institute for global dialogue

African Regional Experts Meeting on the Future Role and Reform of the IMF

An international conference organised by the
Institute for Global Dialogue (IGD, South Africa) and
Friedrich Ebert Stiftung (FES, South Africa Office)

5-6 November 2007

Tshwane, Republic of South Africa

CONFERENCE SUMMARY[1]

DAY ONE: NOVEMBER 5, 2007

The International Monetary Fund (IMF), also known as 'the Fund', was established at a United Nations conference convened in Bretton Woods in July 1944, to build a framework for economic cooperation that would avoid a repetition of the disastrous economic policies that had contributed to the Great Depression of the 1930s. Article 1 of the Articles of Agreement sets out the IMF's main responsibilities that include the promotion of international monetary cooperation; the facilitation, expansion, and growth of international trade; the promotion of exchange stability; assistance in the establishment of a multilateral system of payments; and the aim of making available resources to members experiencing balance of payments difficulties.[2] In recent years, serious global economic challenges have highlighted the need to focus on turbulence in emerging markets; to assist countries making the transition from central planning to market economies; and the challenge of promoting growth and poverty reduction in poor and low-income developing countries.[3] As a result, these issues have stimulated a global debate concerning the reform of the international monetary and financial system and the reform of the IMF as an effective institution.

Against this background, the Institute for Global Dialogue (IGD) and the Friedrich Ebert Siftung (FES), South Africa Office, convened an African Regional Experts Meeting on the Future Role and Reform of the IMF. The

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[1] The contents of this report may not reflect a consensus of all the participants of the conference.

[2] Overseas Development Institute. Closing the Deal: IMF Reform in 2007. Briefing Paper, October 2007. Available at http://www.odi.org.uk/publications/briefing/bp_oct07_imf_reform.pdf pp. 1-4

[3] Ibid

Experts Meeting is part of a series of regional experts meetings worldwide, which FES is organising in partnership with regional institutions to exchange information, ideas and opinions concerning the current situation and reform of the IMF. The meeting can also be related to the IMF's International Monetary and Finance Committee's (IMFC) declaration that 'the IMF's effectiveness and credibility as an institution, must be safeguarded and its governance further enhanced.' The IMFC declaration also emphasised the importance of fair voice and representation for all member countries.[4] In this regard, the newly appointed IMF Managing Director, Dominique Strauss-Kahn, has called for the revision of fund's role and vision, thereby reinforcing the need for a systematic and far-reaching reform process.

The IMFC adopted a programme of reforms aimed at adapting quotas and voice in an effort to make significant progress in realigning quota shares with member's relative positions in the world economy, and importantly, enhancing the representation and participation of low income countries.[5] The IMF's reform programme therefore focuses on the following key points: i) surveillance; ii) its role in low income countries; iii) its role in emerging market countries; iv) the IMF's internal governance mechanisms; v) its income position; and vi) capacity building. Of relevance to Africa is the role that the Fund can play within its own reform challenges, especially with regard to addressing global imbalances as a result of the historical marginalisation of Africa in the global economy, and in supporting African development, growth and poverty alleviation.

Theme 1: Overview and context – the international financial architecture

Setting the stage, **Dr Garth le Pere** (Executive Director, IGD), gave a broad overview of the IMF reform debate, highlighting the need for adequate representation of developing countries, quota reform, governance and composition of the IMF's executive. Similar concerns were highlighted in the welcoming address by **Jürgen Stetten**, (Director, Friedrich-Ebert-Stiftung, New York). He alluded to the need for the IMF to re-assess its role in lending activities to low-income countries, seeing that the Fund's role remains largely undefined and controversial. Additionally, Stetten emphasized the exigency for the Fund to tackle the long-overdue realignment of its governance structure as well as questions pertaining to its rationale and role, which have compromised the thrust of the Fund's policy advice and put in doubt the its income model. These issues were further located within the international financial architecture context by **Jack Boorman**, (former Counsel and Special Advisor to the Managing Director and former Director of the Policy Review Department of the IMF). In this regard, the relevance of the Fund was assessed with a primary focus on the financial crises during the 1980s. Questions about the Fund's role in advancing the legitimacy of the institution were subsequently highlighted, focusing on:

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[4] IMF Reform: Change and Continuity. IMF Staff. April 12 2000 Available at http://www.imf.org/external/np/exr/ib/2000/041200a.htm
[5] Ibid.

- The voice and role of developing countries, particularly the role of the Fund in low-income countries in Africa, as well as the lack of clarity on the nature, scope and depth of the Fund's involvement in developing countries, and the lack of agreement in improving the levels of African representation;
- The unjustified size of EU quotas;
- The value of multilateralism and the role of financial and capital movements; and
- Surveillance and monitoring mechanisms of the Fund.

Policy recommendations were suggested regarding the challenges to reform. This focused on the need to select a committee at the highest level to address:

- An appropriate role for the Fund;
- Its voting structure;
- An appropriate quota share adjustment;
- Members' representation in Fund (one executive chair representation must be allocated to Africa)
- The need to advance 'best practices approach' to address governance issues;
- An independent review of role of the Managing Director; and
- Addressing the influence of outside bodies (such as the G7).

Boorman concluded that regarding the representation of developing countries within the Fund, facilities need to be better tailored to address conditionalities and appropriate use of financial controls. However, the role of the Fund needs to be strengthened and it should play larger role in helping developing countries to achieve Millennium Development Goals (MDGs).

Professor Ben Turok (Member of Parliament, African National Congress) reviewed the South African position as the Chair of G20 and considerations regarding reform. He emphasized the need for persuasion in order for reform to be achieved. Furthermore, he also highlighted that the South African Constitution requires that all multilateral agreements must be brought to parliament for discussion and this has not been the case with regard to IMF agreements and should be addressed. His presentation located the reform debate within the African context, citing the aftermath of the 1970's oil crisis that was characterised by heavy borrowing, the debt crises, and the consequent introduction of Structural Adjustment Programmes in Africa. The result has been regressive high interest rates that exceed the initial capital borrowed. The IMF's response was a one-size-fits-all policy package that entailed:

- Export-led growth;
- Devaluation of currencies; and
- Cost-recovery mechanisms.

On the subject of surveillance, it was observed that the provisions of Article 4 (3) on Surveillance were clear in stipulating that members must voluntarily provide information to the Fund. Nevertheless, there had been instances where the Fund obtained full access to information about member states, without proper consultation and agreement. This was interpreted as a definite contravention of this article, thus demonstrating the extent to which surveillance mechanisms are akin to policing missions. A summary of the issues raised by Prof. Turok are as follows:

- The question of the US veto (all key decisions are subject to the US veto and this is a reflection of bad and poor governance of the Fund);
- The review of the 'one size fits all' approach;
- Norwegian government decision on conditionalities: The imposition of economic conditionalities should cease. In this regard, the Norwegian government has stated that it will no longer provide funding where the conditionalities imposed are based on privatisation, liberalisation, etc;
- A disjuncture between applicability of policy in relation to people affected by it; and
- The need for parliamentary oversight of agreements with the Fund (in terms of Article 5 the Fund and Bank must not should not only interact with executive branches of government, but also with parliaments).

Theme 2: IMF as a knowledge and governance institution

The South African perspective and overall African position were assessed in the presentation by **Lesetja Kganyago** (Director-General, National Treasury, South Africa). He argued that in practice, Africa is not fully integrated into the international financial architecture. To this end, he proposed that the IMF should focus on extending the scope of its policy to include development. Furthermore, he also noted that SA's position regarding the reform debate is governed by its multilateral interaction imperatives as reflected in the Reconstruction and Development Programme (RDP), which stipulates the importance of protecting the integrity of domestic governance and policy formulation. In this regard, the basis of South Africa's decisions should be premised on promoting its national interests. He also noted that as the G20 chair, South Africa's 2007 agenda regarding reform of the IMF was divided into three strategic goals namely:

- Short-term: the capacities of African representation in the executive board of the IMF should be strengthened;
- Short-medium term: governance within IMF must be addressed as there is a clear failure by the European Union to address quota imbalances;
- Long-term: reform of quotas does not necessarily substantially increase Africa's share of representation in the IMF. Even if arithmetically calculated, Africa's share will remain minimal; therefore the relevance of quota reform must be reviewed.

In conclusion, the Director-General argued that fiscal aspects of growth and development should firstly address the ways in which governments can create fiscal space and utilise it to create a stable macroeconomic environment and secondly, enhance the absorptive capacity of revenue, focusing on commodities. As a result, there is further need to assess the impact of commodities on the exchange rate and financial system, and the reform of the IMF in adapting to new trends in international economic relations, such as the emergence of China.

Sean Nolan (Senior Resident Representative of the IMF and South Africa and Lesotho) provided an official perspective on the Fund's reform agenda and emphasised the need to strengthen IMF governance, especially with regard to its income model. Reference was made to the Crockett Report (broadening the Fund's investment mandate and selling gold stocks), exploring the scope for more external funding and the necessary implementation of the Fund's Medium Term Strategy (MTS) for Africa.

Dr Omano Edigheji (Research Director, Human Science Research Council, South Africa) argued that the World Bank's project-based policies were rooted in laissez-faire economic principles. Consequently, with globalisation, Africa has not reaped the benefits of free market policies. He questioned why Africa should liberalise in the first place, as well as the extent to which Africa really needs the Bretton Woods Institutions. In this regard, he concluded that the formulation of macroeconomic policies must involve civil society participation, in order for the cumulative benefits of development to aid the very people for which the policies are implemented. He also extolled the virtues of Ministries of Planning to support continental development, vis-à-vis efficiency-oriented National Treasuries.

Theme 3: Critical evaluation of IMF Policies

Reverting back to the key issues concerning the reform debate, **Brendan Vickers** (Senior Researcher, Institute for Global Dialogue) provided an overview of recent developments with IMF surveillance instruments, primarily focusing on their technicalities. These have included:

- The process of multilateral consultations on global imbalances;
- The adoption of the new Decision on Bilateral Surveillance approved on 15 June 2007 (repealing and replacing narrower 1977 Decision on Surveillance over Exchange Rate Policies);
- Deepening the integration of financial sector issues into surveillance;
- The adoption of a Statement of Surveillance Priorities and Responsibilities for bilateral and multilateral surveillance in the context of 2008 Triennial Surveillance Review;
- The independent Evaluation Office's assessment of the Fund's exchange rate policy advice (1999-2005); and
- Modalities for regional surveillance.

He also highlighted the politics surrounding the adoption of the new decision on bilateral surveillance, as well as some of the concerns that developing countries have experienced during this process.

Nancy Dubosse (Programme Director: Research and Policy Analysis, African Forum and Network on Debt and Development) focused on the Fund's lending policy and issues around governance and the Poverty Reduction and Growth Facility (PRGF). These issues were specifically explored by assessing the link between debt relief and developmental programmes. She alluded to the need to forge synergies between social policy, debt relief and development, taking into consideration that a simplistic approach to debt relief will not create the fiscal space to meet the Millennium Development Goals (MDG's). Regarding governance of the Fund, Dubosse also shed light on the extent to which the IMF is compliant with the Paris Declaration on Aid Effectiveness (PD-compliance). This was an agreement adopted in 2005, with the intention of ensuring that aid flows are absorbed efficiently and effectively to meet the MDG's. She concluded that the IMF is not PD-compliant in three main areas:

- IMF review: there is no mention of poverty reduction policies and their link to macroeconomic structural reforms;
- Harmonisation with other donors: there is a lack of an effective and collective aid policy, thus making the transaction costs of aid high; and
- Non-alignment with partner countries at national plans and prioritised activities: the is a lack of support in the areas of national capacity development and fiscal management, as well as technical assistance that extends to the broader social, political and economic environment of partner countries.

She also argued that the relationship between the IMF and low-income countries has been further complicated by the Highly Indebted Poor Countries (HIPC) initiative, which has the purpose of making resources available to finance poverty reduction efforts by assisted debt relief programmes. An assessment of the Millennium Campaign debt relief Programme proposed in 2005, the Multilateral Debt Relief Programme Initiative (MDRI), displays that the direct financial contribution of the MDRI is inadequate, given financing needs of Africa and the challenge to meet MDG's by 2015. Furthermore, it was asserted that there is a weak empirical correlation between HIPC/ MDRI debt relief and poverty reduction, regarding the required financing for development in Africa. This has far-reaching consequences as it undermines the development programmes of under-resourced developing countries. There is thus a need to highlight the relationship between a) fiscal spending and inflation; and b) domestic borrowing and foreign direct investment. In this regard, the following recommendations were made:

- Economic growth and poverty reduction are not synonymous, and the Fund should better appreciate this;
- The Fund must be transparent regarding its motives in developing countries;
- There is need for a fundamental shift in perspectives on development, with macroeconomic stability mainstreamed into development; and
- Regarding the Paris Declaration and aid management, the Fund needs to be more PD-compliant.

- Greater emphasis should be put on the absorptive capacity of the Fund, to manage, coordinate, monitor and evaluate the effectiveness of aid in developing countries.

Providing an examination of the Fund and its role in Millennium Development Goals, **Charles Abugre** (Head: Policy and Advocacy, Christian Aid) asserted that the Fund must progressively view the MDG's in the context of human development. He argued that the IMF does have a role to play in promoting the MDG's insofar as they mirror continental developmental challenges. Essentially, the sovereignty of African states to determine their own macroeconomic policy has been eroded; hence the need for the Fund to play a more pragmatic role in promoting progress with the MDG's. In this regard, the following recommendations were made:

- Terminate PRGF applications and transfer these funds to either the World Bank or other development agencies (e.g. the United Nations Development Programme (UNDP);
- Address the conditionalities that inhibit Africa's development;
- Develop alternative sources of macroeconomic assessment, as the Fund currently enjoys a monopoly over signalling to donors and markets;
- Financial crises prevention is crucial;
- Technical assistance is needed that enables African countries to move away from volatile sources of funding; and
- Regional organisations need to explore and build sources of capital markets that are not dependent on external finance (i.e. outside of the continent).

In conclusion, Abugre suggested that in order to address the indirect cost of IMF lending, there is a need to amend policy biases in floating exchange rates as well as the liberalisation of capital movements and the inability of the Fund to be flexible in macroeconomic policies.

DAY TWO: NOVEMBER 6, 2007

Theme 4: Reform and Governance of the IMF

Professor Rok Ajulu (Senior Visiting Fellow: Institute for Global Dialogue) provided a critical evaluation of the current proposals for the reform of the Fund. He gave an overview of the role of the IMF in developing countries, particularly Africa, and the need to address governance and the influence of developing countries in the Fund. He noted the lack of political will from some members of the EU to move towards the direction of reform. Moreover, his analysis focused on the question of whether the IMF indeed desires to advance fundamental reform or simply adapt its existing structure to suit the realities of developing countries. In addition, he questioned the relevance of the Fund, as well as how it should be reconstituted and reformed in a manner that distributes power more equitably. Key issues of contention, identified in this regard, included the Fund's lack of credibility; its inequitable power and voting structure; its failure to effectively deal with the Asian region's accumulation of funds; and the representation of developing countries.

Focusing on African expectations for the reform of the Fund, **Simon N'guiamba** (Senior Economic and Monetary Advisor: African Union Commission) reiterated that the Fund's initial mandate was not to address the needs of developing countries and therefore, policy formulation at the Fund is not favourable towards Africa. He argued that the role of regional institutions in Africa is not as effective as desired. Although the call for the establishment of an African common market (as reflected in the Abuja Treaty of 1991) aims to advance development in the region, various challenges still remain, such as poverty and marginal global investment inflows.

He noted that increasing basic votes is an important part of the quota and voice reform of the IMF. But while this is the only variable that could give better voice to LICs, not even doubling or tripling basic votes would enable developing countries in general, and the African countries in particular to play a meaningful role in the Fund's decision-making process. Africa would like one-third (33%) of total voting power of the IMF Board to be distributed equally to all members. The rest should be distributed on the basis of member quotas. Apart from requesting a substantial increase in the basic votes, Africa believes that its position in the Fund would be strengthened with the use of double-majority decision-making. Such a system would allow African countries to influence the decisions of the IMF Board towards a consensus.

An analysis of alternative institutions and regional funds in the international financial architecture by **Jason Milton** (Head: G20 Unit, South African Reserve Bank) provided key recommendations for the strengthening of African financial capabilities and capacities, thus aiming to reverse over reliance on external funding. In this regard, African regional financial institutions should be developed in order to complement the IMF, preferably within the AU framework. This could be modelled on the private insurance industry: Regional financial institutions should form the first stage of lending and other counter-action on financial crises. The IMF would only step in as a "reinsurer" of last resort.

PANEL DISCUSSION AND PLENARY:

Participants:

- **Rok Ajulu** (Senior Visiting Fellow, Institute for Global Dialogue)
- **Ahmed As Sayyid Al-Naggar** (Head of Department of Economics at the Center for Political and Strategic Studies, Al-Ahram Institute, Cairo)
- **Karen Smith** (Lecturer: International Relations, Stellenbosch University)
- **Stephan von Stenglin** (Alternate Executive Director for Germany, IMF)
- **Michael J. Temple** (Member of the Swaziland and Pan-African Parliaments)

MAIN OBSERVATIONS

- The Fund can assist low-income developing countries by focusing on, and strengthening their capacity to absorb development aid. However, it must be kept in mind that the Fund is not a development institution, as the World Bank is. The Fund can also explore alternative ways to develop an economy, such as utilising pension funds.

- The Fund currently enjoys a monopoly over macroeconomic assessment (while it has benefits, this is often not based on adequate poverty reduction expertise). For this reason, it would be wise to consider developing alternative sources for such assessments. This would create competition in the market for macroeconomic assessment, increase the breadth of such assessments and ensure the use of good practice development principles, such as a country's ownership and stakeholder participation, which are currently lacking.

- Regarding South Africa's role as the Chair of the G2O and its role within the reform process, South Africa has more fiscal space than other developing countries in the region (and the IMF has often reduced the fiscal space available to low-income countries). The question in this regard is the extent to which South Africa can indeed represent the concerns of those countries that do not have the luxury of fiscal space, as their budgets are often largely donor funded.

- The role of African intellectuals and experts was also raised, with respect to chartering a new relationship with the IMF as well as developing programmes that work towards achieving the MDGs (and post-2015 initiatives and targets).

- It is important to recognise that the problems faced by the LICs – particularly in Africa – are long-term and structural in nature, and not based on temporary balance of payments needs that fall within the IMF's mandate. Development finance should be geared to addressing those problems and raising living standards and human development indicators, for example by working towards achieving the MDGs. The IMF is not a development institution and does not have the appropriate expertise to provide development finance. Likewise, assessments and advice for countries facing development problems should come from development-focused institutions.

- The profile of the Poverty Reduction and Growth Facility (PRGF) should be sharpened and the PRGF transferred from the IMF to either the World Bank or other development agencies, such as the United Nations Development Programme (UNDP).

- The Fund must better appreciate that economic growth and poverty reduction are not synonymous. For this reason, LICs do not need further constraints on their policy space. Instead they need the support to explore the policy options that best match their national priorities and specific economic situations. Lending from the PRGF and its associated economic prescriptions do not meet that test, let alone the principles contained in the Monterrey Consensus and the Paris Declaration. The imposition of economic conditionalities should cease. In this regard, it is encouraging that the Norwegian government has stated that it will no longer provide funding where the conditionalities imposed are based on privatisation, liberalisation, etc.

- The question was raised: “who surveys the surveyor?” (Whom does the IMF report to?) It was suggested that the Fund and World Bank should not only report to their member states, but also to the UN, preferably the General Assembly, in order to increase oversight and legitimacy. It was also argued that the IMF and World Bank should have a clearer redistribution of competencies and a division of labour between the two institutions. The IMF should be the ‘lender of last resort’ and the World Bank should do ‘lending for development’. The IMF should increase its role in macroeconomic policy advice and a reformed surveillance mandate. In addition, the IMF and World Bank must strengthen their communication strategies, vis-à-vis each other as well as the broader public.