IMF – development, criticisms and future tasks

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The activities of the International Monetary Fund (IMF) are a time-honoured matter for debate. In the past decade the focus has been on the Fund's significance for the stability of the international financial system, in particular its influence and impact on the emerging market economies in the light of rapidly expanding capital markets. There has been frequent criticism of the advice and conditions associated with IMF loans, most recently in connection with the crisis in Argentina. Some critics consider that the IMF's sphere of operations should be greatly curtailed; others go so far as to call for the Fund's closure. There are also those who want the IMF to have a broader mandate that includes matters not directly connected with its traditional mandate of macroeconomic and financial stability; in their opinion the Fund has become increasingly important as a bulwark for the international financial system's stability. Yet others have wanted to use the IMF's terms (conditionality) for political purposes.

The author's opinions and conclusions do not necessarily represent official Swedish positions.

How is the IMF reacting to the new environment with greatly increased capital movements? Is the criticism of the IMF justified? What are the main issues at present and what are the future challenges? The purpose of this article is to elucidate these matters. While not much has been altered in the mandate and charter of the IMF since the Fund was established in 1944, the content of the Fund's operations has changed considerably as the world has changed and the Fund has faced new challenges. The forces for change have been mainly external. The Fund has become considerably more transparent and more inclined to listen and learn. The criticism has been called for in a number of cases but should be seen in context. The IMF is a competent institution with a central function in promoting international financial stability and deserves the support of small countries.

Not much has been altered in the mandate and charter of the IMF since the Fund was established in 1944 but the content of the Fund's operations has changed considerably.

First I present lessons from the international financial crises in the past decade. Then I describe the measures that have already been taken and those that are now being discussed under the rubric "reforming the

international financial architecture". I also consider the criticism that has been voiced of the IMF and its functions. A historical look at the factors which have formed the work and role of the Fund in the past fifty years is presented in an annex that also briefly describes the IMF's main operations today. In addition, the annex contains an account of how the institutional structure – the groups that control or influence the IMF – has developed.

New environment with globalised financial markets

The financial crisis in Mexico in 1994–95 came as a shock not only to the financial markets but also to the IMF. Once the negotiations with the IMF had got under way it became clear that Mexico had unprecedented needs. The Mexican financial crisis has come to be seen as the first in the twentieth century in an emerging economy in a world with globalised financial markets. It has been followed by similar crises elsewhere: in Asia, Russia, Brazil and, most recently, Turkey and Argentina. All these cases have involved very large loan packages from the IMF at the same time as the Fund's traditional medicine was clearly not achieving a complete cure. So what distinguishes the new environment from the old?

Private capital flows have grown, capital can now be transferred more rapidly and the relationship between financial crises and macroeconomic fundamentals has become more blurred.

For one thing, private capital flows are now much bigger. Private financing facilities have made large current-account deficits feasible; when the flows of private capital change direction, countries that are dependent on external financing are hit particularly heavily. For another, with decreased transaction costs and the evolution of financial instruments, capital can now be transferred much more rapidly than before, which also means that investors can withdraw from a country at the first signs of a financial crisis. Thirdly, the relationship between financial crises and macroeconomic fundamentals has become more blurred. While observers considered that the Mexican peso's initial devaluation was in line with expectations, the currency's subsequent collapse was totally unforeseen.[1] Moreover, recent international financial crises have tended to occur together with bank crises. This was evident not least during the financial crisis in Asia in 1997–98.

"Reforming the international financial architecture"

The lessons from the crisis have resulted in a consensus on a number of general principles.

During and after the crisis in Asia there was a discussion about the lessons that could be drawn and how efforts could be directed both to prevent similar crises in the future and to manage them better if they do occur.

[1] For a more detailed account, see De Gregorio et al. (1999).

This discussion, under the heading "reforming the international financial architecture", ultimately led to a consensus on the following general principles:[2]

- The IMF should continue to play the same role as before in maintaining the stability of the international monetary system both through surveillance of the system and by providing short-term financing for countries with balance of payments problems.
- The information to the IMF and to markets about economic conditions in member countries must be improved. The IMF must be more transparent in its assessments of and advice to member countries.
- The IMF and other international organisations must focus more on strengthening the financial systems of member countries.
- The IMF and the World Bank must assign greater importance to measures for countering negative social consequences of adjustment in crisis countries.
- Banks and other private creditors ought to provide larger shares of financing in connection with financial crises.

What has happened in these respects? The measures referred to in this discussion are usually divided into two categories: those that promote the prevention of financial crises and those that promote better crisis management.

CRISIS PREVENTION

A number of initiatives have been taken to improve the work of surveillance and make it more effective.

In connection with the Asia crisis in 1997–98 there were many who questioned the quality of the Fund's surveillance. They considered that the IMF had failed to note the risk of the crisis spreading from Thailand to other countries in the region, which it actually did, above all to Indonesia and South Korea. Since then a number of initiatives have been taken to improve the work of surveillance and make it more effective.

The international financial crises have generated more attention to the promotion of standards in various respects.

In general, the international community can be said to have created better chances of preventing financial crises. The international financial crises have generated more attention to the *promotion of standards* in various respects. Work is being done, under the auspices of the IMF, BIS[3], IOSCO[4], IAS[5] and other international organisations, to construct rules and principles for the operations of financial institutions as well as for how governments and central banks are to be transparent about statistics, fis-

[2] See IMF (2000).
[3] Bank for International Settlements.
[4] International Organization for Governmental Securities Commissions.
[5] International Accounting Standard.

cal policy and monetary policy. This work has to do with such concrete matters as accounting, increased transparency and, not least, principles for risk management. It is envisaged that, together with a clearer macroeconomic environment, more uniform rules and more transparency in accounting, capital adequacy and credit assessments will create better conditions for the operations of financial markets and institutions, thereby ultimately reducing the risk of financial crises.

The Asia crisis led to IMF programme requirements for the development of securities markets.

More attention has also been paid to the significance of the fact that the financial system consists not only of financial institutions but also requires efficient securities markets that provide alternative channels for corporate financing in cases where the institutions function less well. Moreover, that will reduce the real economic effects of bank crises. In the Asia crisis these conclusions led to IMF programme requirements for the development of securities markets because that makes the economy more robust.

A sound banking system is needed as well as efficient oversight of the financial sector.

The general conduct of a country's economic policy must be such that it does not disturb the confidence of domestic and foreign investors. It is also important to have a sound banking system and efficient oversight of the financial sector. Its assessments of how individual countries comply with these standards have provided the Fund, member countries and financial investors with a better picture of potential weaknesses. Together with the World Bank, moreover, the Fund has developed methods for assessing a country's financial sector.[6] Another main theme, not least in the light of developments in Argentina, has been the sustainability of country debt. The aim has been to enhance the IMF's ability to detect signs of a crisis and identify risks at an early stage.

Perhaps the biggest change in crisis prevention has occurred in the area of transparency and openness.

Perhaps the biggest change in crisis prevention has occurred in the area of *transparency and openness*. Greater transparency is also one of Sweden's profile issues in the IMF. The Fund used to be a comparatively closed organisation, which contributed to the criticism of it. Today, however, much information is available and to a growing extent member countries are permitting the publication of documents connected with surveillance; more than 60 per cent of such documents are now published with the consent of the countries concerned. The IMF presented 1,400 documents on its website in 2002, which was twice the number the year before.[7]

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[6] Financial Sector Assessment Program (FSAP), 1999.
[7] See IMF (2003b).

The importance of increased transparency has been demonstrated in a number of studies. A recent IMF working paper[8] found, for instance, that relatively high transparency makes investors more inclined to continue their exposure when the country experiences a financial crisis. Investors with little or no information can often be said to fear the worst. More and more emerging market economies are also beginning to appreciate the importance of better insight. An example is Uruguay, which published its latest programme document. But notwithstanding the empirical evidence, during the past year the number of publications has risen more slowly. Certain countries, particularly in the developing world, have been very sceptical about increased transparency, above all in respect of their own economic policy. The introduction of tougher demands for the publication of IMF documents is now being discussed. The Fund is an association of sovereign states and all publication is currently voluntary. One idea is to make publication presumptive, in which case countries that choose not to publish IMF reports would be under more pressure to explain why. A final resort would be to make publication of IMF reports compulsory; considering the attitude of the debtor countries, it is reasonable to suppose that such a decision lies in the future. But I do believe there is a chance of publication becoming presumptive. In the meantime I find it important to go on taking every opportunity of converting the sceptical to openness. That will ultimately enhance the stability of the international financial system and thereby improve the work of crisis prevention.

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CRISIS MANAGEMENT

The measures for improving crisis management have been more controversial in the international debate than those for crisis prevention. While the discussions of this topic have led to a better understanding of how the management of financial crises could be improved, less progress has been made in practice. This is partly a consequence of a sceptical attitude, mainly on the part of the United States, to interfering too much with market mechanisms and partly because the countries hit by crises have opposed many measures for fear of them adding to their borrowing costs.

The measures for improving crisis management have been more controversial in the international debate than those for crisis prevention.

Under normal circumstances, most member countries have no need of financing from the IMF because they are able to borrow via the international capital markets. In a crisis, on the other hand, the latter sources soon dry up, leading to a larger borrowing requirement from the Fund. In general terms, a country in a financial crisis that denies it access to the international capital markets has three ways of covering a financing

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[8] See Gelos et al. (2002).

requirement. One is a tighter economic policy that reduces the borrowing requirement, another is to borrow from international organisations such as the IMF and the third is for the private sector to assist in financing the management of the crisis by continuing its exposures to the country instead of withdrawing. Much of the debate on crisis management has been about how to induce the private sector to participate to a greater extent in the financing of international financial crises. This is not a new debate; it also surfaced in connection with the debt crisis in the 1980s. But in those days it was about getting a comparatively small number of private banks to extend their loans to countries in a crisis. Today, when emerging market economies have more access to international capital markets and private holders of bonds issued by those countries are much more numerous, the situation is far more complex.

Proposals to set up an international bankruptcy mechanism were discussed in connection with the crises in Mexico and Asia.

Proposals to set up an *international bankruptcy mechanism* were discussed in connection with the crises in Mexico and Asia. The idea was that countries in an acute financial crisis would then be in a better position to resolve the crisis in an orderly manner. But as the Mexican economy recovered relatively quickly and the situation in Asia had already improved in 1998, such ideas did not catch on. The discussion was renewed when Argentina was forced to suspend payments to its creditors in 2001. That autumn Anne Krueger, first deputy managing director of the IMF, presented a proposal for an international bankruptcy arrangement known as the Sovereign Debt Restructuring Mechanism (SDRM).[9] The idea is to create a framework whereby countries that have got into a crisis with an unmanageable debt will be able to renegotiate the debt in an orderly manner. The proposal draws inspiration from American bankruptcy law, which places a temporary stay on creditors taking legal action against a company that has been declared insolvent and obtained a law court's approval. The proposal envisages that a decision by a majority of creditors would bind the minority and thereby favour a more orderly management of debt.

Representatives of the private sector and the emerging market economies are critical of SDRM.

Various versions of SDRM have been discussed by the IMF during the last two years and the outlines of a concrete proposal are now in place. However, this proposal lacks the support from 85 per cent of the member countries that is required to amend the IMF's articles of agreement and thereby launch the mechanism. Private sector representatives are highly critical of SDRM, mainly because they reject the case for the international community's intervention in a restructuring of debt. Another reason is probably that the existing system is more advantageous for the private sector in that it entails implicit subsidies from the public community.

[9] For a fuller description of this and other proposals for better crisis management, see Melander (2002).

Neither are representatives of the emerging market economies, for which the proposal is primarily intended, convinced of the need for SDRM. Their scepticism has mainly stemmed from a fear of increased borrowing costs.

Collective action clauses in bond contracts are another way of promoting an orderly resolution of crises.

An important observation is that just the discussion of SDRM has promoted other ways of resolving crises in an orderly manner. A proposal to introduce collective action clauses in bond contracts, for instance to make it possible for the terms to be changed by a qualified majority, has been accepted more widely in the past year.[10] Such clauses where already being discussed after the Mexican crisis in 1995 but at that time the United States, emerging market economies and private sector representatives were not in favour. The fact that the IMF has considered introducing SDRM has meant that the previous opponents of collective action clauses are now more inclined to agree to their introduction. Today, such clauses in bond contracts are as self-evident to many as the importance of greater transparency.

The potential scale of capital movements means that financing requirements are tending to become enormous.

A central aspect of crisis management naturally has to do with *how much individual countries can borrow from the IMF*. In recent years the financing requirement in certain crisis countries has been well above the normal rules for access to the Fund's resources. Since the Mexican crisis in 1995, the IMF's normal lending limits[11] have been exceeded on twelve occasions. In 1997, for instance, South Korea had access, within the framework of its IMF programme, to the equivalent of about 1,900 per cent of its share of the Fund's capital. The corresponding figure for Brazil in 2002 was 750 per cent. Lending by the Fund to Turkey has been stepped up so that in 2001 it amounted to about USD 31 billion or approximately 2,800 per cent of this country's capital share.[12] The tendency naturally reflects the increased exposure to international capital markets and the larger financing requirement this entails when countries encounter problems. The potential scale of capital movements means that financing requirements are tending to become enormous. Another legitimate question is whether the country shares of the Fund's capital are sufficiently adapted to cope with the challenges in today's globalised economy. Representatives of the emerging market economies have argued that it is just their capital contributions, or quotas, in the IMF which need to be increased so that more financing from the IMF would be available in the event of a crisis. This point of view has not gained a hearing among other member countries.[13]

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[10] Mexico introduced such clauses in its latest bond issue and the same has been done by other countries, e.g Egypt, Lebanon and South Korea.

[11] The lending limit is 300 per cent of the quota or capital contribution (100 per cent a year for three years).

[12] See IMF (2002).

[13] For a further discussion of IMF quotas, see Nedersjö (2001).

The past decade's international financial crises and the loan packages provided by the IMF have enhanced the Fund's political importance.

The past decade's international financial crises and the loan packages provided by the IMF have enhanced the Fund's political importance. Although the Fund does not have a political mandate – lending decisions are to be based on economic considerations – the Fund is sometimes used at arm's length by the largest countries, particularly the United States. As it is the size of their economies that determines the influence of the member countries, throughout the history of the Fund the United States has wielded most influence and also been in a position to block certain crucial decisions. Executive board decisions usually represent a consensus, reached without taking a vote. But it is also the case that in practice, the decisions that are most sensitive politically have come to be reached off the board by the largest "stakeholders". Above all, matters to do with large loan packages in a crisis have been settled as a rule in advance by G7. Thus, the outcome has often been decided before these programmes reached the board. There have also been occasions when the head of the IMF, after consulting G7 but before the board formally approved the loan, issued a press notice in which he recommended a positive outcome. That naturally made it difficult for the board to decide otherwise without risking market reactions against the crisis countries in question, since an IMF package had already been discounted.

The board recently adopted new guidelines for deciding loans that exceed normal limits.

New guidelines for deciding loans that exceed normal limits were recently adopted by the executive board. The guidelines are intended to ensure that in such cases the board is formally informed more continuously. As a small country, Sweden has every reason to support a rule-based system so that these rules are adhered to. Otherwise there is a risk of the IMF being used even more by the major G7 countries as an extension of their foreign policy. As the Fund's financing capability is not infinite, it is also important that the board follows the normal lending rules and limits to a greater extent. Another central matter is to get the private sector to provide more financial assistance in crisis management so as to ease the burden of financing by member countries. As indicated earlier, there is a risk that increasingly large loan packages will give investors the wrong incentives (moral hazard) by implying that investing in emerging markets is relatively free from risk because the IMF "in the last resort will provide financing in the event of a crisis".

An international insolvency procedure would restrict lending from the international community to countries in an insolvency crisis.

If the rules for lending limits were to be followed more consistently by the IMF's board, countries in a debt crisis would be more likely to have a greater incentive to enter into negotiations with their private creditors at an early stage. An international insolvency procedure would facilitate this. Such a system would restrict lending by the international community to

countries in an insolvency crisis[14] that is likely to take a long time to resolve. Debtor countries as well as private creditors would then probably have a stronger incentive to negotiate a sustainable solution. Debtor countries would benefit because they would probably not lose access to the international capital markets, at least not in the somewhat longer run (provided they seem likely to take measures to overcome the crisis), and the creditors would more probably get their money. In a situation where the negotiations fail to produce a solution, SDRM could be activated as a last resort. Although there is clearly not enough support at present for setting up such a mechanism, I find it important that the question of improving crisis management continues to be discussed, particularly in the light of Argentina's renegotiation of the loans it has defaulted on.

Criticism of the IMF

Criticism of the IMF roughly falls into five categories.

The role of the IMF has been the subject of a lively debate, not least in connection with the management of financial crises in recent years. The criticism roughly falls into five categories.[15] First there is the charge that the IMF has pumped too much money in the form of massive support programmes into middle-income countries and thereby distorted the market's normal credit assessment by protecting private creditors from losses (moral hazard). Secondly it has been argued that the demands on individual countries (conditionality) have been faulty and unduly severe, leading to negative economic, social and political effects. Thirdly, the Fund is accused of irresponsibly forcing countries to open their economies to capital flows that are volatile and destabilising. Fourthly, the Fund has been criticised for its policy on the poorest countries' debt, with demands for increased debt relief. The fifth line of criticism concerns the Fund's governance.

THE PROBLEM OF MORAL HAZARD

In practice, the role of the IMF in the management of crises in emerging market economies has amounted to guaranteeing short-term loans in particular and thereby shielding the countries in question from the difficulty of renegotiating the loans and perhaps ultimately from having to suspend payments, with potentially serious consequences for economic development and living conditions in those countries. It may be asked whether this is sustainable in the longer run, even though it was difficult to see any

[14] For a discussion of the difference between solvency and liquidity crises, see Melander (2002).
[15] See Rogoff (2003).

The IMF's crisis management has enabled emerging market economies to borrow more cheaply than would otherwise have been the case; international creditors have not needed to charge higher interest rates to cover their risks.

acceptable alternative when the crisis was raging. One effect in practice has been that loans for emerging market economies have been cheaper than would otherwise have been the case. International banks and other creditors have not needed to charge as much compensation for their risks – in the form of higher interest rates – as they would have if they had had to count on carrying the full loss in the event of a crisis. This means that the support packages have tended to exacerbate the problems with growing flows of volatile capital. Neither has the equivalent support been available in practice for more long-term direct investments, which presumably would be at least as valuable for the emerging market economies in that such investments are primarily dependent on the long-term development of the domestic economy.

Note that the moral-hazard problem has no obvious solution.

Note that there is no obvious solution to problems of this kind. A line that has been adopted in some cases is for private players, encouraged by their governments, to make voluntary agreements to prolong their loans. A difficulty here is that discussions with private creditors have to be initiated by the crisis country and the countries concerned have often been disinclined to resort to measures that might jeopardise their future access to the international capital markets. Together with stricter rules for lending, the proposed SDRM would probably facilitate the management of debt crises both by making the management of acute financial crises more predictable and by avoiding such a long delay before the countries call for a reconstruction that the situation becomes chaotic.

IMF'S CONDITIONS

The Fund has been criticised for making its loans dependent on an excessively tight economic policy.

Another type of criticism has concerned the conditionality of the various loan packages. The Fund has been criticised for making its loans dependent on an excessively tight economic policy. This criticism was voiced not least in connection with the Asia crisis, when it was considered that the IMF's economic policy prescriptions were faulty and unduly strict, so that they exacerbated instead of improving the conditions for a recovery. Shouldn't interest rates be lower, both to avoid knocking out firms with domestic debt as well as the banking system and to keep the wheels turning by stimulating demand more strongly? Or were, on the contrary, high interest rates needed to avoid a flight of essential capital, a currency depreciation and the collapse of firms with foreign currency liabilities? Or could it be the case that the high interest rates would cause investors to withdraw because they saw a future with continued failures and social unrest?

It should be borne in mind that countries in a crisis go through a series of phases. In the initial phase, there are no potential lenders as a rule apart from the IMF; the alternative is self-financing, that is, a severe domestic tightening to turn a borrowing requirement into a surplus that suffices to service foreign debt. Later, when confidence in economic policy has been strengthened, there are more options and it becomes meaningful to discuss additional borrowing as an alternative to further domestic restrictions. In an acute liquidity crisis, however, this choice is not available.

Countries in a crisis go through a series of phases.

Another point to bear in mind is that countries do not apply for IMF loans when the going is good. They tend to turn to the Fund only when the situation has become untenable and their financial crisis is acute. This means that vigorous measures are then usually needed to restore investor confidence and thereby secure access to the international capital markets. The IMF financing absolves the countries from tightening their belts as much as would have been necessary without this support. We still do not really know to what extent the IMF's medicine during the Asian crisis was appropriate and with hindsight it is always easy to criticise tricky decisions that were made at the height of a crisis. Neither can we tell what a different policy would have led to. But we do know that after some time, the restrictive nature of a number of the programmes was eased, partly as the acute phase of the crisis receded and the shortage of foreign currency became less troublesome.

Countries tend to turn to the Fund only when the situation has become untenable and their financial crisis is acute.

Another issue is the *structural changes and reforms* that some of the programmes required and which have also been criticised in connection with IMF programmes for the poorest countries. There may be a case for such requirements with respect to, for instance, the bank sector, the development of securities markets and corporate bankruptcy procedures, where the shortcomings are often clearly integrated with the other problems. And of course they may be motivated in countries that are aiming to open their economies and develop market mechanisms. The requirements are more questionable when they concern aspects of the economy that are not clearly involved in the current stabilisation problem. For example, it was not self-evident that South Korea should immediately implement a tax reform and privatise state enterprises.[16] These were natural measures in the longer run but were they necessary immediately in the programme? The large number of structural conditions in programmes for the Asia crisis can also be criticised; such conditions are liable to discredit the Fund, besides generating needless opposition to the IMF's proposed policy in the countries concerned.

Another issue is the Fund's call for structural changes and reforms, which has also been criticised in connection with programmes for the poorest countries.

[16] See e.g. Goldstein (2000).

A topical instance of heavy criticism of the Fund is the management of the ongoing crisis in *Argentina.*[17] The IMF has supported the Argentine economy for a number of years and even provided additional funds as recently as in August 2001, when many considered that the situation with a fixed exchange rate had become untenable. Following the collapse of the currency board in January 2002 and Argentina's suspension of payments to its creditors, the negotiations on a revised economic programme hung fire throughout 2002. It has been argued that the Fund should have acted earlier with demands for measures to make the currency board arrangement more sustainable, or even forced Argentina to alter its exchange rate policy before it was too late. Other critics place a part of the blame for the crisis on the Fund on the grounds that, as a supporter of the fixed exchange rate policy, the Fund ought not to have "abandoned" the country when it landed in a deep crisis of confidence after the suspension of payments and the shift from the fixed exchange rate.

Bear in mind that the IMF is not mandated to require that a country alters its exchange rate arrangement.

Here it should be borne in mind that the IMF is not mandated to require that a country alter its exchange rate arrangement. While the Fund is in a position to propose a variety of measures in its negotiations with borrower countries, the choice of exchange rate is in many respects a political issue, so calling for a shift from a fixed to a flexible regime is considered to be an excessive interference with the country's internal matters. In the case of Argentina there is the problem of the country's traditional tendency to live above its means. A lack of political leadership has also been an inhibitory factor. There is no denying that clearer signals from the Fund – for example, a refusal to grant the additional loans in August 2001 until more vigorous steps had been taken to restore confidence – could have resulted in an earlier shift in exchange rate policy and possibly led to a smoother changeover. In this respect, however, a particular responsibility rests on the big players in the IMF, led by the United States. It is also a fact that during 2002 staff from the Fund made over 30 trips from Washington to Buenos Aires, which finally resulted in approval of an interim programme in January 2003. I find it unreasonable to accuse the Fund of not giving priority to a resolution of the crisis in Argentina. It has mainly been a matter of Argentina's inability to anchor the necessary reforms politically, rather than the IMF's conditions being too far-reaching.

[17] For a detailed account of the IMF's role in Argentina, see Mussa (2002b).

CAPITAL LIBERALISATION

For emerging market economies, the rapid expansion of international capital markets has provided increased access to loans when there is an acute need to mitigate the effects of other shocks, whether these come from crop failures or from falling prices for major export products. Investment in these countries has also grown dramatically, leading to increased output and prosperity. At the same time, the industrialised countries have been able to diversify risks to a greater extent and benefit from the higher return that investment in emerging market economies, for example, may yield. This should have resulted in a more efficient use of capital in individual countries as well as globally.

The rapid expansion of international capital markets should have resulted in a more efficient use of capital in individual countries as well as globally.

Still, there have been problems. The consequences of capital liberalisation in recent decades – in particular countries as well as on the global capital markets – were undoubtedly underestimated when the process began. Just as there is a rush to invest when economic prospects are favourable, so does disinvestment tend to be rapid when the financers suspect that mounting problems threaten the funds entrusted to them. The international discussion has now changed tack. Much has been written about how deregulations have been undertaken in countries like Sweden as well as in the developing world. Liberalisation was sometimes implemented too quickly, without proper consideration of the consequences. This is now being heeded in advice to countries that have not yet opened their markets. The temporary restrictions on capital inflows that Chile applied in the late 1990s are judged to have worked satisfactorily. The earlier criticism of the restrictions the Malaysian authorities imposed on capital outflows in connection with the Asia crisis has been modified. A central lesson is that the basic infrastructure in terms of surveillance and banking systems needs to be in place before launching a more far-reaching liberalisation of capital flows.

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POOR-COUNTRY DEBT

The work of the IMF for the poorest countries came to the fore in the mid 1980s. Ever since they had achieved independence in the 1960s, the former colonies had had no alternative to borrowing at market rates. Concessional lending by the Fund began in 1986 with the creation of the Enhanced Structural Adjustment Facility, SAF/ESAF (today called PRGF). Instead of being financed in the ordinary way from the member countries' capital contributions, this facility is funded with loans and contributions from individual countries. This paves the way for charging virtually no interest on loans and having longer maturities. The introduction of this bor-

In that SAF/ESAF (now PRGF) is financed with loans and contributions from individual member countries, interest can be virtually waived and combined with longer maturities.

rowing facility caused some controversy because a number of member countries feared that an increased involvement in concessional lending would be liable to turn the Fund into more of a development institution, which would encroach on the territory of the World Bank.

Lending to the poorest member countries is small compared with the normal non-concessional loans.

The operations of the IMF in the poorest countries have aroused controversy at times, not least in the recent debate on effects of globalisation. In some circles the Fund is equated with Third World structural adjustment programmes. But although lending to the poorest member countries, measured as the number of programmes, represents a central component of the Fund's activities, its volume is small compared with the normal non-concessional loans.

A stronger focus on promoting growth and combating poverty in the poorest member countries was approved by the IMF in 1999.

Critics have also argued that the international community does not do enough to overcome the problem of poor-country debt. The discussions since the 1980s about the growing problem of the poorest countries' debts became more focused in 1996 with the adoption of a new debt-relief mechanism known as the Highly Indebted Poor Countries initiative (the HIPC initiative). Unlike earlier arrangements, this initiative assembled all the creditors of a country – bilateral as well as multilateral – to work together for debt relief. Pressure from various interests led to a broadening of the initiative in 1999. In that year the Fund also adopted a stronger focus on matters to do with promoting growth and reducing poverty in the poorest countries.

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To date, 26 countries have been promised debt relief equivalent to more than USD 25 billion.[18] The costs for the debt relief to the 34 countries included in the enhanced initiative are estimated to total USD 41 billion.[19] It is intended that the funds which debt relief makes available in the countries in question will be used to step up efforts for reducing poverty. A positive development is discernible. For example, the average level of debt payments by the countries in question has declined from 17.5 per cent of their exports in 1998 to 10 per cent in 2002, while their average social expenditures have risen from just over 6 per cent of GDP in 1999 to more than 9 per cent in 2002.[20] But a good deal remains to be done before every creditor contributes to these countries' debt relief; experience has shown that private creditors are not always prepared to participate in the initiative.

A review is in progress of the IMF's role in poor countries.

Another topical issue is the role of the IMF in the poorest countries, particularly those that have obtained debt relief and can thus be said to have "graduated" from the initiative. On the one hand, it is important that these countries do not enlarge their debt burden again with loans

[18] At current values.
[19] In nominal terms.
[20] See IMF (2003a).

from international organisations; on the other, an IMF programme is usually a precondition for obtaining budget support from individual donor countries. These two considerations have to be reconciled. One solution might be for the poor countries to have programmes with little or no direct financing but with the possibility of drawing on the Fund's resources up to a specified level should the need arise.[21] That would not add to their debt but still make them eligible for IMF programmes that open the door to development assistance. These problems are also being considered in the ongoing review of the IMF's role in poor countries. Hopefully, the work of the Fund in these countries can be made more effective.

A total write-off of the poorest countries' debts would absorb the whole of the IMF resources for soft loans.

So why not write-off all of the poorest countries' debts? While the sums involved may seem relatively small for the global community, that is not the case compared with the resources that are actually available today. A total write-off would absorb all the funds at the disposal of the IMF for soft loans, with similar consequences for other institutions in this field. There would then be no resources for future concessional loans from the IMF to other poor countries. Would that be a reasonable policy? Is it just those countries that have incurred the largest debts that deserve most support? In other words, given a certain amount of resources for combating poverty, would one assign them to the most indebted countries? Not necessarily. Then there is the problem of what the IMF would be signalling to borrower countries in general if the criterion for obtaining support were to be a history of building up large debts.

Here, too, it is thus a matter of a difficult balancing act. Writing off debt needs to be feasible because debt can be a major obstacle to development. But it also needs to be done in ways that support the country's general economic development and also reduce poverty. Moreover, taxpayers in the donor countries need to appreciate the reasons behind the support, which considering the nature of some indebted countries' regimes is not always easy.

Poverty reduction now has a more explicit role and the forms for consultation have been notably reinforced.

We can see that the debate in this field in recent years has led to changes. Reducing poverty now has a more explicit role and there are substantially wider forms for consultation – not least the broad dialogue that was initiated between representatives of poor borrower countries in connection with specific poverty reduction strategies. The debate has also highlighted the importance of building up institutions. For the future, the IMF needs to define its role in poor countries more clearly and achieve better cooperation with other players, above all the World Bank.

[21] Certain loan facilities for regular lending (at "market rates", see note 40 on p. 169) can also be used for precautionary purposes: the country obtains a programme where it refrains in advance from using the loans in question but is entitled to draw on the resources should a need arise during the programme's lifetime.

There have been demands for increased influence and representation for emerging market economies in the IMF.

The issue of IMF governance has also been discussed. The growing importance of the emerging market economies has fuelled criticism of the composition of the executive board, with demands for increased influence and representation for emerging market economies.[22] The board consists of 24 members, of whom 10 represent emerging-market and middle-income countries. A change in representation could be achieved in the longer run by amending the relatively complex formulas for calculating the size of a country's contribution to the Fund, since this determines the number of votes a country has. That would require a successive increase in the Fund's capital, which would take time because the financial base is reviewed only once every five years.[23] A more drastic alternative would be to give the emerging market economies more influence by making a political decision to alter the composition of the constituencies.[24] The charter of the IMF[25] stipulates that the executive board is to consist of 20 members but additions – most recently when the former Soviet republics joined – have currently raised the number to 24. Decisions to increase or reduce the number of board members require an 85 per cent majority, so with over 17 per cent of the total number of votes the United States is a key player. The board has to be re-elected every second year and in theory the United States could then withdraw its support for the increase to 24, in which case four seats would have to be incorporated in other constituencies. Then there is the question of what an increased representation for emerging market economies would entail for other countries.

At a later stage the European representation will probably be consolidated.

Representation on the executive board is a consequence of the Fund being financed by the industrialised countries; the creditors have a legitimate interest in being in a majority in the organisation. It has been argued, above all by representatives of emerging market economies with backing from the United States, that Europe is over-represented on the board, making it natural to consolidate the European representation.[26] Moreover, the EU countries have stepped up their coordination of IMF issues and as this coordination grows, so may demands that the EU countries get together with their own director on the board. In my opinion, the number of seats on the board will not change appreciably in the short run. Later on, the European representation in the IMF will probably be-

[22] An account of the institutional framework is presented in an annex to this article.
[23] For a fuller description of IMF quotas, see Nedersjö (2001).
[24] A third alternative might be to increase the countries' basic votes, which have been constant since the inception of the Fund.
[25] Article XII, section 3(b).
[26] Of the 24 directors, 9 represent European countries.

come more consolidated, which would naturally affect Sweden's and the Nordic-Baltic representation.[27, 28]

The discussion of governance has also concerned the influence of the poor countries in the IMF. It has been argued, for example, that the African countries, which make up two constituencies, need more resources and more representation in order to increase their influence in the Fund (and the World Bank). So far the IMF has decided to give these constituencies additional resources in the form of more staff in Washington. I do not foresee more radical changes in favour of the African countries in this respect. In the event of a future change in the structure of the IMF constituencies, it is more probable that the representation of emerging market economies would be increased.

SUMMARY

The IMF can be said to have made mistakes. In certain cases the Fund has provided loans for too long to countries with a fixed exchange rate that then proved to be unsustainable. At the same time, the answers are seldom so self-evident, even in retrospect, as is claimed. Macroeconomic policy in a crisis is almost invariably a matter of difficult choices. It is also the case that in recent years the Fund has listened to the criticism, often well-founded, of its operations. This change has been driven by the stakeholders, in most cases at the behest of non-governmental organisations. Pressure from outside groups has not infrequently been decisive in initiating changes.

In recent years the IMF has listened to the criticism, often well-founded, of its operations.

The IMF is currently discussing a streamlining of programme conditions and attempts are being made to cut back the conditions for structural efforts in these programmes. Another important lesson from IMF programmes from the 1990s is the central importance of the countries perceiving that they own – and can identify themselves with – the policies the Fund prescribes. The more the economic reforms are anchored in the domestic political system, the greater is the chance of programmes succeeding. On a number of occasions in recent years the IMF's managing director has underscored the importance of continuing to build up a Fund culture of listening and learning. The criticism of the IMF has also led its

The more an economic reform is anchored in the domestic political system, the greater is the chance of the programme succeeding.

[27] Sweden belongs to the constituency that also includes the other Nordic countries and three Baltic countries, with which Sweden thus shares a seat on the board. With the adherence of the Baltic countries, six of the eight countries in the constituency will be members of the EU.

[28] More radical proposals for changing the institutional structure have been described earlier, above all with the aim of enhancing political legitimacy. One of the more radical suggestions, for example at the Monterey conference on development financing in 2003, is to set up an economic security council and thereby give the United Nations a stronger standing in economic policy. Such a development would be unfortunate, however, and would not benefit small countries, which have an interest in a rule-based system. Given the recent political differences about managing the crisis in Iraq and the United States' more sceptical attitude to the UN, it is reasonable to suppose that such a decision will not materialise.

stakeholders to step up their demands for an independent examination of the Fund's operations. In the late 1990s there were a number of ad hoc evaluations of various areas and this led in spring 2001 to the creation of a body, the Independent Evaluation Office (IEO), that is independent of the Fund's executive board. During 2003 the IEO is examining the Fund's management of the crisis in Argentina, for example.

Changes in IMF governance are controversial.

Changes in IMF governance are perhaps more controversial. Changes may be warranted in the longer run as the emerging market economies play a growing part in the international financial system. But this raises the question of at whose expense such changes are to be made. That is ultimately a political decision.

A narrower or a wider mandate?

In the short term there are unlikely to be any changes in the Fund's mandate for capital liberalisation.

The IMF's mandate is to ensure that countries remove restrictions on cross-border current payments. In practice, the Fund's discourse with programme countries also includes matters to do with the liberalisation of capital. In the early days of the Asia crisis an IMF discussion was in progress on amending the charter and including capital liberalisation as an explicit objective. The change would not have made much difference to the Fund's procedures in practice. With the ongoing financial crisis, however, the discussion died out and today, as mentioned earlier, there is more sympathy for temporary restrictions on short-term capital movements, although the lasting effects of currency controls appear to be uncertain. In the short term there are unlikely to be any changes in the Fund's mandate for capital liberalisation.

In 1999 there was a desire from the United States to restrict the role of the Fund in the poorest countries.

The increased lending by the Fund in the wake of the Asia crisis coincided with a regular review of the IMF's financial base. The executive board agreed that additional contributions were called for. The charter stipulates that a decision to this effect requires an 85 per cent majority and as the United States, with over 17 per cent of the total vote, can block it, the position of the host country is crucial. The US Congress ultimately approved an increase in the country's quota on condition that a commission was appointed to review the functions of the IMF and other international financial institutions. Late in 1999 this commission, under the Republican Alan Meltzer, found that the functions of the IMF ought to be greatly reduced and that the operations in the poorest member countries should cease.[29] Meanwhile, the US finance minister, Lawrence Summers, gave his opinion of the IMF's future role; while this did not call for such drastic cuts in the Fund's tasks as the Meltzer commission called

[29] See IFIAC (2000).

for, it still involved limiting the role in the poorest countries. Although Summers' statement should be seen in the light of the US domestic policy debate, it did differ from the joint G7 position some months earlier: the annual meeting of the IMF and the World Bank in autumn 1999 had resulted in a clear mandate for the Fund to integrate poverty reduction and growth promotion more resolutely in the work with the poorest member countries.

Those who have advocated a radical cut in the IMF's mandate have not been convincing.

Summers' play spurred a debate about the future role of the IMF. Those who have advocated a radical cut in the Fund's mandate have not managed to convince others. The problem here is that discontinuing the Fund's lending to certain categories, such as the poor developing countries, cannot be motivated as long as the Fund continues its surveillance of those countries' macroeconomic development. Some other institution, probably the World Bank, would have to shoulder the Fund's role in Africa and would then need to make macroeconomic assessments as a basis for its loans. In my opinion, the IMF's complete withdrawal from the poorest developing countries would not represent an efficient division of labour between the institutions. Neither does it seem reasonable for one institution to restrict its macroeconomic forecasting to the developing countries while another institution produces forecasts for all the other member countries. But I do find it important that the Fund concentrates on what it is good at: the core field of macroeconomic and financial stability. In time the Fund's dealings with the poorest countries should not be financial but focus instead on technical assistance and surveillance. Better cooperation with the World Bank and a clearer division of responsibilities between the two institutions are also desirable.

Others have argued on the contrary that the IMF's mandate should be extended.

Others have argued on the contrary that the IMF's mandate should be extended. Proposals to this end have envisaged that the Fund's surveillance should start to include issues not directly connected with its traditional operations. Examples are money laundering and ILO standards for the work of trade unions. The events of 11 September 2001 naturally led the Fund to step up work on combating the financing of terrorists and money laundering; these are matters that are liable to erode confidence in the international financial system and can be said to be at least partly within the Fund's mandate. Evaluations of how countries live up to a standard in this area are undertaken jointly with the World Bank and the OECD's Financial Actions Task Force (FATF). On the other hand, there has been no consensus to date on broadening surveillance and taking the ILO's area into account. This is a matter both of respecting the mandates of different institutions and of whether the Fund actually has the necessary competence. Neither is there a clear-cut link to the Fund's core concern: macroeconomic and financial stability.

The IEO's evaluation showed that the Fund has tended to be over-optimistic in its surveillance, making it reasonable to render this more independent of the lending operations.

The IMF has been criticised for its surveillance work and a failure in certain cases to point clearly to potential risks, above all in emerging market economies. The example of Thailand in 1997 has already been mentioned. Another instance is Argentina and the argument that more independent surveillance could have led to the IMF and Argentina being obliged to deal with the unsustainable exchange rate policy at an earlier stage.[30] The IEO's evaluation of countries that have been prolonged users of IMF programmes revealed a tendency for staff to be over-optimistic in their surveillance of programme countries.[31] In that case it would be reasonable to make surveillance more independent of lending operations. There may be grounds for this criticism – for example, the Fund's assumptions for economic growth in Argentina at the beginning of the 2000s were unduly optimistic – but greater independence can be achieved with relatively small changes. A separate department could undertake surveillance independently and screened off from lending operations. This is actually being discussed at present under the rubric "a fresh pair of eyes". Unduly large changes would risk the IMF developing into more of a rating institution, which would not be in its interests.

Neither a marked narrowing nor a major enlargement of the IMF's mandate is likely in the near future.

Thus, neither a marked narrowing nor a major enlargement of the IMF's mandate is likely in the near future. As in the past, the work of the Fund is more likely to be adapted successively to a changing world. The Fund is still considered to have an important role in guaranteeing the stability of the international financial system. The largest stakeholder, the United States, naturally has a crucial part in the Fund's development. In this respect a change can be noted in the American position on IMF crisis management, not least on the extent of access to the Fund's resources. The Clinton Administration was very actively involved in the management of the Asia crisis.[32] IMF financing was supplemented with financing from other institutions and bilateral loans. When Bush took over, this policy was changed, at least in the rhetoric, which expressly indicated that the era of "large packages" was over. This paved the way for the presentation of Krueger's SDRM proposal in autumn 2001, with its ultimate aim of contributing to decreased lending by the Fund or at least an alternative to unsustainably large loan packages. Meanwhile, by approving Turkey's IMF programme, the Bush Administration agreed to the IMF's largest loan ever (in relation to the recipient's quota). This somewhat mixed position has led to a certain amount of confusion, not least among private sector representatives. It can also be noted that the United States has agreed to

[30] See Balls (2003).
[31] See IEO (2002).
[32] For a detailed description, see e.g. Bluestein (2001).

demands, above all from European interests, for clearer restrictions on access to the Fund's resources. It is hoped that this new policy, which has not yet been tested, will lead in time to smaller support packages, less need for economic restrictions and more private sector involvement in any future crises.

Conclusions

The IMF can be said to be a competent and important organisation with a central function for promoting international financial stability. The Fund is also a natural centre for discussing matters to do with macroeconomics and financial stability. Following the terrorist attacks on 11 September 2001, the Fund's role in promoting economic growth and stability in emerging market economies has acquired increased weight. As globalisation proceeds, the task of strengthening confidence in the economic policy of member countries has become still more central and here the IMF plays a major role. The Fund faces the challenge of managing the consequences of globalisation, promoting stability and rendering international capital flows less volatile. Stricter lending limits and better mechanisms for managing debt crises, combined with increased private sector involvement in crisis management, can lead in time to a further enhancement of international financial stability.

Stricter lending limits and better mechanisms for managing debt crises, combined with increased private sector involvement in crisis management, can lead in time to a further enhancement of international financial stability.

Although opinions still differ on the introduction of an international bankruptcy mechanism, the discussion of this issue has clearly contributed to a better understanding of matters to do with crisis management, not least among private investors. It is important that the Fund continues to keep these issues on the agenda. The debate on SDRM has also led to a consensus on other remedies in crisis management, such as collective action clauses in bond contracts. Had SDRM not been on the agenda, I do not believe we would have come nearly as far with the introduction of such clauses.

Proposals to set up an international bankruptcy mechanism have clearly contributed to a better understanding of matters to do with crisis management.

It is important that the IMF concentrates on the matters it does best: the core concern of macroeconomic and financial stability. The Fund's mandate should not be enlarged as long as there is no widespread support for increasing its resources. Neither a marked contraction nor a sizeable extension of the IMF's mandate is likely in the near future. As previously, it is rather the case that the Fund's work will be successively adapted to a changing world. There is a parallel here with a huge ocean liner – minor changes in its course can have major effects in the future.

Neither a marked contraction nor a sizeable extension of the IMF's mandate is likely in the near future.

We have also seen that the IMF is moulded by history and adapts continuously to political requirements. It should be borne in mind that the Fund is guided by the 184 member countries. It derives its legitimacy

The IMF is guided by 184 member countries.

from these countries' representation on the executive board and from the six-monthly meetings of their finance ministers and central bank governors. This tends to be overlooked in the debate, enabling the owners to direct the Fund but duck the criticism, which is aimed instead at the institution as though this were an independent body.

Better cooperation with the World Bank and a clear division of responsibilities between the two institutions would be desirable in work with the poorest countries.

The criticism of the IMF must be said to be justified in a number of cases, although it is important not to lose sight of its context. The Fund has tried to adapt by degrees to the new environment which is being created by the globalisation of finance markets. This tendency has been driven mainly by external forces and the ongoing debate on globalisation has been of central importance in triggering changes. The Fund also faces the challenge of promoting ownership and pruning the regulation of details in its conditionality. In the longer run the function of the IMF in the poorest countries should not be financial but focus instead on technical assistance and surveillance. A major future task in these countries is the construction of institutions. Better cooperation with the World Bank and a clear division of responsibilities between the two institutions would be desirable in work with the poorest countries. An important lesson from IMF programmes from the 1990s is the central importance of the countries perceiving that they own – and can identify themselves with – the policies the Fund prescribes. The more the economic reforms are anchored in the domestic political system, the greater is the chance of programmes succeeding. The IMF should continue to build up a culture of listening and learning. The Fund is well worth the support of small countries.

Annex: A historical review

In 1944 the Allies assembled for a conference in Bretton Woods to realise the notion of an international institution that would organise the system of international payments. The purpose behind the formation of the IMF[33] was to promote the stability of the international financial system by supporting a global system of exchange rates[34] – fixed but adjustable – and thereby encourage economic growth.[35] The Fund focused on whether the member countries' fiscal and monetary policies were consistent with their exchange rates. In the event of persistent imbalances, precautions were taken so that the related devaluations would not have destabilising economic or financial effects on neighbouring countries.

The IMF was conceived at the Bretton Woods conference in 1944.

FACTORS BEHIND THE FUND'S DEVELOPMENT

The founders of the IMF would hardly recognise their institution in its current guise. For one thing, the number of member countries is now far greater: since the start in 1944 the *number of members* has more than quintupled and this has obliged the Fund to focus on a broader spectrum of issues. Today the IMF is made up of 184 member countries – in principle, they include all countries of some importance. The increased number of poor member countries after decolonisation had begun in the 1960s led in time to a stronger focus on structural issues. A separate borrowing arrangement for the poorest member countries,[36] financed with donations and individual country loans, was set up in the mid 1980s. Since 1999 this facility has focused more on matters to do with poverty reduction and economic growth.[37] Another milestone in the growth of membership was the inclusion of the former Soviet republics in the early 1990s; this accentuated the focus on structural issues in the work of transforming the former centrally-planned economies into market economies.

Since its conception in 1944 the Fund has increased its membership more than fivefold and now has 184 member countries.

The IMF has also been influenced by and had to adapt to the environment in which it operates. The Bretton Woods system was based on fixed exchange rates and transferred the central function of gold to the US dollar. The system's ultimate collapse was due to an inherent instability. When a country had exhausted its dollar assets, it could always resort to a devaluation, which is what happened in the United Kingdom in

The Bretton Woods system collapsed in 1970 and since then more and more countries have introduced more flexible exchange rate regimes.

[33] This article concentrates on the IMF but there are close links with its sister organisation the World Bank.
[34] Known as the Bretton Woods system.
[35] Article 1 in the IMF's articles of association states that "The purposes of the IMF are…to promote exchange stability, to maintain orderly exchange arrangements among members…to facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income…".
[36] In the period 1987–99 the Enhanced Structural Adjustment Facility (ESAF).
[37] The Poverty Reduction and Growth Facility (PRGF).

1967. Another problem was the Bretton Woods system's vulnerability to shortcomings in US monetary policy. In order to maintain fixed exchange rates, other countries were forced to keep inflation at the same level as in the United States. This proved difficult when US inflation was high in the late 1960s. Following the collapse of the Bretton Woods system in 1970, more and more countries have adopted more flexible exchange rate regimes and the IMF has had to adapt to the new environment.

Since the 1980s the IMF has come to be a "firefighter" in the international financial system.

The oil price shock in the mid 1970s and the debt crisis in Latin America in the 1980s entailed markedly increased lending by the Fund. During the 1980s debt crisis the IMF was forced to admit that there is room for private loans to individual countries – particularly from private banks. With the growth of international capital markets since then, the IMF has come to be a "firefighter" in the international financial system, not least in the past ten years.

The growing extent of international capital movements is perhaps the single most important factor behind the functions of the IMF and its focus in the 57 years of its existence.

The strains to which the international payment system was exposed in the 1960s were attributed in part to the supply of international liquidity being inadequate in relation to the growth of world trade. In 1967 the IMF therefore decided to create Special Drawing Rights (SDR).[38] The idea was that the foreign exchange reserves of member countries could be supplemented with SDR from the Fund. In practice, however, SDR did not play the intended role because access to the expanding international capital markets enabled countries to obtain capital in other ways. The growing extent of international *capital movements* in recent decades is perhaps the single most important factor behind the functions of the IMF and its focus in the 57 years of its existence.

CURRENT OPERATIONS OF THE IMF

In general, the IMF's operations are dominated by three main areas: surveillance, lending and technical assistance. While this has been constant over time, changes have occurred in the content of the operations.

The Fund's charter stipulates regular economic surveillance of the member countries.

As regards surveillance, the Fund's charter stipulates that the economies of the member countries are to be under regular surveillance.[39] This global surveillance, which is also practiced at regional level (e.g. for the euro area), makes the Fund unique among international organisations. The global surveillance is presented twice a year in a report, World Economic Outlook, in which the Fund assesses the global economic situation. Since 2002 these reports are accompanied by an assessment of financial market stability in the Global Financial Stability Report.

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[38] For a fuller discussion of the origins of SDR and their function, see Nedersjö (2003).
[39] Article IV, section 3(b).

The Fund provides loans of various types to members with a crisis in their payments or capital balance. A condition for obtaining the loans is that the country makes necessary reforms and conducts a sound economic policy. These loans are financed from the member countries' contributions to the Fund, which are linked in turn to the size of the members' economies. The loans are intended to act as a catalyst – an IMF programme is to elicit financing from other sources, e.g. private investment. The country contributions also regulate the influence of the countries on the Fund's executive board. Lending was directed previously to industrialised countries in particular but today it goes entirely to emerging market economies and poor member countries. As already mentioned, the financing of loans to the poorest countries is separated from that of regular lending, which is arranged on market terms.[40]

The Fund currently provides loans only to emerging market economies and poor member countries.

The third major area, technical assistance to member countries, ranges from everything from fiscal policy training in Washington to building up a central bank in a member country.

INSTITUTIONAL STRUCTURE

The IMF and the World Bank are the only two international financial institutions with a global membership. The executive board of the IMF consists of 24 members, each representing a country or group of countries, generally arranged geographically. The largest countries have one member each. The direction of the board's policy is guided by the International Monetary and Financial Committee (IMFC), consisting of 24 finance ministers and central bank governors and meeting twice a year. Following the financial crisis in Asia, various models for enhancing the Fund's legitimacy were discussed and this led to the creation of a sub-committee to the IMFC; since 1999 this sub-committee meets to prepare the meetings of the parent committee.

The executive board of the IMF consists of 24 members, each representing a different country or group of countries, generally arranged geographically.

The *institutional structure* has undergone major changes in recent decades. In 1962 the ten largest economies at the time made a joint commitment under the General Arrangements to Borrow (GAB) to place funds at the disposal of the IMF if a financial crisis of systemic proportions occurred at a time when the Fund lacked adequate resources. This Group of Ten[41] came to be a central forum for discussion, not least for central banks in the framework of BIS cooperation. The G10 finance ministers and central bank governors regularly met in connection with meetings of

[40] The interest (rate of charge) that programme countries pay the IMF is calculated as an average of the short-term rates for the four largest currencies. As a country in a crisis would probably have to pay many times more than this at market values, the rate cannot be said to mirror market terms.

[41] The G7 countries plus Belgium, the Netherlands, Sweden and Switzerland.

the IMF's policy committee and exerted an influence on the IMF's agenda up to the early 1990s.

A desire by the major countries for a closer integration of the emerging market economies in the discussion of international financial issues led to the creation of the Group of Twenty in 1999.

Since then, and particularly in the second half of the 1990s, the central importance of the G10 has waned. A crucial factor here is that matters to do with the international financial system have been coordinated more and more in the G7. The G10 cooperation on the central bank side continues relatively unchanged but the major countries have greatly reduced the priority they accord to the cooperation between central banks and finance ministries in this group.[42] Together with a desire by the major countries for a closer integration of the emerging market economies in the discussion of international financial issues, the increased importance of the G7 led in 1999 to the creation of the G20, which is made up of the G7 and thirteen of the more important emerging market economies.

The above development has been accompanied by the EU countries' growing ambition to coordinate their positions on IMF-related issues. One result of this coordination has been that for some years now the EU Presidency has presented an EU statement in connection with the IMCF meetings. The goals for this coordination have been raised in the past three years and the positions on certain central IMF issues are now coordinated in Brussels within the framework of the Economic and Financial Committee. This cooperation is followed up and implemented through regular meetings of representatives of the EU countries in Washington. This process is till in its infancy but there is a political will to continue and deepen this coordination.

[42] The G10 countries do, however, still contribute more than 54 per cent of the Fund's financing and have also provided additional bilateral financing when IMF liquidity has called for this, e.g. in connection with the crisis in Brazil in 1998.

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