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REPORT

on the strategic review of the International Monetary Fund
(2005/2121(INI))

Committee on Economic and Monetary Affairs

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MOTION FOR A EUROPEAN PARLIAMENT RESOLUTION

on the strategic review of the International Monetary Fund (2005/2121(INI))

The European Parliament,

- having regard to Article 111(4) of the EC Treaty, which concerns the representation and position of the Community at international level in the context of economic and monetary union,
- having regard to the Commission proposal of 9 November 1998 for a Council decision on the representation and position taking of the Community at international level in the context of economic and monetary union (COM(1998)0637),
- having regard to the Presidency conclusions of the Vienna European Council of 11 and 12 December 1998,
- having regard to its resolution of 23 October 2001 on the international monetary system - how to make it work better and avoid future crises¹,
- having regard to its resolution of 3 July 2003² on the euro zone in the world economy and the developments that can be envisaged in the next few years,
- having regard to the report of 15 September 2005 by the Managing Director of the International Monetary Fund (IMF) on the Fund's Medium-Term Strategy³,
- having regard to the decisions of the G8 Finance Ministers' meeting of 11 June 2005 on the cancellation of debt for poor countries,
- having regard to Article 178 of the Treaty, on coherence between the policies that the EU implement which are likely to affect developing countries and development cooperation objectives,
- having regard to the Presidency conclusions of the Brussels European Council of 16 and 17 June 2005,
- having regard to the World Bank's World Development Report 2006,
- having regard to the communication from the Commission to the Council, the European Parliament, the Economic and Social Committee and the Committee of the Regions entitled 'Proposal for a joint declaration by the Council, the European Parliament and the Commission on the European Union Development Policy "The European Consensus"' (COM(2005)0311),

¹ OJ C 112, 9.5.2002, p. 140.

² OJ C 74 E, 24.3.2004, p. 871.

³ <http://www.imf.org/external/np/omd/2005/eng/091505.pdf>

- having regard to the UN Millennium Declaration of 8 September 2000 defining the Millennium Development Goals (MDGs) as criteria set by the whole international community with a view to the elimination of poverty,
 - having regard to its resolution of 12 April 2005 on the role of the European Union in the achievement of the Millennium Development Goals¹,
 - having regard to its resolution of 6 July 2005 on the Global Call to Action: Making Poverty History²,
 - having regard to its resolution of 17 November 2005 on the proposal for a Joint Declaration by the Council, the European Parliament and the Commission on the European Union Development Policy ‘The European Consensus’³,
 - having regard to Rule 45 of its Rules of Procedure,
 - having regard to the report of the Committee on Economic and Monetary Affairs and the opinions of the Committee on Development and the Committee on International Trade (A6-0022/2006),
- A. having regard to the changing role played by the Bretton Woods institutions since their inception, and their strategic mission to promote growth, development and financial stability; whereas there is a need to work towards an international monetary and financial system characterised by stability and solidarity,
- B. whereas the individual Member States’ weight in terms of their voting rights and quotas no longer accurately reflects their relative importance, and whereas the role played by the European Union – notwithstanding the size of its contribution to the capital of the Bretton Woods institutions – does not correspond to its weight in the world economy and in world trade,
- C. whereas the above-mentioned Presidency conclusions of the Vienna European Council of 11 and 12 December 1998, which reaffirm the IMF’s role as the ‘cornerstone of the international monetary and financial system’, under the heading ‘Europe as a Global Player – Speaking with one Voice’ note that ‘it is imperative that the Community should play its full role in international monetary and economic policy cooperation within fora like the G7 and the International Monetary Fund’ and call firstly for ‘The ECB, as the Community body competent for monetary policy, [to] be granted observer status at the IMF board’ and secondly for ‘The views of the European Community/EMU on other issues of particular relevance to the EMU [to] be presented at the IMF board by the relevant member of the Executive Director’s office of the Member State holding the euro Presidency, assisted by a representative of the Commission’, whereas Article 1 of the abovementioned Commission proposal of 9 November 1998 suggests that ‘in the context of Economic and Monetary Union, the Community shall be represented at international level by the Council with the Commission, and by the European Central Bank’,

¹ *Texts Adopted*, P6_TA(2005)0115.

² *Texts Adopted*, P6_TA(2005)0289.

³ *Texts Adopted*, P6_TA(2005)0446.

- D. whereas in particular the lack of coordination of the European Union and euro zone, combined with their representation fragmented among several constituencies, does not allow the Member States to exert influence on the IMF's decisions commensurate with their economic weight,
- E. whereas the IMF is responsible to its shareholders (namely, national governments) and it is the responsibility of those shareholders to be accountable in turn to their electorate,
- F. whereas the stabilisation policies implemented by the IMF have not always achieved the objectives hoped for and whereas stabilising economies too suddenly is likely to result in undesirable social adjustments; whereas the adjustment programmes which have been put in place require the involvement of all national actors and the monitoring of these programmes should be the subject of transparent democratic supervision,
- G. whereas it is hard to reconcile the principle of nations assuming their own responsibilities with the ever-increasing number of conditions placed on aid and debt relief measures; whereas these conditions have multiplied over the past few years and, on average, multilateral loans to sub-Saharan African countries are accompanied by no less than 114 conditions, nearly three-quarters of which relate to governance,
- H. whereas the IMF has come to play an important role in developing countries and has had to adapt accordingly; whereas, however, promoting development in the poorest countries calls for the mobilisation of new instruments to effectively reduce the stock of debt, as well as a search for innovative instruments to fund development and combat poverty in the context of the MDGs; whereas such action calls for a clear and more efficient division of roles among the IMF, the World Bank and the UN institutions as well as a high level of coordination and cooperation,
- I. whereas the abovementioned Presidency conclusions of the Brussels European Council of 16 and 17 June 2005 highlight the importance of 'tak[ing] account of development cooperation objectives in all policies that [the Community] implements which are likely to affect developing countries' and of 'taking into account the social dimension of globalisation in various policies and in international cooperation',
1. Considers that the IMF as an institution continues to play an important role in promoting balanced global economic growth and exchange rate stability, in facilitating international trade and member countries' ability to adapt to the global market place and in assisting member countries experiencing balance of payment difficulties;
 2. Welcomes the strategic review under way at the IMF; supports a re-orientation of IMF policies towards emphasising its core mandate of stabilising global exchange rate fluctuations and as a lender of last resort for countries experiencing serious balance of payment problems;
 3. Notes the profound changes which have taken place in the missions of the IMF since its inception and which have been accompanied by less significant changes in its governance; notes that, in spite of the successive revisions of quotas and of the system for uniform allocation of a package of basic voting rights, the allocation of capital and of voting rights has lagged behind other developments over the years; calls, therefore, on the

IMF, in the interest of its own legitimacy, to consider possible means of distributing the quotas and voting rights within its governing institutions in such a way as to make them more representative of the international economic situation and to enable more appropriate weightings to be given to the developing and emerging economies;

4. Points out that the main factors preventing the developing countries from having a voice in the IMF commensurate with the share of the world population they represent are the lack of votes on the Board of Governors (African countries, accounting for 25 % of the membership, have just over 4 % of the vote) and the lack of qualified human resources, technical and institutional capacity to participate in a meaningful way in deliberations and decisions;
5. Calls therefore for a revision of the voting system by increasing the number and the weight of the basic votes (currently representing less than 3 % of votes), which were originally introduced in order to ensure greater equality between members, a better balance in decision making and thus greater legitimacy of the IMF; also calls for the devising of a mechanism which would allow developing countries to increase their membership shares in the Fund, such as the setting up of a Trust Fund to finance member shares for the poorest countries;
6. Notes that the IMF has also extended its recommendations to matters outside the original macroeconomic field, into areas of structural policy, by means of recommendations whose wording impacts directly or indirectly on the conduct of policies on social protection, the right to work, health, the environment and education; notes that this development has clearly raised the issue of the boundaries between the competences of the various UN institutions and those of the World Bank;
7. Considers that, in view of the prerogatives of the IMF, its staffing should come to reflect more varied backgrounds, while ensuring continued excellence, so as to permit the IMF to make a decisive contribution to achieving the MDGs;
8. Notes that, due to the progressive opening-up of capital markets and the liberalisation of movement of capital, it is difficult to avoid the occurrence of financial crises; therefore underlines the need for the IMF to conduct systematic surveillance of all member countries;
9. Considers that the persistence of global imbalances in trade and exchange rates calls for a stepping-up of the IMF's surveillance role, which is important both in predicting and helping to reduce financial instability globally and in giving advice to individual countries on policies related to financial stability, economic growth, exchange rates and reserve accumulation; considers that the IMF can only conduct systematic surveillance and give advice on desirable actions to prevent the occurrence of financial crises if member countries disclose their complete statistics concerning, for instance, monetary reserves and volume of money in circulation, on a regular basis;
10. Considers that the aim of financial stability that forms part of the IMF's mission is made more difficult by the lack of global and transparent attention paid to the process of standardisation directly affecting the financial markets, to the implementation of that mission on a reciprocal basis or to its interpretation;

11. In the interests of parallelism with the WTO, calls on the European institutions responsible, in particular the Council and the Commission, to take the necessary measures to ensure that the eurozone or if possible the European Community is represented and votes as a single block and to facilitate the achievement of that objective as soon as possible as a transitional measure; urges the Member States to join together in an arrangement equivalent to a 'shareholders agreement' under company law that will guarantee that they form a single negotiating block;
12. Notes the IMF's role in integrating low-income countries into the world economy and stresses the interdependence of international trade, balance-of-payments problems, national development policies, regulations governing the labour market and public health services aimed at reducing poverty; sees a predominant role for the IMF in facilitating national pro-poor development strategies through lending that allows for greater flexibility in the monetary and foreign exchange policy of low income countries;
13. Calls on the Commission and Council to look with Parliament into the possibility of using the Lamfalussy procedure to define the position taken by the bodies authorised to speak on the Union's behalf in the various international bodies with responsibility in the financial sector;
14. Notes that the IMF's adjustment policies have sometimes failed to prevent crises from becoming infectious and recurring; regrets in this connection any failed efforts to promote economically-sound policies that prevent crises; recalls that inflation is not the only economic problem in developing countries and that IMF policies should be geared towards the objectives of macroeconomic stability and sustainable growth; suggests that conditionality should also be defined in the context of improved cooperation with the UN's specialist institutions and coordinated between international donors;
15. Notes that to go down the path of sustainable growth the existence of guaranteed macro-economic policies is essential; to that end, affirms that macro-economic stability is not incompatible with the fair distribution of growth;
16. Acknowledges that the conditions imposed by the IMF have in some cases been too rigid and not always consistent with specific local circumstances; nevertheless emphasises the need to put loans to good use, whilst considering the position of the recipient country's democratically-elected institutions;
17. Recognises the ongoing review of the conditions attached by the IMF to its loans to low-income countries; recommends that the review makes priority reference to poverty reduction as the goal of all IMF lending to low income countries;
18. Stresses that the principle of partner country ownership must be at the centre of development cooperation; therefore calls on the IMF to fully recognise, when considering conditions for lending, the priority to be given to poverty eradication and not to make in any way the achievement of the MDGs more difficult;
19. Advocates a gradual, sequential and stable liberalisation of the developing countries' financial systems, adjusted to take account of their institutional capacities, thus permitting the effective regulation and management of movement of capital;

20. Supports the view that the IMF should increase its focus on analysis of financial and capital market developments and the implications for both domestic and global financial stability;
21. Strongly believes that developing countries should not have to open up their markets fully and without restrictions to foreign imports and that they should be able to establish protection for certain industries for a limited period so as to permit a steady development; urges European Executive Directors in the Board of the IMF to make sure that remaining conditionalities do not pressure low income countries into unilateral opening of markets outside the frame of WTO negotiations or impede their capacities to negotiate, in the framework of WTO negotiations, of their own volition and on their own terms the degree of market opening to which they are ready to commit; also calls on the IMF to ensure an adequate degree of flexibility in implementing trade-related conditionalities so as to enable beneficiary countries to determine their own degree of market opening;
22. Calls on the IMF to continue its efforts to increase transparency and build an institutional structure conducive to its mission and the changing circumstances of international financial policy;
23. Emphasises the IMF's role in aligning European and national development policies aimed at tackling poverty by means of a comprehensive approach based on the idea that trade and monetary policies are not ends in themselves but a tool for tackling poverty;
24. Calls on the EU Member States to use the existing constituency system to ensure that the constituencies of which they are members forcefully promote a pro-development agenda based on reaching the MDGs by 2015, and that their constituencies give special attention to the technical and institutional weakness of the developing countries in the constituency and provide the necessary technical assistance to overcome them;
25. Calls for better coordination and greater coherence between the policies of the IMF, the World Bank, the WTO, the European Central Bank, other international organisations and the European Union, in particular as regards the instruments linking the various markets, such as the Integrated Framework, the Trade Integration Mechanism, the Poverty Reduction and Growth Facility and the recently adopted Policy Support Instruments (PSI), in order to ensure that open-market policies have a positive impact on poverty reduction; asks for more coherence between IMF programmes and the MDGs; draws attention in this context to the ambivalence in the position of the IMF which, although it is responsible for only one very specific aspect of public action, plays a leading, if not dominant, role in implementing the strategies pursued by all players; therefore considers that it is essential to create a structure for coordinating and even planning such strategies that involves all international stakeholders;
26. Strongly believes that the transparency of the IMF and of the allocation of its funds should be increased through strengthened parliamentary control by the member countries of the IMF;
27. Welcomes the IMF's emphasis on improving the levels of education and health in developing countries; stresses that increasing public expenditure together with improving governance, combating corruption and efficient use of resources, remains the surest way

to reduce inequality of access to goods and to fundamental rights such as health and education;

28. Insists that international financial stability can only be promoted if the reform of the IMF goes hand in hand with a sustainable budgetary policy and a well-adjusted balance of payments in every member country;
29. Notes the striking contrast between the degree of pressure which the IMF can bring to bear on the developing and transitional countries and its powerlessness to exert any significant influence on the policies of the industrialised countries, whose budgetary policy and balance of payments fail in part to fulfil the criteria established by the IMF and may therefore undermine international financial stability;
30. Welcomes the decision taken by the IMF and the World Bank to extend the experiment of the HIPC (Highly Indebted Poor Countries) initiative; notes the diverse effects of the HIPC programmes and the historical experiences of debt restructuring and debt cancellation; suggests that the IMF develop policies to avoid new debt crises in future;
31. Notes the new Debt Sustainability Framework of the IMF and the World Bank with regard to Low Income Countries (LICs); welcomes the fact that the new Framework aims to put debt at the centre of the international financial institutions' decision making process; regrets that the proposal as a whole does not come close to addressing the problem of long-term, real sustainability in terms of creating conditions for low income countries to attain the MDGs;
32. Welcomes the IMF's Poverty and Growth Facility (PRGF) programme in general terms but is concerned that in the PRGF the IMF continues to use the same rigid economic model and fails to recognise different macroeconomic frameworks; fears, therefore, that the much-hailed poverty focus of the PRGF will become largely discredited;
33. Supports the call by the UN Secretary-General at the 2005 High Level Dialogue on Finance for Development to redefine debt sustainability as the level of debt that allows a country to achieve the MDGs by 2015 without an increase in debt ratios, which requires greater complementarity between debt relief and outstanding development financing requirements; regrets therefore that in the new Debt Sustainability Framework for Low-Income Countries approved in April 2005, the IMF continues to define debt sustainability essentially in terms of export ratios (which is an unreliable predictor of debt sustainability for countries characterised by an extreme vulnerability to shock and steep fluctuations in export earnings), that it lacks realistic assessments of vulnerability and that there is no systematic analysis linking the benefits of the HIPC Initiative and the extra funds needed to achieve the MDGs;
34. Welcomes the initiatives taken both by the Bretton Woods institutions and by international bodies seeking to find innovative funding mechanisms to promote development and achieve the MDGs, in particular as regards combating poverty; welcomes the efforts made by the multilateral institutions to play their part in funding debt reduction in the context of the agreement concluded by the G8;
35. Encourages better cooperation between the IMF and the European Parliament and

national parliaments, especially in developing countries, in order to strengthen transparency, democratic responsibility and the legitimacy of the IMF and its policies;

36. Stresses the importance of regular contact between IMF Executive Directors and the national representatives of their countries of origin;
37. Instructs its President to forward this resolution to the Council and Commission, and to the IMF, the UN organisations, the ECB and the IMF governors of the EU Member States.

EXPLANATORY STATEMENT

I. Introduction - transformation of the IMF

The Articles of Agreement of the International Monetary Fund (IMF), created in 1944 under the Bretton Woods agreements, include among the IMF's objectives the following:

- to promote international monetary stability;
- to facilitate the expansion of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income;
- to promote exchange stability and to avoid competitive exchange depreciation;
- to lessen the degree of disequilibrium in balances of payments;

To achieve these objectives, the IMF:

- **monitors** the development of financial and economic policies, and **supplies advice** on economic policy;
- **lends** to Member States which are experiencing balance of payments problems, and **stimulates adjustment** and reform **policies** it regards as likely to correct the underlying problems;
- supplies governments and central banks with **technical assistance** in its areas of expertise.

This extremely ambitious programme shows the scale of the task which devolves on the IMF. In practice, through its role as lender of last resort, and in particular through the conditionalities associated with these loans, the IMF has become a major actor in the economic, financial and social policies of the world's poorest countries.

The developed countries remain covered by the Article IV multilateral surveillance system, and are always potential clients of the IMF in the event of a major financial crisis.

Today the IMF is faced with a legitimacy crisis resulting from two factors. The first relates to the nature and the increasingly wide scope of its recommendations and of the structural adjustment policies which it implements through the conditions attached to its loans. The second relates to the allocation of voting rights within the IMF, the under-representation of the emergent countries and the marginal influence of the developing countries. This adds up to a crisis of legitimacy which harms the reputation both of the IMF's operations and of the substance and impact of its policies.

The Bretton Woods system was originally intended to support growth by liberalising international trade while at the same time guaranteeing global financial stability through fixed exchange rates and limited and controlled capital flows. However, the 1972 agreement changed everything. Floating exchange rates replaced fixed ones, financial deregulation and

privatisation became widespread, initially in the OECD countries, and then elsewhere under IMF pressure through the conditions attached to its loans and its consultancy activity. There was an explosive growth in cross-border capital flows, as well as in financial speculation, leading to multiple financial crises. This contrasts starkly with the IMF's original role of maintaining international financial stability. It therefore appears essential to encourage the IMF to refocus its activities on the prevention and surveillance of financial crises.

Moreover, in applying the Washington consensus principles across the board to all Member States (numbering 29 in 1944, and 184 today), the IMF strayed outside the strictly macroeconomic field to take an interest in all public policies, including education, public health and regulation of the labour market, because of the influence on budgetary balance, and economic impact, which these policies have.

And yet there are specialist international organisations such as the ILO, the WHO, the UNDP, UNCTAD, the World Bank and many others with much greater expertise in these areas of IMF intervention. The policies ultimately pursued by the IMF's debtor countries follow its recommendations more closely than those of the specialised institutions, because the IMF – with its power to grant or refuse a loan, and thanks to the influence of its decisions on the whole donor and lending community – has at its disposal a powerful instrument in support of its policies which the other international organisations lack. This potential conflict between the standards issuing from the various international organisations is a source of incoherence and imbalance. In practice there is a hierarchy of norms at work in which the IMF's recommendations have the highest status of all the regulations and programmes implemented by international and multilateral institutions. Now that a global debate has been launched on the reform of global governance, we should question the legitimacy of this *de facto* hierarchy and push for a process whereby the IMF's action is refocused on its real area of expertise, while leaving the other international organisations to take the lead in their own fields.

II. Governance of the IMF

The IMF has no machinery for internal democratic parliamentary control, and lies outside the UN system, which is an admittedly imperfect but unique form of world democracy.

The debates which precede IMF decisions are thus confined to a restricted circle of experts, drawn mainly from the staff of the IMF itself, from finance ministries and central banks, often sharing the same kind of training and experience.

Then there is the IMF's decision-making procedure, based essentially on the principle of “one dollar one vote”, thus ensuring that the bulk of voting rights are reserved for the richest countries, headed by the USA.

This situation cries out for reform in many respects:

Firstly, we should look to see the IMF diversify in terms of the origin, training and expertise of its staff, so as to improve their understanding of the complexity of local situations and challenges.

Secondly, the IMF should considerably increase its transparency and step up its dialogue with NGOs and civil society.

Thirdly, the IMF should embark upon a new type of relationship with parliamentary assemblies, characterised by greater openness, dialogue and transparency. The need for this is particularly pressing in the indebted countries, since the essential negotiations between these countries and the IMF must not marginalise the democratic parliamentary debate – not only out of respect for democratic institutions but also to ensure that these countries can take charge of their stabilisation and development programmes, which is the only lasting guarantee of these programmes' being put into practice.

Finally, it is clear that in spite of successive reforms, the current distribution of quotas and voting rights is open to dispute. On the one hand the newly-industrialised countries, particularly those of Asia, feel they are insufficiently represented by a distribution which no longer reflects the reality of the world economic balance. On the other hand the indebted countries, many of them in Africa, find it impossible to make their voices heard on the IMF bodies, in spite of being the main interested parties in the decisions taken there.

III. The European dimension

With 17.11% of the votes, the USA is the leading force in the IMF, and has a right of veto in view of the special 85% majority needed to take the most important decisions. If the 25-state European Union were regarded as a member of the IMF, it would have 31.92% of the votes, exceeding the votes of the USA, would share the right of veto, and could even – under the terms of the Articles of Agreement – insist that the headquarters of the IMF be moved to Europe.

The reality of European influence in the debates of the IMF is in stark contrast to its apparent strength in arithmetical terms. Divided among several constituencies and bypassed by other fora (notably the G7), the EU has difficulty in making a genuine common or coordinated position heard within the IMF, in spite of the progress it has made in terms of economic, monetary and political integration.

Nevertheless, a coherent and audible European voice on the IMF is essential for the emergence of a genuine European development cooperation policy, and so that Europe can have some influence on changes in the international monetary and financial system.

In line with the spirit of the conclusions of the 1998 Vienna European Council, a gradual process of strengthening European coordination within the IMF should be embarked upon with the long-term objective of a single representation respecting the prerogatives of the Community institutions, notably the role of the Commission and the democratic scrutiny exercised by the European Parliament.

In the immediate future the European Parliament should step up its surveillance and monitoring of the policies of the international financial institutions. Initiatives which might be taken in this context include forming an ad hoc working party, and inviting representatives of these institutions – and of the European Union's position within them – to regularly attend Parliament's debates.

IV. The Millennium Development Goals

The Millennium Development Goals (MDGs) are the responsibility of the whole international community, including the IMF. This is why the IMF must continue the work it has already begun with the Poverty Reduction Strategy Paper (PRSP), placing development and the relief of poverty at the centre of its activities.

This involves a thorough-going transformation of the IMF's action towards the indebted countries. Firstly the countries themselves must take charge of their own development and poverty-reduction strategy, in other words they must form the basis for defining and implementing these strategies. Accordingly the conditionalities imposed by the IMF must be considerably scaled down. We must not forget that the true guarantee of good governance – which is a central theme of the conditionalities – is the proper functioning of democratic institutions, and that the fight against corruption need not always mean a reduction in public resources and in the sphere of intervention of the public authorities.

The relationship between the IMF, the other specialist international organisations and the donors needs to be clarified so that they will all operate in a coherent fashion towards the same end, namely the realisation of the MDGs.

Finally, the IMF's macroeconomic approach in relation to development strategies must become more flexible and less dogmatic. In particular, public expenditure devoted to health and education must stop being regarded purely and simply as drains on the budget to be reduced at all costs, and start being seen on the contrary as genuine investments in a country's human and economic development. Opening the country up to international trade must no longer be demanded as a *sine qua non*, and it must be possible to take account of other factors such as the need for customs revenue, often indispensable in the short term, and the need to protect certain emergent economic sectors on a temporary basis from the sudden impact of international competition. In meeting the objective of liberalising the financial sector, it must be possible to take account of the country's institutional capacity to establish an adequate regulatory and supervisory framework.

V. International monetary and financial stability

In accordance with its aims under the Articles of Agreement, the IMF's primary task is to preserve world monetary and financial stability. It is pertinent to ask whether this stability is today threatened principally by the risk of a balance of payments crisis in the poor and emerging countries, or whether the main source of instability does not rather lie with the major developed economies and their imbalances, notably the twin deficits of the USA.

The issue of how to adjust these global imbalances thus appears as a priority area for action by the international community and the IMF. And yet, beyond mere declarations and recommendations, we are still far from meeting our goal. A genuine global governance of monetary and financial stability, in terms of exchange rate stability, managed capital flows and prevention of major financial crises, has yet to be achieved.

27.1.2006

OPINION OF THE COMMITTEE ON INTERNATIONAL TRADE

for the Committee on Economic and Monetary Affairs

on the strategic review of the International Monetary Fund
(2005/2121(INI))

Draftsman: Jean-Louis Bourlanges

SUGGESTIONS

The Committee on International Trade calls on the Committee on Economic and Monetary Affairs, as the committee responsible, to incorporate the following suggestions in its motion for a resolution:

1. Welcomes the strategic review under way at the IMF; supports a re-orientation of IMF policies towards emphasising its core mandate of stabilising global exchange rate fluctuations and as a lender of last resort for countries experiencing serious balance of payment problems;
2. In the interests of parallelism with the WTO, calls on the European institutions responsible, in particular the Council and the Commission, to take the necessary measures to ensure that the eurozone or if possible the European Community is represented and votes as a single block and to facilitate the achievement of that objective as soon as possible as a transitional measure; urges the Member States to join together in an arrangement equivalent to a 'shareholders agreement' under company law that will guarantee that they form a single negotiating block;
3. Welcomes the IMF's role in integrating low-income countries into the world economy and stresses the interdependence of international trade, balance of payments problems and national development policies, regulations governing the labour market and public health services aimed at reducing poverty;
4. Recognises the ongoing review of IMF conditionalities attached to its loans to low-income countries; recommends that the review makes priority reference to poverty reduction as the goal of all IMF lending to low-income countries; urges European Executive Directors on the Board of the IMF to make sure that remaining conditionalities do not drive low-income countries to unilaterally open their markets outside the framework of WTO negotiations or restrict their freedom to negotiate on their own terms within the framework

of WTO negotiations the degree of market opening that they are willing to commit to;

5. Also calls on the IMF to ensure an adequate degree of flexibility in implementing trade-related conditionalities so as to enable beneficiary countries to determine their degree of market opening;
6. Emphasises the IMF's role in aligning European and national development policies aimed at tackling poverty by means of a comprehensive approach based on the idea that trade and monetary policies are not ends in themselves but a tool for tackling poverty;
7. Calls for better coordination and greater coherence between the policies of the IMF, the World Bank, the WTO, the European Central Bank and other international organisations and the European Union, in particular as regards the instruments linking the various markets, such as the Integrated Framework, the Trade Integration Mechanism, the Poverty Reduction and Growth Facility and the recently adopted Policy Support Instruments (PSI), in order to ensure that open-market policies have a positive impact on poverty reduction; asks for more coherence between IMF programmes and the Millennium Development Goals; draws attention in this context to the ambivalence in the position of the IMF which, although it is responsible for only one very specific aspect of public action, plays a leading, if not predominant, role in implementing the strategies pursued by all players; therefore considers that it is essential to create a structure for coordinating and even planning such strategies that involves all international stakeholders;
8. Encourages better cooperation between the IMF and the European Parliament and national parliaments, especially in developing countries, in order to strengthen transparency, democratic responsibility and the legitimacy of the IMF and its policies;
9. Calls on the Council to take the necessary measures to obtain more equity in voting power, especially concerning more balanced voting rights between rich and poor countries and adjusting the voting powers of emerging countries in a way that will more equitably reflect the current economic relations worldwide ;
10. Calls for the integration of the fight against corruption into all IMF policies in order to enhance its effectiveness.

PROCEDURE

Title	Strategic review of the International Monetary Fund		
Procedure number	2005/2121(INI)		
Committee responsible	ECON		
Committee asked for its opinion Date announced in plenary	INTA 4.7.2005	DEVE 4.7.2005	AFET 4.7.2005
Enhanced cooperation	—		
Draftsman: Date appointed	Jean-Louis Bourlanges 12.7.2005		
Discussed in committee	24.11..2005		
Date suggestions adopted	25.1.2006		
Result of final vote	for:	28	
	against:	0	
	abstentions:	0	
Members present for the final vote	Jean-Pierre Audy, Enrique Barón Crespo, Jean-Louis Bourlanges, Daniel Caspary, Christofer Fjellner, Béla Glattfelder, Jacky Henin, Syed Kamall, Sajjad Karim, Caroline Lucas, Erika Mann, Helmuth Markov, David Martin, Javier Moreno Sánchez, Georgios Papastamkos, Godelieve Quisthoudt-Rowohl, Bogusław Rogalski, Tokia Saïfi, Robert Sturdy, Johan Van Hecke, Daniel Varela Suanzes-Carpegna, Zbigniew Zaleski		
Substitutes present for the final vote	Margrietus van den Berg, Elisa Ferreira, Robert Goebbels, Antolín Sánchez Presedo, Frithjof Schmidt		
Substitutes under Rule 178(2) present for the final vote	Seán Ó Neachtain		

26.1.2006

OPINION OF THE COMMITTEE ON DEVELOPMENT

for the Committee on Economic and Monetary Affairs

on the strategic review of the International Monetary Fund IMF
(2005/2121(INI))

Draftsman: Anders Wijkman

SUGGESTIONS

The Committee on Development calls on the Committee on Economic and Monetary Affairs, as the committee responsible, to incorporate the following suggestions in its motion for a resolution:

1. Welcomes the strategic review under way at the IMF; supports a re-orientation of IMF policies towards emphasising its core mandate of stabilising global exchange rate fluctuations and as a lender of last resort for countries experiencing serious balance of payment problems;
2. Points out that the main factors preventing the developing countries from having a voice in the IMF commensurate with the share of the world population they represent are the lack of votes on the Board of Governors (African countries, accounting for 25% of the membership, have just over 4% of the vote) and the lack of technical and institutional capacity to participate in a meaningful way in deliberations and decisions;
3. Calls therefore for a revision of the voting system by:
 - increasing the number and the weight of the basic votes (currently representing less than 3% of votes), which were originally introduced in order to ensure greater equality between members, a better balance in decision making and thus greater legitimacy of the IMF;
 - devising a mechanism which would allow developing countries to increase their membership shares in the Fund, such as the setting up of a Trust Fund to finance member shares for the poorest countries;
4. Calls on the EU Member States to use the existing constituency system to ensure that the constituencies of which they are members forcefully promote a pro-development agenda based on reaching the MDGs by 2015, and that their constituencies give special attention to the technical and institutional weakness of the developing countries in the constituency

and provide the necessary technical assistance to overcome them;

5. Supports the call by the UN Secretary-General at the 2005 High Level Dialogue on Finance for Development to redefine debt sustainability as the level of debt that allows a country to achieve the MDGs by 2015 without an increase in debt ratios, which requires greater complementarity between debt relief and outstanding development financing requirements; regrets therefore that in the new Debt Sustainability Framework for Low-Income Countries approved in April 2005, the IMF continues to define debt sustainability essentially in terms of export ratios (which is an unreliable predictor of debt sustainability for countries characterised by an extreme vulnerability to shock and steep fluctuations in export earnings), that it lacks realistic assessments of vulnerability and that there is no systematic analysis linking the benefits of the Debt Initiative for Heavily Indebted Poor Countries (the HIPC initiative) and the extra funds needed to achieve the MDGs;
6. Stresses that the principle of partner country ownership must be at the centre of development cooperation; therefore calls on the IMF to fully recognise, when considering conditionalities for lending, the priority given to poverty eradication and not to make in any way the achievement of the MDGs more difficult;
7. Recognises the ongoing review of IMF conditionalities attached to its loans to low income countries; recommends that the review makes priority reference to poverty reduction as a key priority of all IMF lending to low-income countries; urges European members of the IMF Executive Board to make sure that remaining conditionalities do not drive low income countries to unilaterally open their markets outside the framework of WTO negotiations or restrict their freedom to negotiate on their own terms in the framework of WTO negotiations the degree of market opening that they are willing to commit to.

PROCEDURE

Title	Strategic review of the International Monetary Fund IMF
Procedure number	2005/2121(INI)
Committee responsible	ECON
Opinion by Date announced in plenary	DEVE 4.7.2005
Enhanced cooperation – date announced in plenary	
Drafts(wo)man Date appointed	Anders Wijkman 24.5.2005
Previous drafts(wo)man	
Discussed in committee	24.1.2006
Date adopted	26.1.2006
Result of final vote	+: 18 –: 0 0: 0
Members present for the final vote	Alessandro Battilocchio, Margrietus van den Berg, Danutë Budreikaitė, Marie-Arlette Carlotti, Koenraad Dillen, Filip Andrzej Kaczmarek, Maria Martens, Miguel Angel Martínez Martínez, Frithjof Schmidt, Jürgen Schröder, Anna Záborská and Mauro Zani.
Substitute(s) present for the final vote	Marie-Hélène Aubert, John Bowis, Linda McAvan, Manolis Mavrommatis, Anders Wijkman and Zbigniew Zaleski.
Substitute(s) under Rule 178(2) present for the final vote	
Comments (available in one language only)	...

PROCEDURE

Title	Strategic review of the International Monetary Fund		
Procedure number	2005/2121(INI)		
Basis in Rules of Procedure	Rule 45		
Committee responsible Date authorisation announced in plenary	ECON 4.7.2005		
Committee(s) asked for opinion(s) Date announced in plenary	INTA 4.7.2005	DEVE 4.7.2005	AFET 4.7.2005
Not delivering opinion(s) Date of decision	AFET 16.11.2005		
Rapporteur(s) Date appointed	Benoît Hamon 7.3.2005		
Previous rapporteur(s)			
Discussed in committee	29.11.2005	16.12.2005	
Date adopted	31.1.2005		
Result of final vote	unanimously		
Members present for the final vote	Zsolt László Becsey, Udo Bullmann, Ieke van den Burg, David Casa, Jan Christian Ehler, Elisa Ferreira, José Manuel García-Margallo y Marfil, Jean-Paul Gauzès, Robert Goebbels, Benoît Hamon, Gunnar Hökmark, Karsten Friedrich Hoppenstedt, Christoph Konrad, Kurt Joachim Lauk, Astrid Lulling, Gay Mitchell, Joseph Muscat, John Purvis, Alexander Radwan, Bernhard Rapkay, Eoin Ryan, Antolín Sánchez Presedo, Manuel António dos Santos, Peter Skinner, Margarita Starkevičiūtė, Ivo Strejček, Sahra Wagenknecht		
Substitutes present for the final vote	Pilar del Castillo Vera, Harald Ettl, Satu Hassi, Ona Juknevičienė, Werner Langen, Klaus-Heiner Lehne, Alain Lipietz, Sarah Ludford, Jules Maaten, Thomas Mann, Tobias Pflüger, Giovanni Pittella, Gilles Savary		
Substitutes under Rule 178(2) present for the final vote			
Date tabled – A6	1.2.2006	A6-0022/2006	