G-20 WORKING GROUP 3:
REFORM OF THE IMF

Final Report

4 March 2009

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On November 15, 2008 the G-20 Leaders committed to a series of measures to restore financial market stability and global growth and achieve needed reforms in the world's financial system. Included among these measures was a commitment to reforming the International Financial Institutions (IFIs).

Working Group 3 was tasked with advancing the actions covered in the November 2008 Leaders' Declaration dealing with the reform of the IMF. Leaders instructed Finance Ministers to implement the initial list of actions identified in the Action Plan as well as – in consultation with other economies, existing bodies and experts – to formulate additional recommendations, including in the area of reviewing the mandates, governance, and resource requirements of the IFIs.

As part of the outreach in undertaking the group's work, an issues paper was circulated to all members of the IMF Executive Board and to the Chairman of the IMFC, who indicated he would circulate it to all IMF members. The Executive Board was advised of the group's progress and comments were invited. The co-chairs also met with academics, think-tanks and other private sector bodies.

GROUP'S CONCLUSIONS AND RECOMMENDATIONS

I. The financial crisis and the role of the IMF

1. The G-20 members reaffirm the central role of the IMF as a critical forum for multilateral consultation and cooperation on monetary and financial issues as well as in promoting international financial and monetary stability.

2. The G-20 members recognise that the global financial crisis has highlighted the urgency of accelerating changes to the IMF so that it can more effectively fulfil its mandate. Such changes should address any underlying deficits in resources, lending instruments, and governance structures, with a view to enhancing legitimacy, ownership and efficiency, and clarifying the roles and responsibilities of the Fund.

Items Identified in Leaders' November 2008 Action Plan

A. Immediate measures

II. IMF to take a leading role in drawing lessons from the crisis

> *'The IMF, given its universal membership and core macro-financial expertise, should, in close coordination with the FSF and others, take a leading role in drawing lessons from the current crisis, consistent with its mandate.'*

3. G-20 members welcome the initial work of the IMF on lessons from the crisis. G-20 members are committed to respond effectively to address identified weaknesses in financial regulation and supervision, macroeconomic policies, international cooperation, the operation of the Fund, and the international monetary system.

4. G-20 members reaffirm the Fund's leading role in this ongoing work, and the need for close coordination with other bodies, such as the expanded FSF.

III. Review of the adequacy of IMF resources

> **'***We should review the adequacy of the resources of the IMF, the World Bank Group and other multilateral development banks and stand ready to increase them where necessary'.*

5. In the current uncertain international environment the Fund needs a substantial increase in its lending capacity through additional borrowings. The IMF is a quota-based organisation and due consideration should be given to the need for a permanent increase in the Fund's resources.

6. To meet these objectives, the G-20 members:

   6.1. Support immediate action to strengthen the IMF's position to respond to increased members' demands through a substantial increase in the IMF's lending capacity, including through a possible doubling of IMF resources. Most members support the doubling of IMF resources relative to their pre-crisis level. Given the need for prompt action, this should be achieved through borrowing designed to temporarily supplement the Fund's resources, including additional bilateral or multilateral borrowing from members. In this regard, the G-20 members commend Japan's commitment of up to US$100 billion under the agreement signed on February 13.

   6.2. Support the commencement of the processes for an expansion and increase in the New Arrangements to Borrow (NAB), on the basis of fair burden sharing, recognising that an increase in the NAB will require legislative changes for a number of Fund members.

6.3. Call for the urgent ratification of the package of quota and voice changes agreed by the IMF Board of Governors in April 2008, which would also contribute to an increase in the Fund's resources.

6.4. Call for an acceleration in the next general review of quotas. This review will allow an assessment to be made as to whether the permanent resources of the Fund need to be increased taking account of the magnitude of the crisis, the significant change in international economic conditions, changes to the Fund's financing instruments and the unanticipated increase in financing demands on the Fund since the Thirteenth Review of Quotas was completed in January 2008. Most G-20 members indicated that this review should be concluded by January 2011. Some members indicated that their support was conditional on the review being preceded by the entry into force of the April 2008 quota and voice measures.

7. G-20 members support the Fourth Amendment of the Fund's Articles which would double SDR allocations, boosting reserve holdings and enabling all Fund members to participate in the SDR system in proportion to their quotas. G-20 members call for the Fund to give due consideration to the merits of a further SDR allocation.

IV. Review of IMF lending instruments and lending role

'The IFIs should also continue to review and adapt their lending instruments to adequately meet their members' needs and revise their lending role in the light of the ongoing financial crisis.'

8. G-20 members support a substantial increase in members' access limits to Fund financing as a proportion of their quotas.

9. G-20 members call on the Fund to urgently establish more effective crisis prevention and resolution instruments. Such instruments should be attractive to all members – through high access, a precautionary nature and quick disbursements – while balancing these considerations against the need for appropriate safeguards for Fund resources. The Fund should take into account the full range of implications stemming from the introduction of these facilities.

10. G-20 members call on the Fund to continue to review and streamline conditionality, so that it is focused on areas directly related to a program's objectives while safeguarding IMF resources.

11. G-20 members strongly support the Fund expediting a review of its lending instruments for low-income countries, which would include assessing the need to increase access limits under the PRGF and the Exogenous Shocks Facility so that it has increased flexibility to meet the requirements of low-income countries adversely affected by the crisis. This review should also examine the need for an increase in the Fund's ability to provide concessional financing to low-income

countries including a widening of donor support for its concessional lending instruments.

12. G-20 members support the IMF working with the World Bank in restoring emerging and developing countries' access to credit and private capital flows, and supporting the provision of finance for counter-cyclical fiscal responses. G-20 members underscore the importance of ongoing close cooperation between the IMF and the World Bank within their mandates.

V. IMF/FSF collaboration

> *'The IMF, with its focus on surveillance, and the expanded FSF, with its focus on standard setting, should strengthen their collaboration, enhancing efforts to better integrate regulatory and supervisory responses into the macro-prudential policy framework and conduct early warning exercises.'*

13. Building on the work of Working Group 2, G-20 members welcome the steps taken by the IMF and FSF to strengthen their collaboration and to conduct regular early warning exercises to identify and prioritise systemic macro-financial risks, propose policy responses, and report to policymakers. We expect that the process of expansion of the FSF will be completed by the Leaders' Summit of April 2009.

14. G-20 members support a strengthened role for the IMF in the identification of macro-financial vulnerabilities and emphasise the importance of regular reports by the IMF and expanded FSF to the IMFC.

15. G-20 Finance Ministers and Central Bank Governors commit to undertake candid discussions on the findings of the early warning exercises, the results of multilateral surveillance and appropriate policy options and responses. To this end we invite the IMF and an expanded FSF to prepare input for consideration at future meetings of the G-20 Finance Ministers and Central Bank Governors.

B. Medium-term actions

VI. Strengthening Fund surveillance

> '*The IMF should conduct vigorous and even-handed surveillance reviews of all countries, as well as giving greater attention to their financial sectors and better integrating the reviews with the joint IMF/World Bank financial sector assessment programs. On this basis, the role of the IMF in providing macro-financial policy advice would be strengthened.'*

16. G-20 members highlight that the crisis has demonstrated that the Fund must strengthen its capability to provide independent, objective and persuasive assessments of the risks and dangers that policy makers face at the national and international level, including the implications of large cross-border capital flows. In the current context the IMF can contribute to the development and monitoring

of global policy responses, including fiscal, monetary and financial sector policies.

17. G-20 members recognise that the IMF's shareholders have their responsibility in ensuring the effectiveness of the Fund's surveillance. We acknowledge that countries need to be more responsive to Fund surveillance, especially the systemically important ones.

18. To improve the effectiveness of Fund surveillance, G-20 members:

18.1. Emphasise the importance of candid, even-handed surveillance across all IMF members.

18.2. Call on the IMF to strengthen its bilateral and multilateral surveillance, especially in respect of advanced economies with major financial centres, highly-leveraged economies and large cross-border capital flows.

18.3. Call on the Fund to accelerate its efforts to better integrate financial sector issues into surveillance with a sharper focus on the risks to international financial stability. In addition, the Fund's expertise on financial sector issues should be increased and the resource implications duly considered.

18.4. Call on the IMF and World Bank to reform the FSAP to improve its usefulness and to facilitate regular updating.

18.5. Reiterate our commitment to undertake an FSAP report, noting that improvements to the FSAP should assist individual members in adhering to such commitments.

18.6. Some G-20 members underline the benefits from IMF members agreeing to publication of their Article IV and FSAP reports. Others pointed to the drawbacks of publication.

VII. Greater voice and representation in the IMF for emerging markets and developing economies

'We underscored that the Bretton Woods Institutions must be comprehensively reformed so that they can more adequately reflect changing economic weights in the world economy and be more responsive to future challenges. Emerging and developing economies should have greater voice and representation in these institutions.'

19. The effectiveness of the Fund, and its ability to fulfil its mandate, are critically dependent on urgent action to correct underlying deficiencies with regard to the common ownership, voice and representation of its universal membership. Quota distribution should more adequately reflect the changing

economic weights in the world economy. Emerging markets and developing economies, including the poorest countries, should have greater voice and representation in the Fund, and G-20 members look forward to accelerated progress towards these objectives.

20. Towards achieving these reforms, G-20 members:

20.1. Call for urgent ratification of the package of quota and voice measures approved by the Board of Governors in April 2008.

20.2. Call for a realignment of quota shares that is expected to result in increases in the quota shares of dynamic economies, and hence in the share of emerging market and developing countries as a whole. Most G-20 members indicated that this realignment should be concluded by January 2011. Some members indicated that their support was conditional on the realignment being preceded by the entry into force of the April 2008 quota and voice measures.

20.3. Call for a review of the structure of representation on the Executive Board and IMFC and the decision making rules, consistent with the comprehensive reform of the IMF, so as to more adequately reflect changing weights in the world economy and to ensure that emerging markets and developing countries have greater voice and representation. Such a review should include deepening the participation of low-income countries, lifting the burden on constituencies that have a large number of members, and the consideration of a third chair for Sub-Saharan Africa.

VIII. IMF involvement in capacity building

'Advanced economies, the IFIs, and other international organizations should provide capacity-building programs for emerging market economies and developing countries on the formulation and the implementation of new major regulations, consistent with international standards'.

21. G-20 members encourage the IMF to enhance its capacity building activities for emerging markets and developing economies in assisting with the broad adoption of a strengthened financial regulatory framework.

22. G-20 members encourage the Fund to continue to strengthen partnerships with donors in delivering technical assistance.

23. G-20 members are committed to increasing their capacity building activities for emerging markets and developing countries.

C. Additional Recommendations

IX. Review the mandate and governance of the IMF

> '*We request our Finance Ministers to formulate additional recommendations, including in the area of reviewing the mandates, governance, and resource requirements of the IFIs.'*

24. G-20 members recognise the importance of the IMF ceasing to rely primarily on the income of its lending activities to cover its administrative expenses. In this regard we call for a swift activation of the IMF's new income model, including the speeding up of the process required for the agreed sale of a limited amount of the IMF's gold, and taking the legislative steps required to expand the IMF's investment authority.

25. Most G-20 members support a review of the role of the Fund in the international economy and in the light of the lessons drawn from the crisis, including those relating to the international monetary system and the role of reserve currencies.

26. Many working group members supported the G-20 encouraging the Executive Board and management to expedite the work being undertaken on reviewing governance in the IMF and in particular ensure that the staff, management and the Board are operating as efficiently as possible, that there is a better delineation over roles and responsibilities, and that there is a strong accountability framework. Many other working group members believed this was micro-managing the Fund, and that internal administrative matters such as the delineation of roles and responsibilities of staff and management of the Board are better left to the Fund and IMFC, and consider that these issues are already being duly considered in the aforementioned fora.

27. G-20 members support enhancing the quality of the policy dialogue and political legitimacy of the IMF, within the IMFC and other fora, by ensuring more consistent and effective engagement by Governors in the Fund's collaborative work. Some G-20 members support the activation of a Council of Ministers as a mechanism to elevate the level of policy dialogue in the Fund. Many others were of the view that such a Council of Ministers can only be established after meaningful quota, voice and representation reform is achieved for emerging markets and developing countries. Some stressed the need to safeguard the role of the Executive Board.

28. There is broad support from G-20 members for open, merit-based selection processes, irrespective of nationality and geographical preferences, for the appointment of the next Managing Director and Deputy Managing Directors of the IMF. While beyond the scope of the Working Group, it must be linked to a similar mechanism which should apply to the selection of senior management in the World Bank and other MDBs.

X. Implementation and follow-up processes

29. G-20 members emphasise the importance of closely monitoring progress in advancing IMF reforms and invite the Fund to regularly advise G-20 Finance Ministers and Central Bank Governors of progress in the implementation of these reforms.

ATTACHMENT A

G-20 WORKING GROUP 3 ON REFORM OF THE IMF

MEMBERS AND PARTICIPANTS

Country/organisation	**Representative**
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Australia (Co-chair)	Mr Mike Callaghan Prime Minister's Special Envoy for the International Economy
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Canada	Mr Jim Haley General Director, International Trade and Finance, Finance Canada
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	Mr Amar Bhattacharya Director of the G-24 Secretariat

ATTACHMENT B

G-20 WORKING GROUP 3: REFORM OF THE IMF

CO-CHAIRS' ISSUES PAPER

This paper has been prepared by the Working Group 3 Co-chairs and provides background to the Working Group's final report of 4 March 2009. The paper reflects discussions within the Working Group, however it may not represent the views of all members of Working Group 3.

A. INTRODUCTION

25. On November 15, 2008 the G-20 Leaders committed to a series of measures to restore financial market stability and global growth and achieve needed reforms in the world's financial system. Included among these measures was a commitment to reforming the International Financial Institutions (IFIs).

26. Working Group 3 was tasked with advancing the actions covered in the November 2008 Leaders' Declaration dealing with the reform of the IMF. In paragraph 10 of the November Declaration, Leaders instructed Finance Ministers to implement the initial list of actions identified in the Action Plan as well as – in consultation with other economies, existing bodies and experts – to formulate additional recommendations, including in the area of reviewing the mandates, governance, and resource requirements of the IFIs.

- In undertaking their work, the co-chairs circulated an issues paper to all members of the IMF Executive Board and to the Chairman of the IMFC, who indicated he would circulate it to all IMF members. The Executive Board was advised of the group's progress and comments were invited. The co-chairs also met with academics, think-tanks and other private sector bodies.

I. The Financial Crisis and the Role of the IMF

27. The unprecedented upheaval in financial markets in 2008 and subsequent downturn in economic activity have highlighted the importance of the IMF's role both as a 'crisis responder' — by providing advice and financial support to countries adversely impacted by the crisis — as well as its role in promoting policies that will minimise the prospects of future crises and strengthen the international financial system.

- The global financial crisis has demonstrated that the world needs an effective and cooperative international financial institution — one that promotes economic growth and financial stability, facilitates close international cooperation and coordination in recognition of the close interdependence between economies, and provides support to countries facing balance of payments difficulties so that they can avoid policy responses with adverse impacts on other countries. By standing ready to provide resources to its members, the Fund builds confidence in global financial stability and therefore functions as a critical pillar of global integration and open markets. This is why the IMF was established over 60 years ago.

28. It is unrealistic to expect that the IMF should have prevented the crisis. The IMF does not have the power to compel nation-states to act in accordance with the IMF Board's conclusions. And while the IMF analyses of the global economy and financial system took note of many of the vulnerabilities that ultimately led to the crisis, recent events have exposed weaknesses in the effectiveness of the Fund, particularly given its remit to promote global financial stability and economic growth. The crisis has highlighted the fact that changes are urgently required in the operation of the IMF for it to be more effective in facilitating global financial stability.

29. The IMF represents more than the management and staff of an organisation based in Washington. It is a collective institution whose members have obligations and rights that go with membership, along with a joint responsibility in fulfilling the Fund's mandate.

30. The way the IMF responds to the crisis will have a significant impact on how it is perceived in the future and the role it will play in the international financial system. Its response to the crisis will determine whether countries in the future will have confidence that they can rely on the IMF for financial support as needed and for effective and firm surveillance over members' policies. Complete trust cannot exist if the IMF is unwilling to speak out about major problems affecting the international monetary system. Insufficient trust will add to the trend toward alternative and less efficient arrangements, including self insurance.

31. The G-20 Leaders indicated in their November 2008 Declaration that they are committed to reforming the IMF and in particular, to enhancing its effectiveness in promoting sound policies that support growth and stability, as well as its ability to identify risks and vulnerabilities to the international financial system, and its capacity to provide financial support to countries as needed.

32. Many of the issues raised by G-20 Leaders are on the work program of the IMF Executive Board and there has been an ongoing process of reform and change within the IMF. A number of these issues are complex, contentious, and have been under consideration for some time. However, as previously noted, given the magnitude of the crisis, it is important that the process of reform be accelerated. The IMF's response must not be perceived as 'business as usual'.

33. The working group highlighted that the G-20 process should not attempt to micro-manage the IMF. However, the response to the Leaders' 2008 Declaration can provide political impetus to the direction and speed of reform of the IMF – with the details left to the Fund's consultative and decision making bodies. A positive statement from the Leaders of countries representing more then 85 per cent of world GDP that they are committed to reforming and strengthening the IMF so that it can effectively fulfill its mandate to promote international monetary and financial stability would give a significant and much needed boost to confidence.

34. To deliver a confidence boosting message at the G-20 London Summit, it will be important to identify and build consensus around concrete measures which demonstrate, particularly in the context of the crisis, that the Fund will operate more effectively.

35. Accordingly, and consistent with the approach taken in the Leaders' Declaration, the working group has focused on areas where consensus may be possible on changes that can be implemented relatively early, and where processes can be put in place to advance as quickly as possible those issues requiring longer-term consideration. The deterioration in economic conditions since November 2008 has underlined the need for urgency on some aspects of reform. On the other hand, discussions on issues relating to the IMF's mandate and role in the international monetary system are at a formative stage and will take time to explore. Moreover, the issues raised by the Leaders' Declaration are inter-related. For example the adequacy of the Fund's resources must be considered in the context of reassessing its financing role in member countries. In addition, the ability of the IMF to strengthen its surveillance, enhance its lending instruments and develop more effective early warning exercises will depend on the robustness and legitimacy of its governance structures.

36. Achieving consensus on needed reforms will require political leadership and a commitment to strengthened international cooperation.

B. IMMEDIATE ACTIONS IDENTIFIED BY LEADERS

II. IMF to take a leading role in drawing lessons from the crisis

> *'The IMF, given its universal membership and core macro-financial expertise, should, in close coordination with the FSF and others, take a leading role in drawing lessons from the current crisis, consistent with its mandate.'*

37. The IMF has prepared papers on: 'Initial Lessons of the Crisis'; 'Lessons of the Financial Crisis for Future Regulation of Financial Institutions and Markets and for Liquidity Management'; 'Lessons of the Global Crisis for Macroeconomic Policy'; and, 'Initial Lessons of the Crisis for the Global Architecture and the IMF'.

These papers are being discussed by the IMF Executive Board. They cover issues directly relevant to the performance of the Fund, the operation of macroeconomic policy, the financial regulatory framework and the need for greater international cooperation. It is important that there be a comprehensive assessment of the lessons from the crisis along with ensuring that the lessons are translated into meaningful changes to policies and organisational arrangements.

38. In terms of initial lessons of the crisis for the global architecture and the IMF, the staff identified that reform is needed in four key areas:

- Surveillance of systemic risk. Noting that vulnerabilities can arise from a variety of sources, including unexpected events, bad policies, misaligned exchange rates, credit-fuelled asset booms, external imbalances, or data deficiencies that obscure trends.

- International coordination of macro-prudential responses to systemic risk. This refers to arrangements that govern collective policy decisions, covering forums such as the G-20 and that systemic concerns about the international economy should be reported directly to policy makers with the ability and mandate to take action.

- Cross-border arrangements for financial regulation. Focusing on the need for best practices to help avoid regulatory arbitrage and assist in burden sharing across jurisdictions by international financial conglomerates, with understandings on regulation, supervision, and resolution.

- Funding for liquidity support or external adjustment. The Fund has a central role to help countries weather short-term liquidity strains and it is important that the Fund have the resources to do so and that the processes for providing short-term liquidity be better defined.

39. The Working Group is of the view that the Fund should continue to respond to the Leaders Declaration and deepen its analysis of lessons from the crisis, including further self-reflections regarding the lessons for the role of the IMF. G-20 Finance Ministers and Central Bank Governors may wish to invite the Fund to formally present the results of this work at their next meeting (after March 14).

III. Review of the adequacy of IMF resources

> *'We should review the adequacy of the resources of the IMF, the World Bank Group and other multilateral development banks and stand ready to increase them where necessary'.*

40. The IMF has prepared a paper on 'Review of the Adequacy of and Options for Supplementing Fund Resources', which was considered by the Executive Board on 5 February 2009. IMF management recommended a doubling of the

Fund's pre-crisis lending capacity (including potential lending) to around $US500 billion.

41. The sharp increase in IMF credit commitments in recent months and the uncertainty over the fallout of the crisis has raised questions about whether Fund resources will be adequate to meet possible future demand from members for financial support.

42. The IMF's loanable resources are derived from part of members' quota subscriptions and potentially from bilateral borrowing arrangements with individual members and groups of members. A US$50 billion line of credit is available under the New Arrangements to Borrow (NAB) and General Arrangements to Borrow (GAB). At the G-20 Leaders Summit in November 2008, Japan offered the Fund a line of credit of up to US$100 billion. The agreement was signed on February 13, 2009.

43. In the last quarter of 2008, the IMF's available resources declined by over a fifth. Outstanding credit increased from SDR7.6 billion at end-September 2008 to SDR17.5 billion at end-December 2008. Commitments rose over the same period by SDR29.7 billion, leading to a reduction in the forward commitment capacity of the Fund from SDR127.6 billion to SDR97.6 billion (US$145 billion).

44. The sharp increase in demand for Fund resources was not predicted and it is difficult to predict the future demand for Fund financing in the wake of the crisis. Discussions are currently under way with several countries on possible use of Fund financial support, with potential commitments of around SDR22 billion. The sharp reduction in financial flows to emerging markets as a result of the still ongoing de-leveraging process in mature financial markets, could result in increased calls on the Fund for support. Furthermore, global de-leveraging may hamper the potential catalytic role of Fund financing, with the result that the Fund may be called upon to provide a substantial amount of a country's financing needs.

45. As a proportion of world GDP, global capital and trade flows, IMF loanable resources are at low levels. The quota reviews since the mid-1970s resulted in quota increases that generally maintained the size of the Fund relative to GDP at around 1.25 per cent. However, it is currently estimated that quotas have declined to around 0.8 per cent of global GDP. Nevertheless, the Fund is regarded as an effective first line of defence for global balance of payments lending.

46. The Fund's resource position remains sound, notwithstanding the recent increase in IMF credit commitments, and the Fund has the capacity to meet members' expected financing needs. However, the environment is highly uncertain and members' demands for Fund financing could increase significantly. In such a situation, it is assessed that it would be prudent to increase the Fund's contingent lending capacity. This view is not based on a detailed assessment of a

likely increase in particular members' financing needs as a result of the crisis, but the judgment that a substantial increase in the Fund's contingent lending capacity would help promote confidence that the Fund is well placed to meet additional requests for financial support from its members at a time of great uncertainty.

47. In the IMF's most recent assessment of the adequacy of its resources, Fund staff proposed a doubling of its pre-crisis lending capacity. While recognising the difficulty in assessing the scale of the additional Fund resources needed, when the issue was considered by the Executive Board most Directors considered it prudent to err on the side of preparedness and supported a doubling of the Fund's pre-crisis resources. Some Directors, however, considered that further analysis would help clarify the appropriate size of an immediate augmentation in the Fund's resources. It would be a significant outcome if G-20 Ministers/Leaders publicly indicated their support for a substantial increase in Fund resources in the context of the global financial crisis.

i) Fund borrowing

48. Quota subscriptions are the basic source of the Fund's financing. However, borrowing by the Fund can provide an important, temporary and relatively speedy increase in the Fund's resource base. This borrowing could be through additional bilateral loan arrangements with Fund members similar to the agreement signed with Japan in February 2009, the placement of Fund paper with the official sector, or an expansion and enlargement of the multilateral NAB. The modalities of Fund borrowing are a matter for the Fund to decide, although the impact of a public statement supporting an increase in the resources of the Fund would be greater if it was accompanied by some countries indicating they would make substantial loans to the Fund. This would also be the quickest way to increase Fund resources.

49. If the Fund is to increase its resource capacity through borrowing, it would be appropriate for G-20 Ministers/Leaders to recommend that processes commence for an increase and expansion in the Fund's existing line of credit with members, namely the NAB, and to encourage the participation of countries that have accumulated significant foreign reserves. Both an increase in current arrangements and an amendment to the NAB would require a decision of the Fund and the concurrence of participants representing 85 per cent of total credit arrangements. In addition, legislative approval may be required in a number of countries to increase their credit arrangements or other significant changes in the NAB. While NAB members should work towards expediting legislative approval processes, increasing the NAB is not a rapid way to increase the Fund's resources.

ii) Quota increase

50. A general quota increase is not a practical way to quickly increase Fund resources in the near term. The Articles of Agreement provide for general

reviews of quotas by the Board of Governors at intervals of no more than five years. The Thirteenth General Review of Quotas was completed on January 28, 2008 with the Board concluding that on balance there was not a sufficiently strong case for a general quota increase at that time, particularly given the Fund's strong liquidity position. However, much has changed over the course of 2008, in terms of current and possible demands on Fund resources.

51. Related to a general quota increase is the package of quota and voice reforms agreed by the Board of Governors in April 2008 and currently with national authorities for ratification. In addition to a new quota formula and a shift in voting and quota shares from developed to emerging markets, the resolution asks the Executive Board to recommend further realignment of quota shares in the context of general quota reviews, to ensure that they reflect developments in the world economy and to close the gap between actual and calculated quota shares. Further work related to the quota formula is required before it is used again.

52. While it still has to be resolved whether a permanent increase in the Fund's resources is required given the magnitude of the crisis and the shape of the post-crisis global financial system, the significant change in international economic conditions and increased financing demands on the Fund since the completion of the Thirteenth Review in January 2008, would suggest that it would be prudent to accelerate the next general quota review. The implication of any changes to the Fund's role in the system, lending instruments, and in turn its role in providing financial support to members, would also have to be considered when reviewing the permanent resource needs of the Fund. An acceleration of the next general review should not impede the ratification of the package of quota changes agreed by the Board of Governors in April 2008, which will involve an 11.5 per cent increase in resources available to the Fund.

53. Consequently, in the context of ensuring that the resources of the Fund are adequate, in addition to G-20 Ministers/Leaders supporting a substantial increase in the Fund's resources through borrowing as a contingent measure, they could also call for the acceleration of the next general review of quotas. A number of members indicated that it would be a stronger message if a timeline for the next general review was specified, proposing the next review be completed by January 2011. Other members supported an acceleration of the next general review as soon as the April 2008 quota and voice reforms have been ratified.

iii) SDR allocation

54. An issue that could be considered is whether an SDR allocation would be an appropriate confidence-building response in current circumstances, providing unconditional liquidity by supplementing members' reserve holdings rather than increasing the resources of the Fund. A decision to allocate SDRs under the present Articles of Agreement would require agreement by members holding 85 per cent of voting power that there is a long-term global need to supplement

existing reserve assets. To be effective in relieving the liquidity constraints being faced by some members, an SDR allocation, which must be made to all SDR Department participants in line with their quotas, would either have to be very large or there would need to be a voluntary agreement among members for a post-allocation distribution of quotas. The prospects and relative merits of an SDR allocation could be further considered by the Fund, which would include consideration of the appropriate balance between the supplementation of members' reserve holdings and enhancement of conditional IMF lending capacity.

55. Before embarking on a possible further allocation of SDRs, it would be appropriate to advance the special one-time allocation of SDRs that was approved by the IMF's Board of Governors in September 1997 through the proposed Fourth Amendment of the Articles of Agreement. This allocation would double cumulative SDR allocations. Its intent, however, was to enable all members of the IMF to participate in the SDR system in proportion to their quotas and correct for the fact that countries that joined the Fund after 1981 – more than one fifth of the current membership – have never received an SDR allocation. The Fourth Amendment will become effective when three fifths of the IMF membership (111 members) with 85 per cent of the total voting power have accepted the amendment. Currently, 131 members with 77.68 per cent of total voting power have accepted the proposed amendment.

56. A decision by the G-20 membership to support the Fourth Amendment would ensure that it would become effective and this may have a confidence boosting impact in that it would increase the reserve holdings as well as demonstrate support for equity in the allocation of SDRs across all Fund members.

iv) Mobilising bilateral resources complementary to IMF programs

57. If the IMF organises financial packages raising funds from different countries and international financial institutions that are to be linked to a specific IMF program, these funds should be properly safeguarded so that such funding arrangements are not to be discouraged.

IV. Review of IMF lending instruments and lending role

> *'The IFIs should also continue to review and adapt their lending instruments to adequately meet their members' needs and revise their lending role in the light of the ongoing financial crisis.'*

58. The Fund is reviewing its financing role in member countries. It has prepared papers on the following topics:

- Review of Access to Financing in the Credit Tranches and Under the Extended Fund Facility and Overall Access Limits Under the General Resources Account.

- Charges and Maturities — Proposals for Reform.

- Review of the Fund Facilities – Analytical Basis for Fund Lending and Reform Options.

- Conditionality in Fund-Supported Programs — Purposes, Modalities and Options for Reform.

59. It is important that the review of the Fund's lending and financing role be undertaken in a transparent and comprehensive manner, although it is also important that it be completed as quickly as possible. Some of the factors influencing this review of the Fund's financing role include the following:

- Members' needs for Fund financing have evolved significantly since the Fund was created, and the Fund has adapted to members' changing needs and introduced a range of new facilities. However, the stand-by arrangement, where financing is provided to a member to support adjustment to a balance of payments need and disbursed in tranches on meeting conditions, remains at the core of the Fund's lending instruments.

- The Fund's lending toolkit was primarily designed when balance of payments pressures largely emerged over a period of time and through the current account. In an increasingly integrated global economy with large-scale movement of capital flows, crises can arise from global shocks, which unfold quickly, or from sharp changes in investor sentiment, sometimes caused by doubts over a member's policies and vulnerabilities.

- Prior to the crisis, there was reduced demand for Fund resources by members. This was in large part due to a strong world economy, higher private capital flows and strengthened policy frameworks. There was also hesitancy by some emerging market countries to approach the Fund because of the stigma associated with a Fund program. Countries were looking for balance of payments support, if needed, from sources other than the Fund. There was increasing regional pooling and financing arrangements. A number of countries were self-insuring through the acquisition of substantial reserves and some were exploring contingent financing and other loans offered by multilateral banks.

- The Fund has been reviewing conditionality in an effort to ensure that conditions are tailored to a country's needs and focused on the core areas needed to achieve the program goals without compromising the need to safeguard Fund resources. The concept of outright purchase subject to special qualification requirements exists in the recently introduced Short-

Term Liquidity Facility (SLF), which provides short-term liquidity support to members with strong fundamentals and a track record of sound policies.

- Demand for the Fund's resources has increased with the advent of the crisis. In November 2008 alone, the Fund approved loan commitments totalling $US42 billion.

- The Fund has been considering for some time the implementation of a new crisis prevention instrument. The challenge has been to find a design that strikes the right balance between developing an instrument that is attractive to potential borrowers and provides adequate safeguards to the Fund. Concerns include the first mover problem, negative signalling effects, and the fear of creating an instrument that goes unused. Staff have recently proposed the introduction of a new crisis prevention instrument catering for high performing members, or alternatively to modify the SLF.

- The Fund has been considering an increase in members' access limits, notwithstanding that in exceptional circumstances involving capital account crises, the limits can be waived. Access limits will influence the level of charges and are influenced by quota increases.

- The Fund has been considering the scope to streamline the number of existing lending facilities. Staff have proposed eliminating all special facilities in the General Resources Account.

- The Fund's financing role in low-income countries has been evolving. The PRGF framework, with its focus on poverty reduction and growth, has been the Fund's primary tool of engagement with low-income countries, particularly in the context of the HIPC/MDRI debt relief process. The Fund has provided additional financial support to low-income counties adversely affected by the crisis by augmenting pre-existing PRGF arrangements. In addition the Fund has modified the Exogenous Shocks Facility in order to make it more responsive to members' needs. While low-income countries can request traditional stand-by arrangements to address short-term balance of payments needs, these are not on concessional terms like the PRGF. Some countries graduating from the PRGF still benefit from close engagement with the Fund, a role being met by the Policy Support Instrument.

60. The Fund continually needs to ensure that its lending instruments are flexible and can meet members' needs, particularly in the context of the global crisis. A challenge is to remove as far as possible any perceived stigma associated with a Fund program, recognising that a certain degree of stigma may be associated in dealing with an institution which provides financial support to countries experiencing balance of payments difficulties. However, it is important to recognise the significant progress that many countries have made in improving institutions and policies, allowing them to rely on their own frameworks for

achieving macroeconomic stability – the ability of these countries to 'graduate' from IMF lending is welcome and should not be conflated with 'stigma'. Moreover a key benefit of a Fund supported program is that it can help unlock other sources of funding by providing credibility to a member's adjustment policies. Members should have confidence that the Fund will assist in their finance needs, but also that they may approach the Fund in circumstances other than when a crisis is well underway and all other options are exhausted.

61. Another challenge for the Fund is to ensure that it has a flexible and effective lending instrument, which can help members prevent a crisis. The Short-Term Liquidity Facility allows countries with a strong track record to obtain short-term liquidity support with one outright purchase. This new facility has not been used and concerns have been expressed that the access limits are too low, the maturity is too short and that it is not available on a precautionary basis – attributes that limit its effectiveness as a crisis prevention instrument. Closely related to the future of the SLF are questions about high access precautionary instruments. In considering such instruments, it is important that there be a comprehensive assessment of the implications for the Fund, including ensuring that there are proper safeguards, the resource implications, and the optimal pricing structure for insurance type instruments.

62. The G-20 Leaders also called for IFIs to explore ways to restore emerging and developing countries' access to credit and resume private capital flows which are critical for sustainable growth and development, including ongoing infrastructure investment. In cases where severe market disruptions have limited access to the necessary financing for counter-cyclical fiscal policies, the Leaders called for multilateral development banks to ensure arrangements are in place to support, as needed, those countries with a good track record and sound policies. This also points to a gap between the type of balance of payments support envisaged in the Fund's Articles of Agreement, and the type of instruments that may be required at times of exceptional adversity in global capital markets. Work on these matters is at an early stage, but the Working Group is of the view that it will be essential for MDBs to work closely with the IMF to develop proposals that respond to these imperatives.

63. The global financial crisis presents a serious threat to low-income countries and it is important that the Fund ensure that it has the resources and instruments to meet their financing needs. The Fund staff have prepared papers for the Executive Board on 'The Fund's Facilities and Finance Framework for Low-Income Countries' and 'Changing Patterns in Low-Income Country Financing and Implications for Fund Policies on External Financing and Debt'. Given the magnitude of the crisis, it would be prudent to examine the need to enhance the flexibility of the PRGF to assist countries significantly impacted by lifting access limits under the PRGF. To ensure that the possible increase in demand for concessional facilities can be met, it would also be prudent to examine whether there is a need to increase donor contributions to the PRGF-ESF Trust to support increased concessional lending. A further element to be

covered is whether to enhance the flexibility of the Fund to provide concessional financial support to low-income countries facing balance of payments needs and whether an expanded PRGF-ESF Trust should be amended to support a concessional stand-by facility for low-income countries. However, it is important that any expansion in the Fund's lending to low-income countries is consistent with its mandate and that the Fund does not expand into areas that might be better provided by the World Bank. The Fund's review of its lending role in low-income countries should be completed as quickly as possible.

64. The working group recognizes the importance of the IMF moving away from an income model that relies primarily on charges paid by borrowing members. The proposed new income model, considered by the Fund in 2008, would include creating an endowment with the profits from the limited sale of some of the Fund's gold holdings (with strong safeguards to avoid any risk of market disruption), and broaden the Fund's investment authority to enhance returns. The expansion of the Fund's investment authority will require an amendment of the Article's which has been agreed by IMF Governors and is currently with IMF members for ratification. The proposed gold sales would begin once the required 85 per cent majority is reached at the Executive Board.

V. IMF/FSF collaboration

> *'The IMF, with its focus on surveillance, and the expanded FSF, with its focus on standard setting, should strengthen their collaboration, enhancing efforts to better integrate regulatory and supervisory responses into the macro-prudential policy framework and conduct early warning exercises.'*

65. Strengthening cooperation between the IMF and an expanded FSF is considered to be a priority by Leaders, particularly in developing early warning capabilities. In January 2009 the IMF produced a paper outlining a proposed procedure for the IMF-FSF early warning exercise.

66. The proposed procedure would involve integrating macro-financial and regulatory perspectives, identifying and prioritising systemic macro-financial risks, and reporting to policymakers. The IMF and FSF would cooperate closely, with the Fund taking the lead on macro-financial concerns and the FSF on underlying regulatory challenges. Fund staff would rank principal risks and vulnerabilities by their systemic importance, based on expected likelihood and potential impact. The Fund and the FSF would then agree on a final list of identified risks and vulnerabilities. For the top concerns, policy responses would be suggested or, where policy solutions are not apparent, work agendas would be proposed for further analysis. This work will focus on systemic economies and mature financial markets.

67. It is envisaged that there would be joint IMF/FSF presentations on the outcome of each early warning exercise to the Spring and Annual meetings of the IMFC and also to the G-7/G-20 and other policy makers. Information would also

be made public (in suitable form) through the World Economic Outlook (WEO), Global Financial Stability Report (GFSR) and published Article IV reports. A 'dry run' is proposed for the spring of 2009, with the first full exercise launched for the 2009 Annual meeting.

- IMF staff note that the follow-up on earlier policy recommendations could be an important part of the discussion with policymakers.

68. While the preparation of a rigorous early warning exercise is important, its value will ultimately be determined by the traction that the outcome of this work has in influencing policy makers. In this regard, joint IMF/FSF presentations to the IMFC and to international fora such as the G-20 Finance Ministers and Central Bank Governors will be important. Such presentations should involve a candid discussion between Ministers of the risks and vulnerabilities, along with appropriate policy responses. The G-20 Ministerial process is a highly suitable forum for an in depth discussion of financial risks and vulnerabilities, in that it involves both Finance Ministers and Central Bank Governors from the systemically important economies.

69. The IMF/FSF early warning exercise will, as noted subsequently, also be an important vehicle to strengthen the Fund's financial sector surveillance overall and in particular, bridge the gap between multilateral activities and bilateral surveillance. The IMF is also taking other steps to strengthen its early warning capabilities, including extending its vulnerability exercise to advanced economies, enhancing its macro-financial analytical capacity and reviewing the Financial Sector Assessment Program (FSAP), which is a joint product between the IMF and the World Bank. These issues are considered below under Strengthening Fund surveillance. Ultimately, however, it should be acknowledged that early warning exercises can only serve to highlight potential risks and vulnerabilities; their predictive power should not be over-estimated.

C. MEDIUM-TERM ACTIONS IDENTIFIED BY LEADERS

VI. Strengthening Fund surveillance

> '*The IMF should conduct vigorous and even-handed surveillance reviews of all countries, as well as giving greater attention to their financial sectors and better integrating the reviews with the joint IMF/World Bank financial sector assessment programs. On this basis, the role of the IMF in providing macro-financial policy advice would be strengthened.'*

70. The IMF Articles of Agreement require that the IMF 'oversee the international monetary system in order to ensure its effective operation' and to 'oversee the compliance of each member with its obligations' to the Fund. In particular, 'the Fund shall exercise firm surveillance over the exchange rate

policies of member countries and shall adopt specific principles for the guidance of all members with respect to these policies.'

71. The Fund conducts bilateral surveillance, usually involving the preparation of an Article IV report once a year for most members. With the global financial system becoming increasingly interconnected, the Fund also conducts multilateral surveillance, which includes the production of two bi-annual reports, the WEO and the GFSR, four regional reports and regular contributions to intergovernmental meetings, such as G-20 meetings.

72. The 2008 Triennial Surveillance Review conducted by the Fund, contained an ex post assessment of whether Fund surveillance saw the crisis coming. This assessment focused on what surveillance saw, did not see, and what it could not have expected to see. It was, however, completed in early September 2008, before the full ramifications of the crisis were felt by the international community.

73. The findings of the Surveillance Review included:

- Justified concern at the fact that the full scale and impact of the crisis were not foreseen should not obscure the progress made in monitoring and analysing financial systems.
- That said, surveillance should strive harder to (i) avoid wrong calls, including by asking 'what if' questions and not being blinded by past good performance, (ii) think the unthinkable, and (iii) highlight known unknowns more forcefully.
- Greater analytical efforts are needed to improve the Fund's ability to 'make the right calls' and to 'connect the dots' in the future.
- Many of the diagnostic 'misses' reflect resource allocation choices that were not necessarily misguided at the time they were made. Thus difficult prioritisation challenges lie ahead.
- Closer attention to feedback between multilateral and bilateral surveillance would help.
- More robust exchange rate analysis and focus on external stability risks.
- Concern that the Fund had not implemented the 2007 decision well.
- The Fund needs to learn to be bolder in communicating its concerns including on known unknowns.

74. A 2006 report by the IMF's Independent Evaluation Office (IEO) found that 'multilateral surveillance has not sufficiently explored options to deal with policy spillovers in a global context; the language of multilateral advice is no more

based on explicit considerations of economic linkages and policy spillovers than that of bilateral advice'.

75. A concern of emerging markets and developing countries is that Fund surveillance has not been even-handed, in that the Fund's assessment of the policies of some developed countries has been less critical than that for other economies, and some developed economies largely ignore the IMF's bilateral surveillance. There have been counter concerns that the Fund has not pursued sufficiently rigorously issues with some emerging markets nor ensured annual Article IV reviews for all emerging markets. Related to these concerns, there have been calls for Fund staff and management to be more independent in the conduct of surveillance and engage more directly in 'ruthless truth-telling'. In part, some of these concerns relate to deficiencies in the Fund's governance arrangements and imbalances in the representation of its members. There is also an imbedded tension between the concept of 'peer review' which underpins the bilateral surveillance process, and the expectation that the Fund should deliver objective and independent assessments.

76. The crisis has highlighted that the Fund has to perform better across all aspects of surveillance, both in identifying risks, providing the right advice, and in being more persuasive so that its advice is acted upon. However, the crisis also demonstrates that members of the IMF have to be more responsive to the Fund's advice and be more conscious of the need to respect the obligations that go with Fund membership. Achieving such an outcome is related to improving the governance of the Fund, including greater political 'buy-in' by all members.

77. Some specific measures to strengthen Fund surveillance – and a number are under way - could include:

- Incorporating the most important financial sector developments into the WEO, with a quantitative assessment of the downside macroeconomic risks from financial sector vulnerabilities.

- Enhancing financial sector expertise within the Fund, while taking into account the resource implications for the Fund.

- Highlighting vulnerabilities that are common to a number of countries, and having the flexibility to establish cross-country task forces to examine those high-priority financial sector issues.

- Drawing stronger links between multilateral and bilateral surveillance to identify risks that might spill-over to other countries and to draw out their implications in Article IV reports.

- Better prioritising FSAP workflows to focus more sharply on the biggest risks to regional and/or international financial stability, as well as improving coordination with the World Bank and increasing the resources and level of expertise going into the FSAPs.

78. On the question of FSAPs, the consistency between financial stability and macroeconomic assessments needs to be significantly enhanced. The IEO has observed that there was too little use of the results of FSAPs in Article IV consultations, and in many FSAPs too little attention was paid to financial cross-border issues. The FSAP stability assessments have generally been limited to the segments and risks of the financial system that have domestic implications, even when some external /macro risks were considered for the stress testing analysis. In terms of the articulation of findings, the IEO noted that the main findings were couched in cautious language and there were significant shortcomings in the prioritization of recommendations in many cases. In addition, the IEO noted that the discussion at the Executive Board of financial sector issues has been weak. In addition, 20-25 per cent of countries that are 'systemically important' have not yet completed an FSAP.

79. The statement of surveillance priorities for 2008-2011, agreed by the Executive Board in October 2008, provides a comprehensive outline of many of the improvements that are required and should establish the integration of macroeconomic and financial surveillance and its multilateral emphasis as central objectives for Fund surveillance.

80. In January 2009 the IMF prepared a progress report on integrating financial sector issues and FSAP assessments into surveillance. The report noted that the joint IMF/FSF early warning exercise, which is currently in preparation, should help bridge the gap between multilateral and bilateral surveillance. It was also assessed that the FSAP – appropriately reshaped – should continue to be the key element of better integrating financial sector work into surveillance. The forthcoming review of the FSAP will examine further different options for implementing the reshaping required to enhance its contribution to surveillance.

VII. Greater voice and representation in the IMF for emerging markets and developing economies

> *'We underscored that the Bretton Woods Institutions must be comprehensively reformed so that they can more adequately reflect changing economic weights in the world economy and be more responsive to future challenges. Emerging and developing economies should have greater voice and representation in these institutions.'*

81. A key aspect of reforming the governance and enhancing the legitimacy of the IMF involves enhancing the voice and representation of developing countries and emerging markets. An important aspect of enabling the Fund to respond effectively to the immediate challenges posed by the current crisis would be for the G-20 Leaders to follow up their call for comprehensive reform, with concrete actions that signal their determination to proceed with this agenda. G-20 Leaders could demonstrate that IMF reform was accelerating by putting in place processes to advance as quickly as possible issues requiring medium-term

consideration, especially the rebalancing of voice and representation and reforms to Fund governance.

82. A package of quota and voice reforms was approved by the Board of Governors in April 2008 and is currently still before many national governments awaiting ratification. The package of reforms involves a new quota formula plus one-off additional elements, a second round of quota increase (the first round was agreed in Singapore in 2006) and an increase in basic votes and an increase in the capacity of the two African constituencies. In addition to approving a quota increase for 54 of the Fund's 185 member countries and an increase in voting shares of 135 countries (through increases in both quotas and basic votes), the resolution approved by the Board of Governors:

- Requested the Executive Board to recommend further re-alignments of members' quota shares in the context of future quota reviews, to ensure that quota shares continue to be adjusted at regular intervals to make further progress in closing the gap between actual and calculated quota shares and to reflect members' relative positions in the world economy.

83. The Leaders' Declaration on quota and voice reform implies a commitment for faster progress in aligning quotas with economic weight, calling for greater voice and representation for emerging and developing economies, including the poorest countries. Critics of the April 2008 package of quota and voice reforms say that it falls far short of what is needed, even before the current crisis, either in terms of the resources it would make available (an 11.5 per cent increase in quotas) or the changes it would bring about to the governance structure of the Fund. However, priority should be given to the ratification of the April 2008 measures, since it is a first step towards improving the distribution of quota and voting shares, was the outcome of protracted negotiations and would also contribute to increasing the Fund's resources.

84. In keeping with the commitment by Leaders to accelerate the redistribution of quota shares, it would be appropriate to call on the Executive Board to accelerate its response to the Board of Governors' request for a further recommendation on the realignment of quota shares in the context of a general review of quotas. The Executive Board should be asked to complete this work by January 2011 and the Managing Director could be asked to report to G-20 Finance Ministers at their meetings on progress. Some members of the Working Group support this work commencing after the April 2008 package of quota and voice measures have come into force.

VIII. IMF involvement in capacity building

'Advanced economies, the IFIs, and other international organizations should provide capacity-building programs for emerging market economies and developing countries on the formulation and the

implementation of new major regulations, consistent with international standards'.

85. The Leaders' Declaration called on advanced economies, the IMF, and other international organisations to provide capacity-building programs for emerging market economies and developing countries on the formulation and the implementation of new major regulations.

86. About 90 per cent of IMF technical assistance goes to low-income and lower middle income countries. Technical assistance is provided in the Fund's areas of core expertise, including financial sector sustainability. Countries have asked for Fund assistance to address weaknesses identified in FSAPs, to adopt and adhere to international standards and codes, implement recommendations from off-shore financial centre assessments, and to strengthen measures to combat money laundering and the financing of terrorism.

87. To meet the rising demand for Fund capacity building programs as well as to better coordinate assistance delivery, the Fund is seeking to strengthen its partnerships with donors by engaging them on a broader, longer-term, and more strategic basis. Towards this end, the Fund is proposing to pool donor resources in multi-donor trust funds that would supplement the Fund's own assistance. The funding model will operate by region and topic.

88. The demands for Fund supported capacity building programs are likely to increase with additional efforts to strengthen regulatory regimes. It will place a premium on the Fund prioritising its efforts and leveraging off the contributions of donors. Increased donor contributions are likely to be necessary.

D. ADDITIONAL RECOMMENDATIONS

IX. Review the mandate and governance of the IMF

'*We request our Finance Ministers to formulate additional recommendations, including in the area of reviewing the mandates, governance, and resource requirements of the IFIs.'*

89. Paragraph 10 of the Leaders November 2008 Declaration instructed Finance Ministers to formulate additional recommendations in a number of areas, including reviewing the mandates, governance and resource requirements of the IFIs.

90. The immediate resource requirements of the IMF have been previously addressed. However, the nature of the Fund's role and mandate will have implications for its governance and long-term resource needs.

i) Reviewing the mandate of the IMF

91. There is the issue whether the Articles of Agreement of the Fund should be updated, and the role and mandate of the Fund reassessed, in line with the changes in the global economy. The international financial system is significantly different to that which prevailed when the Fund was established over half a century ago. For example, there is perhaps a case that the mandate of the Fund with respect to multilateral surveillance needs to be clarified. There is also the issue of whether the Fund should be given a specific mandate to oversee all aspects of financial stability.

92. Amending the Fund's Articles would be a major, longer-term but important task. It will be contentious and an effective way that it could be advanced is by the IMF commissioning an experts group. This group could review the role of the Fund in the current international economy and in the light of the lessons drawn from the crisis, including those relating to the international monetary system. The task of such a group could also extend beyond providing recommendations on the role of the Fund and possible changes to the Articles, to negotiating what amendment to the Fund's Articles would be acceptable to the majority of the Fund's membership. Starting the process of considering an updating of the Fund's Articles, particularly in the light of the crisis, would be a significant achievement in the reform of the IMF.

ii) Review the governance of the IMF

93. Critical to improving the governance of the IMF is realigning quotas and representation in line with countries' relative position in the global economy. This will enhance the legitimacy of the IMF and in turn its effectiveness. Towards that end, and as noted above, the work of the Executive Board to provide further recommendations on the realignment of quota shares should be accelerated.

94. Effective and efficient internal governance arrangements are also critical to the performance of a large, international organisation. In terms of improving the governance in the IMF, in September 2008, the Managing Director appointed a committee of eminent persons, chaired by Trevor Manuel, Minister of Finance of South Africa, to 'assess the adequacy of the Fund's current framework for decision making and to advise on any modifications that might enable the institution to fulfill its global mandate more efficiently'. The work of this committee will take into account the findings of the IMF's Independent Evaluation Office's (IEO) assessment of governance of the IMF which was completed and published in April 2008. The committee is expected to report to the Managing Director around mid-March 2009. In addition, a joint task group involving Executive Directors and IMF management has been established to coordinate work under way, including that undertaken by an Executive Director's working group established in response to the IEO's report.

95. Given the importance of internal governance arrangements, a number of working group members believe it would be appropriate for the G-20 to encourage the Executive Board and management to expedite the current work being undertaken on governance and in particular ensure that the staff, Management and the Board are operating as efficiently as possible, there is clarity over roles and responsibilities, and there is a strong accountability framework. However, a number of other working group members believe this would be a case of the G-20 micro-managing the Fund.

96. It is also appropriate to ensure that IMF Governors are given a higher political profile in the work of the Fund. An important step towards building greater ownership of Fund processes and decisions would be further reforms to voice and representation. That being said, it is also critical to enhance the quality of policy dialogue and political legitimacy by ensuring more consistent and effective engagement by Ministers /Central Bank Governors and senior Ministry officials in the Fund's collaborative decision making processes.

97. The structure of representation on the Executive Board does not give sufficient voice to many members and some regions are over-represented. Rebalancing representation on the Board of the IMF, along with the size of the Board, are important aspects that must be considered in the review of Fund governance. There are a number of underrepresented regions. However, recognition by the G-20 of the demands placed on the representatives of Sub-Saharan Africa, and support for the establishment of a third chair for these countries, would be a significant demonstration of efforts to deepen the participation of low-income countries in the Fund's decision making processes.

98. An important reform which would improve governance arrangements and assist in enhancing the legitimacy of the IMF would be a decision that the selection of the Managing Director and Deputy Managing Directors involve an open, merit-based selection process, irrespective of nationality and geographical preferences. A similar mechanism should be applied to the selection of the President and senior management of the World Bank and other MDBs. To provide the necessary signal with respect to the urgency of reform, this approach should apply to the appointment of the next office bearers.

March 4, 2009