Chapter – VIII

SUMMARY AND CONCLUSION
8.1 Major Findings

IMF as the major agent in the international monetary system to guarantee the stability of the system and the exchange rates is a very important institution. The discussion on whether the existence of the IMF is necessary in the monetary system or not is out of question. The necessity of the IMF is inevitable. There should always be an institution like IMF in the international monetary system that sets rules and the member countries go by. The position of the IMF in the system is of great importance and the contributions have helped many of the member countries get over the problems and difficulties while facing real or potential crisis. To substitute the IMF with a new perfect monetary fund is simply not realistic and can take a really long time. The Fund has proved to be a reliable source since the day of its establishment. The growing membership of the International Monetary System simply proves the point that such an institution cannot be avoided and the member countries will definitely be in need of aids from IMF financially or otherwise. The instabilities in the international monetary system shows that the member countries will be sooner or later not only in need of IMF financing, but they will also be needing the help of an institution for setting new policies and reforms to get back on track and overcome their problems.

That being said, it is important to mention that IMF itself is far from perfect. Current structure of the IMF and its policies towards its different group of member countries are not satisfactory for these member countries. Therefore, the reform of the IMF is very essential to make sure the IMF stays the legitimate major agent for preserving the stability of the international monetary system. The Fund should go through various stages of reform to make sure it is more relevant and efficient towards not only its advanced economy members but also its developing and low-income member countries. A successful reform package for the IMF should encompass all aspects of its operations starting from its governance operations and policies to its lending and conditionality framework of the Fund. This will result in a more mutual trust of the member countries to the IMF and a better cooperation between the two. A more relevant IMF will have better surveillance authority over its members since the countries can trust the Fund review their policies.
8.2 Reform Suggestions for IMF Governance

Although the orientation of the reforms should entail all aspects of its operations in the end, it is important to note that the most important aspect of IMF reforms lies in the governance structure of the fund. The unfair governance conventions of the IMF have affected all other aspects of the Fund. Unless and until the governance of the IMF changes, the Fund will not be a legitimate institution in the eyes of its member countries.

The IMF is responsible towards the governments of its member countries. The governments are also trusted by the citizens of those countries. As a result, the IMF is pretty much responsible towards each citizen of its member countries. Every rule and condition the IMF sets affects those citizens. At the moment, many of these citizens and governments are dissatisfied with the current governance structure of the IMF. There should be series of reforms in the governance of the Fund to make it more relevant and legitimate to its member countries.

Governance of the Fund as studied in the thesis and proved by the hypotheses is clearly very biased towards the member countries. The quotas assigned to each of the countries are based on their relative power and GDP in the world economy. Based on these conventions, the quota allocations are very biased. Many of the countries from the advanced economy members of the Fund especially the European countries are still very over-represented while on the other side many country members from the developing world are under-represented. Many of the developing countries have performed very well in the world economy over the past two decades and have gained a greater share in the world economy. However, the Fund has failed to reflect these changes in its quota allocations and as a result of that these countries are receiving lower shares of quotas respectively. Since the quotas are the building blocks of all IMF operations, all other aspects of IMF operations with respect to these countries are affected by this unfair share.

Respectively the voting share and voting powers of these member countries have been affected by the deficiencies in the governance structure of the IMF. As proved by the hypothesis in the thesis, the advanced economy members of the IMF are holding higher shares of voting power in the decision making process of the Fund.
On the other hand, the developing and low-income economy members are receiving a way lower share that they should receive.

The quotas are assigned to member countries based on four different factors. The most important factor is the GDP share of each country in the world. As long as the assignment of quotas is based on the current quota formula many of the member countries will not be satisfied with the process. If this process continues, the advanced economy members will always receive a higher share of quota and as a result of that a higher share of voting power for all the IMF decisions. Due to the relative independency of these countries towards the IMF, these decisions will only affect the citizens and governments of other developing and low-income country members. As long as the voting power in the IMF is assigned to the member countries based on their relative quota shares in the world, the advanced economy members will have a way to control the IMF operations and its decisions based on their own preferences.

The reforms in the governance structure of the IMF should focus on reforming the current quota formula or forming a new one which is less focused on market and more focused on the consistent policies. The variables in the new reformed quota formula should take these into consideration. Only in that way, the developing and low-income country members will receive a fairer share of quota and voting power in the decision making process of the IMF.

The governance reforms of the Fund should consider other aspects of its governance structure as well. Most importantly, the process of choosing the managing director of the Fund and its staff is not at all satisfactory in the eyes of its developing and low-income member countries. The current conventions are clearly underestimating the expertise in those areas. The managing director has always been chosen from the European countries and the senior staff are also chosen only from the US and Europe. This discrimination against other member countries should be addressed. Otherwise, the IMF will lose its legitimacy in the eyes of its developing and low-income country members. Although the Fund is not very trusted by these countries at the moment due to the deficiencies in its governance and its lending towards them, the reforms should restore the position of the Fund as the trustable institution it once was.
Since all operations of the IMF are based on the quotas, all other aspects of the Fund operations are also affected by this deficiency. Thus, it is safe to say that the deficiencies of the IMF governance are the root causes of its other aspects. Therefore, the main focus of the reforms of the IMF reforms packages should be on the governance of the IMF. Once the governance of the IMF is reformed and the countries are assigned a fair share of their relative position in the world economy and their share is also a reflection of their developments over the years, the Fund will once again be restored as a legitimate institution in the eyes of its member countries. The reforms should result in more reliance on the developing whether in the decision making of the IMF or in the Fund’s selection of its managing director or its staff. The reforms should lead to a selection process more based on merit rather than just geographic preference. A more geographic diversity in the IMF staff will bring better performance and cooperation with its member countries. A legitimate monetary institution in the international monetary system is one reformed IMF where the member countries are satisfied with their quota shares and voting power in the IMF and the countries are all having a fair share of being chosen for managing the Fund.

The recent governance reforms have started a great move towards better governance for the IMF. However, these efforts have been resisted by the advanced economy members of the IMF. If the reforms take place, the advanced economy members will have to let go of their clearly over-represented power in the Fund and transfer them to other developing and low-income member countries. The changes will also result in less number of chairs in the Executive Board of the IMF for these countries and a higher voting power for the developing countries in IMF Board. The move will be clearly resisted as much as possible by these advanced economies. The United States with its voting power will try to veto any decision that results in having less power for them. The European countries will do the same by lobbying against these reforms efforts. The IMF should think of new ways to push towards the reforms and give all the countries what they represent. The pending governance reforms of 2010 have been on hold for long enough. In order to go forward with more reforms in the governance of the Fund, these approved 2010 reforms should be accepted by the advanced economy members. Next round of governance reforms and quota formula is scheduled for January 2015. Without approving 2010 reforms, this round will be once again delayed and re-scheduled. If this happens, the IMF is in serious danger of losing
its legitimacy towards its developing and low-income member countries. The countries will simply move away from the IMF and rely on other international or regional monetary funds which may be way riskier than IMF.

8.3 Reform Suggestions for IMF Lending and Conditionality

Although the governance reform of the Fund should be the primary focus for the orientation of the reforms towards the Fund, other aspects of the IMF operations are also very much in need of serious reforms.

Another aspect of IMF reforms should be oriented towards IMF’s lending and conditionality framework. The Fund’s conditions in the Articles of Agreement were mostly set based on the assumption that all the IMF members were among the advanced economy members and they were having more or less similar backgrounds. But, as the number of IMF members grew over the years, these conditions were clearly very tough for many of its developing and low-income countries. The structural reforms set by the IMF for its member countries neglect to consider the economic circumstances and weaknesses of those countries. The one-fits-all policy of IMF conditionality faced great criticism from those members.

The reforms in the conditionality of the IMF should lead to higher country ownership of the programs. The IMF should spend more time studying the country before designing the lending programs for that country. The government of the country should be more involved with the IMF in designing the program in the beginning so that the program is set more based on the strengths of that borrowing country. The macro-social aspects of the program should be studied in detail so that the harm to the citizens of the borrowing country is at minimum. The structural reforms of the IMF program should be minimized as much as possible and should be only macro-critical to the achievement of the program goals, and be based more on the core areas of expertise of the IMF. A more streamlined conditionality of the IMF will result in a better program design for the borrowing country with higher country ownership and more flexibility from the IMF.

The Fund should also focus a part of its reform efforts on designing new facilities oriented towards different needs of its different groups of countries. Both new short-term and long-term facilities offered to different country groups of the IMF
with more streamlined and flexible conditions based on the circumstances of those countries only will make the Fund a more reliable place where the countries can turn to in case they are in need of any type of financing need.

The Fund should also look into new ways of finding new sources to collect reserves for the financing needs of its member countries. Lessons from the past crisis show that due to the interconnectedness of the countries in the world economy, a group of countries may be in urgent need of financing and the current reserves the IMF is holding may not be enough to satisfy those needs. The resources for the concessional loans of the IMF will dry up by the end of 2014. The Fund should find new resources to satisfy the needs of its low-income member countries through the concessional loans. The resources could be from the profit of gold reserves sale of the IMF to bilateral contributions from other member countries like before. Since the long-term involvement of the IMF with its low-income member countries have proved to be very successful, the Fund should continue its involvement with these low-income member countries. However, the degree of IMF involvement should be limited to the core areas of IMF expertise. The Fund has gone beyond its areas of expertise through its conditions over the years and has failed to be successful in implementing its conditions while at the same time this has caused the Fund to not focus on its original objectives as per the Articles of Agreement. The reforms in the conditionality of lending of the IMF should make clear how far the involvement of the Fund in the developmental issues of the member countries especially the low-income members should be. The Fund should be reformed to collaborate with other international organizations such as the World-Bank in these developmental issues. The reforms should stop the IMF from interfering in areas where it does not have sufficient expertise and leave them to the World-bank. A better cooperation of the Fund with the World-Bank and other regional or international organizations to provide the sufficient amount of financing to the member countries will lead to higher program success and the IMF will become a more reliable source of finance for the member countries.

A major portion of lending and conditionality reforms should be to make the Fund facilities more attractive for the developing member countries. This group of countries has strayed away from the Fund over the last few years. They have either started accumulating piles of reserves to satisfy any future potential financing need or
they have started their own monetary funds. In 2014, BRICS countries established a new monetary fund with a capacity to loan up to $3.2 billion per year. The main reason mentioned for the establishment of this institution was their disappointment with the IMF. Other developing countries will do the same or may even turn to other riskier sources of finance if the IMF does not solve its deficiencies against these countries. However, if the Fund is reformed in a way acceptable to these countries, the Fund will be once again a legitimate organization, and not only the developing country members but also all other low-income and advanced economy members will come to the Fund sooner before they are deep in trouble since they trust that the Fund will offer them its financial and surveillance services on more flexible terms acceptable to them. Since the developing members of the IMF has proved to be much more consistent over the past two decades, their turning to the IMF will be a sign of higher legitimacy for the IMF. New facilities oriented towards the needs of these country members with conditions set based on their strengths can be another area the Fund reforms should take place. If the governance reforms of the Fund are successful and these member countries receive their fair share of quotas, they will be encouraged to come to the Fund as unlike now they will be receiving fairer tranches of IMF loans.

8.4 Reform Suggestions for IMF Surveillance

The country members of the Fund are pushing for more reforms in the structure of the IMF. Other aspects of IMF reforms should include the surveillance of the IMF. This happens only if the members trust the IMF so they can trust the Fund with reviewing their policies. The Fund should focus on better cooperation with its member countries to gain more authority over the policies of its member countries. Reforming the surveillance of the Fund takes place over introducing new surveillance instruments as it has started over the last three years. Surveillance reform of the Fund is a new move that should be supported and continued. New surveillance instruments will be more successful if they are integrated with IMF lending and technical assistance given by the IMF. If the countries realize that they will be offered these services, they will be more eager to come to the Fund and this will in turn give the Fund more authority over the policies of its member countries.

However, IMF surveillance reforms should also consider new ways to gain control over the policies of those advanced economy members of the fund. Although
the recent crisis has proved that even these countries will be in need of IMF resources and IMF conditionality will be applied for them as well, the degree of authority of the Fund over these member countries are still very low. In many cases, IMF policies are controlled by the power of these advanced economy member countries unlike the other way around. Therefore, research should be focused on finding new ways to give the IMF more power in the international monetary system and policies that these countries set as many other countries will be affected by their decisions. This will start to happen if the governance of the Fund is reformed and the power given to these countries due to their over-representation in IMF chairs and quotas are fixed.

8.5 Reform Suggestions for IMF Governance

If the reforms of the IMF are directed in a way satisfying in the eyes of all its member countries especially those developing and low-income members, the Fund will be accounted as a more trustable institution. Once this happens, the IMF’s SDR will be more credible. Once the quota formula is reformed and the SDR basket is reformed to include other important currencies such as Yuan, and Rupee in the future, it will be accounted a multinational currency. Although this might not be a very realistic at the moment to consider the SDR as the substitute of the US dollar, the competition between these currencies will reduce the exorbitant privilege the US dollar is carrying. Plus, a move towards a multi-polar reserve currency system where the US dollar does not play the dominant currency can start here.

8.6 Sustainability and Transparency of Future Reforms

From the early 2000s, the criticisms towards the IMF led to a series of reforms in different aspects of IMF operations. Reforms in governance of the Fund, to its lending and conditionality to the recent reforms in the surveillance of the IMF have all been a great start towards restoring the position of the Fund in the international monetary system.

Although many of these reforms have been very effective, there is still a long way to go to reach a monetary fund acceptable to its member countries. The reforms taken so far should be just a start of a move towards this goal.

The first step in this process is to finalize all the pending reforms from the last reform efforts taken so far. Most important of all is the governance reforms of 2010
which will be a very important start towards a better representation of the developing countries to give them a fairer share in the Fund.

However, the reforms do not end here. IMF reforms should be sustainable and continuous. IMF should plan for its sustainable reform of all of its aspects of operations from governance, to lending and conditionality and to surveillance if it wants to stay relevant in the international monetary system and not be replaced by other institutions. A periodical reform of its operations should be scheduled every 3 to 5 years and the reforms accepted should be applied as fast as possible unlike the recent pending reforms taken over the years. If the changes in the IMF are consistent and evolutionary, the legitimacy of the Fund will not be in jeopardy and it can carry on with its operations. Serious reforms of the IMF should encompass all aspects of the Fund and should not be oriented towards the preferences of only one group of countries. All IMF members should benefit from the reforms otherwise the countries will look for alternatives to substitute the Fund.

IMF should assign a group of researchers to study its different operations and to study whether there is any chance of making it better by reforming them. This group of researchers could be from different countries to increase the geographic diversity and depth of their research. A better understanding of the dissatisfaction of the member countries towards the IMF will lead to better reform suggestions from this group and as a result of that a better IMF.

Transparency in IMF operations especially in its surveillance activities should be enhanced to encourage more member countries trust the Fund more with their policies. IMF surveillance reports can only be printed if the consulted country agrees with that. A move towards reforming this framework to be more transparent in its consultations with the member countries and the services the Fund offers them in return will lead to more countries use IMF facilities and services.

This transparency should also be seen in the governance of the IMF especially with respect to the selection of the managing director and senior staff of the Fund. A reformed and more transparent process should be employed in which each country can trust the process and each is given a chance at being chosen for these positions.
IMF as the major agent to ensure the stability of the international monetary system should go through dynamic changes according to the changes in the international monetary system if it wants to maintain its position in the system. This requires consistent research and study of all aspects of IMF operations, the degree of its success towards all of its members and towards a more mutual interaction with its member countries and other regional or international monetary organizations. The Fund should study very well how far the degree of its involvement in different aspects should be and where to leave these operations to other organizations. The main objective of the Fund should stay its original objective as mentioned in its Articles of Agreement that is to maintain the stability of the international monetary system.