REPORT TO CONGRESS ON IMF AND WORLD BANK COLLABORATION
AND IMF ACCOUNTABILITY
July 2009

This report has been prepared pursuant to the Supplemental Appropriations Act, 2009.¹ The report focuses on two distinct issues: 1) collaboration between the International Monetary Fund (IMF or Fund) and the World Bank (Bank) and 2) efforts by the U.S. Treasury and the IMF to increase oversight and accountability of the IMF.

Summary Points

World Bank / IMF Coordination

• The IMF and World Bank have an extensive architecture for collaboration that seeks to promote coordination between the activities of the Bank and Fund, while also keeping each institution focused on its core mandate.

• The Joint Management Action Plan (JMAP), launched in 2007, is a recent effort by the two institutions to deepen cooperation between the Bank and Fund through more systematic coordination on country issues, better communication on thematic issues, and strengthened incentives and institutional support for staff cooperation.

• U.S. policy has sought to minimize duplication of missions by pushing both institutions to focus on their core areas of competency (macroeconomic sustainability for the IMF and development policy/assistance for the World Bank). Given their interrelated missions, overlap is inevitable in some areas. In such situations, the U.S. advocates for an appropriate division of labor between the IMF and World Bank, followed by strong collaboration across institutions. In this decade, considerable progress has been made in focusing the IMF on its core mission, particularly in low-income countries.

IMF Oversight and Accountability

• The IMF has taken important steps in recent years to increase its oversight and accountability, including establishing the Independent Evaluation Office, greatly increasing its transparency and the information provided to the public on IMF activities, tightening its controls against corruption, and reforming its governance structure.

• The U.S. was a strong backer of all of these reforms in the IMF Executive Board and continues to advocate for more prompt release of Executive Board minutes and public dissemination of technical assistance mission reports. The U.S. has also been at the forefront in promoting governance reforms to give a greater voice to underrepresented countries while maintaining a strong voice for low-income countries.

¹ Title XIV, Section 1403 (a) of H.R. 2346 (Supplemental Appropriations Act, 2009, P.L. 111-32) states:

“Not later than 30 days after enactment of this Act, the Secretary of the Treasury, in consultation with the Executive Director of the World Bank and the Executive Board of the International Monetary Fund (the Fund), shall submit a report to the appropriate congressional committees detailing the steps taken to coordinate the activities of the World Bank and the Fund to avoid duplication of missions and programs, and steps taken by the Department of the Treasury and the Fund to increase the oversight and accountability of the Fund’s activities.”
I. World Bank and IMF Coordination

The World Bank and IMF have developed an extensive architecture for collaboration between the two institutions. This architecture seeks to maximize coordination between IMF and World Bank activities, while maintaining each institution’s focus on its core mission. This section describes the range of collaboration mechanisms implemented over the years and provides some concrete examples of how collaboration has worked in the context of the current crisis.

Architecture of World Bank and IMF Coordination

Coordination between the World Bank and the International Monetary Fund (IMF) has been a concern for both institutions since at least 1966, when the Boards of both the World Bank and the IMF considered the first report on the issue. Much of the focus centered on reaching agreement on a reasonable division of labor between two institutions whose mandates contain areas of natural overlap. The 1966 Board decision on Bank/Fund cooperation concluded that: “The Bank is recognized as having the primary responsibility for the composition and appropriateness of development programs and project evaluation, including development priorities. … The Fund is recognized as having primary responsibility for exchange rates and restrictive systems, for adjustment of temporary balance of payments disequilibria and for evaluating and assisting members to work out stabilization programs as a sound basis for economic advice.”

James Boughton, the IMF’s historian, notes, “Despite this broad institutional agreement, the staffs of the Fund and the Bank had very different conceptions of their respective roles throughout the 1970s. These differences involved not just where to draw the line, but in what direction it should be drawn. For the Bank, the crucial dimension was stabilization versus development, short- versus long-run. The Fund resisted being squeezed into that pigeon hole and argued that its conditionality had to aim at promoting longer-term balance and providing a proper basis for economic development. For the Fund, the proper demarcation was between macro- and microeconomics, between aggregate performance and the structure of the economy. The Bank resisted being squeezed out of discussions related to the longer-term dimensions of borrowers’ macroeconomic policies.”

This tension escalated in the 1980s, as the World Bank ventured into structural adjustment lending and the IMF began to focus more on longer-term lending meant to boost growth. The blurring between the roles of the IMF and the World Bank led to the 1989 Concordat on Bank-Fund cooperation, which remains the guiding document on the division of labor between the Bank and the Fund. The Concordat states that the IMF’s core focus is on the “aggregate aspects of macroeconomic policies and their related instruments – including public sector spending and revenues, aggregate wage and price policies, money and credit, interest rates and exchange rates.” The Bank, on the other hand, should focus on “development strategies; sector and project investments; structural adjustment programs; policies which deal with the efficient allocation of

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resources in both public and private sectors; priorities in government expenditures; reforms of administrative systems, production, trade and financial sectors; the restructuring of state enterprises and sector policies.” The Concordat also states that when differences of opinion arise between Fund and Bank staff, the institution without the primary responsibility for the issue at hand is expected to “yield to the judgment of the other institution.” The Concordat includes a number of guidelines to enhance collaboration between the institutions on specific policy questions such as structural adjustment, debt policy, and arrears. The Concordat’s broad division of labor between the IMF’s role in establishing a sustainable macroeconomic framework and the World Bank’s role in shaping development policy has been quite durable.

In the wake of the Asian financial crisis in the late 1990s, the U.S. led an effort to improve IMF and World Bank collaboration on financial sector issues. One of the outcomes of this effort was the September 1998 decision by the Boards of the Bank and the Fund to establish the Bank-Fund Financial Sector Liaison Committee (FSLC), comprising senior staff from both institutions, to enhance the collaboration process between the two institutions.5 The main objective of the FSLC is to enhance operational coordination and effectiveness between the Bank and the Fund in financial sector work. Facilitating early and continuous agreement on the allocation of work between the two institutions helps to ensure that the two institutions deliver high quality, sound, and timely advice and support to member countries, and that the limited expert resources available are engaged in the most effective way.

The centerpiece of Bank-Fund collaboration on financial sector issues continues to be the Financial Sector Assessment Program (FSAP),6 a joint IMF and World Bank effort introduced in May 1999. The FSAP aims to increase the effectiveness of efforts to promote the soundness of financial systems in member countries. Supported by experts from a range of national agencies and standard-setting bodies, work under the program seeks to identify the strengths and vulnerabilities of a country's financial system, determine how key sources of risk are being managed, assess compliance with international financial sector standards (embodied in a variety of Reports of Observances of Standards and Codes), ascertain the sector's developmental and technical assistance needs, and help prioritize policy responses. The roles and responsibilities of the Bank and the Fund in financial sector work were set out in guidelines issued by the FSLC in 1999.7 Under these guidelines, the Bank would be concerned with sectoral reform and the development impacts of the financial sector, while the Fund would focus on the macroeconomic and stability aspects of the financial sector. The 1999 guidelines outlined procedures by which staff exchange information, coordinate work programs, undertake joint missions, provide consistent policy advice to country authorities, and negotiate financial sector conditions in Letters of Intent and Letters of Development Policy.


6 http://www.imf.org/external/NP/fsap/fsap.asp
7 Guidelines on Collaboration Between the Bank and the Fund in Financial Sector Work, SM/99/158
Conditionality\(^8\) laid out a new operational framework for the division of labor between the IMF and World Bank based on the concept of lead agency. In assessing individual country programs, IMF and World Bank staff would agree on a lead agency for particular policy issues that would take the lead in discussions with country authorities. This process was paralleled by a series of decisions taken by the IMF to streamline conditionality in its programs, with a particular focus on reducing past drift of IMF conditionality into areas outside of the IMF’s core area of responsibility.

Another area of close collaboration between the IMF and World Bank is in the implementation of debt relief through the Heavily Indebted Poor Countries (HIPC) initiative and the Multilateral Debt Relief Initiative (MDRI). The key pillars of the implementation of the HIPC initiative in qualifying low-income countries are the preparation and implementation of a participatory Poverty Reduction Strategy Paper (PRSP) and maintenance of macroeconomic stability under an IMF-supported program. IMF and World Bank country teams coordinate their support for the PRSP process through the production of Joint Staff Advisory Notes (JSAN) in order to both assist the low-income country in properly targeting its available resources on poverty reduction, while also providing information to assist in donor oversight. Likewise, the PRSP is used to inform the development and implementation of the low-income country’s IMF-supported program, in order to align the IMF program with the country’s poverty reduction and development goals. Qualification for debt relief under HIPC and MDRI also includes a variety of country-specific requirements, designed to improve growth, stability, governance, and social-sector outcomes. For these more detailed areas, the IMF and World Bank each focus on their respective areas of expertise. The World Bank takes the lead in monitoring and support of efforts to improve long-term development prospects and social-sector outcomes in areas such as health and education. The IMF then focuses on issues that directly affect a country’s macroeconomic outlook to encourage an environment that will allow for increased growth.

**Joint Management Action Plan (JMAP)**

A high-level independent committee headed by former Brazilian Finance Minister Pedro Malan, issued its final report on February 27, 2007 on how the IMF and the World Bank could improve their working relationship.\(^9\) The report stressed that closer collaboration is critical for the effective and efficient delivery of services to the institutions' member countries—especially given an ever-shifting global economic landscape and emerging pressures from global warming, energy security, and population aging. It also urged the IMF to continue to clarify its role in low-income countries, including financing activities.

The institutional response to the recommendations of the Malan Report was the Joint Management Action Plan (JMAP), which was based on extensive consultations and surveys of staff.\(^10\) It was adopted by the managements of both the Bank and the Fund in September 2007 and subsequently endorsed by both Boards. The JMAP framework is built on more systematic coordination on country issues, better communication on thematic issues, and strengthened

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incentives and institutional support for staff cooperation. Specific actions to achieve objectives in each of these areas were summarized in an extensive implementation matrix. Under the plan, Fund and Bank country teams discuss their country-level work programs, which identify macro-critical sectoral issues, the division of labor, and the work needed from each institution in the coming year. Also, the Bank and Fund have improved their information sharing at the country level, including technical assistance reports.

The JMAP called for an interim progress report to both managements after one year, with a full progress report to the Executive Boards of both institutions later in 2009. The interim progress report was submitted to both managements in November 2008. While noting many instances of good collaboration, the report highlighted scope for improvement. At the same time, and in light of the extensive restructuring underway at the IMF at the time (which was largely instituted after the JMAP had been prepared), the review recommended that future JMAP efforts focus more sharply on priorities and actions where they can do the most good. Consequently, Bank and Fund staff revised the original JMAP implementation matrix to enhance its relevance and to make it more operational by setting clear priorities, monitorable deliverables, and stronger incentives for the next year. Interim joint reviews have been instituted by a Bank Managing Director and Fund Deputy Managing Director to provide a clear signal of the priority placed by managements on good collaboration. A progress report to both Executive Boards is to be discussed after the October 2009 IMF/World Bank Annual Meetings.

Collaboration in the Context of the Current Crisis

The global economic crisis has required the staffs of the IMF and World Bank to step up their cooperation at a country level, using the architecture discussed above. The extensive cooperation between Bank/Fund staff in responding to the crisis provides some examples of how the collaboration architecture above has worked in practice. Below are three examples of recent country programs that highlight Bank/Fund collaboration in crisis response.

ARMENIA

Since late 2008, the Armenian economy has been severely impacted by the global crisis, notably the downturn in Russia. A sharp reduction in balance of payments inflows has been followed by a worsening fiscal position as revenue plummets. At the same time, economic activity is contracting, with real GDP expected to fall by about 10 percent in 2009. In this setting, Armenia’s financing needs have widened considerably.

Both the IMF and World Bank have responded quickly to Armenia’s needs. This work has followed the agreed division of labor, with the Fund covering monetary and exchange rate issues, fiscal aggregates, and financial sector stability, and the Bank focused on expenditure composition and efficiency, investment climate, employment generating activities through infrastructure lending, credit for small and medium enterprises (SMEs), and governance related-reforms. On taxation, the Fund has focused on tax administration and the Bank on customs, with both institutions collaborating closely.

In March 2009, the IMF approved an exceptional access Stand-By Arrangement of $560 million, augmented in June by about $260 million for general budget support in light of the deteriorating
situation. At the same time, the Bank fast-tracked a series of quick-disbursing IDA-financed projects for rural infrastructure and an SME credit line, and also approved a first $60 million development policy operation for budget support.

As the crisis was unfolding, the Bank and Fund teams worked closely to ensure that the program design, financing, sequencing of operations, technical assistance needs, and supporting policies (including social safety nets) were fully synchronized. The teams have collaborated closely to provide advice on appropriate countercyclical policies, with the authorities agreeing to maintain an open trade regime and limit direct support to industry. Both headquarters and field-based staff have routinely participated in the other institution’s meetings with the authorities, in part through parallel missions by World Bank and IMF country teams. Preliminary drafts of all documents are shared between the respective country teams. Both institutions have also participated in a governmental working group to discuss economic forecasts on a regular basis.

**Ghana**

In Ghana, macroeconomic imbalances emerged in 2007-08 on account of highly expansionary fiscal policies, which contributed to a doubling of inflation to 20 percent, a rise in the external current account deficit to 19 percent of GDP, a loss of official reserves, and exchange market pressures. The global financial crisis exacerbated these fiscal and external imbalances. The fiscal position was hit by slowing economic growth and revenue collections, while the external position was adversely impacted by loss of access to sovereign market funding and falling remittances and foreign direct investment.

Bank and Fund teams worked closely with the new government to develop a program that could receive funding from both the Bank and Fund. In February 2009, the Fund released one of its staff, a Ghanaian national fiscal expert, to assist the authorities; he was subsequently appointed Deputy Minister of Finance. In addition, a Fund mission, supported by the Bank, advised in the formulation of the 2009 budget. In late-April, the authorities requested Bank and Fund financing, and by end-May Bank staff had completed negotiations for a two-tranche development policy operation (the Economic Governance and Poverty Reduction Credit, EGPRC) of $300 million equivalent and an IMF mission had negotiated a program to be supported by a $600 million Poverty Reduction and Growth Facility (PRGF) arrangement; Board approval occurred on June 30 and July 15, respectively. Supporting the program design, the Fund fast-tracked three technical assistance missions on tax policy, revenue administration, and natural resource taxation. On the Bank side, the authorities were provided with detailed briefing notes on key areas of Bank engagement, and with proposals for accelerating project implementation.

The Bank’s lead economist participated as a full member of the Fund’s February budget mission, ensuring dialogue and coordination between the two institutions on key policy issues and the macroeconomic framework as well as providing inputs on the structural reform agenda, notably electricity, oil and gas, public sector reform and public expenditure. After the IMF and World Bank received funding requests, collaboration was close to ensure consistent and mutually-reinforcing programs, especially as the EGPRC was refocused in May 2009 on structural reforms critical to the success of the fiscal consolidation effort. Key areas of mutual interest were public sector and energy reform. In the former, the Bank has taken the lead in providing technical
assistance on reforming the public sector wage structure, while the Fund program focuses on
strengthening payroll monitoring systems. On energy policy, the Fund program focuses on
ensuring market-based, cost recovery pricing to avoid budgetary subsidies, while the Bank
EGPRC focuses on the plans for restructuring the energy utilities.

UKRAINE
With the intensification of the global financial crisis during the last quarter of 2008 a range of
pre-existing macroeconomic risks in Ukraine materialized including external financing risks,
banking sector vulnerabilities associated with the rapid credit growth, and terms-of-trade and
external demand vulnerabilities mainly related to the metallurgy sector (with steel prices and
demand collapsing) on the export side and the gas sector on the import side. Following many
years of high growth, GDP is expected to contract by 14 percent in 2009. The downturn comes
against the backdrop of a very difficult political environment.

The Ukrainian authorities were quick to request assistance from the IMF and World Bank. The
IMF Executive Board approved a $16.9 billion Stand-by Arrangement on November 5, 2008.
The first review of the 18-month program was completed on May 8, 2009 and a total of $7.3
billion has been disbursed so far. In the context of the program, the Fund has also been providing
technical assistance to Ukraine on a wide range of issues including tax administration, debt
management, bank recapitalization and resolution, monetary and exchange rate policies, private
sector debt restructuring, and central bank independence. Likewise, the World Bank stepped up
its activities in Ukraine around four key areas: (i) dialogue on key fiscal reforms such as
pensions, energy, social assistance, and tax policy to enable a re-orientation of budget spending
towards growth-enhancing expenditures while better targeting assistance to vulnerable groups;
(ii) banking sector recapitalization and resolution, as a key to financial stabilization; (iii)
structural reforms to enable business entry, export facilitation, and public sector reform to attract
private investment; and (iv) direct infrastructure investments as instruments of job and demand
creation. The first three areas of policy dialogue are being supported by budget support
operations (planned at $1.25 billion in 2009), and the fourth through project lending (planned at
roughly $1 billion in commitments in 2009-10).

The Fund and the Bank have been working very closely and productively on the banking, fiscal,
and structural reform agendas since the beginning of the crisis. Policy proposals on the fiscal
side were designed and discussed jointly by the Bank and the Fund teams, with the objective of
laying out a fiscal agenda that is appropriate for both the needed adjustment in the short term and
for structural reform that would help ensure sustainability and expenditure efficiency in the long
run. At the same time the proposals aimed at softening the shock for the most vulnerable
population. Following a diagnosis of the banking sector condition, the Fund and the Bank teams
designed together with the authorities a transparent framework to proceed with bank
recapitalization and resolution. Jointly the teams also helped the authorities to put in place
analytical, legislative, and administrative tools needed for these processes. More recently, and in
the context of the structural problems in the energy sector the Bank and the Fund teams have
jointly shaped a reform path, in consultation with the European Commission and other bilateral
stakeholders. The collaboration is expected to remain close in Ukraine where the financing and
advisory needs will likely remain large.
Managing Overlap

U.S. policy has sought to eliminate duplication of missions between the IMF and World Bank, by encouraging each institution to focus on its core mandate. For the IMF, we see that core mandate as primarily a question of supporting macroeconomic and financial stability through sustainable fiscal, monetary, exchange rate, and financial sector policies. On the other hand, the World Bank’s core mandate is to encourage poverty-reducing economic development through its provision of development assistance and policy advice. Along these lines, the U.S. was a strong supporter of the 2001 streamlining of IMF conditionality that sought to roll back the Fund’s drift into structural reform programs in areas where IMF macroeconomists have little experience or expertise.

Nevertheless, the interrelated missions of the two institutions will inevitably give rise to some natural areas of overlaps. Financial sector policy and public financial management reform are examples of areas where neither institution can, or should, be excluded. In situations such as these, U.S. policy has been to encourage a reasonable division of labor between the institutions (i.e., in financial sector policy the IMF focuses on managing systemic financial risks, while the World Bank concerns itself with structural reform and the development impact of the financial sector) and then to look for sustained collaboration across institutions.

Overlap between the two institutions is of particular concern in low-income countries, where World Bank budget support has a macroeconomic impact on fiscal and external sustainability and IMF concessional financing often provides fiscal financing (either directly or indirectly through the central bank) that is similar to budget support. To manage such situations, the U.S. supported a 2004 reform that requires an IMF assessment letter on macroeconomic policy for large World Bank budget support operations. On the IMF side, the U.S. has strongly advocated for a reform of the IMF’s concessional lending facilities that would move low-income countries away from prolonged use of IMF financing and make IMF assistance more episodic (e.g., in response to a terms of trade shock).

Considerable progress has been made in recent years in focusing the IMF on its core areas of expertise, particularly in its work in low-income countries. The IMF’s review of its conditionality in 2000 culminated in the Executive Board’s adoption of revised guidelines on conditionality in 2002 that stressed a sharper focus on core macroeconomic issues.\(^\text{11}\) In response to an Independent Evaluation Office review of structural conditionality, in 2008 the Executive Board adopted stricter requirements on structural conditionality, whereby IMF staff must provide a clear macroeconomic rationale for binding structural conditions.

II. IMF Oversight and Accountability

The U.S. continues to push for an IMF that is open, transparent, accountable for its actions, and reflects the current global economy. A number of key reforms in recent years have increased the IMF’s accountability.

Independent Evaluation Office

The Independent Evaluation Office (IEO) of the IMF was established in 2001 to conduct independent and objective evaluations of Fund policies and activities on issues relevant to the mandate of the Fund. The United States has been a strong advocate of the IEO since its inception, believing that independent evaluations are essential to achieving IMF accountability and improving the quality and effectiveness of IMF interventions.

The IEO is independent from IMF management and operates at arm’s length from the Board of Executive Directors. The IEO’s mission is to improve the IMF’s effectiveness by enhancing the learning culture of the IMF and enabling it to better absorb lessons for improvements in its future work; helping build the IMF’s external credibility by undertaking objective evaluations in a transparent manner; providing independent feedback to the Executive Board in its governance and oversight responsibilities over the IMF; and promoting greater understanding of the work of the IMF.

On average, the IEO concludes two or three evaluations per year, and each evaluation normally takes about 18 months to complete. Recent evaluations include IMF Involvement in International Trade Policy Issues (June 2009); Governance of the IMF: An Evaluation (May 2008); Structural Conditionality in IMF-Supported Programs (January 2008); IMF Exchange Rate Policy Advice, 1999-2005 (May 2007); and The IMF and Aid to Sub-Saharan Africa (March 2007).

The United States has strongly supported IEO consultation with the public in developing and executing its work plan. IEO evaluations rely on consultation with a variety of actors, including IMF staff, member country officials, international and regional organizations, market practitioners and other private sector participants, academics and representatives of civil society. In addition, IEO reports have, on occasion, encouraged a framework for the IMF’s interaction with outside participants. For instance, the IEO report on Aid to Sub-Saharan Africa called on IMF Management to “clarify expectations— and resource availabilities—for resident representatives’ and missions chiefs’ interactions with local donor groups and civil society.”

Transparency

Until the mid-1990s, the Fund published few of the reports prepared for the Executive Board. From 1994 onward, the Fund began authorizing the publication of an ever greater number of internal documents, beginning with background papers to surveillance reports and gradually extending this policy to country policy intention documents and all staff reports. However, as of 2001, public release of Article IV Staff Reports and IMF program documents was strictly voluntary, based on the member country’s consent.

With strong advocacy from the United States, the IMF made significant improvements to its transparency policy in the period from 2002-2003, culminating in a new transparency framework approved in 2004.¹⁸ The framework calls for the publication of the vast majority of Fund documents, subject in the case of country papers to the member country’s consent, regular reporting on ongoing trends on publication, and ongoing reviews of the policy itself. The Board will consider its next review of the IMF transparency policy late in 2009 and the IMF is currently seeking input on the transparency policy from civil society organizations, financial market participants, and academics.¹⁹

Release of Article IV Staff Reports is “voluntary but presumed.” Release of program documents is also “voluntary but presumed,” but the Managing Director will not seek Board approval for a PRGF program or HIPC debt relief unless the country has agreed to publication, and generally will not recommend approval of exceptional access to a program unless the country agrees to publish the related staff report. In practice, this means the vast majority of IMF program documents become part of the public domain. Countries retain the right to delete highly market-sensitive material prior to a document’s release.

Public Information Notes are published on all country issues, the vast majority of which are fair summaries of the Board discussion (but without attribution to individual speakers). Board minutes and summings up of Board meetings are available after 10 years.

At the time of the 2005 review of the IMF’s transparency policy, the Board asked for regular reporting on the trends in the implementation of this policy.²⁰ The February 2009 report demonstrates significant improvement: the percent of Article IV reports and program documents published has risen from 41% in 1999-2001 up to 87% in 2008. Every current IMF borrower has publicized its Staff Report. Moreover, Public Information Notices are now produced in 97% of Article IV discussions, up from 82%.

The IMF has also increased its engagement with civil society organizations in recent years as part of its focus on transparency and open dialogue. In 2003, the IMF released a Guide for Staff Relations with Civil Society Organizations to IMF staff that stressed the importance of incorporating civil society input into policy making at both the global and individual country level.²¹ At the global level, civil society views are regularly incorporated into IMF reviews of its

policies and lending practices (such as in the Civil Society Policy Forum – organized jointly with the World Bank during the Annual and Spring Meetings) to solicit ideas and input from civil society organizations. At the country level, IMF country teams make it a practice to meet with civil society organizations as part of their surveillance and program missions.

The United States was a strong advocate for transparency from the very start. The U.S. continues to support further progress, both in disclosure of basic surveillance documents and in more prompt publication of the Fund Board’s minutes.

We also have encouraged the Fund to reach out to ensure that external stakeholders’ voices are heard on IMF policy and country issues. We have taken note of NGO calls for the IMF to make draft policy papers and technical assistance (TA) reports public, and to engage in broader consultations with external stakeholders. The U.S. supported presumed dissemination of TA reports to donors and IMF Board members. We also supported public disclosure of TA reports, but getting a majority for that will be a longer-term effort. We have strongly advocated that the IMF consult with external stakeholders such as through outreach by the Fund’s Independent Evaluation Office. On country matters, we support IMF staff consultations with external stakeholders including legislatures and civil society, while recognizing that IMF staff resources are finite and that some country-specific policy consultations must necessarily be confidential.

**Anti-Corruption Efforts**

The IMF has established, revised and strengthened a framework to ensure that the Fund’s resources are used for their intended purposes. This framework includes a variety of components, including: Safeguards Assessments; Guidelines on Misreporting; Codes of Conduct for staff and Executive Directors; and whistleblower protections, including an Ethics Office and Ombudsman. The United States has frequently championed these improvements, using our voice at the IMF as well as through the G-7 and other consultations.

One of the IMF’s most effective tools against corruption is the Safeguards Assessment to prevent possible misuse of IMF resources and misreporting of information. All countries that request a loan from the IMF must agree to undergo a Safeguards Assessment. Its purpose is to identify vulnerabilities in a central bank’s control systems. IMF staff carry out this diagnostic exercise to consider the adequacy of five key areas of control and governance within a central bank: (i) the external audit mechanism; (ii) the legal structure and independence; (iii) the financial reporting framework; (iv) the internal audit mechanism; and (v) the internal controls system. The framework was introduced in March 2000 and reviewed in April 2005. As of mid-June, 2009, 169 Safeguard assessments have been completed.

Reliable and timely information is essential for all aspects of the Fund's work. Poor data can lead to inaccurate assessments, and inappropriate policy advice and program design. The Fund's "misreporting framework" is comprised of various provisions of its Articles of Agreement and policies. The principal pillars are (i) Article VIII, Section 5, which applies to all members and contains general requirements on the furnishing of information by members to the Fund, and (ii)

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the "Misreporting Guidelines" which address misreporting in the context of Fund arrangements. Other policies, such as those related to the use of HIPC resources, the Policy Support Instrument, and publication, also contain specific provisions on misreporting.

Several episodes of egregious misreporting in the late 1990s led the Fund to adopt a firmer stance on misreporting. In particular, the Misreporting Guidelines were amended to: (i) lengthen from two to four years the period during which the Fund may take action with respect to misreporting (the “limitation period”); (ii) subject reporting on specified prior actions to the Misreporting Guidelines; and (iii) grant waivers only on condition that the information provided to assess the performance criterion (or other relevant performance conditions) is accurate. It was also decided that all cases of misreporting would be made public. Countries misreporting information can also be required to pay back any disbursements of IMF financing received using falsified information within 30 days.

As the IMF works to promote good governance in its member countries, it has strengthened internal controls to prevent conflicts of interest. The Fund’s Code of Conduct for Staff dates from 1998, including financial certification and disclosure. A parallel Code of Conduct for Executive Board members dates from 2000 and was revised on December 12, 2003. In 2000, the Fund created the Ethics Office, with the Ethics Officer reporting directly to the Managing Director for no more than a five year term. The Ethics Officer provides advice to Fund staff on ethics and staff rules, promotes ethical awareness, and conducts confidential investigations into allegations of unethical behavior and/or misconduct. The Ethics Officer has prepared Annual Reports in 2007 and 2008 and they are available on the IMF’s external website.

In 2008, the Fund also established a confidential Integrity hotline for handling allegations of staff misconduct, whether on an anonymous or identified basis, and whether from internal or external sources. The hotline can receive reports via a telephone hotline or via the internet. Individuals who report suspected misconduct in good faith are fully protected from any form of retaliation.

**IMF Governance Reform**

The U.S. has repeatedly advocated quota reform to align country representation with global economic realities and to create a more streamlined, transparent method of determining quotas. Maintaining a strong voice for low-income countries has also been a priority for the U.S. In 2006, the U.S. endorsed a fundamental overhaul of quotas to better align the IMF’s governance structure with the rapid growth and increasing significance of dynamic emerging economies. Over the next two years, the U.S. continued to push for quota reform to provide emerging market countries greater representation, in line with their increasing weights in the global economy, and to protect low-income countries’ voice and vote. The U.S. also actively promoted a shift to a more modern and straightforward quota calculation.

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In April 2008, after protracted negotiations, the IMF membership reached agreement to reform IMF quotas. The 2008 IMF reform package includes (i) a new formula as the basis for determining country quotas, giving significantly more weight to GDP and thus better reflecting countries’ relative weights in the global economy; (ii) a tripling of the basic votes of each member, which will boost the voice of the poorest countries, and provide an additional Alternate Executive Director for two sub-Saharan African chairs in the IMF Executive Board to enhance these countries’ capacity for more effective representation, and (iii) a quota increase targeted at the most under-represented countries. Under the reform, 54 countries, including the United States, will be eligible for specified ad hoc increases in their quotas. The United States would have preferred a stronger reform then the result reached in 2008, and the Administration now is committed to seeking further quota realignment in the future.

A strong and effective IMF Executive Board is firmly in the interest of the United States and the international community. To improve the effectiveness of the IMF Executive Board, the U.S. has called for a smaller Executive Board, reducing the number of chairs in the IMF Board from 24 to 22 seats in 2010, and to 20 seats in 2012, while preserving the existing number of emerging market and developing country chairs. The U.S. has also advocated a more independent and strategic role for the Executive Board.