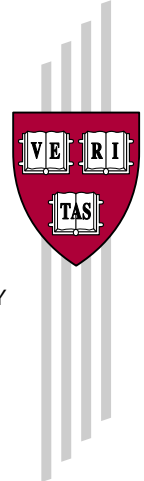


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G-24 Discussion Paper Series

The Future Role of the International Monetary Fund

Aziz Ali Mohammed

No. 11, April 2001

**UNITED NATIONS CONFERENCE ON
TRADE AND DEVELOPMENT**

**CENTER FOR INTERNATIONAL DEVELOPMENT
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G-24 Discussion Paper Series

**Research papers for the Intergovernmental Group of Twenty-Four
on International Monetary Affairs**



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PREFACE

The *G-24 Discussion Paper Series* is a collection of research papers prepared under the UNCTAD Project of Technical Support to the Intergovernmental Group of Twenty-Four on International Monetary Affairs (G-24). The G-24 was established in 1971 with a view to increasing the analytical capacity and the negotiating strength of the developing countries in discussions and negotiations in the international financial institutions. The G-24 is the only formal developing-country grouping within the IMF and the World Bank. Its meetings are open to all developing countries.

The G-24 Project, which is administered by UNCTAD's Macroeconomic and Development Policies Branch, aims at enhancing the understanding of policy makers in developing countries of the complex issues in the international monetary and financial system, and at raising awareness outside developing countries of the need to introduce a development dimension into the discussion of international financial and institutional reform.

The research carried out under the project is coordinated by Professor Dani Rodrik, John F. Kennedy School of Government, Harvard University. The research papers are discussed among experts and policy makers at the meetings of the G-24 Technical Group, and provide inputs to the meetings of the G-24 Ministers and Deputies in their preparations for negotiations and discussions in the framework of the IMF's International Monetary and Financial Committee (formerly Interim Committee) and the Joint IMF/IBRD Development Committee, as well as in other forums. Previously, the research papers for the G-24 were published by UNCTAD in the collection *International Monetary and Financial Issues for the 1990s*. Between 1992 and 1999 more than 80 papers were published in 11 volumes of this collection, covering a wide range of monetary and financial issues of major interest to developing countries. Since the beginning of 2000 the studies are published jointly by UNCTAD and the Center for International Development at Harvard University in the *G-24 Discussion Paper Series*.

The Project of Technical Support to the G-24 receives generous financial support from the International Development Research Centre of Canada and the Governments of Denmark and the Netherlands, as well as contributions from the countries participating in the meetings of the G-24.

THE FUTURE ROLE OF THE INTERNATIONAL MONETARY FUND

Aziz Ali Mohammed

*Intergovernmental Group of Twenty-Four on International Monetary Affairs
Liaison Office, Washington, DC*

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Abstract

This paper looks at the role of the International Monetary Fund (IMF) in the evolving global financial system from the perspective of developing country interests. It finds that on certain issues, such as the scope and purposes of its lending operations, a consensus has been reached that IMF should continue to serve all its members, including the poorest, and that its resources should be available for supporting macro-relevant structural reforms as well as for dealing with financial crises.

On a number of other issues, there remain differences between industrial and developing country views, including on the extension of IMF surveillance to cover the observance of international standards and codes. Largely unsettled are the modalities of the involvement of the private sector in crisis resolution, with special reference to the development of arrangements in the international sphere that would be analogous to domestic bankruptcy procedures, including the declaration of standstills and principles for orderly and equitable debt workouts. The liberalization of the capital account and the choice of exchange regimes are two interconnected areas in which international prescriptions conflict with developing country insistence on the preservation of national autonomy and in favour of intermediate regimes, as opposed to corner solutions. The scope and content of IMF conditionality raises the issue of how to reconcile it with the importance of assuring country ownership.

Finally, the governance of IMF poses questions about the exercise of decision-making powers in the institution. Developing country positions are evolving in all these areas, especially on the subject of private-sector involvement in financial crisis prevention and resolution. However, there appears to be a general preference for a more rules-based framework, rather than one derived on a “case-by-case” basis.

There are four areas of great interest to developing countries where the international debate has remained muted or has been largely absent in the recent literature: these relate to the surveillance over, and coordination of, the macroeconomic policies of the three principal international currency issuers; the relationship of international and regional arrangements; the distribution of voting power in both IMF and the international system generally, and the future evolution of the international reserve system.

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THE FUTURE ROLE OF THE INTERNATIONAL MONETARY FUND

Aziz Ali Mohammed

I. Introduction

A worldwide debate on the operations of the International Monetary Fund (IMF) and its future role has been under way in the wake of the financial crisis in Mexico in 1994/95, followed in 1997/99 by a succession of crises affecting countries in South-East Asia, the Republic of Korea, the Russian Federation and Brazil. Most of the countries involved were in the developing or transition economies – an exception being the collapse of an important hedge fund in the United States in the second half of 1998, which directly threatened international financial markets

them, on herd behaviour, asymmetric information and overshooting proclivities that have produced such a devastating impact on previously fast growing, dynamic economies.

A great deal of literature has been produced in the past few years by both official and non-official sources on crisis prevention and management problems in emerging market countries. A certain degree of consensus has been reached on etiology and the prescriptions for prevention of financial crises, and there is a better understanding of the principal issues that remain in contention as these apply to developing countries (Mohammed, 2000). There is less

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