The Fourth Pillar Meeting-Istanbul Convention
Center Taksim Meeting Room
October 1, 2009

3:37 p.m.-5:06 p.m.

Ms. Griesgraber- Members of civil society, if you participated in the Fourth Pillar process to discuss the reform of IMF governance, please feel free to ask questions. If you have no clue what it is about, then we welcome you to an educational session. Please do not ask informational questions. I have been known for my direct comments, so please excuse me. We are here as expressions of free speech. I do want to say that any questions that anyone asks, should be pointed, focused, and straight. We have three or four people who are going to begin the conversation. However, do feel free, if you need translation, to pick up your headphones. We have Spanish and French translation. We do not have Turkish, I apologize, nor do we have Russian.

If you have not seen any of the papers before from the Fourth Pillar process, there is a summary sheet on the side chairs. So feel free to take them if you do not know what this is about and you would like to learn. It is just the summary of like the final 40-page paper compiling recommendations on governance reform from civil society organizations (CSOs).

[MD and Mr. Lipsky arrive]

Ms. Griesgraber -if everyone is seated, we are going to begin because the Managing Director has a very tight schedule, and this is a very important meeting for all of us and for everybody who works at the Fund and who is affected by the Fund.

My name is Jo Marie Griesgraber, I chair New Rules For Global Finance in Washington, and we had the privilege of coordinating civil society inputs into IMF governance reform—a process also known as the Fourth Pillar.

Let me just say that if you need translation, you can use your headphones. We have French and Spanish translations. Members of the media who are here are welcome. We regard them as part of civil society. But since they probably have not been following this process closely, like the others who have not been following it closely, they are learning, so for those who are already smart, we will not say smart-mouthed, you will be the participants.

Let me just say that I would like to welcome Mr. Dominique Strauss-Kahn, Managing Director of the IMF, to this event. We very much appreciate that he had the idea of the Fourth Pillar process, and that he implemented it. We think that we have done some good work, with people who participated in this process from over 50 countries and some 200 who subscribed online to the Fourth Pillar website. Very many people participated, not because any of us cared deeply about the fine points of management, but, rather, because we cared deeply about how the IMF is operating, because the IMF impacts the lives of some of the world's most vulnerable
people. It also has new responsibilities, and even before the phrasing, the IMF should reform and then format of one of the G-20 statements, I believe it was the Washington Statement, the IMF has additional responsibilities, again from Pittsburgh. We think it very important that we have a quality institution. Some of us might have fantasized about it just fading into the woodwork, but that is not going to happen. So we want a quality institution. So the people, the planet, and the global economy need an IMF that is accountable, inclusive, and competent. This is why we are here.

We have two purposes for this meeting. One is to invite the Managing Director to listen to how civil society, in addition to how we have written the papers and set up the website, articulates its priorities on governance reform. Then, the real core reason is that we are grateful for you meeting with us today and we want these words to move from words into reality, and are eager to know how we can work with you to make that happen.

We will have our differences, but governance reform is something that we want to collaborate on. So CSO representatives are not going to do introductions right now. We have got a couple of people who will take the floor at the beginning. We have very limited time. The Managing Director is extremely busy. So after his brief remarks, we would hope that we will have time reserved at the end of the meeting for the Managing Director to respond on how we can work together to actualize these great ideas.

Sir, we are your audience.

The Managing Director - Thank you very much, Jo Marie. First, I would like to thank all of you for being here. As you know, the Fourth Pillar process is for the IMF, in general, and for me, in particular, very important. I think this idea of discussing-on a regular basis-questions concerning civil society is for us not only a good idea, but also a very useful way to listen to your concerns.

As Jo Marie said, the IMF has just got some additional responsibilities. I am afraid that the next G-20 will add other responsibilities. So becomes even more compelling to have an accountable institution. While we are far from perfect, we are really committed to do our best. Certainly the Fourth Pillar consultation that has been carried out with so many -- about 200 --contributors coming from 50 countries, is big part of what we need.

First of all, I want to thank you for the CSO report on governance reform that has been written and delivered to me. I would like to thank all of you and, especially, Jo Marie and Domenico Lombardi who have been actively involved in its writing. The presentation of the report to the Fund’s Executive Directors early in September was a success. Directors welcomed the report and found it interesting, and even those who-at the beginning may not be so much interested in these kind of questions-are understanding that more and more they need to involve themselves in these consultations. We try to make people more aware of the necessity, for an institution like ours, not to work in isolation, but to listen to the rest of our membership as well as CSOs that you represent.

Jo Marie said what you want is to have words translated into reality. I can understand
that. I have been saying that all my life. Many decisions have been made, even if they have not always been implemented. But at least some decisions, including those taken by the G-20 go in the direction pointed to by CSO recommendations. I could quote a lot of examples where progress was achieved, starting with quotas.

Quotas are a very symbolic part of the question of the legitimacy of the institution. When I joined the IMF almost two years ago, the quota question was stalled and I had been rightly warned by my predecessor that it would be one of the biggest problems I will have to face. Six months later, however, we started to progress on that front. It was only the first step of a long progress. 18 months later, the 2008 Quota and Voice reform while not yet implemented is in the process of being ratified at the national level. At present, we are in the process of negotiating a -a much bigger step, twice as big as the previous one. If we succeed--and we will succeed--in completing the next quota review before January 2011, as it was asked by the G-20, with a shift of 5 percent of quota shares from over-represented countries to dynamic economies and developing countries, the Fund will become a more representative institution. The outcome depends on a lot of criteria, but the end result should enhance the legitimacy of the institution. So on the quota front, I think things are moving.

To make other examples, on which I am not going to elaborate now, but I can come back later on, the questions of voting rules, double majority, management selection, and staff diversity. On all these questions I will not say that a lot of progress has been attained, but there is an open discussion and progress will take place.

One special point that it is mentioned in the CSO report and that runs on a separate track is the question of transparency, which is also very important. On this front, we are also moving, and I would be very happy to have your comments about this. The Fund’s transparency policy--in terms of publication of Board minutes as well as and publication of Board documents--is important. Thus, your remarks on these issues are very helpful for us because, even if we may not agree on everything, you are a selected group representing the CSO world. Then we need to prove to you that your inputs do not go unheard. We need to prove to you that, because of your requests, things are changing, even if not at the pace you would like. But your feedback from this point of view is for us absolutely necessary. So thank you again for being here. Please be as candid as possible, so that we can see where we can move to and explain why we did not do something-for instance, just because we were bad at it, or we forgot, or it was unfeasible. I think it is useful also for us to try to tell you the difficulties we may have in improving the governance of the institution.

Ms. Griesgraber--Thank you so much, Mr. Managing Director. We will try to be candid with you.

I am going to invite Mr. Peter Chowla to start out. Please Peter say just a few phrases about who you are and where you come from.

Mr. Chowla--Good afternoon, I am Peter Chowla from the Bretton Woods Project. We are based in London. We are quite pleased to have this opportunity and thank the Managing Director for listening to us. We will be very candid.
I described the last quota reform as putting fresh paint on a building with rotten foundations. I think that is the case. The last quota reform was quite minor, and we were quite disappointed with the breadth of the outcome. We have always pointed out that we think a review of the IMF’s governance needs to undertake all aspects of it at once and it needs to address all of the aspects that go into governance. It is not just the quota formula, which is what it boiled down to the last time, but it is also the Board representation and the others governance-related issues.

Today, however, I will restrict my comments to the issue of quota and the double majority. At the outset, we wanted to thank the Managing Director. We thought it was a great move when you were applying for your job to commit yourself to implementing the double-majority system of decision making. Now, that does not seem to have yet come into practice, and we want to push for that to happen in a faster and a more coherent way that really achieves the goals we want. It means that it really needs to apply to all decisions taken at the Fund, not just some of them. I know some of the Directors are talking about restricting the application of the double-majority voting system to certain subsets of decisions. We do not think that is appropriate. We think if you are going to have this decision rule, it must apply across the board. And we also need to think about how to apply it to the Board in a way that makes sense for building consensus rather than that based on the chairs around the table. It makes sense applying it based on the number of countries who are sitting in those chairs. So those are two important criteria we feel would make a double majority an important innovation, and we would like to see it implemented quickly. It can be the down payment, if you will, to bring about further reform in January 2011.

The second element that I want to raise is on the quota formula itself. There was a lot of displeasure with the last quota formula. I understand it was argued over for three years, and every side was unhappy at the end, and that is probably an indication that you might have had a compromise. But civil society thinks we need to move faster, better, and further on reforming the quota formula. The latest G-20’s commitment, unfortunately references the existing quota formula, which—as you must well know—by shifting from over-represented to under-represented countries, does not imply that five percent of the votes will actually be shifted to dynamic emerging markets or to developing countries. Countries like Ireland, Spain, and the United States are in fact considered under-represented under the current formula. So we need to think carefully about what formula we will apply and whether we can change the formula to fix some of the problems inherent in the existing formula, such as the inclusion of intra-EU trade or the calculation of GDP at market rates rather than purchasing-power parity rates. These issues need to be taken forward faster, and before the January 2011 agreement, as well as bringing in more democratic elements into the formula.

This issue is not in the paper. There may be some disagreement within parts of civil society, about how to include variables that better represent citizens into an institution-like the IMF—which is serving a public good. So, it should represent the public, not only its member countries. So, it could be considered including in the formula some variables accounting for population or some other kind of democratic element.
Two final points, which we think are important, and I will just highlight them very quickly. De-linking the issue of voting rights from the level of access to financing, that is to say that the level of access may be different and determined by a different formula than what determines the quota and the voting rights and the contributions, remains critical. The second point is removing the U.S. veto, which is dramatically important symbolically, especially when, the Europeans need to have less weight in the institution. Thus, if you are going to give the Europeans less weight in the institution, we need also to concurrently eliminate the U.S. prerogative.

The Managing Director--I will prefer to answer questions right away. Otherwise taking many questions at the same time may offer the opportunity to respond only to the most convenient ones. I do not want to give that impression. But I am going to provide short and focused answers to allow enough for other speakers. We can follow up in the question and answer sessions, in case some issues have not been addresses appropriately.

First, you find the 2008 Quota and Voice Reform as “putting fresh paint on a building with rotten foundations.” I do not agree. We are not going to argue for hours. But, if we will agree on a five percent shift by 2011, you cannot claim it would also be just nothing. So it is just twice as big a shift as the one brought about by the previous reform.

Second point, double-majority voting. I agree with you. It is not that easy to implement because we need a qualified majority decision to implement. I agree also with you that there is no reason to limit double-majority voting to some decisions. The important point is that I acted for the last two years I have been the Chairman of the Executive Board, as if we had a double-majority voting system in place. We make between 400 and 500 decisions at the Board each year, and I do not recall--but I will ask staff to check--any decision taken only by a minority of chairs. It may have happened. However, I do not have in mind any important case where it did. So, symbolically I agree that the current rules are not the same as having a double-majority voting system in place. However, I always try to act as if we had one.

Turning to the quota formula, it is difficult to discuss with the Board, Deputies, and Ministers, because beyond the technical arguments, everyone understands what will be the reserve for his or her country or group of countries. Moreover, I am not sure the problems are confined to the formula question, because we need large political involvement in this reform. If not, whatever formula is agreed upon, the United States will deserve having a 25 percent quota. They are currently close to 17 percent. Why do they accept to be at 17 percent? For political reasons. So we need political involvement. I will take the example of the United States because it highlights the biggest discrepancy between a calculated quota and an actual quota. Some other countries experience the same discrepancy. So we need a formula, but we also need a strong political involvement to reach a compromise. And that is why probably there is no need to spend hours refining the formula when, eventually, we are aware we will need to make a final adjustment.

I agree with what you say about involving more the citizens in the Fund’s decision-making process. I do not know how to do it. In one way or another, it means taking into account the member countries’ populations. The way to do it until now has been through the use of the
basic voting rights. That is the way we proceeded with the 2006 Quota and Voice Reform. We probably will have to increase the voting rights of the poor countries, including African countries. There may be other ways. I am totally open to discussing alternatives. It is impossible to accept that the large countries or large set of countries representing hundreds of millions of people have such a little share of the voting power. So, if there are other ways than the basic voting rights to increase the representation of the poorest countries, I will try to succeed in having this time, as we had last time, a big increase in the basic rights because that is the way, at least to maintain, and, if possible, to increase the voice of the poorest countries.

With regard to de-linking voting rights and access to Fund financing, in practice it already happens because when we give a country an access of 500 or 1200 percent of its quota, it means that the link is just a reference. For all the Fund-supported programs we approved during this crisis, we calculated as best as possible how much money the country needed, and then we saw what percentage of the country’s quota that was. We do not do the calculation the other way around. Nevertheless, for some programs, we acknowledged that a country could not draw more than maximum amount under normal access limits. Access to financing is thus partly de-linked from quotas. While we can go work further on this issue, there is some rationale to this parallelism. If the quotas were right --of course, the argument is that they are not--it could be expected that a country’s financing needs would be proportional to its economic size. However, because the quotas are not that reflective of countries’ economic realities, problems arise. Nevertheless, as for the principle, it is something that should be looked at.

The last question is on the U.S. veto. I was very much on your side, claiming that it was a legacy of past, and there is no reason today for having this kind of de facto veto. My proposal was to abolish the 85 percent majority threshold and to have those decisions made with a 70 percent majority--a threshold that already exists for certain other decisions. Then, to my surprise, the opposition to this change did not come from the U.S. Chair, but from a number of other chairs, including several emerging markets, who argued that their ability to block proposals would also be diluted. As a group, they in fact have veto power and want to keep it. They do not want the 85 percent majority threshold to disappear. I was just alone arguing against the veto power. So, again, all these questions are sometimes more political than expected. I am still in favor of abolishing the veto power, but I have no support.

Ms. Griesgraber--Let me give the floor to Caroline Pearce from OXFAM International.

Ms. Pearce --Thank you very much for this opportunity. As Jo Marie said, I work for OXFAM International, I am normally based in Dakar, Senegal, but I am currently in Washington, D.C. working on World Bank- and IMF-related issues.

I am going to focus specifically on the composition and functioning of the Executive Board, and the first point that I want to make is about balance of representation on the Board or, if we are being very candid, about the huge over-representation of Europe on the Board.

We have a global institution, which currently has nine European chairs and two African chairs. It came out very clearly in the Fourth Pillar consultation that CSOs feel that it is long past
time to address this imbalance of representation. I would just say that we have been discussing this for sometime.

We are aware of the concerns around potential concentration of votes. If you had, for instance, two European seats, what would that mean with regard to concentration of votes? And, in that respect, I would just go back to Peter's original comment about the fact that all these issues need to be addressed at once. We do see this as something that needs to be addressed alongside quota and vote reform. The fact that voting power and seats on the Board both result in an over-representation of Europe should not be a reason not to address the problem around seats at the Board. It should be a reason to address both issues. We also want to emphasize that it is very much about Europe squeezing out representation of developing countries at the Board. So we do not just want to see a consolidation of European seats, we want to see that that result in increased representation for more developing countries.

The second point that we wanted to address is around the size and distribution of constituencies. Obviously, among the 24 chairs of the Board, we have eight single country constituencies, of which five have that right ensuing from the Articles of Agreement. The other chairs range in size between 4 and 23 countries, whereas if the countries were divided more equally across the chairs, there would be around eight countries per constituency. And we are concerned that very large constituencies are not workable. It is much harder for individual countries to make their voice heard within their constituency if they are competing with another 22 voices.

Again, this goes back to the quota reform, but another key recommendation that came out of the Fourth Pillar consultation that we think is important is eliminating appointed seats--to have only elected seats as part of the process of addressing this imbalance between the sizes of constituencies.

Moving on, we want to make a last point with respect to addressing the question of how Executive Directors get their positions and what happens once they are in position in terms of their accountability to and their relationship with their constituencies. We want the concept of relationship to constituencies to be understood very broadly--not just meaning relationship with country authorities but also with parliaments, with civil society, with media, across the breadth of their constituency. One interesting thing that emerged from the Fourth Pillar consultation -- as you said, you recognized the number of countries and individuals that participated, and bearing in mind that the people who were participating in this process were the people who are most interested in Bank and Fund governance reform issues --and yet in the consultations that were done by video conference, is that when people were asked to name their Executive Director, nobody could.

That points to a huge distance between Executive Directors and even engaged civil society, and we think that is something that needs to be addressed. Clearly, this goes back again to the previous point about having constituencies that are of workable size. I come from a constituency with an Executive Director for one country. We hold regular meetings. However, when an Executive Director is representing 23 countries, this becomes extremely difficult. We thus believe that there is a lot that can be done about how those positions are managed, firstly,
and how Executive Directors are selected to take that position. We would like clearer job
descriptions, a clearer process of election that engages stakeholders more broadly so that
constituencies understand what this position is for, what this person is being selected or elected
to do. We would like to see clear and regular schedules for reporting to and engaging with
constituencies. As we said, constituencies broadly understood. As one example of that, Mr.
Itam's office, for example-- despite representing a very large constituency--regularly sends out
quarterly reports, updating anyone who is interested on what the constituency office has been
doing and on their engagement with the IMF. That is the kind of process we would like to see
institutionalized and regularized. So those are just three of the broad issues around the Executive
Board that we would like to see addressed.

We would really like to hear from you-- even if we realize these are very political
questions -- how can we work together with you to try and make this a reality and see some of
these reforms implemented

Ms. Griesgraber --Just one editorial comment. We held six video conferences involving,
least 10 countries, and we did not ask the same questions in every one. So, that is just by way
of defensiveness on my part for the records.

The Managing Director-- A few comments, if I may, on what Ms. Pearce said, in
scattered order.

On the question of appointed or elected seats, I totally agree with you, and-- even if I do
not know what the outcome of the discussion in the coming months will be, I believe that
appointed seats are going to disappear. I think almost everybody agrees that it is some legacy of
the past and that we can probably make progress in this direction.

On the relationship between the Executive Directors and their constituencies, each
Executive Director is very jealous of his or her independence, and organize as they want. So
even if the point is well taken, it has to be directly addressed and directed to the Executive
Directors. It will be difficult for the Managing Directors to tell the Executive Directors what to
do or to indicate, as a best practice, what other Directors do customarily do. Directors would not
accept that the Managing Director advise them on how to deal with our constituency. What can
be discussed with Directors from this point of view is gray. I am happy to help. I do not know
exactly how. But all what concerns the relationship between the different countries in the
constituency and the Executive Director and not only the authorities--but also the civil society--is
their responsibility. That is why the Executive Board is independent and not part of the staff of
the IMF. It is an independent structure and this issue has to be directly discussed with them.

Now to the main problem. Please correct me if I am wrong. I understood OXFAM was in
agreement with the idea that what we should try to have quota representing better member
countries’ economic size, possibly corrected by taking into account population. Nonetheless, a
quota-based institution is what we want. That is important. It is in fact different, if we do not
want a quota-based institution So far, however, I only heard, and it has been repeated by the
G-20 including, the BRICS and the African representatives who were present in Pittsburgh, that
a quota-based institution is what the members want. Although, if the IMF is a quota-based
institution and the quotas are related to the size of the countries, it becomes problematic when
the quota share of Belgium is bigger than that of Brazil. But when we say that that is
inappropriate for Belgium to have a bigger quota than Brazil, we refer to the idea that the
economic size of Brazil is much bigger than the economic size of Belgium.

So, if we determine that a quota-based institution is where the quotas in one way or
another reflect the share of the economy in the world, then the question of reducing the
representation of the European countries, going back to a point that was made previously, is not
that easy. When I am chairing the Board, and there may be nine Europeans among the 24
Directors, it can well be that others are less well represented. Now it is nine when Spain chairs
the constituency with Mexico, Venezuela and other countries. When that constituency is chaired
by Mexico, for example, it is only eight European Directors. Even when they are eight, the
problem is the same. But then the point is, with a quota-based institution, the Europeans will still
have five or six chairs and not less than that. You still have the Brits, the French, and the German
who are among the six biggest economies in the world. Then you have the Nordics, for instance,
which, as a set, have a relatively large economic power. Then you have the other countries in the
European Union. So, while a reduction in the number of chairs of European countries is logical,
reducing them to two could not be possible until the institution remains based on quotas.

The only way to have a dramatic reduction is if you have the collapse of all the euro zone
chairs into one. That is possible. I was in favor of that when I was the Finance Minister of my
country ten years ago. I was the only one though, and I am still the only one. So I am not sure
that we can expect a prompt success. There are some people arguing in the same direction, but
not many, because the big countries--let us be frank-- want to keep their seats.

The solution of the euro zone having one seat, which is possible, will imply some
changes in the Articles of Agreement, because countries are members of the IMF, not currency
unions. All this is possible. In this case, the Euro zone would be represented by one chair
accounting for over 20 percent of the total voting power-- depending on the formula--which
would be the biggest relative quota share. And then the other European countries can be reduced
to maybe two seats, which would result in a minimum of three European seats. But if you do not
have this collapse and this euro zone chair, then the minimum number of Europeans chairs will
be around five or six, not so much different from the status quo.

There is a big advantage of having this euro zone chair, which is the reason why I was so
strong an advocate of the solution. The Articles of Agreement state that the Headquarters of the
IMF shall be in the country of the biggest shareholder. So back to Berlin, London, Rome, or
Paris--which may have some advantages. Besides this point, I do not believe that the euro zone
chair will happen soon. It may happen in the future, I do not know of course, but I do not see the
Europeans prepared to this. If the size of the Board comes to 12, everything will be reduced
proportionally, but if it stays to 24, you may have two or three seats less, which is important
because it is a solution to have more emerging and low-income countries being represented, but
not much less.

The last point on this question is that, as always, things are not that easy. You say, and I
understand this, less European will make it more possible to have more emerging or low-income
countries, and you were quoting the two African constituencies --one with 20 countries and the other with 23 countries. That is very complex to manage correctly, and the Executive Directors for these two constituencies have a lot of merit because it is difficult to work in those conditions. In this context, the 2008 Quota and Voice Reform, which was quickly defined as “fresh paint on a building with rotten foundations”, in reality foresees a second alternate for those large-constituency chairs. Rather than creating one additional chair, a second alternate should make it easier to manage over 20 countries. It is not a perfect solution, but the sooner we can implement the reform, the better it will be for those constituencies.

The problem is the following. At the Board, we do not want the emerging countries or the low-income countries to just be able to sit formally. I believe that you want, as I do, to have them to be able to express their views and have a voice. But then the problem is that you need to attribute them some share of the total votes. Look not at Mr. Itam but at his colleague representing the Western part of Africa, Mr. Rutayisire. He represents 23 countries. His total quota accounts for less than 2 percent of voting shares. In case that constituency was split in two, their voice would be extremely disproportionate compared to the big shareholders. It will be even more difficult to express views than for one low-income country’s representative with a larger quota.

Until you stay with a quota-based institution, you need to have the Executive Directors around the table have some power. Already we have a lot of discrepancy between the U.S. power and some others. But all the others are around 2, 2.5, 3, and 4 percent. Brazil will be after the reforms at something like 2 percent, India is around 2 percent, China will be much more than that. The big European countries are around 4 percent. They will have almost the same voice. But low-income countries represent 1 percent of the total voting power. Their voice will be very small. So it is also something we have to take into account. It is not enough to multiply the number of people from low-income countries around the table. We need to have a way to give them some possibility to have a real voice. That is why the reform of the basic voting rights is so important.

Ms. Griesgraber-- Mr. Managing Director, I know your time is very short. But could I ask you to indulge us and have about maybe three people, and then a wrap-up?.

The Managing Director --Fine.

Ms. Griesgraber-- Ms. Chilufya Chileshe just arrived this morning from Zambia to participate in this meeting, so she needs her time, and we thank Heinrich Boll Foundation for making it possible for her to be here. In the meanwhile, I am going to recognize Peter Bakvis. And who else would like to speak? Max, Nancy, and then Soren: you have about 15 second maximum each.

Ms. Chileshe - Thank you. My name is Chilufya Chileshe, I am from Zambia. I work with a group called the Jesuit Center for Theological Reflection, a research and advocacy center.

So coming from a low-income country today, most ordinary citizens still view the IMF as a very heavy-, uneven-handed institution. I think that for the impoverished majority, we still see
it as an institution that fails to be accountable, and when I say that, I mean as an institution that
fails to take responsibility for some of the consequences of the impacts of its policies. In
addition, it is not doing enough analysis into what are the likely impacts of any of the policy
advice it is giving to our governments. This response is what we have seen even in the Fourth
Pillar consultations. When I say that, I am referring to some of the examples we have seen over
the past about the Fund advising our governments to cut off essential social subsidies and to
liberalize and to privatize. For us that is the result of influential countries affecting Fund’s
policies. So what does that mean for our impoverished countrymen and women?

I wish to make three proposals which, I am very sure, are in the Fourth Pillar consultation
report. One is to have an external independent evaluation of the IMF. We know that the IEO
already exists. But the IEO is an internal evaluation structure, which reports to the Executive
Board. So, that to us does not still show a lot of accountability because we would like to see a
commitment by the Fund to be able to go deeper in evaluating the impacts of its policies on our
countries, on our governments but also some honest kinds of evaluations that can be fed into the
process by our officials. In fact, if somebody from the Fund interviews my government
representatives, they are going to provide a really good picture because they want to come back
for more financing. So we would like to see an external evaluation process.

Secondly, we would like a humanization of the Fund. So we are not asking the IMF to
begin to advocate or advance human rights and development agenda or to become a development
bank. But what we are asking is a much clearer understanding of the development context, the
situation in which low-income countries find themselves and, simply said, we want the Fund not
to punish the poor in its process of discharging its mandate.

Let me just read, because of my time is short, the third point is from page 28 of the CSO
report. Balance of payments adjustments should be placed within a broad and sustainable
framework of growth and development, budget austerity should not curtail pro-poor spending
and social safety nets. These are my three points.

The Managing Director--Let me address the two questions you just mentioned, starting
with the last one. That is, I think --but I am not blaming you, it is our job to make this understand
--an outdated view of the Fund. I am not saying it was wrong in the past, we could discuss hours
on this, but that is not my point. It is an outdated view of the Fund. In all the programs that we
launched during this crisis, we had special conditions, which I call social conditionality, where I
explicitly asked governments to implement measures in favor of the most vulnerable, to build
safety nets to avoid that fixing financial questions will have too big a consequence on the poorest
part of the population. I can give you examples from IMF-supported programs in Hungary,
Pakistan, or other countries where, despite the need for a reduction in the deficit, we allow
something like 0.5 percent of GDP in favor of the most vulnerable. In Hungary, for example,
they have a lot of safety nets already in place, it was easy to do. In Pakistan they did not, so we
asked our colleagues from the World Bank, which manages the program because in the field, to
create safety nets. The Fund tries to do its job, which is to fix financial problems, to avoid that
they evolve in big catastrophes, but at the same time we take into account the situation of the
people in the country and especially the most vulnerable. And if you are living in Senegal, so
you can testify, but others also have a lot of information about Africa and Zambia, in particular,
that during the food and fuel price crisis, for example, we were the one advocating and giving advice to the governments to try to increase subsidies on food as well as other measures, depending on the structure of the economy, in the direction of helping those who were in the biggest need.

What we are doing now is totally different from the past. I am not saying that we are not creating difficulties sometimes. Of course we are. When a country comes to the IMF, it is because they have a problem, and allow me the analogy—as anybody who is sick and goes to the doctor, the doctor has to fix the problem, not only to give them medicine but also to say you have to change your behavior. If you go on drinking alcohol, we can give you all the medicine you want, we will not be able to save you. So I do not know if that analogy is always very good, but it is not so bad. I often see the Fund as a doctor. We are an institution who, unlike a policeman, to whom we are very often compared, does not intervene on our own will, but only upon member countries’ requests—as they are in dire straights. We are not yet at the point where people do like the IMF so much that they asks us to give them advice without a need. Maybe it will happen one day, but it is not yet the case today.

So when a country asks the Fund’s help, it is because they have a problem and fixing it does have a cost and it is not easy to do. However, it is a bit unfair to say that the Fund creates problems. We do not create problems, we find problems and we try to solve them. But to solve them may have some consequences, and especially when the problem comes from a huge fiscal deficit. Then when you need to narrow this fiscal deficit because it is totally unsustainable because the country is going to go bankrupt, then of course it means that some spending has to be cut. Contrarily to what is very often believed, we do not indicate where a country should cut, especially focusing on social spending. The authorities choose where to intervene, provided they reduce spending. They come to us with some proposals that we may consider unacceptable for social stability, as it happened in the last six months with some countries in Central Europe. We give advice, but in the end, the country has to decide what it wants to do. So that is why I said that criticism is a outdated.

Last example. We just implemented two months ago, following what has been decided at the G-20 April meeting in London, a new facility for low-income countries, which provides loans at zero interest rate. It never happened in the past. Nobody is lending to low-income countries at zero interest rate. We are doing this. We cannot do less than zero. How are we going to finance the difference between the zero-lending rate and the cost of the money? We have sold part of the Fund’s gold, and I have been lobbying a lot especially in the U.S. Congress to obtain the authorization, to finance the zero-interest facility.

So, we are an institution that is supposed to maintain financial stability and to correct imbalances where they appear, that is our goal. So we try to do that, but we really try to take into account the human aspects you mentioned. In the coming two years, we are going to lend $8 billion at zero-interest rate, which is what we already did this year and twice as much as we did in 2007 and 2008. So we will lend much more at the lowest possible interest rate. At the same time, we ask countries to try to go back on track because if not, the money we are lending is just lost, which is in nobody’s interests.
Now, on your question of the external evaluation, we have, as you know, this Independent Evaluation Office. It is very difficult for an institution like the IMF to have something coming from an external evaluation mechanism. Why? Because to make a real evaluation, you need to go deep inside, and to go deep inside, you find information that cannot be revealed to markets, because they are very sensitive. So even years after we have been helping a country fight against speculation on its currency, for example, it is difficult to release such sensitive information. But certainly we can have an internal Independent Evaluation Office that carries out deeper analysis of what we are doing.

As you know, the IEO has been created by the Executive Board. Of course we are providing the resources, but the Board decides. They are just in the process of choosing a new Director for the IEO. I am not involved in this; it is the Board who decides. So, that is the kind of question you can discuss with the Board if you want to. If you ask me, I will be happy to organize some interviews or meetings with the members of the Board. The IEO has already an external review mechanism, as its staffs are not members of the IMF staff. Thus, even if the resources come from the IMF, it is under the control of the Board and not the staff or me.

Ms. Griesgraber --It is going to be Peter next, but, if I may take you up, I have heard your comparison of the IMF with a doctor before. In the United States sometimes we sue our doctors because they are involved in malpractice, and if you will forgive me another comparison, sometimes the IMF -- and I have a Catholic tradition so I am allowed to abuse my own faith -- acts like the Vatican speaking ex cathedra, like there is no other alternative, there is one true Church and one true path. How can you get an independent evaluation? The external evaluation of the ESAF that preceded the IEO creation was an example that really had some impact inside the institution. How do you challenge the Fund when it sort of gets in a rut? You keep giving the same medical treatment because that is what you learned, but the world changes and maybe the doctors have not been updating their techniques, and then there is no court to take the Fund to.

The Managing Director--It is an important point, but, I am not going to elaborate too much on the doctor’s analogy. You are right in saying that in the United States sometimes you sue your doctor. In Europe we do not do that, but on the other hand, I am not sure that I will prefer the healthcare system in the United States than the European one. So, probably we should not go too far with this.

Now, you are right in saying that we need to have some body that gives an appraisal of what we do, and not only an appraisal, but that there must be some follow-up. So, it is important for us to show that there has been a lot of follow up on different reports coming from the IEO. You may argue, whether the institution is independent being internal. But the follow-up question is very relevant.

Now, turning to this question of internal or not, we are already at a second level of scrutiny. Establishing an external review mechanism would imply implementing a third level of scrutiny, because the IMF staff is under the command of management. To maintain a system of checks and balances, the founders have created the Executive Board, which is supposed to control what staff and management are proposing. So we have a first level of scrutiny. Then we come to the second level, the Independent Evaluation Office. So we may argue we need a third
level of scrutiny and why not a fourth level. There is no reason to stop anywhere. But already
you have to keep in mind that, compared to other institutions, we already have a body that
controls what staff and management are doing, which is the Board. When, for instance, staff is
proposing something for a country and the Board does not agree, there is a very tough
discussion, and then we have to change the staff’s proposal just because we do not have a
majority in the Board to support it. So this does not equal to having an external review
mechanism in place, but it is a way to control what is done on a regular basis. We cannot
establish too many layers. Nevertheless, the question is open, and the control of the controllers of
the Board is something that could be considered. Again, it has to take place in a discussion with
the Executive Directors.

Ms. Griesgraber--Peter, thank you for your patience. Peter Bakvis represents the
International Trade Unions.

Mr. Bakvis--That is right, I represent the International Trade Union Confederation, which
has 170 million members. About two-thirds of those are in developing or emerging market
countries.

I am going to say a few words on the issue of accountability. I think the current economic
and financial crisis illustrates better than one could have ever imagined the problem that needs to
be addressed. You have the private financial sector that dramatically mishandled the situation,
the finance ministries and central banks that at best were negligent. Who suffers the brunt of the
crisis? It is the workers, the poor, and others.

Now, who does the IMF negotiate with? Finance ministries and central banks. Now, that
creates problems both within governments and with the outside. When a finance ministry
becomes the conduit or the channel for IMF funds, it really represents or leads to a significant
shift in power relations within governments, within cabinets. I could give you lots of examples of
finance ministers who have used the leverage of the IMF to push visions. I have nothing against
finance ministers. I know you were one in a previous career. But they do have a specific vision
within government, and they have used that in many countries. We do not have time to go into
any examples but, for instance, more related to social and labor ministries, there is the whole
issue of relations with Parliament, too, that Ms. Pearce mentioned. I am not sure the paper really
goes into that, but it is something that I would invite you to look at more closely. Finding a way
to relate not only with the finance ministry would be crucial. In fact, an innovation introduced
about ten years ago with the Poverty Reduction Strategy Paper was that all ministries affected by
spending had to have some input in this process. It is not the ideal example, but still it did
attempt to respond to the problem to some extent.

Now, with regards to the impact on society in general, I represent the trade unions. I must
say that the IMF has recently been better than in the past in consulting with unions. However, it
was very rarely the case in the past. In the past year or so, before loan agreements are concluded,
and these do have major impacts on employment levels, particularly in the public sector, on
wages, pensions, and so on, social programs, we have experienced more interaction with the
Fund. Just to take a tangent in your response to Ms. Chileshe, I must say that, when the Bank
encourages countries to target assistance to the poorest, the most vulnerable, who can be against
that? But when that is achieved, for example, by dismantling food subsidies, there are people that
do not get access to this targeted assistance because of all sorts of incapacities of the government
to carry that out. We have experienced people, in fact our members who might be slightly above
the national poverty range, who do suffer a significant decrease in their living standards. So I
think there is room for a lot of debate. Just to say that when we have told countries they should
preserve a certain amount for social spending, there are all sorts of negative impacts that can be
produced.

We do not have time to get into details, but I think the Fourth Pillar report does include
several proposals in paragraphs 48 to 50 to address some of these issues. What is pointed out
there is that uniquely among multilateral institutions, the IMF does not have operational policies.
There are very few operational policies on dealing with stakeholders, and I would invite you to
seriously consider those proposals.

I am glad you mentioned earlier the issue of transparency. There are about half a dozen
proposals in the Fourth Pillar report on how to improve access to information. What is going on
when the IMF negotiates with a government is obviously key for CSOs to be effective in their
representations to the Fund.

Ms. Griesgraber--I would like to give the floor to Nancy, then Max, and then Soren.
Nancy Alexander from the Heinrich Boll Foundation.

Ms. Alexander--I have been trying to square several statements that you have made over
time, Mr. Strauss-Kahn. In the spring when you gave a speech at the Johns Hopkins School of
Advanced International Studies, I believe you said that one-third of all countries had maintained
or increased their social spending under their Fund-supported programs. When you spoke last
week at Center for Global Development, you said that 25 out of the 26 countries had maintained
or increased that spending. 25 is about one-third the number of poor countries. It is important for
our organization to have really hard numbers, but I cannot reconcile those two figures. So if you
could help me with that; it would be great.

Secondly, in looking at your speech to the Bundesbank, I was taken aback by your call
for labor flexibility, particularly because of the role that labor protection laws have played in
your country and Germany. In these terrible times, and especially in a previous life working with
Barney Frank for quite sometime, we are very unclear about whether the IMF has a formal
policy in favor of labor flexibility.

And finally, you made the statement last week, which was very impressive, that poor
countries will pay for the mistakes of rich countries if there is not more aid, and that it is ironic
that the rich countries--and significantly the United States, the major shareholders of the
IMF--have created both the financial and the climate crises. So there is a sense in which a
significant part of the membership has created the current problems. Although in a broader sense,
the IMF is constituted by 186 countries and there is a very sense that all the major shareholders
have played a part in creating this problem. My understanding, but perhaps I misunderstood, is
that in addition to the gold sales -which we had hoped would be higher-a bigger contribution to
underwrite the zero-interest rate facility will be provided by bilateral ODAs, which is being
rerouted to subsidize those loans. Any clarification would be welcome.

Ms. Griesgraber--Thanks, Nancy, I appreciate your intervention. Max?

Mr. Lawson--I will be very brief. The G-20 has given the IMF a lot of leadership. One responsibility that you were given on Friday, perhaps a surprising responsibility, was to go away and look at the feasibility of a Tobin-type tax or a currency transaction tax. We have been hearing a lot about the huge gap in the finances of the poorest countries.

Ms. Griesgraber - Max, governance.

Mr. Lawson - No, but the question I want to ask is do you think that such a Tobin tax is feasible? And then what do you think about that as a way of getting the kind of money these poor countries need?

Ms. Griesgraber--Soren. Soren lives in Kenya and works for Action Aid. Thank you. And he brought Action Aid from Nigeria and Denmark?

Mr. Ambrose--I just wanted to briefly return to the question of the double-majority voting. I was pleased to hear you say that you support the concept. However, as you went on, I became convinced that you and Peter Chowla were talking about two somewhat different ideas in that Peter was talking about a double-majority vote that would, where the second majority would be a number of countries whereas you were talking about a number of chairs--there is a significant difference there. If you go by number of chairs you are still subject to the original imbalance in the quotas. If the Francophone Africa chair only has one vote, which means 23 countries have one/twenty-third of a vote. I think in the country definition the Francophone Africa Executive Director would stride into the room with all the confidence of the U.S. Director today because he would have the most votes, at least in that one regard. I am wondering if you see that as being a possible way to go with double majority voting.

The Managing Director--Very quick. Sorry, but I have just been told that I have to go rapidly, but I want to answer even in one word all the points.

Peter, on the unions, it is true that sometimes we have some leverage on finance ministers, but it can be for the good. Look at what happened in Serbia a few months ago where the Serbian government wanted to pass legislation that was very damaging for unions, and I have been asked to work to see what we can do, and we convinced the Serbians to withdraw the legislation. So it can go both ways.

On the point that we should consult with other stakeholders rather than discuss only with ministers and finance ministers when we are negotiating a program, I would like to note that the members of my institution are the countries, and they decide who the Fund’s interlocutors are. I could have side discussions with others, but I do not choose them my negotiation partners. What you are asking is that when there is a loan from the IMF, some consideration from all stakeholders in the countries should be taken into account. But do not you believe that it is a question which is more between those stakeholders, the unions, and the finance minister in the
country than between the unions and the IMF? I mean, if the stakeholders in the country believe, and rightly so, that they have to have their word when the country is negotiating something with the IMF, they should provide this argument to the government of the country and ask to participate. It is difficult for us on the other side of the table to indicate the partners we want to talk to. It does not work that way.

Nancy, I understand you are trying to reconcile the figures. We are going to give you all the information you need. There is no reason why you should not have it. You say that you would have hoped that gold sales be higher. As you know, but it is a difficult story, I am not going to elaborate too much as pre-Second Amendment gold and post-Second Amendment gold. What we will allow to sell is the post-Second Amendment gold, and the total amount of this post-Second Amendment gold is going to be sold. Selling the other part is another story. I had a lot of discussion with Barney Frank on this. It is not impossible at all, but it is not a negotiation with the U.S. Congress, and it will take time, so we better sell what we can sell now, and then we will try to make other steps after.

On re-directing ODAs, it is true that one of the first things that advanced countries cut when they are in trouble is bilateral foreign aid, and especially aid to developing countries. So we are arguing that they should not do that. We are trying to boost subsidy resources, which-as you rightly say-will complement the sale of gold to make us likely to achieve the goal of lending to poor countries at zero-interest rate. But I must say that this time is rather difficult. Something we are trying to do is to use --on the loan side, not on the subsidy side -- the SDR allocation that has been issued by the Fund, as a resource that could be used for lending to low-income countries. So it is something we are just discussing, which may be completed rather rapidly if it works, and that would allocate large resources likely to be used for developing countries.

Turning to the Tobin tax, not exactly a governance question--as Jo Marie says--but a very interesting, substantive one, which needs more than a ten-second answer. In ten seconds, however, I will say that when Tobin proposed it, it was another world. And he himself, by the end of the 1970s, was arguing that it could no longer be applied as such. So, if what is being proposed is a Tobin tax in its very simplistic definition, for many reasons, I am afraid it will not work. Now, if the problem is that we should have some take on the financial sector, in one way or another, then we certainly are going to work on this. The G-20 has asked us to provide a report. I was just talking with John Lipsky about this a few minutes ago. We were thinking that it will be more elaborate, different from the idea of the Tobin tax, which I doubt can work. But the fact that in one way or another, the financial sector has to contribute some resources for the damage that it is likely to create. I think that is possible, and that is what we will be working on.

Now, on the double--majority voting system, I think Soren is right. There is not a misunderstanding, but two possible understandings of what a double--majority voting system is. I was talking about double majority of chairs, absolutely right. If you have in mind double majority of countries, it is a totally different thing. Of course it is much more important, but it is also much more difficult to implement because when you have a vote, if a Director needs to go back to the capital to know what the country will vote on this question, in most cases it makes things practically very difficult. When you rely on the Executive Director, the chair is aware of the topic being discussed. He or she chooses. If a response has to arrive from the capitals it can
become practically more difficult.

I will end with this, with my apologies to have to leave you. The 2008 Quota and Voice Reform has been approved 18 months ago. I am the first to say that it was just a first step, not big enough. Nevertheless, I think it was a step, and for some countries it was absolutely clear that it was a positive step. I have in mind the two African constituencies with the creation of the second alternate and with the tripling of the basic voting rights. Now 18 months later, none of these countries have approved the reform through domestic ratification. I have 186 countries. I need 85 percent in voting rights and 3/5 of the members-111 countries to approve the reform and to be able to implement it. I only have 34 countries that have ratified it. Who did approve? All the advanced countries, a limited number of small countries, Vietnam and some others. Most of the emerging countries and the developing countries did not. Not because they do not agree. When the Governors voted, we had an overwhelming majority of 98 percent of the Governors having approved the reform. However, it needs to go to Parliament in most countries to have the final stamp, and parliamentarians just do not have time, it is not on the top of their agenda. So taking this as a case in point, the double-majority voting system would pose some challenges if you need to wait for the capitals’ approval before moving forward. In terms of democracy it is perfect. In terms of effectiveness, it is not. So I am afraid that double-majority voting of countries is very difficult to implement. Maybe the solution could be double-majority voting of chairs and for some very special decisions, like the selection of the MD, double majority of countries. But on a daily basis, I really believe it is impossible to deal with this.

I am sorry, but I really have to leave you. Thank you for this meeting. I hope you will enjoy the Annual Meetings on the one hand and the city on the other hand. Thank you for all the work you did and even more for the work you are going to do. We really rely upon you for having this feedback. For me and for all of us here it is really important.

Ms. Griesgraber -- We say thank you for all that you have done, and we really look forward to all you are going to do. Thank you so much.

The staff representative from the External Relations Department (Mr. Mark)--On the question about spending in low-income countries that Nancy raised, two Fund papers were released during this meeting and are available in both the press room and the CSO room. They provide an update on the impact of the financial crisis in low-income countries and discuss the issue of fiscal space. You can get a lot of your answers there.