Committee: Economic and Social Council

Issue: Reformation of the International Monetary Fund (IMF)

Student Officer: Despina Chouliara

Position: President

PERSONAL INTRODUCTION

Dear delegates,

My name is Despina Chouliara and it is my honor to be serving as the President of the Economic and Social Council in the 1st session of ACGMUN. It is a great privilege for me to have the opportunity to serve as a Student Officer in this year's conference, which will be my fourth time chairing and the ninth MUN conference I have attended.

The Economic and Social Council is one of the principal organs of the United Nations dealing with economic and social issues, with the aim of achieving sustainable development. In this year's ACGMUN, the ECOSOC will explore both economic and social issues of utmost importance, which are highly complicated, and intriguing.

As the President of the ECOSOC, I will try to help you with any problems you might have during your research and during the conference. In addition, it is my duty to guide you through the topic "Reformation of the IMF" and answer any questions you might have. I sincerely hope that you will find this Study-Guide helpful and a valuable first introduction to the topic. Nevertheless, you should not limit your research to this Study Guide. I strongly encourage and urge you to conduct further research on the topic as well to have a strong understanding of your country's position on the issue. With that being said, if you need any help with your preparation or if you have any queries concerning the topic do not hesitate to contact me on my e-mail: despina.chouliara@hotmail.com

I am looking forward to meeting all of you at the conference!

Best Regards,

Despina Chouliara

TOPIC INTRODUCTION

In July 1944, at a United Nations conference the International Monetary Fund, knows as the IMF, was established. It was created by the 44 countries that participated at that conference, which aimed to build a framework for economic cooperation so as to regulate the post war global monetary and restore financial order. The International Monetary Fund was founded on 27th December, 1945 and the treaty 'Articles of Agreement' was signed by 29 member countries. Today, the IMF has 189 member countries, its headquarters are in Washington D.C, and its Executive Board consists of 24 Directors each representing a single country or a group of countries.

 # 1: The IMF

The IMF's purpose is to ensure the stability of the international monetary system. Its aims include promoting international monetary cooperation, facilitating the expansion and balanced growth of international trade, promoting exchange stability, assisting in the establishment of a multilateral system of payments and making resources available to members experiencing balance of payments difficulties.[1]

The IMF's mission to ensure the stability of the international monetary system, is achieved through three ways. Firstly, the IMF keeps track of the global economy and the individual economics of all member states. It monitors their economic policies and highlights possible risks to stability and advises on needed policy adjustments. Secondly, the IMF lends to countries with balance of payments difficulties. This financial assistance enables countries to rebuild their international reserves, stabilize their currencies, continue paying for imports, and restore conditions for strong economic growth, while undertaking policies to correct underlying problems.[2] Lastly, the IMF gives practical help to members, through technical assistance and training, to help member countries implement economic policies.

Ever since its creation, the IMF has been heavily criticized for its decisions and structure. Numerous reforms have been suggested and have in fact be

[1] "Factsheet." *The IMF at a Glance*. IMF, n.d. Web. 23 Jan. 2017.
[2] "Overview of the IMF as a Financial Institution." *OVERVIEW OF THE IMF AS A FINANCIAL INSTITUTION* (n.d.): 1-11. *International Monetary Fund*. IMF. Web. 23 Dec. 2016.

implemented. However, the Fund still needs serious reforms in order to be able to be empowered to deal more effectively with the functioning of the whole monetary system in a manner consonant with its stated purpose.

DEFINITION OF KEY TERMS

International Monetary System

Monetary System is the set of mechanisms by which a government provides money (cash) in a country's economy. It usually consists of a mint, central bank, and commercial banks. Thus, the international monetary system is the global payment system for the smooth functioning of international trade.[3]

Balance of Payments

The balance of payments of a country is the record of all economic transactions between the residents of the country and the rest of the world. These transactions are made by individuals, firms and government bodies, and include payments for the country's exports and imports of goods, services, financial capital, and financial transfers. [4]

Exchange Rate

Price for which the currency of a country can be exchanged for another country's currency. Factors that influence exchange rate include: a) interest rates, b) inflation rate, c) trade balance, d) political stability, e) internal harmony, f) high degree of transparency in the conduct of leaders and administrators, g) general state of economy, h) quality of governance.[5]

Financial Market

A financial market is a market in which financial assets are traded. In addition to enabling exchange of previously issued financial assets, financial markets facilitate borrowing and lending by facilitating the sale by newly issued financial assets.[6]

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[3] "What Is Monetary System? Definition and Meaning." *BusinessDictionary.com*. N.p., n.d. Web. 24 Jan. 2017.

[4] Stein, Herbert. "Balance of Payments." Balance of Payments: The Concise Encyclopedia of Economics | Library of Economics and Liberty. N.p., n.d. Web. 24 Jan. 2017.

[5] "What Is an Exchange Rate? Definition and Meaning." *BusinessDictionary.com*. N.p., n.d. Web. 24 Jan. 2017.

[6] Tesfatsion, Leigh. "Introduction to Financial Markets (Econ 308, Tesfatsion)." *Introduction to Financial Markets (Econ 308, Tesfatsion)*. N.p., 5 Mar. 2012. Web. 25 Jan. 2017.

Quotas (IMF)

Each member of the IMF has a quota, a certain amount of money that it has to give to the IMF, so that the IMF is in a position to give loans to its members. Therefore, a member's quota determines that country's financial and organizational relationship with the IMF.[7]

Special Drawing Rights(SDR)

Special Drawing Rights is unit of account of the IMF and a kind of reserve of foreign exchange assets comprising leading currencies globally and created by the International Monetary Fund in 1969. The SDR is not a currency, but a potential claim of the freely usable currencies of IMF members.[8]

BACKGROUND INFORMATION

Role of the IMF

Fostering global growth and economic stability is the main aim of the IMF, which it tries to achieve by providing policy advice and financing to members, giving particular emphasis on working with LEDCs to macro-economic stability. Therefore, the IMF provides countries with alternate sources of financing to support their economies. Upon the founding of the IMF, its primary functions are achieving international monetary cooperation, promoting exchange rate stability, helping deal with Balance of Payments adjustment.

By assisting countries, the IMF aims to prevent the spread of international economic crises. More specifically, the IMF assists its member states through economic surveillance, loans to countries with financial crises and through technical assistance and economic training. Concerning surveillance, the IMF rather than maintaining its original position of oversight of only exchange rates, the IMF's position has now became one of surveillance of the overall macroeconomic performance of member countries. The IMF completes reports on the economies of its member countries and highlights areas of weakness, analyzing the appropriateness of each member country's economic and financial policies for achieving orderly economic growth, as it believes that by outlining areas of economic imbalance it can prevent possible crises. Apart from surveillance, the IMF has also $300 billion of loanable funds, which it uses in times of financial crises as part of a

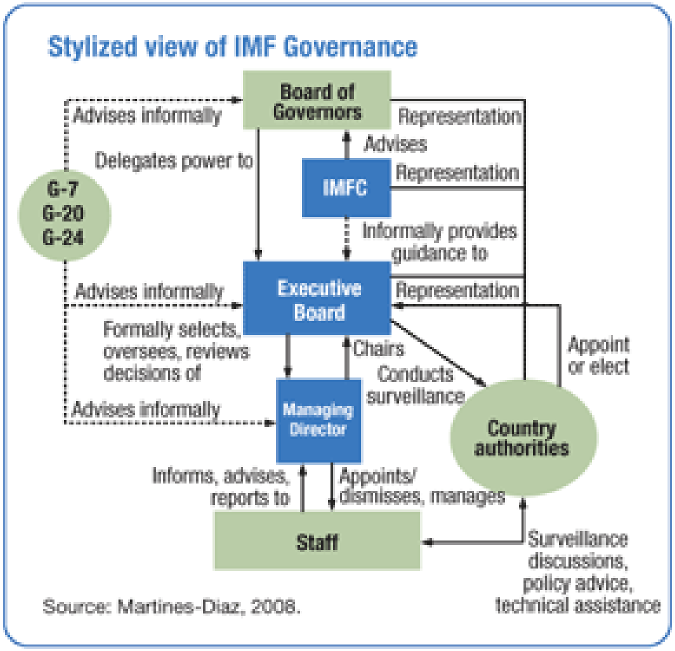
[7] "Factsheet." *IMF Quotas*. N.p., n.d. Web. 29 Jan. 2017.
[8] "Definition of 'Special Drawing Rights'." *The Economic Times*. N.p., n.d. Web. 29 Jan. 2017.

financial readjustment.[9] Regarding capacity development, the IMF offers technical assistance and training to help countries develop more effective institutions, legal frameworks, and policies to promote economic growth, as well as to help countries implement these policies.

Governance

– Board of Governors

The Board of Governors is the highest policy-making authority of the IMF, on which all countries are represented. The Board meets once a year and is responsible for electing executive directors to the Executive Board. In addition the Board of Governors is responsible for approving the admittance of new members, quota increases, Special Drawing Right allocations, and amendments to the Articles of Agreement and By-Laws, although it is very important to mention that the Board has in fact entrusted most of its powers to the IMF's Executive Board.



#2: "Governance Structure"

– Ministerial Committees

The Board of Governors is advised by the International Monetary and Financial Committee (IMFC) and Development Committee. The Development Committee is a joint committee of the Boards of Governors of the IMF and World Bank, which deals with development policy issues and all other matters affecting LEDCs. It consists of 24 members and serves as a forum for building intergovernmental consensus on critical development issues.[10] Regarding the IMFC, it has 24 members, drawn from the pool of 187 governors, and it is a committee that considers major policy issues affecting the international monetary system, particularly by monitoring developments in global liquidity and the transfer of resources in LEDCs, and makes recommendations to the full Board of Governors.

[9] Pettinger, Tejvan. "Role of IMF." *Economics Help*. N.p., n.d. Web. 25 Jan. 2017.
[10] "About the IMF: Governance Structure." *About the IMF: Governance Structure*. N.p., n.d. Web. 29 Jan. 2017.

These two committees cooperate very closely, and serve as policy guidance to the World Bank and the IMF.

– Executive Board

Executive Board consists of 24 Executive Directors, representing all 189 countries in a geographically based roster.[11] The Executive Board oversees and supervises the IMF's activities. Some member countries with large economies have their own Executive Director in the Board, however all other member countries are grouped together in four or more countries, with each group having its own Executive Director. More specifically, following the 2008 Amendment on Voice and Participation, the eight countries that can each appoint their own Executive Director are the United States, Japan, Germany, France, the UK, China, the Russian Federation, and Saudi Arabia. The remaining countries, which are grouped in constituencies, are represented by the remaining 16 Directors on the basis of geographical or historical affinity. The Board meets frequently every week, and its membership is under regular review every eight years.

Figure 3, The Executive Board from DeNederlandscheBank 2012

– Managing Director

The head of the staff and the Chairman of the Executive board of the IMF is the managing director, who leads the IMF. Historically, the IMF's managing director has been European.

Member States

In the IMF, decision making reflects the position of each member country in the global economy, which is quite different to the UN's General Assembly. Member countries enjoy many benefits, as they are provided with technical assistance and increased opportunities in trade and investment. In addition, as mentioned earlier, each member country of the IMF is assigned a quota, which not only determines its financial commitment, but also the member country's voting power.

The voting power of each member country is determined by the quota system. Each member country has a number of basic votes, which accounts for

[11] "International Monetary Fund." *Wikipedia*. Wikimedia Foundation, n.d. Web. 29 Jan. 2017.

about 5.5% of the total votes, plus an additional vote for each Special Drawing Right (SDR) of 100,000 of a member country's quota. The basic votes benefit the smaller countries, however the votes determined by SDR benefit to a huge extent the larger countries. Thus, the IMF voting system favors the larger economies and wealthy countries have more influence and more say in the making and revision of rules in the IMF. IMF voting shares are relatively inflexible: countries that grow economically have tended to become underrepresented as their voting power lags behind.[12]

Criticisms

Over the years, the IMF has been heavily criticized for its structure, governance, quota system and voting system.

– Quota System and Voting System

Because of the quota system, the economies of the LEDCs are not reflected in the IMF's decision making process, although these countries' economies represent a large portion of the global economic system, and are the countries that need the greatest help from the IMF.

The IMF's membership is divided into the "creditors", the MEDCs providing the largest amounts of financial resources rarely entering into IMF loan agreements, and the "borrowers", the countries (mostly LEDCs) using these resources. Therefore, because of the fact that the LEDCs use the lending services but contribute little tension and controversy has been created around governance issues because these two groups have different interests.

– Executive Board

The head of the Executive Board is the managing director. The controversy surrounding the position of the managing director has to do with the fact that only Europeans are appointed to this position. This standard is increasingly being questioned, as many countries believe other qualified candidates from any part of the world should have the chance to compete for this position. More specifically, in 2011 the BRIC nations (Brazil, Russia, India and China) heavily criticized this tradition, stating that the tradition of appointing a European as managing director undermines the legitimacy of the IMF.

– IMF Policies

Many have criticized the IMF's policies, calling them anti-developmental and stating that the IMF's policies lack a clear economic rationale. More specifically, it

[12] "International Monetary Fund." *Wikipedia*. Wikimedia Foundation, n.d. Web. 29 Jan. 2017.

has been stated that the IMF programs quickly led to losses of output and employment in economies where incomes were low and unemployment was high.[13] In addition, because of the differing opinions of countries with varying economic circumstances, the IMF's policy foundations are often unclear. For example, in Argentina, which was considered by the IMF to be a model country, experienced a catastrophic economic crisis in 2001.

MAJOR COUNTRIES AND ORGANISATIONS INVOLVED

USA

The USA, as one of the largest economies in the world, holds the largest number of votes, which is more than 16% of voting power in the IMF. When the reforms to give more powers to emerging economies were agreed in 2010 by the G20, they were not ratified by the US, thus the 2010 reforms could not pass without American approval. In December 2015, the United States Congress adopted a legislation authorizing the 2010 Quota and Governance Reforms.

Japan, Germany, France and the UK

Together with the US, these five countries have the largest quotas and are entitled to appoint an executive director.

Table of Percent Quotas/Votes [14]

	Quota	Vote
Japan	6.48%	6.16%
Germany	5.6%	5.32%
France	4.24%	4.04%
UK	4.24%	4.04%
USA	4.24%	4.4%

[13] "International Monetary Fund." *Wikipedia*. Wikimedia Foundation, n.d. Web. 29 Jan. 2017.

[14] "IMF Executive Directors and Voting Power." *IMF Executive Directors and Voting Power*. N.p., n.d. Web. 29 Jan. 2017.

BRICS Countries (Russia, Brazil, India, South Africa, and China)

Following the 2010 reforms and the 14th General Review of Quotas, Russia, China, India and Brazil, four emerging market countries, became part of the ten largest members of the IMF. However, although their quotas increased, these four emerging countries and South Africa still only have 14.7 percent voting share, which is not enough for a veto. [15]

TIMELINE OF EVENTS [16]

Date	Description of event
1944	IMF and World Bank Articles of Agreement agree on at International Monetary and Financial Conference, Bretton Woods, United States. Forty-four countries participate.
1957	IMF begins operations, with France as its first borrower ($25 million).
1952	IMF approves proposals for Stand-By Arrangements to help countries address short-term balance of payments problems.
1963	IMF creates Compensatory Financing Facility to help countries hurt by fluctuations in world commodity prices.
1967	IMF approves plan to create SDRs (Special Drawing Rights)—a new international reserve asset—to support fixed exchange rates. Plan is implemented in 1969, in First Amendment of IMF Articles of Agreement.
1974	Committee of Twenty (C-20) on Reform of the International Monetary System agrees on program to help monetary system evolve. Guidelines to manage floating exchange rates are adopted. Extended Fund Facility is introduced on C-20's recommendation, enabling IMF to support medium-term policy programs.

[15] "BRICS Gets Greater Say in IMF." *RT International*. N.p., n.d. Web. 29 Jan. 2017.
[16] "The IMF Story." *The IMF Story-A Timeline - Finance & Development - September 2004* (2004): n. pag. *IMF Executive Directors and Voting Power*. Sept. 2004. Web. 3 Jan. 2017.

1978	Second Amendment of IMF Articles of Agreement establishes members' right to choose their own exchange rate arrangements. The IMF is charged with exercising "firm surveillance" over its members' policies.
2008	"Bringing Balance to the IMF Reform Debate", a project which brought together finance ministers and central bankers from many IMF member countries in many regional meetings to discuss and recommend possible reforms for the IMF
September, 2008	Dominique Strauss Kahn, lays out a four-pillar approach to reforming the governance structure of the IMF
April, 2009	The Flexible Credit Line is introduced, a lending tool for countries that provides large and upfront access to IMF resources
December 15, 2010	On December 15, 2010, the Board of Governors approved far-reaching governance reforms under the 14th General Review of Quotas.
2011	The Precautionary and Liquidity Line (PLL), was established in 2011 and was designed to meet the liquidity needs of member countries with sound economic fundamentals but with some remaining vulnerabilities
March 3, 2011	The 2010 reforms built on quota and voice reforms became effective on the 3rd of March in 2011. Under these reforms, 54 members received an increase in their quotas—with China, Korea, India, Brazil, and Mexico as the largest beneficiaries. Another 135 members, including low-income countries, saw an increase in their voting power.
July, 2012	The Executive Board adopted a new Integrated Surveillance Decision to strengthen the underlying legal framework for surveillance.
September 2012	The Executive Board endorsed a new Financial Surveillance Strategy that included concrete and prioritized steps to further strengthen financial surveillance.

September, 2014	The 2014 Triennial Surveillance Review (TSR), completed in September 2014, focused on building on these reforms and ensuring that IMF surveillance continues to best support sustainable growth in a deeply interconnected post-crisis world.
January 26 2016	The amendment to the IMF's Articles of Agreement comes into force that created an all-elected Executive Board, after it had been accepted by three-fifths

RELEVANT RESOLUTIONS, TREATIES AND EVENTS

The information below is events and reforms that the IMF has proposed, most of which will be analyzed in further detail in the section below.

– Democratic Governance and Parliamentary Oversight (2005-2006)
– High Level Panel on IMF Board Accountability (2006-2007)
– 14th General Review of Quotas
– Amendments of IMF Articles of Agreement:
– Amendment on Voice and Participation
– Amendment to Expand and the Fund's Investment Authority

PREVIOUS ATTEMPTS TO SOLVE THE ISSUE

In 2008, a number of quota reforms were passed including shifting 6% of quota shares to dynamic emerging markets and developing countries. In addition, in 2008 Dominique Strauss-Kahn suggested a four-pillar reform approach[17]: (2008-2009)

– 1st pillar: IMF Independent Evaluation Office of the IMF
– 2nd pillar: A working group of the IMF Executive Directors
– 3rd pillar: A committee of eminent persons
– 4th pillar: Direct interaction with civil society organizations.

Moreover, since 2010, one of the major reforms that the IMF has tried to implement was the 2010 Quota and Governance Reforms, under the 14th General Review of Quotas - a package of far-reaching reforms of the Fund's quotas and

[17] Administrator. "IMF Governance Reform - New Rules for Global Finance Coalition." *IMF Governance Reform - New Rules for Global Finance Coalition*. N.p., n.d. Web. 29 Jan. 2017.

governance, which suggests an 100 percent increase in total quotas and a major realignment of quota shares.[18] The 2010 Reforms suggested that:

- All 189 members' quotas will increase from a total of about SDR 238.5 billion to about SDR 477 billion, while the quotas and voting power of the IMF's poorest member countries will be protected.
- Many under-represented members will get more quota shares from over-represented.
- The four emerging market countries (Brazil, China, India, and Russia) will be among the ten largest members of the IMF, together with the United States, Japan, Germany, France, the United Kingdom and Italy.

Following the 14th General Review of Quotas in 2010, the Board of Governors requested the Executive Board to start working on the 15th General Review of Quotas and complete by January 2014. However, the Executive Board delayed its work on the 15th General Review, as it was working on the implementation of the 14th General Review. The 15th General Review is set to be complete by 2017.

POSSIBLE SOLUTIONS

Reforming the International Monetary Fund is a highly complicated issue, since most countries have differing opinions on the types of reforms the IMF has to undergo, due to their different interests. Thus, the United Nations plays a major in solving this issue, as it can promote discussion between the member countries of the IMF.

As seen by the previous attempts to solve this issue, making changes to the quota system and the voting power of the member countries is crucial in improving the International Monetary Fund. Firstly, it has to be ensured that emerging economies will be provided with increased quota shares and thus have a greater say in the decision-making of the Fund. In addition, changes have to be made in the quota shares of under-represented economies, and it is vital that LEDCs are protected, in the case of an increase in the member countries' total amount of quotas.

Another issue that has to be addressed is the tradition to appoint only European in the position of managing director. Many countries, such as Russia,

[18] "Factsheet." *IMF Quotas*. N.p., n.d. Web. 29 Jan. 2017.

believe that this tradition undermines the legitimacy of the Fund, thus this tradition has to be changed.

Furthermore, the Fund has heavily been criticized for each anti-developmental policies, which lack an economic rationale, as well as its loan conditions. It has been suggested that the IMF loan conditions should be paired with other reforms, such trade reform in MEDCs, debt cancellation, and increased financial assistance for investments in basic infrastructure, since IMF loan conditions cannot produce any change.

Lastly, another possible reform could be for the IMF to work more closely with other international organizations. As an organization determined to promoted economic growth and support LEDCs, working with organizations such UNICEF and the United Nations Development Program could be proven very helpful when it comes to determining its policies.

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