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Southern Accents

The Voice of Developing Countries in International Financial Governance

James M. Boughton



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James M. Boughton

CIGI Masthead

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About the Author

James M. Boughton is a CIGI senior fellow. He is a former historian of the IMF, a role he held from 1992 to 2012. From 2001 to 2010, he also served as assistant director in the Strategy, Policy, and Review Department at the IMF. From 1981 until he was appointed historian, he held various positions in the IMF's Research Department. Before joining the IMF, James was an economist in the Monetary Division at the Organisation for Economic Co-operation and Development in Paris and professor of economics at Indiana University.

James is the author of two volumes of IMF history: *Silent Revolution*, covering 1979–1989; and *Tearing Down Walls*, covering 1990–1999. His other publications include a textbook on money and banking, a book on the US Federal funds market, three books on IMF topics that he co-edited, and articles in professional journals on international finance, monetary theory and policy, international policy coordination and the history of economic thought.

About the Global Economy Program

Addressing limitations in the ways nations tackle shared economic challenges, the Global Economy Program at CIGI strives to inform and guide policy debates through world-leading research and sustained stakeholder engagement.

With experts from academia, national agencies, international institutions and the private sector, the Global Economy Program supports research in the following areas: management of severe sovereign debt crises; central banking and international financial regulation; China's role in the global economy; governance and policies of the Bretton Woods institutions; the Group of Twenty; global, plurilateral and regional trade agreements; and financing sustainable development. Each year, the Global Economy Program hosts, co-hosts and participates in many events worldwide, working with trusted international partners, which allows the program to disseminate policy recommendations to an international audience of policy makers.

Through its research, collaboration and publications, the Global Economy Program informs decision makers, fosters dialogue and debate on policy-relevant ideas and strengthens multilateral responses to the most pressing international governance issues.

Acronyms and Abbreviations

APEC	Asia-Pacific Economic Cooperation
BSFF	Buffer Stock Financing Facility
C20	Committee of Twenty
CFF	Compensatory Financing Facility
EFF	Extended Fund Facility
G5	Group of Five large industrial countries
G7	Group of Seven large industrial countries
G8	Group of Eight large industrial countries
G10	Group of Ten large industrial countries
G20	Group of Twenty large advanced and emerging economies
G24	Intergovernmental Group of Twenty-Four on International Monetary Affairs
G77	Group of 77 developing countries
GAB	General Arrangements to Borrow
IFS	international financial system
IMF	International Monetary Fund
IMFC	International Monetary and Financial Committee
PRGF	Poverty Reduction and Growth Facility
SAF	Structural Adjustment Facility
SDR	Special Drawing Right
T20	Think20
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme

— *Poverty anywhere is a threat to prosperity everywhere.*

Sidney S. Dell (1990, 30)

Executive Summary

Developing countries formed the Intergovernmental Group of Twenty-Four on International Monetary Affairs (G24)¹ as a counterweight to the Group of Ten (G10) large industrial countries in the negotiations to reform the international financial system (IFS). Since then, the industrial and other relatively advanced economies have revised their own groupings several times, culminating in the formation of the Group of Twenty (G20) in 1999. Throughout this history, the G24 has found it difficult to influence the direction of systemic reforms. Participation in the governance of the financial system is based primarily on the economic size of each country. Even though developing countries constitute the great majority of countries and are home to a majority of the world's population, their economic weight is relatively small. Developments over the past 20 years, notably the formation of the G20 and the group of large emerging market countries known as the BRICS (Brazil, Russia, India, China and South Africa), aggravated this imbalance by dividing developing countries into two distinct categories: the six largest (BRICS plus Argentina), which are systemically important enough to be invited into the G20, and the 150 or so others that are too small and too poor to be included.

Despite these challenges, the G24 has had occasional successes. It helped guide the International Monetary Fund (IMF) to orient its lending facilities toward helping developing countries. It pushed the G10 to support creation of the Special Drawing Right (SDR) as a financial asset for all IMF member countries, and it was largely responsible for keeping the SDR alive in the face of strong opposition from some industrial countries in the 1980s and 1990s. More recently, it was the main driver of the successful reform of the IMF to give a slightly greater role to the “one country, one vote” principle through an increase in “basic votes.”

¹ In 2001, the group added “and Development” to its formal name.

These successes, however, have been infrequent and limited in scope. On most larger issues, including demands for larger and more dependable financing for development and arguments for taking the development needs of indebted countries into account in evaluations of external debt sustainability, the G24 has achieved very little.

To have more consistent and more substantive success, the G24 would need to implement internal reforms, including a greater focus on achieving consensus within the group and more financial and logistic support for its secretariat. In addition, the advanced economies should recognize that a more inclusive system — in which small developing countries as a group have a seat at the table and are able to press directly for their interests — would be fairer, more balanced and more effective. Potential reforms would include expanding participation in the G20 through a more comprehensive constituency system and integrating the G20 more directly into the formal treaty-based institutions, the IMF and the World Bank.

Introduction

When the modern IFS was created during World War II, it was designed largely, but not exclusively, by a few advanced and industrialized economies. Developing countries participated in and contributed marginally to the proceedings. Subsequently, especially in the 1960s, the dominant rich countries decided that running the system and shaping its evolution should be their responsibility alone. It then fell to the developing countries to try to regain a voice and to claw back a measure of influence. It has not been easy, and the successes have been few and mostly around the edges.

Whether the IFS is guided by a small group of countries or is shaped by a more diverse and inclusive group is a matter of global importance. Although small and poor countries — while large in number — account for only a small portion of total cross-border financial flows, they have a strong stake in the outcome. In the aggregate, that stake has a potentially large global effect. If the system is unstable or volatile, or if financial flows contribute to the concentration of wealth in a few countries, or if small countries lack the ability to attract financial inflows to finance economic

development, then the overall health of the world economy will be negatively impacted. Conceptually, a small self-selected steering committee *could* guide the system in a way that protects the interests of small and poor countries as well as their own. Nonetheless, a more inclusive process would make a globally beneficial outcome far more likely.

This paper examines that process by which the developing countries have come together as a group to try to influence the evolution of the financial system. It then reviews some of the successes of that effort. The effort to regain and preserve influence and the reasons that it became increasingly difficult are then examined. The paper concludes with some reflections on the challenges going forward.

Origins and Evolution of the “Third World”

The modern IFS was founded at the United Nations Monetary and Financial Conference at Bretton Woods, New Hampshire in July 1944. Delegations from 44 countries — all allies against the Axis in World War II — drafted and agreed on the text of a document containing the charters (“Articles of Agreement”) of two institutions — the IMF and the World Bank — that would oversee official financial flows, exchange rate policies, and financing for the reconstruction and development of war-torn economies in the postwar period. Although both the world economy and the two institutions have changed greatly over the subsequent decades, the basic structure of that system is still its backbone today.

At Bretton Woods, no formal distinction was made between developed and developing countries. All that mattered was whether a country was a member of the wartime alliance and whether that country’s representatives were expected to be able to help design an effective system. Over the strenuous objections of the United Kingdom, the US Treasury insisted on including as many countries as possible in order to have a strong sense of inclusion. While the lead British negotiator, John Maynard Keynes, complained that a large meeting would be a “most monstrous monkey house,” his American counterpart, Harry Dexter White, argued that the

only way to persuade countries to participate was to include them in the planning from the outset.²

Of the 44 countries represented at the conference, at least 28 would later be classified as developing (or, in the more common terminology of the period, “less developed”). The bulk of those — 19 of the 28 — were in Latin America, and most of those were closely allied with and economically dependent on the United States. Much of Sub-Saharan Africa was under colonial rule. Only three countries from that region were invited: Ethiopia, Liberia and South Africa. Asia and the Middle East were represented by six countries, the largest being China (a close US ally during the war) and India (still under British rule). Of the 16 more developed countries, 12 were European. Two were in North America (Canada and the United States), and two were in the southern Pacific (Australia and New Zealand).

A few of the developing countries played significant roles in the preparations for the conference or the drafting of the charters. After the US Treasury developed its initial plan for a postwar system, it invited representatives of 18 countries to a planning meeting in Washington, DC, held in June 1943. That group included seven developing countries (Brazil, China, Ecuador, Egypt, Paraguay, the Philippines and Venezuela). Also participating were Australia, Canada, the Soviet Union, the United Kingdom and seven other European countries. After another year of discussions, the United States hosted a final pre-conference drafting session in Atlantic City, New Jersey, in which 16 other countries participated. In the intervening months, the US team had figured out which countries were likely to make productive contributions to the work. From the earlier list, it dropped two European countries (Luxembourg and Poland) and five developing countries (Ecuador, Egypt, Paraguay, the Philippines and Venezuela). It added one European country (Greece) and four developing countries (Chile, Cuba, India and Mexico) that were expected to, and did, for the most part, participate actively in the proceedings. When the IMF began operations after the war, five of the 12 members of its executive board were from developing countries: Brazil, China, Egypt, India and Mexico.

² On the dispute between Keynes and White, see Boughton (2002). On the efforts of developing countries to influence the deliberations at the 1944 Bretton Woods Conference so as to further the interests of economic development, see Helleiner (2014).

Throughout that time and in the early postwar years, the United States dominated the planning and the discussions and essentially controlled the system. It alone accounted for much of world trade and held the bulk of the world's gold reserves. The United Kingdom, even though it was already a declining economic force and was greatly hobbled by the devastations of the war, was the second most important player, owing largely to the esteem and intellectual force of Lord Keynes. The Soviet Union had an opportunity to be a third major partner, but it showed little interest and was mostly a passive participant.

After Bretton Woods, the Soviet Union opted out of the system altogether and formed its own self-contained trading and financial bloc, which became known colloquially as the “second world.” As the conflicts of the war receded in the early 1950s, Germany, Japan and other countries formerly known as “the enemy” formed close economic and financial ties with the established powers and became part of the industrialized “first world.” By the 1960s, the less economically developed countries across Africa, Asia and Latin America — many of them newly independent — were belatedly trying to regain a place at the table. The struggle for representation by this “third world” has been particularly difficult in the field of international financial policy.

Since the collapse of the Soviet Union and its alliances in the early 1990s, a different triangle of countries has evolved. The first world may be thought of now as comprising roughly a dozen large advanced economies: the United States, Japan, Canada and the larger members of the European Union. Those countries interact through informal collectives such as the Group of Seven (G7) and the G10. The new second world comprises the rest of the European Union and the main emerging markets (developing countries that are large enough and financially advanced enough to participate alongside the first world, particularly in the G20). Today's third world includes about 150 other countries that are too small, too poor or too poorly respected to be invited to the table where the IFS agenda is being set.³ Those countries must rely to a large extent on the first two informal groups to look after their interests.

³ The United Nations has 196 member countries, and the IMF has 189. Forty-three countries are members of the G20, either directly or through their membership in the European Union. That leaves 146 IMF members plus seven other UN members without representation in the G20.

There is a natural affinity between the second and third worlds because membership in the two groups is fluid. The emerging market countries were all poorer and less advanced until fairly recently, and at least some in this new third world can reasonably aspire to graduating in the near future. It is also natural, however, for the emerging market countries to view themselves as more closely aligned with the first world than with the third.

Establishment of Ad Hoc Country Groups, 1961 – 1972

The postwar IFS was designed to be inclusive but highly centralized. The IMF was placed at the apex of the system, with all countries eligible to apply for membership by agreeing to abide by the terms of the Articles of Agreement. From an initial membership of 40 countries, the IMF has grown over the past 70 years to a nearly universal total of 189 members. Each member has a share in the voting power, based primarily on its economic size. To keep the management of the institution to a workable dimension, both of its governing bodies — the ministerial-level International Monetary and Financial Committee (IMFC) and the Washington-based executive board — employ a constituency system to limit the committee and the board to 24 members. The largest countries have a seat to themselves, while smaller countries join together to elect a member to represent the group. Multi-country constituencies currently range in size from four countries to 23. Over the years, competing groups have formed outside this structure to try to increase their voice and influence.

The G10

Strains on the system began in the early postwar years and became acute by the beginning of the 1960s. Every member country was committed to maintaining a fixed rate of exchange between its own currency and either the US dollar or gold, subject to the possibility of changing the rate in cases of “fundamental disequilibrium.” When that commitment became stretched by a shortage of US dollars for international settlements (and for IMF lending), the central banks of several large

industrialized countries decided to band together to try to defend the system by themselves. Their opportunity came when the IMF began looking at the possibility of borrowing from “the main industrial countries” to replenish its holdings of internationally acceptable currencies.⁴ On November 17, 1961, nine such countries sent delegates to a meeting with IMF Managing Director Per Jacobsson in Paris, France, at which they suggested that they could lend to the IMF and thereby “provide resources to assist one of their number, and in this way help all the countries of the world” (emphasis added).⁵ That idea was quickly accepted, and barely a month later the IMF entered into an agreement — the General Arrangements to Borrow (GAB) — in which — for the first time in its history — control of its sources and uses of funds for certain purposes passed from its executive board to a self-selected small group of countries acting outside of the formal structure. By then, Japan had joined the group, and the 10 large industrial countries became known as the G10.⁶

When the executive board met to approve the GAB, the principal spokesman for developing countries was Jashwantra J. Anjaria, the executive director for India. His rueful intervention noted that “it would be hard to claim that the draft decision was in the spirit of Bretton Woods.” He averred that a “sense of participation by all members of the Fund, whether they were lenders or not for this particular scheme, had to be preserved in the interest of the Fund’s successful functioning.” The director for Brazil, Maurício Chagas Bicalho, added that such an arrangement “must clearly and frankly avoid any breaking down of the democratic principles governing the participation by all members.”⁷ The fact remained, however, that the GAB was negotiated without the involvement of countries other than the G10, and it would function largely in that exclusive domain. (As a fig leaf, the GAB provided that decisions to activate borrowing would take place only after consultation with the

full executive board.)⁸ As a practical matter, the benefits of the GAB for the IMF, the G10, the world economy and — by extension — the developing countries were more important at that moment than the principle of preserving the voice and influence of developing countries in the process.

The Group of 77

Developing countries soon realized that the formation of the G10 and the agreement to establish the GAB as a G10-only facility was not “a steppingstone to more concerted and better organized international cooperation,” as Anjaria hoped in 1961. Instead, it was a stepping-stone toward greater control of the evolution of the IFS by the large industrial countries. In reaction to this and other forms of industrial-country cooperation (notably the establishment of the 20-member Organisation for Economic Co-operation and Development, also in 1961), a large group of developing countries calling itself the “Caucus of 75” acted together in 1963 to form the United Nations Conference on Trade and Development (UNCTAD) under the auspices of the UN General Assembly.⁹ By the time the first meeting was held in March/April 1964, two more countries had joined the movement, which then became known as the Group of 77 (G77). Separately, the United Nations constituted UNCTAD as a permanent organ, with headquarters in Geneva. The IMF responded by opening an office in Geneva, primarily to liaise with UNCTAD (and thus indirectly with the G77).

UNCTAD had some early success in influencing the system. Specifically on the financial side, it argued successfully for improvements in the IMF’s Compensatory Financing Facility (CFF). The IMF had established the CFF at the request of an earlier UN commission in order to help countries that relied on exports of primary commodities to finance payments deficits that resulted from developments in world markets that were beyond their control.

4 See IMF (1961).

5 Minutes of the meeting, quoted in Horsefield (1969, Volume 1, 511).

6 The original participants included the United States and Canada plus seven European countries: Belgium, France, Germany, Italy, the Netherlands, Sweden and the United Kingdom. Switzerland (not then a member of the IMF) entered into a separate but associated agreement in 1964, and it became a participant in the GAB and thus the eleventh regular member of the G10 in 1983.

7 Minutes of Executive Board Meeting 61/55 on December 18, 1961, pp. 19-20 and 24.

8 Much later, in 1983 in response to the debt crisis in Latin America, the GAB was amended to allow for its activation to finance IMF lending to countries outside the G10.

9 The formation of UNCTAD was the starting point for formally concerted action, but it had informal precedents. Two years earlier, the UN Economic Commission for Africa convened a conference in Cairo that was attended by 36 developing countries. Several international organizations, including the IMF, sent observers. That conference called for joint action by developing countries to further their own development (UN Economic Commission for Africa 1962). Zaldueño (1986, v) suggests that the Declaration of Cairo marked the beginning of a concerted effort to form a common position on issues affecting developing countries.

Its use was not restricted to developing countries, but this special lending facility was designed for their benefit. The IMF, though, was initially reluctant to allow it to be used widely or in large amounts. Under pressure from UNCTAD through the executive directors representing members of the G77, the Fund loosened its restrictions in 1965, a move that resulted in a sharp acceleration in the number and size of drawings on the CFF.¹⁰

The G77 was far too large a group to work effectively as a unit. In October 1967, the group met at the ministerial level in Algiers, but it then decided to act primarily through a “coordinating committee,” based in Geneva alongside UNCTAD.¹¹ Less formally, the G77 developed a regular linkage to the IMF. In the 1960s, nine of the 20 executive directors in the IMF exclusively represented countries that were in the G77. In 1966, those directors began meeting as the “G9 caucus” to develop common positions on financial issues affecting economic development (de Vries 1985, vol. II, 977).¹² (As the size of the executive board grew, the G9 Caucus eventually became the “Group of Eleven.”) With this structure in place, the G77’s membership grew as other developing countries asked to join, though it retained its original name. As of this writing, the G77 has 134 member countries.¹³

The G24

The main financial issue faced by developing countries in the second half of the 1960s was the plan being devised by large industrial countries to supplement US dollars in official exchange reserves. The GAB and other G10 initiatives such as swap lines between central banks and the formation of a “gold pool” to help stabilize the price of gold were proving to be inadequate responses to the buildup of pressures in foreign exchange markets. As more economies began to grow rapidly but at varying rates, maintaining fixed exchange rates between

currencies was increasingly difficult. If the system of fixed rates was to survive, the world economy would need to have a broader and more flexible set of reserve assets than just gold and US dollars. G10 countries held numerous meetings among themselves, mainly from 1965 through 1967, to try to devise such a reform. By 1969, that work led to the first amendment to the IMF Articles of Agreement and the creation of the SDR as an international reserve asset available to all IMF member countries. Before agreement was reached, however, Germany led an effort within the G10 to limit both the process and the product to G10 members and exclude developing countries altogether.¹⁴

The case for limiting the new reserve asset to the G10 countries rested on the fact that most international finance flowed through those countries and that they alone had both the means and the incentive to resolve the problems that had arisen with the Bretton Woods system. The counterargument was that the emerging problems affected *all* countries, and any solution had to take the global interest into account. As discussions proceeded, the IMF — especially through its Managing Director Pierre-Paul Schweitzer — took the lead in representing the interests of developing countries by arguing for a global and institutional solution to international liquidity. The US government — led in this process by its Treasury Secretary, Henry Fowler — backed up Schweitzer and persuaded the G10 to hold meetings jointly between G10 deputies and the IMF executive board. That gave the G77 a voice through its G9 caucus. Those meetings eventually produced agreement on the SDR as a universal asset that would be allocated to all participating countries in amounts proportional to their IMF quotas.

Despite the successful outcome on the SDR, the G77 soon concluded that developing countries had to have a more direct and assured voice in deliberations going forward if their interests were to be fully protected. The G9 caucus could function effectively only if it had the clear backing of the countries it represented. In August 1971, that concern became acute when then President Richard Nixon unilaterally suspended convertibility of the US dollar into gold. The G10 then began making plans for a final last-gasp effort to preserve

10 For the early history of the CFF, see Horsefield (1969, 531–36 and 612–13); and Horsefield and Lovasy (1969, 424–27).

11 See Zalduendo (1986, viii).

12 Six of the other 11 chairs represented only industrial countries (France, Germany, the United Kingdom and the United States, representing only themselves; Italy, representing themselves and three other European countries; and a group of Nordic countries with rotating representation on the board). The remaining five were constituencies in which the executive director was from an industrial country (Australia, Belgium, Canada, Japan, or the Netherlands), but the constituency included both industrial and developing countries.

13 The history and structure of the G77 is summarized in www.g77.org/doc/.

14 The German effort was led by Otmar Emminger, a senior official (later, the president) of the Deutsche Bundesbank. For a first-hand account of the negotiations, see Solomon (1996).

the IFS as it was set up at Bretton Woods by realigning exchange rates among themselves outside the institutional structure of the IMF. In response, at the 1971 ministerial meeting in Lima, Peru, the G77 declared its view that the IMF should be the locus of decision making on the financial system, not the G10 acting alone. To promote that view, the G77 agreed to establish a small formal developing-country group that would deal only with the governance of the IFS.

The plan envisaged at Lima was to create a group of 15 developing countries, five of which would be drawn from each of three regions: Africa, Asia and Latin America. In preparation for Lima, these regional subgroups met separately, in Addis Ababa (African members), Bangkok (Asian members) and Lima (Latin American members). Representatives from each region then met in Geneva in January 1972 for what they billed as the “Preparatory Meeting of Deputies of the Intergovernmental Group of 77 on International Monetary Affairs.” As it was proving difficult to whittle down the size of the inner group to just five countries from each region, the deputies agreed to raise the number to eight. The selected countries¹⁵ thus made up the G24.

The G24 developed an institutional structure gradually over a lengthy period. The original structure centred on periodic meetings of G24 finance ministers to support the creation of the Committee of Twenty (C20) and then to determine positions on issues being considered by the C20 (1972–1974). Each G24 ministerial meeting was preceded by a meeting of deputies, where recommendations were developed and a draft communiqué was prepared. The group decided not to establish its own secretariat, and so the deputies had to rely on their separate staffs and some outside help to prepare for these meetings. The outside help came primarily from a team at the United Nations Development Programme (UNDP), headed by British Economist Sidney S. Dell. The team prepared a series of papers setting out the intellectual case for developing countries’ views.¹⁶ Despite that assistance, the absence of a standing

secretariat and reliance on a chairmanship that rotated annually among all members made it difficult for the G24 to set priorities or to present arguments persuasively through its communiqués.

When the G24 decided to continue meeting after the dissolution of the C20 (and its replacement by the Interim Committee) in 1974, it became necessary to expand its resource base. In 1975, the G24 asked UNCTAD for assistance. UNCTAD (as the administrator) and the UNDP (as the source of funding) responded by establishing a program, with Dell in the lead, to commission and organize research to support and promote the G24.¹⁷ Dell continued to serve as the G24’s research coordinator until 1990, after which he was succeeded by the Canadian economist Gerry Helleiner, who served until 1999.¹⁸

Helleiner initiated a practice of collecting and editing independent research on issues of particular interest to developing countries on behalf of the G24. UNCTAD arranged for the United Nations to publish a series of 11 volumes (1992 to 1999) of papers produced for the G24 research program, under the series title *International Monetary and Financial Issues for the 1990s*. Helleiner also prepared a separate volume on systemic issues in 1995. Some years later, Ariel Buira, a former IMF executive director from Mexico who was then directing the G24 secretariat, similarly produced three volumes of studies commissioned by the G24 and written by prominent academics and public officials, primarily on proposals for reforming the operations and governance of the IMF and World Bank.¹⁹

From the beginning, the IMF provided logistical support to the G24, mainly in the form of secretarial services and office space whenever the G24 was meeting in conjunction with the regular meetings of IMF and World Bank governors. In addition, senior IMF officials, often including the managing director, regularly attended and participated in G24 meetings. In 1979, when the G24 was planning to

15 The eight African countries were Algeria, Côte d’Ivoire, Egypt, Ethiopia, Gabon, Ghana, Nigeria and Zaïre (now the Democratic Republic of Congo). Eight others were from Latin America and the Caribbean: Argentina, Brazil, Colombia, Guatemala, Mexico, Peru, Trinidad and Tobago and Venezuela. The remaining eight were scattered across Asia, Europe and the Middle East: India, Iran, Lebanon, Pakistan, Philippines, Sri Lanka, Syria and Yugoslavia.

16 Those papers were later published in UNCTAD (1974).

17 See the foreword to Dell and Lawrence (1980) and recollections by Shahen Abrahamian in Helleiner et al. (1995). UNDP financial support was later replaced by funding from three industrial countries: Canada, Denmark and the Netherlands; see Mohammed (1999, 40 note 8).

18 Subsequent research coordinators included the Turkish economist Dani Rodrik (2002) and the Malaysian economist Jomo Sundaram (2006–2012). After 2012, the position was converted to a senior adviser post in the G24 secretariat.

19 UNCTAD (various dates), Helleiner (1995) and Buira (2003; 2005a; 2005b).

hold a separate meeting in Belgrade, Yugoslavia, the IMF agreed to provide similar services. Otherwise, the G24 had to continue to rely on its own very limited resources. Only in 1997, a quarter century after its first meetings, was it able to establish a permanent secretariat, albeit one that was very small (originally called the Liaison Office). The G24 was able to recruit a series of experienced officials from government and development institutions to head its secretariat.²⁰ Nominal dues from member countries and an annual grant from the World Bank provided most of the funding. Having permanent office space in the IMF enabled the G24 to liaise with IMF and World Bank staff much more easily.

Over time, the G24 added other elements to its structure. Most notably, it established what it called “the Bureau,” as its executive arm. The Bureau comprised the chair and the two vice-chairs of the ministers group, plus two former chairs. This inner group, which is structured so that it always includes representatives from each of the group’s three regions, prepares the agenda and runs the meetings. In the mid-1990s, the G24 also established a “technical group” to review research findings and convey the results to ministers with appropriate recommendations.²¹

The research function of the G24 aims to help member countries improve their capacity to analyze the economic issues that affect them and to develop positions in international forums. The key question is whether the group has been able to act in an effective way to influence the evolution of the system. Its main avenue for doing so is through its interactions with the Bretton Woods institutions, especially the IMF where reform discussions have been centred.

The Role of Developing Countries in Systemic Reform, 1972–1986

While developing countries were organizing the G24, the industrial countries were struggling in their efforts to reorganize the financial system. In December 1971, the G10 met at the Smithsonian Institution in Washington, DC. There, with inputs from IMF staff, the members agreed on a major realignment of their currencies, anchored by a devaluation of the US dollar. Within a few months, however, the new rates were coming under market pressure. Meanwhile, the IMF board of governors adopted a resolution at the 1971 Annual Meetings calling on the Fund to consider options for reforming the IFS. Although many in the G10 would have preferred to keep those discussions internal to their group, the US government insisted on wider participation. US officials were disenchanted with the G10, which they viewed as too heavily focused on European interests. (Seven of the 10 countries were European.) Reducing the size of that group to increase the US weight was impractical for this purpose, but broadening the group to reduce European influence was a viable alternative.

For a few months in the first half of 1972, US officials pushed for an ad hoc group to be constituted independently from the IMF. This group would include representatives from smaller industrial countries and some developing countries, in addition to the G10. In the end, Schweitzer, on behalf of the IMF, managed to win approval of a compromise in which the proposed group would be authorized to deal with issues broader than the narrow financial mandate of the IMF; would have the same constituency configuration as the IMF executive board; would be chaired by a Fund governor rather than by himself as managing director; and would function by consensus rather than by weighted voting.²²

20 Directors have included Aziz Ali Mohammed, a former IMF official (1997); William Larralde, a Venezuelan official (2000–2002); Ariel Buira, a former IMF executive director from Mexico (2002–2007); and former World Bank officials Amar Bhattacharya (2007–2014) and Marilou Uy (currently).

21 For an external review of the work of the technical group, see Tussie (2003).

22 The negotiations leading to the creation of the C20 are described in de Vries (1985, vol. 1, chap. 8).

The C20

In July 1972, the IMF board of governors approved the creation of this “Committee on Reform of the International Monetary System and Related Issues.” As it was to have 20 members (matching the size of the executive board), it became known vernacularly as the C20. Up to this point, the IMF had always avoided referring in any legal or binding way to a distinction between developed and developing countries. All members were to be treated alike. In this case, the Fund made an exception to emphasize the importance of full participation and equal rights in the C20. Accordingly, the resolution creating the committee noted that “decisions relating to the reform should be taken with the full participation of both developed and developing member countries.”²³ In a further victory for developing countries, the inaugural meeting of the C20 was convened by Ali Wardhana, finance minister for Indonesia. The C20 then selected Wardhana to serve as chairman. To balance the process, Jeremy Morse — a senior official in the Bank of England — was selected to chair the C20 deputies, and two highly regarded officials from developing countries — Jonathan Frimpong-Ansah of Ghana and Alexandre Kafka of Brazil — were named to serve as two of Morse’s four vice-chairs.²⁴

The newly constituted G24 was thus thrust on the scene at a critical moment in financial history. For the next two years (1972-1974), the C20 tried to reform the system with new methods for stabilizing exchange rates, reducing global payments imbalances and restoring economic growth. It ultimately reached agreement only on a limited set of reforms, notably by assigning the IMF a new responsibility for exercising “firm surveillance” over the exchange rate policies of its member countries, while paying “due regard to the circumstances of members.”²⁵ Its work, however, was strongly influenced by inputs from developing countries that were devised primarily in the G24.²⁶

The final resolution of the C20, issued in October 1974, called for an “evolutionary process of reform”

that would incorporate several “immediate steps,” including some that would take account of “the special interests of developing countries.” Paragraph seven of the resolution noted that the “Committee has recognized the serious difficulties that are facing many developing members, and has agreed that their needs for financial resources will be greatly increased. It has urged all members with available resources to make every effort to supply these needs on appropriate terms.” Specifically, it called on wealthy countries and multilateral development institutions to increase aid and provide debt relief to poorer countries that were “in greatest need.” (The C20, however, had no means available to enforce compliance with these recommendations.) The resolution also noted favourably that the IMF had just established the Extended Fund Facility (EFF) to provide larger and longer-term loans to developing countries.²⁷

Structural Reform at the IMF

When the C20 completed its work in 1974, it agreed that the IMF and World Bank should have permanent ministerial-level committees to oversee their work and their institutional evolution. As a temporary measure for the IMF, the C20 approved the establishment of an “interim committee” with the same structure and function as itself. The interim committee would provide advice to the executive board and — like the C20 — would operate by consensus, without a formal voting system. It was authorized to function until such time as it would be replaced by a permanent council, which would be a formal committee of the board of governors and would have the same weighted voting system as the executive board.

The act of creating the IMF council turned out to be quite controversial, primarily because of opposition from developing countries. Initially, the G24 favoured the idea as a way to offset the growing power of the G10, and they added hopefully that in the council, developing countries should have “representation that was at least as large as in the Committee of Twenty.”²⁸ Once the interim committee began meeting in 1974, however, the G24 realized that it would have more influence if the “interim” were extended as

23 Resolution No. 27-10 of the IMF Board of Governors (July 26, 1972), reproduced in de Vries (1985, vol. III, 151).

24 Henning (1992, 144).

25 Article IV of the IMF Articles of Agreement, as amended effective April 1, 1978; de Vries (1985, vol. III, 381–83).

26 For a detailed review of G24 inputs into the work of the C20, see Henning (1992, 144–46).

27 Resolution No. 29-10 (October 2, 1974), reproduced in de Vries (1985, vol. III, 208–10).

28 Communiqué of G24 ministers, meeting in Rome on January 16, 1974. This and the other G24 communiqués cited below were accessed at www.g24.org/communiqués.

long as possible. If the interim committee were replaced by a council with weighted voting, developing countries would be relegated to a minority position that could easily be overridden.

Under pressure from developing countries, the interim committee ultimately decided to postpone consideration of creating the council. The amendment to the IMF Articles of Agreement that took effect in 1978 included a provision for creating the council, but only if it was subsequently approved by an 85 percent majority vote in the board of governors. Later, whenever the proposal resurfaced, the G24 was able to organize enough opposition to keep the tally below that threshold. The interim committee continued to function until 1999, by which time it was apparent that the interim period had become indefinite. The advisory body was then renamed and became the IMFC.

In addition to establishing the interim committee in 1974, the C20 also established the development committee. Formally (and awkwardly) named the Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries, this body was designed to advise both institutions on issues pertaining to economic development and the interests of developing countries. The G24 was the main driver of the move to create the development committee, but the best that one can say about the outcome is that it was universally viewed as disappointing. Because the development committee was designed to advise both institutions, it was easy and convenient for both of them to treat it as external to their operational structure.²⁹ The development committee has occasionally helped the G24 inject its views into discussions in the Bank or the Fund, but overall its operational effectiveness has been quite limited.

Linking the SDR to Development Needs

One reform for which the G24 pushed very hard was to establish a link between the issuance of SDRs and the needs of developing countries for financial resources for economic development. UNCTAD developed that argument in the mid-1960s, when discussions were just beginning on ways to expand international liquidity. Essentially,

there were two ways to think about the shortage of reserve assets that was plaguing the system in the 1960s. The prevailing view among G10 countries was that it was an aggregate global problem and that the solution should be to provide additional liquid assets either globally or to the countries that were the principal suppliers of reserve assets (i.e., the G10). The alternative view promoted by UNCTAD and other developing-country groups was that the shortage was also one of distribution; that developing countries had greater difficulty than industrial countries in obtaining liquid assets, and that this difficulty was a major impediment to their economic development.³⁰ The solution therefore should involve skewing the distribution of SDRs toward countries with a relatively high need for resources for development.

The design of the SDR, embodied in the 1969 amendments to the IMF Articles, reflected the G10 view. SDRs were to be allocated to all participating countries proportionally to their IMF quotas. In 1972, reform discussions began anew and the G24 seized the opportunity to reopen the question. The C20 actively considered the possibility of a link between SDR allocations and development needs, but most of the G10 remained united against the idea. The C20's final resolution noted diplomatically that its members were "not unanimous" in accepting the proposal, but it called upon its successor (the interim committee) to "consider the possibility and modalities of establishing such a link" as part of its work program preparing the second amendment of the IMF Articles. The G24 ministers continued to stress the importance of the link proposal in their communiqués through 1976.

Although the link proposal was never accepted, the G24's efforts were not lost to posterity. Throughout the 1980s and 1990s, several suggestions were floated in the IMF executive board by representatives of both industrial and developing countries for a post-allocation redistribution of SDRs in favour of developing countries. The link idea has been revived more publicly on several occasions since the turn of the millennium. Examples include a 2002 proposal by the philanthropist George Soros to establish a trust fund into which countries could deposit SDRs to finance development projects; a 2006 proposal by

²⁹ The origins and early work of the development committee are covered in de Vries (1985, 303-304; 972-75).

³⁰ The basic requirement for accumulating reserve assets in a system of fixed exchange rates was to run a surplus in the balance of payments. That, in turn, generally required keeping imports smaller than exports, and that weakened a country's ability to grow economically.

former IMF officials Jacques J. Polak and Peter B. Clark to limit SDR allocations to countries with relatively high costs for accumulating official reserves; and a 2009 proposal by Soros to use SDRs to finance “green funds” to mitigate the effects of climate change on poor countries.³¹

In a related development, in 1997 the IMF board of governors approved a selective allocation for countries that had joined the IMF too late (i.e., after 1981) to receive earlier general allocations, along with a general allocation for all members. The selective allocation was aimed primarily to provide assistance to countries making a transition from the Soviet sphere to an open market economy.³² That decision reflected a compromise that was reached only after a bitterly fought battle between industrial and developing countries.

The original proposal, presented to the interim committee by the large industrial countries in 1994, was for the IMF to make a one-off allocation only to new members (most of which were former Soviet republics or other centrally planned economies). Developing countries, led by Manmohan Singh (finance minister and later prime minister of India), held firm against that proposal. Having the special allocation together with one for all countries was of vital interest to the G24. Because any allocation required the approval of countries with 85 percent of the voting power, both groups had the power to block approval of the other’s scheme. No agreement was reached in 1994, and discussions continued for three more years before the industrial countries finally gave in and accepted that the selective allocation should be coupled with one for all countries.³³

Restoring Stability of Exchange Rates

When the C20 began considering ways to restore stability of exchange rates, one proposal that seemed to hold promise was to create a “substitution account” in the IMF. Countries could deposit a portion of their US dollar reserves into the account and receive SDRs in exchange. The

valuation of the SDR was about to be transformed from the gold value of the dollar (a concept that no longer had meaning, since the dollar was no longer convertible to gold) to a basket of currencies. Holding SDRs would provide a more stable exchange value for reserves and would reduce the risk of destabilizing shifts in the currency composition of reserve balances. The proposed scheme drew little support in the C20, but it was intriguing enough to maintain some interest in the IMF. It resurfaced in 1978, when the dollar was coming under heavy negative pressure.

Developing countries had little directly at stake in the debate over the substitution account proposal. Few of them, if any, had enough dollar reserves to make them consider taking advantage of such an account if it were created. What they wanted, was a new round of SDR allocations to help them build up their reserves. (No allocations had been made since January 1972.) To be successful, a substitution account would need a sizeable stock of SDRs, and that would require large additional allocations. To encourage that outcome, the G24 began to shift its position toward favouring the proposal, which was being promoted by several European countries with the enthusiastic support of IMF Managing Director Johannes Witteveen. In 1975 and 1976, G24 communiqués urged the interim committee to continue studying the idea. In January 1976, as the interim committee was on the verge of approving the draft amendments to the IMF Articles, the G24 communiqué noted “strong support among Ministers for an enabling clause for a gold substitution account in the amended Articles of Agreement.”³⁴

When the substitution account proposal came to be seriously considered again in 1978, some creditor countries promoted it as an *alternative* to further allocations, not as a way to enhance the effectiveness of allocations. As a result, G24 support declined. The April 1978 communiqué expressed the group’s “view that further consideration of the substitution proposal should not delay a new allocation of SDRs.” In September 1979, the interim committee was close to taking final action to create the account. The G24, however, was more skeptical than ever, and “they recommended that [their] support be conditioned upon further clarification of

31 For the suggestions in the Fund, see Boughton (2012, 767). For the later proposals, see Soros (2002 and 2009) and Polak and Clark (2006).

32 After much delay, owing primarily to a reluctance by the US Congress to ratify the agreement, the special allocation was finally made in 2009.

33 For the detailed story and citations to original sources, see Boughton (2012, 764–73).

34 The reference to gold was a mistake. Under the amended Articles, the monetary role of gold was being terminated. The correct reference would be to a currency substitution account.

the features of this account on matters of interest to the developing countries.” What they wanted most were “regular annual allocations of SDRs.”

Despite these reservations, the interim committee endorsed the proposal in October 1979, and the executive board set about the task of deciding on its features. When it turned out that the IMF might have to pledge part of its gold holdings to manage the exchange risk, executive directors from developing countries — led by Alexandre Kafka (Brazil) and S. D. Deshmukh (India) — argued strongly against it. With the executive board divided, the managing director — now Jacques de Larosière — pushed ahead anyway and pressed the interim committee for a final decision. The proposal failed. What finally scuttled the idea was not the withdrawal of support from developing countries but a change of view in the US administration. By 1980, the dollar was recovering its exchange value, and the US authorities simply lost interest in having a substitution account for which they would have to assume at least part of the exchange risk.

The lesson from this episode is that the G24 missed an opportunity to try to persuade the US authorities and thus the IMF to adopt a proposal with the potential to help stabilize the financial system. The financial crises that bedeviled many emerging markets throughout the 1980s and 1990s resulted in part from systemic instability, including in the US dollar and US financial markets. How much a substitution account might have alleviated those conditions is difficult to determine, but the net effect should have been positive for developing countries.³⁵

A related reform issue arose when exchange rates among key currencies underwent unacceptably large swings for several years after 1978. First the pound sterling and then the US dollar experienced unprecedented large appreciations in both nominal and real terms during that period. Those appreciations contributed to large payments deficits, which in turn spurred protectionist pressures, especially in the United States. As a result, both the G10 and the G24 began examining the feasibility of systemic reforms that might mitigate adverse movements in exchange rates. Possibilities included greater use of sterilized intervention in exchange markets, commitments

to defend “target zones” for exchange rates, and more general means of policy cooperation aimed at ensuring external payments balance.

Because all the reforms under consideration directly involved only the largest industrial countries, the G24 could intervene in the debate only as an interested outside party. In September 1983, the G24 finance ministers issued a communiqué calling for an international conference to devise “a thoroughgoing reform of the international monetary and financial system [to]...secure...exchange and monetary stability, the adequacy of resources for investment and the special concerns of developing countries.” Although the US government also called for such a conference — a “new Bretton Woods” was the rallying cry — around the same time, the idea was hard to sustain because no one had a practical agenda for achieving the intended goals. The Bretton Woods Conference succeeded in 1944 because it was a reaction to a clearly identified crisis and because the lead countries (the United Kingdom and the United States) presented well defined plans for institutional and governance reforms. That second condition did not exist in the early 1980s. Nonetheless, a more promising opening came when the G10 countries turned out to have divergent views on how to proceed. They turned to the IMF for guidance, and that gave developing countries a forum in which to express their views.

The deputies of both the G10 and the G24 produced reports on the functioning of the system and submitted them to the IMF for further discussion.³⁶ Within the G10, British and US officials were strongly opposed to any attempt to try to control exchange rates or to use government policy to rein in external imbalances. Some European countries, notably France and Italy, were more concerned about the observed swings in key exchange rates and were more amenable to consider a variety of intervention strategies. The overall thrust of the G10 report, however, was skeptical about intervention and broadly in favour of a laissez-faire approach. In response, the G24 report endorsed the general concept of exchange rate stability and documented the pernicious effects of unstable rates on developing countries. The report recommended adopting target zones for key currencies and using market

³⁵ For the history of the failed attempt to create a substitution account, see Boughton (2001, 936–43), and references therein.

³⁶ The IMF published both reports as Appendixes to Crockett and Goldstein (1987).

interventions and coordination of macroeconomic policies to achieve and maintain them.

The IMF discussed the G10 and G24 reports in 1985, first in the executive board and then in the interim committee. It followed up with a staff report and further consideration by the executive board in 1986. It is doubtful that the G24 report had any influence on the evolution of the system, but it did clearly identify some of the systemic shortcomings that were masked in the G10 report by the deep split within that group. Private financial markets could not be relied upon to generate exchange rates that were stable or that would be consistent with any definition of equilibrium (for example, purchasing power parity or consistency with appropriate and sustainable current-account balances). Unstable and persistently disequilibrium exchange rates were having adverse effects on the world economy generally and on developing countries particularly.

The systemic weaknesses emphasized in the G24 report were undeniable. Consequently, even as these reports were being prepared and discussed, the large industrial countries were moving ahead with efforts to strengthen cooperation within their own group. They resumed coordinated exchange market intervention in January 1985. At a meeting at the Plaza Hotel in New York that September, they agreed on further cooperative measures to reduce the overvaluation of the US dollar. They agreed on something vaguely akin to target zones at a meeting at the Palais du Louvre in Paris in February 1987. Although this form of policy cooperation then gradually faded away, it achieved enough and lasted long enough to vitiate the calls for more formal and permanent reforms of the type called for by the G24.

IMF Lending

Much of the IMF's early lending was to industrialized countries. Until the Mexican crisis of 1982, the United Kingdom was consistently the largest borrower from the Fund. At least once through the 1970s, every G10 country except Germany drew on the Fund to replenish its reserves. Gradually, as demand from those countries diminished, loans to developing countries became the Fund's primary financial activity. Indeed, by the end of the 1970s, the IMF was lending almost exclusively to developing countries. The G24 played a crucial role in guiding the Fund in that direction.

The original nature of IMF lending was ill suited for the developing world. When a country faced a temporary deficit in its balance of payments, it could request a short-term loan from the Fund while it adjusted its policies — usually by tightening monetary or fiscal policy — to restore equilibrium. In the early 1950s, the Fund began entering into stand-by arrangements on which the borrower could draw periodically, conditional on its continuing to meet specified policy requirements. Longer-term financing requirements, a mainstay of economic development, were to be met by the World Bank or other agencies created for that purpose. Short-term loans from the IMF might be important for a developing country, but only as part of a broader agenda and only if the need to repay the loans within a few years did not conflict with the country's needs for economic growth.

The evolution of IMF practices toward a system more favourable to developing countries began with the establishment of the CFF in 1963. As noted above, the G77 lobbied effectively to persuade the Fund to liberalize the CFF and make it more readily available. For almost three decades, the CFF was a frequently used and quick-disbursing source of funds for many countries whenever world prices dropped for the primary commodities that those countries exported. In the 1990s, the Fund sharply curtailed the use of the facility under pressure from creditor countries that preferred for the Fund to impose the tighter policy conditions in its stand-by arrangements.³⁷

The second facility aimed at developing countries was the Buffer Stock Financing Facility (BSFF). In the 1960s, groups of developing countries that exported primary commodities began forming collectives to stabilize prices by accumulating buffer stocks when markets were weak and selling off stocks to forestall price increases when conditions strengthened. By 1967, UNCTAD was calling for help from the Fund and the World Bank to finance these schemes, and Managing Director Schweitzer was publicly supporting the idea. In

³⁷ The attitude of the large creditor countries was predicated on the belief that developing countries that needed official financing assistance also needed to be guided externally in the formation and implementation of economic policies, even if the immediate source of the problem was a circumstance outside their control. As the US chair expressed it during a 1999 meeting of the executive board, "in almost all cases in which members face arguably temporary...financing needs that are met by the [CFF], they also face pressing adjustment needs which are best met through conditional upper credit tranche support." For the history of the CFF, see Boughton (2001, 723–42; 2012, 216–25).

the executive board, France expressed support for a plea from several of its former colonies in Africa. That gave credence to the request, which the G9 caucus was pushing. Despite some skepticism by the staff as to the efficacy of buffer stock schemes, the board approved the BSFF in 1969. After further lobbying by the G24, the Fund expanded the facility in 1975. The BSFF was used sporadically until 1984, by which time the underlying schemes were no longer viable and were being abandoned.

Neither the CFF nor the BSFF fundamentally changed the nature of IMF lending. Those two facilities accommodated a defined and limited set of circumstances as a supplement to the Fund's regular stand-by arrangements. In 1973, as it was becoming apparent that the proposed link between SDR allocations and financing for development was not going to be accepted by the C20, both the Fund and the G24 began looking for alternative ways to compensate for the general shortage of international financing for developing countries. While the G24 continued to advocate for the SDR link, it shifted its attention more to the need for additional resources and for changes in the Fund's general lending practices. Demands for quota increases, less intrusive policy conditions and less emphasis on tightening macroeconomic policies became mainstays of G24 policy advice.

Around the same time, Managing Director Schweitzer and the Fund staff proposed filling a systemic gap by establishing a new window for medium-term lending to developing countries. Stand-by arrangements provided short-term balance of payments financing. The World Bank provided long-term project financing. In addition, developing countries needed to have payments financing available in larger amounts and for a more sustained period. Policy conditions might not be weakened, but at least countries would have more time to adjust and would have the IMF's financing available for longer periods.

Those considerations led to the creation of the EFF in September 1974. It was a difficult birth. When the executive board considered the proposal, some industrial-country directors argued that the Fund should restrict its lending to the short term. Others worried that the Fund should focus more on helping oil-importing countries cover the deficits created by the sharp rise in oil prices over the preceding year and avoid stretching its resources too thinly. The G9 caucus, however, presented a united front and won over enough

industrial-country support to push the proposal through. The executive board decision noted that the EFF was "likely to be beneficial for developing countries in particular," which was the Fund's way of saying that it expected the more advanced economies to refrain from asking to use it. Over the next 25 years, the IMF made EFF loans with 10-year maturities to 48 developing and transition countries.³⁸ In several cases, the Fund made repeated loans to a country so that the repayment period was extended even longer.

The most dramatic escalation of the IMF's support for economic development came in 1976 with the creation of the Trust Fund. This facility was financed by selling part of the IMF's gold holdings and placing the proceeds in a separate account from the IMF's general resources. The resulting Trust Fund was then used to make longer-term loans to low-income countries on concessional terms. (A portion of the profits from the gold sales was also distributed directly to 104 countries, most of which were classified as developing.) The proposal to create the Trust Fund originated from the US authorities in 1974, as a complement to their request for the IMF to set up another special facility to lend to oil-importing countries. It was of course strongly supported by the G24. That it took two years to bring the proposal to fruition was largely owing to controversies about the disposition of IMF gold and the exact list of eligible countries. Over the next four years, the Trust Fund made loans to 55 low-income countries at an annual interest rate of 0.5 percent and a 10-year maturity.

When the Trust Fund's resources were exhausted in 1981, the IMF closed it down despite the G24's appeal to find new funding and keep it open. Consequently, the Fund temporarily stopped making concessional loans. By 1986, however, as Trust Fund loans were being repaid, the IMF had to decide what to do with the reflows. At the April 1985 meeting of the interim committee, ministers were debating whether to recommend a new allocation of SDRs as a way to help countries with a shortage of liquid official assets. Realizing that the SDR proposal had no chance of succeeding, the minister of finance for India, V. P. Singh, suggested reactivating the Trust Fund as an alternative. His suggestion was quickly accepted by the committee.

³⁸ The term "transition country" is used in the IMF to refer to countries making a transition from central planning to a market economy. These were mostly new members of the IMF, having emerged from the Soviet Union or its sphere of influence.

Within a few months, the IMF responded with a somewhat more restrictive proposal that limited eligibility to a smaller group of very poor countries. It would require those countries to accept policy conditions prior to receiving loan disbursements. That facility was established as the Structural Adjustment Facility (SAF).

Like the Trust Fund, the SAF was a temporary fund, predicated on the mistaken view that low-income countries could be expected to overcome their payments difficulties within a few years. The SAF was supplemented a year later by the Enhanced SAF, or ESAF, which in turn was supplanted in 1999 by the Poverty Reduction and Growth Facility (PRGF). With the PRGF, the IMF finally had a permanent fund for lending to its poorest members on long-term concessional terms.

Further Evolution of Ad Hoc Groups, 1973–1999

Since its formation in 1972, the G24 has been the only group of developing countries focused primarily on international financial conditions and policies.³⁹ Its membership has undergone only minor evolutionary changes. Of the 24 original members (see footnote 15), eight of which were from each of the three regions, all but one have remained in the group. The Socialist Federal Republic of Yugoslavia, which was the only original member from Europe, ceased to exist as a country in 1992. After several years of discussion among the remaining members, no agreement was reached on a suitable replacement from among the developing countries in southern or eastern Europe. In 2000, the G24 admitted the Republic of South Africa in place of Yugoslavia.

Although East Asia has always been greatly underrepresented, China is a permanent special invitee at G24 meetings and contributes financially to the group's budget. Four other countries and several international organizations attend meetings as observers. In 2014, the G24 commissioned a review panel, chaired

39 For papers on the history of the G24, from which this paper has benefited, see Zaldúenda (1986), Henning (1992), Mohammed (1999) and Suárez Dávila (1999).

by Guillermo Perry Rubio (former minister of finance for Colombia), to evaluate the size and distribution of G24 membership.⁴⁰ To date, the main result has been the first expansion in the size of the group. In April 2017, the G24 admitted two new members: Haiti and Morocco.

The other ad hoc groups, representing industrial and large emerging-market countries, have undergone more substantive evolution.

The Group of Five

By 1973, the US government was becoming disenchanted with the G10. The group had begun as an informal collective of central banks with a limited stabilizing function, but it had taken an increasingly important role in succeeding years. When swap lines, the gold pool and the GAB failed to stabilize the Bretton Woods system of fixed exchange rates, finance ministries of G10 countries took the lead in discussions of deeper reforms. That work led to the creation of the SDR as a supplementary reserve asset, but that too failed to save the system. Finally, ministers and heads of central banks met at the Smithsonian to realign their exchange rates, a realignment that again met with failure. The G10 then acted more as a caucus within a broader committee as the C20 tried unsuccessfully to reform the system.

From the perspective of the largest country, the solution to this impasse seemed to be to organize an even *smaller* group that could discuss financial matters of mutual interest and propose solutions to the international community at large. To that end, US Treasury Secretary George P. Shultz invited the ministers of finance from France, Germany and the United Kingdom to a meeting in the White House library in March 1973, just days after the final collapse of the Bretton Woods system. For a second meeting in Nairobi, Kenya, that September, Shultz invited the Japanese minister of finance to join them, and the informal “library group” thus became the Group of Five (G5).⁴¹

The G5 was the most important grouping for the large industrial countries to discuss exchange

40 The other members of the panel were Homi Kharas (former World Bank official, then deputy director of the global economy program at the Brookings Institution) and Samir Radwan (former finance minister in Egypt).

41 For brief memoirs of these events, see Shultz (1993, 147-48) and Volcker and Gyohten (1992, 126; 134).

rate issues from 1973 to 1986. Ministers of Finance from those five countries met regularly before each meeting of the IMF's interim committee (on which they also sat), which were usually held semi-annually. In the spring of 1982, they began inviting the IMF managing director, then Jacques de Larosière, to participate in their meetings as a neutral and independent evaluator of current economic conditions and policy options. Major-country responses to the oil shocks of the 1970s, the exchange rate swings of the late 1970s and early 1980s, and the Latin America debt crisis that hit in 1982 were all discussed and organized in the context of the G5. Only when the discussion turned, in the mid-1980s, to the possibility of broader systemic reforms to stabilize exchange rates (discussed above) did the G10 move back temporarily to centre stage.

The G7 (and Sometimes Eight)

The limited membership of the G5 placed it in an awkward position vis-à-vis the general structure of global economic governance. Separately, the leaders of large industrial countries (heads of state and government) began meeting with a slightly larger membership. That "summit" process was initiated in 1975 by the president of France, former Minister of Finance Valéry Giscard d'Estaing. Giscard invited the leaders of the G5 countries plus Italy to a summit meeting in Rambouillet, France that November. The group decided to continue meeting annually, with the second meeting to be held in the United States. President Gerald Ford organized that meeting in San Juan, Puerto Rico, and he invited the prime minister of Canada to participate. For the next two decades, this G7 — the G5 plus Canada and Italy — held annual summit meetings, with the venues rotating regularly among the seven countries.

From the outset, the primary focus of G7 summit meetings was economic policy. The 1975 Declaration of Rambouillet opened with the statement that the leaders had "a searching and productive exchange of views on the world economic situation, on economic problems common to our countries, on their human, social and political implications, and on plans for resolving them."⁴² There was a surface logic to having the G5 ministers discuss exchange rate policies and the G7 leaders discuss broader economic policies. Canada and Italy were

important trading nations, but changes in their currencies did not have systemic implications.⁴³ Below the surface, the exclusions created political problems. Italian officials particularly resented being left out. More importantly, the G5/G7 split made it difficult for the deliberations of finance ministers to feed smoothly into the preparations for the summit meetings. Beginning with the Louvre meeting in February 1987, most finance meetings were also expanded to the G7.⁴⁴

The heyday of the G7 as the forum for discussions of financial policies lasted for about a decade. In 1997, the G7 leaders invited Russia to join their summit meetings, which then became the Group of Eight.⁴⁵ Finance ministers continued to meet primarily as the G7, but pressure was building for that group to expand even more and in other directions. Partly because of concerns in North America about excessive European influence in the G7 and partly because of a more general concern about the exclusion of a number of rapidly growing and systemically important countries, a larger steering committee had become imperative.

The G20

In April 1998, the US government convened a meeting in Washington of finance ministers of 22 countries: the G7 plus several of the larger members of the Asia-Pacific Economic Cooperation (APEC) forum and other large emerging market countries. For a brief period, the group called itself the Group of 22, but it was reconfigured slightly in 1999 to become the G20.⁴⁶

The explicit rationale for the selection of members in the G20 was that the G7 wanted "to establish a mechanism for dialogue among *systemically*

⁴² See www.g8.utoronto.ca/summit/1975rambouillet/communique.html.

⁴³ In June 1972, on the day that the United Kingdom abandoned the parity that had been set at the Smithsonian G10 meeting six months earlier, Nixon aide H.R. Haldeman tried to get the US president to focus on the implications for the US economy. When Haldeman noted that the Federal Reserve chairman, Arthur F. Burns, was worried about speculative pressures on the Italian currency, Nixon famously replied "I don't give a shit about the lira." (Full disclosure: he did not express any interest in the travails of the pound sterling, either.) For the transcript, see www.nixonlibrary.gov/forresearchers/find/tapes/watergate/wsp/741-002.pdf.

⁴⁴ These tensions are discussed more fully in Boughton (2001, chap. 4).

⁴⁵ The summit configuration reverted to the G7 in 2014 in reaction to Russia's annexation of Crimea.

⁴⁶ Leadership for expanding the finance group from the G7 to the G20 came largely from the Canadian Finance Minister (and later Prime Minister) Paul Martin, who became the first chairman of the larger group. For a brief history, see Kharas and Lombardi (2012).

important countries within the framework of the Bretton Woods institutional system” (G7 Finance Ministers 1999; emphasis added). It included all members of the G8, five large members of the APEC forum (Australia, China, Indonesia, Mexico and South Korea), six other large emerging market countries (Argentina, Brazil, India, Saudi Arabia, South Africa and Turkey) and the European Union as the twentieth member.

As soon as this group began meeting, it became the dominant forum for finance meetings at the ministerial and deputy levels. Several years later, in response to what was becoming a global financial crisis that would morph into the Great Recession, the leaders of large industrial and emerging-market countries would constitute the G20 at the summit level as well. The G7/G8 meetings continued, but their role in influencing financial policy was greatly diminished, simply because the smaller group excluded the dynamic emerging markets that had a legitimate demand to be at the table.

The Effect of the G20 on the Role of the G24

The creation of the G20 in 1999 was a major step forward in international financial governance. The previously dominant group, the G7, no longer included all or even most of the countries that had to be at the table if policy decisions on cross-border financial flows were to be implemented effectively. By including the faster-growing emerging markets and the second tier of industrial countries, the larger group incorporated all the key players. Although its greater size made it overly formal and unwieldy, it proved to be generally effective. When a global financial crisis hit in 2008, heads of state and government in the large advanced economies agreed to expand their summit meetings outward to the same configuration.⁴⁷

47 The first G20 summit meeting was held in Washington in November 2008. Leaders met semi-annually in 2009 and 2010, as the financial crisis unfolded, and then annually ever since.

Exclusion of Small Countries from Governance

Easily lost among these achievements is an important problem. Because the membership is small in number but large in economic and financial influence, the G20 has largely shut the smaller and poorer developing countries out of financial governance.

The G24 saw the problem coming. The East Asian financial crises of 1997-1998 had generated new thinking among emerging market countries about how to conduct intraregional surveillance over economic conditions and policies, set up new regional financing mechanisms, and more generally modernize the international financial “architecture.”⁴⁸ As part of that effort, the G24 finance ministers met “in extraordinary session” (outside of the usual cycle associated with IMF-World Bank meetings) in Caracas, Venezuela, in February 1998 to consider how to increase their influence in global financial governance. The communiqué for that meeting — issued as Caracas Declaration II — called for, among other things, setting up a “Task Force comprising industrial and developing countries.”

The intended goal of the proposed task force was to review the functioning of multilateral financial institutions and other aspects of international financial governance. One explicit goal was to be the “increased representation and participation of developing countries in the decision making organs of the international community to properly reflect developing countries’ growing influence in the world economy, including through the revision of the bases for determining the voting power in international financial institutions.”⁴⁹

After the Caracas meeting, Venezuelan officials led a behind-the-scenes effort to work with the G7 toward creating a comprehensive task force with adequate representation of developing countries. Although several meetings were held with G7 officials, the effort collapsed when the US government shifted its focus toward the large emerging markets, to the exclusion of the smaller countries in the G24. The announcement in the June 1999 summit communiqué that the G7 wanted to form a new group of “systemically

48 For a summary, see Helleiner (2001).

49 See www.g24.org/wp-content/uploads/2016/01/1998-fev-7.pdf.

important countries” was a clear signal to the smaller members of the G24 that they were about to become even more marginalized than they had been historically, unless they could depend on the large emerging markets to represent their interests.

In September 1999, just days before the G7 was expected to announce the formation of the new group, the G24 finance ministers issued an appeal to make it more inclusive: Ministers “are aware of proposals to establish informal mechanisms for dialogue between ‘systemically significant’ countries. Ministers stress that, in order for such mechanisms to gain ownership and representativeness, the choice of participants should take into account the constituency structure of the Bretton Woods institutions. They consider that such mechanisms should not undermine the role of the BWI’s Executive Boards and Committees as the appropriate fora for addressing the main issues facing the international monetary and financial system.”⁵⁰

This appeal included two key points. First, the reference to the “constituency structure” of the IMF and World Bank was a request for the emerging market countries in the G20 to be participating as representatives of groups of associated countries, not just themselves. For example, on the IMF executive board, the director from Brazil represents 10 small countries as well as itself. In principle, each of those countries (which range in size from Cape Verde to Ecuador) can express its views and assert its interests and concerns through the director’s office and chair. The hope of the G24 was that a similar constituency arrangement would be included in the G20.

Second, the communiqué was calling for a continuation of the primary role of the IMF and the World Bank for discussing and recommending changes in international financial policies. It was already difficult for the G24 to influence the evolution of the financial system against the preferences of industrial countries. If the G20 were to take effective control, it would be nearly impossible.

Both concerns proved to be prescient. The G20 has a constituency element, but it is limited to European countries. In addition to the four large EU members in the G20 (France, Germany,

Italy and the United Kingdom), the 24 smaller EU countries are represented as a group at all levels, including the G20 summits.⁵¹ The effective membership of the G20 thus covers 43 countries. The emerging market members, however, represent only themselves. When the G20 was formed, the five largest G24 members and associates — Argentina, Brazil, China, India and Mexico — accepted invitations to join.⁵² No mechanism was established for the excluded countries to participate or to bring their interest and concerns to bear through a constituency system.

The G20 has made efforts to overcome this imbalance. Representatives of the IMF and the World Bank attend G20 meetings as observers. That arrangement gives the heads of both Bretton Woods institutions an opportunity to promote the interests of excluded countries. The head of the G24 secretariat attends meetings of the G20 deputies. The G20 regularly solicits inputs from civil society, most notably through the think-tank forum known as the Think20 (T20). Although the T20 is limited to organizations from G20 member countries, it has a global focus, and its policy recommendations typically include items of great interest to the G24. On occasion, the G20 invites representatives of groups such as the African Union and APEC to attend meetings and provide input. Whether the cumulative effect of these initiatives is equivalent to direct representation in the G20 is debatable.

The second concern was that the G20 would assume control over decisions that otherwise would have been made in the IMF, and was also justified. Ever since the G24 came together in the early 1970s, it had been able to serve as a counterweight to the corresponding group of industrial countries. Even though the G10 (or, later, the G7 and its usual allies) controlled a majority of the votes in the IMF executive board and board of governors, the Fund always tried to develop a consensus as the basis for action. The executive board routinely modified G10 or G7 proposals to mould them to fit the global interest before accepting them. It often considered G24 requests as parts of broader packages. When pressed, as with the 1994 SDR proposal from the G7, the G24 could act as a blocking minority. This

51 The presidents of the European Council and the European Commission participate in summit meetings. At meetings of the finance ministers, the minister from the country that holds the rotating presidency of the European Union participates.

52 South Africa was also a founding member of the G20 in 1999. It became a member of the G24 the following year.

50 See www.g24.org/wp-content/uploads/2016/01/1999-sept-25.pdf.

Table 1: Voting Power in the IMF for Selected Groups of Countries

	In Board of Governors		In Executive Board	
	No. of Countries	Percent of Vote	No. of Directors	Percent of Vote
A. Advanced Economies and Emerging Markets				
G20, including all EU member countries	43	78.2	21	93.2
G20 member countries alone	19	65.0	–	–
G10 and allied countries	12	48.5	10	55.1
G10 alone	11	46.5	–	–
G7	7	41.3	7	43.6
B. Developing Countries				
G77	134	32.5	–	–
G77 outside of G20	129	20.2	–	–
G24 and allied countries	31	21.8	–	–
G24 member countries alone	26	14.1	–	–
G24 outside of G20	21	7.9	3	6.8

measure of influence, limited though it might seem, was undermined by the creation of the G20.

The problem created by the rise of the G20 is that it controls such a high portion of the voting power that it can practically ignore everyone else. A consensus within the G20 is a consensus within the IMF.⁵³ As summarized in Table 1, the 43 countries affiliated with the G20 hold 78 percent of the vote in the IMF board of governors and 93 percent in the executive board.⁵⁴ The 21 countries that are members of the G24 and are not in the G20 hold just eight percent of the vote in the board of governors and seven percent in the executive board.

53 The one exception to this point is that certain major decisions by the IMF require an 85 percent majority vote in the board of governors. For those decisions, the G20 (with 78.2 percent of the vote) would need the support of several other countries. If all or most of the 129 other members of the G77 (which hold a total of 20.2 percent) were to oppose the decision, it would fail.

54 The rules of the IMF do not permit vote splitting in the executive board. If one or more members of a constituency are in the G20, that constituency's director casts the votes of all countries in the constituency – usually for the G20 position – regardless of whether they all agree. Only three of the 24 seats are led by a non-G20 country (the Democratic Republic of the Congo, the United Arab Emirates and Iran). Each of those constituencies includes at least one member of the G24.

The G20 finance ministers routinely meet the day before each meeting of the IMFC and issue a communiqué that sets out the agenda that the group would like for the IMF to pursue. Once those priorities have been established by the G20, the IMFC has no practical alternative but to follow suit. In previous practice, an industrial country group such as the G7, and the G24 as the representative body of developing countries, would each meet and set out their preferred agendas, based on preliminary work at the staff and deputy levels. The IMF ministerial committee and the executive board would consider those positions and try to develop an acceptable compromise that could produce a consensus. Since the advent of the G20, the G24 ministers continue to meet and issue a communiqué (usually just before the G20 meeting), but there is no longer a meaningful procedure for consideration of the G24's views in the IMF as distinct from those of the industrial/emerging market group.

A third problem, which the G24 apparently did not foresee, is that the G20 split the G24 into two distinct subgroups: the relatively large and economically advanced countries that are in the G20 and the relatively small and poor countries that are not. The countries in the first subgroup naturally

see themselves as emerging-market peers of the industrial countries, not as representatives of the wider developing world. Since 2006, the five largest emerging markets have been holding summit meetings as a formal group, the BRICS.⁵⁵ That group has its own agenda centred on integrating its members more fully into the world of advanced economies. It devotes only passing attention to issues affecting primarily the poorer countries. This deep split between larger countries in the G20 and the smaller and poorer excluded countries has made it even more difficult than before to reach consensus within the G24 on contentious issues.

In the absence of a clear consensus on policy issues of vital interest to developing countries, G24 communiqués have evolved into general descriptions of global economic conditions and vague policy prescriptions. Whereas communiqués in the 1970s usually focused on specific policy demands, more recent documents are mostly diffuse. The April 2017 communiqué, for example, has three main sections, on “managing growth under global uncertainty,” “financing for development,” and “reforming the Bretton Woods institutions.”⁵⁶ Most of its policy prescriptions have the nature of endorsing directions that the IMF and World Bank are already taking (for example, “support countries’ efforts in achieving inclusive growth”; “minimize fears of perceived stigma attached to IMF facilities”; “broaden the role and use of [SDRs] as a reserve currency”). Even the specific requests for change come with caveats, driven by the diverse interests of the G24 membership: “We reiterate our longstanding call for a third Chair for Sub-Saharan Africa [on the IMF Executive Board], provided that it does not come at the expense of other [emerging market developing countries’] Chairs.”

Successes Remain Possible: The Increase in Basic Votes

This largely negative situation does not imply that progress is impossible. In 2002, as the IMF began work on the Twelfth General Review of Quotas, the G24 began lobbying for a shift in voting power

in the IMF toward developing countries, focusing in particular on an increase in “basic votes.”

Basic votes are an obscure but important element of IMF governance, without which small countries would have no meaningful role. In the early planning for Bretton Woods, the US negotiator, Harry White, proposed that each member country should have a fixed number of votes in the institution that became the IMF, supplemented by extra votes depending on the size of its financial contribution. These fixed or basic votes would have amounted to almost 30 percent of the total voting power.⁵⁷ White’s proposal for a balance between the Westphalian principle of equality among countries and the financial principle of economic dominance got watered down substantially in the subsequent negotiations. The final outcome at Bretton Woods limited basic votes to around 11 percent of the total.

The Bretton Woods decision on basic votes was deeply flawed because it mistakenly fixed the number of basic votes (250 per country) instead of the percentage relationship. Increasing the number would require amending the Articles of Agreement, which would demand a majority approval of 85 percent of the voting power. Once the IMF was in operation and quotas were increased repeatedly in response to growth in the world economy, the role of basic votes fell dramatically to a low of just over two percent by the turn of the century. If small and poor countries were to recover any meaningful influence in IMF governance, a reversal of that trend was essential.

The G20 — and hence the IMF — initially showed little interest in the declining voice of the excluded countries. The IMF’s first report on the twelfth quota review in 2002 noted that “an increase in the number of basic votes...has been considered, although some have cautioned that care should be exercised to ensure voting power is sufficiently linked to member countries’ relative economic and financial importance.... [A] consensus...does not presently exist.”⁵⁸ As late as October 2005, the G20 was still insisting “that the governance structure of the [IMF and World Bank] — both quotas and representation — should reflect... changes in economic weight.”⁵⁹ The fast-growing

55 The acronym (with a lowercase “s”) was coined in a Goldman Sachs report in 2001 to refer to Brazil, Russia, India and China. The formal group expanded to include South Africa in 2011, and the acronym became BRICS.

56 See www.g24.org/wp-content/uploads/2017/04/G24-Communique-2017-April_FINAL.pdf.

57 US Department of the Treasury (1943, 2).

58 IMF (2002, para. 15).

59 G20 (2005, para. 4).

emerging markets should be rewarded. No mention was made of other developing countries.

The G24 made an initial appeal in its communiqué of April 2002, stating simply that the “number of basic votes should be increased.”⁶⁰ It gradually made that appeal stronger and more specific. In September 2002, ministers called for a “substantial” increase. A year later, they noted that basic votes should be “substantially increased to restore their original role.” In 2005, they ventured that the increase in basic votes should be large enough “to at least restore their relative importance to what it was at the inception of the IMF”; in other words, to at least 11 percent of total votes.

The IMF gradually acceded to these demands, though only in part. By 2003, the executive board gravitated toward a package deal that the staff recommended, in which quotas would be substantially increased and an amendment to the IMF Articles would be proposed to increase basic votes.⁶¹ The net effect would be only to lessen the continuing worsening of voting shares of small countries, but at least it would offer some relief.⁶² Still, little progress was made until 2006. That September, during a meeting in Singapore, the board of governors of the IMF adopted a resolution asking the executive board to devise a set of reforms within two years. Two months later, the G20 finally endorsed the idea of raising basic votes. The IMF staff prepared a draft amendment, which was approved by the governors in 2008 and which became effective in 2011.

The 2011 amendment provided for an immediate tripling in the number of basic votes, from 250 to 750 per country. More importantly, it locked in the ratio of basic to total votes, at 5.6 percent of the total. That ratio was only half what the delegates approved at Bretton Woods and about one-sixth of what Harry White proposed in 1943. Though perhaps a small achievement, it nonetheless demonstrated that persistent attention to a strong case could bring success.

60 The G24 had occasionally taken up the cause earlier, to little effect. Its 1984 “Revised Program” called for increasing voting share of developing countries to 50 percent and recommended that “consideration *might* be given to ... an increase in basic votes” (IMF 1985, 77; emphasis added). Its April 1997 communiqué noted that a “review of basic votes was long overdue.”

61 IMF (2003, 60).

62 See Kaya (2015, 146–50).

Conclusions

It is a daunting task for the G24 to have a significant influence on the evolution of the IFS, for three reasons.

First, developing countries are in a decidedly secondary position because the governance of the financial system is based on income, trade and financial values. Developing countries constitute a large majority of all countries and are home to a majority of the world’s population, but by definition they have relatively low-income levels, and they account for only a small portion of world exports and financial flows. To have a voice, they must “punch above their weight” and overcome their small share of voting power in the global financial institutions.

Second, the bicameral nature of financial governance that has evolved throughout the postwar period mitigates against developing countries. One chamber consists of the formal treaty-based organizations, principally the IMF and the World Bank, in which countries participate according to a defined hierarchy reflecting their economic size and weight. The other chamber consists of the self-selected ad hoc groups that have arisen in ever-shifting form since the 1960s. The existence of groups of large industrial countries with high voting power has forced developing countries into a defensive and reactionary position.

Third, the formation of the G20 in 1999 and the subsequent formation of BRICS split the developing world into two distinct subgroups: large emerging markets, which are members of the G20, and all the others that are not. Without the large emerging markets, the others have little realistic chance of influencing the outcome of contentious debates.

Adding to these challenges is the fact that the G24 has a very limited institutional structure, with inadequate funding. Its annual budget is well under one million dollars. Its secretariat consists of two people working out of a small suite of offices at the IMF headquarters in Washington, DC. Its executive committee (the Bureau) has an annually shifting membership and lacks the consistency that would help it formulate and press for meaningful changes in policies. Ministerial communiqués tend to be too anodyne to have much impact.

On the positive side, the G24 has natural allies in the IMF and the World Bank, even if the rhetoric on this subject often suggests otherwise. Whereas the purpose of all the advanced-country groups is to take control of the agenda away from the Bretton Woods institutions and use the institutions just to implement their agenda, a purpose of the G24 is to resist that effort and empower the institutions to act in the global interest and not just in the interest of the more advanced economies. The successful efforts of the G24 in the 1970s to shift the IMF toward lending programs that are better suited to the needs of poor countries was eagerly endorsed by IMF management. More recently, when the IMF was lending almost exclusively to developing countries, the institution took several important steps to overcome some of the long-standing flash points that were making countries reluctant to ask for help. Those steps included the adoption of more flexible guidelines on policy conditionality, the creation of a lending window expressly for countries with strong policy track records, and strengthening of facilities for concessional lending and debt relief. Although tensions remain, the G24 has potential to promote a furthering of a positive trend.

More generally, it is in the global interest for the system to evolve toward more inclusion. The rationale for the existing system in which the G20 has a controlling role is that voting power reflects the relative importance of countries in the world economy and in international trade and finance. The members of the G20 account for about 85 percent of world output, and 75 percent of international trade. The fact remains that the interests and concerns of that group do not necessarily coincide and may collide with those of the other 150 or so countries in the world. There are at least three rationales for a more inclusive process.

First, all countries are affected by developments in the IFS. As a simple matter of fairness, all countries should have an opportunity to participate in decisions affecting them.

Second, the system is effective only if all countries have an incentive to cooperate and to adhere to the “rules of the game.” That incentive depends in large part on whether each group of countries has an opportunity to help shape the rules and the way the rules are implemented. That concept was the driving force behind the Bretton Woods Conference and the creation of the modern IFS in 1944. Even if many of the invited countries played

a mostly passive role at the conference, the fact that they had the opportunity to participate was an important reason that almost all of them became part of the system once it was in place after the war.

Third, the system itself becomes unbalanced when it is designed primarily to serve the interests of one group to the exclusion of the other. The persistence of extreme poverty and of broad differences in economic opportunities between groups of countries is a drag on economic progress throughout the world, as emphasized in the epigraph by Sidney Dell at the beginning of this paper. In the context of the IFS, the G24 has advocated recently for issues such as support for producers of primary commodities and the use of SDRs for financing development. They have fought for help in fostering economic and financial linkages among developing countries; concessional financing to help poor countries meet the goals of the Paris Climate Accords; respect for the views of heavily indebted countries in efforts to avoid and resolve financial crises; and realignments of voting power, and representation of small and poor countries in the multilateral financial institutions. These are all issues that will be underappreciated and inadequately addressed as long as the IFS is effectively controlled by large and relatively advanced countries.

A start toward alleviating these shortcomings could be for the G20 to incorporate the G24 more fully into its own processes. At present, the G24 secretariat is invited to participate as an observer at meetings of G20 deputies, but the group is not represented at ministerial or summit meetings. Elevating that relationship, so that a senior G24 official could have a seat at the table when G20 finance ministers meet would help elevate the voice of developing countries.

A more complete solution might involve expanding the constituency structure of the G20. At present, the twentieth member of the G20 is the European Union, which represents all 24 EU member states that are not otherwise in the group. In a comparable way, the G24 could be invited to become a twenty-first member (or a twentieth member in place of one of the emerging market countries currently in the group). In the same way that small European countries that are not “systemically significant” by themselves can participate as part of the European Union, small developing countries could be recognized as systemically significant *in the aggregate* and thus deserving of a seat. Alternatively,

some or all of the countries that currently are in both the G20 and the G24 — Argentina, Brazil, China, India, Mexico and South Africa — could transform their roles to include speaking for a constituency of smaller developing countries.

Either of those solutions would require a shift in the culture and structure of both the G20 and the G24. Such a shift is probably not realistic in the near future. A third option would be for the formal multilateral institutions to reassert their central role at the apex of the system by integrating the informal groups more directly into their own governance. That shift might involve merging the G20 into the IMFC and the development committee (at the ministerial level) and the executive boards at the deputy level.⁶³ Rather than meeting first as an informal group and then almost immediately afterward as an only slightly more inclusive one, ministers (who in most cases are also governors of the IMF or the World Bank, or both) would meet only once in the more formal and treaty-based configuration. Instead of the G20 and G24 finance meetings being prepared separately by their deputies (many of whom are executive directors in one or both of the Bretton Woods institutions), meetings of the merged committees would be prepared in the institutions by their executive directors. To be effective, this option would have to include a lessening of the formality that has tended to ossify meetings of the IMFC and the development committee.

In the late 1990s, the IMF, with help from the French government, tried — as the G8 was beginning to look toward creating the G20 — to reassert its position by converting the interim committee into the council. The French minister of finance, Dominique Strauss-Kahn (later the managing director), initially proposed the idea in April 1998 as a way “to enhance the legitimacy of the Fund.” IMF Managing Director Michel Camdessus jumped on board and promoted the proposal at the G8 summit meeting that fall. The interim committee endorsed it soon afterward. When the executive board took it up, many directors — mostly, but not entirely from developing countries — opposed it as unnecessary and as a potential threat to the powers of the executive board. All that came from a year of

effort was the transformation of the interim committee into the IMFC, as discussed above.⁶⁴

None of these solutions is likely to be taken up in the next few years or in the absence of an institutional crisis. The lack of interest among the large countries derives in part from a natural desire to preserve the status quo in which they have the dominant role and partly from the demonstrated weaknesses of the G24 as a potential partner. In the meantime, the G24 could enhance its effectiveness by engaging more directly with other associations of developing countries, including the several new regional development banks, to leverage their growing influence. The conclusion remains, though, that until more substantial changes are made, the shortcomings in the IFS regarding fairness, effectiveness and global balance will continue.

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⁶³ For a discussion of this possibility, see Knight (2014).

⁶⁴ See Boughton (2012, 870–73).

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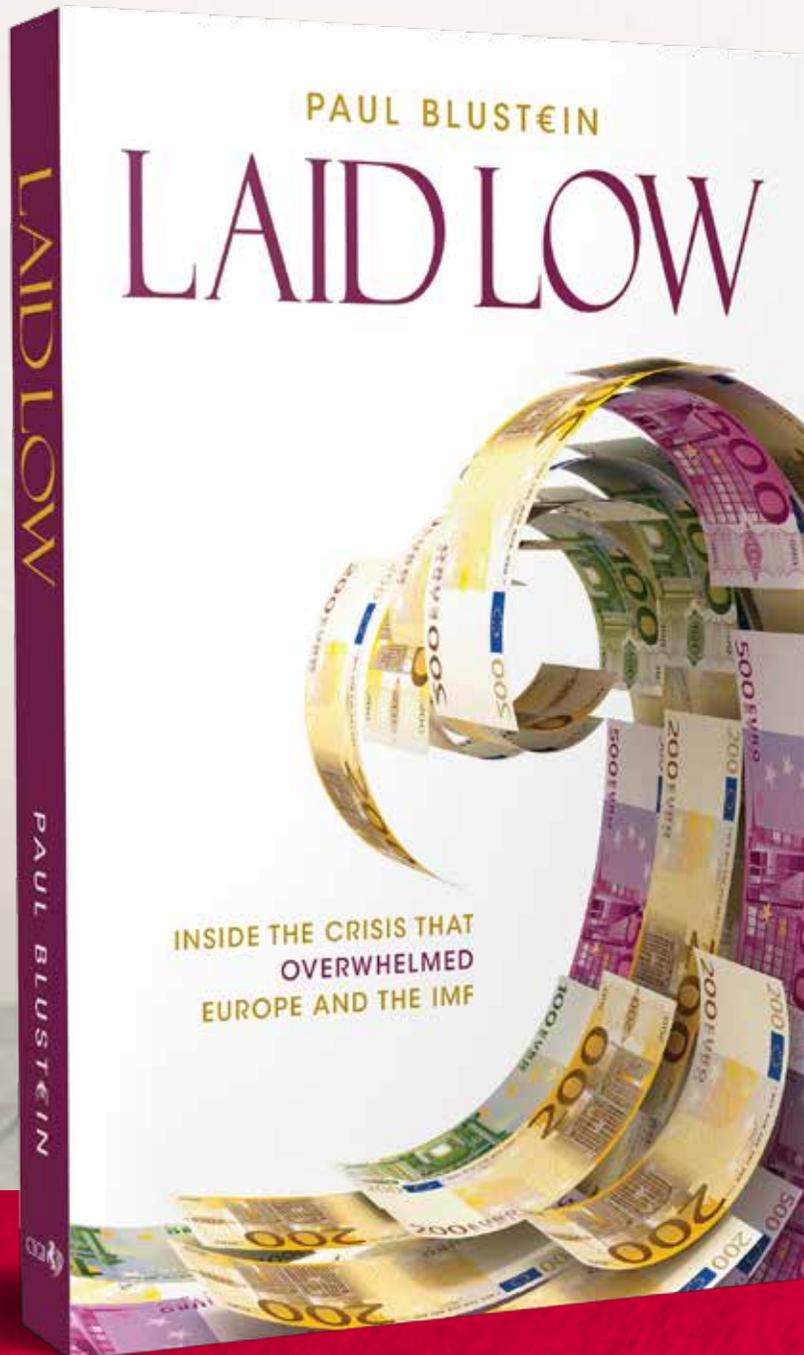
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Laid Low Inside the Crisis That Overwhelmed Europe and the IMF

Paul Blustein

An absorbing account of the world's financial firefighters and their misadventures in the euro zone. The latest book by journalist and author Paul Blustein to go behind the scenes at the highest levels of global economic policy making, *Laid Low* chronicles the International Monetary Fund's role in the euro-zone crisis. Based on interviews with a wide range of participants and scrutiny of thousands of documents, the book tells how the IMF joined in bailouts that all too often piled debt atop debt and imposed excessively harsh conditions on crisis-stricken countries.

Reviewers have lauded Blustein's previous books on financial crises as "gripping," "riveting," "authoritative" and "superbly reported." *The Economist* said his first book "should be read by anyone wanting to understand, from the inside, how the international financial system really works." This is all true in *Laid Low*, where Blustein again applies journalistic skills and methods to recount the biggest and most risk-laden crisis the IMF has ever faced.

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