Remarks delivered at the G20 Seoul International Symposium: Toward the Consolidation of G20 Summits - from Crisis Committee to Global Steering Committee, September 28-29, 2010.

Note: These remarks were delivered prior to the Oct 23, 2010, G20 Finance Ministers' meeting where agreement, in principle, was reached to adjust IMF quotas and chairs, with details to be worked out by 2012.

IMF LEGITIMACY AND GOVERNANCE REFORM: WILL THE G20 HELP OR HINDER?

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The global financial crisis coincided with and was preceded in some degree, by an IMF crisis. The latter, the IMF crisis, was in part as a result of neglected governance issues particularly on the part of the G7 as it involved the IMF and their relationship. These issues need to be addressed by the G20 because they are still there and if they are not addressed they will fester again. The question becomes, will the G20 help or hinder addressing the issues of IMF legitimacy and governance?

The G20 has described itself as the premier forum for international economic cooperation. The IMF sees itself as the premier institution for international economic cooperation. The underlying question is, what really is the difference between the premier forum and the premier institution? The G20 is a self-appointed, informal group with no secretariat and no legal framework. It was born out of the recognition that the G7 no longer reflected economic reality in today's world. The IMF is a formal universal organization based on a treaty and its members have obligations to it. Increasingly, the IMF prior to the economic crisis in 2007/2008 was being seen as ineffective in its mission by many and lacking in evenhandedness by the emerging markets, in part because of the role which the G7 grew to play behind closed doors and in part because most of the membership of the IMF felt that they did not have a say in its management and policy work. This was reflected in the difficult discussions on IMF quotas (country shares) and representation on the Fund's Executive Board (chairs) which remain ongoing.[1]

[1] The IMF's Executive Board is composed of 24 Directors and the Managing Director, who serves as its Chair. Five (US, Japan, Germany, France, and Britain) of the 24 Directors are

If you go back to about 2007, a year or so before the outbreak of the financial crisis, there was an existential debate occurring about the future role of the IMF. The then new Managing Director, Dominique Strauss Kahn, came into office with a mandate (principally by the G7) to bring about major changes to the organization. Significant cutbacks in IMF staff were implemented (although a number of these staff had to be brought back to assist when the financial crisis broke out). Questions were raised as to what the role of the IMF should be going forward. Interestingly, the G7 countries at the time saw the IMF as not being particularly relevant to them as far as their economies were concerned (interesting, in retrospect, given the origins of the global financial crisis), although they saw utility in the role that the Fund might play vis-à-vis the emerging markets. The emerging markets, on the other hand, saw the IMF as lacking evenhandedness and questioned its policy advice. The role and mission of the IMF were not clear, and definitely not agreed, between these key players. These contrasting views were clearly brought out in an evaluation by the IMF's Independent Evaluation Office (IEO) entitled "IMF Interactions with Member Countries." This is particularly relevant today in that you have the emerging markets and the G7 countries now working together in the G20, and these were the two groups who had the least amount of time for the IMF. The question now is, "What is going to happen next?"

When the crisis broke out in 2008, the G20 became the principal coordinating body and the IMF largely implemented what it was asked to do. In many ways the G20 provided the intellectual leadership. We have seen since the crisis that the IMF has been nimble in trying to take a number of initiatives to reposition itself. We have also seen, through the process in the G20 on the so-called mutual assessment process (MAP) to promote macro cooperation, that tensions on the role and evenhandedness of the IMF resulted in its role being limited to that of a technical advisor. There is simply a lot of resistance to having the IMF play a leadership role. That leads to still another question, "What is the role of this institution?" It may be fine for the G20 if they want to play the MAP that way but then where does that leave the institution and where does that leave the countries outside the G20?

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appointed, and the rest are elected by member countries or by groups of countries. See http://www.imf.org/external/np/sec/memdir/eds.htm.

Clarity and agreement on the role and on representation in the Fund lies at the heart of governance. In 2008, there were two important governance reports which examined this challenge —one by the Independent Evaluation Office[2] and another[3] by the Committee on IMF Governance Reform chaired by Trevor Manuel, Minister of Finance in the Republic of South Africa. Both reports looked at a variety of governance issues and both strongly stated that there were important governance challenges that needed to be addressed—in particular, the effectiveness, efficiency and legitimacy of the IMF.

With regard to legitimacy, the issues which have dominated the debate have been on quotas (country shares) and seats (country chairs) which were mentioned earlier. There was agreement two and a half years ago to bring about a 2.5 percent shift in quotas. There now is agreement in principle that there should be a further 5 percent shift in quotas. What is interesting is 2.5 percent agreed on over two years ago still has not been implemented by countries because to effect these changes needs legislation in the individual countries and this has not happened yet. The 5 percent still has not been agreed in terms of specific formula. Even assuming it is, and it actually gets implemented (two big IF's), the question is—will it really change anything; I would suggest not.

Secondly, in terms of seats on the executive board, this is a by-now well-known story where a third of the seats are currently held or controlled by Europeans (although interestingly, the European Central Bank which one assumes should be represented in an international monetary organization, does not have representation). The Europeans do not represent a third of the membership of 187 member countries and clearly this is an issue that needs to be addressed. It is complicated and it is political but it is time for this situation to be changed. Currently, there are 24 seats on the Executive Board. Through a quirk of history, agreement must be reached every two years to maintain the Board at this number and the United States holds a veto over this decision. The United States has now said that it will not agree to maintain the

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[2] See "Governance of the IMF: An Evaluation," accessible at: http://www.ieo-imf.org/eval/complete/eval_05212008.html. The author was head of the IMF's Independent Evaluation Office when "IMF Interactions with Member Countries" and this report were written.

[3] Accessible at: http://www.imf.org/external/np/omd/2009/govref/032409.pdf.

Board at this level thereby forcing a realignment of Chairs. However, unless a political agreement is reached, in fact it is two developing country chairs that will disappear given the current rules, because they have the lowest voting shares among the groups that appoint or elect the 24 Chairs. This obviously would be a step backwards. In short, this is a high stakes political gamble that it is hoped will break a long standing log jam and lead to an agreement on a smaller and more representative Board. It is not yet clear whether this will be the result.

On the issues of quotas and Executive Board representation (Chairs and Shares), it is abundantly clear to most observers that the current situation is inequitable and seriously undermines the legitimacy of, and support for, the IMF. It must be changed. However, absent a clear and widely-shared view on the role and functioning of the IMF, achieving resolution of these long debated issues is unlikely to change very much. Indeed, I would argue that it is the absence of agreement on the role of the Fund that makes the current stalemate so tolerable—countries are unwilling to make the necessary political choices because it is unclear why they should do so.

This problem of “talk but no action” can be seen in other examples – for instance, in the new agreement on the New Arrangements to Borrow (a financial safety net for the IMF itself). This was called for at the London G20 Summit in April 2009 to increase the membership and amount of funds that would be available under this arrangement to buttress IMF resources in times of crisis. The subsequent agreement reached was a step forward in terms of reforming the previous arrangements to borrow, but again what is interesting is that the concerned countries, and they are the G20 countries in large measure, have not taken the necessary steps in their capitals to enact the legislation that would allow this new agreement to be used. If a crisis broke out tomorrow the new New Arrangements to Borrow is not available to the IMF to buttress its resources.

Reform seems to be something that one talks about when there is a crisis but implementation seems a long ways off. What is to be done about this—particularly at the upcoming Seoul Summit?

First, the G20 needs to come out and state unequivocally that its member countries will implement what they have previously agreed to. The New Arrangements to Borrow needs to be put in place so it can be used if needed. Members need to implement what has been agreed to earlier on quotas. Countries also need to implement what they have agreed to already on SDR allocations.

Secondly, the G20 countries need to make the necessary decisions on further quota reform and with respect to seats on the executive board. This is a sine qua non for addressing current perceptions about the unbalanced representation of many emerging and other countries at the IMF. Technical obfuscation should no longer be allowed to block progress on this political imperative. However, this is a necessary but insufficient reform if the IMF is to be restored at the center of the international financial architecture.

Thirdly, to address the more fundamental issues of governance, G20 countries need to start to address the broader governance issues having to do with ministerial oversight of the institution, including whether to have a Ministerial Council and whether G20 Finance Ministers should constitute such a body, and what is to be the role of the Executive Board — how is it to be reformed to be much more effective in holding management and staff accountable rather than being marginalized as is currently the case.

Fourthly, there is the question of mandate,” what is to be the role of the IMF?” What role do countries want it to play? The IEO evaluation referenced earlier (“IMF Interactions with Member Countries”) clearly brings out that there is no agreement currently amongst G20 countries on the role of the Fund. Unless that role is defined, one simply cannot hold the institution and management and staff accountable.

That is the agenda of the G20 going forward if it is to clarify the role of the IMF and its relationship to it. It can be done but some tough decisions will be required.

Can the G20 succeed where the G7 failed? That is the test and the answer remains to be seen.