] See, for instance, IMF, *External Evaluation of IMF Surveillance*; IMF, "An Evaluation of the IMF's Multilateral Surveillance"; and, the 2005 Surveillance Guidance Note.

duties" in Section 5, ends - rather significantly - by underscoring that such data provision is instrumental for the Fund "to assist members in developing policies which further the purposes of the Fund."

Even at the bilateral level, however, collaboration between the IMF and governments does not work quite as the theory might suggest. Participating officials describe their collaboration with the Fund as a singularly 'one-way' process whereby the IMF team sets the agenda, requires national authorities to 'tick boxes' and signs off only when that agenda has been completed. Bilateral surveillance begins with a technical briefing prepared by the staff for management which serves as an agenda for the subsequent bilateral consultations. At the end of the bilateral mission, the staff writes a back-to-office report to management, outlining the main findings from which, following an extensive inter-departmental review, the staff report is finalized and finally circulated to the Board, normally within three months from the end of the mission itself. The limited scope for 'learning' in a bilateral IMF surveillance is highlighted by comparisons with other peer review processes (see the following section). In interviews examining the IMF's Article IV consultations with Canadian officials, Bessma Momani found that "overwhelmingly the OECD process was more useful" because of the "greater emphasis on dialogue and exchange".[44]

The OECD process differs in a number of key ways, which are particularly worth drawing out. First, in its reviews of member countries' economies there is more interaction with relevant national policy officials on the basis of the Secretariat's draft reports. Indeed, because the OECD Secretariat has fewer resources to produce country surveys at regular intervals, the OECD process

[44] Momani, "Assessing the Utility of and Measuring," 14.

is necessarily more country-driven.[45] Second, the OECD uses two examining countries to conduct the reviews, which is the closest thing to pure peer pressure that exists in the international system. Third, the country representatives who sit on the Economic Development Review Committee (EDRC), to whom the Council has delegated responsibility on surveillance, have greater involvement in discussing and modifying reports than do members of the Fund's Executive Board. Finally, the subsequent process of revising and approving reports gives some ownership of the final report to the country being reviewed, although the report's redrafting does consume a lot of time.

These findings suggest that surveillance might take effect through direct 'learning' or exchanges, but not as it is currently conducted by the IMF.

4. Bolstering the IMF as a Forum for Cooperation and Surveillance through Peer Pressure

At the outset we noted that the IMF was created to offer machinery for consultation and collaboration on international monetary problems. Over time its effectiveness in this role has waned along with its formal jurisdiction over members' exchange rates, while the IMF's surveillance role has expanded. It has taken up consultations, reporting, and standard-setting at the bilateral and at the multilateral level. In theory, the aspiration is for these activities to affect the policies of its members. The most likely channels for this are threefold: coercive pressures, peer or market pressures, and learning.

Coercive pressures certainly work, especially on aid-dependent countries for which the IMF has recently come to play an

[45] Niels Thygesen, Remarks delivered at the seminar "Peer Pressure as Part of Surveillance by International Institutions" (Paris: Organisation for Economic Development and Co-operation, 4 June 2002).

increasingly important role. The part played by IMF surveillance, in such cases, however, is an extension of conditionality that is most effective on those members that are either aid-dependent or in need to restructure their debt. Surveillance over other member countries, on the other hand, has become little more than an information-gathering exercise that disguises the lack of leverage that the IMF has over economies that enjoy sustainable access to private capital markets.

In respect of peer and market pressures, it is more difficult to ascertain the effects of IMF surveillance. The IMF has set standards for the dissemination of information by governments. Existing studies have focused on analyzing whether subscription to such standards has an effect on market participants, but economists have not yet effectively investigated compliance as distinct from subscription, and this poses a real question about what the effects are of IMF standards, as markets might be reacting more to members' political signals of their willingness to cooperate with the Fund than to these members' actual compliance with those standards. This is borne out by the evidence that both the IMF and member countries value the recent standards and codes initiative, while market participants are relatively indifferent to it, but they do appear to value Article IV consultations. This is consistent with the view that the IMF is most effective in surveillance not as a provider of information to markets but as a machine for collaboration, which markets value: to put it more clearly, markets value states' willingness to collaborate with the IMF.

Rather than attempt to deliver information to markets, the IMF should focus on its role as a mechanism for government cooperation. This implies that the content of the standards set by the IMF should be less geared towards markets and better aimed at fostering cooperation among members than they currently are. Learning could be an important part of this process, both in bilateral and in multilateral consultations. Equally, the process by which standards are reviewed and compliance secured is vital to collaboration and cooperation. To this end, in this section we return to the machinery of collaboration in the IMF and contrast it to the experience of the European Union in setting standards and reviewing compliance among its members.

Agreeing on standards is the first stage in the standard-setting process. In the IMF, the process is neither a political one which engages all members, nor is it a purely technical one. It is probably best described as bureaucratic A former IMF Chief Economist notes, however, that the limited knowledge accumulated in the economics profession provides at most some broad guidelines for the assessment of economic policies.[46] More pointedly, IMF historian James Boughton argues, with reference to exchange rate surveillance, that there is no generally accepted economic model that determines whether it is better for a country to float, fix, or manage its exchange rate or how to relate exchange rate policy unambiguously to one or more of several macroeconomic goals.[47] The lack of a technical consensus, however, does not prevent the IMF from formulating and using a particular standard.

Standard-setting and monitoring is probably best described as bureaucratic or driven by the staff and management of the IMF, as described above in the discussion of bilateral and multilateral surveillance. The Board is not involved in considering or commenting on the outline of forthcoming surveillance missions. It devotes, however, some 130 discussions each year to appraise members' economic policies, even though such meetings evidently have little effect on the outcomes of the appraisals made by staff. Ultimately, the only influence the Board has over bilateral

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[46] Michael Mussa, "IMF Surveillance," *American Economic Review*, vol. 87, no. 2 (May 1997): 28-31.
[47] Boughton, *The Silent Revolution,* 74.

surveillance is to place different degrees of emphasis on the various issues raised in the staff appraisal and to voice that emphasis in a summing up, an initial draft of which is prepared by staff prior to the Board meetings.

Other aspects of the workings of the Board also limit its scope as an effective machinery for collaboration. For example, with a view to reducing the time allotted to each agenda item, a practice has developed whereby Directors may submit written statements prior to a meeting. While this may have generated some efficiency gains, it has also hampered the possibility of an open and lively discussion, as most positions are shaped ahead of meetings with the result that Directors have little chance to modify their positions in light of what they learn from the ongoing discussion, especially if the positions expressed in their prepared statements have been cleared by their respective capitals.[48]

A Comparison with the European Union

The EU coordinates standards set by its members in a more overtly political and decentralized way than the IMF. The initial drafting of the standards is carried out by the EU Commission which produces broad guidelines that are submitted to the Economic and Financial Committee (EFC). The EFC comprises very senior officials from EU finance ministries and central banks who scrutinize the guidelines, and then report their comments and suggested improvements to the Council of all EU finance ministers (ECOFIN). The Finance Ministers can vote - by qualified majority - to adopt the guidelines and report this to the European Council which is the highest EU decision-making body. It is the Heads of European States sitting in the Council which makes the final

[48] Jack Boorman, "IMF Reform: Congruence with Global Governance Reform," in Colin I. Bradford and Johannes Linn, eds, *Global Governance Reform: Breaking the Stalemate* (Washington, DC: Brookings Institution Press, 2007).

recommendation, creating an obligation on member states to forward to the Commission information "…about important measures taken…in the field of their economic policy and such other information as they deem necessary."[49] The result of this process is to create standards which are non-prescriptive (countries generate their own plans) but binding.

The monitoring of the standards is undertaken by the Commission on a continuous basis, in the context of frequent visits made by specialized teams to the country concerned and through informal contacts with national senior officials when they are in Brussels to attend EU engagements, including EFC meetings. The monitoring tends to cover selected aspects of macroeconomic policies, typically fiscal and structural policies, in a highly-detailed manner, building on a standardized analytical framework that allow for rich and systematic comparison across member countries, complemented by a so-called 'stability' programme submitted by each member.[50] The Commission then formulates an assessment which, together with the stability programme, is discussed by the EFC and then by the ECOFIN.[51]

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[49] Treaty of Nice, Art. 99(3).

[50] The stability programme covers the following background: the medium-term budgetary objective and the adjustment path towards this objective; main assumptions about economic developments and important variables relevant to the realization of the envisaged programme; a detailed and quantitative assessment of budgetary and other economic policy measures being taken and/or proposed to achieve the objectives of the programme, including a detailed cost-benefit analysis of major structural reforms; an analysis of how changes in the main economic assumptions would affect the budgetary and debt position. Set forth in Art. 3 of Council Regulation (EC) No. 1466/97 of 7 July 1997 amended by Council Regulation (EC) No. 1055/2005 of 27 June 2005.

[51] Art. 5 of Council Regulation (EC) No. 1466/97 of 7 July 1997 amended by Council Regulation (EC) No. 1055/2005 of 27 June 2005 provides that "based on assessments by the Commission…, [ECOFIN] shall examine the medium-term budgetary objective presented by the Member State concerned, assess whether the economic assumptions on which the programme is based are plausible, whether the adjustment path towards the medium-term budgetary objective is appropriate and whether the measures being taken and/or proposed to respect that adjustment path are sufficient to achieve the medium-term objective of the cycle."

In the EU process, there is capacity to enforce obligations countries have undertaken - at least in theory. Where members do not comply with their medium-term objectives stated in their own stability programmes or the plans themselves are inconsistent with the guidelines, ECOFIN can recommend (by qualified majority) that the members take corrective actions.[52] If a member state fails to act, the Council can give notice to the member state to take measures within a specified period to remedy the situation.[53] In the most extreme case, the Council may even sanction the member state (still by qualified majority).[54]

A great deal of the effectiveness of European peer review has been attributed to its extensive reliance on wide networks of officials from national administrations, who provide for integrating and harmonising policies to foster convergence across member countries towards, ultimately, a single policy process.[55] It is worth noting, however, that the officials' actions are taken in a highly institutionalized setting that regularly brings these policymakers together. EU surveillance is part of a broader compliance system within the EU itself, whereby member states have delegated authority to EU-decision making bodies, such as ECOFIN, which typically decide by qualified majorities. In this respect, the current arrangements underpinning EU surveillance resemble those underlying the role of the IMF under the Bretton Woods system,

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[52] As for the OECD, according to its Convention, the Organisation may issue decisions - binding on its members - or recommendations - not binding. The advice and policy prescriptions formulated by the OECD fall into the latter scheme. Accordingly, when reviewing the economic policies of a member, the Organization will not ask the member to comply with its directives: Petros C. Mavroidis, "Surveillance Schemes: The GATT's New Trade Policy Review Mechanism," *Michigan Journal of International Law*, vol. 13, no. 2 (1992): 374-414. As a result, the OECD does not impose sanctions to members who are not conforming with the recommendations arising out of the surveillance process.

[53] Treaty of Nice, Art. 9.

[54] Ibid., Art. 11.

[55] Ignazio Visco, Remarks delivered at the seminar "Peer Pressure as Part of Surveillance by International Institutions" (Paris: Organisation for Economic Development and Co-operation, 4 June 2002).

whereby member states had delegated the authority to uphold the proper functioning of the system.

The comparison with the EU highlights several of the features of contemporary IMF surveillance discussed above. Notably, the process in the IMF is more bureaucratic than politically-engaging, and it results in standards which are prescriptive rather than nationally-drawn commitments that, in the end, the IMF has no authority to enforce. For IMF surveillance to facilitate cooperation and collaboration, greater political engagement is required. Paradoxically this might require greater delegation to the institution: only if the institution is empowered to take important decisions, will senior government officials engage.

5. Conclusions

Powerful members of the IMF are pushing for the Fund to do more surveillance, yet these same members have not delegated the institution enough powers to conduct surveillance in ways which might be effective. First, they have withdrawn authority from the Fund, leaving it with no instruments of enforcement. Then, they have withdrawn political capital from the IMF, making it ineffective as a forum for multilateral solution-finding. The IMF itself has done little to rectify this, retreating into bureaucratic procedures for conducting consultations at multilateral and bilateral levels and thereby producing standards in a way which neither reflects a clear technical consensus nor fosters political collaboration. Furthermore, the standards are implemented through negotiations in which learning does not occur, and monitored in a way that fails to open up and harness either market or peer pressures to comply. This contrasts with the early success the IMF had in making member countries to subscribe to Article VIII obligations, thanks to centralized peer pressure originating from an institution to which members had delegated considerable authority and whose standards had been clearly designed for enhancing cooperation among member states rather than for decentralized third parties.

Our analysis highlights that for the IMF to undertake more effective surveillance would require a reinvigoration of the 'collaborative machinery' of the organization. The IMF Executive Board would need to reclaim greater control over the strategic direction of the institution and replace bureaucratic procedures with more open and informal dialogue. Likewise, the Fund's bilateral surveillance activities would need to be more member-driven, less prescriptive and more open to peer participation if they are to invite learning and cooperation. The European and OECD models of peer surveillance are instructive. By adopting processes that foster greater engagement among member countries, the IMF could not only better undertake surveillance but could better fulfil its role as a mechanism for multilateral cooperation.

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