For Richer, For Poorer?

G8 Proposals for IMF Reform

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INTRODUCTION

"Like the world Bank the IMF needs to focus on core objectives. The core objectives of the IMF are to (1) promote sound monetary, fiscal, exchange rate, and financial sector policies, (2) carefully monitor economic conditions, and (3) deal with critical problems in the international financial system as soon as they are0 detected. In the late 1990s, the IMF went well beyond these core objectives; putting too many conditions on some loans and putting too much money into some places in the face of dubious economic and political conditions." Paul O'Neill, US Treasury Secretary[1]

The change of government in the US sent tremors through the IMF as it waited to see what plans the Bush Administration had for reforming it. While in opposition, the Republicans had been very vocal about the failure of the IMF to deal with the financial crises from 1997-1999 and far-right wingers had even accused it of preventing the smooth operation of free-markets by creating "moral hazard".

The Bush Administration is still in its infancy and only this summer began to flex its muscles on IFI reform. Only a few public statements have so far emerged but these reflect quite closely some of the findings of a US Congressional Committee set up to examine reform of the multilateral institutions, led by Professor Allan Meltzer, Carnegie Mellon University. It presented its recommendations in March 2000. The report, termed the "Meltzer Report", proposed extensive reforms to these institutions which would significantly change their nature and purpose. While the Clinton administration was in power it was anticipated that many of the Commission's recommendations would never advance further than the report's executive summary. However, since the majority of the members of the Congressional Committee were Republicans and there is a strong isolationist lobby within Congress, the report is regarded as a sign-post for future US action.

It is difficult to determine at this stage what impact the terrorist attacks in the US in September will have on the Bush administration's approach to multilateralism and the IMF. Previously some commentators perceived that it was turning away from the multilateral system in favour of a more unilateral approach. Recent events may have signalled to the Bush administration the benefits of staying within a multilateral system it may therefore be rethinking its strategy in relation to the IMF's role.

This paper focuses on recent statements made by the Bush Administration, particularly as these relate to the proposals put forward in the Meltzer report, and other reform proposals being advanced by the G8 in relation to the role of the IMF. Most official G8 statements have focused on its role in preventing and managing financial crises. The first part of the paper examines this role. There has been much less discussion about the IMF's role in helping to achieve poverty reduction goals, which became an objective of IMF programmes in the poorest countries in September 1999. Whether or not this is an appropriate role for the IMF is discussed in part 2.

1. FINANCIAL LIBERALISATION, CRISIS PREVENTION AND MANAGEMENT

"In order to foster strong policies and reduce countries' financial vulnerability to crisis, preventing crisis and establishing a solid foundation for sustainable growth should be at the core of the IMF's work. Surveillance of economic and financial conditions and policies in member countries and the implementation of internationally agreed codes and standards are primary tools for accomplishing these aims."[2]

According to Paul O'Neill, US Treasury Secretary, the IMF should be putting more resources into focusing on crisis prevention and less on crisis management. He argues that the reason crises have arisen has not been an inability to detect bad policies but a "failure to make the necessary decisions to reduce the stresses and imbalances that have been detected." Thus, "the primary responsibility for avoiding crises lies with individual countries' own policy choices."[3]

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[1] Excellence and the International Financial Institutions, Paul O'Neill Secretary of the Treasury to the Economic Club of Detroit, Michigan, June 27, 2001

[2] Strengthening the International Financial Architecture, Report from Finance Ministers to the heads of state and government, Fukuoka, July 2000.

[3] Statement by Treasury Secretary Paul H. O'Neill House Committee on Financial Services, May 22, 2001

The IMF's role is rapidly becoming one of early warning, bringing to governments' attention the need for policy changes to avert crisis, and an advisor on financial market restructuring and liberalisation. To improve its capacity to perform these functions the IMF has established a new capital markets department, increasing its capacity to advise governments on financial restructuring issues, and a Capital Markets Consultative Group, which offers the opportunity for dialogue with the private sector. It has also established, jointly with the World Bank, the Financial Stability Assessment Programme (FSAP), which makes assessments of a country's financial soundness, and Reports on Standards and Codes (ROSCs), which monitor the extent to which a country is implementing the codes and standards endorsed by the G8 via the IMF.

CAPITAL ACCOUNT LIBERALISATION

Pre-1997 there had been a big push by the G8 countries to extend the IMF's mandate to include capital account liberalisation (CAL). The intention at that point was to extend the articles of agreement to allow the IMF to pursue CAL in member countries much in the same way as it does trade liberalisation. That is, there would be a presumption that over-time countries would adjust their economies until full liberalisation was reached.

However, after the crisis in Asia erupted the climate became too sensitive to pursue this agenda. Over the following few years the G8, and therefore the IMF, has nuanced its position. Now the IMF encourages countries to pursue full liberalisation but only when the appropriate safeguards and institutions are in place. It is interesting to note, however, that there is now a renewed emphasis from the G8 on the IMF's role in facilitating CAL. In the July 2001 finance ministers report it states that:

"We call on the Bretton Woods institutions *to provide support and expertise to countries seeking access to international capital markets*. In order to address effectively these issues, the IFIs may rely on a broad range of tools, including:

> a. Policy advice. We welcome the IMF's efforts to provide policy advice on financial sector and capital market issues through the Article IV surveillance process. We encourage the Fund to continue these efforts. We also stress the importance of building on past experience: the country studies that are being undertaken by the G20 should provide important information for countries that are in the process of developing their own strategy *towards capital account liberalization*. We welcome the recent establishment of the International Capital Markets Department within the IMF. It should enable the Fund to play *a leading role in assisting member countries to adopt policies that help them gain or expand access to international capital markets*, in close collaboration with the WB and regional development banks.
>
> b. Technical assistance. *We encourage the IFIs to further co-ordinate and extend technical assistance on liberalization-related topics*, including deepening and broadening domestic financial markets, managing public assets and liabilities, and building capacity to manage the risks associated with capital flows. In this respect, the ROSC and FSAP could provide a useful platform for identifying potential problems, prioritizing and organizing technical assistance and coordinating with other donors." (emphasis added)

It is interesting to note that the thrust of the statement is towards facilitating capital market liberalisation. No where is it mentioned that the IMF ought to offer advice to countries wanting to maintain or improve market-friendly capital controls or implement mechanisms to direct investment to priority areas, nor has it been encouraged to develop its understanding of what best practice in these areas might be.

SURVEILLANCE FOR CRISIS PREVENTION

IMF surveillance has changed considerably since the 1997-99 financial crises. Increasingly it has become focused on monitoring financial markets, exchange rates and implementation of codes and standards, as well as continuing to focus on macroeconomic policy and structural issues that could affect macroeconomic stability. The IMF is currently developing and testing early warning indicators to help it detect financial instability.

While the IMF has increased its surveillance remit, the Developing country members have objected to the IMF becoming an enforcer of financial codes and standards. The G24 Communique at the Spring Meetings 2000 commented, "the scope of surveillance should not be extended to cover the observance of such codes and standards, which should remain a voluntary choice by each member." However, the G8 Finance ministers have stated in their July 2001 report that "Authoritative information on observance of codes and standards should be fully integrated into enhanced IMF surveillance under Article IV…this is a critical step, and the IMF should work expeditiously to implement it.”

Developing countries are not just concerned that their different states of development and institutional capacities could put them at a disadvantage vis a vis developed countries, they are also concerned that the IMF should not monitor codes and standards that do not fall into its remit on the basis that the IMF is not competent to do so. The G8 have stated that the focus should be on the twelve key standards identified by the Financial Stability Forum. However, these include standards that are not within the IMF’s remit, such as corporate governance and securities regulation. This is an important issue and has not been adequately clarified by the IMF’s Executive Board.

Despite the IMF’s expansion of its financial sector expertise and its ability to make assessments, it is doubtful to what extent the IMF can require countries to make the necessary changes to policy before a crisis has arisen and they are forced to go to the IMF for loans. O’Neill has suggested that a tool[4] to enforce policy change is to provide more information to the markets quickly, in an easily digested format, and ensuring that assessments capture the most relevant factors[5]. Not only might this enable markets to make informed judgements but it would give greater incentives for countries to pursue sound policies. This emphasis on information to the markets reflects recommendations made in the Meltzer Report and was supported by the previous US Treasury Secretary, Lawrence Summers. He commented that the focus of Fund surveillance should “shift from collecting and sharing information within the club of nations to promoting the collection and dissemination of information for the markets and investors”.[6] However, developing countries are concerned that the IMF would fast become a global rating agency acting on behalf of private sector investors rather than an institution that supports member governments and are likely to resist any efforts by the IMF to disclose more information to the markets.

The G8 is not considering proposals from commentators outside the IMF that it should monitor the three key global currencies – dollar, euro and yen – because it is instability in these that is causing global instability to which all other countries must adjust. This is an important issue. However, even if the IMF was to pay more attention to this matter, its surveillance makes little impact on the developed nations which do not borrow its resources. This remains an unresolved problem.

Nor is the G8 pushing for mechanisms to increase the transparency of markets and private sector financial institutions. While surveillance of private financial institutions should not be the IMF’s role, it is important for NGOs to consider whether other institutions should be mandated (or created) to do so. An example of an existing institution which could possibly be reformed to perform this function is the Financial Stability Forum.

CRISIS MANAGEMENT

There is considerable debate at the moment concerning the IMF’s role in crisis resolution. The Clinton administration favoured a direct intervention approach, providing millions of dollars first to Mexico to stabilise the economy in the face of massive outflows of foreign capital. The success with Mexico led to the same approach being adopted for the Asian crisis countries – Indonesia, Thailand and South Korea – and Brazil.

However, this approach has been highly criticised from all sides:

1) for increasing the moral hazard of private, foreign investors;
2) for failing to provide sufficient resources to domestic investors;
3) for failing to provide sufficient resources quickly enough;
4) for the conditions attached to the funds which have been regarded as too intrusive into the affairs of a nation state.

The US government has made it clear that it does not support the bailout strategy on the basis that it creates moral hazard amongst investors who assume lower risks. Therefore, it is not willing to provide bilateral resources for bailouts, nor is it willing to scale up the IMF’s resources. Instead, its strategy is to show to the markets that resources are limited to discourage assumptions of bail-out and therefore excessive risk taking. For O’Neill the priority is to eliminate contagion, to prevent the need for multiple bail-out packages.

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[4] The Contingency Credit Line (CCL) is another crisis prevention tool. By requiring countries to pre-qualify the emphasis is on getting policies right early on. However, its also questionable how useful it will be. So far no governments have signed up for it despite recent efforts to make it more attractive by easing conditions of entry.

[5] Several neo-liberal commentators on IMF reform have also proposed that the IMF should provide more information to and engage with the private sector, see for example, Jose De Gregorio and others, *An Independent and Accountable IMF*, 1999.

[6] Lawrence Summers, Speech to London Business School, December 1999.

"If you look at Turkey, Argentina and Indonesia today, you would be very hard pressed to make a case that they were closely related to each other. We should not accept the proposition that a weakening financial condition in one difficult place inevitably causes a chain reaction of investors withdrawing from other markets." Paul O'Neill

O'Neill's thesis is that addressing the contagion problem will make it much easier to focus on poor policies in individual countries, which contribute to crises, and to resist bailouts. In the cases of Turkey and Argentina, the Bush Administration has required strong signals of willingness to reform. It has put considerable emphasis on governments implementing prior actions before they can access the IMF's resources.

It is interesting to note that other governments, particularly those in Asia, have been willing to establish new funding arrangements but the US administration has resisted such initiatives. For example, the Clinton government was quick to quash the proposal to establish an Asian Monetary Fund. Yet establishing regional mechanisms makes a great deal of sense, not only to provide more resources but also to enable regional institutions to develop "local" expertise. The more moderate Chiang-Mai currency swap initiative, which has been agreed instead, will help to provide resources but it is unfortunate that it will not have an institutional context that will allow it to facilitate learning and policy dialogue. Thus the IMF continues to be protected from the threat of competition with regard to its policy advice.

Lender of Last Resort

While the US is adamant that bail-outs should cease, there is still a strong case for the IMF to act as a Lender of Last Resort[7]. There is growing interest from outside commentators in the proposal to allow the IMF to issue Special Drawing Rights to rapidly increase liquidity for countries on the edge of crisis which could be "retired" as they paid them back. In this way liquidity would be increased temporarily at a time when extra liquidity is vitally needed and should therefore have minimal impact on global inflation. However, there appears to have been little discussion of this proposal within the IMF's Executive Board or the G8.

While there is little political interest amongst the G7 to take forward this proposal there remains a gap in current IMF funding arrangements. Short-term resources for addressing financial crises are currently only available at non-concessional rates (although they remain below market rates). This presents problems for the poorest countries since under the terms of the HIPC initiative and Paris Club agreements they are not able to borrow from the IMF's standby facility because this is not sufficiently concessional.

Even if they are not systematically important, relative to their size, some of the poorer countries are receiving large inflows of private investment and have liberalised quite considerably and more are looking to do so. As capital controls have been removed so have mechanisms for monitoring flows and many countries do not have capacity to regulate financial markets, making them very susceptible to sudden reversals. It appears that the poorest countries are more susceptible to financial crises than many middle-income countries. Moreover, they are being forced to make adjustments at the national level to address instability in the global system. The problem for these countries is that they are not systemically important, which means that the IMF has not been equipped with the finance or debt workout tools to effectively assist them. The provision of a new concessional, financing facility for the poorest countries with open capital accounts should be looked into.

Debt workout mechanism

"If Argentina were a U.S. company, this is precisely what it would do. It would file for bankruptcy and use the court's protection to force its lenders to take a haircut. But being a country, Argentina does not have this option. There is no international bankruptcy court to protect it: If Argentina tried to make its lenders take a haircut, the lenders might take it to court. Judges might order the seizure of Argentine assets to compensate international creditors. At the least, the legal uncertainty involved in default without the benefit of bankruptcy creates a powerful reason not to go down that route." [8]

The US government has been pushing the Argentinian government to reach a voluntary solution with its creditors in return for more IMF loans (although this has not been made a formal condition for the money's release)[9]. The problem is that there are no formal rules for engaging private sector creditors in a negotiation process, which is

[7] The Meltzer report recommended that the IMF should continue to be a quasi Lender of Last Resort. The report proposed that the IMF would perform this function by borrowing from the market or from bilateral sources. It is not clear what the implications of the former would be and this was not addressed in the Commission's report. The US has clearly stated that bilateral resources will not be made available.

[8] Washington Post, 12/8/01

[9] It was agreed in August 2001 that US$5bn would be made immediately available and US$3bn would be released only after Argentina made efforts to renegotiate its debts, presumably set aside to finance the debt deal. This could buy time for Argentina by replacing shorter-term private sector loans with longer-term official loans.

time consuming and can be disrupted if significant creditors refuse to cooperate. Recent statements by O'Neill suggest that the US administration is ready to consider a formal debt workout mechanism. UNCTAD, NGOs, and several academics have argued for a formal debt arbitration mechanism which would comprise a standstill and debt reduction mechanisms. Within such a mechanism, the IMF would have an important role to play lending into arrears and it's a significant step forward that the IMF is now able to do so. Implicitly this gives the IMF power to effectively sanction debt standstills. However, without formal debt arbitration rules there remains no legal basis for debt standstill, allowing private investors to contest debt work-outs.

While a debt arbitration mechanism seems increasingly likely (although not in the short-term) to be established, one of the unresolved questions is what role the IMF would play in such a procedure. Many external commentators are, rightly, concerned about the moral hazard involved in the IMF, which is itself a creditor, being the lead institution in such a process. Instead, they favour a neutral mechanism in which the IMF would participate but which it would not administer. Indeed, it would be more consistent with national level bankruptcy mechanisms if this task was given to an international legal body.

2. BACK TO BASICS: THE IMF AND MACROECONOMIC STABILISATION

"In the past I believe that the IMF got involved in a much too wide set of policies in borrowing countries. It went well beyond the relevant macroeconomic reforms within its expertise, and this of course increases the likelihood of giving poor advice."[10]

During and after the Asian crisis the IMF received widespread condemnation for its over zealous, and in some instances damaging application of conditionality. Criticism focused on the political nature of some conditions and on the fact that the IMF had over-extended itself in the application of structural conditions, which it demonstrated it did not have a comparative advantage to set. As a result of these criticisms Horst Kohler, IMF Managing Director, called for IMF structural conditions to be streamlined and subsequently issued new, temporary guidelines for staff in September 2000.

The Executive Board, fully supported by the G7, has agreed with Kohler, that the application of IMF structural conditionality and advice should be streamlined to focus on macroeconomic reforms and those structural reforms necessary to achieve macroeconomic targets. A more restrained application of conditionality is envisaged for structural reforms that are relevant but not critical. Although there is no precise indication of which areas the IMF will withdraw from. Instead the extent of structural conditionality will be determined on a case-by-case basis depending on the nature of the problem. The staff are making real-time evaluations of each programme as they shift to this new approach. These should help to inform the Board of whether there are clear areas from which the IMF should withdraw, which will be specified in new guidelines by April 2002.[11]

PROVIDING APPROPRIATE MACROECONOMIC ADVICE

Its interesting to note that while the G7 and others have pushed the IMF to streamline its interventions they have not required staff to reconsider the quality of the macroeconomic advice they give, despite numerous criticisms from borrowing governments, academics and civil society organisations.

While often critical of the IMF's power to prescribe reforms, several developing country governments have stressed that they do value the opportunity to consult with the IMF. The problem is that the IMF, because of its financial muscle and monopoly on the certification of what is good macroeconomic policy (which it is desperate to protect), has tended to prescribe policy rather than offer advice. This is a moral hazard problem, since developing countries often have no choice but to seek finance from the IMF and in so doing must accept its prescriptions. This has been a particular concern for NGOs who have observed that often the IMF imposes inappropriate policy prescriptions. Thus there are two related issues, how can the IMF's macroeconomic advice be improved and to what extent should it have the power to direct policy reform.

Developing country governments have indicated that they want the IMF to focus on becoming a source of excellence on macroeconomic issues, such that they willingly turn to the IMF for advice. This means that staff

[10] Statement by Treasury Secretary Paul H. O'Neill House Committee on Financial Services, May 22, 2001

[11] This is of course pragmatic but it raises problems for how the IMF and Bank will coordinate together, because although the IMF may be streamlining, its sister institution is expected to take up the slack. Finding ways to coordinate the Bank and Fund roles is a priority for both staffs at the current time. Overall, the likely impact on the borrowing country is not clear. Although both institutions are committed to reducing the number of conditions they apply its likely that overall their breadth will remain the same.

should be able to advise countries from a perspective of familiarity with each country's situation. And suggests that the IMF should possibly decentralise its staff, particularly those that have authority to make decisions. It is currently the case that those staff with greatest power to make decisions are least likely to understand the particular situation of any country, while staff based in-country have no authority in the decision making process. In addition, developing country governments have called on the IMF to improve its technical assistance in order to transfer capacity to government staff and others to develop policies at the national level.

A related issue is to what extent the IMF should advise countries on how to achieve poverty reduction goals. This is a new objective for the IMF. Yet while the G7 have been keen to furnish the IMF with appropriate tools to carry out other new remits (advising on financial liberalisation) few tools, such as a Poverty Reduction Consultative Group, have been created to help it address this new objective.

Some commentators are concerned that the IMF is not an appropriate institution to provide such advice. This is a legitimate concern. However, while the IMF probably should not advise countries beyond its macro remit, it should be able to apply social impact analysis and understand the linkages between its macro advice and micro-level impacts and monitor (maybe ideally in collaboration with other institutions) these. It should also be able to offer alternative advice where it is considered that negative impacts on marginalised or vulnerable social groups are likely to be extensive. While apparently recognising the importance of social impact analysis the IMF management has stressed that this work should be carried out by the Bank. However, it is not clear whether appropriate mechanisms will be developed between the Bank and IMF to ensure that the Bank's analysis feeds through into IMF processes, nor that the Bank can produce good, unbiased analysis. Further consideration needs to be given to these and to what extent the IMF should conduct its own impact analysis (or seek it from sources other than the World Bank), and establish appropriate, broad-based advisory bodies.

To facilitate ownership and underline the advisory nature of the IMF's role several NGOs have called for the IMF to provide a menu of reforms, which would allow governments to discuss trade-offs (preferably with a wide set of country actors) and decide for themselves which policies to adopt. Such a suggestion appears to have been regarded positively by several borrower governments and some IMF staff members. However, little appears to have been done yet to require staff to do so in practice.

Taking the moral hazard issue to a logical conclusion, this would be reduced if its advice function was de-linked from its financing function, that is, different institutions should provide advice and finance. In the case of short-term financial crises this is probably unlikely to happen but there is more of a case for doing so in relation to the poorest countries which effectively have medium- to long-term programmes with the IMF.

FINANCING POVERTY REDUCTION

The IMF's role in the poorest countries is very different to that in middle-income countries. In the latter its programmes are typically short-term and stabilisation oriented. However, in the former group of countries the IMF behaves much more like a development institution.

Prior to the replenishment of the Enhanced Structural Adjustment Facility (subsequently renamed the Poverty Reduction and Growth Facility (PRGF)) there had been some discussion about whether it was appropriate for the IMF to lend to the poorest countries. This discussion died down after the ESAF was replenished with the IMF's own resources (from the sale of some of its gold). However, the issue was raised again by the Meltzer Commission, which recommended that the IMF should not be engaged in lending over the long-term to the poorest countries through back-to-back lending programmes. This view was based on evidence that the IMF's record with structural adjustment has been very poor; the IMF does not have the expertise to advise countries appropriately on structural or social issues; and the terms of the PRGF finance are not sufficiently concessional. Thus they proposed that the PRGF should be closed down and its funds moved to the World Bank.

Interestingly, this suggestion was quashed by strong statements from the G8, in particular the US (Clinton Administration) and UK, that it was vital for the IMF to continue lending to the poorest countries.[12] This position was backed by several African finance ministers who insisted that while their priority was to graduate to standard IMF resources, in the meantime, their access to concessional IMF resources was vital.

The concessionality of IMF loans needs to be seriously considered in the light of current arguments that the World Bank's International Development Association (IDA) loans, which are more concessional than PRGF

[12] Strengthening the International Financial Architecture, Report from Finance Ministers to the heads of state and government, Fukuoka, July 2000.

loans, are too expensive for the poorest countries. However, access to concessional resources is a pressing issue for developing countries and any decision to limit the use of IMF finance will have to be ameliorated by providing additional concessional resources through other institutions. Moreover, while there is a case for the IMF not to provide development-type finance, it could be problematic if it did not have any concessional resources to lend to the poorest countries for short-term instability problems. Thus there is a good case for the IMF to retain the PRGF but to reconsider for what purposes it is used.

CONDITIONALITY AND OWNERSHIP

In addition to refocusing IMF advice, the discussions about conditionality have focused on the type of conditionality applied and whether it does in fact work. World Bank studies have revealed that traditional forms of conditionality are not effective at inducing governments to carry out reforms which they do not agree with. Thus government "ownership" has become a key objective. Kohler, is concerned that extensive and detailed conditionality may make it impossible for a country to claim "ownership" for a programme, which is considered essential for its success; and may strain the country's administrative capacity.

The Meltzer report, following the Bank's reasoning, has argued that conditionality should be abandoned altogether. The Commission proposed pre-qualification as an alternative. Pre-qualification is not absolutely new to the IMF. The Contingency Credit Line established in 1999 also requires pre-qualification: countries that fulfill certain criteria can get quick access to the IMF's funds. However, it is misleading to suggest that pre-qualification is an alternative to conditionality. In fact, pre-qualification is a form of "up-front" conditionality or "prior action". That is, countries must apply the conditions before they get the money or even if they do not. In this scenario, the IMF's role would presumably be to define a set of (possibly universal) pre-conditions and to monitor that countries were achieving these. No doubt it would also continue to offer advice, particularly to those countries not yet qualified. While the US administration has not directly called for pre-selection mechanisms it does support the use of prior-actions to signal commitment to the reform process. It has been keen to see negotiations between countries become much tougher with tougher prior actions being sought before IMF loans are released. This is a perverse view of ownership, suggesting that only those countries that agree with the IMF's neo-liberal policy prescriptions can claim ownership of their programmes and therefore get access to IMF resources.

An alternative approach that has received some attention during the conditionality consultations is the use of results based conditionality. With this type of conditionality the IMF would be concerned with monitoring results and the country would be responsible for setting the policy direction to achieve them. This type of conditionality is helpful for establishing an environment conducive to ownership. While the IMF would not directly determine policy and monitor its application it would still provide advice on macroeconomic issues and evaluate the government's proposed macroeconomic reforms but not impose them.

This latter role may still cause problems. The IMF as "certifier of good policy" has immense influence regardless of how much finance it provides since it stands at the gateway to adjustment lending from other institutions. Given its narrow remit it is problematic that it provides a "seal of approval" on poverty reduction programmes, even if this is limited to the macro element of the programme. The creation of the Joint Implementation Committee (JIC) with the World Bank would seem to be a small step in the direction of reducing the IMF's power, since it is the JIC which provides a seal of approval for poverty reduction strategies. However, NGOs should perhaps consider taking this approach further and proposing that the committee be broadened out further to include other donors and country level stakeholders. How this committee is comprised would probably need to change in each country context. The Consultative Group might be a more flexible forum for providing the seal of approval, although broader participation and greater transparency is essential.

CONCLUSION

This paper has focused on steps the G8 governments have taken to adapt the role of the IMF. Given the criticism levelled at the IMF by Republican parliamentarians it has particularly examined statements from the US administration, with a view to try to understand how this powerful force within the IMF might try to shape it. Of course it is important to bear in mind that the reform debate is actually much wider than that framed by the G8 and what is presented here.[13]

Broadly speaking, the IMF's role is being moulded by the G8 to address problems in two very different contexts: 1) crisis prevention in middle-income countries; and 2) poverty reduction and development in the poorest countries. Its role in facilitating financial liberalisation spans both groups.

[13] For other ideas on IMF roles and reform see the resources section at the end of this briefing.

Recent reform efforts have mostly focused on the former function. Its capacity in this area has been greatly increased as resources have been reorganised and new mechanisms for engagement and evaluation have been introduced. However, tools to deal with problems arising from financial liberalisation in the poorest countries have been neglected as these countries are not considered to be systemically important to the stability of the international economy by the G7 governments.

While acknowledging the importance of poverty reduction goals, little effort has been made to equip the IMF with more tools to address this new objective. Instead, the approach has been to rely on increased collaboration with the World Bank. To some extent it makes sense to do so, since the IMF was not created as a development institution and other institutions already exist that could be better equipped to facilitate poverty reduction goals. However, aside from the Poverty Reduction Strategy process, there are few mechanisms to enable the two institutions to collaborate. Moreover, focusing on building better working relationships with the World Bank assumes that the Bank is able to effectively address poverty problems. However, its adjustment programmes and projects have proved ineffective at raising growth to significant levels and for addressing the principle factors contributing to poverty, and it still fails to prioritise poverty reduction in its work. In this environment there is little reason to be hopeful that the Bank will deliver the appropriate analysis for the IMF to use in its programmes or that staff from the two institutions will willingly collaborate.

Little attention has been given to forging collaborative working relations between the IMF and a broader range of institutions engaged on poverty reduction issues, yet in contrast, considerable attention has been given to building such relationships to improve its understanding of capital market issues. Joint mechanisms with the World Bank, such as the Joint Implementation Committee, may be helpful but consideration should be given to broadening these and to establishing other consultancy mechanisms such as a broad-based Expert Group on Macroeconomics and Poverty Reduction. While the IMF probably should not be funding poverty reduction programmes it should be doing more to seek views and advice from those who are experts on poverty reduction so that it is better able to understand what impact its macroeconomic policies have on households.

As joint working arrangements between the Bank and Fund start to become more common place (such as the Financial Stability Assessment Programme, Reports on Standards and Codes, Heavily Indebted Poor Country Initiative, Poverty Reduction Strategies), it raises the question again as to whether the two institutions ought to be formally merged. While this may be a logical conclusion it is not yet on the G7 or others' agenda. For the time-being, it will continue to be a process of merger by stealth.