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A Strive for Structural reform: Ensuring Transparency, Accountability, Democracy, and Equality within the IMF

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Content

A strive for structural reform

Introduction

The IMF today finds itself in a difficult position, it continues to provide massive aid to the countries suffering from financial crisis, nevertheless, the organisation's initiatives to deal with crises are likely to be ineffective. The fund long ago lost its original mission but has taken on new functions since the collapse of the Bretton Woods system. Many of the problems the IMF needs to resolve would be reduced or eliminated with increased reliance on direct negotiations between lenders and borrowers in international finance and this has become more evident since the 1980s. To see why, it is useful to look at the evolution of the IMF.

Definition of key terms

International Monetary Fund

Is an international organisation established to build a framework for economic cooperation in order to avoid the devaluations that led to the Great Depression of the 1930s.

Devaluation

An official lowering of the exchange value of a country's currency relative to other currencies.

International payment system

Are sets of internationally agreed rules, conventions and supporting institutions, that facilitate international trade between nation states.

Balance of payments

Is the record of all economic transactions between the residents of the country and the rest of the world in a particular period.

Economic stability

An economy with fairly constant output growth and low and stable inflation would be considered economically stable.

Developing nations

Countries where a large portion of the people living there struggle to secure their livelihoods in conditions of great poverty.

Exchange rate

Is the rate at which one currency will be exchanged for another and it is also the value of one country's currency in relation to another currency.

Distribution

Is the way total output, income or wealth is distributed among individuals or among the the factors of production.

Output

Is the quantity of goods or services produced in a given time period, by a firm, industry, or country.

SDR
Stands for Special Drawing Right and it can be defined as an international reserve asset, created by the IMF in 1969 to supplement its member country's official reserves.

Bretton-Woods system
Established the rules for commercial and financial relations among the United States, Canada, Western Europe, Australia and Japan after the 1944 Bretton-Woods Agreement. The Bretton-Woods system was the first example of a fully negotiated monetary order intended to govern monetary relations among independent states.

General overview
The International Monetary Fund came into formal existence in 1945 with 29 countries with the aim of standardising global financial relations and exchange rates and also to economically strengthen its member countries. It was formed in 1944 at the Bretton Woods Conference by the ideas of Harry White and John Keynes. Each member contributes funds to a common pool through a quota system and then countries with problems can borrow money form that pool.

However, it has become abundantly clear that the IMF's "original rationale no longer fits," that the world economy has changed dramatically since the creation of this organisation, and that the increasing frequency of economic crises in recent years requires a rethinking of the IMF's role.

Transparency
The IMF has been criticised by the lack of transparency and involvement for imposing policies with little or no consultation with the affected countries. For instance, Korea the IMF insisted that all presidential candidates immediately "endorse" an agreement which they had no part in drafting or negotiating, and no time to understand. It defies logic to believe the small group of 1,000 economists dictate the economic conditions of life to 75 developing countries with around 1.4 billion people.

Managing director
The IMF's Managing Director is the Chairperson of the executive Board and the Head of IMF staff. A managing director will have a distinguished record in economic policymaking at senior levels and an outstanding professional background.

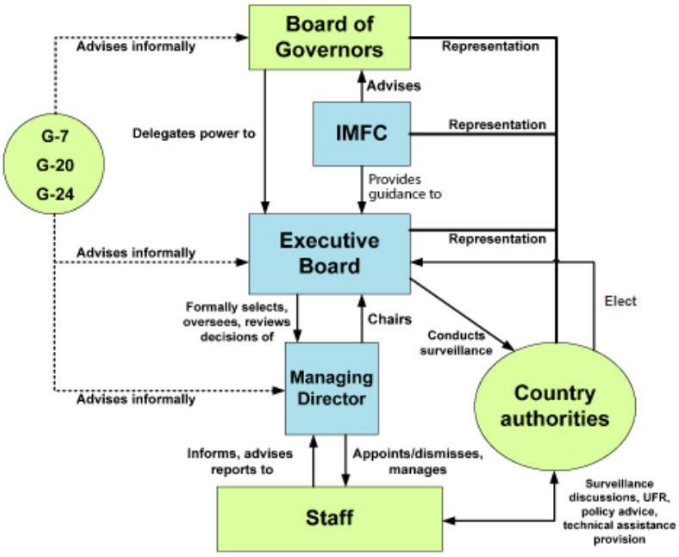
The managing director of the IMF is decided through an election involving each of the 187 members of the organisation. Any country can nominate a candidate but a winner must have 85% of the votes. However, this voting power is concentrated among just a few countries, with America holding an effective veto. In fact, America holds 16.74% of the vote, followed by Japan with 6.01%, Germany with 5.87%, and both the UK and France with 4.85%. This gives America and Europe the power to swing the decision, historically the IMF's managing director has been European. In 2008, the IMF agreed to make the voting system more equitable, and last year it announced a plan to dilute Europe's influence and bolster "dynamic" emerging nations including China and Brazil, nevertheless, no plan has yet been implemented.

Board level
In the IMF we can find two boards: the board of Governors and the Executive Board. The Board of Governors consists of one governor and one alternate governor for each member country and this Board normally meets once a year and is responsible for electing or appointing executive directors to the Executive Board. The Executive board is made up by 24 Executive Directors. The Executive

Directors represent all 189 member countries in a geographically based roster and they usually meet several times each week.

To be effective, the IMF must be seen as representing the interests of all its 189 member countries, consequently, it is crucial that its governance structure reflect today's world economy. However, underdeveloped countries who are the ones that need most help, do not have a seat at the board level and therefore have no voice.

Stylized view of IMF governance



Source: Martinez-Diaz, 2008. (Updated October 2017)

Timeline of key events

Event/date	Explanation
1944	IMF Articles of Agreement formulated at International Monetary and Financial Conference, Bretton Woods, New Hampshire, United States.
1973	Generalized floating begins among major currencies. First global oil crisis.
1974	Committee of Twenty agrees on program to help monetary system evolve.
1978	The IMF is charged with exercising "firm surveillance" over its members' policies.
1979	Second oil crisis
1980	The IMF should be ready to play growing role in adjustment and financing of payments imbalances
1990	Interim Committee agrees to 50 percent quota increase.

2005 — IMF and EU blamed for Starvation in Niger	To prevent the hunger crisis in Niger the IMF and the European Union pressed Niger to introduce a 19 percent tax on foodstuffs, making food more expensive and contributing to the hunger crisis.
2006 — Deficit forces IMF to rethink their role	The IMF lost some of its biggest borrowers in early 2006, this leads to a widening budget shortfall.
2007 — The decline of the IMF	Although the IMF once seemed "immune to criticism", its culpability in the East Asian financial crisis of 1997 and the Argentine crisis of 2001 led to widespread protest.
2009 — The danger of IMF policies	The IMF continues a restrictive lending policy that put developing countries at risk.
2009 — Loan policies worsen the crisis	Providing money for low and middle-income nations hard hit by the global financial crisis, the IMF neglects the consequences of its conditionality at national level.
2012 — IMF guidelines criticised	This Bretton Woods Project article highlights the IMF's continued struggle with the idea of capital controls as acceptable policy instruments.

Major parties or organisations involved

- **Interim committee:** the Interim committee has called for enhanced policy coordination to improve functioning of floating exchange system. Moreover. This committee has agreed that the IMF should be ready to play growing role in adjustment and financing of payment imbalances by providing assistance over longer periods and in larger amounts.
- **Committee of 20:** the committee of 20 has agreed on immediate program to help Monetary system evolve.
- **USA:** The USA is a very active member of the Fund and moreover it hold 16,74% of the vote, it has helped the organisation in numerous ways as for instance, contributing a huge amount of money to the common pool.
- **USSRR:** The USSRR signed an agreement in 1991 with the IMF providing for technical assistance.
- **European Union:** the IMF is actively engaged in Europe as a provider of policy advice, financing, and technical assistance. The IMF provides economic analysis and policy advice as part of its standard surveillance process for individual advanced and emerging European economies that culminates in regular consultations with individual member countries.

Previous attempts to resolve the issue

- In 1986, the IMF created a Structural Adjustment facility to provide concessional balance of payments assistance to poor countries, reflecting the shift in lending from industrial to developing countries that began last.
- In 2000, the IMF launched a new web page on its finances that provides links to financially related material on the IMF website.
- In 2006, Rodrigo de Rato talked about "refocusing" policies for poor countries but he suggested the same methods that drove IMF loan recipients into the ground in the past few decades.
- In 2007, the representatives of the Bretton Woods project called for a reform in the governance and voting system of the IMF in order to increase the fund's legitimacy

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