Bringing Balance to the IMF Debate

Conference Report

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The International Monetary Fund (IMF) is at a key juncture in its 64-year history. Since 2002-2003, as macroeconomic conditions have improved and commodity prices have soared, most developing and emerging countries have graduated from the Fund programs, and only a few of them have required its financial assistance in recent years. However, the benign outlook that characterized the early 2000s has come to an end. The credit crisis that broke out in 2007 in the American markets is placing emerging markets under pressure, as stock exchanges across the world mark sustained losses, foreign investors repatriate their private capital, and the US and European countries export their recession to the rest of the world through a weaker demand for foreign goods. During the first part of the crisis, the Fund was relegated to a secondary role. As the former Argentine Alternate Executive Director Hector Torres has written, "an idle fireman looked desirable. But the situation is different now. There is a fire out there, but no one is calling the fire brigade." As the fire engulfed other continents, countries such as Iceland, Hungary, Ukraine and Pakistan approached the Fund in October 2008 for financial assistance.

Since the month of October 2008, the Fund has returned to occupy a central position in the international scene and in the management of the financial crisis. The Managing Director Dominique Strauss-Khan has called for the IMF to add to its roles as "fireman" and "builder," the role of "architect" in the reconstruction of the international financial system.[1] The first G20 summit at the Leaders level that has taken place in Washington on November 15 has stated in the final declaration that "the IMF, given its universal membership and core macro-financial expertise, should, in close coordination with the FSF [Financial Stability Forum] and others, take a leading role in drawing lessons from the current crisis, consistent with its mandate."[2]

After years when the IMF has slipped into obscurity and its relevance was in question, the Fund is once again in the global economic spotlight. This represents both an opportunity and a challenge for the Fund, and its reaction will probably determine whether the institution is going to regain its central role in the governance of international financial markets, or be shelved, marginalized by countries in both the North and the South. For the first scenario to occur, reforming the IMF can no longer be delayed.

The IMF reform debate has been undermined by an "original sin": it has been shaped almost exclusively by conversations among policy makers and scholars from advanced industrialized countries. The voices of participants outside these countries have rarely reached the table. For countries that have built up significant foreign exchange reserves, pulling out of the Fund while self-insuring against crises and future IMF interventions has been politically more attractive than spending political capital in the attempt to reform the Fund. The majority of countries in the South that cannot afford protection from their foreign exchange reserves have had little option but to participate in the debate around reforming the IMF. The few consultations they could join yielded sparse outcomes. These low-income countries have remained engaged with the IMF simply as policy takers.

Indeed, why is the absence of developing countries' perspectives on IMF reform a problem? In a phase of shifting power in the global economy, the IMF and the World

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Bank remain the only international financial institutions with quasi-universal membership. Although representation inside the IMF is heavily tilted towards industrialized countries at the expense of many underrepresented developing and emerging countries, the Fund remains the only intergovernmental forum where these countries can express their perspectives on international monetary and financial issues. Moreover, its global membership places the Fund in a privileged position to contribute toward resolving critical challenges of the 21st century, such as, global imbalances or the impact of the energy and food crises, which cannot be addressed unilaterally or by plurilateral ad hoc groups, such as the G7.

To remedy this imbalance in the IMF reform debate and to bring regional perspectives back to the table, the Centre for International Governance Innovation (CIGI) – in collaboration with the University of Oxford, New Rules for Global Finance Coalition and local partners – sponsored a series of regional meetings covering Latin America and the Caribbean, Africa, Central and Eastern Asia, and the Middle East. These meetings brought together experts who have been involved with the IMF, including former and current government officials.

The inclusion of regional perspectives from the developing world in the IMF reform debate calls for a change in the question at the heart of the issue. While most roundtables and meetings in advanced industrialized countries posed the question, "What should the G7 countries do?," the objective of these meetings was to articulate the needs and priorities of different regions and their perspectives on the IMF reform debate. The questions advanced in these meetings were: What do different regions want from a global monetary fund? What role, if any, should regional monetary institutions have? What should the IMF look like in the future for emerging and developing countries to have confidence in it?

The regional perspectives that emerged from these regional meetings were brought together in a concluding conference in Waterloo, Canada, on July 18-19, 2008, hosted by the Centre for International Governance Innovation. Here, regional representatives engaged with leading international scholars and policy makers on the direction IMF reform should take.

This report summarizes the main conclusions reached by these meetings, focusing on what different regions consider their priorities in the IMF reform debate. Section 2 presents the regional views on IMF policy advice and technical advice. Section 3 discusses regional priorities for the future of international monetary and financial cooperation, while Section 4 analyzes relations between the Fund and regional initiatives. Section 5 presents the regional views on IMF governance reform and representation issues. In the conclusion, the report summarizes 10 policy recommendations discussed by participants at the conference.

Regional Views on IMF Policy and Technical Advice

The Fund's relevance in the 21st century has come into question as the number of countries dependent on the Fund's financial assistance has decreased after the turn of the century. However, the IMF's role extends beyond simply its lending activity. As most participants in the regional meetings agreed, the IMF plays an important role as a source of policy advice and capacity building. Considering the Fund's capacity to aggregate economic experience from its wide membership, these areas deserve to be at the forefront of the IMF's future activities. Nevertheless, in the four regional meetings, serious objections have been raised regarding the ownership and substance of the IMF's advice. Three main complaints resonated across almost every region. First, Fund staff on the ground is often too junior and lacking adequate experience on the specific country to provide advice to local senior officials. Second, the structure of the advice, as well as the timing of meetings and interaction with the IMF, is often too rigid. Third, Fund advice failed to consider that the countries being helped differ from the places where such policies were developed. Fund advice still reflects an Anglo-American bias on economic development. Therefore, participants in the regional meetings were nearly unanimous in recommending that the Fund expand opportunities for input or ownership from developing countries by not only offering more ambitious training programs, but by hiring local expertise from countries the Fund seeks to advise.

In the Middle Eastern meeting, many participants pointed out that the IMF's policy and technical advice generally produces a positive perception. In this conflict-ridden region, the IMF is seen as a politically neutral source for economic advice, and its credibility benefits from its multilateral and non-commercial nature. Middle Eastern countries often used the Fund's "seal of approval" as a credible signal of economic stability to international markets. Indeed, the Fund's technical advice constituted more than merely a signalling device. For example, the debt sustainability analysis conducted by the IMF was important for the Palestinian Monetary Authority to coordinate different lenders, while the Iraqi government benefited from the IMF's classification of the country as a post-conflict country, entitling it to 80 percent debt relief from the Paris Club.

Nevertheless, Middle Eastern participants raised some important criticisms of the IMF's role in the region. IMF advice was criticized for being too standardized, theoretically orthodox and empirically deficient, focusing too much on issues such as exchange-rate flexibility rather than on the region's vulnerability to reversals in capital flows.

The positive perception of the Fund within the Middle East is probably influenced by the fact that most countries in the region are not dependent on IMF financial assistance. In contrast, Sub-Saharan Africa represented the Fund's largest borrower in the summer of 2008, making the future of the IMF deeply correlated with that region's future.

The IMF has played an important role in strengthening macroeconomic stability in the region, and in signalling to international markets the progress made. Many donor agencies and private companies rely on the Fund as a source of macroeconomic information to determine the amount and direction of funds they loan. However, the IMF's ability to provide advice in the region has been challenged as African countries increasingly turn to international capital markets or engage with new donors such as China. The Fund has faced an uphill battle over resentment from loans with complex rules and timing constraints. Most African countries understand the need for technical advice, but are discouraged by the Fund's insistence on rigid macroeconomic analyses that ignore the social impact of proposed reforms. Internally, the Fund's Poverty and Social Impact Analysis (PSIA) has failed to address the distributional consequences of the Poverty Reduction and Growth Facility (PRGF), even after the Board approved resolutions that communication between the two bodies needed to improve.

Strengthening the link between IMF reform advice and consequences of social and economic policy is an important priority for African countries. The IMF must open its technical advice to African input and act more as a partner. Additional training programs enabling skill transfers to Africans, moving the African department from the IMF in Washington to Africa, and hiring African staff with "on-the-ground" government experience are all important improvements. The Fund's advice should be more flexible to fully account for the continent's new economic realities, including the impact of exogenous shocks on food and oil prices, and providing policy advice that draws upon non-OECD experience. Without these needed measures, the IMF not only loses a foothold in Africa, but a primary source of its future legitimacy.

Participants from Central Asia expressed concern over the Fund's limited interaction with groups and other ministries outside of the Central Bank and Ministry of Finance. To improve its reputation in Central Asia, the Fund must be more open to local and regional input and seek advice outside the political elite. Often, IMF missions to Central Asian countries were too short and failed to grasp new economic developments within a country. Central Asian representatives echoed other regions in suggesting that Fund advice needs to extend beyond theoretical prescriptions and adopt a more rigorous empirical base.

Participants from the Latin American and Caribbean meeting acknowledged that the Fund still offers several valuable functions that cannot be provided effectively by other public institutions or private actors. Especially for the smaller and more open economies, the IMF can help strengthen institutional and technical capacities through the process of consultation and technical assistance. While capacity-building programs have been mentioned as valuable IMF contributions, the next step for the IMF is to ensure that the capacity transfer is permanent. Moreover, IMF advice needs to expand beyond the details of government expenditures to issues such as managing debt overhang and exchange rates, achieving better ratings, decreasing the risk premium on sovereign debt, and managing capital inflows and foreign exchange reserves.

In East Asia, IMF technical advice is still haunted by the legacy of its interference during the 1997-1998 financial crisis. Starting with China, several countries in the region would benefit from advice on exchange rates and capital flows management based on other developing countries' experience with the effect of the appreciation of their currency. However, IMF exchange-rate advice often falls prey to asymmetries within the Fund between industrialized and emerging countries. Some participants noted that by continuing to reflect the preferences of the industrialized countries in policy advice, the IMF is sacrificing important relationships in East Asia that provide leverage for its legitimacy in the coming century.

International Monetary and Financial Cooperation

In the last few decades, critics and advocates of the Fund have largely focused on the nature of the Fund's engagement with borrowing countries. However, the IMF was originally designed as more than simply a lending institution. At the Bretton Woods conference, the Fund was created as an institution overseeing the international monetary system, rather than simply a lending institution. Its original role as guardian of the fixed exchange rate system came to an end with its breakdown in the early 1970s. Since then, the Fund has narrowed its range of action, focusing almost exclusively on the task of providing technical and financial assistance to those emerging and developing countries that borrow from the Fund. As global issues started to be dealt with outside of the IMF, mainly through the G7 and plurilateral or bilateral accords (e.g., Plaza Accord in 1985), the Fund has ceased to be an institution with global reach and responsibilities, and become more a "North-South" institution. Developing and emerging countries lost a channel to be heard on key global issues that equally affect developed and developing countries, such as exchange-rate coordination and multilateral surveillance. Although countries of the South have in most cases asked the Fund to narrow rather than expand the scope of its intervention, it is in their interest that the IMF returns to being an institution with global reach and responsibilities.

Two current events support this assertion. The first one is the misalignment in the exchange rates among major international currencies. Although the Fund advises emerging and developing countries on the impact of their exchange-rate policy, it has not applied the same rigor to industrialized countries as it has to countries of the South. Participants from East Asia have argued that the Fund has focused excessively on one side of the problem, their exchange rates and fiscal surpluses, while neglecting other countries' excessive fiscal deficits. Moreover, persistent global imbalances demonstrate how the IMF is inadequately armed to foster macroeconomic and exchange-rate coordination among the major countries. The constant depreciation of the US dollar has hurt many Latin American and Caribbean countries, which rely heavily on their exports to the US market, and fuelled inflationary pressures on those Middle Eastern countries that peg their currencies to the US dollar. The East Asian participants felt the Fund should be more assertive in facilitating coordination between the major currencies because, in the words of one participant, there is a danger that "the rest of us will be hurt by a conflict we have nothing to do with."

A second current event that suggests the need for the Fund to exercise its global responsibilities is the current financial crisis. Although the crisis originated in the US, it is now a truly global crisis as negative effects become evident in every region of the world.

From the perspective of several participants, the crisis demonstrates how the reform of the existing lending facilities is an absolute priority. This issue has been relegated in recent years, as most countries in Latin America, Asia and the Middle East graduated from the Fund's financial assistance programs and are not currently borrowing. However, their financial independence from the Fund has been supported by factors that are in part cyclical, such as the benign financial conditions and the relatively higher commodity prices characteristic of recent years. The current credit crisis has dramatically altered this scenario, and some countries have already approached the Fund. As global spillover from the crisis spreads and more countries seek financial assistance, the crisis becomes an important wake-up call for the Fund. Many participants denounced the limitations of the existing credit lines in protecting countries from unexpected terms of trade shocks or the possibility of contagion in international financial markets. Several workshop participants argued that the Fund must put in place a more effective international safety net by developing rapid emergency lending facilities able to provide short-term liquidity. To strengthen the preventive character of their credit lines, these funds should be available for rapid disbursement without overburdening conditionality. An important step in this direction has been the introduction in October 2008 of a new Short-Term Liquidity Facility, which establish quick-disbursing financing to help countries facing liquidity problems.

The credit crisis of 2007-2008 suggests the need for countercyclicality to be the principle guiding different IMF activities (oversight of macroeconomic policies, technical assistance, lending) both during periods of financial turbulence and during booms. While in the former scenario the Fund's role is to support countries by providing rapid liquidity, in the latter case, its role is to recommend policies aimed at avoiding recurrent patterns of overconfidence and reckless lending, which could lead to the emergence of bubbles and, later on, financial crises. As the financial crisis has spilled outside US borders, criticisms have mounted against the IMF for failing to foresee the fallout of the subprime mortgage crisis and its inability to convince its largest members to better regulate their financial sectors during booms. For instance, unlike most developing and emerging countries, the US only agreed to its financial sector supervision through the Financial Sector Assessment Program in 2007. In the area of financial supervision, not unlike exchange-rate management, in the last few years the IMF has not applied the same rigor to advanced industrialized countries as it has for countries in the South.

The debate about the international response to the current credit crisis has been limited to plurilateral bodies such as the Basel Committee, the Financial Stability Forum and ad hoc intergovernmental fora such as the G7. These forums have restricted memberships, with no representation from emerging and developing countries, and have insufficient legitimacy to dictate the correct path to be followed by other regions. The decisions by the G20 Leaders Summit to expand the membership of the Financial Stability Forum does not address completely its legitimacy gap, as most developing country will remain excluded by this forum. Only a few commentators would go so far as to ask the IMF to get heavily involved in financial regulatory issues. Most participants from developing and emerging countries do not want to give the Fund more instruments to interfere with their own economies, and prefer that the IMF focus on a narrower agenda related to the balance of payments and exchange rates.

However, since the Fund remains the only financial institution with a quasi-universal membership, it is inappropriate for it to renounce its global responsibilities. Some participants suggested that the Fund could, for instance, provide a platform for coordination between countries of the South and of the North. Moreover, the IMF should strengthen its relations with the FSF and other standard-setting bodies, allowing emerging and developing countries to have their voices heard on the crucial issues treated in these institutions.

The IMF and Regional Initiatives

The tension between creating a centralized institution and preserving some form of regional representation has been debated since the origin of the IMF at the Bretton Woods conference. While the balance of the debate has historically tilted towards preserving the centralization of the institution, some of the public goods traditionally associated with the Fund could be provided through regional initiatives by applying the principle of subsidiarity. Indeed, several regional institutions in the financial and monetary realm have flourished in the last decade, although their significance varies considerably across regions.

In Central Asia, most regional agreements among the former Soviet republics are of political or military nature, and no alternatives exist besides the IMF. Similarly, in Africa and the Middle East, regional arrangements in the financial and monetary realm are weak and the IMF remains the main player. Africa is potentially a fertile ground for regional organizations, but these entities have not grown and strengthened as originally projected. Since there is some overlap in terms of mandates between the Fund and regional initiatives in Africa, the IMF could encourage this trend by shifting some of the functions currently housed in Washington (for example, the Africa Department) to regional bodies such as the Africa Development Bank.

In the Middle East, the Gulf Cooperation Council has recently launched the ambitious proposal of creating a monetary union that should take place as of January 2010. However, there is little optimism that this initiative could move beyond the drawing board in the near future. Similar to the African region, the Middle East could also benefit significantly from the development of regional cooperative arrangements to channel the abundant liquidity available in the oil-exporting countries towards long-term investments in the region instead of investments in advanced industrialized countries. The IMF could play a vital role in promoting regional investments by advising capital-importing countries on how to attract investments from their neighbors and promoting solutions to deepen intraregional trade integration.

Latin America and Eastern Asia are regions where cooperation in the financial and monetary realm has progressed most in the last decade. Regional initiatives in Latin America are not novel, as demonstrated by the successful and long-lasting example set by the Latin American Reserve Fund, established in March 1991 as the successor to the Andean Reserve Fund. This is a regional financial institution formed by countries in the Andean sub-region (plus Costa Rica), which assists its members in correcting payment imbalances through loans with terms of up to four years and guarantees extended to members. Moreover, this organization helps its members to coordinate their monetary, exchange-rate and financial policies in the region. The Latin American Reserve Fund provides an example of how a regional institution could be more agile and flexible than the IMF, without replacing its role in the time of crisis. While this institution is regarded as extremely successful, its scope and initiative is circumscribed. On the other hand, the Banco del Sur (Bank of the South), proposed in 2007 by Venezuela and supported by Ecuador, Argentina, Brazil, Bolivia and Paraguay, may develop into a regional development bank, not competing directly with the Fund.

Regional initiatives in East Asia have flourished particularly after the 1997-1998 financial crisis. The most important examples of financial regionalism in East Asia are the Chiang Mai Initiative (CMI) and the Asian Bond Market. The Chiang Mai Initiative was launched in 2000 by the ASEAN+3 countries and represents a set of bilateral swap arrangements among the region's monetary authorities. The CMI does not represent a complete departure from the Fund because governments requesting more than 10 percent of the funds (raised to 20 percent in 2005) need to have IMF programs in place. During the current credit crisis, the ASEAN+3 countries agreed to "multilateralize" the CMI, creating a multilateral reserve pool governed by a single agreement. To support the reserve, ASEAN +3 countries raised the size of the initiative to at least US$80 billion, which is close to the US$100 billion that constituted the Asian Monetary Fund proposed by Japan in 1997.

Regional initiatives in East Asia and Latin America emerged in parallel with the crisis of legitimacy that the Fund has developed in these regions after the financial crises of the late 1990s and early 2000s. For this reason, they are often regarded as a challenge rather than a complement to the IMF; however, this is not true. Bringing regional perspectives into the reform debate also means taking a closer look at these regional initiatives, not simply as a challenge to the Fund, but also as a complement and an opportunity.

Under the principle of subsidiarity, the IMF could recognize explicitly the valuable function provided by regional agreements in promoting coordination on macroeconomic and financial policies, strengthening intraregional trade, pooling reserve and mobilizing capital and promoting more effective exchange-rate management. In some cases, the Fund could rely more explicitly on regional peer-review mechanisms.

On the other hand, many participants in the regional meetings did not consider it in their regions' interests to completely break free from the strictures of the Fund. In a globalized world, regional institutions are not always sufficient to mobilize the capital needed to address contagion in international financial markets, especially when several countries in the same region faced simultaneous confidence problems. While regional containment mechanisms can constitute a valuable first international line of defense, this does not diminish the importance of having a second line of defense at the multilateral level, constituted by the IMF.

However, tensions remain between granting countries and regions sufficient policy space and ensuring that this does end up undermining the multilateral system and the global economy (e.g., by hindering global adjustments). Unlike the multilateral trade regime, there are no provisions defining the relationship between multilateral and regional in the governance of financial markets. The design of norms to ensure their compatibility with the multilateral system should accompany the acknowledgement of the positive role played by regional institutions.

Governance Reform and Representation Issues

The IMF is often praised as one of the few multilateral institutions able to reconcile a quasi-universal membership with a governance structure that avoids the pitfalls of decision-making mechanisms based on consensus or one-country-one-vote. The 24-chair IMF constituency system contrasts in terms of effectiveness with the decision-making systems in the UN and the World Trade Organization (WTO). However, from the perspective of most developing and emerging countries, the benefits of this system are offset by asymmetries in quotas and accountability gaps.

The most important factor weakening the accountability of the Fund is the quota formula, which remains inadequate in addressing representation between advanced and developing countries. In April 2008, the Board of Governors amended the Articles of Agreement by tripling basic votes, giving authority to the two African Executive Directors (EDs) to appoint another Alternate Director, and introducing an arrangement that ensures the ratio of basic votes to total voting power is constant. Although the new resolution was successfully implemented, the shift of voting power to developing countries falls considerably short of reflecting their growing economic influence within the IMF and the global economy. European countries like Holland (2.38 percent) and Belgium (2.12 percent) remain largely overrepresented, while most developing countries, such as Brazil (1.4 percent), China (3.72 percent) and India (2.44 percent), are grossly underrepresented. The quota reform also worsened the position of many least developed countries (LDCs), a fact that hurt perceptions of the Fund's legitimacy within its main source of future borrowing. The G20 Leaders Summit that took place on November 15, 2008 has given a new impetus to this reform process, declaring that "emerging and developing economies should have greater voice and representation"[3] in the Bretton Woods institutions, but it is too early to understand what real changes will follow this meeting.

Despite Africa's important relationship with the IMF, its level of representation has actually decreased in recent years. For example, sub-Saharan African countries' quota depreciated from 3.9 to 3.4 percent. Although in the 2008 amendment to the Articles of Agreement some states achieved meagre gains in their quotas, and Africa gained two "Alternate Directors," participants agreed more reform is necessary. Specifically, participants argued that African representation is woefully inadequate in senior positions, especially in management roles. Different forms of voting such as increasing the number of double majority votes, represents another way Africa can increase its voice at the Fund. Because Africa remains in need of financial support, finding room to increase its voice within the IMF is an important element in sustaining the Fund's legitimacy in the region.

In East Asia, China and South Korea were able to secure an increase in their quotas, although China's increased quota remains lower than the sum of Denmark and Saudi Arabia. Some participants were surprised that China, along with the other emerging powers, did not oppose the 2008 reform on the basis that it did not go far enough to increase developing country representation. To explain the reluctance of China and other BRIC countries to push for further reform, some participants noted that many of the emerging markets did not want to waste political capital on the IMF that could be used in other multilateral or bilateral negotiations with the EU and US.

The Middle East considers reform of the quota system a less urgent issue in the reform of the IMF. Several Middle Eastern countries are overrepresented, and consequently their EDs oppose current proposals for reform. Although Middle Eastern countries realize that quota reform is necessary to give influence to countries outside the OECD, they give great weight to the fact that geographical and regional balances within the Fund must be considered a high priority. However, participants from the Middle East were quick to point out that compared to their quotas, they are significantly underrepresented among IMF staff, especially considering there is no Arab staff member at an Executive Director level. Insufficient numbers of Arabic speakers contribute to significant time spent explaining and training IMF staff locals regarding local economic conditions, which is compounded by a lack of senior staff members with an Arab background. Increasing Arab representation has complementary benefits for both the IMF and the region because once people are trained they can be incorporated into domestic governments, which deepens the long-term relationship between the region and the Fund.

Central Asian participants suggested increasing the level of interaction between the EDs and the countries they represent. But increasing the number of EDs or their number of visits to Central Asian countries fails to address problems caused by under representation of developing countries within IMF staff.

Along the same lines, Latin American participants pointed out how not only are industrial countries overrepresented on the Executive Board, but they also gain prominence from their overrepresentation on the IMF's staff. Reforms to the number of EDs do little to impact systemic resistance from IMF staff to accept different regional perspectives. The Independent Evaluation Office confirmed that national governments often fail to get their opinion through to the staff, even if their ED is in favour of the advice.

Moreover, most staff from developing countries go directly from their training in a US or British university to the Fund, and therefore have much less experience working within the developing country they are assigned to. This type of training reinforces an Anglo-American culture within the IMF staff that limits the acceptance of alternative voices. Regional positions on governance reform and representation at the IMF generated a consensus that the Fund's legitimacy remains threatened by a self-reinforcing culture dominated by northern, advanced industrial states.

Conclusion and Policy Recommendations

To conclude, the financial crisis that erupted in the United States in 2007 represents a precious and much-needed opportunity for the IMF to reaffirm its relevance in the 21st century. Its decisiveness in assisting the countries hit by the crisis through the rapid provision of short-term liquidity will be a prerequisite for the Fund to restore its legitimacy. However, this opportunity represents a short-term victory if it is not accompanied by deeper reforms in areas like the IMF's technical and policy advice, its role in international monetary and financial cooperation, its relation with regional initiatives and its governance structure. This historic moment represents a unique opportunity to rebuild the role of the Fund on a more legitimate basis, but it cannot be achieved without bringing balance to the IMF reform debate.

Ten Policy Recommendations

1. The IMF should increase its flexibility in policy advice and program design and pay far more attention to the social dimension of its advice. A fuller appreciation of a country context, a greater diversity in the regional, academic and professional background of its staff would be relevant contributing factors.

2. Conditionality cannot compensate for the lack of ownership. Likewise, a too-strict and unduly intrusive conditionality cannot substitute for a more collaborative approach where the institution partners with its member countries by assisting them in designing their own reform programs.

3. The IMF should consider establishing a rapid-response credit line to provide emergency liquidity to countries hit by a crisis of confidence in international markets.

4. Surveillance should be at the core of IMF activities in line with the institution's role as "machinery for consultation and collaboration on international monetary problems" (Art. I). To discharge this mission effectively, however, Fund advice should be even-handed, with the institution playing a leading facilitating role among its membership, including advanced economies, to reduce the potential for market disruptions to the global economy.

5. In emerging-market countries, Fund advice should focus more on issues such as debt overhang and exchange rates, how to achieve better ratings, and managing capital inflows and reserve assets rather than, for instance, on the details of public expenditures.

6. In relation to its "seal-of-approval" role, the Fund could be more proactive in signalling incremental aid needs of low-income countries consistent with their own absorptive capacity and growth objectives. Given the current trend towards donor harmonization and budget support, the institution's ability to strengthen its dialogue with donors is becoming increasingly important.

7. The IMF should work more with regional organizations. While the latter ought to be developed in a complementary way with respect to the IMF, the Fund should do more to reform its governance, which currently creates an incentive for some members to use their own assets for parallel or alternative financing in the event of a crisis.

8. IMF governance has the potential to reconcile efficiency with universal representation and, as such, offers a distinctive advantage over other multilateral organizations or intergovernmental fora. In this context, while recent initiatives are steps in the right direction, it is necessary that more is done to achieve a better balanced distribution of voting power in the membership.

9. Representation on the IMF Executive Board should be strengthened by addressing the asymmetry of representation between the 8 single-country chairs and the remaining 16 multi-country constituencies, which unduly penalizes developing countries.

10. Mechanisms of accountability ought to be strengthened throughout the institution to enable member countries – especially of multi-country constituencies – to better hold their Executive Directors accountable. Along similar lines, the accountability of staff to the Executive Board and to the countries they have chosen to serve should be equally strengthened.

Endnotes

1 Strauss-Kahn, Dominique, “Dominique Strauss-Kahn: “I will propose a global regulation strategy to the G20,”” Le Monde, October 30, 2008.

2 G20, *Declaration of the summit on Financial Markets and the World Economy,* Washington, DC, November 15, 2008.

3 G20, *ibid.*

Related Publications

Momani, Bessma, Stefano Pagliari, Farid Boussaid, and Laura Innis (2008). “IMF and Monetary Reforms: Middle Eastern Perspectives,” CIGI Conference Report. Available at: www.cigionline.org

Pagliari, Stefano and Bessma Momani (2008). “IMF and Monetary Reforms: Latin American and Caribbean Perspectives,” CIGI Conference Report. Available at: www.cigionline.org

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CIGI's work is organized into six broad issue areas: shifting global order; environment and resources; health and social governance; international economic governance; international law, institutions and diplomacy; and global and human security. Research is spearheaded by CIGI's distinguished fellows who comprise leading economists and political scientists with rich international experience and policy expertise.

CIGI has also developed IGLOO™ (International Governance Leaders and Organizations Online). IGLOO is an online network that facilitates knowledge exchange between individuals and organizations studying, working or advising on global issues. Thousands of researchers, practitioners, educators and students use IGLOO to connect, share and exchange knowledge regardless of social, political and geographical boundaries.

CIGI was founded in 2002 by Jim Balsillie, co-CEO of RIM (Research In Motion), and collaborates with and gratefully acknowledges support from a number of strategic partners, in particular the Government of Canada and the Government of Ontario. CIGI gratefully acknowledges the contribution of the Government of Canada to its endowment Fund.

Le CIGI a été fondé en 2002 par Jim Balsillie, co-chef de la direction de RIM (Research In Motion). Il collabore avec de nombreux partenaires stratégiques et exprime sa reconnaissance du soutien reçu de ceux-ci, notamment de l'appui reçu du gouvernement du Canada et de celui du gouvernement de l'Ontario. Le CIGI exprime sa reconnaissance envers le gouvernment du Canada pour sa contribution à son Fonds de dotation.

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