Reforming the IMF: some organizational and operational issues *

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1. Introduction

When the international economy is performing well there is little call for reform of the international financial system or of the institution entrusted with its supervision, the IMF (the Fund). But when things are not going according to script, cries for far-reaching reforms are loud and come from every corner. Most fundamental reforms are long term in nature and do little to alleviate an immediate crisis; discussions invariably focus on a few high-profile issues; discussions and negotiations are not simple; and, in the middle of a crisis, mundane but helpful measures may be overlooked.

With the onset of the Asian (global) crisis in the summer of 1997, the IMF became the target of criticisms; the attack has been relentless, coming from many quarters, especially from the US Congress and a few high-profile academics. IMF lending policies (conditionality or, in other words, the policy prescriptions and conditions that are attached to a given country's program), IMF's ability to prevent crises (early warning mechanism) and the problem of moral hazard have been the focus of many of these attacks. Specifically, it has been argued that the tight monetary policy (high interest rates) and restrictive fiscal policy that have been part and parcel of IMF pro-

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grams have exacerbated economic problems, by adding to the financial burden of domestic banks and non-bank institutions in these countries; that the IMF is akin to a fireman who tries to extinguish fire, as opposed to a teacher who teaches fire prevention – with the fire and the losses getting bigger and bigger; and large bailouts of private investors encouraging bad investments.

Although the Asian crisis and the Fund's policy prescriptions have started a lively debate on Fund lending policies, the IMF's organizational structure and its operational framework have been largely ignored. This is not surprising given the fact that the impact of the IMF's organization and operations on global economic performance is indirect and not readily apparent. Although less direct than the impact of IMF's policies, enhanced organization and operations would increase IMF's efficiency and membership participation, which would in turn increase IMF's effectiveness in improving global economic conditions. In this paper, we examine a number of these issues:

i) quota, voting structure and decision making;
ii) executive board (EB) and ministerial committees;
iii) management structure and staff;
iv) political dimensions, transparency and credibility.

2. Quota, voting structure and decision making

2.1. *The importance of quotas*

The capital contribution of each country to the Fund (in other words ownership) is referred to as the country's quota in the Fund. A country's quota is at the core of its relations with the Fund. A country's quota essentially determines its voting power, affects (less today than in earlier years) its borrowing capacity, and determines its allocation of Special Drawing Rights (SDRs), a free reserve asset.

The total size of IMF quotas (absolute size) is important in that it in turn determines the size of the largest source of IMF lending. The share of each country is important in that it affects IMF governance, specifically whether the IMF is to function as a multilateral institution as opposed to one that is dominated by a small group of countries (US or North America-Western Europe). The combination of total IMF quotas and individual country quotas should be designed so as to encourage creditor countries to lend to the Fund (voting power and a market-related rate of interest) and debtors to borrow and adopt appropriate policies (through significant IMF lending and a below-market rate of interest).

While the total size of IMF quotas is assessed roughly every five years through a general quota review, the share of each country changes only if there is a selective adjustment in a country's quota (during a General Review), an *ad hoc* increase or when the size of the membership changes.

2.2. *Quota calculation*

The Articles of Agreement do not specify how country quotas should be calculated. Quota calculations have essentially been related to various economic indicators and have gone through an evolutionary process but, as discussed below, other (unrelated) issues invariably also influence the actual quota of a country. Moreover, actual and calculated quotas may be very different for some countries. Originally, when the Fund was created, the quota of a country was calculated as follows:[1]

$$\text{Quota} = (0.02Y + 0.05R + 0.10M + 0.10V) \times (1 + X/Y)$$

where: X = average exports during the period 1934-38; Y = national income in 1940; R = gold and dollar balances on July 1, 1943; M = average imports during the period 1934-38; V = maximum variation in exports during the period 1934-38.

This formula was used to calculate quotas for new members until the early 1960s. But beginning in the 1960s, the Fund started to use a number of formulas for quota calculations (for those of new members and for General Quota Reviews to increase overall Fund resources) and modified some of the variables. The basic reason for the change was that a multiple-formula approach would increase the likelihood (namely, by giving countries more choice) that countries would agree to 'at least one of the quota calculations', and thereafter

[1] For details, see International Monetary Fund (1998, pp. 26-27).

they could negotiate or 'horse trade' until an acceptable solution for a quota increase and special quota adjustments were reached. The most recent set of formulas used are:[2]

(1) $(0.01Y + 0.025R + 0.05P + 0.2276VC) \times (1 + C/Y)$;

(2) $(0.0065Y + 0.0205125R + 0.078P + 0.4052VC) \times (1 + C/Y)$;

(3) $(0.0045Y + 0.03896768R + 0.07P + 0.76976VC) \times (1 + C/Y)$;

(4) $0.005Y + 0.042280464R + 0.044(P + C) + 0.8352\ VC$;

(5) $0.0045Y + 0.05281008R + 0.039(P + C) + 1.0432\ VC$,

where: Y = GDP in a recent year; R = average monthly reserves in a recent year; P, C = annual average current payments (P) and receipts (C) over a recent five-year period; VC = variability in current receipts (one standard deviation from the five-year moving average over a recent 13-year period).

The results of each of the equations 2-5 are proportionately adjusted in order to have the sum of the quotas of all members equal that obtained in equation 1. Normally (as there are always exceptions), the quota of a new member is the higher of the results of equation 1 and the average of the lowest two from equations 2-5; this result is referred to as the *calculated* quota but it is not necessarily the *actual* quota.

A number of issues regarding both the method of quota calculation and the determination of actual quotas deserve discussion. The method of quota calculation and the determination of actual quotas should ideally be shaped by the function(s) that quotas are supposed to serve. Although quotas were conceived as a reflection of a country's relative economic importance, this notion was never operationalized. In a general sense, quotas were conceived to reflect:

- a country's potential contribution to IMF resources;
- a country's potential borrowing needs;
- the impact of a country's economic and financial policies on the rest of the world.

[2] *Ibid.*, p. 27.

A complete discussion of the extent to which the equations capture the three basic elements mentioned above could by itself be the subject of a book, but for our purposes a discussion of the broad issues should suffice.[3] First, a country's potential contribution to IMF resources is in part determined by its economic size, its reserves, the strength of its balance of payments position and, in practice, by a forgotten fact, namely, its *willingness* to lend to the Fund outside of its quota obligation (i.e., through special facilities).[4] Thus, it would seem appropriate to include arrangements to lend directly to the Fund (outside of what is available through a member's quota) as a variable in the quota calculation. For an assessment of the relative importance of resource commitments under various arrangements and actual non-quota lending by the Fund, refer to Tables 1 and 2. Financial commitments to the Fund through these arrangements are significant relative to Fund quotas (see Table 1). For instance in 1999, IMF quotas stood at roughly SDR 145 billion while Fund borrowing agreements (GAB, Associated GAB and NAB) were roughly SDR 52 billion, representing 36% of total quotas. But more practically, roughly 50% of quotas can be tapped at any time for lending. Thus in early 1999, the Fund had a lending capacity of roughly SDR 75 billion (about half of the IMF total quota) from quotas and SDR 34 billion (as the combined maximum lending from GAB and NAB cannot exceed SDR 34 billion) from borrowing arrangements, or 45% of that available from quotas. Such borrowing arrangements are thus a large source of IMF funding (both as an absolute number and as a percentage of quotas).[5]

Economic size (appropriately defined),[6] reserves, balance of payments position and financial commitments in the form of special-

[3] After the completion of this essay, we discovered that the Fund's Executive Board has called for a review of the quota formula by an external committee.

[4] Although the Fund's standard borrowing procedure from its members is to borrow the member's currency in an amount determined by the member's quota, the Fund has also borrowed from the richer members through special facilities such as the General Arrangements to Borrow (GAB), the Oil Facility and New Arrangements to Borrow (NAB).

[5] Financial resources made available through the GAB and NAB are not operationally the same as actual lending (namely of member currencies) to the Fund. The rules that allow the Fund to tap GAB and NAB are restrictive (specific balance of payment lending operation), and GAB and NAB rules are also different from other historical facilities such as Enlarged Access.

[6] While GDP is normal measure of economic size, it is an open question as to whether market or Purchasing Power Parity (PPP) exchange rates should be used for

TABLE 1

IMF RESOURCES - QUOTA AND BORROWING ARRANGEMENTS[a]
(in billion of SDRs unless otherwise indicated)
(end of December)

	1970	1975	1980	1985	1990	1995	Dec-98
GAB and associated GAB	5.41	5.52	6.82	18.50	18.50	18.50	18.50
Oil facilities # 1 & 2	-	6.17	-	-	-	-	-
SFF	-	-	7.78	-	-	-	-
Enlarged access	-	-	-	15.31	15.28	15.28	-
NAB	-	-	-	-	-	-	34.00
Others	-	-	-	-	8.05	8.29	9.74
Total commitment	5.41	11.69	14.60	33.81	41.82	42.06	62.24
Quota	28.43	29.21	59.60	89.31	91.10	145.32	145.32
Total commitment under borrowing arrangements as a % of quota	19.03	40.01	24.50	37.85	45.91	28.95	23.40[b]
IMF borrowing limits as a % of quota	-	-	-	50.60	50.60	-	-

[a] GAB (General Arrangements to Borrow) became effective on October 24, 1962 and has been renewed and enlarged at various times. The oil facilities were established in response to the oil price increases of the mid-1970s and were terminated in May 1976. The SFF (Supplementary Financing Facility) became effective in February 1979 and was terminated in March 1981. Enlarged Access to Fund Resources became operational in May 1981 and was terminated in November 1992. NAB (New Arrangements to Borrow) was established in December 1997. The maximum combined amount borrowed under GAB and NAB cannot exceed SDR 34 billion.
[b] Guidelines for borrowing by the Fund, introduced in 1981, were dropped in 1991. The new guidelines do not set specific borrowing limits in terms of quotas.
Sources: Various issues of *International Financial Statistics* and *IMF Annual Report* for the period 1975-98.

TABLE 2

USED IMF RESOURCES FROM BORROWING ARRANGEMENTS
(in billions of SDRs unless otherwise indicated)

	Dec-70	Dec-75	Dec-80	Dec-85	Dec-90	Dec-95	Dec-98
Total from borrowing arrangements	3.23	8.70	8.49	35.18	20.73	35.93	60.45
Size of total IMF quota	28.43	29.21	59.60	89.31	91.10	145.32	145.32
Used IMF resources from borrowing arrangements as a % of quota	11.37	29.80	14.24	39.39	22.76	24.72	41.60

Source: Various issues of *International Financial Statistics* and *IMF Annual Report* for the period 1970-98.

the calculation; using PPP, the relative GDP (and thus the quotas) of emerging and developing economies would increase significantly (see next section for details).

ized facilities may all be considered as elements affecting a country's potential financial contribution to Fund resources. But these affect potential and not necessarily actual contributions. There may also be significant double counting when using a country's potential resource contributions; economic size affects a country's current account position and thus its level of reserves. Moreover, at a time of generally floating exchange rates and high currency mobility and convertibility, many countries do not possess a significant level of reserves, yet they could make significant loans (their own currencies) to the Fund. At the same time a country could have large reserves but not be willing to lend to the Fund. Is it also not possible that a country accumulates reserves through policies that are detrimental to the rest of the world? Should this in turn increase a country's quota? Is it not possible for a country to have a high level of reserves but be unwilling to make a commitment to the Fund through special facilities?

Economic size, lending commitments and the like represent lending potential and commitments, not actual lending. Would it make sense instead to use actual lending (from all sources – quota, special borrowing arrangements, etc.) with an appropriate lag in the quota calculations? Although at first blush this could seem appealing, it is probably a bad idea because it is backward-looking and, more importantly, it could make calculated quotas highly volatile because of significant changes from year to year. But to the extent that independent variables in the quota equations are supposed to capture lending potential, it may be useful to include some measure of commitments in the form of specialized facilities and to reduce the element of double counting.

The second historical use of quota was as a borrowing limit for countries.[7] For a historical review of the limitation of quota on borrowing see Table 3, and for actual lending as a percentage of quota see Table 4. One thing is clear: over time, the size of quota for some countries has become less relevant as a limit to borrowing. For instance, South Korea's use of Fund credit amounted to 1,400% of its quota on January 31, 1999, while normal cumulative Fund lending limits stood at 300% of quota. To the extent that borrowing limits are divorced from quota, then current payments (or receipts) and their

[7] Historically, SDR allocations have not been large (total allocation amount to SDR 21.4 billion as of February 1999) or frequent enough to be of great significance.

volatility have less relevance in the quota calculation. In other words, the method of quota calculation and the purpose of quotas (namely, how the Fund uses quotas in its relations with member countries) should be closely related.

The third broad intention behind the quota formulas is to capture the impact and significance of a country's economic and financial policies on the rest of the world. Indirectly, the GDP measure and the payments measures capture some of these effects but they do not distinguish whether the effects are positive or negative – good policies or bad policies. As a practical matter, the economic and financial policies of fewer than twenty countries, and especially those of the US, the EU and Japan, have a significant impact on global economic performance and on those of smaller economies. Yet the Fund has little leverage on the large industrial countries to adopt appropriate policies. The absence of coordination of exchange and interest rate policies among the three major economic blocs has had a significant negative effect on emerging and developing economies. Adverse interest and exchange rate policies in the three major blocs can impose serious adjustment problems for smaller economies. If a country's policies have a big impact on others and the country has a large quota, does not the country have some responsibility to pursue appropriate policies?

It would, therefore, seem appropriate to include some measure of the soundness of a country's economic policies (adjusted for its economic size) into the quota calculation. The inclusion of such a variable may set a dangerous precedent in that it transforms the Fund more openly into the world's financial policeman (it is already considered by some to be playing this role, *de facto* towards developing countries). But if implemented appropriately, the policeman role would be targeted toward the few big industrial countries that have a significant effect on the global economy. This would be for the good of all if carried out reasonably. Such an initiative may be in practice difficult to implement because of disagreement as to what constitutes good and bad policies. There is no single measure of good policies that is indisputable, while an index incorporating a number of variables would be open to a great deal of wrangling. If the EU could agree to convergence criteria, although somewhat flawed, IMF members could agree to some indicators of good policies. A combination of some of the following variables – inflation, unemployment rate, budget deficit, current account (positive or negative) and exchange rate policy – would be a reasonable starting point for discussion.

TABLE 3

ACCESS LIMITS UNDER IMF ARRANGEMENTS
(in percent of quota)

Access under credit tranches and the extended Fund facility	1970-74	1975-79	1980	1981-83	1984	1985	1990	1993	1994-98
Annual	75	140	200	100-150	102-125	95-115	90-110	68	100
Cumulative	–		600	450-600	306-375	280-345	400-440	300	300

Source: Various issues of *IMF Annual Report* for the period 1970-98.

TABLE 4

COMPOSITION OF RECENT IMF RESCUE PACKAGES
(in billion of US $ unless otherwise indicated)

	IMF[a]	IMF resource commitment as % of country's quota	Actual use of fund credit as % of country's quota[b]
Mexico 1995	17.7	1009	607
Thailand 1997	4	698	400
Indonesia 1997	11.2	748	431
Korea 1998	21.1	2640	1500
Russia 1998	15.1	350	318
Brazil 1998	18.1	834	158

[a] The rescue packages for each country represent resources available over differing periods for each case.
[b] As of end December 1995 for Mexico and end December 1998 for all other countries.
Sources: *International Financial Statistics*, various issues and S.A. Montek, "The IMF and the World Bank: are overlapping roles a problem?", paper presented at G-24 Technical Group meeting in Colombo (February, 1999, mimeo).

2.3. *Actual quotas and economic size*

Calculated quotas may not be a good measure of what they are supposed to represent, what's more, they are subjected to 'negotiations' before actual quotas are determined. Politics and other considerations invariably come into play at this stage in the game. To get a sense of the role of politics and of other factors in determining actual quotas, it may be interesting to compare the quotas of the largest IMF members to some of their economic and financial attributes (see Table 5). There are many anomalies – due to historical and/or political considerations – and some of these deserve mention.

First, even if the quotas of individual Western European countries may have been appropriate in the past, they are harder to defend

TABLE 5

ECONOMIC AND FINANCIAL ATTRIBUTES OF THE COUNTRIES WITH THE LARGEST IMF QUOTAS
(in percent)

Country	Quota/ Total Fund quota	Votes/ Total countries votes	GDP/ World GDP*	Exports/ World exports	Imports/ World imports	Exports (goods & services)/ World exports (goods & services)	Population/ World population	Total reserves – gold/ World total reserves – gold	Total reserves/ World total reserves
	1999	1999	1997	1997	1997	1997	1997	1997	1997
USA	17.86	17.63	27.78	12.42	15.93	13.67	4.60	3.48	5.02
Japan	6.40	6.29	14.41	7.59	6.00	6.98	2.20	12.99	13.78
Germany	6.25	6.15	7.23	9.24	7.83	8.62	1.40	4.59	4.16
France	5.16	5.08	4.79	5.23	4.77	5.33	1.00	1.83	2.97
UK	5.16	5.08	4.43	5.08	5.55	5.34	1.00	1.91	2.01
Italy	3.39	3.34	3.94	4.30	3.69	4.53	1.00	3.30	2.05
Saudi Arabia	3.36	3.31	0.43**	0.90	0.49	0.94	0.30	0.43	0.45
Canada	3.06	3.02	2.12	3.87	3.56	3.61	0.50	1.05	1.39
Russia	2.86	2.82	1.55	1.58	1.20	1.50	2.60	0.77	0.49
Netherlands	2.48	2.45	1.24	3.50	3.14	3.11	0.30	1.47	1.39
China	2.25	2.22	3.15	3.30	2.52	3.02	21.10	8.44	9.13
India	2.00	1.97	1.21*	0.61	0.72	0.65	16.40	1.46	1.80
Switzerland	1.66	1.64	0.88	1.31	1.26	1.78*	0.10	2.31	2.54
Australia	1.56	1.54	1.36	1.13	1.17	1.22	0.30	1.00	0.93
Belgium	1.49	1.47	0.83	3.07	2.77	2.70	0.20	0.96	0.77
Spain	1.47	1.45	1.83	1.88	2.18	2.16	0.70	4.05	3.38
Brazil	1.46	1.44	2.76	0.96	1.15	0.88	2.80	3.01	2.09
Venezuela	1.28	1.27	0.30	0.42	0.18	0.37	0.40	0.85	0.71
Mexico	1.24	1.23	1.38	1.18	1.08	1.78	1.60	1.70	1.95

TABLE 5 (cont.)

Country	Quota/ Total Fund quota	Votes/ Total countries votes	GDP/ World GDP*	Exports/ World exports	Imports/ World imports	Exports (goods & services)/ World exports (goods & services)	Population/ World population	Total reserves – gold/ World total reserves – gold	Total reserves/ World total reserves
	1999	1999	1997	1997	1997	1997	1997	1997	1997
Sweden	1.15	1.14	0.78	1.49	1.16	1.47	0.20	0.64	0.92
Argentina	1.02	1.01	1.02*	0.49	0.54	0.42	0.60	1.32	1.50
Indonesia	1.00	0.99	0.74	0.96	0.74	0.92	3.40	0.98	1.46
Austria	0.90	0.89	0.71	1.04	1.19	1.24	0.30	1.17	1.07
South Africa	0.90	0.89	0.44	0.56	0.58	0.52	0.70	0.28	0.28
Nigeria	0.84	0.84	0.14***	0.34	0.14	0.23	2.00	0.28	0.24*
Denmark	0.79	0.79	0.58	0.87	0.78	0.93	0.10	1.13	0.92
Korea	0.78	0.78	0.34	2.48	2.53	2.40	0.79	9.00	8.95
Finland	0.61	0.61	0.41	0.71	0.53	0.70	0.10	0.50	0.59
Portugal	0.42	0.42	0.32*	0.43	0.60	0.47	0.20	0.93	1.01
Ireland	0.40	0.41	0.25	0.96	0.70	0.90	0.10	0.39	0.35
Greece	0.39	0.40	0.42	0.16	0.38	0.22	0.20	0.74	1.32
Luxembourg	0.06	0.08	0.05*					0.004	0.01
Euroland countries (11)	22.63	22.35	21.60	30.36	27.40	30.30	5.10	19.19	17.75
EU countries (15)	30.12	29.76	27.81	37.96	35.27	37.60	6.60	23.61	22.92

* Based on 1996 GDP data.
** Based on 1995 GDP data.
*** Based on 1994 GDP data.
Source: Various issues of *International Financial Statistics.*

with the increasing integration of European countries, and especially after the adoption of the EMU and the introduction of the euro. The combined quota (as a percent of the Fund total) of the eleven countries of Euroland is 22.6% in comparison to a US quota of 17.8%. The combined GDP (as a percent of all countries) of these countries is 21.6% while that of the US GDP is 27.8%. This divergence will become even more pronounced as other EU countries, especially the UK, join the EMU. For the EU fifteen, the quota and GDP figures are respectively 30.1% and 27.8%. Clearly, in comparison to the US, the EU quota is too high if GDP is the critical measure.[8]

Second, the quotas of a whole host of other countries appear to be significantly out of line if economic size is the overriding factor (see Table 5) – for example, Japan (too low, 6.4% of total Fund quotas vs 14.4% of world GDP), Saudi Arabia (too high by a factor of ten in relation to GDP), Canada (too high), Russia (too high), Netherlands (too high), China (too low), Belgium (too high), Brazil (too low) and Venezuela (too high by a factor of four in relation to GDP). However, these discrepancies in quota (relative to GDP) are somewhat different if GDP calculations are based on Purchasing Power Parity (PPP) exchange rates as opposed to market rates (see Table 6); most notably China's quota is even further out of line and the quotas of industrial countries are too high.

In some cases, the reason for the large divergence in quota is due to infrequent quota adjustments to reflect recent developments (most importantly special adjustment as opposed to proportional adjustments, see later in this section). In some cases, most notably Russia, politics have played a major role. In the case of Saudi Arabia, the actual quota discrepancy is due to IMF financial needs. The quota was increased in 1981 as an integral part of Saudi Arabia's loan of roughly $ 10 billion to finance Enlarged Access to Fund Resources. Due to the significant increase in oil prices following the Iranian Revolution, the Fund needed additional resources to finance the balance of payments of members experiencing large current account deficits. An increase in quotas was not a practical option as quota increases are a lengthy and time-consuming political process. The Fund does not borrow on financial markets as does the World Bank. The only option was to borrow

[8] The EU quota is more in line if it is compared to other measures such as trade (appropriately defined to exclude intra-EU trade) and reserves.

TABLE 6

COUNTRY RANKING BY MARKET EXCHANGE RATE GDP & PPP GDP
(in percent unless otherwise indicated)

Countries ranked by quota contribution	GDP/ World GDP	PPP GDP/ World PPP GDP	Rank by share of world GDP using market exchange rates	Rank by share of world GDP using PPP exchange rates
1. USA	27.78	21.36	1	1
2. Japan	14.41	8.44	2	3
3. Germany	7.23	4.77	3	4
4. France	4.79	3.57	4	6
5. UK	4.43	3.35	5	7
6. Italy	3.94	3.17	6	8
7. Saudi Arabia	0.43	0.58	24	21
8. Canada	2.12	1.81	9	12
9. Russia	1.55	1.73	11	13
10. Netherlands	1.24	0.91	14	18
11. China	3.15	10.35	7	2
12. India	1.21	4.39	15	5
13. Switzerland	0.88	0.52	17	23
14. Australia	1.36	1.00	13	16
15. Belgium	0.83	0.64	18	20
16. Spain	1.83	1.69	10	15
17. Brazil	2.76	2.85	8	9
18. Venezuela	0.30	0.54	29	22
19. Mexico	1.38	2.10	12	10
20. Sweden	0.78	0.46	19	25
21. Argentina	1.02	0.99	16	17
22. Indonesia	0.74	1.86	20	11
23. Austria	0.71	0.49	21	24
24. South Africa	0.44	0.80	23	19
25. Nigeria	0.14	0.29	31	29
26. Denmark	0.58	0.34	22	28
27. Korea	0.34	1.70	27	14
28. Finland	0.41	0.28	26	30
29. Portugal	0.32	0.39	28	26
30. Ireland	0.25	0.18	30	31
31. Greece	0.42	0.28	25	27
32. Luxembourg	0.05	–	32	–
Euroland countries (11)	21.6	16.09		
EU countries (15)	27.81	20.60		

Source: 1999 World Development Indicators.

through a special arrangement (requiring approval from its membership) from members with a strong balance of payments position. Saudi Arabia was willing to accommodate the Fund for three reasons. First, such a large loan would reduce global rhetoric against 'high' oil prices and their impact on global payment imbalances. Second, it would reduce the perceived size of Saudi reserves and thus reduce pressures on Saudi Arabia to increase its expenditures. Third, Saudi Arabia saw this as an opportunity to increase its quota dramatically and thus increase its clout in the international financial system. To the extent that a quota is supposed to reflect the relative importance or size of an economy in the world, it would seem to have been a Herculean task to persuade the world that Saudi Arabia was the sixth most important economy in the world in 1981 (and would continue to be the seventh most important economy in the world in 1999; see Table 5). The argument was based on the volatility of Saudi Arabia's exports and the level of its official reserves. The argument might have been good, but what got Saudi Arabia its quota increase was its own intense lobbying, coupled with the Fund's need for financial resources. The Fund had little room for manoeuver as other members were not willing to lend to it. This clearly indicates that either the Fund needs to have a much larger quota, or a mechanism to increase quotas quickly (an unrealistic political proposition), that it needs to have a significant access (cushion) to other funds (such as special facilities) in addition to its quotas, or that it needs to re-examine its capital structure (see section on capital structure).

2.4. *Quota and voting structure*

Quotas, as an overall reflection of a country's economic and financial importance, were also envisaged to be a reasonable basis for a country's voting power in the Fund. As a financial institution, the basis of the IMF's voting structure was to be different from that of a political institution such as the General Assembly of the United Nations with its one-country-one-vote formula.

The vote of each member country consists of two parts – *i)* a standard 250 votes and *ii)* a number of votes in proportion to quota contribution (one vote for every SDR 100,000 of quota). For most countries (except the smallest) the lion's share of the country's vote (97.8% in the aggregate) is derived from its quota (see Table 5). In a financial institution the argument that a member's vote should largely reflect its capital contribution (quota) has been widely accepted and the standard 250 votes was a small concession to the smallest countries to give them some additional (though minimal) clout.

2.5. *Quota reviews and adjustments, and qualified voting majorities*

Besides re-examining the method of quota calculation and the process and procedure for determining actual quotas (based on calculated quotas), the Fund should also look into how *changes* in quota occur. Changes in quota determine the overall availability of Fund resources and the voting power of each country. While the impact on overall resource availability will be taken up later, its effect on relative quotas and thus on voting power is considered here.[9] Basically changes in a country's quota occur in two ways:

i) General Quota Review (with two distinct parts):
equiproportional increase (no decrease)
selective adjustment (no decrease);

ii) Selective and/or *Ad Hoc* Increase.

During quota reviews, most countries' quota increases are proportional (namely, a country's share of the total Fund quota is essentially fixed unless there are new members or selective quota adjustments).[10] The thrust of quota reviews is not to adjust a country's relative quota as its economic circumstances change (i.e., rapid GDP or trade growth relative to the rest of the world), but rather to increase overall IMF financial liquidity. For example, China's quota is below what it should be (because of China's record of rapid growth while quota adjustments are infrequent). Also, the UK's quota was for the

[9] The total quota of the Fund is also a critical issue as it largely determines the availability of resources for lending to members. Although this is based on the resource requirement of the Fund, it is heavily determined by political considerations in industrial countries. General Quota Reviews occur roughly every five years. This issue is further taken up in the section on capital structure.

[10] A country's absolute quota cannot be reduced.

longest time second to that of the US (ahead of Japan and Germany), although its economy was substantially smaller than that of Japan and Germany. Currently, Japan's economy is much larger than that of Germany, yet Japan's quota is only marginally higher (see Table 5).[11] *Ad Hoc* and selective quota increases were envisaged to adjust a country's quota in the case of exceptional developments. But these adjustments are difficult and are at best slow because other countries (whose economies have not fared as well) do not want to see their relative quotas decline. Contrary to official pronouncements political considerations are never out of sight in Fund deliberations and decisions.

In view of the fact that General Quota Reviews are infrequent and time consuming, and that selective quota adjustments are somewhat contentious at best, a more automatic procedure to adjust large (relative) quota discrepancies may be desirable. To institute such a policy, the first step must be a more rational and more acceptable method of quota calculation. A more rational methodology could reduce the heavy reliance on political horse-trading and it would be more difficult to repudiate significant quota adjustments when and if they are called for. Second, one would institute an automatic biannual, or every five year, *Ad Hoc* quota review.[12] In the event that a country's (normalized) calculated quota diverges from its actual quota (by some agreed threshold percentage), then the country's quota would be changed up *or* down to reflect the change (or some percentage of the change).

One of the principal countries that invariably objects to large selective and *Ad Hoc* quota adjustments for others is the US. While most decisions at the Fund require a simple majority, only a few very important decisions require special majorities. The US has wanted to keep its effective veto power on all important decisions – such as ratification of quota increases. Thus, when special quota increases are given and the US veto power is affected, the US argues for a change in the special majorities if it is to go along with the special increase. While the size of the US quota may be smaller than what it would be if GDP were the overriding criterion (for example, relative to the EU), the effective US veto power on important decisions has a number of negative implications for the operations of the Fund. Most recently in 1998, the US Congress held the world community hostage in order to extract some policy concessions (see also Section 5.1. on *political dimensions*). This was truly intolerable, and is detrimental if the Fund is to be an effective international organization; no single country (regardless of its global economic significance) should hold so much power over the rest of the world. Critics often point out that the US has at times used its influence within the IMF as a way of promoting US foreign policy through a multilateral *façade*. In particular, since 1989, Congressional approval of funding for the IMF has been linked to legislation requiring the US Executive Director (ED) to the IMF to use "voice and vote" in order to promote specific policy and procedural changes at the institution. For example, in 1989, the Congress urged the US ED to promote the addition to the Fund's staff of natural resource experts and development economists trained in analyzing linkages between macroeconomic conditions and the short- and long-term impacts on sustainable management of natural resources. In 1998, Congress passed the Omnibus Appropriations Bill with $ 17.9 billion in funds for the IMF, conditional on the IMF's implementing specific reforms including:[13]

– IMF transparency: the IMF must release to the public edited summaries of three IMF documents – the Letter of Intent, the Policy Framework Paper, and Article IV Economic Consultation – within three months of the completion of each document or the conclusion of the meeting.

– Policy initiatives: in addition, the Omnibus Bill outlines a number of actions that must be taken by the Secretary of the Treasury and the US ED at the IMF prior to US funding, such as preventing subsidies from going to US competitors in South Korea. The Secretary of the Treasury must certify that no IMF money is being used to aid South Korean industries that compete with US industries.

The obvious remedy for this situation is to change the necessary voting majorities so that neither the US nor any handful of countries have effective veto power. Otherwise, it is hard to argue against the cries of some countries (such as Malaysia) that the Fund is not an in-

[11] Again, it should be noted that the results would be significantly different if PPP exchange rates were used.

[12] One reason for making it every two years is that the constituencies of the EB can change at every election cycle (i.e., every two years).

[13] The IMF supplemental package was approved in the Omnibus Appropriations Bill on October 21, 1998.

ternational organization but is instead a US-run, or at least a US-dominated, institution.

In summary, a few points should be stressed. First, although there is no 'best' formula for calculating quotas, whatever formula (or formulae) is (are) chosen, it (they) should closely reflect the purpose for which quotas are to be used. On the one hand, if the primary use of quotas is to set country borrowing limits, then the variables that affect the size of current account imbalances should be the key determinants of quotas. On the other hand, if quotas have little relation to country borrowing, then the inclusion of such variables becomes less important. Similar arguments should be applied to other purposes of quotas – potential lending capacity or actual lending record to the IMF (these could be very different), the impact of a country's economic performance on the global economy, etc. For instance, it is not indisputable that level of reserves directly affects actual lending to the Fund. A country could continue to have high reserves but be in a weak balance of payments position; a country could have very high level of reserves but be unwilling to participate in other lending facilities to the Fund (GAB, NAB, SFF, etc.). A revised quota formula could include PPP GDP figures (as opposed to those based on market exchange rates) and could also include a variable which captures the quality of a country's economic performance (for example, economic growth, inflation, unemployment, budgetary position, current account, etc.).

Second, quota reviews should incorporate a larger percentage of selective quota increases (and maybe even decreases) to account for changing circumstances. The Fund should be a more forward-looking as opposed to a backward-looking organization.

Third, major quota anomalies should be adjusted as soon as possible; these include the combined quota of the eleven Euroland countries (now that they are an economic bloc), China's quota and more. These are best addressed through automatic *Ad Hoc* adjustments (normalized).

Fourth, when quotas are adjusted (in line with a more rational quota formula that better reflects the purpose of quotas), voting majorities should be changed so that no single country, or even an economic bloc of countries, has veto power on any decision, especially on the all-important decisions.

Fifth, it may be useful to further separate the size of a country's quota from the size of a country's voting power in the Fund.

The simplest way to achieve this would be to increase the size of the minimum vote allocated to each country before quotas are figured into the vote. In a private sector financial institution, the (normally) close association of ownership and voting is based on the right of an investor to protect his or her investment. A country's participation in the Fund is based on more considerations than the narrow objective of a private sector investor. Moreover, to the extent that quotas and voting power are further separated, it may become politically easier for countries to agree to more flexible adjustments in quotas.

Finally, it should be recalled that such changes will increase the IMF's efficiency, enhance the IMF's image as the world's premier multilateral financial institution and strengthen the IMF's independence and financial outlook. All of these will in turn increase the IMF's effectiveness as the guardian of the international payment system and international prosperity. While each of these five proposals may be attacked as politically naive, the five combined could be even labelled as a non-starter. But all changes, especially when it involves reducing the power of the powerful, are initially unrealistic.

3. Executive Board and ministerial committees

3.1. *Executive Board*

As in the case of any organization, the IMF's performance is in large part determined by the quality of its board of directors (Executive Board), its management and its staff. In the case of a board of directors, the modern corporation is highly dependent on the contribution of a qualified and independent board.

Around the time of the 1998 Joint Annual Meetings of the World Bank and the IMF in Washington, a number of individuals called for a new ministerial policy committee to oversee IMF operations, while others proposed measures to strengthen the role of the Interim Committee. Before passing judgement on these proposals, it may be useful to review the operation of the Executive Board and of key IMF governing committees.

The Executive Board (EB) of the Fund is composed of twenty-four Executive Directors (EDs). Five of these directors (the big five – US, Japan, Germany, France and the UK) by agreement (*de jure*) represent only their own country and are appointed by their respective governments. Of the remaining nineteen, three (China, Russia and Saudi Arabia) represent (*de facto*) only their respective country; but because the right to represent only their own country is not permanent, these three EDs are still technically elected (but only by their own governments as opposed to a constituency of two or more countries). The remaining sixteen directors represent more than one country and are elected by their constituencies.[14] These country groupings can change every two years at the time of bi-annual elections during the annual meetings.

Saudi Arabia's representation at the EB is due to an obscure article of agreement and is proof of just how accommodating the Fund can be when it needs financial resources. Under the Articles of Agreement, the two largest creditors to the Fund over a two-year period are entitled to have their own seat at the board for the ensuing two years. By and large, throughout most of the Fund's history, two of the big five countries have also been its two largest creditors. However, during 1976-78, Saudi Arabia was the second largest creditor. As a result, Saudi Arabia appointed its own ED for the period 1978-80. Later in 1981 (in large part due to increases in oil prices), the Fund needed to borrow roughly $ 10 billion to meet potential drawings on its resources. Saudi Arabia agreed to the loan but it wanted a substantial increase (special, or, *Ad Hoc*) in its quota so that it could realistically continue to preserve its seat at the board well after it was no longer one of the two largest creditors. This essentially required increasing Saudi Arabia's quota, making it the sixth largest at the Fund in 1981 (ahead of Italy and Canada). When China replaced Taiwan at the Fund, it decided it wanted its own seat on the board. Italy had a significantly higher quota at the time, yet it did not have its own seat. Italy did not oppose this further expansion of the board to accommodate China. In this instance it was political power rather than money

[14] The candidates are nominated by the respective governments; the elected candidates serve a two-year term (i.e., they cannot be fired by their government during their elected term of office). The large country in the group invariably gets the position of ED at either (both) the Fund or (and) the Bank; with alternate ED, advisor and assistant positions being allocated to other members of the constituency.

that talked. Russia's seat on the board was again the case of political power as opposed to economic importance. Later, as more countries joined the Fund after the collapse of the Soviet Union, another constituency was added to the EB (with Switzerland being its elected ED). Thus the number of EDs has expanded from twenty in 1978 to twenty-four today; while the Fund's membership has increased by about 60 countries to 182.

But in view of the fact that the Fund is a financial institution (and not a political one such as the UN), political considerations should be minimized whenever possible. The Fund should not bow to political pressures in constituting its EB. There is no apparent financial or economic reason (at least one that is transparent) why China and Russia should have their own seat; in the case of Saudi Arabia, the Fund at least received badly needed resources – a financial reason. These anomalies reduce the Fund's global financial authority and can only lead to more exceptions and irregularities in the future, resulting in less and less transparency in its operations.

The Fund EB meets a minimum of three days a week for about eleven and a half months of the year. The day-to-day administration of the Fund (loans, programs, most policy issues, etc.) are entrusted to the EB by the Board of Governors.[15] According to the Articles of Agreement, the "EB shall be responsible for conducting the business of the Fund". EDs represent the views of their governments and constituencies; most receive instructions from each country in their constituency on a number of topics placed on the agenda of the EB. While most EDs are elected by their constituencies (except the eight that are appointed by single countries), the Articles of Agreement recognized EDs as *international civil servants* (although Mr Keynes and Mr White would have a hard time recognizing them as such if they were to listen to a typical EB discussion). It was for this reason that the EDs have immunity, that they cannot be fired by their governments and that their salaries are paid by the Fund (as opposed to by their respective governments). Still EDs do not behave as international civil servants and they represent the narrow interests of their respective government(s).

While it is true that some constituencies have too many countries (especially the two Sub-Sahara African constituencies), there is

[15] The governor for a country is either the Minister of finance or the head of its central bank.

still a delicate balance between the size of the board and manageable sizes of constituencies. Rather than allowing more and more countries to give their individual opinions, dedicated EDs synthesize the views of their own constituencies and present an overall view. But no matter how dedicated an individual ED may be, the size of some constituencies is simply too large (over twenty countries) to make them manageable. The options for equalizing the size of the constituencies include eliminating the individual seats for China, Russia and Saudi Arabia; reducing the number of EDs representing the European Union (see the previous section); and increasing the size of the smaller (few countries) constituencies. Some combination of these three options would be a sensible approach. Besides making the operations of the board more manageable, it would send a signal to the financial markets that the Fund is more akin to a financial, as opposed to a political, organization. If the number of countries in the constituencies with the smallest number of countries is to be increased, it should be done across the board (namely, with little regard to the size of quotas of a constituency) in order to relieve the pressure on constituencies with more than fifteen or so countries.

Although some developing countries complain about the composition of the EB (namely, the large number of EDs from industrial countries and the insufficient number from developing countries, especially from the poorer ones), this is a debatable point given that the Fund is first and foremost a financial institution. If the Fund were strictly a private sector financial institution (which it is not), then countries such as the US with roughly 17% ownership (and voting power) could argue for 17% of the EDs. By some measures, less than a handful of industrial countries have too few directors! At the same time (as mentioned earlier), it may be desirable to even out the number of countries in all constituencies in order to have better expression of diverse views and to spread the work load more evenly. The basic problem, however, may be with the size of each country's calculated, actual quota and vote (with the close relationship of voting power to quota) which in turn affects the composition of the EB. This is a different issue and should be re-examined in the context of the quota calculation and voting structure. Individual developing countries generally feel that their views are insufficiently reflected. This is more likely to be the case in the few very large constituencies. Some EDs do not synthesize the views of their constituencies; they say what they want. Some of the problems of inadequate reflection of the divergent views of countries at the EB are due to the less-than-adequate performance of individual EDs. If a country's views do not coincide with those of the country of the ED representing the constituency, the ED should give all views, and these differing views (with their corresponding vote) should be recorded by the secretary at the EB meeting. This is invariably not the case. Indeed, many decisions are not voted on. According to the US ED at the IMF, the EB voted on only about a dozen of over 2,000 major decisions during her nearly five years of service (Lissakers 1998). The EB endeavors to operate on the basis of consensus, with the Managing Director (MD) summing up the consensus decision.

Beside the issue of country representation at the board, it could be argued that the backgrounds of EDs are quite narrow. EDs are largely former (and current) government officials. As a result, the character of the Fund is more akin to a government bureaucracy, rather than a dynamic financial institution designed to tackle the issues facing an increasingly market-oriented world. Ironically, in a world of continuing deregulation and privatization, the international financial institution at the center, the Fund, is itself an unchanging public sector bureaucracy. At a minimum, it would be healthy to encourage more diversity in the background of EDs.[16] The international community could usefully contemplate appointing two or more non-voting EDs with no allegiance to particular government and with strong private sector experience. The EB can only benefit from less-politicized and more diverse views. Increasingly, EDs are being asked to grapple with private sector market issues facing crisis countries, yet they and the Fund have very little experience in this area.

An important aspect of the evaluation of the effectiveness of EDs is the degree to which they are a rubber stamp for staff and management decisions. Given the volume, the detail and sophistication of IMF board documents, no ED and his or her small staff can read, analyze, develop alternative empirical estimates and contribute valuable ideas to every board discussion. In the case of countries such as the

[16] In fact it was a longstanding joke that in the case of one of the countries representing only itself at the board, the ED assignment was the reward after retirement or, more generously, it was the last post before retirement. Neither interpretation was generous for the presumed importance of the Fund.

US, the US Treasury goes through all IMF board documents and develops contributions for the US ED. Other EDs, especially those from developing countries (sometimes representing over twenty countries) largely focus on what is important to their countries (normally availability of Fund resources, conditionality and Article IV consultations); and, if they travel to half of their constituencies, they are lucky to be present for board meetings 50% of the time, let alone to get even this much work done effectively. Clearly the constituencies with a large number of countries, especially those without the benefits of a big support staff back home, are at a major disadvantage in contributing to EB discussions and policies. For the EB to be more in control of the day-to-day operations of the Fund, it should also initiate proposals, policies and reforms as opposed to reacting to documents produced by the Fund staff. More broadly, some have argued that IMF governance would be improved by making the EB, which at least theoretically runs the IMF on a day-to-day basis, more accountable for its decisions.

In sum, a number of proposals to reform the EB and the EB's operations could be entertained. First, EDs should not necessarily be government bureaucrats, the EB needs diversity of backgrounds. Countries should select (appoint or elect) individuals based on their knowledge of the field and private sector experience (commercial banking, investment banking and maybe academics, etc.). In this regard the appointment of a number of non-voting EDs, with no government allegiance, could be a useful step forward. Second, the term of EDs (whether appointed or elected) should be limited, say to a single five-year term or to two three-year terms. Some EDs stay almost for life; for some countries this is a retirement benefit, and many of those that are elected do not want to rock the boat. The board needs new blood, new ideas and vigor. Third, the number of countries in constituencies should be evened out while the size of the board should be roughly maintained. The single constituencies for China, Russia and Saudi Arabia should be abolished. The seats of the three permanent members from the EU could be abolished and replaced by one seat for *all* of the EU (not just for the three). The single constituencies for the US and Japan should be abolished. Constituencies should be re-arranged. The number of countries in a constituency should be capped at some reasonable number to keep them manageable for one ED. Fourth, the size of ED staffs should be dramatically

increased, especially those of large constituencies. Fifth, the EB should be encouraged to take the lead in all matters by initiating proposals as opposed to reacting and rubber-stamping staff initiatives.

3.2. *Ministerial committees*

There are two important ministerial committees – the Fund Interim Committee and the joint (Fund and World Bank) Development Committee – that are essentially policy committees.[17] These normally meet twice a year (fall and spring). The membership of these committees is structured along the lines of the EB (twenty-four in number, with some countries representing only themselves while others represent the same constituencies as on the EB). The views expressed at these meetings largely reflect those of the government of the minister who is representing the constituency (clearly, this is not an issue for the eight countries who represent only themselves). As a result, the views of smaller countries in a constituency, and especially those of developing countries, receive inadequate consideration. Also, there is insufficient time (in one or two days) to discuss issues in detail and to arrive at a solution in these meetings. Positions are formed before, and little change in views takes place at the meeting. In fact, the management draws up a rough draft communiqué as well as a press release even before the meeting starts and normally only marginal changes (little substance but usually emphasis and wording) are needed after the meeting. Most importantly, the Interim Committee sets up a work agenda for the Fund EB and the Development Committee does the same for the Bank. The committees also endorse policies that have been adopted recently or that are in the process of being adopted by the respective executive boards. The structure and organization of the Interim Committee is much better suited to developing a political consensus and setting general guidelines, as opposed to developing detailed policies and plans for their implementation. The detailed development of policies can be better handled through the extensive deliberations that are held at the EB. A few decisions (such as change in the Articles of Agreement) require the direct vote of the Board of Governors and voting is usually done by tested telex.

[17] The current President of the World Bank would like to see the Interim Committee transformed into a joint committee also.

Although ministerial committees have their limitations, it is difficult to see what, if anything, can be gained from a new ministerial committee or an enhanced and more powerful Interim Committee.[18] An enhanced EB would be a positive step and it should deal with the day-to-day issues of the Fund. The Interim (and Development) Committee (the politicians) should tackle the big and broad political policy issues, leave the implementation of policies to the EB, but twist arms when necessary to reach international consensus on issues. Another committee would only dilute the importance and role of Interim Committee and add very little in the way of substance and improved decisions. It is not another committee that is needed. A more powerful Interim Committee would need to spend the time to thrash out solutions. Ministers are invariably impatient, have little time and are largely interested in the 'big picture'. The big picture is what the Interim Committee focuses on already. What the world needs is the will to adopt appropriate policies and programs. It is the will to do what is right for the world in the long run that is important, as opposed to what benefits a particular constituency in the short run. If governments have the will, then the EB is the better venue for thrashing out the details and arriving at workable solutions. And the EB should not assign its responsibilities to the management or staff of the Fund.

It is curious that at times of crisis the international community invariably wants new institutions, as opposed to building up and improving on existing ones. Institutions do not solve problems, people (leaders) with political will affect change. In February 1999, the G-7 established a 'financial stability forum' to bring together finance ministries, central banks, and financial regulators to strengthen supervision of the international financial system (*The Economist*, 1999, p. 74). The forum is currently the initiative of the G-7 countries only. Each G-7 country will be allowed three representatives on the forum, one each from their finance ministry, central bank and 'senior supervisory authority'. The IMF and World Bank will have two members each, as will the Basle Committee on Banking Supervision, the International Organization of Securities Commissions and the International Association of Insurance Supervisors. The committee will be chaired for an initial period of three years by BIS General Manager Andrew Crockett and it will have a small secretariat in Basle. The forum clearly falls markedly short of recent calls to overhaul the international financial architecture. In particular, it is surprising that developing countries and emerging countries are excluded from the new forum; this is specially odd given that it is in these countries where problems arise most often. The G-7 should not alone determine the architecture of the international financial systems; the process should also engage emerging and developing economies.

[18] A more powerful Interim Committee is the suggestion of the former German Minister of finance, Oskar Lafontaine.

In the same vein, in early 1999, the United Nations laid out a blueprint for a new global body to regulate short-term capital flows with a view to warding off future crises. The body, to be known as the World Financial Organization (WFO), would have a specific mandate dealing with the monitoring of all short-term cross-border flows. The WFO would be similar in concept to the World Trade Organization and would study 'hot money' which can flow in and out of nations at lightening speed with the help of computer technology.

In regard to new committees, the most disturbing development has been the attempt of the US Congress to circumvent the role of the Interim Committee. As an integral part of the 1998 legislation approving the US quota increase, the Congress mandated the creation of a "permanent advisory Commission to the Interim Committee" consisting of legislators from countries that appoint EDs (Jiménez 1999). This commission would, therefore, be composed of legislators from the US, Japan, Germany, France and the UK, a very exclusive committee for an international institution! It is difficult to see how such a non-representative commission could add anything to global economic and financial cooperation and to the operations of the Fund. Instead it will alienate most Fund members. There have also been calls for new lending facilities to forestall crises and contagion. As a result, on April 25, 1999, the EB approved a new facility – Contingent Credit Lines (CCL) – for members with:

> "[...] strong policies as a precautionary line of defense readily available against future balance of payments problems that might arise from international financial contagion. The approval of financing under the CCL will signal the Fund's confidence in the member's economic policies, and in the member's determination to adjust them as needed should contagion hit. The CCL is being established for a two-year period and will be reviewed after one year's experience. It is intended to be a new instrument of crisis prevention by creating further incentives for members to adopt strong

policies and adhere to internationally accepted standards; by encouraging the constructive involvement of the private sector, thereby reducing the risks of contagion; and by signaling the Fund's willingness to provide its financing to the member should it be struck by contagion" (IMF 1999a).

While some of these changes may, in time, prove to be beneficial, the international community should focus on improving the existing organization. Rather than creating new committees and commissions, we would be wise to improve the composition and operations of the Interim Committee, the Development Committee, the EB and the management and staff of the Fund, increase IMF resources in a timely manner and rationalize IMF lending policies.

4. Management structure and staff

4.1. *Management structure*

From the Fund's inception, one of the *unwritten* (some refer to this as "by tradition" or a "gentleman's agreement") Articles of Agreement has been that the Managing Director (MD) would be a European and the Deputy Managing Director (DMD) would be an American.[19] The basic reasoning in support of this position was that the representatives of creditors (or of likely creditors) should run a financial institution; otherwise the borrowers would lend all the money to themselves and bankrupt the institution! Beginning in the early 1980s there was some sentiment that the position of MD could also be filled by a Japanese national (presumably as an honorary European). Since the announced retirement of Michel Camdessus in late 1999 (effective in early 2000), the Japanese government has publicly questioned the practice of restricting the nationality of the MD to a European and have proposed a Japanese candidate.

[19] Most recently in 1993, given the increasing workload of the DMD, the position was divided into three – a First Deputy Managing Director and two Deputy Managing Directors. The position of First Deputy Managing Director (FDMD – the premier position after the MD, with large control of policy and relations with G-7 countries and acting MD in the absence of the Managing Director) was assigned to a US national (in accordance with past practice when there was only one DMD).

While it may be readily accepted that a person whose heart and mind are committed only to the interest of borrowing countries should be ruled out for the position of MD or FDMD, it does not follow that these two positions should always be assigned to a European and an American respectively. As long as the industrial (largely creditors) countries (US, Canada, Western Europe, Australia, New Zealand and Japan) control over 50% of the votes, they can select whomever they wish for these positions. There seems to be no good reason, *a priori*, to restrict the nationality of the individuals who occupy these two positions in the Fund if in fact the Fund is to be seen as the international community's premier *financial institution*. On the other hand if it is to be run as a *political institution*, then there is good reason to base decisions on a highly restrictive citizenship criterion. By restricting the choice to Europeans and Americans, the world may be losing out on the most qualified international financial manager who may come from Australia, Latin America or Canada. Moreover, such a restrictive practice does not lend support to the Fund as an international institution. It alienates developing and emerging countries while serving no good purpose.

While the national origin of the managing director or of the first deputy managing director should not be pre-determined, their professional backgrounds should not be institutionalized either. These positions have been almost exclusively filled by government bureaucrats and to a lesser extent by academics (see Tables 7 and 8). In view of the fact that the IMF is the guardian of the international financial system, senior managers of private sector institutions should also be considered for these posts.[20] The market experience of such individuals would be invaluable to the global operations of the Fund in monitoring private capital flows (by far the lion's share of overall capital flows).

Moreover, it is ironic that the US Congress, among others, argues for transparency and openness of IMF policies and practices and yet it has no objection to something worse – unwritten, or "gentleman's", agreements. Clearly if the IMF is to be strengthened, then all senior management positions should be opened to the best financial managers and minds.

[20] The presidents of the World Bank Group (always an American by a similar unwritten agreement) have had more diverse backgrounds, including commercial banking and investment banking (for their backgrounds refer to Table 9).

TABLE 7

PROFESSIONAL BACKGROUND OF THE IMF'S MANAGING DIRECTOR

Managing Director (Nationality, Term)	History
Mr Camille Gutt (Belgium, May 1946-May 1951)	He practiced law and journalism before becoming Minister of finance of Belgium in 1935 and Minister of defense in 1942.
Mr Ivar Rooth (Sweden, August 1951-October 1956)	He was first associated with private banking institutions in Stockholm. He began his career in the Stockholm Handelsbank. He became Governor of the central bank of Sweden (Sveriges Riksbank) in 1929.
Mr Per Jacobsson (Sweden, November 1956-May 1963)	He lectured in economics at the Stockholm School of Forestry and at the School of Engineering. He published a number of articles in various periodicals. He became Economic Advisor of the Bank of International Settlement and head of its Monetary and Economics Department in 1931.
Mr Pierre-Paul Schweitzer (France, September 1963-August 1973)	He joined the staff of the French Treasury where he was promoted to "Inspecteur des Finances" in 1939. He spent four years in Washington from 1949 to 1953 as Financial Counselor at the French Embassy. He returned to the French Treasury as "Directeur du trésor" in 1953, and held that post until he was appointed Deputy Governor of the central bank of France (Banque de France) in 1960.
Mr H.J. Witteveen (Netherlands, September 1973-June 1978)	He was employed in the Dutch Central Planning Bureau in 1945, in which he gained the rank of Chief of Department. He became a professor of economics at the Rotterdam School of Economics from 1948. He then joined the Dutch Cabinet of Finance in 1963.
Mr Jacques de Larosière (France, June 1978-January 1987)	He spent most of his career in the foreign service, which included many assignments to French embassies in numerous countries. He joined the Ministry of economy and finance in 1963. He subsequently became Director of the French Treasury in 1974.
Mr Michel Camdessus (France, January 1987-Present)	He was Chairman of the Paris Club in 1978. He was also Director of the French Treasury from February 1982. From November 1984, he became Governor of the central bank of France.

Source: Various issues of *IMF Annual Report.*

TABLE 8

PROFESSIONAL BACKGROUND OF THE IMF'S DEPUTY MANAGING DIRECTORS

Deputy Managing Director (Nationality, Term)	History
Mr Andrew N. Overby (US, February 1949-January 1952)	He began his career in banking in 1931 in the Irving Trust Company, New York, where he became Assistant to the Vice President in 1936. From August 1946, he served as Special Assistant to the Secretary of the Treasury. Since July 1, 1947, he served as Executive Director of the International Monetary Fund, appointed by the United States.
Mr H. Merle Cochran (US, March 1953-October 1962)	He spent most of his career in the Foreign service, which included many assignments around the world. From late 1932, he served as Financial Secretary of the US Embassy in Paris.
Mr Frank A. Southard, Jr (US, November 1962-February 1974)	He was Professor of economics at Cornell University in 1931; he became chairman of the Department of Economics in 1946. In 1949, he became US Executive Director of the IMF, and Special Assistant to the Secretary of the Treasury.
Mr William B. Dale (US, March 1974-May 1984)	In 1948 he joined the International Financial Staff of the US Treasury, in charge principally of representing the Treasury overseas. Mr Dale was appointed in 1962 as US Executive Director of the IMF.
Mr Richard D. Erb (US, June 1984-June 1994)	He was a consultant in 1969 for Arthur D. Little Inc. and in 1971 joined Salomon Brothers, New York. In 1976 he became Deputy Assistant Secretary in the US Treasury Department. In 1977, he returned to consulting in the Comptroller of the Currency, US Treasury Department and in 1981 he was appointed IMF Executive Director for the United States.
Mr Stanley Fischer (US, June 1994-Present)	First Deputy Managing Director. He was Assistant Professor of Economics at the University of Chicago until 1973 when he returned to MIT as Associate Professor in the Department of Economics. He became Professor of economics at MIT in 1977. From January 1988 to August 1990 he served as Vice President, Development Economics and Chief Economist at the World Bank. He returned to MIT in 1990 before joining the IMF in 1994. He has also held consulting appointments and has published extensively.

TABLE 8 (cont.)

Deputy Managing Director (Nationatility, Term)	History
Mr Alassane Ouattara (Ivory Coast, June 1994-Present)	He joined the IMF in 1968 as an economist in the African Department leaving in 1973 to join the Central Bank for West African States (BCEAO), where he became Vice Governor in 1983. He rejoined the IMF in November 1984 as Director of the African Department and was appointed Counsellor of the IMF in May 1987. He returned to the BCEAO as Governor in November 1988. Between November 1990 and December 1993, he served as Prime Minister of Côte d'Ivoire.
Mr Prabhakar Narvekar (Indian, June 1994-February 1997)	He joined the IMF in 1953 as a Research Assistant, and held various positions in the Asian and European Departments before being appointed Director of the Asian Department in 1986. He became Special Advisor to the Managing Director of the IMF in August 1991. Mr Shigemitsu succeeded Mr Narvekar, who retired in 1997.
Mr Shigemitsu Sugisaki (Japan, February 1997-Present)	He joined Japan's Ministry of finance in 1964, where he held a number of positions, including that of Deputy Vice Minister of finance for International Affairs in 1990-91. He became a Special Advisor to the IMF's Managing Director in August 1994.

Source: Various issues of *IMF Annual Report.*

TABLE 9

PROFESSIONAL BACKGROUND OF WORLD BANK PRESIDENTS

President (Term)	History
Mr Eugene Meyer (June 1946-January 1947)	He assumed office on June 25, 1946. He was the owner of the *Washington Post* and active in banking circles, as head of a successful banking house (Eugene Meyer & Co.)
Mr John J. McCloy (March 1947-April 1949)	He was a lawyer and counsel to Chase National Bank. He held positions in the executive branch of the US Government (including Assistant Secretary of War).
Mr Eugene Black (July 1949-December 1962)	He was an investment banker and Senior Vice President of Chase Manhattan Bank; previously he was US Executive Director to the Bank and Assistant Secretary at the US Treasury.
Mr George Woods (January 1963-March 1968)	He was an investment banker and Chairman of First Boston Corp.
Mr Robert S. McNamara (April 1968-June 1981)	He was President of Ford Motor Co. and Secretary of Defense in the Kennedy and Johnson Administrations.
Mr A.W. Clausen (July 1981-June 1986)	He was with Bank of America and Bank America Corp. for 32 years, serving the last 11 years as President and CEO.
Mr Barber B. Conable (July 1986-August 1991)	He was a member of the House of Representatives from 1965-85, serving 18 years on the House Ways and Means Committee.
Mr Lewis T. Preston (September 1991-May 1995)	He joined J.P. Morgan & Co. in 1951, where he became President and later Chairman of the Board and CEO.
Mr James D. Wolfenson (June 1995-present)	He established his career since 1946 as an international investment banker with a parallel involvement in development issues and the global environment.

Source: Various issues of *World Bank Annual Report.*

TABLE 10

NATIONALITY DISTRIBUTION OF PROFESSIONAL AND MANAGERIAL STAFF BY REGION
(in percent)

Region[a]	1980	1990	1997
Africa	3.8	5.8	5.2
Asia	12.3	12.7	15.0
Japan	1.4	1.9	1.6
Other Asia	10.9	10.8	13.4
Europe	39.5	35.1	33.2
France	6.9	5.5	4.5
Germany	3.7	4.3	3.8
Italy	1.7	1.4	2.8
United Kingdom	8.2	8.0	7.0
BRO countries[b]	-	-	1.1
Other Europe	19.0	15.9	14.0
Middle East	5.4	5.5	6.1
Western hemisphere	39.1	41.0	40.5
Canada	2.6	2.8	3.5
United States	25.9	25.9	25.5
Other Western hemisphere	10.6	12.3	11.5
Total	100.0	100.0	100.0

[a] Regions are defined on the basis of the country distribution of the IMF's area departments. The European region includes countries in both the European Department and the European II Department. The Middle East region includes countries in North Africa.
[b] The Baltics, Russia and other former Soviet Union countries.
Source: IMF Annual Report 1998, IMF, Washington.

In the same vein, the term of the MD and FDMD should be limited to encourage new blood, and to allow for the infusion of new ideas. Whereas the average tenure of MDs and DMDs has been long, it has been especially long compared to the average tenure of EDs in general, and it is even longer compared to that of EDs in recent years. More appropriate would be something along the lines of a single term of five years, or two three-year terms. Tenures exceeding ten years are too long for the top management of an institution where change and accommodation to change should be the anthem.

4.2. *IMF staff*

A number of the 'stars' among the old timers at the Fund (and at the World Bank) characterize the contributions of the staff as "20 percent do 60 percent of the work". The percentages may be slightly different from one account to another, but the message is the same. For an institution that preaches efficiency, liberalization, transparency and good policies to countries, the IMF should also examine its own house if it is to enjoy credibility around the world. What are the issues in improving the quality, efficiency and effectiveness of the IMF staff?

As an international institution, the IMF must do all it can to promote national diversity in its staff without sacrificing quality. While some maintain that there are strict and implicit employment quotas (namely, in proportion to a country's quota), some consideration of such percentages may not be a bad target; a target but not an actual percentage that must be adhered to; a target with strong quality constraints. Clearly staff from emerging and developing economies could provide the Fund with insightful advice to enhance Fund-country relations.[21]

At the end of 1997, 122 countries were represented on staff, while 60 countries had no representation on the staff.[22] Table 10 contains the regional distribution of the Fund's professional and managerial staff.

[21] One of the authors of this paper will never forget the advice offered by a World Bank staff member in a meeting reviewing Bahrain's economic policies; the advice was for Bahrain to set up gambling casinos to attract tourists. A good catalyst for a revolution in Bahrain!
[22] For further details see IMF (1998, p. 100).

The Fund's professional staff is largely composed of Ph.D. economists from the West, or at least trained in the West. More specifically, whatever the origins of the professional staff, a significant majority are US university-trained Ph.D. economists, the point being that the academic and professional backgrounds of the Fund staff are not diverse (even though their national origins may be more diverse). Sound development policies should be based on more than the advice of US-trained Ph.D. economists who have joined the Fund usually directly upon graduation or after working in government bureaucracies for a few years. Universities outside the US also provide first-rate graduate education. Private sector experience in banking, investment banking and the like could only be helpful. Individuals with experience in supervision of financial institutions and in public administration would supplement, broaden and deepen IMF advice.

The IMF's staff members complain of frequent discrimination and of lack of transparency in personnel decisions, which permits decisions to be made inconsistently and allows favoritism to continue along race, religion, nationality and gender lines. The Fund, in response to staff concerns, conducted an unprecedented discrimination review in 1996 which reported disturbing complaints (Simpson 1999). In particular, employees from developing countries complained that the Fund operated to the advantage of the employees from industrialized countries, its major shareholders, and mostly to the advantage of those who are native English speakers who can write quickly. Even if such complaints are not strictly valid, this widely held belief among the staff from non-industrial countries does not present a healthy atmosphere; appearance of discrimination, or widespread belief thereof, may be as important as reality in such matters.

In the face of these generally held beliefs, the Fund has appointed a Special Advisor on Diversity. This special advisor, with the support of the MD, has apparently initiated a number of programs to enhance diversity – by country of origin and by gender.[23]

Besides the promotion of national background and educational diversity in its staff, there are a number of other policy initiations that could enhance staff efficiency. IMF salary structure is more akin to that of a government bureaucracy than that of a private sector institution. Meritocracy is largely sacrificed (although receiving a lot of lip

[23] IMF (1998, p. 101).

service) for the sake of promoting harmony among the majority, breeding mediocrity. Historically, the nature of appointments at the Fund (with the exception of fixed-term appointments) are similar to that of tenure in academic institutions. Once you are over an imaginary hump, the job is for life; but at the Fund, unlike in academics, the more generous salary and associated benefits create for some a 'golden cage' from which it is hard to escape. Tenure for staff, whether actual or inferred, is damaging for the Fund. Effective staff members should be promoted and highly paid; the inefficient should be let go. Efficiency starts at home. For an institution that requires fiscal responsibility, efficiency, etc., from its members, it should ask no less of itself. Meritocracy, in salary and in continued employment of staff, must become an institutional obsession. Again the Fund claims that it has begun to implement such a program:[24]

> "To recruit and retain the staff it needs, the IMF has developed a compensation and benefits system that is designed to be competitive, to reward performance, and to take account of the special needs of a multinational and largely expatriate staff".

While the goal of senior management is on the mark, actual performance may have been somewhat different. A number of senior staff members complain that the Fund could be run more efficiently; staff morale may be on the low side; and the Fund's overall organizational structure could be improved. Over the past three years, about forty or so senior and mid-level staff have left the Fund for the private sector. Although some of this attrition may be strictly due to salary considerations and may be quite healthy, some argue that it is more an indication of low morale. No matter what the reason, this attrition represents a significant loss of human capital for the Fund.

In sum, to initiate the necessary changes, some proactive policies are needed. The EB should take a more active supervisory role in staff matters by initiating reforms and proposals. At the same time, the EDs must refrain from promoting nepotism (an often-voiced criticism of staff members) by interfering in staff appointments and promotions; there is no room for petty political considerations in the selection of division chiefs, advisors, assistant directors, deputy directors and directors of departments. To create an appropriate atmosphere

[24] *Ibid.*

for promoting meritocracy, the term of the EDs, MD, FDMD and DMDs should be limited. The staff should not be held to a higher standard while some board members and the senior management are given tenure. All of these policies would also be helped by an EB whose governance is close to that of a private sector institution.

5. Political dimensions, transparency and credibility

5.1. *Political dimensions*

As a financial institution, national political considerations should have little or no place in the Fund (or in the World Bank). To the extent that political expediency drives the Fund today, political developments will also be the sand that grinds it to a halt tomorrow. Sadly, politics have played a role over and over again - delayed loans to Nicaragua and Pakistan, special considerations in loans for Mexico and Russia and special board representation for China and Russia. Policy inconsistencies based on political expediencies can only undermine the Fund, with both the credibility of the Fund and the integrity of the international financial system at stake. Invariably, when the Fund is accused of politically motivated decisions and of double standards, the US is accused of acting behind the scenes to promote its interests. During the Sandinista's regime, Nicaragua applied for a loan. All the 't's were crossed and all the 'i's were dotted, but the US did not want balance of payments financing for the Sandinistas. US lobbying prevailed.

Nowhere is the US role more apparent than in the Fund's relation with Russia, Mexico and South Korea. Since joining the IMF in 1992, Russia has become one of its largest borrowers, receiving over $ 20 billion in loans and other assistance. With each loan, the IMF required Russia to adopt economic reforms. Even though Moscow rarely fulfills its promises, the IMF continues to disperse money. It is telling that the conditions of most of these loans are virtually identical to the Fund's conditionality since 1992. The problem is that the IMF has continued to distribute funds to Russia despite institutional resistance and an inability to implement the reforms necessary for financial recovery and growth. In other words, the cheap credits allowed

Russia to delay reforms and, as a result, the IMF rewarded Moscow for not reforming. Critics point out that the IMF should encourage Russia to institute reforms such as enacting property-rights laws and a bankruptcy code, instead of providing Russia with any additional loans. For Russia to continue its current policies while asking the IMF to support its habits with additional loans is like giving 'cocaine to an addict'. The US, the EU or NATO may achieve some short-term political benefits but it is at the expense of the IMF's longer-term credibility and standing, especially among emerging and developing economies. If they want to continue financial support to Russia, despite its lack of performance, they can do so directly and without using the Fund as their vehicle.

The myth of the IMF's independence was further shattered in July 1998, when the IMF, under US pressure, released $ 4.8 billion to Russia to support both the ruble and its unstable financial markets. But within just weeks, no Russian government official could account for what had happened to the money which had been intended to stabilize the ruble, pushing many to claim that the IMF's support had allowed "members of Russia's power structure to convert personal holdings into dollars ending up in Swiss bank accounts" (Novak 1999). These are very similar problems to those encountered in Africa in the 1970s. Conditions attached to the loans required the money to be distributed to agencies that were completely unprepared for such massive capital inflows. Because of mismanagement, laxity and prevalent corruption in Russia, much-needed reforms, such as plans for cutting the budget deficit, overhauling the tax code and tax collection, have not been implemented. Further financial promises (on behalf of the IMF) may have been made to Russia by the G-7 during their summit in Cologne.

Because of its long border with the US, Mexico may be considered unlucky or lucky, depending on one's point of view. In 1982, at the onset of the Mexican debt crisis, the US arranged BIS bridge financing, it contributed its own financing *and* it pressured the Fund to go beyond what it would do for other countries. In the late 1980s, as the Brady Plan was being refined for implementing debt reduction for heavily indebted countries, the US rushed the plan into action through the Fund and the Bank ahead of time in order to aid Mexico (Askari 1991). To the private sector, it was unfortunate that sufficient time and consideration had not gone into the plan, and the choice of

Mexico as its first beneficiary was again unfortunate because it sent the wrong signal to the financial markets; corruption, lack of commitment and failure will be rewarded. In the same vein, it is telling that the size of the 1995 IMF package to Mexico was at that time the largest IMF package as a percent of quota (see Table 4).

The 1998 Korean Program is another stark instance of US political pressure. Although the package exceeded normal Fund lending limits, it also imposed a number of conditions that had never been imposed before – one condition for the loan was the opening up of the Korean market to foreign competition and foreign ownership (a long-standing US pre-occupation) and another was that no IMF resources could be used for Korean industries that compete with the US in world markets.

Because of US actions, the Fund has increasingly been accused of becoming an instrument of US foreign policy. This accusation was given more factual credibility with the debate and passage of US congressional legislation approving the US quota increase in 1998. Again, it is important to recall that the Fund was desperately in need of additional resources and thus the US Congress (over the objection of The White House and of the US Treasury) used its powers to extract extraordinary concessions and to impose extraordinary conditions in approving the quota increase. Congress imposed a number of specific IMF restrictions on the Korean economy, created new commissions with restricted memberships to affect IMF policies and imposed an audit of the IMF by the US General Accounting Office.[25] This raw exercise of power was further demonstrated as Congress gave the Fund's other major shareholders fifteen days to publicly accept congressional demands before the legislation would be enacted. The G-7 accepted the terms after discussions, but the rest of the world was left out in the cold; emerging and developing countries were not consulted but will now be subjected to policies that they did not enact. Such blatant disregard for the Fund as an international institution will not serve long-term global interests.

In sum, the role of politics must be reduced in IMF policies and operations. To achieve this, the size of special (qualified) voting majorities for certain decisions should be significantly reduced. Quota calculations, quota allocations and voting structure should be revised. These changes will reduce the ability of the US to pressure the Fund into promoting US foreign policy agenda in these and other areas. At the same time, the membership at large should also make a renewed commitment to eliminate political pressures on the management, as this only gives the US ammunition for its own parochial attitude toward the Fund.

[25] For an extensive discussion of these and their implications, see Jiménez (1999).

5.2. *Transparency and credibility*

There are essentially two categories of discussions and documents at the Fund – policy issues (establishing new lending facilities, methodology of quota calculations, etc.) and country issues (Article IV consultations, Recent Economic Development (RED), Loan (program) documents). Over time, REDs (for most countries), largely descriptive but containing the most up-to-date data for many countries, have become available to the public. Since mid-1997, detailed *summaries* of Article IV consultations plus modified EB Assessments have been published in Press Information Notices (PINs) by the Fund for roughly half the countries and are also available on the IMF's Website. The countries for which these are not available are largely developing countries who are very protective of any information. By and large, developing countries have been the countries that have historically resisted divulging more information on themselves. Some countries regularly give all country documents to their major commercial banks on a confidential basis. Making all of this country information available on all countries is thus largely up to individual countries and not up to the Fund's management.

In its 1998 IMF legislation the US Congress also touched on the release of information on EB discussions and documents. As a result, the Fund must now make the following available to the public:

– Summaries of meetings when a letter of intent, policy framework paper, article IV consultation or changes in general Fund policy are discussed;

– the documents prepared for such meetings.

It is not clear that the release of these documents will create sufficient transparency as new 'unofficial' documents or letters could take their place. Moreover, summaries may be selective in their coverage and existing documents may become more bland. Promoting transparency without causing volatility requires real commitment. In this regard, it is questionable that the US Congress is truly interested in transparency when in the same breath it holds the IMF hostage, politicizes the institution and unilaterally creates an exclusive advisory commission with no developing or emerging country representation. Suspicion is being promoted and not transparency.

Critics argue that written summaries of meetings are no substitute for full transcripts or for the mandatory release of all discussed documents. Moreover, the IMF and affected countries are allowed to edit the summaries and to delete any 'sensitive' information, including information that involves national security, proprietary information and information deemed 'market-sensitive'. Moreover, there is no way to discern how the IMF determines the size of the loans it offers, or how it formulates the underlying condition for financial packages. The secrecy of these policies also means that when loan programs do not progress as planned, it is extremely difficult to hold the IMF accountable for any role it may have played in dispensing bad advice.

Making all country documents readily available to the public has been countered with one major objection. Some of the information and recommendations in Article IV papers and in loan documents may be deemed sensitive and could therefore result in speculation against the country in question. This argument is hard to accept since much that occurs in the EB is already leaked to interested parties. At most, it may be useful to require a delay of a week or so before some of the sensitive information is released. At the same time it should be noted that the popular press seems to suggest that it is the Fund management that is secretive. All of this is under the control of the EB, which is dominated by industrial countries. Unfortunately, the operations (consensus) of the EB on this type of issue essentially allows most directors to block the release of any information.

As to policy papers, there is even less reason not to make them readily available. Their release would hopefully initiate useful debate, affording the Fund new ideas. Such openness would increase academic and private sector (commercial and investment banks) dialogue with the Fund. New ideas would be contributed to internal IMF debates and the Fund could benefit from the views of financial markets.

An often ignored transparency issue is that of the Fund's internal decision making process and procedures. The Fund makes decisions that affect personnel, program review, country access to Fund

resources and more. These decisions appear opaque not only to the outside world, but in some instances even to the institution's EB.

To enhance its credibility, the Fund must find a way to monitor what happens to its loans. How is the money used? Does it go into a black hole? Does it bail out local politicians and the well-connected? Does it find its way into Swiss bank accounts? These are critical questions for the IMF's long-term credibility. Otherwise taxpayers (especially those in emerging and developing countries) will be paying the Fund back for years to come for enriching corrupt local politicians; this is not the recipe to support long-term IMF credibility and to enhance the living standards of the disadvantaged.

The IMF's new interest in good governance is ironic given its own track record. The IMF lent over $ 1 billion to Zaire's legendary corrupt leader, Mobutu Sese Seko. From 1972 to 1995, Zaire received approximately $ 1.8 billion in IMF loans. In 1972, per capita GDP (measured in constant 1987 US dollars) was $ 683 in Zaire; in 1993, it was only $ 317, or some 54% less than it had been before Zaire received any loans. Kenya received IMF assistance which went into a black hole throughout the 1990s and the country was only recently admonished.[26] Moreover, in recent years, the IMF has extended and continues to extend loans to Russia despite overwhelming evidence of corruption and an absence of progress in the adoption of recommended policies. In sub-Saharan Africa, after two decades of development planning financed largely by the IMF and World Bank, there is a lower per capita income today than when aid started. The Fund needs to audit what happens to its loans and to related borrowings.

While the Fund implements this sensitive task, its programs must not be used as a vehicle to gain unrelated (and unnecessary) concessions from countries – for example, to increase foreign ownership in local firms. This is both myopic and political. If the Fund allows itself to be used in this way, it will be taking a step backwards.

[26] IMF's conditions in 1998 for resuming lending to Kenya require that it appoints directors to its anti-corruption authority.

6. Conclusion

Any organization can benefit from periodic and thorough review to assess the need for reform. The IMF is no exception. In the event that reform is needed, it should not be a superficial quick fix but comprehensive and long-term.

In the fifty years since its inception, the Fund has not been subjected to a truly comprehensive review. Piecemeal changes and political expediencies have been the order of the day. While the world economy and the financial system have gone through profound and dramatic changes, the Fund which is entrusted with its coordination has not. Now is as good a time as any for the Fund to examine itself, to change and to adapt. If the review is to stand the test of time, it should not only address IMF program policies, but it should be truly comprehensive, involving questions of governance, organization, day-to-day operations, capital structure and the like. These areas encompass a number of elements that bear close scrutiny, including quotas and voting structure, EB and management functions, personnel policies, policy independence and transparency, credibility and resource availability. While policy reforms have received broad coverage within the financial, political and academic community, these organizational and operational issues have been largely ignored.

Besides reforms, the Fund should also endeavor to build more international support for its policies. The IMF negotiates its programs with a mere handful of government officials, usually the finance minister and central bank head, and it has no formal process to consult with civil society. Prime Minister Tony Blair of the UK suggested that the IMF should be subject to a more external evaluation of its policies and should attempt to build a public consensus about its reforms (Wighton 1998). The IMF could appoint a committee of external reviewers (composed of businessmen, academics and representatives of NGOs) for each geographical region of the world to assess Fund programs for that region; a start in this direction has already been made for Latin America. The process of external evaluations is moving ahead rapidly; ESAF, research and surveillance have all been subjected to external review and other areas will probably follow. This is to the benefit of the long-term health of the institution. Civil society groups can be instrumental in simulating an objective debate about policy, particularly by offering alternative perspectives, methodologies and proposals. In order to be a more credible and effective financial institution, the IMF could reach out to groups such as: those who work with the poor, labor representatives, academics, NGOs and representatives from organizations representing small-to-medium-sized businesses. This would help to ensure that basic social expenditures are protected and that unemployment would be minimized. Without appropriate consultation of the public by the government through regular interactive meetings, hearings and workshops, IMF programs may not identify core problems, predict likely negative outcomes and win popular support for difficult measures. All of this should be supported with a comprehensive worldwide public relations effort. The Fund's senior management should not resist comprehensive reforms but should instead be their catalyst. Fundamental reforms can only strengthen the Fund and enhance its performance in a world that stands still for no one.

Finally, most meaningful and substantive reforms are invariably questioned as to their political realism. Our proposals as a package, and probably even individually, will be labelled as politically naive. We expect such criticism and frankly would be disappointed if we did receive it as we believe that fundamental reform invariably requires a good dose of naivety and idealism. In the end if ideas merit implementation, we can rest assured that politicians will not lose sight of political realities. We hope that this paper will serve as a useful catalyst for meaningful debate on organization and operational reform of the IMF.

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