WASHINGTON—Development groups and some US lawmakers are urging the administration of US President Barack Obama to use its power on the governing board of the International Monetary Fund (IMF) to make the global financial body more transparent, democratic and responsive to the needs of its poorest borrowers.

They say that US influence should be enhanced by Congress’s approval last month of $108 billion in loan guarantees to the IMF, part of a $750-billion package put together by the leaders of Group of 20 (G-20) nations at their summit in London in April to bolster the Fund’s ability to bail out countries that have been especially hard hit by the global financial crisis.

“The US Congress should not hand the IMF such a huge and nearly blank check,” said Jo Marie Griesgraber, executive director of New Rules for Global Finance, a network of nongovernment organizations (NGOs) that favor far-reaching reforms in the governance and operations of the major global financial institutions, including the IMF and its sister agency, the World Bank.

“It should at least demand increased accountability and transparency of the institution. That way, we will have some way of knowing whether the IMF is acting in the interests of people suffering most from the economic crisis,” she added.

In fact, Congress attached several conditions sought by New Rules and other NGOs to the $108 billion in loan guarantees that were approved under a supplemental 2009 appropriations bill, although whether it had the constitutional authority to do so has become a hot dispute between it and the White House in the intervening weeks.
Congress, activists push for conditions on IMF funding

Written by Danielle Kurtzleben & Jim Lobe / Inter Press Service
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As finally approved, the bill calls on the US representative on the IMF’s governing board to oppose loans or agreements with some 40 of the world’s poorest countries—most of them in Africa—that would restrict their spending on health care, education, food aid or other basic needs.

It also requires the IMF to use at least $4 billion from the planned sale of some of its gold holdings for grants or debt relief for poor countries.

While White House officials say they have no substantive objections to these conditions and intend to respect them, Obama issued a “signing statement” asserting that they “would interfere with my constitutional authority to conduct foreign relations. . . . ” and thus were not considered binding. His statement provoked a furious reaction from Congress, where the House of Representatives voted, 429-2, earlier this month to insist on the conditions.

“The notion that the administration can take the money and pick and choose what it wants to do with the conditions is unacceptable,” said House Financial Services Committee Chairman Barney Frank, who subsequently signed a letter with other senior Democrats warning that if Obama “issues another signing statement on IMF and World Bank funding, Congress will cut the funds he wants.”

The House Democrats’ firm response has heartened NGOs. “Now we expect Congress to use the oversight authority they are defending in order to hold [the US] Treasury to account on critical issues such as ensuring that IMF austerity measures don’t block developing countries from sustaining and increasing investments in health and education,” according to the NGO coalition.

While the NGOs consider the supplemental appropriation bill’s conditions a modest step in the right direction, they are working with sympathetic members of Congress to attach more far-reaching measures to the 2010 foreign-aid bill, which also includes funding and guarantees for the IMF and the World Bank.

Their efforts come in the context of a global reassessment of the international financial system as the world struggles to recover from the worst economic crisis since the Great Depression. The fact that the IMF failed to anticipate the crisis and that many of the
“market-friendly” policies it has imposed on its borrowers appear to have helped cause the crisis has raised major questions about its future, particularly the way it is governed.

Under its charter, the voting power of each member-country on the IMF’s board is determined by a quota system, which, in turn, is based on several—primarily economic—criteria, such as the relative size of economy in terms of gross domestic product (GDP), how much trade it conducts with other countries, and the amount of its hard-currency reserves.

The United States has long held the largest quota and thus currently enjoys more clout than any other IMF member-country, with nearly 17 percent of the total voting power, 2 percent more than is needed under the charter to veto any major policy change, including changes in the way quotas are calculated.

By contrast, the countries of Sub-Saharan Africa—with a total population more than twice the size of the United States—have a combined quota of less than 6 percent.

“Low-income countries are in constant dealings with the IMF, but they have so little voice and vote,” according to Griesgraber, who praised IMF Managing Director Dominique Strauss-Kahn’s own calls for reform. “It has to become more democratic.”

“In the IMF, voting rights favor some rich-country governments in an outdated system inherited from the end of the Second World War and modified undemocratically since then,” according to Jomo Kwame Sundaram, assistant secretary-general for economic development in the UN’s Department of Economic and Social Affairs.

“Without increasing the decision-making power of developing countries, the IMF will continue to suffer from the lacks of legitimacy and support it requires to do its job,” he noted at a New Rules meeting here on Wednesday last week.

These issues are likely to be raised both at the next G-20 Summit in Pittsburgh in September and at the annual World Bank-IMF meetings in Istanbul the following month.
While New Rules and other NGOs are not pressing for legislation on changing the quota system at the IMF, they are working with lawmakers to condition 2010 appropriations on increasing the transparency of its deliberations, notably by requiring the public release of all documents related to its executive-board meetings and decisions within two years.

The House version of the bill also instructs the US representative at all international financial institutions to oppose any loan or agreement with borrowers that would require user fees or service charges on poor people for primary education and health care, or that imposes budget caps or restraints related to government spending on health care, education, food aid and other basic needs.

In report language that is attached to the bill, the House version also urges the US executive director at the IMF to promote the adoption of a policy that ensures that loans and other agreements with borrowers “do not include contractionary conditions in the case of a country that is experiencing an economic downturn.”

The IMF has historically imposed severe austerity measures on its cash-strapped borrowers. Those conditions, often aimed at fighting inflation and the budget deficits that caused it, not only hit the poorest and most vulnerable sectors hardest, but they often resulted in moving countries into recession and retarding recovery.

Given its greatly increased funding in the wake of the global financial crisis, however, the IMF has become a central player in recovery efforts, and the NGOs want to ensure its policies are adjusted accordingly.

“The IMF is part of the problem, but also part of the solution,” said Sundaram. “And this is something we need to understand moving forward.”