



House of Commons
Treasury Committee

**Globalisation: the role
of the IMF:
Government Response
to the Committee's
Ninth Report of
Session 2005–06**

**Second Special Report of Session
2006–07**

*Ordered by The House of Commons
to be printed 21 November 2006*

The Treasury Committee

The Treasury Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of HM Treasury and its associated public bodies.

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The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the Internet via www.parliament.uk. The Committee has power to appoint a Sub-Committee, which has similar powers to the main Committee, except that it reports to the main Committee, which then reports to the House. All members of the Committee are members of the Sub-Committee, and its Chairman is Mr Michael Fallon.

Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) from Session 1997–98 onwards are available on the Internet at www.parliament.uk/parliamentary_committees/treasury_committee

Committee staff

The current staff of the Committee are Colin Lee (Clerk), Fiona McLean (Second Clerk and Clerk of the Sub-Committee), Adam Wales and Aruni Muthumala (Committee Specialists), Lis McCracken (Committee Assistant), Michelle Edney (Secretary), Tes Stranger (Senior Office Clerk) and Laura Humble (Media Officer).

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First main heading

The Treasury Committee published its Ninth Report of Session 2005–06, *Globalisation: the role of the IMF*, on 13 July 2006, as House of Commons Paper No. 875. The Government response to this Report was received on 20 November 2006, and is appended below.

Government response

The Government welcomes the Treasury Committee's interest in the international financial institutions and welcomes this report on Globalisation and the role of the IMF. The Committee's report is an important document which points to the changing role of the IMF and makes an important contribution to the debate on the reform of the institution.

For ease of reference, the Committee's recommendations are reiterated below (in numbered paragraphs), with the Government's response to each following.

A clear role for the IMF

1. The Committee supports the move to focus the IMF's work on crisis prevention, rather than crisis resolution, as well as the decision to make sure the Fund can fulfil its new role. (Paragraph 5)

The Government agrees that the emphasis of the IMF should now be on crisis prevention and welcomes the Committee's endorsement of this approach. The Government has made proposals to reinforce the IMF's crisis prevention role through a new framework for surveillance, with an emphasis on multilateral surveillance, and by expanding the IMF's range of instruments for crisis prevention.

Global economic imbalances

2. A disorderly unwinding of global imbalances poses a real risk to the UK economy. It is therefore important that the IMF take an active part in providing both independent analysis of, and potentially a solution to, the risks posed by a disorderly unwinding of global imbalances. (Paragraph 9)

The Government recognises the risks to the global economy of a disorderly unwinding of global imbalances. We note the IMF's assessment that a smooth, market-led unwinding of these imbalances is the most likely outcome. Nevertheless it is important that the IMF and its members are fully engaged in addressing imbalances. The Government supports an active role for the IMF in addressing the risks posed by global imbalances.

At the IMF-World Bank Annual Meetings in Singapore, the IMFC called for sustained action by countries to implement the agreed policy strategy to underpin an orderly unwinding of global imbalances. This includes steps to boost national saving in the United States, including fiscal consolidation; further progress on growth-enhancing reforms in Europe; further structural reforms, including fiscal consolidation, in Japan; reforms to

boost domestic demand in emerging Asia, together with greater exchange rate flexibility in a number of surplus countries; and increased spending consistent with absorptive capacity and macroeconomic stability in oil producing countries.

Reducing the number of extraneous roles of the IMF

3. The IMF has, in recent times, taken on too many roles. As part of the need to create an IMF able to meet its responsibilities, we recommend that the UK Government support a greater focussing of the IMF's work, which may entail identifying another organisation or body better suited to carry out certain activities, including work on terrorist financing and money laundering. (Paragraph 10)

Safeguarding the financial system from abuse by criminals and terrorists is key to protecting its stability and credibility. The UK Government therefore sees an appropriate and important role for the IMF in monitoring the effectiveness of countries' anti-money laundering and counter-terrorist financing measures as part of the core set of standards and codes assessed by the IMF.

However, the Government recognises the need for the IMF to remain focused on its central mission of crisis prevention and will consider, in the context of the IMF's Medium-Term Strategy and the External Review of Bank-Fund Collaboration, where there may be scope to reallocate responsibilities between the institutions.

The World Bank and the IMF

4. We welcome the IMF Managing Director's announcement of a review to examine the relationship between the World Bank and the Fund. Given the concerns expressed to us by NGOs, we recommend that the UK Government ensure that the Fund utilises the expertise of the World Bank in social and poverty issues, to augment the Fund's more macro-economics based analysis. The IMF should remain within its remit of crisis prevention, not extend its activities into areas of social policy and development it does not appear to be equipped to deal with. (Paragraph 15)

The Government recognises the concerns expressed to the Committee. The IMF's expertise in macroeconomic policy should be used to support countries' efforts to achieve the Millennium Development Goals. In our contacts with the External Review Committee on Bank-Fund collaboration, the Government has emphasised that both the IMF and World Bank should be engaged constructively, in a complementary way, in the areas where their core expertise lies; and that important issues should not be ignored because they fall between the mandates of the institutions.

Quotas

5. The Committee regards it as important that the governance of the Fund is made more accountable and transparent if it is to be able to meet the challenges of the changes in the world's economy. While we note that changing the quotas may have no discernible effect on how the Fund operates, there is a good case for reforming the quotas to improve the Fund's governance by increasing the accountability to its members and the wider international community. There is a balance to be struck

between the rights of those that provide the Fund's resources, and the needs of those that utilise those same resources. We recommend that the UK Government should look at whether any more innovative solutions, beyond reform of the quota system, are possible to try ensure the competing needs are met. (Paragraph 20)

The Government recognises the case for comprehensive reform of the quota system, which must command very wide support from across the IMF's membership. If the IMF is to remain legitimate, its governance structure must be brought up-to-date. It must reflect both the weight and role of countries in today's global economy and the international community's longstanding commitment to strengthen the voice of developing countries in the IMF.

The Government welcomes the adoption by IMF Governors of a Resolution on Quota and Voice reform, which heralds the biggest reforms to IMF governance in 60 years. The Annual Meetings in Singapore have initiated a comprehensive two-year programme of integrated quota and voice reforms, beginning with initial quota increases for Korea, Mexico, China and Turkey, and followed by further reforms to realign quota shares with countries positions in the world economy and enhance the voice of low-income countries. This agreement is a good start and demonstrates clearly the IMF is responding to new challenges.

The IMF and its members are now embarking on a two-year reform programme, with the aim of reaching the widest possible agreement on reforms no later than the 2008 Annual Meetings. The Government is clear that the objectives of this programme must be to further strengthen the legitimacy and ownership of the Fund with the entire membership, including developing countries, especially in Africa, as well as rapidly growing countries. The Government looks forward to working with the Managing Director and others on ways to achieve these objectives, including both the reform of the quota system and the use of more innovative solutions.

6. We note the political difficulties in achieving reform of the voting structure, bearing in mind the need to maintain a close US involvement with the IMF, but the current voting arrangements do not sit well with an international organisation that sees itself providing impartial worldwide economic advice in the future. We recommend that the UK Government seek a reduction in the scope of the veto so that surveillance matters are no longer included. (Paragraph 21)

The Government recognises the impact of the IMF's governance on the credibility and influence of its advice. Under the IMF's articles of Agreement, certain categories of decision require a supermajority of 85 per cent and hence grant the US (which holds 17 per cent of votes) a de facto veto. These categories of decision primarily concern the key governance and financial policies of the IMF, including on quotas, membership, and Board processes; Financial operations in Gold and Special Drawing Rights; and exchange rate arrangements and par values. Surveillance issues are not in the protected categories of decision requiring an 85 per cent supermajority, and hence are not subject to veto.

7. There are two issues involved in European representation at the IMF. Although not a matter directly for the UK Government, it appears sensible that the UK should encourage its euro area partners to combine their representation at the IMF. More

importantly for the UK, the UK Government should actively seek to try and ensure there is a harmonised EU view when dealing with IMF matters, where this is possible. (Paragraph 23)

The Government notes the Committee's comments. The Government works closely with European partners, through a number of formal committees composed both of officials and ministers from EU Governments, and of their representatives at the IMF in Washington, to ensure EU Member States present, where possible, a coordinated view on IMF issues and will continue to do so.

8. The Committee is encouraged by the view of the Chancellor of the Exchequer that there may well be quick progress in the reform of the quota system. However, we note the concerns expressed by African representatives about being left behind in a two-stage process, and call on the UK Government to ensure that all countries are better represented in the governance structure of the IMF after the Singapore meetings. (Paragraph 25)

The Government believes quota and voice reforms must strengthen the legitimacy and ownership of the Fund with the entire membership, including countries in Africa as well as the rapidly growing economies. We recognise the concerns of African representatives, and have long supported the need to strengthen, not just maintain, the voice of developing countries in the IMF. As part of the two-year reform programme, the UK believes that there must be an increase in the voting share of developing countries.

Appointment of the Managing Director of the IMF

9. The Committee notes the Chancellor of the Exchequer's view that the selection of the current managing director was more open. However, even the Chancellor stated that not all that was done in selecting Mr Rato was recorded, suggesting the process in future could be less opaque. We therefore support the Governor's request for an open selection process for the IMF's managing director, and recommend that the UK Government prepare, publish, consult on (including with its European partners) and then support at the Singapore meeting a transparent process for selecting the next IMF managing director. While this may mean that the IMF has a more transparent procedure than other international organisations, we believe that it is right that the Fund, with its new focus, should be the first in achieving reform in this area. (Paragraph 26)

It is important that the IMF Managing Director is appointed through a legitimate process that has the respect of the entire membership. The Government recognises the importance of using an open and transparent selection process and welcomes the Committee's recommendation.

In the context of the discussion of governance issues in Singapore, which were focused on achieving agreement on a quota resolution, new proposals on the selection process for the Managing Director would have been counterproductive. IMF members have now agreed on a two-year programme of quota and voice reforms, which will have wider scope to consider the process for selecting the Managing Director. The Government will discuss the selection of senior positions in the International Financial Institutions, including the IMF

Managing Director and President of the World Bank, with partners in Europe and others, to identify the potential for building a consensus on reform.

The Executive Board

10. On the representation of the IMF's members on the Board, the Committee stands with its earlier conclusions on quotas, in that there should be movement to allow a fairer representation of the newly emerging economies, as well as the main recipients of the Fund's expertise and resources. We support the Chancellor's view that there needs to be a resident board, to allow effective oversight of the Fund's activities. This underlines the need to ensure proper representation of all the Fund's members. We also note the Governor's concern as to excessive information flow through the Board, and therefore recommend that the UK Government try and ensure that there is reform of the processes of the Fund, which would then allow the Executive Board members to properly discharge their duties in overseeing the Fund. In the area of surveillance, and given the need for independence, we would not expect there to be heavy influence from the Board in this area. (Paragraph 29)

The Government welcomes the Committee's recommendation and will continue to support reform of IMF Board processes when proposals are brought forward in the implementation of the IMF's Medium-Term Strategy.

The International Monetary and Financial Committee (IMFC)

11. We welcome the moves to make the IMFC more effective. It is important that, as a high level body of the IMF, it is particularly cognisant of its role in providing guidance and oversight of the work of the Fund. We therefore recommend that the UK Government do all it can to ensure that the procedures of the IMFC are effective in helping the IMF develop its role in the global economy, and in ensuring that it provides significant oversight of the work of the Fund, especially considering the IMFC's new remit in setting the surveillance objectives for the year. (Paragraph 31)

The Government welcomes the Committee's recommendation. The Government will do all it can to further improve the effectiveness and influence of the IMFC both in the UK's capacity as an IMFC member and through the Chancellor of the Exchequer's role as IMFC Chairman. We will also work to ensure that the ongoing discussion of the process for setting an Annual Remit for surveillance allows the IMFC effective influence over the Fund's surveillance objectives.

Transparency within the IMF

12. Transparency is a necessary part of any public institution's maintenance of accountability to its stakeholders. We recommend that the UK Government work with other member countries to persuade the Fund to release more material, including Executive Board minutes. We would like to see the IMF publish the Board's minutes as soon as is advisable. In doing so, the UK Government should bear in mind the view of the Governor of the Bank of England that transparency, has to be 'designed carefully' if it is not to prevent free and frank discussion. (Paragraph 34)

The IMF publishes Public Information Notices (PINs) following Executive Board discussions. These are in effect published minutes, which record Board discussion and any decisions. The Government agrees that greater transparency about the workings of the IMF is desirable. Many IMF members have concerns about the release of information about their economies, and about the impact of greater transparency on the frankness of Board discussions. The UK will continue to work with the Fund and members on the design which would enable the IMF to increase its transparency without impairing the frankness of the Board's discussions.

Multilateral surveillance

13. We welcome the renewed commitment of the IMF to multilateral surveillance, and to surveillance overall. Given that a major risk to the UK economy at the moment stems from global imbalances, it seems entirely appropriate that the IMF, as the guardian of the global financial system, should seek to redouble its efforts in assessing the effects of the interplay between the world's economies. In doing so, the Fund should utilise the overall "balance sheet analysis" called for by the Governor. We recommend that the UK Government supports these moves, while seeking to ensure that there is broad consensus for this change in focus of the surveillance across all members of the Fund. (Paragraph 41)

Surveillance reform is a long-standing objective for the UK Government. In the modern, increasingly integrated global economy, the primary role of surveillance should be on supporting IMF members' shared objective of maintaining the stability of the global economy. So surveillance needs to focus more clearly on managing the global implications of national policy. This requires a strengthened framework to provide the incentives to the Fund to produce accurate, persuasive and influential surveillance, based on high-quality analysis, including balance sheet analysis, and candid assessment.

It is essential that there should be a sound basis for strengthened surveillance and there is a compelling case for revising the IMF's 1977 Surveillance Decision to provide that underpinning. A revised decision would restate members' obligations, clarify the foundations of IMF surveillance, and secure a common understanding of its scope, embedding a focus on policies that support external stability; and including an annual remit which bases surveillance on each country's policy frameworks. The UK has actively sought to build broad support among IMF members for this change in the focus of surveillance.

In Singapore, IMF members welcomed the ongoing review of surveillance, with a view to updating the 1977 surveillance decision. Further consideration of surveillance reform is underway and we will continue to support this agenda.

14. We welcome the IMF's new approach to multilateral consultation, given the Fund's new focus on crisis prevention. However, we note that in order for the findings of such consultations to be effective, member states must feel that the actions that may be required from the conclusion of this process will be broadly beneficial. We therefore recommend that the UK Government encourage the Fund's development in a manner which reinforces its neutrality and authoritativeness and that the UK Government support measures to strengthen the Fund's governance. (Paragraph 45)

The Government welcomes the IMF's new approach to multilateral consultation, and recognises that fostering cooperative agreement between countries; on actions to support the orderly resolution of global imbalances or on future challenges for policy coordination, will require the Fund to act as an independent advisor. This role must be underpinned by governance and accountability arrangements which support the Fund's independence and authoritativeness. It is therefore important that the IMFC is involved in considering the IMF's mandate for multilateral consultations.

The role of the Independent Evaluation Office (IEO)

15. The Independent Evaluation Office (IEO) has been a significant success. However, it still has scope for further development, especially given the International Monetary and Financial Committee's recommendation to include the IEO within the oversight of the surveillance remit. We recommend that the UK Government set out in its reply to this report whether the IEO's remit should be set out clearly within the articles of agreement or by-laws of the IMF, allowing for its independence of governance and financing. The IEO's remit may be about to widen should it also take on a role within the oversight of the surveillance work undertaken at the IMF. We recommend that the UK Government consider whether the IEO will require further resources to fulfil its extra responsibilities. (Paragraph 48)

The Government believes that the Independent Evaluation Office makes a valuable contribution to the credibility and effectiveness of the IMF by providing authoritative and objective assessments of the IMF's policies and actions.

The IEO was formally established in 2000 by a decision of the IMF's Executive Board, subsequently endorsed by the IMFC. Those decisions outlined the IEO's accountability framework, with the IEO Director appointed by and reporting to the IMF Board; full independence from IMF management and staff; and an arm's-length relationship with the Fund's Executive Board to ensure the IEO's operational independence. No amendments of the IMF's Articles of Agreement have been made in relation to the IEO. Decisions of the Executive Board are the main vehicle for enacting IMF policies, and the absence of specific provision for the IEO in the IMF's Article of Agreement or by-laws in no way undermines the IEO's ability to scrutinise the IMF with credibility and impartiality. The Government therefore does not believe there is a need to further underpin the IEO's independence by strengthening its legal basis.

The Committee is right to identify a potential challenge for the IEO, related to the increased workload of conducting regular evaluations of surveillance as requested through the surveillance remit; and to budgetary pressures affecting the IMF as a whole. We envisage that in the first instance IEO oversight of IMF surveillance work could be accommodated without the need for additional resources. We will of course be open to reviewing the adequacy of the IEO's financing in the light of the practical demands of its additional responsibilities.

The IMF as a ratings agency

16. We agree with the view that the IMF should not become a ratings agency, especially considering the potential distortion of the financial system. However, we also recognise

that the IMF has a significant role as a gatekeeper for low-income countries. With IMF approval, low-income countries are far more easily able to access development aid and lending, both from international institutions and individual donor countries. The Policy Support Instrument (PSI) extends this role. We therefore recommend that in its response to this report, the UK Government sets out its views on whether the existence of this instrument will penalise countries that do not wish to be involved with the IMF by preventing them accessing aid. As well as this, the UK Government should also consider whether the conditions attached to the PSI are consistent with its own policy paper on conditionality, and how the instrument will interact with the UK Government's own development policies, including the meeting of the Millennium Development Goals. The Committee notes the increase in development assistance provided by donors other than traditional donors. (Paragraph 53)

The Policy Support Instrument was introduced in order to assist countries which may not need, or want, Fund financial support, but still want the Fund to support, monitor, and endorse their policies. This IMF monitoring can signal the strength of their own programme to the international community and is used as a basis for gaining access to donor resources and capital markets. The IMF in any case has a de facto role as gatekeeper to development finance and debt relief, with some donors and creditors using approval of an IMF programme as a signal that a country's performance was adequate, and as a condition for disbursing finance. Prior to the creation of the PSI there was no mechanism for countries to gain access to this IMF signalling without accessing financing, penalising those countries which did not wish to take on loans from the IMF.

The Policy Support Instrument is a voluntary, demand-driven instrument supported by strong country ownership. We welcome a greater array of IMF programmes that provides countries with a wider choice of the forms of programme or surveillance relationship with the IMF that best suits their needs. PSI programmes are based on the IMF assessment of a country's own policies—as set out in the country's poverty reduction strategy—not on conditions determined by the IMF. This means there is no conditionality as such involved in a PSI programme. PSI programmes already underway demonstrate how the IMF is implementing this approach: Nigeria's PSI is based on the Nigerian Government's National Economic Empowerment and Development Strategy (NEEDS), which was in place prior to the PSI.

The Government has made clear that UK development assistance will not necessarily require a financed IMF programme to indicate that a stable macroeconomic environment in place, but that the UK will use the IMF's analysis in assessing countries' progress in building macroeconomic stability, sustained growth and institutions.¹ The UK will draw on this and other analyses to make its own judgements about the appropriate forms of aid.

The independence of surveillance

17. The IMF must be seen to be provide independent surveillance analysis, especially where it has lent to a country. There is an obvious moral hazard in that the IMF may wish to use its surveillance analysis to support a country it has lent to, purely to protect

¹ "Partnerships for Poverty Reduction: rethinking conditionality". HM Treasury, DfID and Foreign and Commonwealth Office, March 2005

its own investment. This is especially important given the IMF's 'gate keeper' role. The other element of independence is that no single member country, or group of member countries, should hold sway over the surveillance analysis of the IMF. While the IMF must, of course, remain accountable, it should also be encouraged to provide an independent voice on the interactions of the world economy. We therefore recommend that the UK Government do it all it can to arrange that there is a separation of the surveillance analysis from the analysis undertaken for the purpose of the Fund's lending activities. We further recommend that the UK Government seek to ensure that a framework develops in which the IMF, while ensuring adherence to the principles of accountability, provides an independent voice, able to offer unbiased advice on the world economy. (Paragraph 56)

A long standing objective for the UK Government has been to see IMF surveillance strengthened by making it more independent and objective. The credibility and influence of IMF surveillance depends critically on being seen to be independent and authoritative, and not swayed either by member countries or by the IMF's lending activity.

The IMF have made some progress on this issue in recent years but we continue to believe that further reform is needed to more clearly delineate surveillance and lending activities within the Fund, and to establish governance arrangements which will underpin the independence of Fund advice. An annually-renewed surveillance remit would provide political endorsement for surveillance, acknowledgement by members of their responsibilities to the IMF; and would be a transparent mechanism for members to set out the priorities for surveillance and for establishing IMF Management's clear accountability for meeting the surveillance remit. That clear basis of accountability would help to enhance the Fund's independence.

In Singapore, IMF members welcomed the ongoing review of surveillance, with a view to updating the 1977 surveillance decision. Further consideration of surveillance reform is underway which will include issues of the governance, accountability, and remit for surveillance. The UK will continue to be active in this area, to ensure greater independence, accountability, and credibility for IMF surveillance.

Conditionality of IMF lending

18. The Fund will have to maintain some form of conditionality on its lending. We support the Government's policy paper, and its focus on poverty reduction, human rights and stronger financial management. We recommend that the UK Government lend its support to reforms to the Fund that ensure that democracy is protected, conditionality is appropriately designed for each individual country and solutions are not driven by a single economic philosophy. (Paragraph 62)

The UK Government has strongly supported efforts to streamline conditionality at the IMF, with the Fund's conditionality guidelines limiting conditions to areas which have a major impact on a country's macroeconomic situation and emphasising country ownership. The Government will continue to press IMF and the World Bank to monitor the combined burden and impact of their conditionality and the IMF to set appropriate conditions on a country-by-country basis, and to consider alternative economic scenarios and approaches, including Poverty and Social Impact Assessments, when developing its

conditionality and policy advice. The IMF's role limits its scope for setting political conditions; and the IMF follows the principle that the Fund's judgments should not be influenced by the nature of a political regime of a country, nor should it interfere in domestic or foreign politics of any member.

New facilities

19. We note the Governor's remarks on the need to limit new facilities, and therefore recommend that the UK Government exercise caution before recommending any new facilities at the Fund. However, we support the notion of the Exogenous Shocks Facility, though we recommend that it be designed so as to ensure that all member states that require it are not dissuaded by onerous conditionality. (Paragraph 65)

The Government recognises the need for caution in adding to the range of IMF facilities. The Exogenous Shocks Facility could make a very important contribution to ensuring countries efforts at development and poverty reduction are not undermined by global economic conditions and helping countries recover following natural disasters. The UK therefore pledged £50 million to financing the ESF. The Exogenous Shocks Facility was introduced on the basis that conditionality in ESF programmes would meet the same standard, and fulfil the same functions, as in a standard Fund programme; however the Fund recognises that ESF programs would be less ambitious in terms of structural reform than under a PRGF arrangement.

20. We note the lack of take-up by member states of the contingent credit lines facility. We understand that a balance has to be struck given the need to protect taxpayers' money. We recommend that the UK Government continues to take an active part in ensuring that the facility for contingent financing for crisis prevention is capable of ensuring that the Fund can fulfil its remit to prevent crises developing. (Paragraph 69)

The Government agrees that there is a need for a contingent financing facility at the IMF to support its crisis prevention role. The original Contingent Credit Line expired in late-2003, no programme having been arranged before the 'sunset' at the end of its initial period of operation. The IMF has now committed, as part of its Medium-Term Strategy, to reopen discussion of contingent financing instruments. The UK Government will play an active part in this discussion, with a view to agreeing a new contingent financing mechanism to support more effective IMF crisis prevention.

Debt restructuring

21. While the Fund has a desire to move towards a greater focus on crisis prevention, there will always remain a need for crisis resolution. Debt restructuring will sometimes be an integral part of this. The Fund, as a potential creditor in these situations, seems inappropriate as the organisation to oversee such restructuring. However, this does not preclude the IMF from taking an active part in the discussions over the design of the framework. We acknowledge the political difficulties of creating a final consensus, but we recommend that the UK Government continue to promote collective action clauses. We further recommend that the UK Government consider what role the IMF should play in any future debt restructuring mechanism. Though previously not followed up by the Fund, a statutory system may be appropriate, and may be similar to a Chapter

11-style system where the day-to-day business continues while a restructuring of ownership occurs under a bankruptcy court. (Paragraph 73)

The Government welcomes the Committee's recommendations and will keep under review the potential for statutory approaches to sovereign debt restructuring; and the potential role of the IMF in such systems. We will also continue to support voluntary approaches, including collective action clauses and the Principles for Stable Capital Flows and Fair Debt Restructuring in Emerging Markets.

The funding of regular IMF activities

22. The search for a solution to the long-term financing of IMF operations should be considered against two criteria. The first is that poorer nations should not have to pay to gain access to the range of services the IMF can provide. The second is that funding for surveillance should be seen to be as independent as the actual analysis, especially where the IMF may also be a lender to a specific country. We therefore recommend that the UK Government further consider and report on the feasibility of the different options for the funding of an endowment for the financing of surveillance activities, as an endowment would ensure both the actuality and perception of the independence of surveillance. (Paragraph 78)

The Government welcomes the Committee's comments. We agree that ensuring low-income countries continued access to the IMF is a key objective for a new IMF financing mechanism. We also agree that new financing arrangements should avoid creating opportunities for countries to seek to influence IMF surveillance, but should maintain or enhance the independence of IMF advice and surveillance.

The IMF Managing Director has appointed a Committee of Eminent Persons, Chaired by Andrew Crockett, to Study Sustainable Long-Term Financing of IMF Running Costs. That Committee is expected to report in the first quarter of 2007 on the options available, including endowments. The Government will consider and report on options for funding an endowment to finance the IMF's surveillance activities, in the context of the Eminent Persons Committee's report.

Transparency of the UK Government's position towards the IMF

23. To enhance transparency, we recommend that the UK Government disclose further information on the Executive Director's dealing with the Executive Board, and its views of recently published IEO reports. We further recommend that the UK Government report on its view of the surveillance remit of the IMF, prior to this being set by the IMFC, to allow discussion of this view before it is put forward at the IMFC. (Paragraph 82)

The Government welcomes the Committee's recommendations. We are committed to greater transparency by the IMF and about the UK's relations with the IMF, including through the Government's Annual Report to Parliament on the UK and the IMF. The Government will consider how to improve further the information it publishes on positions taken by the UK at the Executive Board, including on reports by the IEO.

Discussions are ongoing at the IMF and among members on the structure and process by which the surveillance remit will be set by the IMFC. The Government's interventions in that debate will emphasise the need for the remit-setting process to allow opportunities for a wider discussion of surveillance before it is finalised at the IMFC. We will be setting out our views on the remit in the next UK Annual Report to Parliament.

HM Treasury

20 November 2006