REPORT ON THE CIVIL SOCIETY (FOURTH PILLAR) CONSULTATIONS WITH THE INTERNATIONAL MONETARY FUND on REFORM OF IMF GOVERNANCE

Coordinated by
New Rules for Global Finance Coalition[1]

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Preface

This document responds to the request of the IMF's Managing Director to New Rules for Global Finance Coalition, to present a summary of civil society[3] recommendations on IMF Governance Reform. This input constitutes the fourth "pillar" of a process of gathering input: the first pillar was the report of the IMF Independent Evaluation Office on IMF Governance (IEO, 2008); the second pillar was the report of a Committee of the Board, headed by Mr. Thomas Moser, Executive Director representing the Constituency of Switzerland (Board Working Group, 2008); and the third pillar was the report of the Committee of Eminent Persons on IMF Governance Reform chaired by Mr. Trevor Manuel, then Finance Minister of South Africa (Manuel, 2009).

This is the second of two papers produced through the fourth pillar process. The first, written by Jo Marie Griesgraber, Executive Director of New Rules, is a summary of recommendations, and was submitted to the Executive Board prior to its July 21, 2009 discussion of IMF Governance Reform. Like the first paper, this one is also derived from consultations with representatives of CSOs actively participating in the fourth pillar process (see: www.thefourthpillar.ning.com). Additional input for this paper comes from six videoconferences with civil society participants from academia, NGOs, and the private sector, in: 1) Nairobi and Johannesburg; 2) Lima and Montevideo; 3) Mexico City and Buenos Aires; 4) Bishkek and Almaty; 5) Ghana; and 6) Jakarta and New Delhi.[4] In most cases the cities were self-selected by CSO participants offering to coordinate interested colleagues in their respective city.

This document summarizes the thrust and scope of the consultations on the IMF coordinated by New Rules with the aim to formulate recommendations that form a common floor for CSO demands in terms of IMF reforms. It was compiled and summarized by Domenico Lombardi, President of The Oxford Institute for Economic Policy (OXONIA), Oxford (UK), at the request of New Rules. Its principal audience is the Executive Board of the IMF. It seeks to consolidate the views and recommendations that surfaced through submissions to www.thefourthpillar.ning.com, discussed during the six videoconferences, and to a lesser extent, emailed directly to New Rules or to Dr. Lombardi. (Obviously not every good idea is incorporated herein, and we apologize for inevitable omissions.[5]) Whereas the first paper focused on short-term governance reforms, many of which are possible within the existing IMF Articles of Agreement, this paper discusses many of those same recommendations in greater detail, and

[3] See paragraph 6 for the definition of civil society used throughout the report.

[4] More details about the videoconferences are available in the Appendix to this document. New Rules wishes to thank IMF translators, CSO liaisons, and technical people in-country for their investments of time and energy to realize these videoconferences. The transcripts are available on

[5] For example, 1) that decentralization would enhance accountability to affected peoples and national parliaments (IDASA); and 2) that the practice of revolving door appointments between governments and IMF positions, whether staff or Board positions, should be accompanied by a "cooling off" period between appointments to reduce the likelihood of special treatment in institutional decisions (transcript from Lima and Montevideo videoconference).

explores some of the significant additional reforms needed to transform the IMF into the institution the 21st Century financial system requires.[6]

It should be noted that every videoconference participant insisted on the centrality of holding the IMF accountable for policies and the conditions that accompany IMF programs in borrowing countries. The issue of conditionality may appear to be beyond the parameters of the IMF's normal understanding of "governance"; accountability for the consequences of conditionality is not.

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6 See, for example, submissions by Barry Herman; Anthony Elson; Daniel Bradlow at http://www.thefourthpillar.org/, and Center of Concern, Rethinking Bretton Woods, 1994, with resulting 5 volumes co-edited by Jo Marie Griesgraber and Bernhard Gunter (Pluto Press: 1994-1996).

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Executive Summary

S1. The report aims to summarize the scope and breadth of the consultations held by civil society with the IMF on the current issues of IMF reform under the so-called "fourth pillar." The IMF managing director asked New Rules to coordinate these consultations, with the technical support of the Fund External Relations staff. Feedback has been gathered by means of an independent website; through the use of extensive email lists; and through a number of video conferences with civil society organizations in various regions of the world. An independent scholar has then been asked to report on the consultations.

S2. The key messages emerging from the consultations are that the IMF is to be held responsible for its own decisions and actions (accountability), and that its policies and programs must be fully understood by all citizens (transparency). The report summarizes the consultations by focusing on reforms aimed at strengthening the inclusiveness of the Fund's governance framework, of its own accountability, and, finally, of its policy framework.

A. Inclusiveness of IMF Governance

S3. Participants underscored that the current distribution of voting power within the institution is not reflective of the new economic world order, thereby posing a serious legitimacy issue. The asymmetric allocation of voting power within the membership relies on criteria that favor advanced over developing economies. Greater inclusion of PPP GDP, population and netting out international trade flows across members of a single currency area would produce more balanced outcomes.

S4. Asymmetries in the distribution of voting power are amplified by quotas serving as the metrics for acceding to IMF finances, by the current majority rules, and by skewing the allocation of executive board chairs towards advanced economies. Thus, developing countries that might need IMF support most are constrained by the size of their respective quotas (with the exception of access under the newly-established Flexible Credit Line). Majority rules act to further amplify the decision-making power of the most powerful members. Simple majority is needed for most of the decisions—including the election of the managing director. Even when supermajorities are required, far from protecting smaller members, they provide the largest shareholder with blocking veto. Finally, the imbalanced distribution of voting power skews representation on the executive board in favor of advanced, mainly European, countries.

S5. Stakeholders stressed the difficulty of interacting with their respective executive directors. This partly reflects the opaque process typically followed in designating executive board members, which biases the selection towards those candidates who have little or no incentive to meaningfully engage stakeholders. Even when expressly asked during the videoconferences, not a single participant managed to mention his or her country representative by name.

S6. Practices followed so far in the election of the managing director and of his deputies are inconsistent with the multilateral nature of the institution and challenge its legitimacy.

The election or appointment of the IMF senior management should be with no restriction as to the nationality of the candidates. It ought to be based on a thorough job description and a list of high professional requirements, as it should be with the appointment or election of the executive directors.

B. Accountability of IMF Governance

S7. The executive board has never been evaluated despite its central importance in the institution's decision-making. The board of governors has ceded all the powers it could to the executive board but has fallen short of overseeing its effectiveness. The board of governors, moreover, has not set any professional standards for the appointment or election of executive directors, on the basis of which the latter can be meaningfully assessed.

S8. Participants from smaller countries noted that there is no role for their authorities in actively contributing to the formulation of their constituency position. In multi-country constituencies, there is less scope for holding executive directors accountable to their member countries. This is due to the sheer size of the constituencies themselves and to the greater incentive for the director to be responsive, at least potentially, to his nominating authorities, in the absence of a constituency-wide mechanism of accountability.

S9. The duality of the managing-director position as chief operating officer and chairman of the executive board poses relevant challenges in clarifying respective accountabilities. It mixes the two very different roles of execution (management) and supervision (board of directors). This duality is further amplified by having management chairing some board committees as well as having the IEO reporting to the executive board.

S10. Transparency is applied unevenly across the institution. Participants underscored that they were not able to get hold of executive board proceedings within a reasonable time lag. This was cited as undermining any serious effort of engaging their respective executive directors as stakeholders are in not in a position to know what their respective representatives have stated in, and how they contributed to, board deliberations.

S11. The IMF does not have, with a few exceptions, formal operational policies and procedures publicly disclosed. Yet, over time, the scope of IMF operations has widened and so too has the need for involving stakeholders, beyond the restricted circle of central bankers and senior finance ministry officials, who know and understand the institution well. For the interaction with the broader stakeholder community to be meaningful, it is essential for the latter to understand and predict how IMF officials respond to a given circumstance.

C. IMF Policies

S12. Asymmetries in the Fund governance negatively hinges on developing country ability to tailor the institution's policies to their needs. Participants noted that powerful shareholders have, in the past, unduly affected IMF policies and programs. The reputational damage occurred to the Fund may have been avoided through stronger accountability and more inclusive decision-making.

S13. Some participants discussed recent changes to the IMF policy framework noting that they go in the right direction. They added, however, that the modernization of the IMF policy framework can be far-reaching and sustainable only if the institution changes its narrow economic-policy thinking. The design and implementation of reform programs should be underpinned by impact analysis of recommended reforms on the poor and should rely to a greater extent on stronger political economy skills held by the IMF staff. Indeed, broader inclusion of key stakeholders—through a genuinely participatory approach as opposed to efforts aimed at marketing policies that are pre-determined—would benefit consensus-building around a program of reforms, thereby facilitating its successful implementation.

Key Recommendations

S14. The discussions held under the fourth pillar have resulted in a number of recommendations to the IMF. Such recommendations should be viewed as a common floor for civil society's demands in terms of IMF reforms. Inevitably, there were those who would have liked to go further in terms of the nature and scope of reforms demanded, but the following proposals should be taken as indicative of the thrust of the discussions held throughout the consultations.

A. Inclusiveness of IMF Governance

1. **Quota System.** *The new quota review due to start soon should achieve a balance in terms of an approximate parity in the distribution of voting power between advanced and developing economies. Quotas should be delinked from access to IMF finances, which should be based upon a country's balance-of-payments need.*

2. **Executive Board Representation.** *The new quota review should prompt a reallocation of the chairs of the executive board. Building on their institutional integration, European countries should pool their representation so as to enable members from under-represented regions to thoroughly contribute to the deliberations of the executive board. Representation should be enhanced by having all the chairs elected so as to reduce the current size of multi-country constituencies.*
   Country authorities should disclose to the public the criteria followed in designating executive directors. Such criteria should rely on a thorough job description and a list of high professional requirements. The appointment or election process, moreover, should be transparent by engaging civil society through open consultations.
   Constituencies should put in place stronger mechanisms of accountability to facilitate the meaningful engagement of all their member countries in the constituency's own decision-making.

3. **Majority Rules.** *The introduction of double majority voting should be considered in order to address the gap in legitimacy resulting from the current voting system, while preserving the interest of the main contributors to the institution.*

4. **Ministerial Council.** *The Council should be established only after addressing the more fundamental problems in the Fund governance. Otherwise, there is a risk that the Council would amplify the existing sources of bias in the governance rather than reduce them.*

5. **Selection of the Managing Director and of His Deputies.** *The selection of the managing director and of his deputies should be based on a merit-based and transparent selection, without any restriction to the nationality of the candidates. As with the executive directors, the selection should rely on a thorough job description and a list of high professional requirements*

B. Accountability of IMF Governance

6. **Accountability of Executive Board.** *The board of governors should establish a committee with the sole responsibility of periodically overseeing reviews of the performance of the executive board. Periodic evaluations of the executive board should be carried out by independent external evaluators. Moreover, a self-assessment of the board should be facilitated by a committee of executive directors.*

7. **Relationship between Management and Executive Directors.** *The duality of the managing-director position as chief operating officer of the Fund and chairman of the executive directors should be clarified. The two roles should be ideally discharged by different persons. Alternatively, the executive directors should be allowed to meet in formal session as needed to discharge their oversight function upon the managing director and management.*
   To strengthen the accountability of the managing director, the executive board should establish a formal, periodic process of assessment of his performance, including through the use of outside expert advisors.

8. **Executive Board Committees.** *Committees should be increasingly relied upon as a way for the executive board to discharge its supervisory role. Management should not be allowed to chair any of such board committees.*

9. **Appointment of Secretary and General Counsel.** *The process for the appointment of the Secretary and the General Counsel to the executive board should be revised so as to ensure <u>joint</u> ownership from management as well as the executive directors.*

10. **Transparency.** *Documents related to executive board proceedings should become available to the public within a reasonable time lag (e.g. six months). Draft papers for executive board consideration should be disclosed ahead of board decision so as to allow stakeholders to provide input to their respective executive directors.*

The IMF should incorporate its policies and procedures in formal documents that can be disclosed. An independent mechanism should be available to which to appeal in case of non-disclosure of relevant documents.

11. **External Compliance Review Mechanism.** *The IMF should have formal policies and procedures approved by its executive board and disclosed to the public. The Fund, moreover, should institute formal mechanisms of accountability—for instance, in the form of an Ombudsman—to hold its officials accountable for compliance with its own formal policies and procedures.*

12. **Accountability and staffing.** *Changes to the narrow analytical and technical background of Fund staff are long overdue. Hiring policies should be overhauled by including profiles of candidates with expertise in political economy as well as policy implementation. An external council of experts should be established with the aim of ensuring systematic input from experts of diverse background, experience, and regional expertise.*

13. **IMF Staff: Whistleblowers.** *The IMF should establish a whistleblower protection policy for its staff as well as an impartial office that reviews retaliation complaints and enforces a protection-from-retaliation policy.*

14. **Evaluations by the Independent Evaluation Office and External Evaluators.** *The IEO should report to a Ministerial Council if/when established or, alternatively, to the IMFC. Internal evaluations by the IEO should be complemented by external assessments through independent outside experts to bring a "fresh pair of eyes" to the Fund's internal narrow culture and to bolster confidence of the stakeholder community that the Fund is willing to submit itself to external scrutiny.*

15. **External Mechanisms of Accountability and Relationship with the Global Governance Architecture.** *The IMF should become a more effective part of the overall UN-based system of global governance. The Fund and its member countries should, moreover, be subject to judicial processes in international law for their respective obligations.*

C. IMF Policies

16. **Policies and Governance.** *Participants urged the IMF to pursue reforms of its governance vigorously as this would enhance its ability to carry out even-handed surveillance.*

17. **Accountability for Analysis of Likely Impacts of Reforms.** *IMF advice and program design should be systematically underpinned by impact analysis of recommended reforms to the poor.*

18. **Recent Changes in the IMF Policy Framework.** *Participants welcomed the streamlining and simplification of conditionality but added that the modernization of the IMF policy framework can be far-reaching only if the institution changes its narrow economic policy thinking.*

    Changes to the low-income policy framework were also welcomed but participants emphasized the long-run sustainability of such changes through greater effectiveness of IMF advice and program design by allowing more genuine policy space and ownership.

I. Introduction

1. The increasing complexity of IMF-supported operations makes it crucial for the institution to understand the priorities of a broad range of actors and to have in place a well-functioning accountability mechanism in order for its operations to be "acceptable". The latter have moved beyond the narrow boundaries of temporary balance of payments support to encompass critical aspects of the policymaking process or broad macroeconomic programs in support of poverty reduction strategies, for which consultations with civil society are mandatory.

2. The IMF has expanded its interactions with a broader range of interlocutors, in the past limited to central banks and ministries of finance. The consultations undertaken by the Fund and summarized in this document have, on the one hand, provided the opportunity to gather feedback from civil society on the priorities for IMF reform. On the other, they have confirmed the increasing importance for civil society to develop a greater understanding of the institutional mechanisms underpinning Fund operations. This, in turn, requires that the Fund improve disclosure standards, mainstream its interactions and, more broadly, bring increased predictability to its consultations with stakeholders. To this purpose, the Fund needs to make its policies and procedures transparent by producing formal operational policies and procedures that can be disclosed.

3. Many stakeholders are from developing countries, which are underrepresented in the formal decision-making process of the institution. This strains the legitimacy of the institution and produces in those underrepresented a sense of disengagement from a debate to which they feel they cannot fruitfully contribute, but which deeply affect them. At the same time, the current international crisis points to the need for having in place a multilateral institution fully owned by the whole international community.

4. Against this backdrop, the IMF's Managing Director asked for civil society's[7] input on the current issues of IMF reform under the so-called "fourth pillar".[8] [9] The Managing

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[7] "Civil Society encompasses all individuals and organizations that are not governmental. Therefore, included are: grassroots groups, non-governmental organizations (NGOs), academics, think-tanks, individuals who do not presently work for any level of government or governmental organizations, and the private or for-profit sector," as from the terms of reference provided by the IMF for these consultations.

[8] The fourth pillar is described on the IMF's website: http://www.imf.org/external/pubs/ft/survey/so/2009/NEW062509A.htm. The other three pillars consist of the work already carried out by the IMF's own Independent Evaluation Office (IEO, 2008); the IMF Executive Board, which is examining proposals from a Working Group on IMF Corporate Governance (Board Working Group, 2008); and, finally, the Committee of Eminent Persons on IMF Governance Reform (Manuel, 2009).

[9] While it is the first time that the IMF officially *initiated* consultations with civil society on IMF governance reform, it is not the first time that such consultations *on* IMF reform take place. The Centre for International Governance Innovation, the New Rules for Global Finance Coalition, and Oxford University organized a cycle of consultations for the Latin American and Caribbean, African, Central Asian, Far Eastern, and Middle Eastern regions during the period

Director asked New Rules for Global Finance Coalition to coordinate these consultations, with the technical support of IMF External Relations staff. Feedback has been gathered by means of an independent website administered by New Rules through which CSOs submitted their views and relevant material; through the use of extensive email lists, for example, to invite feedback on draft versions of the two papers submitted to the IMF from the fourth pillar; and through a number of videoconferences with civil society organizations in various regions of the world.[10]

5. **This report—written by an independent scholar—aims to summarize the scope and breadth of the CSO feedback.** The key messages of all CSO participants, be they academics, think-tank scholars or NGO advocates, are that the IMF is to be held responsible for its own decisions and actions (accountability), and that its policies and programs must be fully understood by all citizens (transparency). The fourth pillar process took place after several reviews had been conducted inside the IMF itself, in the so-called G20 process where IMF reform has been the focus of a dedicated working group,[11] and through other initiatives fostered by independent institutions, NGOs, and scholars.[12] While this stream of initiatives—which culminated in the fourth pillar input—has by now produced a wealth of analyses and reflections, there is a unanimous feeling that the time is ripe for action.

6. **This report is divided into six parts.** Following this introduction, Section II lays out the most relevant components in the governance of a multilateral organization like the IMF; Section III reports views on the inclusiveness of the IMF governance and Section IV on its accountability; Section V summarizes the thrust of feedback on the Fund policy framework and, finally, Section VI concludes.

II. IMF Governance

7. **A multilateral institution, such as the IMF, relies on the cooperation of its member states to be effective.** To this end, its governance provides the framework through which

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from 2007 to 2008. These consultations brought together scholars, former policymakers, and senior officials of the regions concerned, who had been or were at the time involved with the IMF, to share their views on the future course of the institution (Lombardi, 2008a).

10 More details about participants in the video consultations are available in the appendix. The website used for the web submissions as well as for web discussions is: http://thefourthpillar.ning.com. At the time of writing the report, 188 civil society members were following the consultations through the website. Distribution of consultation materials was shared with the New Rules for Global Finance Database which includes more than 4500 email addresses of members of civil society.

11 Its report is available at http://www.g20.org/Documents/g20_wg3_010409.pdf.

12 Among them, the Peterson Institute for International Economics hosted an international conference and published an edited volume of the proceedings (Truman, 2006). The New Rules for Global Finance Coalition set up a High-Level Panel on IMF accountability (Panel, 2007). On the occasion of the G20 Summit of April 2nd in London, the Bretton Woods Committee produced a blueprint on IMF reform (BWC, 2009).

members are engaged and their expectations channeled. For their voices to be heard, however, two requirements need to be met:

1. The decision-making actors within the organization ought to have an incentive to listen to the members (inclusiveness).

2. Members ought to be able to ascertain whether, and to what extent, their desiderata have been taken into consideration by the organization's decision-making actors (accountability).

8. **Inclusiveness refers to a set of formal and informal arrangements underpinning the distribution of the institution's organizational power.** The former are codified in the institutional governance framework through, for instance, the distribution of the voting power, the allocation of executive board seats, and majority decision rules. The latter are all embedded in informal practices that, nonetheless, underpin institutional power-sharing among members, such as conventions followed in the selection of the managing director and his deputies, those followed in the appointment or election of executive directors, and other informal practices underpinning power-sharing within the various multi-country constituencies as well. Such arrangements may be skewed towards a subset of the membership thereby undermining the inclusiveness of an organization.

9. **Accountability refers to the ability to hold the organization—at its various hierarchical layers—accountable for its decisions and actions.** In turn, it presupposes the existence of a thorough evaluation system across the whole accountability chain, complemented by the timely disclosure of the relevant information needed by the broad membership—and stakeholders at large—to make their own assessments.

10. **Given the public nature of the IMF mandate, both elements underscore the criticality of the governance mechanisms.** Moreover, the two elements interact in the sense that the organization may be more accountable to those members who hold greater control of the institution. Still, they are described separately in the following sections for ease of exposition.

III. Inclusiveness of IMF Governance

A. Quotas

11. **Participants in the consultations stressed that the current distribution of voting power within the institution, heavily biased towards Western countries, is not reflective of the new economic world order, thereby posing a serious legitimacy issue.** With a handful of countries holding the large majority of the institution's decision-making power, the rest of the members are left as "policy-takers." Besides creating a sense of disengagement for the latter members, it generates a significant asymmetry, insofar as a minority of members (with a majority of votes) makes decisions applicable to the broad membership. That same minority may, however, unilaterally exempt itself from compliance due to the control it exerts over the institution's decision-making.

12. **Although many countries have been driven by the recent crisis to turn to the IMF for financial support, this should not be taken as implying that their concerns have dissipated.** Participants noted the progress made at the latest quota review endorsed by the board of governors in April 2008, but appraised the outcome as "symbolic"[13] and raised the need for aiming at an adequate rebalance that would achieve an approximate parity in voting power between advanced and developing countries, in line with the shift in relative positions in the global economy and the need to strengthen the voice of the poorest members.

13. **Participants in the consultations were cognizant that the allocation of voting power within the membership was endogenous to the criteria employed to estimate calculated quotas.** The inclusion of market-rate vs. PPP GDP, it was pointed out, favors advanced economies over developing ones,[14] whereas the inclusion of population would have the opposite outcome.[15] Accounting for international trade in computing the quotas of monetary-union members results in larger capital shares for such members than would otherwise be the case. Euro area countries are a case in point, as their pooled quota would be significantly reduced from the current aggregated quotas if intra-union trade flows were netted out.

14. **Participants expressed concern that the quota system represents the metrics for acceding to Fund finances.[16]** The latter should be based upon a country's balance-of-payments need. The current system presents an obvious tension in that countries willing and able to contribute more to the Fund in order to access its resources cannot do so, as an increase in their quota is not possible as it inevitably raises political implications due to changes in the voting distribution. This undermines the very spirit of a credit cooperative.

15. **Many participants welcomed the increase in the IMF resources achieved over the recent months, but urged that it be matched by greater institutional accountability.** They added that these resources would need to feed into a permanent quota augmentation to signal the sustainability of such an increase. Importantly, this would enhance the ability of the Fund's own governance bodies to independently decide the allocation and modality of implementation of such resources.[17]

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13 Boorman (2009).

14 The GDP variable in the current IMF quota formula is a blend of GDP at market exchange rates and GDP at PPP rates, with weights of 60 percent and 40 percent, respectively. According to IMF (2008), this blend variable is meant to strike a compromise between the role of quotas in IMF operations, whereby GDP at market exchange rates is more relevant, and the aim of quotas to provide a relevant measure of a member's weight in the global economy, for which GDP in PPP is a better indicator.

15 See Bryant (2008).

16 See, for instance, Oxfam (2009).

17 A proposal for call on the NAB by the managing director becomes effective only if approved by the NAB participants *as well as* by the executive board.

B. Executive Board Representation

16. **The distribution of quotas heavily affects the allocation of seats in the IMF policy-making body, the executive board.** About one third of the chairs are held by European countries, thus leaving little room for members from other regions to thoroughly contribute to the deliberations. Moreover, European constituencies have attracted a number of non-regional members through which they have managed to further leverage their voting power.[18] The proposal has been put forward to consolidate the euro area representation in a single seat, while another chair would represent the EU members not part of the euro area. This move is seen as essential to streamlining the composition of the board, increasing its agility, and providing significantly better representation of developing countries than is currently the case.

17. **Better representation of the broader membership is hindered by the current duality between those countries which appoint, by the Articles, their own representatives and all the others who have to join multi-country constituencies.** Among the former there are the US, Japan, Germany, France, and the UK, who enjoy the chair-appointing status. In addition to these five appointing countries, China, Russia and Saudi Arabia, *de facto*, enjoy the same privilege, being single-country constituencies.[19] The other 177 members have to form multi-country constituencies.[20] And so they have done, often resulting in country groupings of unmanageable size. The two African constituencies of over twenty members each are a case in point. They are not, however, a necessary by-product of the constituency representation system. In theory, a constituency could average about 8 members or less, by taking a rough average of the 185 members over the 24 chairs currently available. Having all the directors elected would allow greater flexibility in forming constituencies. At present, the 5 appointing chairs could not enter into constituencies, even if they wanted to.

18. **Current practices of appointment or election for executive directors are unclear, to say the least.** There are no job descriptions for the post of executive director. This is in stark contrast with the latest trends observed even in the central banking world—traditionally regarded as be closer to the IMF culture—where professional requirements are set and public bodies confirm that prospective candidates do fulfill them.[21] Recently, the report of a working group of

18 I thank James Vreeland for raising this point.

19 As their executive directors are formally elected—not appointed—, they cannot be dismissed at will by their authorities who, technically, have to wait until the next cycle of elections to remove them.

20 Kosovo, which was recently offered membership, will be formally represented as of the next general election of executive directors, which will take place some time in the summer of 2010.

21 The ECB requires that its board members "...be appointed from among persons of recognized standing and professional experience in monetary or banking matters..." (art. 109a Sec. 2b of the Treaty of Nice). Whether the candidates do meet such standing is a matter assessed by the European Parliament, whose specialized committee reviews the candidates proposed by the EU Council of Finance Ministers. Similarly, the UK has recently started to establish reasonably-detailed job descriptions for the members of the Bank of England's Court of Directors and for the external members of its monetary policy-setting body—the Monetary Policy Committee. In contrast with that of the ECB, the selection is public, as vacancies and their respective job descriptions are

executive directors from the World Bank (World Bank WG, 2008; 13) acknowledged that "…shareholders may find it beneficial to have a job profile for the posts of Executive Director and Alternate Executive Director, as a guide for their selection of Board members."

19. Appointments or elections are instead managed, with some exceptions, in closed circles, with no open consultations. This biases the selection towards candidates who have little or no incentive to meaningfully engage stakeholders. The latter, in turn, also know very little about their own country representatives and feel hesitant to engage him or her for fear of no responsiveness. It is emblematic that, even when expressly asked during the videoconferences, no participant managed to mention his or her country representative by name.

20. Participants did stress the difficulties of interacting with the executive directors representing their own countries. They pointed out the sheer size of their constituencies as an additional contributing factor, which makes it unfeasible for the concerned directors to visit their member countries as often as needed to build a meaningful relationship with the broader stakeholder community. Notably, this concern has been expressed also in countries which have had, at some point in the recent past, significant program relationships with the Fund.

C. Majority Rules

21. Another source of asymmetry in the institution's decision-making, as reported by participants, is the majority rule, which means a simple majority of votes is needed for most decisions. Combined with the skewed distribution of voting power, this acts to further undermine the legitimacy of the IMF. Incidentally, the election of the Managing Director, which also requires only a simple majority of votes, provides the legal underpinning to allow a few members to steer the whole selection process. Even when super majorities are required, far from protecting the less powerful members, they typically result in providing a single country, namely the US, which holds over 15 percent of the votes, with a blocking veto over decisions considered.

22. To address the gap in legitimacy resulting from the current voting system, while preserving the engagement of the main contributors to the institution, the introduction of double majority voting has been proposed.[22] In its simplest formulation, decisions would require the simple (or qualified) majority of members and the simple (or qualified) majority of weighted voting power. Applied to both the board of governors and the executive board, it would require, in the latter case, that executive directors cast votes based on the number of their appointing/electing countries and of the aggregate weighted voting power of their respective constituencies. While this principle is not entirely new to the IMF,[23] it creates stronger incentives for strengthening the legitimacy of a multilateral organization of 186 sovereign members.

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disseminated through the international press in order to garner interest from all qualified candidates, who are then interviewed by a panel. Finally, the appointment of the US executive director by the US Government needs Senate confirmation.

[22] See Bradlow (2006), Chowla, Oatham and Wren (2007) and Birdsall (2009).

[23] A double qualified majority of members and of their voting power is needed for amendments to the Articles of Agreement.

D. Ministerial Council

23. Tapping into the ongoing discussions on IMF reform, there were some civil society participants who acknowledged the importance of establishing a Ministerial Council with the aim to giving political impetus to the institution's governance.[24] They recognized that the IMFC has been unable to generate the political engagement of the size required to tackle global economic and financial challenges. Participants cautioned, however, against setting up a Council without first addressing the more fundamental problems in Fund governance (e.g. the asymmetric distribution of voting power, lack of intra-constituency accountability mechanisms). By giving decision-making powers to a Council before addressing the current asymmetries in the institution's decision-making, one risks amplifying the existing sources of bias in the governance framework rather than reducing them.

24. Its design could generate further incentives for member countries to engage in the issues pursued by the IMF due to the Councilors' ability to split their votes according to the member countries they represent. Incidentally, executive directors representing constituencies of member countries on the executive board lack this possibility, as they are required to cast their votes as a unit, making it easier for the dominant country(ies) to override the other constituency peers.[25]

E. Selection of the Managing Director and of His Deputies

25. The Articles and By-Laws do not set any requirement as to the nationality of the managing director, even though the appointment has invariably been awarded to a Western European. Moreover, the appointment as first deputy managing director has historically been awarded to a US national. These practices are inconsistent with the multilateral nature of the IMF and challenge its legitimacy by excluding *a priori* a large proportion of the membership from effective participation in a choice that is central to institutional direction.[26] Civil society has consistently and vigorously argued for a merit-based and transparent selection of the managing director and his deputies, without any restriction to the nationality of the candidates.[27]

26. The Articles and By-Laws do not set professional standards for the nomination of a candidate to the post of managing director. Before 2007, there had been no statement of the qualities and expertise that a candidate would need to possess. In 2007, some improvements were introduced by setting out a timetable for inviting nominations and interviewing the candidates and for setting a candidate profile, which, however, fell short of a proper job description.

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24 See Boorman (2009) and Oxfam (2009).

25 See Woods and Lombardi (2006).

26 See Kooymans (2007).

27 See, among others, Panel (2007).

27. While the election of the managing director is formally carried out by the executive directors, the perception is that the process *de facto* unfolds outside the board and is managed by key member countries themselves. Obviously, given the relevance of the appointment, a strong engagement by the capitals is to be expected and is even desirable. But to the extent that it makes the election of the managing director by the executive directors appear a mere formality, it risks altering the appropriate equilibrium in the relationship between the managing director and the executive directors themselves, insofar as the latter may not be perceived as having the necessary clout to exert the duty of "general control."

IV. Accountability of IMF Governance

28. Accountability provides the basis for legitimacy, that is, the ability of an institution to forge a broad consensus for its nature and objectives. It presupposes a set of actors who recognize their obligation to act consistently with accepted standards of behavior and the expectation that they will be sanctioned if they fail to do so (see Box 1). The definition does not lend itself to being easily operationalized in the context of multilateral institutions. Since they operate in the absence of global democracy, accountability is not immediately applicable to them.

29. The Fund's governance contains only general references to accountability, due to the narrow scope of activities of the original institution. As its focus has evolved and widened over time to encompass key areas of the policymaking process in member countries, the need for the Fund to be held accountable by its stakeholders has also expanded. This need for broader accountability, however, is hampered by the current governance framework, which is characterized by no clear delineation of responsibilities or greater accountability of the various governance actors.

A. Executive Board

30. The Articles grant all the power to the board of governors. The latter have, over time, delegated their powers, with a few exceptions, to the executive board. Yet, the board of governors performs no assessment of the executive board. There is one committee of the board of governors that deals with administrative issues concerning executive directors, such as the determination of their salary in a way that does not reflect an evaluation of their performance, either collegially or individually. The board of governors has never set any professional standard for the appointment or election of executive directors, on the basis of which the latter can be assessed. More broadly, the lack of accountability of the executive board has been acknowledged by the executive directors themselves in a survey conducted by the IEO (IEO, 2008).

31. In fulfilling their duties, executive directors assume a dual role of Fund official and representative of the member countries that have appointed or elected them. Thus, they should be regarded as owing loyalty to the Fund and their appointing or electing authorities alike. They are not, however, to be seen as mere "ambassadors" of their constituencies, since the fiduciary role of executive directors demands that they equally represent the interests of the Fund and of the membership as a whole.

32. **In multi-country constituencies with elected directors, there is less opportunity for directors to be accountable to national interests.** Rarely do most executive directors communicate their actions to their respective national parliaments. In country groupings, where a dominant member permanently holds the constituency chair, there is an even greater incentive for the executive director to, potentially, be more responsive to his nominating authorities than to the constituency overall, in the absence of a constituency-wide mechanism of accountability.

33. **Participants from smaller countries noted that there is no role for their authorities in actively contributing to the formulation of their constituency position.** This highlights, with a few exceptions, the general lack of satisfactory intra-constituency consultation mechanisms. Combined with the obligation of executive directors to cast their votes as a unit and the lack of transparency of board proceedings (see below), this drives a wedge between board representatives and their respective shareholders and stakeholders. Moreover, with the current practice, there is little possibility for a country to leave its own constituency. Any new ("rampant") constituency would likely crowd out one of the African groupings, which explains the unusual stability of country representation observed at the IMF in recent decades.[28]

34. **The executive board has never been evaluated.** Against this background, there have been proposals to arrange for the board of governors to establish a committee with the sole responsibility of periodically overseeing reviews of the performance of the executive board. Periodic evaluations should be carried out by independent external evaluators. Moreover, a self-assessment of the board should be facilitated by a committee of executive directors. The results ought to be included in the annual report that the executive board transmits to the board of governors.[29]These provisions, formulated to enhance the accountability of the IMF as a multilateral institution, are in line with corporate best practices.[30]

B. Relationship between Management and Executive Directors

35. **The relationship between the managing director and the executive directors is defined in broad terms in the Articles.** The managing director serves as the chief operating officer of the institution and is subject to the general control exerted by the executive directors. However, exactly what this general control entails is difficult to understand. The managing director is, moreover, chairman of the executive directors. By requiring the managing director to discharge a dual role, on the one hand, the Bretton Woods Delegates strove to promote the political neutrality of discussion among board members, possibly as a means of reducing the tension embedded in the dual role of executive directors. On the other hand, reflecting the

[28] A new, additional constituency accounting for more than 1.35 percent of the total voting power—that is, the lowest number of votes held by the African grouping currently chaired by Rwanda—would crowd out the latter constituency leaving its countries without representation.

[29] See Panel (2007).

[30] See Lombardi (2008b).

prevailing practice in the US corporate sector, they provided for a tight link between the preparatory and implementing stages in the institution's decision-making by requiring that the managing director also serve as chairman of the executive directors.

36. The duality of the managing-director position as chief operating officer of the Fund and chairman of the executive directors poses relevant challenges in clarifying respective accountabilities. As stipulated by the Articles, the managing director, in fact, has to lead board discussions on items for which he is responsible as head of the management. A duality such as this—according to current corporate governance best practice—is thought to weaken the system of "checks and balances" underpinning the governance of a large corporation.

37. To strengthen the accountability of the managing director, the executive board should establish a formal, periodic process of assessment of his performance, including through the use of outside expert advisors.[31] To this end, a board committee or committees should be established to design and conduct such periodic evaluations, and to provide input on the managing director's assessment of the performance of his management colleagues. Such regular assessment would presuppose a clearly-defined remit formulated by the executive board for which the managing director and management would be held accountable.

38. The challenges posed by the duality of the managing director's role are even more evident when it comes to evaluation, as the current framework mixes the two very different roles of execution (management) and supervision (board of directors). To take just one example of the conflict this structure creates, for an evaluation of the board to be meaningful, it should be set against a "strategic plan" developed by the same board at the beginning of the evaluation period. This, however, could prove challenging since the board itself encompasses management, and there is legally no "board" without management chairing it.[32]

39. Clarifying the different and conflicting responsibilities of the managing director's executive and supervisory roles would considerably strengthen the institution's accountability. Ideally, the responsibilities of leading the board and providing executive leadership should be assigned to two different persons, in line with recent developments in corporate governance. Alternatively, executive directors should be allowed to meet in formal sessions without management, as needed, to discharge their supervisory duties.[33] Executive directors would elect, from among themselves, the lead executive director who would chair the meetings.

40. Board committees have come to represent an increasingly important way in which the board discharges its supervisory role. In this light, the executive board should upgrade its committee structure by clarifying its supervisory nature. Consequently, only executive directors

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31 Panel (2007).

32 Article XII, Section IV, states that "[t]he Managing Director shall be chairman of the Executive Board." Executive Directors can meet as "executive board" without management only in a very few circumstances, for instance, when electing the managing director, dismissing him, or discussing issues related to his contract.

33 For a background discussion, see Lombardi (2008b).

would chair board committees, in line with corporate sector best practices.[34] The World Bank conforms to those practices.

41. **The Secretary to the executive board fulfills a critical role in shaping the nature of the relationship between executive directors and management. Yet, his appointment is, according to current practice, decided by management alone.** A more transparent and structured appointment process would need to be in place to reflect the Secretary's broad accountability to management as well as executive directors by ensuring that the whole executive board have ownership of the appointment. The World Bank has in place procedures that could be considered in this regard.[35] Similar considerations apply to the General Counsel’s role.

C. Transparency

42. **Transparency is essential to genuine accountability, whereby all stakeholders can access all relevant information and processes in a timely manner.** The IMF has become a more transparent institution, with most of its own policy documents published on its website. Its Archives provide important support to scholars and other interested parties. Throughout the consultations, however, it emerged that transparency has been applied unevenly within the Fund. Moreover, the Fund has not incorporated its policies and procedures into formal documents that can be disclosed. This represents a serious impediment to transparency, it was noted, as outsiders do not even know what should be disclosed.

43. **Documents related to executive board proceedings cannot be obtained within a reasonable time lag from the discussion to which they relate to.** Stakeholders from countries such as Argentina and the UK reported that they had requested the statements of their respective executive directors under their own countries' Freedom of Information Acts, but were denied access as, they were told, Fund documents cannot be disclosed by national administrations. Clearly, this affects the ability of stakeholders to reach out to their representatives at the Fund. In the words of one participant “How can we engage our executive director if we don’t even know what he says at the board?”

44. **The content and terms of program negotiations are often known only to a restricted circle of policy officials.** When negotiations are finalized, program documents may be disclosed only with the consent of the relevant country authorities. In those countries with shaky democratic foundations, it may still be the case that the relevant authorities object to their publication. Participants, however, noted that the IMF could exert significant leverage vis-à-vis those authorities, not dissimilar to what the international community has already done in other cases (e.g. transparency in extractive industries).

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[34] Some board committees, the budget committee for instance, are chaired by management. This represents one more case of overlap between executive and supervisory responsibilities.

[35] See World Bank (2008).

45. Participants urged the IMF to consider timely disclosure of executive board minutes and transcripts (e.g. after six months).[36] More broadly, the institution should operate under the general principle of the presumption of information disclosure. Exceptions should be based upon clear indication of harm that would result if case-specific information were to be disclosed, and an independent mechanism should be available to which to appeal for exemption. Moreover, documents should be accessible off-site through the internet, in contrast with the current practice that requires interested parties to come to Washington to consult the Archives.

46. Civil society has strongly argued in favor of the timely disclosure of draft policy papers. The disclosure of such papers should take place before decision by the executive directors so as to allow stakeholders to provide their comments and input prior to board deliberations. Papers should be translated in the language of the relevant member country so as to enable the greatest possible feedback.

D. External Compliance Review Mechanism

47. Administrative practices are an important way in which an institution can promote its own accountability. For this to be true, the institution as well as its external stakeholders must be able to determine whether the conduct of its officials conforms to the standards for measuring their performance. Such standards are defined in terms of operational policies, that is, the requirements that must be met in designing and implementing the institution's policies, and in terms of operational procedures, or how the institution's officials should make decisions and implement operations. An example of operational policies are the Guidelines on Conditionality, while the related guidance note constitutes an operational procedure.[37]

48. The IMF does not have, with few exceptions, formal operational policies and procedures. That is to say, there are no board-approved, generally-available documents that the public can use to appraise, for instance, how the IMF decides about whom to consult when designing programs, technical assistance missions or other forms of policy work. Operational policies and procedures, however, do exist in the form of memos from management to staff. They are typically not disclosed to the public and have not been approved by the executive board. World Bank operational policies and procedures are available on the Bank's own website.

49. Over time, the scope of IMF operations has widened and so too has the need for involving stakeholders, beyond the restricted circle of central bankers and senior finance ministry officials, who know and understand the institution well. For the interaction with the broader stakeholder community to be meaningful, it is essential for the latter to understand and predict how IMF officials should respond to a given circumstance. This is key to increasing public confidence and trust in the effectiveness of IMF work.

50. There are no formal mechanisms that stakeholders can rely on to hold the IMF accountable for its operational policies and procedures. This is in stark contrast with all the

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36 This point has also been made by IEO (2008).

37 See Bradlow (2009).

other multilateral financial institutions. At the World Bank, the Inspection Panel can investigate complaints from affected parties who claim that they were or are jeopardized in some way as a result of the Bank's (IBRD or IDA) failure to comply with the respective operational policies and procedures; the Panel may then issue a detailed report of findings to the executive board, and management develops an action plan to address the Panel's findings. At the IFC and MIGA, the Compliance Advisor Ombudsman monitors conformity with social and environmental operational policies and procedures. The establishment of an external compliance review mechanism at the IMF was proposed by Panel (2007).

51. **There is an urgent need to establish an independent accountability mechanism to bolster the confidence of stakeholders.**[38] This mechanism should be independent and activated by complaints from third parties. Some have urged that its focus should be limited to investigating compliance with an IMF set of operational policies and procedures. Others have proposed an Ombudsman.[39] This relatively informal and flexible mechanism would function as a problem-solver and an accountability mechanism, and would contribute to institutional learning.[40] The current IMF's Independent Evaluation Office should neither function as the independent body to review complaints nor as Ombudsman. As in other international financial institutions, the evaluation function should be kept separate from such activities to preserve its independence when evaluating policies, program, and operations on a strictly *ex post* basis.

E. Accountability and Staffing

52. **Changes aimed at diversifying the narrow analytical and technical background of its staff are long overdue.** Because the greatest challenge in carrying out reform programs often lies in their implementation, greater expertise of Fund staff in policy implementation is needed. Participants noted that Fund mission teams often come without an adequate knowledge of country conditions and with little awareness of the political economy constraints that policymakers face in such tough realities. This clearly hinges on the way the institution recruits its staff, namely the frequent hiring of young economists from Anglo-Saxon universities with no prior policy experience. But it is also related to the working method of the institution, which puts no premium on cooperation with local research institutions and local experts in producing country-relevant knowledge. That is why it would be important for the Fund to systematically access outside advice from a broad spectrum of opinions, that would test and, at times, contest, the internal analysis and knowledge. This could be done by establishing an external advisory Council of Experts to ensure systematic input from experts of diverse background, experience, and regional expertise.[41]

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[38] See Brown Weiss (2009).

[39] Obviously, that would be different from the Ombudsman Office which now exists for Fund staff and internal administrative issues.

[40] Bradlow (2009).

[41] Derviç (2009) and IEO (2008). Lord Stern has also made an analogous proposal.

F. IMF Staff: Whistleblowers

53. IEO (2008) found that protected arrangements for staff who report misconduct are lacking. Without credible protection from retaliation, staff members cannot safely report concerns about corruption, conflicts of interest and other ethical problems. The IMF should establish a whistleblower protection policy as well as an impartial office that reviews retaliation complaints and enforces a protection-from-retaliation policy. A new policy must be based on the accepted criteria for credible whistleblower protection at the inter-governmental organizations. Specifically, provisions must comply with international best practices for protected internal and external reporting, legal burdens of proof and guaranteed employment/reinstatement for whistleblowers who successfully contest retaliatory demotion, discipline or dismissal.[42]

G. Evaluations by the Independent Evaluation Office and External Evaluators

54. Evaluation is a powerful instrument of accountability. It offers evidence that the institution is doing its best to discharge the mandate delegated by its shareholders and the broader stakeholder community. It is instrumental in promoting a culture of "constructive interaction" and helps build awareness of the functions and roles of various positions within an organization. Evaluation is increasingly relied upon in the corporate and non-profit sectors. The IMF established the IEO in 2001 to institute a mechanism independent from management to assess compliance and effectiveness of its policies, programs and operations.

55. While formally independent from management, the IEO reports to the executive board, which is chaired by the institution's senior management. In theory, this may cast doubt on the actual independence enjoyed by the IEO in discharging its essential function. Moreover, in the current setup, the IEO reports to the same body—the executive board—that assumes operational responsibility for the policies, programs, and operations that the IEO is called to evaluate.

56. The IEO should report to a Ministerial Council if/when established or, alternatively, to the IMFC. This move would raise the profile of the IEO's work within the Fund, provide the evaluators with a direct line of accountability to the highest decision-making body (in the case of the Council), and remove the tensions embedded in the current IEO governance setup. Alternatively, if greater clarity were brought to the managing director's dual role and, also, the executive board were to remove itself from operational responsibilities, then the current reporting line would be appropriate.

57. Evaluation cannot entirely rely on internal mechanisms, no matter how independent they are. Independent outside experts are better able to bring a "fresh pair of eyes" to the Fund's narrow culture and would usefully complement internal evaluations focused on compliance and effectiveness of internal mechanisms. The involvement of independent outside experts would help build confidence among stakeholders that the institution is willing "to open its books."

[42] Government Accountability Project (2009).

Previous external evaluations of the ESAF and of surveillance had a lasting impact on the institution as well as in the scholarly literature.

H. External Mechanisms of Accountability and Relationship with the Global Governance Architecture

58. Participants raised the issue that the IMF should be a more effective part of the overall system of global governance. Its status as a specialized agency of the UN system should be given greater content—for instance, a more structured relation with the ILO would help the Fund to get a better sense of the spillovers of its programs and advice to labor markets. Moreover, both the IMF as an institution and governments of member countries should be subject to judicial processes in international civil and criminal law for their obligations under international law, including the upholding of human rights.[43] On the latter, the IMF would not be called upon to advance human rights, but rather to ensure that such rights are not abrogated while discharging its mandate.[44]

59. Consultations underscored the importance of situating the IMF discourse in the broader global governance setting. The current G20-led process on IMF reform, while an improvement vis-à-vis previous G7-led efforts, still raises serious issues of legitimacy. While the G20 includes a more diverse group of countries than the G7/G8, its composition is still arbitrary and not universal. Most importantly, decisions on IMF reform issues, under current international law, remain an exclusive prerogative of the IMF's own governance bodies.

V. IMF POLICIES

A. Policies and Governance

60. Participants discussed the merits of IMF policies and programs. Their views focused on the broader historical context of previous crisis resolution programs as well as on the changes introduced in the wake of the current international crisis. The main message is that the governance of the institution has a bearing on how policies are formulated and on whether they are applied even-handedly.[45]

61. The asymmetries in IMF governance negatively affect the ability of developing countries to tailor the institution's policies and programs to their needs. Because their weight in the Fund decision-making is inadequate, the institution's policies and programs are less likely to incorporate their views on areas in which they are bound to have the most incisive and

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[43] Woodward (2009). See: Barry Herman and Harris Gleckman on IMF-UN relations; Mitch Gold and Bob White also recommended consideration of emergent standards for private corporate accountability as found in ISO 9000 and ISO 26000.

[44] I thank Nancy Alexander for raising this point.

[45] How the governance of the IMF shapes the institution's policies has recently been analyzed by Woods (2009) in the scholarly literature.

direct experience and knowledge.[46] Conditionality is a case in point. The average number of conditions in IMF programs steadily increased through the 1980s and the 1990s with no discernible impact in terms of effectiveness. In contrast, it has rendered IMF programs unwieldy, conflictive and time-consuming to negotiate. In the case of low-income countries, moreover, the point was made that more rigorous conditionality (e.g. in trade) has been imposed on countries with so little representation in the institution's governance than it has, for instance, been the case of countries with access to international markets.

62. **More balance in IMF governance is bound to strengthen the even-handedness of its surveillance**. Participants underscored the fact that the institution's ability to foresee the current crisis would have been impaired by the asymmetric role of the US in IMF governance. Even if the IMF had been in a position to detect in a timely manner the unfolding of the crisis within the US financial sector, it would still have been unable to exercise any leverage on its own largest shareholder. Instead, the IMF focused on the Chinese exchange rate—a major item in the US international economic agenda, but only one aspect of the global imbalance problem.

63. **Influential member countries, in some cases, have used their power to affect Fund policies to their own advantage.** Concern has been expressed that, at least in some cases, programs included policy measures clearly unrelated to the resolution of a country crisis, but reflecting contentious issues in bilateral commercial relations with major creditor countries. The conditionality of Korea's IMF program on liberalizing imports of car components, a contentious item in Korea-US commercial relations for several years, is an example.[47] Other instances included capital account liberalization, and the privatization of critical services and banks. It was actively promoted by the Fund with the support of select governments of advanced economies and it more heavily exposed those developing economies that had swollen receipts in the 1990s.

64. **In the past, major shareholders have tried through Fund-supported programs to get borrowing countries to adopt policies that would generate adequate balance-of-payments surpluses to service their debt obligations.** The program with Indonesia was cited as a case in point. While it was evident to observers both inside and outside the Fund that the program would generate a sizable shock and exacerbate the consequences of the financial crisis for the country's real economy, the main objective of the assistance program was to generate as much of a balance-of-payments surplus as possible, and as quickly as possible, to ensure that the outstanding creditors would be repaid.

65. **The IMF, at least in the past, has often been perceived as siding unabashedly with creditors.**[48] By forcing countries to have an agreement with commercial banks before they could have access to resources from multilateral institutions, the Fund contributed to an unfair distribution of the costs of adjustment in the debt crisis of the 1980s. In Latin America, this exacerbated stagnation, high inflation, rising poverty and inequality. Clearly, asymmetries between creditors and borrowers in the Fund's own governance framework may have contributed

[46] Rustomjee (2005).
[47] Woodward (2009).
[48] Lustig (2009).

to this perception. Looking forward, a more inclusive governance and stronger accountability may prevent the reputational damage that the Fund has suffered in the past.

B. Accountability for Analysis of Likely Impacts of Reforms

66. Balance-of-payments adjustments should be placed within a broader and sustainable framework of growth and development. Participants strongly held the view that budgetary austerity should not entail cuts to pro-poor spending and social safety nets, including critical subsidies for utilities and social services. Referring to past programs, they noted that the IMF did not factor in the broader economic and social consequences in its program design, even if they are bound to affect millions of people. In Argentina, for instance, participants complained that the impact on jobs of IMF programs was greatly overlooked. Neither were trade unions consulted, despite their representing millions of members.

67. IMF advice and program design should be underpinned by impact analysis of recommended reforms on the poor. In practice, however, measures aimed at offsetting the impact of macroeconomic and structural policies, when formulated, have not been backed by formal analytical studies undertaken through Poverty and Social Impact Analysis (PSIA), despite internal recommendations that they should be. Even when PSIA has been made available from other agencies, such as the World Bank or DFID, it has not systematically fed into program design.[49] Though PSIA has, at times, been reported in PRGF documents, the IEO could not find strong evidence that its results affected the design of PRGF programs.

C. Recent Changes in the IMF Policy Framework

68. The modernization of the IMF policy framework can be far-reaching and sustainable only if the institution changes its narrow economic-policy thinking.[50] How conditionality has worked in IMF arrangements so far has reflected tensions in the way the Fund tends to reconcile macroeconomic stability with economic growth and poverty reduction. Acting on the conditionality framework alone is unlikely to significantly strengthen advice and program design in the absence of changes to the underlying internal institutional thinking.

69. Participants commented on the recent policy changes introduced by the IMF, welcoming the streamlining and simplification of conditionality. They highlighted that the new framework will require careful monitoring because of its more subjective nature and stressed that the challenge will lie in its thorough implementation—similar initiatives on the streamlining of conditionality had been announced in the past but were not effectively implemented. The new framework has eliminated structural performance criteria, with structural conditionality being assessed in the context of prior actions, program reviews, and benchmarks. Participants noted that they would closely monitor changes in these areas as well as who will have access to the information related to the performance targets of a country. The importance

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[49] See IEO (2007).
[50] See African Monitor (2009).

was raised of issuing appropriate guidance to Fund staff to ensure that Fund programs and advice comply with labor agreements and rights; that options for eventual ownership other than by oligarchies and private monopolies are duly pursued and that best efforts are made towards safeguarding privatization from corruption.[51]

70. The design and implementation of reform programs rely heavily on political economy skills.[52] Broader inclusion of key stakeholders—through a genuinely participatory approach as opposed to efforts aimed at marketing policies that are pre-determined—would benefit consensus-building around a program of reforms. The constraints posed by a given institutional setting and the ability of key stakeholders to affect the implementation of a reform program vary from country to country, and the IMF can only build this awareness into its policies and programs if it manages to improve the skill mix of its staff. Some stakeholders added that priority should be given only to those programs for which governments can demonstrate support from a wide array of constituencies. This would counteract the tendency of many governments in leaving out participation of non-state actors, whose involvement, instead, could bring substantial knowledge about local conditions as well as raise the typically weak financial accountability of state bureaucracies.[53]

71. Recent changes to the IMF policy framework for low-income countries were also discussed. Participants commenting on the recent changes concurred that the changes go in the right direction. As with conditionality, they emphasized the importance of long-run sustainability through greater effectiveness of IMF advice and program design, which should come by allowing genuine policy space and ownership, on top of modernizing the concessional lending framework. On the specifics, they encouraged the Fund to explore ways to contribute more of its own resources towards its concessional lending capacity. In this vein, they noted that the proceeds from the planned gold sales for increasing the resources available to low-income countries could be raised. Participants also recommended that such sales should not depress world prices, as this would have negative effects on gold-producing poor countries. More broadly, they expressed concerns that the sovereign borrowing induced by the current crisis may generate another wave of unsustainable debt burden in countries where the HIPC Initiative and the MDRI had recently provided some relief.[54]

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51 I thank Nancy Alexander for raising these points.

52 See Lombardi (2009b).

53 This point was emphasized by Sulaiman Gumila Mbuga of a Ugandan NGO.

54 See African Monitor (2009).

Box 1. Defining Accountability in a Multilateral Institution like the IMF

Broadly speaking, accountability implies that "some actors have the right to hold other actors to a set of standards, to judge whether they have fulfilled their responsibilities in light of these standards, and to impose sanctions if they determine that these responsibilities have not been met." (Grant and Keohane, 2005; 29). Therefore, accountability presupposes a set of actors who recognize their obligation to act consistently with accepted standards of behavior and the expectation that they will be sanctioned by the power-wielders if they fail to do so.

The definition, straightforward as it may seem, does not lend itself to being easily operationalized in the context of global institutions. Since world institutions operate in the absence of a global democracy, accountability, as emphasized in participatory models of democracy, is not immediately applicable to them. In its simplest form, accountability hinges on elections though which, in national democracies, the power-holders—typically those affected by decisions of the power-wielders—hold the latter accountable. At the global level, however, this is just inapplicable.

Grant and Keohane argue that the accountability of global institutions can be better understood in the context of a delegated model, in which power-holders delegate power to those best able to carry out the envisaged responsibilities. In this setting, "power is legitimate only when it is authorized by the legitimating consent of those who delegate it" (p 32). This put the emphasis squarely on the inclusiveness of the governance of a global institution.

While the distinction between participatory and delegated models allows for a better understanding of the notion of accountability, it does not have to be taken as dismissive of the importance of participatory mechanisms. Indeed, the challenge for global institutions is how to allow for increased participation in the context of delegated models of governance.

Box 2. Governance, Participation and Institutional Experimentation: The Case of GEF

The governance arrangements of the Global Environment Facility (GEF) exhibit specific provisions aimed at institutionalizing greater participation by the representatives of those affected by the agency's own policies and programs. This is achieved, for instance, by means of a balanced representation between contributors and beneficiaries in the decision-making bodies, a double-weighted voting system to strengthen the inclusiveness of the decision-making system, and institutionalized settings for engaging stakeholders.

The GEF's governance presents interesting features that are the outcome of institutional experimentation accompanying the Facility since it was set up. Established as a three-year pilot, the meeting of the Participants represented the sole form of governance of the GEF Pilot, participating governments being simply those who had pledged resources to the Pilot facility. However, "for outsiders, the GEF Pilot was a closed and dark event dominated by the OECD participants and the World Bank. Decision-making was not transparent and the participation on all levels very limited." (Streck, 2001).

The ensuing negotiations for restructuring the Pilot forced two major sets of actors to confront widely divergent positions. Developing countries, the UN, and the majority of the NGOs were in favor of a mechanism with a participatory governance structure, similar to the UN system, and a stronger involvement by NGOs. On the other hand, OECD countries preferred a governance framework that would more closely mirror the structure of the Bretton Woods institutions, on the grounds of efficiency and operational agility. The outcome of those negotiations resulted in a governance structure that melds that of the UN and the World Bank.

Central to the governance framework that was adopted at the end of the Pilot is the Council, the GEF's main decision-making body, whose members meet twice each year in representation of 32 constituencies. The constituency system of the Council—a key feature of the governance of the Bretton Woods institutions—allows for "a relatively small and effective Board" in alternative to the "one-country one-seat and one-vote system in the United Nations General Assembly," while maintaining the potential for universal representation (Woods and Lombardi, 2006). The GEF's constituency system allows for a potentially more balanced representation of developing countries than does that of the IMF. While, for instance, Sub-Saharan African Countries are represented on the IMF's executive board through constituencies with 25 and 22 members, respectively, in the GEF Council they are represented by 5 African-led constituencies of 8, 9, 8, 9, and 12 countries, respectively.

The more balanced representation on the Council is enhanced by the double-majority voting rule. When decisions are not supported by a consensus, they must garner the formal votes of at least a 60-percent majority of the total number of participants in the GEF, as well as of a majority representing 60 percent of total contributions to the Facility. While such formal votes might seldom be necessary, consensual decisions will be regularly reached through informal tallies of "would-be" votes, or opinions expressed around the table. What results is a kind of double voting system that strengthens accountability to both the Facility's contributors and to its beneficiaries.

A further governance arrangement contributing to a greater sense of ownership of developing countries in the GEF is that the Council Co-Chair—in addition to the permanent co-chairmanship provided by the CEO—rotates between developed and developing countries. The GEF governance also provides an institutionalized setting for engaging civil society organizations, which are held to be crucial in enhancing country-level coordination and country ownership. Participation by CSOs, both local and international, does not only take place at the project level but also at the policymaking level. GEF provides observer status for CSOs at Council meetings and holds consultations with them in conjunction with each Council meeting. Ten CSO representatives are allowed to attend the GEF Council meetings as observers.

Source: Lombardi (2009a).

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Appendix

A. The Fourth Pillar Process

A.1 Participants to Video Consultations

Monday, August 10, 2009

New Delhi
Anurag Srivastava, Centre for Trade and Development
Keshav Parthasarthy, Centre for Trade and Development

Jakarta
Binny Buchori, Executive Secretary, International NGO Forum on Indonesian Development
Perkumpulan Prakarsa
Don Marut, Director, International NGO Forum on Indonesian Development
Dian Kartika Sari, Deputy Director, International NGO Forum on Indonesian Development
Wahyu Susilo, Campaign Manager, International NGO Forum on Indonesian Development

Washington, DC
Jo Marie Griesgraber, Executive Director, New Rules for Global Finance
Jamie Baker, Coordinator, New Rules for Global Finance
Jim Trowbridge, Advisor, New Rules for Global Finance
Silvia Zucchini, IMF
Vasuki Shastry, IMF

Friday, August 7, 2009

Accra
Rudolf Nsorwinne Amenga-Etego, Executive Director, Foundation for Grassroots Initiatives in Africa
Steve Manteaw ISODEC
Vitus Azeem, Executive Secretary of Ghana Integrity Initiative
Nicolas Adamtey ISODEC

Washington, DC
Jo Marie Griesgraber, Executive Director New Rules for Global Finance
Jamie Baker, Coordinator, New Rules for Global Finance
Peter Gardner, Special Assistant to the President, Center for Global Development
Silvia Zucchini, IMF, Public Affairs

Wednesday, August 5, 2009

Bishkek (Kyrgyz Republic)
Chorobek Imashev, Adviser to the Investment Council of Kyrgyz Republic
Nurbek Elebaev, Chairman of the Board Entrepreneurship Association

Emil Umetaliev, Member of Supreme Economic Council
Chinara Sedahmatova, Head of NGO "HIPC initiatives evaluation"
Azamat Akileev, Researcher, Coordinator of MBA program in American University of Central Asia
Aziz Abakirov, Chairman IT Association of Kyrgyzstan

Almaty (Kazakhstan)
Bakhyt Kairakbay, Economic expert, Institute for Economic Strategies Central Asia
Kanat Ospanov, Economic expert, Institute for Economic Strategies Central Asia
Kanat Berentayer

Washington, DC
Jo Marie Griesgraber, Executive Director, New Rules for Global Finance
Domenico Lombardi, President, The Oxford Institute for Economic Policy
Sarah Lewis, Executive Director, Tax Justice Network USA
Seema Kumar, World Resources Institute
Silvia Zucchini, IMF

Friday, July 31, 2009

Buenos Aires
Pablo Nemiña, PhD Student, University of Buenos Aires
Sofia Scasserra, CGTRA (Confederación General del Trabajo de la República Argentina)
Mercedes Botto, FLACSO
María del Carmen González, Foro Consultivo Económico Social del Mercosu
Romina Castro, CGTRA (Confederación General del Trabajo de la República Argentina)
Agostina Giardini, FAECyS (Federación Argentina de Empleados de Comercio y Servicios)
Anahí Medina, UOCRA (Unión Obrera de la Construcción de la República Argentina)
Andrés Larisgoitia, Central de Trabajadores Argentina
Javier Echaide, Central de Trabajadores Argentina
Gonzalo Serra, RESDAL Executive Secretariat

Mexico City
Oscar Ugarteche
Ariel Buira
Monica Martinez-Cadena
Rodolfo Aguirre, Red Mexicana de Acción frente al Libre Comercio (RMALC)

Washington, DC
Jo Marie Griesgraber, Executive Director, New Rules for Global Finance
Domenico Lombardi, President, The Oxford Institute for Economic Policy
Seema Kumar, World Resources Institute
Silvia Zucchini, IMF

Thursday, July 30, 2009

Lima
Fernando Prada
Raul Mauro
Wifredo Amallia, Peruvian Episcopal Conference

Montevideo
María José Romero. IFIs Latin American Monitor, Instituto del Tercer Mundo (ITeM)
Roberto Bissio, IFIs Latin American Monitor, Instituto del Tercer Mundo (ITeM)
Arturo Gonzolez IFIs Watch Net

Washington, DC
Jo Marie Griesgraber, Executive Director, New Rules for Global Finance
Jamie Baker, Coordinator, New Rules for Global Finance
Mark Grace, National Community Reinvestment Coalition (NCRC)
James Trowbridge, Advisor, New Rules for Global Finance
Nancy Alexander, Heinrich Boell Foundation
Silvia Zucchini, IMF

Thursday, July 30, 2009

Nairobi
Oduor Ongwen, SEATINI
Maurice Odhiambo, Reconcile
Peter Gakunu
Soren Ambrose, ActionAid International
Eve Odete, Oxfam GB
Kiama Kaara, Kenya Debt Relief Network

Johannesburg
Daniel Bradlow, University of Pretoria
Nalisha Kalideen, Reuters Press

Washington, DC
Nancy Alexander, Heinrich Boell Foundation
Mark Grace, National Community Reinvestment Coalition (NCRC)
Jo Marie Griesgraber, Executive Director, New Rules for Global Finance
Jamie Baker, Coordinator, New Rules for Global Finance
Silvia Zucchini, IMF

A.2 Organizations and Individuals Who Made Written Submissions[55]

Emmanuel O. Akwetey, Institute for Democratic Governance (IDEG), Ghana
Nancy Alexander, Heinrich Boell Foundation, USA
Soren Ambrose, ActionAid International, Kenya/USA
Kulan Amin, Transparency International, Germany
Vitus Azeem, Ghana Integrity Initiative, Local Chapter of Transparency International, Ghana
Peter Bakvis, ITUC/Global Unions - Washington Office, USA
Mary Balikungeri, Rwanda Women's Network, Rwanda
Anupam Basu
Wilfred Berendsen, Wilvon , Netherlands
Nancy Birdsall, Center for Global Development, USA
Jack Boorman, USA
Sylvia Borren, CGAP, Netherlands
Daniel Bradlow, Faculty of Law, University of Pretoria, South Africa
Peter Burgess, Transparency and Accountability Network: Tr-Ac-Net
Jorge Buzaglo, Sweden
Sheetal Chand, UIO
Louise CSB, UNANIMA International, USA
Kevin Dance, Passionists International, Australia
Paul Davidson, New School for Social Research, USA
Ruth Davis, Chatham House, United Kingdom
Beatrice Edwards, Government Accountability Project, USA
Anthony Elson, Johns Hopkins University, USA
Gerald Epstein, University of Massachusetts, Amherst, USA
Kiapi Frederick, Commonwealth Peoples' Association of Uganda (CPA-UG), Uganda
Harris Gleckman, Benchmark Environmental Consulting, USA
Mitch Gold, homeplanet.org, Canada
Jo Marie Griesgraber, New Rules for Global Finance, USA
Mircea Halaciuga, PROXEMIS - Global Risk Management Association, Romania
Michael Hammer, One World Trust, United Kingdom
Barry Herman, New School University, USA
S M Nazer Hossain , ISDE Bangladesh , Bangladesh
Mo Pak Hung, Hong Kong Baptist University, Hong Kong
Chorobek Imashev, Economic Policy Institute "Bishkek Consensus", Kyrgyz Republic
Daniel Kaeser, Switzerland
Barbara Kalima-Phiri, Southern African Regional Poverty Network (SARPN), South Africa
Augustin Yves Mbock Keked, Center for Environment and Development, Cameroon
Hetty Kovach, European Network on Debt and Development (EURODAD), Belgium
Ronald Labonté, University of Ottawa Institute of Population Health, Canada
Domenico Lombardi, The Oxford Institute for Economic Policy (OXONIA), UK
Lewis Louthean, Australia
Nora Lustig, George Washington University, USA
Sohail Mahmood, National University of Modern Languages (NUML), Pakistan

[55] Prepared by Jamie Baker.

Sulaiman Gumila Mbuga, Bukoggolwa Widows and Orphans' Care Centre (BWOCC), Uganda
Satya Prakash Mehra, Rajputana Society of Natural History, India
Markus Meinzer, Tax Justice Network International, United Kingdom
Humphrey Mulemba, Jesuit Centre for Theological Reflection, Zambia
Raphael Wanaria Njararuhi, Youth Intercommunity Network, Kenya
Maurice Ouma Odhiambo, Resource Conflict Institute (RECONCILE), Kenya
Steven O'Neil, NGO Office of Marianists International, USA
Ann Pettifor, Advocacy International, United Kingdom
Gary Pienaar, Institute for Democracy in South Africa, South Africa
Richard Portes, London Business School, United Kingdom
Alan Potkin, Northern Illinois University, USA
Charles Prosper, HFOCUS, USA
Kunibert Raffer, University of Vienna, Austria
Alvaro Ramis, Asociación Chilena de Organismos No Gubernamentales ACCION A.G., Chile
Patrick Rice, FEDFEM, Argentina
Fatima Rodrigo, PBVM, IPANI, India
María José Romero, Instituto del Tercer Mundo – IteM, Uruguay
Richard Rowson, Council for a Community of Democracies (CCD), USA
Michel Roy, Secours Catholique /Caritas France, France
Sofía B. Scasserra, FAECyS, Argentina
Stuart Schussler, Mexico-US Solidarity Network, USA
Randall Stone, University of Rochester, USA
Steve Suppan, Institute for Agriculture and Trade Policy (IATP), USA
James Trowbridge, New Rules for Global Finance, USA
Edwin Truman, Peterson Institute for International Economics, USA
Wijck van Margaretha, Neth. Republ. Democr. Party, Netherlands
Frank Vogl, Vogl Communications, Inc., USA
James Raymond Vreeland, Georgetown University, USA
Peter Waldorff, Public Services International, France
Edith Brown Weiss
John Williamson, Peterson Institute for International Economics, USA
David Woodward, EG4Health, United Kingdom
Katarzyna Żukrowska,Warsaw School Of Economics, Poland

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