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**The governance of the international monetary
system**

José Antonio Ocampo*

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Abstract: This paper proposes a reformed architecture of the international monetary system based on three pillars. The first is a representative apex organization, which can be understood as a transformation of the G-20 into a representative international institution. The second is the continuous reform of ‘voice and participation’ of developing countries in the Bretton Woods Institutions and global regulatory bodies. The third is the design of a ‘dense’, multi-layered architecture, with the active contribution of regional and sub-regional institutions, in a sense copying in this regard the denser architecture in place in the system of multilateral development banks.

Keywords: International Monetary Fund, Group of 20, IMF quotas and votes, regional financial institutions

JEL classification: F02, F33

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*School of International and Public Affairs, Member of the Committee on Global Thought and co-President of the Initiative for Policy Dialogue at Columbia University. Formerly Under-Secretary General of the United Nations for Economic and Social Affairs, Executive Secretary of the Economic Commission for Latin America and the Caribbean, and Minister of Finance, Minister of Agriculture and Director of the National Planning Department of Colombia. Email: ocampo.joseantonio@yahoo.com

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1 Introduction

The governance of international financial institutions has been subject to a heated debate for decades. The major issues in this regard have been the legacy of control of existing institutions by the major developed countries, the exclusion of developing countries from some of them (notably from the financial regulatory bodies), and the tendency of major decisions to be taken in ad hoc groupings of major developed countries —the ‘Gs’ and particularly the G-7— outside the framework of treaty-based organizations that they, in any case, control. The strongest statement in this regard was made by the United Nations Conference on Financing for Development that took place in Monterrey in 2002, which underscored ‘the need to broaden and strengthen the participation of developing countries and countries with economies in transition in international economic decision-making and norm-setting’ (UN 2002: paragraph 62).¹ This has also led to the decisions of emerging powers, particularly the BRICS countries, to create parallel institutions that they, in turn, control.

Good but incomplete steps have been taken in this area since the North Atlantic financial crisis, in some cases as a follow-up to steps taken after the sequence of emerging economies’ crises that broke off in East Asia in 1997. They include the stronger participation of emerging and developing countries in the Bretton Woods institutions (BWIs)—a process that had started on a small scale before the crisis. This should be taken only as a first step in the desired direction, and has not yet come into effect in the case of the International Monetary Fund (IMF) reforms, due to the lack of approval by the major shareholder (the United States). The G-20, an ad hoc institution created after the emerging economies’ crises of the late twentieth century as a forum for ministers of finance and central bank governors of major developed and emerging countries, was transformed into a leaders’ forum and self-designated itself in its September 2009 summit in Pittsburgh as ‘the premier forum for our international economic cooperation’ (G-20 2009b: paragraphs 19 and 50). As steps forward we should also include the decision to extend membership in global financial regulatory institutions to major emerging economies and the strengthening of the regional financial safety nets, notably in Western Europe and East Asia, in the latter case through the expansion of the Chiang Mai Initiative launched after the 1997 East Asia crisis.

More substantive reforms should involve action in three different areas—the three pillars of a reformed architecture. The first one is the design of a representative apex organization. Given the existing institutional framework, this could take place as a transformation of the G-20 into a representative international institution. The second is the continuous reform of ‘voice and participation’ of developing countries in the BWIs and global regulatory bodies. The third pillar is the design of a ‘dense’, multi-layered architecture, with the active contribution of regional and sub-regional institutions; as we will see, this is an area where the international monetary architecture should copy the denser architecture in place in the system of multilateral development banks.

2 The apex organization

The broadest issues on global financial governance relate to the apex organization, now the G-20. The creation of this ‘G’ at a leaders’ level was, of course, a step forward compared to the G-7, in terms of representation of developing countries. But this ‘elite multilateralism,’ to use the term I have proposed to characterize it (Ocampo 2011), has also created problems, as ad hoc self-appointed bodies cannot replace representative institutions in a well-structured international

¹ See also paragraphs 53, 57, and 63 of the Monterrey Consensus (UN 2002).

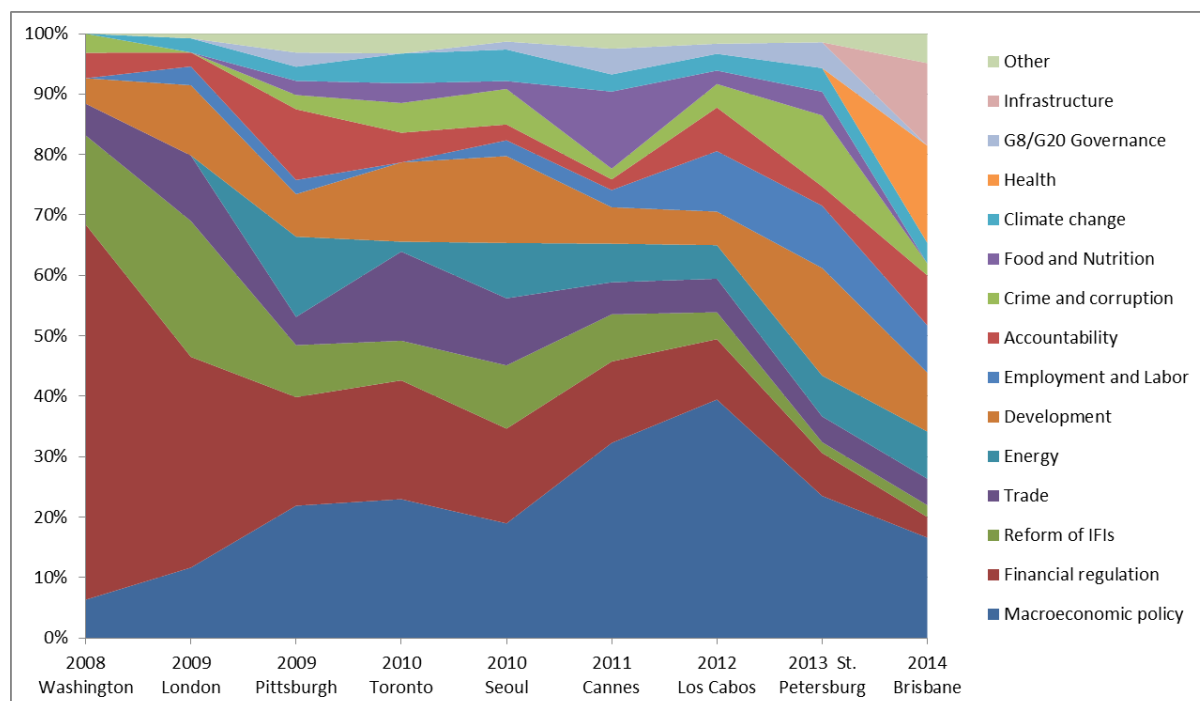
institutional architecture. The problems are also associated with the ad hoc way in which the membership was defined, which implies the exclusion of some large countries (Nigeria being the most prominent case), the lack of representation of small- and medium-sized countries, and (once again) the over-representation of Western Europe. This preference for ‘Gs’ over representative international institutions has deep historical roots in the case of major industrial countries, and reflects a revealed predilection of these countries for mechanisms over which they can exercise large and direct influence.

The G-20 can and has been evaluated in different ways. One way is to analyse the evolution and consistency of its agenda and compliance with the commitments made in different fora. In this regard, the G-20 Research Group organized by the University of Toronto’s Munk School of Global Affairs provides one of the most useful follow-up processes.² Figure 1 shows the evolution of commitments in the G-20 summits, according to this group, and mapped by issues of concern. It could be said that there were four core issues addressed as a ‘crisis committee’ in the early phase of the North Atlantic financial crisis: macroeconomic policy cooperation, financial sector regulation, reform of the international financial institutions, and trade. These issues concentrated most of the commitments during the first two summits (Washington 2008 and London 2009) but continued to dominate the agenda until Los Cabos (2012). Development has also been an important and relatively stable issue since the second summit. However, since at least the third summit (Pittsburgh 2009), new issues have come onto the agenda in a very unstable manner, reflecting more the priority of the host (a typical problem of ‘Gs’) but also mission creep without a clear direction. This was particularly noticeable at the last two summits (St. Petersburg 2013 and Brisbane 2014), where the agenda became increasingly diversified. If we take those issues that represent more than a tenth of commitments at individual summits, these were: energy and accountability (Pittsburgh 2009), food, agriculture, and nutrition (Cannes 2011), employment and labour (Los Cabos 2012 and St. Petersburg 2013), crime and corruption (St. Petersburg 2013), and health and infrastructure (Brisbane 2014). But the list is much longer, as Figure 1 indicates.

According to these evaluations, compliance has been relatively good in several areas. Among the core ‘crisis issues’, it has been highest in macroeconomic policy (81 per cent) and lowest in trade (63 per cent). In other issues evaluated by the group, compliance is highest in employment and labour (86 per cent), intermediate in development (67 per cent), and lowest in crime and corruption (57 per cent). In turn, compliance has varied significantly across countries: highest for the United Kingdom (88 per cent) and Australia and Germany (83 per cent), and lowest for Argentina (52 per cent) and Saudi Arabia (53 per cent). In general, developed countries have performed at or above the average, whereas emerging economies have performed under the average (with the exception of the Republic of Korea). Both results look somewhat surprising, given the poor record in terms of economic growth and employment (two major macroeconomic variables), and the much poorer economic record in both areas of developed vs. emerging economies.

² See G-20 Research Group (several years). The G-20 Research Group defines itself as ‘a global network of scholars, students and professionals in the academic, research, business, non-governmental and other communities who follow the work of the G-20 leaders, finance ministers and central bank governors, and other G-20 institutions’.

Figure 1: Composition of commitment made in the G-20 Summits, 2008–2014, by area



Source: Author's elaboration based on data from the G-20 Information Centre (Available at: <http://www.g20.utoronto.ca/analysis>).

So, an alternative way to evaluate the G-20 is to analyse in a substantive way its ability to meet the major commitments it set for itself after the eruption of the crisis. The four core emergency issues are a good starting point for this analysis. The most important commitment was, no doubt, to ‘act together to generate strong, sustainable and balanced global growth’ (G-20 2009b: paragraph 13). In this regard, G-20 macroeconomic cooperation worked relatively well in the early stages of the crisis, when it assumed the form of a ‘Keynesian consensus’. The peak level of cooperation was reached at the London April 2009 meeting and continued in the September 2009 Pittsburgh meeting. Informal coordination among leading developed countries’ central banks had already been in place since 2007, but was enhanced by G-20 decisions. Pittsburgh also marked the launch of the Mutual Assessment Process (MAP) as the instrument of macroeconomic cooperation among major economies. However, the June 2010 G-20 summit in Toronto represented the end of the ‘Keynesian consensus’, because several developed countries decided to prioritize public sector debt sustainability over their support for recovery; this also reflected deep ideological differences among G-20 members. The main result of this was not only a new recession in Europe but, even more important from the point of view of global cooperation, the fact that the Eurozone became the major source of global payments imbalances.

In another major area, financial regulation, performance has been better. Coordination in this area was given to the Financial Stability Board (FSB),³ which was created at the April 2009 London summit. Banking regulation was strengthened under what came to be known as Basel III (Basel Committee 2010; Caruana 2010). The ‘regulatory perimeter’ was expanded to include some agents and transactions that were inadequately regulated before the crisis. The principle of countercyclical prudential regulations—and, more broadly, of ‘macroprudential regulations’—was introduced, following proposals that had been made before the crisis (Griffith-Jones and Ocampo 2010). The

³ This was a transformation of the former Financial Stability Forum, which had been created by the Ministerial G-7, which was launched after the East Asian crisis.

regular evaluations of the state of implementation indicate that rule-making has generally gone faster than implementation at the national level, and that major gaps remain.⁴ Some norms have also weakened under pressure from large private financial institutions.⁵

A third major area of initiatives in the early period was the reform of the major international financial institutions. This speeded up the approval of IMF and World Bank reforms in 2010 but, as we will see in Section 2, the IMF reform has still not been approved by the major shareholder (the USA). As we will also see, the commitment to a more open system of selection of these two organizations also had questionable results. Furthermore, the major initiatives in this area announced by France for Cannes 2011 were swamped by the Eurozone crisis, which became the focus of attention during that summit. So, the major advance was possibly the approval, in 2009, of the largest issue of IMF's Special Drawing Rights (SDRs) in history.

In the area of trade, a major commitment was to 'promote global trade and investment and reject protectionism, to underpin prosperity' (G-20 2009a: paragraph 4; see also paragraph 22). This decision had been at the centre of the initial Washington summit in November 2008, where members committed to restraining from imposing new trade barriers or creating export incentives inconsistent with World Trade Organization (WTO) norms (G-20 2008: paragraph 13). Although there have been, no doubt, violations of these commitments, as reflected in the low compliance ratio estimated in this area by the G-20 Research Group, the world economy has avoided the spectre of renewed protectionism, which most analysts see as a major cause of the severity of the Great Depression of the 1930s. The launching of trade credit facilities by multilateral development banks to support trade in the midst of the crisis was also a success in this regard (Griffith-Jones and Ocampo 2012). An element of this commitment, the conclusion of the Doha Development Round, has proved more slippery, except for the agreements on trade facilitation reached on the WTO meeting in Bali in December 2013.

In broader terms, Ocampo and Stiglitz (2011) have suggested that the G-20 should be evaluated as a mechanism of global economic governance on the basis of five criteria. On leadership, it has shown a positive record, notably, as we have seen, in terms of steering change in financial regulation, putting in place a new mechanism of macroeconomic cooperation (the Mutual Assessment Progress), and avoiding a new wave of protectionism. On effectiveness, after a good start, it deteriorated, as we have seen. In particular, in the light of the outcomes of the global economy in recent years, it is clear that macroeconomic cooperation in the G-20 was unable to generate a strong recovery and to avoid new global imbalances. On a third criterion, the contribution to the coherence of the global system of governance, it was able to coordinate their institutional reforms and actions (see also in this regard, Woods 2013), but some of these reforms were left unfulfilled.

According to two other criteria, performance has been rather poor: representation and lack of an effective independent secretariat. Representation will be subject to more discussion below. Independent secretariats play a fundamental role in the international system by providing neutral technical support detached from the interests of the most powerful countries, as well as independent monitoring of decisions, advancing initiatives, helping mediate disputes, and identifying common ground for agreements. The rotating secretariats of ad hoc groupings are

⁴ See the different reports to the leaders and the ministerial meetings in: <http://www.financialstabilityboard.org/> — or for example FSB (2014). According to these evaluations, the major challenges that persist include: resolution mechanisms for 'too-big-to-fail' institutions, still inadequate regulation of shadow banking, the insufficient expansion of derivatives exchanges, how to reduce dependence on credit rating agencies, the limited advance of supervisory colleges, and the lack of agreement on unique accounting standards.

⁵ For example, liquidity requirements were significantly reduced in early 2013 and their implementation delayed.

incapable of fulfilling these tasks and may generate mission creep or, even more so, a lack of clear orientation, which may be reflected in the recent summits (see above). So, the expectation that it could shift from a ‘crisis committee’ to a ‘steering committee’ of the global economy (Dervis and Drysdale 2014) has remained, so far, an unfulfilled promise.

An additional and fundamental element in the analysis is understanding that the interactions between formal and informal processes do play an important role in global governance (Dervis 2011; Woods 2013). This is also true, of course, in national politics and in regional agreements. Furthermore, the agreements must then be brought to the formal governance structures. In this sense, informal interactions should be conceived as elements of the consensus-building efforts that lead to decisions within formal international institutions. As we have seen, the ‘Gs’ do have a further advantage in this regard, which is the capacity to cross boundaries created by the mandates of different organizations.

To achieve desirable results, it is critical, however, that the informal process should avoid delegitimizing the governance structures of treaty-based organizations. In relation to the international monetary system, a major risk is that G-20 decisions may at the end be eroding the IMF’s governance structures. We must recall, in this regard, that the Fund’s governance is based on a system of constituencies. Most Executive Directors represent those constituencies on the Executive Board. However, in the case of those decisions taken by the G-20, the Board has become merely a mechanism to stamp out those prior resolutions. The other side of the coin is that the Board has ended up legitimizing the decisions of powerful members (including now large emerging economies) while escaping the institutional constraints of having to take into account the views of less powerful Fund members. As a result, there is also an obvious tension between interests of individual nations which are members of the G-20 and their role as representatives of groups of countries on the Executive Board, with the first overriding the second.

In this sense, a better mechanism could be to incorporate smaller groupings of countries within the formal structure of treaty-based organizations. The advantage of such a mechanism is that the informal interactions would be embedded and accountable to the full membership. One such attempt in this regard was the 2006 IMF initiative, supported by the International Monetary and Financial Committee (IMFC), to hold a series of discussions about global macroeconomic imbalances among systemically important members. The advantage of this mechanism was that it engaged a smaller set of countries, indeed in this regard, better than the G-20’s MAP, which involves many countries that are not systemically important. However, this initiative utterly failed because several members of the G-20 (which was already functioning at the ministerial level) were not fully committed to it and thus became an irrelevant exercise. It has now been replaced by the MAP, which the IMF supports, but the process is not fully accountable to the whole Fund membership.

In broader terms, it can be argued that the basic challenge that any international arrangement faces to guarantee its adequate functioning, is overcoming the tension between representativeness and the legitimacy associated with it on the one hand, and power structures on the other. This has been expressed by Bradford and Lim (2011) as a ‘trade-off between legitimacy as a representative body and as an effective body’. However, posing it as a pure tension between inclusiveness and effectiveness is clearly wrong, as national democracies have shown that representative institutions can be effective. It is, of course, true that some decision-making processes may require small bodies, but this is not inconsistent with the principle of representation, as those small bodies can be embedded in larger representative institutions that elect their members according to agreed criteria. In the words of Manuel’s report on IMF governance, to which I refer more extensively below, preference for informal groupings implies ‘a de facto delegation of core financial sector work to a range of narrower and specialized agency, networks and working groups—all of which

can claim expertise on selected issues, but no recognized responsibility for the overall stability of the global system' (IMF 2009: 5).

Therefore, although 'Gs', including now notably the G-20, can play an important role in placing new issues on the agenda and facilitating consensus among major powers, and in general in steering changes that generate a consensus among the most influential countries, no structure of governance can generate legitimacy as long as decision-making processes are not inclusive.

In this regard, the best proposal on the table is that to create a Global Economic Coordination Council (GECC) proposed by the UN Commission of Experts on Reforms of the International Monetary and Financial System, best known as the Stiglitz Commission (UN 2009: ch. 4). This idea belongs, of course, to the long history of proposals to create an Economic Security Council and similar institutions, such as an L-27 that could evolve out of the current UN Economic and Social Council (ECOSOC) (Rosenthal 2007; Dervis 2005: ch. 3). But it has three essential differences: (i) its central focus would be to coordinate the UN *system* (broadly understood to include all specialized agencies, among them the IMF and the World Bank Group, as well as the WTO, which should formally become part of the UN system); (ii) it would be based on representation based on constituencies; and (iii) it would be a new Council at the leaders' level.

The first of these features is, in a sense, the most obvious and essential to guarantee the coherence of the system of global economic cooperation, which should be understood as encompassing the economic, social, and environmental areas. It would also help to identify the interactions in the mandates of different organizations (for instance, environmental effects of trade policies, or social effects of budgetary policies) and propose ways by which they might be addressed, as well as to identify gaps in the current system of cooperation. It would, in any case, leave to the more specialized bodies the specific decisions in their area of work, but it could convene ministerial meetings of its own.

The second feature, weighted vote, would mix three ingredients: basic votes, economic weight and, eventually, population. It would be difficult to be accepted by those countries that defend the UN principle of 'one country, one vote'. However, this recognizes the fact that the system of global economic government cannot operate without the voice of the most important actors being given strong consideration and, furthermore, without their being seated at the table. Otherwise, they would tend to simply ignore the decisions of that body. Of course, the specific weighting mechanism would have to overcome the problems of representation that those institutions using constituencies (the BWIs) currently face.

The last feature makes this proposal different from those aimed at simply transforming ECOSOC into such a global cooperation organ. ECOSOC could continue to function as the coordinator of the UN *organization* (the UN Secretariat, Funds, and Programmes), though not the UN *system*, a function that it has never really exercised (Ocampo 2015).

It is interesting to underscore that the Palais Royal Initiative has made some proposals which are similar to those of the Stiglitz Commission in some ways. This Initiative was convened by former IMF Managing Director Michel Camdessus together with Alexandre Lamfalussy, and Tommaso Padoa-Schioppa, and presented its reform proposals in February 2011 (Boorman and Icard 2011). Those proposals include a three-level governance structure for the global economy—though, in this case, centred on the international monetary system, and thus with less reach than the proposed GECC—which would have at its top a reformed G-20 based on a constituency system (Palais Royal Initiative 2011: 24).

The UN organization can, of course, continue to play an important role in global economic governance. The UN General Assembly, the summits it convenes, and ECOSOC have proven to be effective mechanisms for consensus-building. In the realm of global finance, this includes the Monterrey Consensus, one of the best documents of its kind in global financial cooperation. The UN organization has also been central to the generation of new ideas and framework for international cooperation—notably the Millennium Development Goals, now to be superseded by the Sustainable Development Goals. Furthermore, in retrospect it should be underscored that some of the analytical contributions of the UN Secretariat on global economic and financial issues⁶ have been, if anything, as or more sound than those of the BWIs, despite the much more limited amount of resources that these institutions manage. The UN organization has also made important contributions to these debates through the convening of high-level technical groups, such as, in the area of global finance, the Zedillo and Stiglitz Commissions (UN 2001 and 2009, respectively).

3 Reforming the governance of the IMF and other international financial institutions

Despite their growing importance, due to the high integration of financial markets, international financial institutions have been and continue to be perceived as undemocratic. A central issue in this regard has been the inadequate representation of emerging and developing countries. The representation of different members in the governance of an institution is translated, of course, into decision-making. That has been extremely well-discussed in relation to the IMF, in which voting rights in the Board have significantly influenced the decisions of the institution.⁷ There have been also other debates about the governance of the IMF that relate to the relations between the IMF Board, the Board of Governors and the major ministerial body that meets twice a year, the IMFC,⁸ as well as about how decisions are made and the accountability mechanisms in place.

As pointed out in the introduction to this paper, the reforms of ‘voice and representation’ of developing countries in the BWIs were launched at the UN Conference on Financing for Development that took place in Monterrey in 2002 (UN 2002). They pre-date, therefore, the creation of the G-20 at the leaders’ level, but the endorsement of the G-20 was critical for the reforms adopted in 2010.

In 2006 and 2008 modest agreements were adopted on reforming quotas and votes in the IMF Board, which entailed a redistribution of the quotas and a tripling of the basic votes—the element of ‘one country, one vote’ in the governance of the Fund—the first such increase since the Fund’s inception. In the 2010 spring meetings of the BWIs, the ministers from the developing countries demanded a more ambitious additional realignment of the quotas, which would have increased by 7 per cent those of developing countries. The specific reforms demanded, required giving greater weight in the quota allocation to purchasing power parity GDPs, and more precise measures to be adopted to determine the borrowing needs of countries, through an adequate assessment of the macroeconomic volatility that different countries face.

⁶ I refer, in particular, to the UN Department of Economic and Social Affairs (UN-DESA) the UN Commission on Trade and Development (UNCTAD), and the UN Economic Commission for Latin America and the Caribbean (ECLAC).

⁷ Among many contributions made before the North Atlantic financial crisis, see Rustomjee (2004) and Woods and Lombardi (2006).

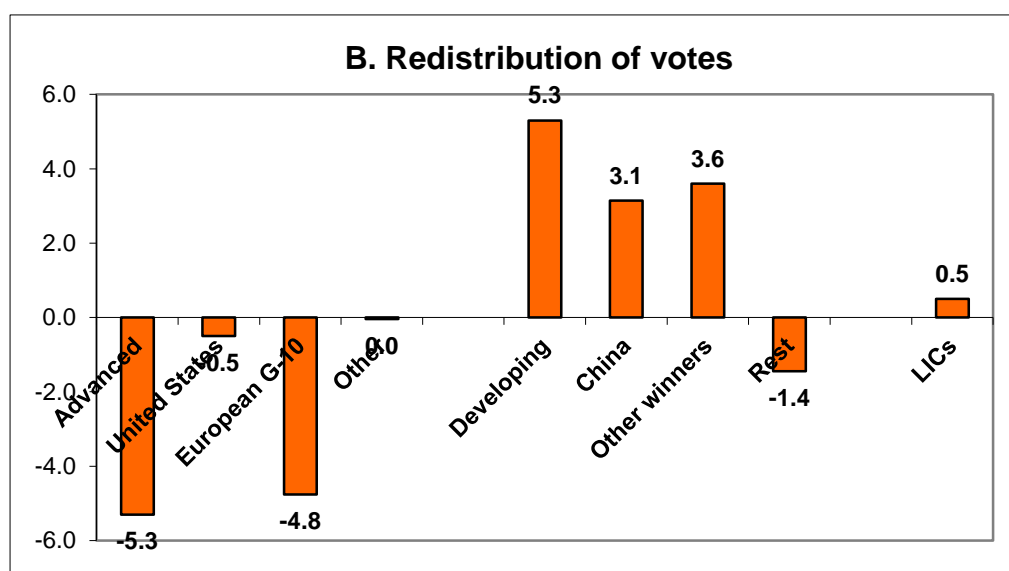
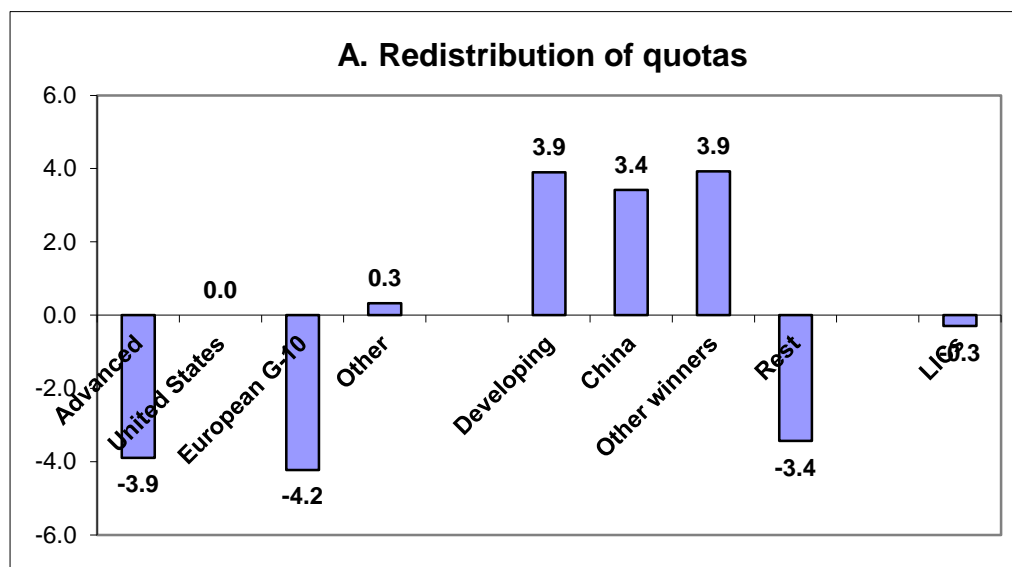
⁸ The IMFC is the successor, after 1999, of the Interim Committee. As the name of this old Committee suggests, it was an ad hoc advisory body with no formal powers, which in turn succeeded the Committee of 20 that had been created in 1972 to undertake a major reform of the international monetary system, and which proposed the creation of a formal ministerial Council. The Interim Committee was its transitional form, which lasted for over a quarter of a century. For an analysis of the role of the IMFC, see Shakow (2009).

In October 2010, the ministers of the G-20 agreed to a more ambitious reform, that was endorsed by the heads of state meeting in Seoul in November, and approved by the IMF Board soon after. It included: doubling the quotas; revising the allocation of quotas and voting power of developing countries while protecting those of the poorest countries through the weight given to basic votes; reducing by two the number of European representatives on the IMF Board; and electing all of its members. Relative to the pre-2006 situation (i.e. prior to the Singapore 2006 annual meeting), the increase in the quotas (3.9 percentage points) and voting power (5.3 points) of developing and transition economies was less than expected by these countries (see Figure 2). Furthermore, the large gains by some of them (China, Republic of Korea, Brazil, India, Mexico, and Turkey, in that order), which added up as a group to 7.3 and 6.7 percentage points in terms of quota and voting power, respectively, came partly at the expense of other emerging and developing countries. This was less so in the case of voting power thanks to the significant increase in the basic votes that had been agreed in 2008 and that represent today 5.5 per cent of the total voting power. Furthermore, although the quota and voting power of European countries were reduced, their over-representation continued to be a fundamental problem, as was the under-representation of some emerging economies relative to their actual share in the world economy, notably that of the Asian economies. Given recent and expected dynamics, this problem has already worsened and will continue to do so over time if there are no further reforms.

For this reform to be effective, it needs to be approved by 112 members representing at least 85 per cent of total votes. While the first of these thresholds has been met, the second has not, as of March 2015, due to the lack of approval by the US Congress of the additional capital contribution of the IMF's major shareholder as well as the reforms of the Articles of Agreement to which it is attached. This has blocked the next steps in the process, which were the review of the quota formula by January 2013 to better reflect the economic weights of countries in the world economy, and a new general review of quotas, which was supposed to be completed by January 2015.

After the previous reforms, the quota formula is a weighted average of GDP (weight of 50 per cent), of indicators of openness and economic variability (30 per cent and 15 per cent, respectively), and international reserves (5 per cent). The GDP in the formula is, in turn, a blend of estimates of that indicator at market exchange rates and purchasing power parities (PPP) (with a weight of 60 per cent and 40 per cent, respectively). The formula also includes a 'compression factor' that reduces the dispersion in calculated quota shares across members.

Figure 2: Redistribution of quotas and votes in the IMF (versus pre-2006 situation)



Notes: European G-10: Belgium, France, Germany, Italy, Netherlands, Sweden, Switzerland, and the UK. Developing countries, other winners: Brazil, India, Mexico, Turkey, and the Republic of Korea. LICs: Low-income countries.

Source: Author's estimates based on IMF data.

Although the inclusion of the PPP GDPs in the formula was a victory for emerging and developing countries, the current formula is still far from capturing the relative economic weight of countries, leading in particular to an over-representation of Europe, and particularly of some of its small countries. Indeed, as Table 1 indicates, if we used PPP GDPs or even blended GDPs as the basic indicator of the weight of countries in the global economy, the share of emerging and developing countries would significantly increase and that of the European Union would significantly decrease.

Table 1: Distribution of quota according to different criteria (% of total quota)

	14th Review	GDP blend	GDP PPP	Openness	Variability	Reserves	Calculated quota (1)	Projected change
Advanced economies	57.6	53.0	41.9	59.2	56.8	24.3	52.6	-5.0
United States	17.4	20.5	17.2	12.9	14.8	1.5	14.9	-2.5
Japan	6.5	7.0	4.9	4.3	5.7	11.9	6.0	-0.5
European G-10	22.4	16.5	13.0	28.3	22.1	6.9	20.2	-2.2
Germany	5.6	4.5	3.7	7.8	5.9	0.7	5.3	-0.3
France	4.2	3.3	2.6	4.4	2.4	0.5	3.3	-0.9
United Kingdom	4.2	3.1	2.4	4.7	4.2	0.8	3.5	-0.7
Italy	3.2	2.7	2.2	3.1	3.0	0.5	2.7	-0.5
Smaller G-10 (2)	5.2	2.9	2.1	8.3	6.6	4.4	5.4	0.2
Canada	2.3	2.1	1.6	2.5	2.0	0.6	2.2	-0.1
Other	9.0	6.9	5.2	11.2	12.2	3.4	9.3	0.3
Emerging and Developing	42.4	47.0	58.1	40.8	43.2	75.7	47.4	5.0
China	6.4	12.6	15.2	8.7	5.8	31.5	10.5	4.1
India	2.7	4.2	6.5	2.0	1.6	2.6	3.0	0.3
Korea, Republic of	1.8	1.6	1.6	2.5	1.1	3.0	1.9	0.1
Saudi Arabia	2.1	1.2	1.5	1.2	2.7	5.8	1.7	-0.4
Turkey	1.0	1.2	1.4	0.9	1.2	0.8	1.1	0.1
Russia	2.7	3.0	3.5	2.2	2.7	4.5	2.8	0.1
Brazil	2.3	3.2	3.1	1.2	1.6	3.5	2.4	0.1
Mexico	1.9	1.8	2.1	1.6	1.7	1.5	1.7	-0.2
Other	21.5	18.2	23.2	20.5	24.8	22.5	22.3	0.8
Memo								
EU	30.4	22.1	18.5	38.2	33.8	7.4	28.4	-2.0
LICs	4.1	2.5	3.5	2.3	3.1	1.9	3.0	-1.1

Notes: (1) Based on existing quota and 2011 PPP GDPs; (2) Belgium, Netherland, Switzerland, and Sweden.

Source: IMF (2014).

The major controversies⁹ relate to the use of economic variability and openness,¹⁰ both of which are supposed to reflect the potential need for IMF resources. These two indicators favour, indeed, the smaller European economies (see also Table 1), and a few of them in particular.¹¹ In this regard, there seems to be a broad agreement, including with IMF staff that the measure of economic variability is flawed and should be dropped. There continue to be controversies on the potential deficiencies of the openness indicators, including the use of gross measures of trade and finance that overestimate the relative openness of economies. The growing trade in intermediate goods would favour the use of export value added rather than gross trade, and the indicators of financial openness tend to favour a few international financial centres and even tax and regulatory

⁹ For these controversies, see IMF (2012 and 2014) and the website of the New Rules for Global Finance, <http://www.new-rules.org/what-we-do/imf-governance-reform/imf-quota-reform>. A very useful analysis of the quota formula prior to the adoption of the current one, which is critical of the openness index, is Cooper and Truman (2007).

¹⁰ Openness is defined as the annual average of current receipts and payments (goods, services, income, and transfers) during the previous five years, and variability of current receipts and net capital flows over a thirteen year period (IMF 2008).

¹¹ Notably four G-10 members included in the table (Belgium, Netherlands, Switzerland, and Sweden), but also Austria and some other Scandinavian countries.

havens. For these reasons, there are still disagreements on increasing the weight of the openness variable. Controversies also rage about the possible inclusion of the variables, particularly the additional financial contributions through different mechanisms of lending by countries to the Fund, which further favour developed countries and would even amount ‘to putting up quotas for sale’ (Nogueira 2012).

In any case, even with the current formula, emerging and developing countries would continue to gain shares in IMF quotas, due both to their much faster economic growth since the North Atlantic financial crisis, as well as the 2011 revision of the International Comparison Programme, which increased the share of emerging and developing countries in world GDP at PPP from 52.8 per cent to 58.1 per cent—the former figure being that used in the 2010 quota review. Indeed, as Table 1 shows, most estimates indicate an additional gain of 5.0 percentage points of emerging and developing countries in quotas, with them getting much closer to those using just blended GDP. They would, of course, further gain if the variability indicator was dropped and the weight of PPP estimates in the blended GDP further increased. However, most gains would go to a few emerging economies, notably China, whereas many other developing countries, including the low-income countries, would actually lose. This underscores the importance of maintaining and, even better, increasing the share of basic votes in the next review. In turn, the USA would fall slightly below the 15 per cent threshold it needs to exercise a veto, a fact that by itself would complicate the negotiations.

The World Bank reforms that took place simultaneously had similar features but also some important differences. These reforms came in two steps (World Bank 2010). If we concentrate on the International Bank for Reconstruction and Development (IBRD), there was a 1.46 percentage point increase in the share of voting power for developing and transition countries in 2008, thanks to an increase in basic votes. During that reform, a new Executive Director from Sub-Saharan Africa was also added to the Board. During the 2010 spring meetings a further 3.13 percentage points were added, for a total increase of 4.59 percentage points. This was the result of an ad hoc (rather than a formula-based) increase in capital but also several adjustments to avoid individual developing countries losing voting power in the reform process. As a result of these reforms, the voting power of developing and transition countries increased to 47.19 per cent (with a lower proportion in the International Development Association (IDA) and International Finance Corporation (IFC)). As in the IMF, the greatest increase went to a few emerging economies, in particular China, which gained 1.65 percentage points to become the Bank’s third shareholder, and five other emerging economies (the Republic of Korea, Turkey, Mexico, Brazil, and India, in that order) which, as a group, gained 1.92 percentage points. However, in contrast to the IMF, the rest of the developing and transition economies also gained 1.02 percentage points of voting power. In the case of the developed countries, the European Union and Japan saw their voting power reduced but not the United States.

Equally interesting, there was a decision to adopt IBRD shareholding principles which are now explicitly recognized as different from those that rule IMF quotas and voting power.¹² They include economic weight (somewhat different to the formula used in the IMF), financial contributions to IDA (both historical and pledged), and a small recognition of the development contributions of clients (the developing and transition economies). The latter two are considered as ‘development contributions’ to the World Bank mission. The Board also approved the principle that IBRD should move toward equitable voting parity in the near future, which should include the adoption

¹² Differences had already been created over the past two decades by recognition in the World Bank of special contributions from countries to World Bank resources, particularly to IDA.

of a formula to estimate capital shares. There was agreement that these steps would be taken in 2015.

Both reforms should be considered as part of an ongoing process that will continue in the next few years. In particular, these changes only go part of the way to reducing the quota and voting power of European countries, which are over-represented in both institutions relative to their current economic weight in the world economy, and to correct the under-representation of some emerging economies, particularly of Asia.

A crucial issue in both cases is also the selection of the heads and senior management of these organizations on the basis of transparent and open processes, based on the merit of the candidates, and regardless of nationality. This is, of course, part of all proposals for governance reforms of the BWIs (e.g. the two major proposals on IMF reform mentioned below). Although these principles were formally endorsed by the G-20 at the leaders' level, the election of the IMF Managing Director in 2011 and the World Bank President in 2012 represented at best a marginal change relative to the past and ended up with the traditional allocation of the first to a Western European and the second to a US citizen. It would also be useful for the staff of these institutions to be more diverse, not just in terms of nationality but also of education background and professional experience, as well as gender.

In relation to other international financial institutions, while the Bank for International Settlements has selectively increased its members, the Financial Stability Forum (FSF) and the Basel Committee continued to exclude developing countries prior to the North Atlantic crisis. An exception to this rule was the International Organization of Securities Commissions (IOSCO), the organization of stock exchange regulators, which had a wide representation from developing countries. The lack of representation of emerging and developing countries from the Basel Committee had been the target of most criticism, as it had doubtlessly distorted the policies designed, which proved ineffective in guaranteeing financial stability in major developed countries, but were also biased against the interests of the developing world (Griffith-Jones and Persaud 2008).

The decisions of the G-20 in its first two summits were critical to increase the participation of major emerging economies in these institutions. The FSF was transformed into the FSB, to reflect the additional powers given as the coordinator of global financial regulation, and its membership was increased to include all the members of the G-20 and thus most large developing countries. In turn, in March and June 2009, membership of the Basel Committee was broadened to include all G-20 countries, as well as Hong Kong and Singapore. As a result of this process, the representativeness of these institutions was significantly increased, as reflected in the share of world foreign exchange reserves in the hands of FSB members, as well as the countries that are members of the Basel Committee that supervises the 50 largest banks in the world (Griffith-Jones and Ocampo 2012). However, small- and medium-sized countries are still excluded from decision-making in the regulatory bodies, even if they are forced to adopt the regulatory standards the FSB and Basel Committee members agree on. This may bias those standards against their interests and needs.¹³ Accountability is also an issue in all international regulatory institutions, in open contrast to national bodies which are accountable to parliaments. This means that regulatory institutions should evolve into universal treaty-based organizations and that they should be accountable to multilateral representative institutions (UN 2009).

¹³ As Griffith-Jones and Ocampo (2012) argue, this means that their concerns may not be taken into account—for instance, the preference for simpler regulation, which may be more appropriate for smaller nationally-focused banks—and enhances the power of small- and medium-sized countries to regulate the large international banks active in their countries (see also Warwick Commission 2009, in this regard).

There are, of course, many other issues of governance that have been on the table, in particular those proposed by the two major reports on IMF governance: the study undertaken by the IMF's Independent Evaluation Office (IEO) just prior to the North Atlantic financial crisis (IMF-IEO 2008)¹⁴ and the Commission for IMF Governance Reform headed by Trevor Manuel that presented its report at the peak of the crisis (IMF 2009).

One issue underscored in Manuel's report relates to the broadening of the Fund's surveillance mandate to cover macroeconomic policies, prudential issues, and financial spillovers. This is an area where it can be said that there has been significant advance since the North Atlantic crisis, including through the development of new instruments of multilateral surveillance, stronger and more 'candid' assessments of systemically important economies, and the renewed recognition of the positive role that macroprudential policies, affecting cross-border capital flows, can play in ensuring financial stability.

On the issues of governance, the IEO's evaluation office indicated that the Fund had a good record in terms of effectiveness, particularly as a 'fire fighter' during crises, an area in which the Managing Director's access to high policy officials was essential. Nonetheless, it pointed out that most of this takes place through informal channels of communication with powerful countries that lack transparency and accountability. According to this evaluation, the major problems of the Fund lie in improper accountability and the weak voice of many countries as well as non-governmental actors.

To strengthen voice, the Manuel report endorsed quota reform (an issue not dealt with in the IEO report) and both proposed that all chairs on the Board be elected. The latter has already been agreed, but its meaning is still unclear, as a significant number of the most powerful countries can, in any case, elect themselves. Both also proposed putting in place the Council of Ministers envisaged in the Articles of Agreement (Article XII, section 1 and Schedule D), with effective powers to coordinate policies, adopt the most important strategic decisions and exercise full supervision of the Fund activities, including those of the Board. This would replace the IMFC, which has only advisory capacities, though it is generally agreed that it has exercised its functions relatively well and the Board has implicitly understood that it has been mandated by this Committee.

According to both proposals, the Board would advise the Council on strategic decisions, exercise full supervision of management, thus strengthening accountability, but leave aside the day-to-day operations to management. The additional functions, according to Manuel's report would be to take decisions on the use of Fund resources, including approving the credit facilities, and other decisions with financial implication, including approving the medium-term budget and staff compensation. Day-to-day decisions, as well as surveillance functions over most members through Article IV consultations, would be in the hands of management.

In terms of decision-making, Manuel's report also proposed reducing the threshold of votes needed to approve important IMF reforms from the current 85 per cent to 70–75 per cent, which would mean that the USA could no longer exercise a veto in the IMF on important policy decisions. Curiously, if this is agreed, some powerful groups of emerging countries—notably the BRICS, which with the 14th review of quotas would have close to the 15 per cent threshold—would also lose their effective veto power and would be forced to generate broader coalitions.

¹⁴ See the more detailed studies for this report in Lamdany and Martinez-Diaz (2009).

A major issue that none of these reports analyses, is the representation of small- and medium-sized countries, including how well the constituency system works. Woods and Lombardi (2006) and Martinez-Diaz (2009), who have looked at this issue, underscore the fact that constituencies vary in size, shared interest, and voting power balance. They indicate that, with some exceptions (e.g. the Canadian constituency with several Caribbean countries), Directors from constituencies that are characterized by strong voting power imbalances tend to consult other members of the constituencies much less and, in contrast, that constituencies with better power balance and the advantages of geographical proximity work much better (with the European Nordic–Baltic constituency as the best example). In turn, in the case of those constituencies that mix countries that use Fund resources and those that do not, there is a high risk that the interests of the former may not be adequately represented. Countries can and have moved across constituencies, a fact that gives them some leverage. The IEO report also underscores the fact that there are no job descriptions or transparent merit-based processes for selecting Executive Directors and their staff.

Beyond that, however, it is important to think of special mechanisms to support small- and medium-sized countries. This could include double majority voting for certain purposes, e.g. credit lines for low-income countries. It could also include special mechanisms to make their voices heard, notably a mechanism that would allow weak IMF members to express what they perceive are abuses by Fund staff in programmes or in Article IV consultations.

It should finally be said that one of the clear advances of the IMF has been in the area of transparency and the adequate functioning of its IEO. In the first case, transparency has been facilitated by the access to official IMF documents over the past two decades. It includes also the publication of staff views on certain topics that may in some ways express differences or caveats vis-à-vis the official position. This also allows external analysts to get to know internal controversies among staff members, and participate in those debates. This was an advantage that external analysts had in relation to the World Bank and other multilateral development banks (MDBs), but the very hierarchical structure of the Fund blocked this in the past.

IEO was created in 2001 to respond to the criticism of the Fund by some members and outside analysts for the way it dealt with the emerging countries' crisis of the late twentieth century. Its success has been due to the generally good topic selection and the quality of its reports, which have mainly dealt with long-term cross-cutting issues. The most recent evaluation of its activities (Ocampo et al. 2013) indicates that it is widely considered to be the most independent of offices of its kind among international financial institutions, and that it has played an important role in improving the accountability and transparency of the IMF and helping develop a learning culture within the organization. Through all of this, it has strengthened the institution's external credibility. It has also had full access to internal information, overcoming in this regard an issue raised by the previous 2006 evaluation (Lissakers et al. 2006). Both evaluations indicate, however, that Board-endorsed IEO recommendations have lacked an adequate follow-up process and even strong ownership by the Board. Its engagement with the IMFC was also much better in the early years of operation, and should therefore be strengthened.

4 Regional arrangements

The third pillar of reform of international financial cooperation is the development of a multi-layered global architecture that relies more broadly on regional and even interregional institutions. Indeed, in a heterogeneous international community, the creation of *networks* of global, regional, and national institutions can provide a better system of governance than arrangements based on single global organizations. This reflects the basic fact that the globalization process that the world has experienced in recent decades is also a process of open regionalism. But this concept is also

based on old federalist principles, which when applied to the international system imply that regional and sub-regional institutions give stronger voice and therefore develop a stronger sense of ownership by smaller countries. Furthermore, given the incomplete nature of the existing global financial architecture, regional and interregional institutions can also contribute in many ways to fill the gaps of the existing architecture. So, what can be called a 'dense' international financial architecture can contribute not only to improving the structure of the global economy and the international political power balances, but can be also more effective than an architecture based on single world organizations.

The best argument in favour of regional and sub-regional institutions is thus of a political economy character: the strong sense of ownership of these institutions by member countries, and especially by small- and medium-sized ones. This creates a special relationship with countries, which is expressed in the harmony between the financing facilities and the demands by its members, and in the strong preferred creditor status that these institutions enjoy.

These arrangements also face, nonetheless, major challenges. The most important ones relate to the limited capacity of developing countries to handle certain financial risks, the institutional challenges that they face, and the need to equitably distribute their benefits.¹⁵ In the first case, possibly the main challenge is the difficulty in exercising a large-scale countercyclical role, due to the procyclical access that emerging and developing countries have to private capital markets and the contagion effects generated by such sudden interruption in the access to external financing during crises. In institutional terms, the key challenge is to build solid technical institutions and, therefore, without political interference in their everyday operation. In relation to the equitable distribution of benefits, due to the inability to fully respond to the demands of the large-sized member countries, these institutions should necessarily have regional or sub-regional redistributive objectives. However, they must prevent their governance structure from being characterized by the excessive power of large countries, as this would defeat the basic political economy argument in favour of these institutions: the greater voice that is granted to small- and medium-sized countries.

The best example of a dense architecture is the system of MDBs where the World Bank coexists with several regional and sub-regional banks and one interregional bank (two if we add the BRICS Bank now in the making). In contrast, the international monetary architecture is particularly hollow. What this means is that the IMF of the future should be conceived of as the apex of a *network* of regional reserve funds rather than a mere global fund (Ocampo 2002, 2006b). This would make it look closer in design to the European Central Bank and the Federal Reserve System than to the current IMF. Aside from its benefits in terms of fuller participation by all countries, this design would be much better to promote macroeconomic policy dialogue and crisis prevention and management at the world level or, in the terminology in fashion, a stronger global financial safety net. A similar structure should be adopted for global financial regulation and supervision.

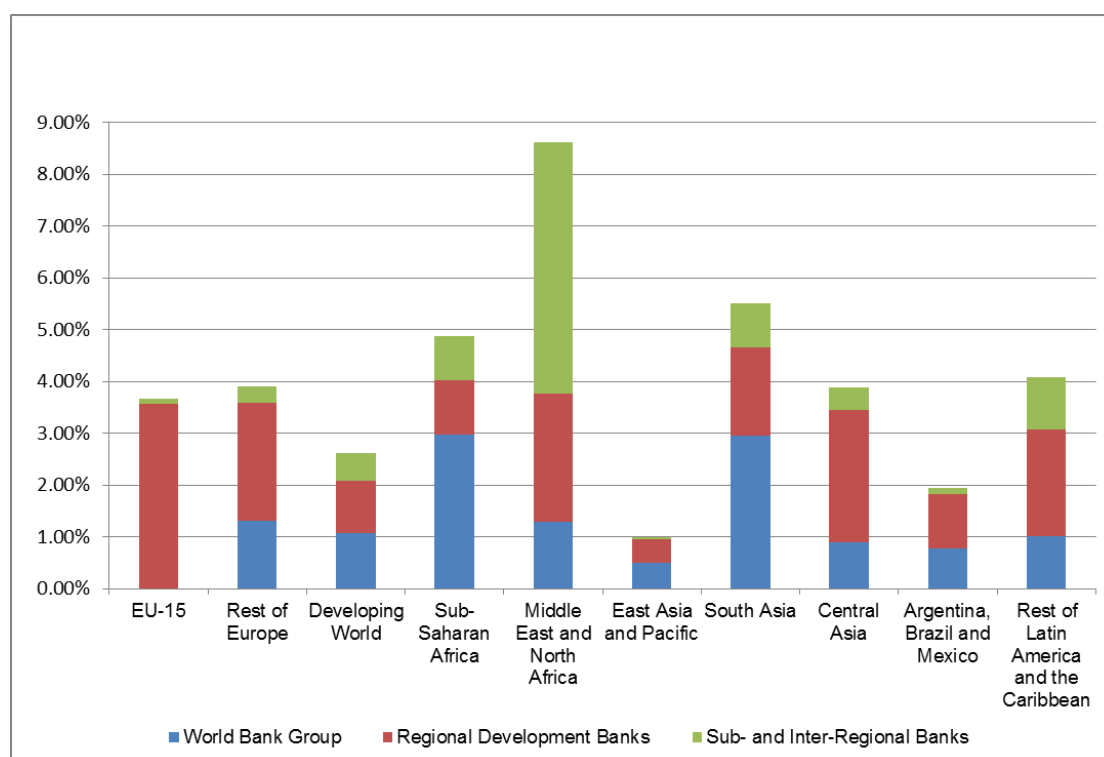
The system of MDBs was born with IBRD but has been enriched with the creation of the regional development banks, a series of sub-regional banks, and an interregional one (the Islamic Development Bank) since the late 1950s. Regional integration and the call to reduce regional inequalities were behind the early creation of the largest regional development bank (and, indeed, largest MDB)—the European Investment Bank. In turn, political motivations were behind the creation of many of the MDBs that serve emerging and developing countries. The Inter-American and Asian Development Banks were the result of cold war politics, the African Development Bank the daughter of decolonization, and the later European Bank for Reconstruction and Development

¹⁵ On these constraints, see in particular Culpeper (2006).

the result of the West's interest in the success of market reforms in transition economies after the fall of the Berlin Wall. In turn, the origin of the Arab and Islamic institutions lies in the regional solidarity generated by the Arab-Israeli war of 1967. This process has not ceased and now includes the ongoing process to create a new interregional bank, the BRICS Bank, as well as the Chinese initiative to build the Asian Infrastructure Investment Bank. Both of these new institutions will largely focus on financing infrastructure. National development banks are also involved to some extent in international development functions, including now some from emerging economies (China being the most remarkable case).

As Figure 3 makes clear, this network of institutions provides quite a useful supply of services to most parts of the world, including Western Europe. However, the coverage of services by MDBs varies across regions, mixing in variable ways its different layers.¹⁶ The Middle East and North Africa is the region best covered by the services of MDBs, with a strong share by regional institutions and the Islamic Development Bank, followed by South Asia and Sub-Saharan Africa, where, in contrast, the World Bank group is the major player. They are followed by Latin America and the Caribbean (excluding its three largest economies), Central Asia and, interestingly, Western Europe. The three largest economies of Latin America and East Asia are the two regions where coverage of the services of MDBs is more limited.

Figure 3: Multilateral development banks, assets by region, 2010 (% of GDP in each region)



Source: Author's estimates based on information from each bank and GDP according to IMF.

With the exception of the European Investment Bank, which is made up entirely of industrial countries, all of which can borrow from the institution—and thus as a true ‘cooperative’—most regional development banks include a division between developing country borrowers and non-borrowing industrialized country members. This structure was adopted late (in 1982) by the African Development Bank, which was initially a strictly African institution in its origins but was

¹⁶ See, in this regard, the contributions to Ocampo (2006a).

forced to converge toward this structure because of its financial difficulties. This capital structure allows developing countries to benefit from the excellent credit rating of the industrialized country members. It is amplified by the practice of maintaining a large ratio of subscribed to paid-in capital, which may be understood as a guarantee to the lending operations of these institutions.

The most elaborate system of MDBs owned by regional members is that of the Arab and Islamic world, which essentially operates as a mechanism for transferring resources from the oil-rich countries of the region to poorer regional members, as well as to other countries in the Islamic world and Africa. In other regions of the world, the best example of a sub-regional bank is the Development Bank of Latin America, the new name recently adopted by the Andean Development Corporation (CAF according to its Spanish acronym), a transformation that reflects the fact that its gradual expansion has made it a truly regional development bank, and one that is owned by developing countries (Spain and Portugal joined in recent years, but they are also potential borrowers). This dynamic institution is, indeed, the best example of an international financial ‘cooperative’ in the developing world, as all members can borrow from the institution.

In contrast to the dense architecture that characterizes the system of MDBs that of the international monetary system is fragmented and rather hollow.¹⁷ Regional arrangements in this area have taken different forms—common central banks, payment agreements, reserve pools, and swap credit lines— and different degrees of multilateralization.

The architecture includes, first of all, a small group of monetary unions (the European Central Bank, two additional ones in West and Central Africa, and that of the small islands of the Eastern Caribbean, in particular). Among the projects to create new monetary unions, the Gulf Cooperation Council is worth highlighting, but it has been delayed several times and will come into operation only with part of its members. In turn, the idea to create a central bank among members of the Caribbean Community (CARICOM) has been essentially abandoned.

A second group includes reciprocal payments mechanisms created in the context of regional trade integration processes. Europe provided an early and very successful model with the European Payments Union, which was created shortly after the Second World War. These mechanisms imply savings in the use of foreign exchange in commercial transactions and may therefore be particularly useful in periods of foreign exchange scarcity. In the developing world, the Agreement for Reciprocal Payments and Credits of the Latin American Integration Association (LAIA or ALADI according to its Spanish acronym) is worth highlighting, but after its peak utilization during the Latin American debt crisis of the 1980s, its use has significantly declined. Payment mechanisms in national currencies can be added as well as a few experiments with a limited use of notional regional currencies.¹⁸

A third set includes an equally small balance of payments financing agreements, either in the form of reserve pools or swap arrangements.¹⁹ The oldest are the Latin American Reserve Fund (FLAR, according to its Spanish acronym), currently made up of the Andean countries, Costa Rica,

¹⁷ See, in this regard, the contributions to Volz and Caliri (2010) and Kawai and Lombardi (2015), and the evaluation of the IMF (2013) of its relations with regional financial arrangements.

¹⁸ There was also a payments mechanism among Central American countries that collapsed during the debt crisis of the 1980s. A notional regional currency was created by the Andean Community in the 1980s, the Andean peso, but it was soon abandoned. For a full inventory of Latin American initiatives in this area, including recent ones mentioned later, see Ocampo and Titelman (2015).

¹⁹ I exclude from this list the swap arrangements among developed countries’ central banks, which has the US Federal Reserve at its centre. Four emerging economies (Brazil, Republic of Korea, Mexico, and Singapore) were given temporary access to Fed swap facilities at the beginning of the North Atlantic financial crisis.

Uruguay, and Paraguay, and the swap currency agreement between the central banks of the Association of Southeast Asian Nations (ASEAN). The Arab Monetary Fund, which has been in operation since 1977, can be added to the list, though it has essentially financed trade, and therefore could be said to belong more to the family of development banks than to monetary agreements. The North American Framework Agreement, established in 1994 as part of the North American Free Trade Agreement, is another small arrangement. The epicentre of the emerging economies of the late twentieth century, East Asia, also gave birth to the most ambitious proposals in this area at the time: the Chiang Mai Initiative, created in 2000 as a system of bilateral swap arrangements among the central banks of the ASEAN countries, China, Japan, and the Republic of Korea (ASEAN+3), which engulfed the former ASEAN swap arrangement.

There have been significant advances in this area after the North Atlantic financial crisis. Indeed, a significant difference between this crisis and that faced by emerging economies in the late twentieth century, has been the recognition of the role of these regional arrangements in the global financial safety net. At that time, the Japanese initiative to create an Asian Monetary Fund faced the opposition of the United States and the Managing Director of the IMF, Michel Camdessus, thought it led to the launching of the Chiang Mai Initiative in 2000.

Actions in recent years have been particularly striking in the region that became the epicentre of the North Atlantic financial crisis in 2010–13: the European Union and, in particular, the Euro area. They included the creation of two stability funds: first the temporary European Financial Stability Facility set up in 2010, and later the permanent European Stability Mechanism that began to operate in 2012 (both of which will operate in parallel for some time). They also included the interventions of the European Central Bank to ensure the functioning of the regional payment system (through the TARGET2 arrangement), provide liquidity to the commercial banks, and in a more sporadic (or, one might say, even inconsistent) manner, prevent disorders in the functioning of public debt markets.²⁰ The European Financial Stabilization Mechanism was also set up in 2010 and is available to all European Union members, but it is a smaller mechanism relative to the Eurozone facilities.²¹

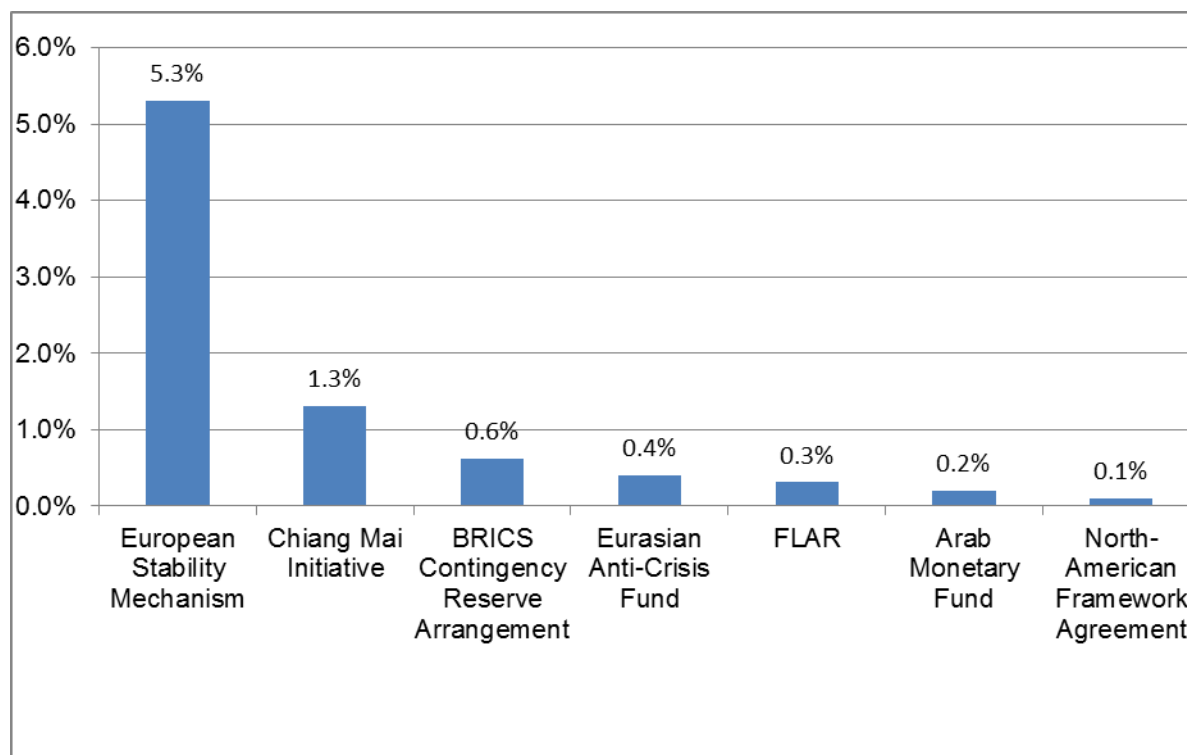
In relation to emerging and developing economies, the most important actions have been the expansion and multilateralization of the 2009 Chiang Mai Initiative, its expansion to US\$240 billion in 2012, and the creation in 2011 of its surveillance unit in Singapore (the ASEAN+3 Macroeconomic Research Office, AMRO). Other initiatives include the creation of the Economic Stimulus Fund of the Eurasian Economic Community, the 40 per cent expansion of FLAR agreed in 2012, and some initiatives in the field of payments in Latin America. The most recent is the launch in 2014, of a new US\$100 billion BRICS Contingency Reserve Arrangement (CRA).²²

²⁰ The literature on this topic is extensive. See, among many others, Wyplosz (2015). The roots of balance of payments facilities for EU countries go back to 1971.

²¹ There is also an older but small mechanism of balance of payments support to non-Euro area countries but provided by the European Union, the Balance of Payments Assistance Facility, created in 2002, that has in a sense been superseded by later arrangements.

²² See Grabel (2012) for a detailed review of the initiatives that have been adopted in the developing world and IMF (2013) for an inventory of regional initiatives and an analysis of the relationship of the IMF with the various agreements. The recent Latin American initiatives includes the payments in national currencies between Argentina and Brazil, and the SUCRE (Spanish acronym for Unified System for Regional Compensation) among ALBA members (Spanish acronym for Bolivarian Alliance of the Peoples of Our America).

Figure 4: Size of regional balance of payments facilities (% of regions' GDPs in 2013)



Notes: The data for the Eurasian Anti-Crisis Fund and the North Atlantic Framework Agreement refers to 2011 and is taken from IMF (2003). That for FLAR includes the 40% increase in the reserve pool agreed in 2012.

Source: Author's estimates based on data from the International Monetary Fund.

As Figure 4 indicates, the relative size of these different arrangements relative to the regions' GDPs is quite diverse. By a large margin, the European Stability Mechanism is the largest, followed by the Chiang Mai Initiative and the BRICS's CRA. The other arrangements are smaller in magnitude. Size may not be a good guide to the effectiveness of an institution of this type, particularly if it focuses on the smaller countries. Notably, despite its modest size, FLAR has disbursed throughout its history (since 1978) the equivalent of 70 per cent of the funds disbursed by the IMF to member countries, and indeed more funds than the IMF if we exclude Venezuela (Ocampo and Titelman 2015).

One way to understand how regional monetary arrangements function is to differentiate three basic functions: (i) the dialogue on macroeconomic policies and the possible monitoring and coordination of these policies; (ii) balance of payments support; and (iii) coordination and eventual exchange rate unification (Ocampo 2006b). Given the frequency and rigour of the disturbances coming from the capital account, the third of these objectives has been generally absent. On the contrary, it has been central in the history of European monetary cooperation, even before the creation of the European Central Bank (Wyplosz 2006).

There are also different ways in which use of these arrangements relate to the IMF. In this regard, during the recent crisis, Europeans chose rescue packages in which the IMF was a partner of the European institutions and involved programmes with heavy conditionality. In contrast, the strong 'stigma' associated with IMF programmes in East Asia explains why Chiang Mai has not been used, because beyond a certain limit (initially 10 per cent of the agreed swap lines, which was later raised to 20 per cent and most recently, in 2012, to 30 per cent), the use of its facilities requires an IMF programme. As a result, countries that may have used the initiative during the North Atlantic crisis (possibly Indonesia and the Republic of Korea) did not do so as they were unwilling to agree

on any such programme. Eliminating the link with IMF programmes is thus essential in this case. Given this experience, it is surprising that the link to an IMF programme beyond 30 per cent of the credit lines was also the rule adopted by the BRICS's CRA. In contrast, the use of FLAR facilities has traditionally been delinked from any IMF programme, and in fact has no conditionality attached to it. The links between the IMF and regional arrangements will continue to be subject, therefore, to flexible designs and a 'variable geometry'.

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