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Report to Congressional Committees

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INTERNATIONAL MONETARY FUND

Efforts to Advance U.S. Policies at the Fund

Accountability * Integrity * Reliability

GAO-01-214

Contents

Abbreviations

AFL-CIO	American Federation of Labor-Congress of Industrial Organizations
ILO	International Labor Organization
IMF	International Monetary Fund

GAO

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United States General Accounting Office
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Congressional Committees

In recent years, extensive congressional and public attention has been focused on the appropriate role of the International Monetary Fund in the international financial system. The Fund is the chief intergovernmental financial institution whose core mission is to promote monetary cooperation and exchange rate stability[1] and provide resources to Fund member countries that experience balance-of-payments difficulties.[2] Considerable attention has been given to how to define the Fund's mission, whether narrowly, to core issues as described in the Fund's charter, or more broadly, to address other concerns less traditionally in the Fund's purview. The Department of the Treasury has the lead role within the executive branch regarding U.S. policy toward the Fund. The U.S. Executive Director, who is appointed by the President, represents the United States at the Fund and pursues U.S. policy objectives through its vote in the Fund's Executive Board.[3]

[1] The Fund's mission is to promote exchange stability among member countries, maintain orderly currency exchange arrangements among members, and avoid competitive currency exchange depreciation.

[2] Balance-of-payments problems occur when a country has difficulty obtaining the financial resources needed to meet its payments to nonresidents.

[3] The Executive Board oversees the day-to-day business of the Fund. The Board is composed of 24 executive directors, who are appointed or elected by member countries or by groups of member countries. The President appoints, with the advice and consent of the Senate, the U.S. Executive Director to represent the United States on the Board.

As an international organization, the Fund in general is exempt from U.S. law. One of the ways in which the U.S. Congress endeavors to influence Fund policy is by passing legislative provisions or mandates that direct the Secretary of the Treasury to instruct the U.S. Executive Director to pursue specific policies or vote on certain programs or assistance within the Board of the Fund. We have identified 60 provisions of federal law that set forth U.S. policy toward the Fund. These mandates cover a wide range of policies, including issues considered core to the mission of the Fund, such as exchange rate policy, and emerging issues such as environmental policy. The legislation often directs Treasury to instruct the U.S. Executive Director to use its “voice” and/or “vote” at the Executive Board to bring about a policy change at the Fund. Most mandates instruct Treasury and the U.S. Executive Director to pursue a policy goal at the Fund but also provide some discretion in how to implement this instruction. However, some mandates are more directive in that they require in certain circumstances[4] that Treasury instruct the U.S. Executive Director to oppose (which in practice means to vote against or abstain from voting on)[5] a country’s Fund arrangement.[6] For example, the U.S. Executive Director is directed to oppose financial assistance for a country that has excessive debt service payments. (See app. I for more information on the 60 legislative policy mandates we identified concerning the Fund.)

[4] According to Treasury, the administration, along with previous administrations, believes that directed voting provisions, if construed as mandatory, are an impermissible intrusion on the President’s constitutional authority over the conduct of foreign affairs.

[5] Treasury interprets the term “oppose” to allow an absention or a no vote. According to Treasury officials, this interpretation is based on language in a 1977 House Conference Report regarding the International Monetary Fund mandate on human rights (22 U.S.C. 262d). In this report, the conferees stated their view that “the term ‘oppose’ can mean voting ‘no,’ voting present, abstention, or any other action other than voting ‘yes’”(H.R. Conference Report No. 95-363).

[6] In this report, we use the term “arrangement” to describe the broad concept of the financial assistance the Fund provides to countries and the associated conditions that are intended to address the underlying causes of the countries’ need for financial assistance. We use the term “program” to describe the conditions, which are the policy changes or reforms, as outlined in the documents countries prepare in the context of their receiving Fund assistance.

The Consolidated Appropriations Act for Fiscal Year 2000 (P.L. 106-113 sec. 504 (e)) requires GAO to report on the extent to which Fund practices are consistent with U.S. policies set forth in federal law. In order to address this requirement, we (1) identified how the U.S. Treasury and the U.S. Executive Director promote U.S. policies mandated by Congress for the Fund and (2) assessed whether Treasury and the Executive Director have been able to influence Fund operations and other members' policy positions in a direction that would be consistent with U.S. policy as set forth in law.[7] To help answer these objectives, we analyzed the process by which Treasury pursues its legislative mandates and conducted case studies of specific U.S. policies and Treasury's efforts to promote them for individual countries' Fund arrangements from 1998 through 2000.

The policy issues we selected for the case studies are (1) sound banking principles, (2) labor policies, and (3) audits of military expenditures.[8] These policies encompass issues that are both central to the traditional focus of the Fund's mission as well as issues that are not necessarily viewed by all Fund members as a core part of the Fund's mission. Further, these policies represent both "voice" and "directed vote" provisions.[9] For each policy issue, we reviewed Fund practices with respect to five member countries that we selected based on a number of factors, including geographic diversity; level of economic development; type of Fund arrangement,[10] if applicable; and range of issues connected to the policy concern. Specifically, we selected 12 countries for our respective case studies:

[7] Recognizing that influence by any member of the Fund is hard to discern in an organization that generally operates by consensus, for the purposes of this report we defined "influence" as the ability of the United States to affect Fund policies as contained in Fund programs, as well as the actions of countries using Fund resources.

[8] These policy issues are mandated in the following legislative provisions: (1) sound banking principles, 22 U.S.C. 262o-2 (Oct. 21, 1998); (2) labor policies, 22 U.S.C. 262p-4p (Aug. 23, 1994) and 22 U.S.C. 262o-2 (Oct. 21, 1998); and (3) audits of military expenditures, 22 U.S.C. 262k-1 (Sept. 30, 1996).

[9] In this report, we consider "voice" mandates to be those that direct Treasury to instruct the U.S. Executive Director to promote a policy goal at the Fund but stop short of explicitly directing the U.S. Executive Director to take a particular voting position. We use the term "directed vote" to refer to those mandates that require that the U.S. Executive Director take a specific voting position in certain circumstances.

[10] The Fund has a number of instruments that it uses to provide financial assistance to its member countries. The instruments differ with respect to their term length and lending rates, according to the nature of the balance-of-payments difficulty faced by borrowing countries and their level of economic development.

(1) for sound banking principles—India, Mexico, Romania, South Africa, and Thailand; (2) for labor policies—Argentina, Ghana, Kazakhstan, Mexico, and Thailand; and (3) for audits of military expenditures—Burkina Faso, Guinea-Bissau, Indonesia, Kazakhstan, and Rwanda. Since we focused primarily on Fund rather than country practices, we did not travel to any of these countries as part of this review. We spoke with Fund officials who monitor developments in these countries as well as with several executive directors of the Fund's Executive Board in Washington, D.C. (For more information on our scope and methodology, see app. VI.)

Results in Brief

In 1999, the U.S. Treasury established a formal process to systematically promote congressionally mandated policies toward the International Monetary Fund. Treasury created an internal task force that routinely seeks to advance legislative mandates by identifying opportunities for the United States to influence decisions through discussions with Fund and member country officials and formal statements to the Fund's Executive Board regarding members' programs and economic reviews. The process involves using the internal task force as a coordinating mechanism to increase awareness within Treasury of mandates that may be applicable to certain countries and of opportunities to provide early input to the U.S. Executive Director as part of the effort to promote U.S. policies. Because these legislative provisions direct Treasury to instruct the U.S. Executive Director to promote specific policies at the Fund, they are commonly referred to as "mandates." However, to varying degrees U.S. officials have flexibility in determining how best to promote a particular policy by, for example, taking into account the individual circumstances of each country when promoting specific policies. Our case study analyses show that Treasury and the U.S. Executive Director actively promoted U.S. policies related to sound banking principles, labor issues, and audits of military expenditures as required by the applicable legislative mandates, using the task force and other venues to identify opportunities to advance these policies where applicable to Fund members.

While Treasury and the U.S. Executive Director have had some influence over Fund policies, it is difficult to attribute the adoption of a policy within the Fund solely to the influence and efforts of any one member, because the Fund generally operates on a consensus decision-making basis. For example, although the U.S. Executive Director has been a strong advocate of the reforms called for within the "sound banking principles" mandate, it is hard to discern the U.S.' unique influence in promoting this policy, because other Fund members also generally support sound banking principles. Furthermore, the adoption or implementation of a policy at the Fund depends in large part on whether the Fund's members perceive the policy as being closely related to the institution's core mission as described in the Fund's charter, according to Treasury and Fund officials. For example, Treasury and the U.S. Executive Director have not had much success in incorporating labor standards issues within Fund programs, because core labor standards are not generally viewed by other Board members and staff as an essential part of a country's macroeconomic reform program. Moreover, legislative mandates that limit the discretion of U.S. officials have an uncertain impact on U.S. influence at the Fund. For example, although Treasury's pursuit of the audits of military expenditures mandate illustrates how this directed vote mandate has successfully increased pressure for countries to implement this U.S.-promoted reform, the mandate may have had a negative impact on the broader influence of the United States at the Fund. Some Fund members we spoke with questioned whether the United States promoted audits of military expenditures in certain countries simply because it is a legislatively mandated directed vote and not because it is among the most important issues confronting that country. In these members' view, such limitations on an executive director's discretion run counter to the consensus decision-making approach of the Fund. Therefore, while U.S. officials we spoke with said they are pleased with the progress realized through their pursuit of the mandate, they see a risk to U.S. credibility when they must emphasize one issue over other pressing matters that a country may be confronting.

Background

The International Monetary Fund is a cooperative, intergovernmental, monetary and financial institution, and as of November 2000, it had 182 members. As part of the Fund's mission to promote financial cooperation among its members, the Fund may provide financial assistance to countries facing actual or potential balance-of-payments difficulties that request such assistance. The Fund's approach for providing financial assistance to its members has two main components—financing and conditionality—that are intended to address both the immediate crises as well as the underlying factors that contributed to the difficulties. The access to and disbursement of Fund financial assistance are conditioned upon the adoption and pursuit of economic and structural policy measures the Fund and recipient countries negotiate. This Fund "conditionality," usually in the form of performance criteria and policy benchmarks,[11] aims to alleviate the underlying economic difficulty that led to the country's balance-of-payments problem and ensure repayment to the Fund.

The Fund's general framework for establishing a financial assistance arrangement is applied on a case-by-case basis that considers each country's individual circumstances. The Fund and the recipient countries negotiate conditions for receiving Fund assistance that include a variety of changes in a country's fiscal, monetary, and structural policies. Over the course of the arrangement, Fund staff and country officials periodically review the program's status, and Fund staff determine whether or not the country has made satisfactory progress with respect to meeting the program's conditions. In addition to providing financial assistance, the Fund conducts surveillance and provides policy advice regarding members' economic policies as they relate to their overall external payments position. Article IV of the Fund's charter provides that all members undergo a consultation process with the Fund as part of the surveillance effort; these reviews are usually conducted on an annual basis.

[11] Performance criteria are clearly observable and measurable indicators that a country is making progress toward reaching the overall goals of its Fund program, such as strengthening the balance-of-payments and reducing inflation. Members generally must meet performance criteria to qualify for financial disbursements under a program. Benchmarks are points of references against which progress may be monitored, but Fund disbursements are not dependent upon meeting these benchmarks. Benchmarks are not necessarily quantitative and frequently relate to structural variables and policies, such as tax reform and privatizing state-owned enterprises.

Treasury Uses a Systematic Process to Promote Mandates Based on Countries' Circumstances

The Treasury has instituted a systematic process for applying legislative mandates concerning the Fund to individual countries, based on their economic circumstances. This process, adopted in 1999, uses a task force to facilitate coordination between Treasury and the U.S. Executive Director and to identify early opportunities to influence decisions regarding Fund members' programs and economic reviews. Generally, Treasury and the U.S. Executive Director's office pursue the mandates that are most relevant to the particular circumstances of a given country, because they believe that this is where they can have the greatest impact and success in influencing Fund members. Our case study analyses show that Treasury and the U.S. Executive Director have actively promoted U.S. policies related to sound banking principles, labor issues, and audits of military expenditures as required by the applicable legislative mandates, through their discussions with Fund and member country officials and formal statements to the Fund's Executive Board.

The Treasury Has a Systematic Process to Review Mandates

In response to the growing number and complexity of legislative mandates concerning the Fund, Treasury has created a formal process to advance U.S. objectives at the Fund. Specifically, in March 1999 Treasury set up the *Task Force on Implementation of U.S. Policy and Reforms in the International Monetary Fund*. The task force was designed in part to increase awareness among Treasury officials of the importance of the mandates and identify opportunities to provide early input to the U.S. Executive Director to advance U.S. objectives toward the Fund. Treasury recognized the need to strengthen its efforts to routinely review and coordinate how mandates may apply to countries, because previously it had used an ad hoc approach of addressing mandates that relied heavily on Treasury officials' own initiative to be cognizant of mandates.

Under its new process, Treasury disseminates information on the mandates to all officials working on Fund matters and also makes reference material on the mandates easily accessible electronically. In addition, representatives from Treasury offices who work on Fund matters, and a representative from the U.S. Executive Director's office, meet every 2 weeks as the task force to discuss how Treasury and the U.S. Executive Director can best apply mandates, given countries' economic circumstances. In between these meetings, Treasury and U.S. Executive Director officials also coordinate to formulate and implement U.S. objectives at the Fund. (A detailed description of Treasury's process for pursuing legislative mandates concerning the Fund is provided in app. II.)

Treasury and U.S. Executive Director officials use a variety of means to pursue legislative mandates as part of their efforts to achieve U.S. policy objectives within the Fund. For example, on a regular basis the U.S. Executive Director makes oral and written statements to the Fund's Executive Board to make Board members aware of U.S. policy objectives regarding requests from countries for new programs, Fund reviews of existing programs, and regular Fund reviews of all members' economic policies. In addition, to build support for U.S. policy goals, U.S. officials also discuss U.S. policy objectives informally with other executive directors, Fund management and staff, and occasionally country authorities, particularly when the Fund is involved in negotiating with countries about financial arrangements. U.S. officials also attempt to build support within the broader political arena to achieve U.S. objectives at the Fund. According to the U.S. Executive Director, a large part of advancing any policy issue is to reach a "critical mass" of support among other countries for a particular policy. Therefore, for some policies the dialogue necessary to reach an international political consensus also takes place outside of the Fund in other international forums.

Treasury's Process Considers a Country's Circumstances When Applying Mandates

Since the legislative provisions direct Treasury to instruct the U.S. Executive Director to promote specific policies at the Fund, these policies are often referred to as "mandates." However, to varying degrees U.S. officials have flexibility in determining how best to promote particular policies at the Fund. This flexibility generally allows Treasury and the U.S. Executive Director to take into account the individual circumstances of each country when promoting specific policies. This is especially true of mandates that do not involve directed votes, as is the case for most of the legislative mandates that concern the Fund. Treasury officials told us they promote such mandates for each country on a case-by-case basis, using their knowledge and judgment to decide whether an individual mandate is most relevant for a country and, moreover, whether a particular time is appropriate for advancing a mandate given a country's economic circumstances. Countries that approach the Fund for financial assistance often face multiple economic problems, and Treasury prioritizes how best to address these problems. According to Treasury and U.S. Executive Director officials, the U.S. message can be made more compelling and effective when priorities are set based on country circumstances, taking into consideration the range of problems that can be manageably addressed at one time.

However, some legislative mandates that pertain to the Fund are more prescriptive in nature. According to Treasury's Office of the General Counsel, Treasury and the U.S. Executive Director are more constrained in the degree of flexibility they have to implement these mandates because they usually direct the U.S. Executive Director to oppose (which in practice means to vote against or abstain from voting on) a financial arrangement or Fund disbursement when a country meets or does not meet certain criteria. Examples include when a country has what is considered excessive external debt service payments or has been determined by the President to violate religious freedom. The directed nature of these mandates compels Treasury and the Executive Director to promote them regardless of whether they believe it is an appropriate time to do so given a country's overall circumstances.

Case Study Results Show U.S. Officials Promoted Policies as Required by Legislation

From 1998 through 2000, Treasury and U.S. Executive Director officials actively promoted the policies we reviewed in our case studies—sound banking principles, labor standards, and audits of military expenditures—as required by the applicable legislative mandates, by identifying opportunities to influence Fund members' program and economic reviews. For each policy, Treasury and U.S. Executive Director staff worked together to prioritize the issues that should be raised for each country. They then promoted those policies that they viewed as most relevant for the countries we reviewed, given the country's economic and political circumstances. For example, in a 1999 statement to the Fund's Executive Board in support of a new program for Kazakhstan, the U.S. Executive Director urged Kazakhstan both to ensure that any reforms to its labor code be consistent with internationally recognized labor standards and to consult with the International Labor Organization[12] on this matter. Also, for a country that did not have a financial arrangement with the Fund, such as India, but where Treasury had prominent banking sector concerns, the U.S. Executive Director repeatedly highlighted U.S. concerns in statements to the Board during the Fund's regular reviews of India's economic policies.

If Treasury determines through its analysis that a policy is not a major concern relative to other priorities for an individual country, it is not

[12] The International Labor Organization is a specialized agency of the United Nations that traditionally has addressed labor issues. Created in 1919, this organization has a mandate to improve working conditions and living standards for workers throughout the world. It currently has 174 member countries.

pursued at that time, unless it is a directed vote mandate. For example, until recently, Treasury determined that adherence to labor standards was not a major concern in Ghana relative to other problems Ghana faces as a poor country.[13] According to a Treasury official, developing countries like Ghana typically lack an industrial base large enough for the protection of workers' rights to be a major issue. In poor countries, labor issues, such as abusive child labor, are more likely to reflect human rights concerns than economic ones and thus are more difficult for the Fund to address.

Difficult to Discern U.S. Unique Influence Over Fund Policies

Our case study analysis indicates that while Treasury and the U.S. Executive Director have had some influence over Fund policies, it is difficult to attribute the adoption of a policy within the Fund solely to the influence and efforts of any one member, because the Fund generally operates on a consensus decision-making basis. Furthermore, the Fund's willingness to adopt policy positions that are consistent with U.S. legislatively mandated policies is affected by whether a majority of Fund members perceive a given policy to be part of the Fund's core mission to promote monetary cooperation and currency exchange rate stability and to provide resources to Fund members experiencing balance-of-payments problems. Moreover, mandated policies that constrain the U.S. Executive Director's discretion may increase pressure on countries to implement specific U.S.-promoted reforms but may have a negative impact on the broader U.S. influence at the Fund by limiting the ability of U.S. policymakers to consider the overall circumstances confronting countries.

Core Policies

While Treasury and the U.S. Executive Director have actively promoted sound banking principles at the Fund, it is difficult to discern the unique influence of the United States because of the general agreement within the Fund that strengthening members' banking sectors is part of the Fund's core mission. Moreover, since the Fund's Executive Board generally operates on a consensus basis in making decisions, it is hard to distinguish the U.S.' influence within the Fund from that of other members. In recent years, partly in response to economic crises faced by Mexico in 1994-95 and several Asian countries in 1997-98, the Fund increased its emphasis on

[13] In an August 2000 statement to the Fund's Executive Board, the U.S. Executive Director urged Ghanaian authorities to move forward with new draft labor legislation, which Treasury's labor specialist identified as conforming to International Labor Organization standards.

strengthening banking and banking supervision as part of members' programs. Fund members now see a close interrelationship between weaknesses in a country's banking system and the susceptibility of that country to financial shocks. Moreover, the Fund now realizes that encouraging countries to have a strong framework of financial regulatory policies and institutions is key to maintaining macroeconomic stability, according to Fund officials we interviewed.

As a result, according to Treasury and Fund officials, strengthening a country's banking sector has been promoted irrespective of any U.S. legislative mandate because it is now considered an important part of both Treasury and the Fund's ongoing work. Treasury and the U.S. Executive Director have generally been in agreement with the Fund's approach for pursuing these reforms, and the U.S. Executive Director has been viewed by Fund officials as a strong advocate among many supporters for the Fund's involvement in this area. (For more information about Treasury and U.S. Executive Director efforts to promote sound banking principles with the Fund, see app. III.)

The challenge to Treasury and the U.S. Executive Director, amid widespread member support for sound banking principles, has been in deciding how to influence what the Fund emphasizes within a country's overall banking reform agenda. Given the complexity of banking issues and the difficulty in addressing banking reforms, especially reforms that require legal changes, there may occasionally be disagreement among the Board members on the pace of reform of the banking sector in a particular country, according to some executive directors. Nevertheless, we did not identify evidence of disagreement on the importance of pursuing sound banking policies for the five countries we reviewed, making it difficult to distinguish the U.S. Executive Director's overall influence from those of other members in this area.

Noncore Policies

In contrast, Treasury and the U.S. Executive Director have found it more difficult to advance some mandated policies, such as those promoting the adherence to the five internationally recognized core labor standards[14] or the adoption of environmental protection policies,[15] because, according to Treasury and Fund officials, these policies do not directly relate to the Fund's traditional mission. For example, some Fund officials believe that in individual country circumstances, core labor standards issues are not central to the economic problems causing the countries' macroeconomic difficulties. Instead, the Fund views these policies as more closely related to the work of the International Labor Organization or the missions of other international financial institutions, such as the World Bank. The Fund views the mission of these institutions to be more focused on problems stemming from microeconomic, sector-specific concerns within countries.[16]

According to a labor policy specialist at Treasury, the Fund's reluctance to consider labor standards within the scope of its work is due in part to conflicting academic literature on whether certain labor standards have beneficial or detrimental effects on economic growth. Conventional economic theory treats certain social policies, such as labor and environmental standards, as government interventions that can inhibit the efficient operation of the markets and, in turn, overall economic growth. According to this Treasury official, since most Fund staff and country representatives are trained as economists, they are reluctant to pursue policies that their training tells them could be counter to the Fund's goal of encouraging economic growth. As one Executive Director at the Fund expressed, the implication of promoting stronger social standards in a country is higher unemployment. If the choice is between workers being employed under less than ideal labor conditions or not having them work at

[14] These standards are (1) the freedom of workers to associate with one another, (2) the right to organize and bargain collectively, (3) the prohibition of exploitative child labor, (4) the prohibition of forced or compulsory labor, and (5) the protection against discrimination in employment.

[15] For example, 22 U.S.C. 286ll requires that Treasury instruct the U.S. Executive Director to encourage the Fund to make further progress toward environmentally sound policies and programs and incorporate environmental considerations into all Fund programs.

[16] Although the promotion of labor standards is not usually part of a Fund program, in certain countries the Fund has focused on increasing the flexibility of members' labor markets. Such conditions have been viewed by some as possibly counter to the goals of the U.S. labor standards mandate.

all, the Executive Director favored having the workers be employed and earning income.

While Treasury and the U.S. Executive Director have made special efforts to advance U.S. policy on core labor standards at the Fund, they have found it challenging to convince other members that consideration of labor standards fits within the Fund's work. Despite the resistance at the Fund to the labor standards policy, the U.S. Executive Director has tried to build support for this policy by discussing it with individual executive directors who may be receptive to including this issue in Fund programs. In addition, the U.S. Executive Director has noted in statements to the Executive Board the importance of labor concerns in particular countries. For example, on several occasions the U.S. Executive Director has expressed concern over inadequate attention given to protecting labor standards in reviews of Mexico's Fund program. Specifically, these statements noted the need to protect the freedom of workers to associate and bargain collectively and to prevent gender discrimination while Mexico was undertaking reforms to modernize its labor market. Likewise, in commenting on Thailand's program at the Executive Board, the U.S. Executive Director urged Thai authorities to bring their labor laws into compliance with international standards and address complaints concerning legal restrictions on the rights to unionize and bargain collectively for employees of state enterprises. Despite these and other statements by the U.S. Executive Director in support of labor standards, we did not find evidence that the Fund has sought to have the adherence of labor standards specifically incorporated as a structural benchmark or performance criterion within a program.[17] (The Treasury's and the U.S. Executive Director's efforts to promote labor policies at the Fund are described in more detail in app. IV.)

[17] The fact that a policy is not immediately accepted at the Fund does not mean that it will not become accepted over time. According to the U.S. Executive Director, sometimes it is the cumulative effect of many efforts that finally achieves results in advancing U.S. policy objectives. Gradually, through many debates and Board discussions, a change can take place in sentiment among members as they begin to support these policies. An example is the effort to increase transparency, that is, the amount of information publicly available about Fund operations and its lending to member countries. Treasury and U.S. Executive Director officials told us that the United States and a few other members pushed very hard over a number of years before other members changed their views and supported increased transparency at the Fund. Good governance, including ensuring rule of law, improving the efficiency and accountability of the public sector, and tackling corruption, is another example of a policy that was not considered part of the Fund's core mission but in recent years has become an increasing focus of the Fund's work. Increased transparency and good governance are both the subjects of U.S. legislative mandates.

In certain circumstances, Treasury and the U.S. Executive Director have had difficulty reaching consensus on how adherence to core labor standards best fits into the Fund's work and how to effectively advance U.S. policy on labor issues at the Fund. For example, in March 2000, a Treasury official recommended that the U.S. Executive Director ask the Fund to report on the state of collective bargaining, union organization, and labor and management relations in Argentina, especially in the context of the U.S. Executive Director's and the Fund's recommended labor reforms in that country. However, the U.S. Executive Director did not raise this point because concerns were advanced that such a review of the Argentine labor market was beyond the Fund's expertise.

To help address these ongoing challenges, Treasury has developed two documents since April 2000. One is a reference document outlining economic arguments for the relevance of labor standards to the Fund's work for use by U.S. officials in their discussions with Fund members. The other is a document that sets out guidelines on how Treasury should advance U.S. policy on labor standards at the Fund through the U.S. Executive Director's office. Treasury adopted these guidelines in November 2000, after several months of internal debate during which senior Treasury policy officials were consulted to settle differences of view among staff-level officials. According to Treasury officials, the guidelines clarify U.S. policy objectives and legislative obligations concerning labor standards to facilitate Treasury's efforts to provide the U.S. Executive Director with timely and effective input.

Directed Vote

The impact of directed vote mandates on U.S. influence at the Fund is uncertain. By limiting the discretion of the U.S. Executive Director, such mandates may increase pressure for countries to implement U.S.-promoted reforms but may have had a negative impact on the broader U.S. influence at the Fund by limiting the ability of U.S. policymakers to consider the overall circumstances confronting countries. This tradeoff is demonstrated by the audits of military expenditures mandate. Specifically, this mandate directs the U.S. Executive Director to oppose (which in practice means to vote against or abstain from voting on) any loan or utilization of funds for countries that do not have a functioning system for conducting an audit of military spending and reporting the results to a civilian authority. On the one hand, U.S. efforts to advance the mandate have successfully increased pressure on countries to make their military audit systems conform to the mandate's requirements. On the other hand, the constraints the mandate places on U.S. officials may negatively affect U.S. credibility at the Fund, according to Treasury, U.S. Executive Director, and Fund officials. For example, the mandate has required Treasury and U.S. Executive Director officials to raise military audit concerns when they otherwise may not have chosen to do so because of the overall circumstances confronting the country. As a result, other Board members expressed the view that the United States may at times promote the issue primarily because it is a legislative requirement and not because it is the most appropriate for the borrowing country at that time.

U.S. efforts to promote audits of military expenditures and influence the Fund have met with some success. Several countries we examined improved their military audit systems, partly in response to the threat of U.S. opposition to their Fund programs. All of these countries had a financial arrangement with the Fund where the U.S. directed vote could be applied.[18] Although U.S. opposition to a Fund arrangement does not, on its own, prevent a country from having access to Fund resources,[19] countries strive to avoid having the Fund's largest member register such opposition, according to an official in the U.S. Executive Director's office. For example, following the threat of U.S. opposition to their receipt of resources under their Fund arrangement, both Burkina Faso and Rwanda took steps to improve their military audit processes or accelerated efforts to conform to the U.S. mandate.[20]

[18] For this case study, we chose five countries that have financial arrangements with the Fund because the directed vote is only applied to countries with such arrangements. In 1999, U.S. officials deemed 22 countries as noncompliant with the mandate; of these, only the 5 countries we selected have had a financial arrangement with the Fund since the mandate went into effect. Four of the five countries we reviewed have become compliant. However, while Treasury and the U.S. Executive Director have pursued the mandate with several additional countries, only 1 of the other 17 countries that were originally deemed noncompliant and that have not had a financial arrangement with the Fund has become compliant as of November 9, 2000.

[19]Approval of the use of Fund resources requires the acceptance by a simple majority of the votes cast of the Executive Board. Since the U.S.' share of voting power represents about 17 percent of the total, the United States cannot unilaterally block the approval of a country's program.

[20] It should not be concluded that U.S. leverage is always this evident when a mandate requires a directed vote. According to a Treasury representative, the importance of the issue has been generally agreed to within the Fund. In contrast, the U.S. Executive Director at the World Bank routinely opposes loans to countries due to several additional directed vote mandates, including those pertaining to human rights, the environment, and nuclear nonproliferation. According to an official from the World Bank's U.S. Executive Director's office, the routine nature of the U.S. opposition has blunted its impact and has not necessarily led to any change in countries' policies.

U.S. efforts to advance the mandate have been successful in four of the five countries we reviewed in part because the Fund has agreed that military audits are important for countries where military spending is not transparent or where there is suspicion that the country may have high levels of hidden, off-budget spending for the military. Prior to Treasury's implementation of the mandate in 1999, the Fund already viewed excessive and unproductive spending by the military as having an adverse impact on individual countries' overall macroeconomic stability. Generally, the Fund does not require countries to perform annual audits of military spending. Fund members we spoke with generally agreed that the auditing and transparency mechanisms promoted by the mandate could potentially bring important information regarding military spending to the attention of donors. The Fund's agreement on the importance of audits of military expenditures is part of a broader campaign to improve the transparency and management of public finances. This has made it easier for the U.S. Executive Director to promote this mandate than, for example, the core labor standards mandate.

Treasury and U.S. Executive Director officials are pleased with the progress that has been made in bringing several countries that are under a financial arrangement with the Fund into compliance with the mandate's requirements. However, at the same time, several of these officials are concerned that the lack of discretion that the mandate gives the U.S. Executive Director can have negative consequences. For example, the mandate required Treasury and U.S. Executive Director officials to raise audits of military expenditures concerns with Indonesia, when they otherwise might not have chosen to do so, given the overall circumstances confronting the country. In their view, the economic and political turmoil that the country has faced in recent years has presented more pressing reform priorities than the improvement of the audit of its military expenditures. Nevertheless, Treasury and the U.S. Executive Director were compelled by the directive nature of the mandate to make this a high priority issue with the country. This lack of discretion could also result in U.S. opposition to a program that it believes should be endorsed. For example, the U.S. Executive Director was compelled to abstain from voting to make a financial disbursement for Rwanda's program because Rwanda was not yet in full compliance with the standards set forth in the military audit mandate. This occurred despite Treasury's knowledge that Rwanda would become compliant with the mandate shortly, and, in Treasury's judgment, was making satisfactory progress in implementing economic reforms and improving fiscal transparency. Other Fund Board members questioned whether the U.S. Executive Director pursued military audit concerns because of the legislative requirements and not necessarily because it was most appropriate for these countries at the time. These Board members noted that limitations on an executive director's discretion run counter to the consensus decision-making approach of the Fund. Therefore, while Treasury and U.S. Executive Director officials agree with the intent of the mandate, they see a risk to U.S. credibility when Treasury and the U.S. Executive Director must emphasize an issue over other pressing matters that a borrowing country may be confronting. (See also app. V for more information on Treasury and U.S. Executive Director officials' efforts to advance this mandate.)

Agency Comments and Our Evaluation

We received written comments on a draft of this report from the Department of Treasury, which are reprinted in appendix VII. Treasury's comments characterized the report as a thorough and balanced appraisal of the administration's efforts to advance in the Fund policies set out in U.S. legislative mandates. Treasury said that the report helps illustrate the risk that legislative mandates can at times weaken its ability to promote in the Fund the very objectives that the mandates aim to achieve. Treasury also states that the continued expansion of legislative mandates by Congress, without consolidating the provisions already in effect, risks overloading and thereby weakening its policy message and influence at the Fund.

Treasury and the International Monetary Fund separately provided technical comments that GAO discussed with relevant officials and included in the text of the report, where appropriate.

We are sending copies of this report to other interested committees; the Honorable Paul H. O'Neill, Secretary of the Treasury; the Honorable Horst Köhler, Managing Director of the International Monetary Fund; and other interested parties. Copies will also be made available to others upon request.

Please contact me at (202) 512-4128 if you or your staff have any questions concerning this report. Another GAO contact and staff acknowledgments are listed in appendix VIII.

Harold J. Johnson, Director
International Affairs and Trade

Sheila K. Ratzenberger, Managing Associate
General Counsel

List of Committees

The Honorable Jesse A. Helms
Chairman
The Honorable Joseph R. Biden, Jr.
Ranking Member
Committee on Foreign Relations
United States Senate

The Honorable Ted Stevens
Chairman
The Honorable Robert C. Byrd
Ranking Member
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Ranking Minority Member
Committee on Financial Services
House of Representatives

The Honorable Bill Young
Chairman
The Honorable David R. Obey
Ranking Minority Member
Committee on Appropriations
House of Representatives

U.S. Legislative Policy Mandates Concerning the International Monetary Fund

We identified 60 legislative mandates concerning U.S. policy objectives toward the International Monetary Fund (IMF) as of November 2000 through our own legal analysis supplemented with documentation obtained from the Department of the Treasury. We used two criteria as the basis for identifying the relevant laws for this review. These criteria were defined as (1) any current law that explicitly directs the U.S. Executive Director to the IMF to use its vote at the IMF to achieve a policy goal and (2) any current law that seeks to have the U.S. Executive Director use its voice at the IMF to promote a U.S. policy or make a policy change. Table 1 identifies the mandates and includes a brief description of the broad policy objective they address, as well as some of the actions they require on the part of the U.S. Treasury and the U.S. Executive Director. The mandates span more than 50 years, dating from as early as 1945 to as recently as 2000, with the majority being enacted in the last decade. Many mandates address multiple policy issues, sometimes overlapping with one another. Table 2 identifies some policies that are addressed in multiple laws.

Many of the mandates direct the Secretary of the Treasury to instruct the U.S. Executive Director to use its “voice” and “vote” at the IMF to pursue certain policies. Other mandates are even more directive in that they require Treasury to instruct the U.S. Executive Director in certain circumstances to oppose a decision regarding a country’s use of IMF resources. (In practice, “oppose” means to vote against or abstain from voting.) We identified 21 such mandates that address a variety of issues, including combating terrorism, nuclear and chemical nonproliferation, religious persecution, and human rights abuses in other countries. Several of the directed vote mandates have primarily applied to countries that borrow from the World Bank, and the United States has implemented them there.

Table 1: U.S. Legislative Mandates Concerning the IMF

Law and date of enactment[a]	Subject matter	Required actions	Directed vote
22 U.S.C. 262d Oct. 3, 1977	Human rights, international terrorism, religious freedom, and others, including nuclear material acquisition	Treasury shall instruct the USED to oppose loans to countries whose governments engage in a pattern of gross violations of internationally recognized human rights or provide refuge to individuals committing acts of international terrorism by hijacking aircraft, unless such assistance is directed to serve basic human needs. Severe violations of religious freedom should be considered in determining if the country has engaged in gross violations of internationally recognized human rights. Further, Treasury is to instruct the USED to consider a list of concerns when carrying out its duties, including whether recipient countries are seeking to acquire unsafeguarded special nuclear material.	Yes
22 U.S.C. 262e Oct. 3, 1977	Salaries and benefits of IMF employees	The President shall direct the USED to take all appropriate actions to keep the compensation for IMF employees at a level comparable to the compensation provided employees of both private business and the U.S. government in comparable positions.	No
22 U.S.C. 262h Oct. 15, 1986 (also repeated in P.L. 106-429, sec. 514, Nov. 6, 2000)	Trade, mining, and surplus commodities.	Treasury shall instruct the USED to use its voice and vote to oppose any IMF assistance for the production or extraction of any commodity or mineral for export, if it is in surplus on world markets and if the assistance would cause substantial injury to the U.S. producers of the same, similar, or competing commodity.	Yes
22 U.S.C. 262k Aug. 15, 1985	Impact of country adjustment programs on industries and commodity markets	Treasury shall instruct the USED to consider, when reviewing loans, credits, or other uses of IMF resources, the effect that country adjustment programs would have on individual industries' sectors and international commodity markets including specific criteria to be considered as a basis for a vote against certain mining and related project proposals.	No
22 U.S.C. 262k-1 Sept. 30, 1996	Military spending and audits	Treasury shall instruct the USED to use its voice and vote to oppose any loan, other than for basic humanitarian needs, to any country that the Secretary of the Treasury determines does not have in place a functioning system for reporting to civilian authorities audits of receipts and expenditures that fund activities of the armed and security forces and that has not provided to the IMF information about the audit process requested by the institution.	Yes
22 U.S.C. 262k-2 Sept. 30, 1996	Female genital mutilation	Treasury shall instruct the USED to use its voice and vote to oppose any loan, other than for basic humanitarian needs, for any government that the Secretary of the Treasury determines has a known history of practicing female genital mutilation and has not taken steps to implement educational programs designed to prevent this practice.	Yes
22 U.S.C. 262n-3 Oct. 21, 1998	Trade barriers and agricultural commodities	Treasury shall instruct the USED to use aggressively its voice and vote to vigorously promote policies to encourage the opening of markets for agricultural commodities and products by requiring recipient countries to make efforts to reduce trade barriers.	No

(Continued From Previous Page)

Law and date of enactment[a]	Subject matter	Required actions	Directed vote
22 U.S.C. 262o-1 Aug. 23, 1994	Military spending and good governance	Treasury shall instruct the USED to consider, when deciding whether to support a country's loan program, the extent to which IMF borrowing countries have demonstrated a commitment to (1) providing accurate and complete data on military spending; (2) establishing good and publicly accountable governance, including to end excessive military involvement in the economy; and (3) to make substantial reductions in excessive military spending and forces. The USED shall promote a policy that seeks to channel funding toward growth and development priorities and away from unproductive expenditures, including military spending.	No
22 U.S.C. 262o-2 Oct. 21, 1998	Transparency, debt, private sector, trade, crisis lending, exchange rates, labor, the environment, military spending, sound banking, social safety nets, good governance, corruption, the poor, and ethnic and social strife.	Treasury shall instruct the USED to use aggressively its voice and vote to enhance the general effectiveness of the IMF with respect to numerous issues, including exchange rate stability, trade liberalization, antitrust reform, core labor standards, social safety nets, sound banking principles, private sector burden-sharing, disclosure of market information, debt, crises lending, good governance, procurement reform, corruption and bribery, drug-related money laundering, excessive military spending, ethnic and social strife, environmental protection, transparency, and microenterprise lending, especially to the world's poorest, heavily indebted countries.	No
22 U.S.C. 262p-4n Nov. 5, 1990	Equal employment opportunities at the IMF	Treasury shall instruct the USED to use its voice and vote to urge the IMF to adopt policies and procedures that ensure that the IMF does not discriminate against any person on the basis of race, ethnicity, gender, color, or religious affiliation in any determination related to employment.	No
22 U.S.C. 262p-4o Aug. 23, 1994	Respect for indigenous peoples	Treasury shall direct the USED to use its voice and vote to bring about the creation and full implementation of policies designed to promote respect for and full protection of the territorial rights, traditional economies, cultural integrity, traditional knowledge, and human rights of indigenous peoples.	No
22 U.S.C. 262p-4p Aug. 23, 1994	Internationally recognized worker rights	Treasury shall direct the USED to use its voice and vote to urge the IMF to adopt policies to encourage borrowing countries to guarantee certain internationally recognized worker rights and to include the status of such rights as an integral part of the policy dialogue with each country. In addition, the USED shall urge the IMF to establish formal procedures to screen projects and programs for any negative impact in a borrowing country with respect to those rights.	No
22 U.S.C. 262p-4q Apr. 24, 1996	State support of international terrorism	Treasury shall instruct the USED to use its voice and vote to oppose any loan for a country for which the Secretary of State has made a determination that it is a terrorist state.	Yes
22 U.S.C. 262p-6 Nov. 29, 1999	Debt relief	Treasury should urge the IMF to complete a debt sustainability analysis by December 31, 2000, and determine eligibility for debt relief for as many countries under the modified Heavily Indebted Poor Countries Initiative as possible. Treasury should also instruct the USED to ensure that an external assessment of the Heavily Indebted Poor Countries Initiative takes place by December 31, 2001.	No
22 U.S.C. 262p-7 Nov. 29, 1999	Extended Structural Adjustment Facility reform	Treasury shall instruct the USED to use its voice and vote to promote the IMF's establishment of poverty reduction policies and procedures to support countries' efforts under programs developed and jointly administered by the World Bank and the IMF containing those components listed in the mandate.	No

(Continued From Previous Page)

Law and date of enactment[a]	Subject matter	Required actions	Directed vote
22 U.S.C. 262r-5 Oct. 21, 1998	GAO audits of the IMF	Treasury shall instruct the USED to facilitate timely access by the GAO to IMF documents and information needed by GAO to perform financial reviews of the IMF that will facilitate the conduct of U.S. policy with respect to the IMF.	No
22 U.S.C. 262t Dec. 19, 1989	Personnel practices at the IMF	It shall be U.S. policy that no initiatives, discussions, or recommendations concerning the placement or removal of any personnel employed by the IMF shall be based on the political philosophy or activity of that individual.	No
22 U.S.C. 286e-8 Oct. 10, 1978	Treatment of creditors in debt rescheduling	Treasury shall instruct the USED to seek to assure that no decision by the IMF departs from U.S. policy regarding the comparability of treatment of public and private creditors in cases of debt rescheduling where official U.S. credits are involved.	No
22 U.S.C. 286e-9 Oct. 10, 1978	Investment, employment, and basic human needs	Treasury shall instruct the USED to encourage IMF staff to formulate economic stabilization programs that foster a broader base of productive investment and employment, especially in those productive activities that are designed to meet basic human needs.	No
22 U.S.C. 286e-11 Oct. 10, 1978	Countries harboring international terrorists	Treasury shall instruct the USED to work in opposition to financing for countries either harboring international terrorists or failing to take measures to prevent acts of international terrorism.	No
22 U.S.C. 286k July 31, 1945	International trade and economic stability	In considering the policies of the United States in foreign lending, the USED shall give careful consideration to progress made in reaching agreement among nations to reduce restrictions on international trade and promote international economic stability.	No
22 U.S.C. 286s Oct. 7, 1980	Basic human needs and economic adjustment programs	The USED shall recommend and work for changes in IMF guidelines to ensure the effectiveness of economic adjustment programs by considering the effect the program will have on issues such as jobs and investment. The USED shall also work toward improved coordination between the IMF, the World Bank, and other appropriate institutions in this area.	No
22 U.S.C. 286u July 31, 1945	Dollar-Special Drawing Rights substitution account	Treasury shall encourage IMF member countries to negotiate a dollar-Special Drawing Rights substitution account in which equitable burden-sharing would exist among participants in the account.	No
22 U.S.C. 286v Oct. 7, 1980	Membership for Taiwan in the IMF	The USED shall notify the IMF that it is U.S. policy that Taiwan be granted appropriate membership in the IMF.	No
22 U.S.C. 286w Oct. 7, 1980	Denial of membership for the Palestinian Liberation Organization	The USED shall notify the IMF that it is U.S. policy that the Palestinian Liberation Organization not be given membership or other status at the IMF.	No
22 U.S.C. 286x Oct. 7, 1980	Assistance to private sector of El Salvador, Nicaragua, and other nations	The USED shall promote the use of IMF programs to assist the private sector in any nation, though particularly El Salvador and Nicaragua, in creating an environment that will stabilize a nation's economy.	No
22 U.S.C. 286y Nov. 30, 1998	Exchange rate stability	The USED shall work for adoption of policies in the IMF to promote exchange rate stability. Also, in determining a vote of assistance to any IMF borrower, the USED shall take into account whether the borrower's policies are consistent with certain IMF requirements.	No

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Law and date of enactment[a]	Subject matter	Required actions	Directed vote
22 U.S.C. 286z Nov. 30, 1983	Transparency	Treasury shall instruct the USED to initiate discussions at the IMF and propose and vote for adoption of procedures to increase both the sharing of information among IMF members and the public dissemination of certain IMF information concerning international borrowing and lending.	No
22 U.S.C. 286aa Nov. 30, 1983	Denial of lending to communist dictatorships	Treasury shall instruct the USED to actively oppose any facility involving use of IMF credit by any communist dictatorship unless certain conditions are met.	Yes
22 U.S.C. 286bb Nov. 30, 1983	Elimination of predatory agricultural export subsidies	Treasury shall instruct the USED to propose and work for the adoption of an IMF policy encouraging members to eliminate all predatory agricultural export subsidies that might result in the reduction of other member countries' exports.	No
22 U.S.C. 286cc Nov. 30, 1983	Trade, bank solvency, and external debt servicing	The USED shall recommend and shall work for changes in IMF guidelines and policies that encourage countries to formulate economic adjustment programs that deal with their balance-of-payment difficulties and external debt owed to private banks. The USED shall also oppose and vote against fund assistance for a country whose annual external debt services exceed 85 percent of its annual export earnings, unless Treasury can document why an exception should be given.	Yes
22 U.S.C. 286dd Nov. 30, 1983	Bank bailouts and debt rescheduling	Treasury shall instruct the USED to oppose and vote against any IMF drawing by a member country that would be used to repay loans imprudently made by banking institutions to a member country, and to ensure that the IMF encourages borrowing countries and banking institutions to renegotiate a rescheduling of debt that is consistent with safe and sound banking practices and the country's ability to pay.	Yes
22 U.S.C. 286ee Nov. 30, 1983	International lending and external indebtedness	Treasury shall instruct the USED to propose that the IMF adopt policies with respect to international lending, including a policy to examine the trend and volume of external indebtedness of private and public borrowers in Article IV consultations.	No
22 U.S.C. 286ff Nov. 30, 1983	IMF interest rates	Treasury shall instruct the USED to propose and work for the adoption of IMF policies regarding the rate of remuneration paid on use of members' quota subscriptions and the rate of charges on IMF drawings to bring those in line with market rates.	No
22 U.S.C. 286gg Nov. 30, 1983	Elimination of trade and investment restrictions	Treasury shall instruct the USED to consult with the IMF to reduce obstacles to and restrictions upon international trade and investment in goods and services, eliminate unfair trade and investment practices, and promote mutually advantageous economic relations. The USED shall also work to have the IMF obtain agreement with countries to eliminate certain unfair trade and investment practices and shall take a country's progress into account in formulating its position on requests for loans for periodic financial disbursements.	No
22 U.S.C. 286kk Dec. 19, 1989	Impact of IMF programs on the poor and the environment	Treasury shall instruct the USED to seek policy changes at the IMF that will result in a review of policy prescriptions implemented by the IMF to determine both if IMF objectives were met and the social and environmental impacts of such prescriptions, and the establishment of procedures to ensure that policy options that reduce the potential adverse impact on the poor or the environment are included in future economic reform programs.	No

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Law and date of enactment[a]	Subject matter	Required actions	Directed vote
22 U.S.C. 286ll Oct. 24, 1992	IMF policy concerning transparency, the poor, and the environment	Treasury shall instruct the USED to promote regularly and vigorously in program and quota increase discussions a variety of policy proposals including a proposal designed to alleviate poverty, promote policy audits in the areas of poverty and the environment, and to allow public access to certain IMF information.	No
22 U.S.C. 286mm Oct. 24, 1992	Measures to reduce military spending	The USED shall use its voice and vote to urge the IMF to continue to develop an economic methodology to measure the level of military spending by every developing country. The USED shall also urge the IMF to provide annual reports that estimate the level of military spending by each developing country and urge the IMF to include in every Article IV consultations with such countries an analysis on this issue.	No
22 U.S.C. 286nn Nov. 29, 1999	Debt reduction	Treasury is authorized to instruct the USED to vote to approve the sale of gold such that proceeds can be used toward debt reduction for the Heavily Indebted Poor Countries Initiative.	No
50 U.S.C. 1701 note (P.L. 103-160, sec. 1511, Nov. 30, 1993 & P.L. 104-208, sec. 540, Feb. 12, 1996)	Serbia and Montenegro	Treasury shall instruct the USED to use the voice and vote of the United States to oppose any IMF assistance to the governments of Serbia and Montenegro, except for basic human needs or unless a proper waiver or certification is made.	Yes
22 U.S.C. 2225 Dec. 30, 1974	Integration of women	Treasury is requested to instruct the USED to encourage and promote the integration of women into the national economies of IMF member countries and into professional positions within the IMF organization. In addition, Treasury is to take any progress or lack of progress into account when making contributions to the IMF.	No
22 U.S.C. 2370a Apr. 30, 1994	Expropriation of U.S. property	Treasury shall instruct the USED to vote against any use of IMF funds for the benefit of any country that has, after 1956, nationalized or expropriated U.S. property without compensation or adequate arbitration, unless the funds are directed to programs that serve the basic human needs of the citizens of that country, or the President waives this prohibition on the basis of U.S. national interests.	Yes
22 U.S.C. 2799aa-1 Apr. 30, 1994	Nuclear transfers and illegal exports	The U.S. government shall oppose the extension of any IMF loan or financial or technical assistance to any country that the President determines either delivers nuclear reprocessing equipment, material, or technology to any country or receives such equipment, materials, or technology from another country, or is a nonnuclear state that exports from the United States illegally any material, equipment, or technology that would contribute significantly to their ability to manufacture a nuclear explosive device and will be used for such a device.	Yes
22 U.S.C. 5605 Dec. 4, 1991	Sanctions against use of chemical and biological weapons	The United States shall oppose, in accordance with 22 U.S.C. 262d, the extension of any loan or financial or technical assistance to any country that the President determines uses chemical or biological weapons either in violation of international law or against its own nationals.	Yes
22 U.S.C. 6034 Mar. 12, 1996	Opposition to Cuban membership	Treasury shall instruct the USED to use the voice and vote of the United States to oppose admission of Cuba as a member of the IMF until the President submits a determination that a democratically elected government is in power in Cuba.	Yes

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Law and date of enactment[a]	Subject matter	Required actions	Directed vote
22 U.S.C. 6302 Apr. 30, 1994	Nuclear nonproliferation	Treasury shall instruct the USED to use the voice and vote of the United States to oppose any use of IMF funds to promote the acquisition of unsafeguarded special nuclear material or the development, stockpiling, or use of any nuclear explosive device by any non-nuclear-weapon state.	Yes
22 U.S.C. 6445 Oct. 27, 1998	Religious freedom	The President shall instruct the USED to oppose and vote against loans primarily benefiting a foreign government, agency, instrumentality, or official determined by the President to be a violator of religious freedoms.	Yes
22 U.S.C. 6713 Oct. 21, 1998	U.S. liability, confidential business information, and chemical weapons	The United States shall oppose any IMF loan or financial or technical assistance to either a foreign government or any foreign person, officer, or employee of the Organization for the Prohibition of Chemical Weapons whose actions taken in the implementation of the Chemical Weapons Convention make the United States liable, or who knowingly divulge U.S. confidential business information, or in the case of a government, encourage or assist a person in making such disclosures.	Yes
P.L. 104-208, sec. 570 Sept. 30, 1996	Burma and human rights	Treasury shall instruct the USED to vote against any utilization of IMF funds for Burma until such time as the President certifies to Congress that Burma has made measurable and sustainable progress in improving human rights practices and implementing a democratic government in Burma, or the President waives the sanction by certifying to Congress that the sanction is contrary to U.S. national interests.	Yes
P.L.105-277, sec. 602 Oct. 21, 1998	Korea	Treasury shall instruct the USED to exert the influence of the United States to oppose further disbursements of funds to the Republic of Korea under the stand-by arrangement of Dec. 4, 1997, unless it can be certified that no IMF resources made available under the arrangement were used to provide financial assistance to the semiconductor, steel, automobile, shipbuilding, or textile and apparel industry and that the Republic of Korea has committed itself to meet all conditions contained in the stand-by arrangement.	Yes
P.L. 106-113, sec. 545 Nov. 29, 1999	Purchase of American-made equipment and products	Treasury shall report to Congress annually on the efforts of the USED to comply with Congress' sense that all agriculture commodities, equipment, and products purchased with funds made available under the Foreign Operations, Export Financing and Related Programs for fiscal year ending Sept. 30, 2001, should be American made.	No
P.L. 106-309, sec. 109 Oct. 17, 2000	Multilateral Microenterprise Assistance	It is the sense of Congress that Treasury shall instruct the USED to advocate the development of a coherent and coordinated strategy to support the microenterprise sector and an increase of multilateral resource flows for the purpose of building microenterprise retail and wholesale intermediaries.	No
P.L. 106-386, sec. 110 Oct. 28, 2000	Combat Trafficking in Persons	The President will instruct the USED to vote against, and to use her best efforts to deny, any loan or other use of IMF funds for the subsequent fiscal year to a country that fails to comply or is not making significant efforts to bring itself into compliance with the minimum standards for the elimination of trafficking in persons. This mandate does not apply to humanitarian assistance, trade-related assistance, or development assistance and can be waived by the President if the continuation of assistance is in the national interest.	Yes
P.L. 106-429, sec. 533 Nov. 6, 2000	Compensation for the USED	No funds appropriated by the Foreign Operations, Export Financing, and Related Programs Act, 2001, may be made as payment to the IMF while the USED is compensated by the IMF at a rate that, together with the compensation the USED receives from the United States, is in excess of the rate provided for an individual occupying a position at level IV of the Executive Schedule under 5 U.S.C. 5315.	No

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Law and date of enactment[a]	Subject matter	Required actions	Directed vote
P.L. 106-429, sec. 537 Nov. 6, 2000	Clean coal technology	Treasury, through the USED, should, as appropriate, vigorously promote the use of U.S. clean coal technology in environmental and energy infrastructure programs, projects, and activities, such as in reconstruction assistance for the Balkans.	No
P.L. 106-429, sec. 564 Nov. 6, 2000	Countries providing sanctuary to indicted war criminals	Treasury shall instruct the USED to work in opposition to and vote against any extension of IMF grants or financial or technical assistance to any country whose authorities have failed, as determined by the Secretary of State, to take necessary steps to apprehend and transfer persons convicted by the International Criminal Tribunal for the former Yugoslavia. Exempt from this provision is any IMF lending to a country to support common monetary and fiscal policies at the national level as contemplated by the Dayton Peace Accord.	Yes
P.L. 106-429, sec. 570 Nov. 6, 2000	Cambodia	Treasury shall instruct the USED to oppose loans to the central government of Cambodia, except loans to support basic human needs.	Yes
P.L. 106-429, sec. 594, Nov. 6, 2000	Serbia	After March 31, 2001, Treasury shall instruct the USED to support loans and assistance to the Yugoslavian government subject to certain conditions, including that the Yugoslavian government is taking steps consistent with the Dayton Peace Accord to end financial, political, security, and other support that served to maintain separate Republika Srpska institutions. With respect to such loans, 22 U.S.C. 262k-1, which requires transparency of military budgets, shall not apply. Finally, the Secretary of State shall also instruct the USED to support membership for Yugoslavia in the IMF subject to certification by the President that the government has taken appropriate steps to resolve certain issues.	No
P.L. 106-429, sec. 596 Nov. 6, 2000	User fees	Treasury shall instruct the USED to oppose any loan that would require user fees or service charges on poor people for primary education or primary healthcare, including prevention and treatment efforts for Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome and malaria, among others.	Yes
P.L. 106-429, sec. 805 Nov. 6, 2000	Short- and medium-term financing, misreporting, and premium pricing	It is the policy of the United States to work to implement reforms in the IMF to achieve the following goals: primarily using short-term balance-of-payments financing, limiting the use of medium-term financing, introducing premium pricing for lending that is greater than 200 percent of a member's quota in the IMF, and redressing cases of misreporting of information in the context of IMF programs.	No

Legend

USED = U.S. Executive Director

[a]This column reports the original date of enactment. However, many of these mandates were amended subsequent to this date.

Source: GAO analysis of legislative mandates concerning the IMF.

Table 2: Examples of Broad Policies That Are Addressed in Multiple Laws

Broad policy objective	Law
Administrative and personnel matters	22 U.S.C. 2225 (Dec. 30, 1974) 22 U.S.C 262e (Oct. 3, 1977) 22 U.S.C. 262t (Dec. 19, 1989) 22 U.S.C. 262p-4n (Nov. 5, 1990) P.L. 106-429, sec. 533 (Nov. 6, 2000)
Banking	22 U.S.C. 286cc (Nov. 30, 1983) 22 U.S.C. 286dd (Nov. 30, 1983) 22 U.S.C. 262o-2 (Oct. 21, 1998)
Debt	22 U.S.C. 286e-8 (Oct. 10, 1978) 22 U.S.C. 286cc (Nov. 30, 1983) 22 U.S.C. 286dd (Nov. 30, 1983) 22 U.S.C. 286ee (Nov. 30, 1983) 22 U.S.C. 262o-2 (Oct. 21, 1998) 22 U.S.C. 286nn (Nov. 29, 1999) 22 U.S.C. 262p-6 (Nov. 29, 1999)
Employment	22 U.S.C. 2225 (Dec. 30, 1974) 22 U.S.C. 286e-9 (Oct. 10, 1978)
Environment	22 U.S.C. 286kk (Dec. 19, 1989) 22 U.S.C. 286ll (Oct. 24, 1992) 22 U.S.C. 262o-2 (Oct. 21, 1998) P.L. 106-429, sec. 537 (Nov. 6, 2000)
Exchange rate stability	22 U.S.C. 286y (Nov. 30, 1998) 22 U.S.C. 262o-2 (Oct. 21, 1998)
Governance	22 U.S.C. 262o-1 (Aug. 23, 1994) 22 U.S.C. 262o-2 (Oct. 21, 1998)
Human rights	22 U.S.C. 262d (Oct. 3, 1977) 22 U.S.C. 262p-4o (Aug. 23, 1994) P.L. 104-208, sec. 570 (Sept. 30, 1996)
Investment	22 U.S.C. 286e-9 (Oct. 10, 1978) 22 U.S.C. 286s (Oct. 7, 1980) 22 U.S.C. 286gg (Nov. 30, 1983)
Labor	22 U.S.C. 262p-4p (Aug. 23, 1994) 22 U.S.C. 262o-2 (Oct. 21, 1998)
Poverty alleviation and education	22 U.S.C. 286kk (Dec. 19, 1989) 22 U.S.C. 286ll (Oct. 24, 1992) 22 U.S.C. 262o-2 (Oct. 21, 1998) 22 U.S.C. 262p-7 (Nov. 29, 1999) P.L. 106-429, sec. 596 (Nov. 6, 2000)
Military spending and military audit	22 U.S.C. 286mm (Oct. 24, 1992) 22 U.S.C. 262o-1 (Aug. 23, 1994) 22 U.S.C. 262k-1 (Sept. 30, 1996) 22 U.S.C. 262o-2 (Oct. 21, 1998)

(Continued From Previous Page)

Broad policy objective	Law
Nuclear and chemical nonproliferation	22 U.S.C. 2799aa-1 (Apr. 30, 1994) 22 U.S.C. 6302 (Apr. 30, 1994) 22 U.S.C. 6713 (Oct. 21, 1998) 22 U.S.C. 5605 (Dec. 4, 1991)
Religious freedom	22 U.S.C. 262d (Oct. 3, 1977) 22 U.S.C. 6445 (Oct. 27, 1998)
Terrorism	22 U.S.C. 262d (Oct. 3, 1977) 22 U.S.C. 286e-11 (Oct. 10, 1978) 22 U.S.C. 262p-4q (Aug. 24, 1996)
Trade	22 U.S.C. 286k (July 31, 1945) 22 U.S.C. 286bb (Nov. 30, 1983) 22 U.S.C. 286cc (Nov. 30, 1983) 22 U.S.C. 286gg (Nov. 30, 1983) 22 U.S.C. 262k (Aug. 15, 1985) 22 U.S.C. 262h (Oct. 15, 1986) (also repeated in P.L. 106-429, sec. 514, Nov. 6, 2000) 22 U.S.C. 262n-3 (Oct. 21, 1998) 22 U.S.C. 262o-2 (Oct. 21, 1998) P.L. 106-113, sec. 545 (Nov. 29, 1999)
Transparency	22 U.S.C. 286z (Nov. 30, 1983) 22 U.S.C. 286ll (Oct. 24, 1992) 22 U.S.C. 262o-2 (Oct. 21, 1998) 22 U.S.C. 262r-5 (Oct. 21, 1998)
Use of IMF resources	22 U.S.C. 286u (July 31, 1945) 22 U.S.C. 286ff (Nov. 30, 1983) P.L. 106-429, sec. 805 (Nov. 6, 2000)
Women's issues	22 U.S.C. 2225 (Dec. 30, 1974) 22 U.S.C. 262k-2 (Sept. 30, 1996)

Source: GAO analysis of legislative mandates concerning the IMF.

Treasury's Process for Pursuing IMF Legislative Mandates

The Department of the Treasury uses a systematic process to discuss and formulate a strategy for pursuing U.S. policies toward the IMF, including policies set forth in legislative mandates. Treasury has the lead role within the executive branch for formulating U.S. policy toward the IMF, while the U.S. Executive Director represents the United States at the IMF and pursues U.S. policy objectives through its membership on the IMF's Executive Board. In March 1999, Treasury created the Task Force on Implementation of U.S. Policy and Reforms in the IMF with the broad purpose of strengthening the process by which the United States pursues its objectives in the IMF. In particular, the task force was designed to improve the implementation of U.S. policy and reforms called for in legislative mandates by increasing awareness among Treasury staff about the mandates and identifying early opportunities to provide input to the U.S. Executive Director to influence decisions regarding IMF members' programs and economic reviews.

Treasury and the U.S. Executive Director Jointly Formulate U.S. Policy Positions Regarding Legislative Mandates

Treasury's Office of International Affairs along with the Office of the U.S. Executive Director of the IMF formulate, evaluate, and implement Treasury policy concerning U.S. participation in the IMF, including policies set forth in 60 legislative mandates (for more information on these mandates, see app. I). The Office of International Affairs has regional and functional offices staffed with country officers and policy specialists who monitor developments in individual countries and various policy matters. Over time, Treasury has hired or created specialist positions to monitor country developments concerning policies for which Treasury traditionally did not have expertise. For example, according to Treasury officials, Treasury began covering environmental issues in the late 1980s and began hiring environmental specialists in the early 1990s. In 1996, Treasury created a military audit specialist position to follow issues related to military audit concerns, and in 1998, Treasury created a similar position to monitor country developments concerning labor practices. According to Treasury officials, the environmental and military audit specialists initially focused primarily on pursuing U.S. policy and legislative mandates concerning the multilateral development banks. Beginning in 1998, these specialists also focused on IMF practices.

The U.S. Executive Director, who represents the United States on the IMF's Executive Board, pursues U.S. objectives, including legislative mandates, through various channels at the IMF. For example, on a regular basis the U.S. Executive Director makes oral or written statements to the Board to make Board members aware of U.S. policy objectives regarding requests from countries for new programs, Fund reviews of existing programs, and regular Fund reviews of all members' economic policies. The U.S. Executive Director prefers to make oral statements but does provide written statements when the United States has a major policy pronouncement to make or when the topic being discussed is contentious. Written statements allow IMF staff and Board members to become familiar with the U.S. position prior to the Board's discussion and serve as a reference point for the discussion. To build support for U.S. policy goals, the U.S. Executive Director also discusses U.S. policy objectives with IMF staff and management and other Board executive directors, outside Executive Board meetings.

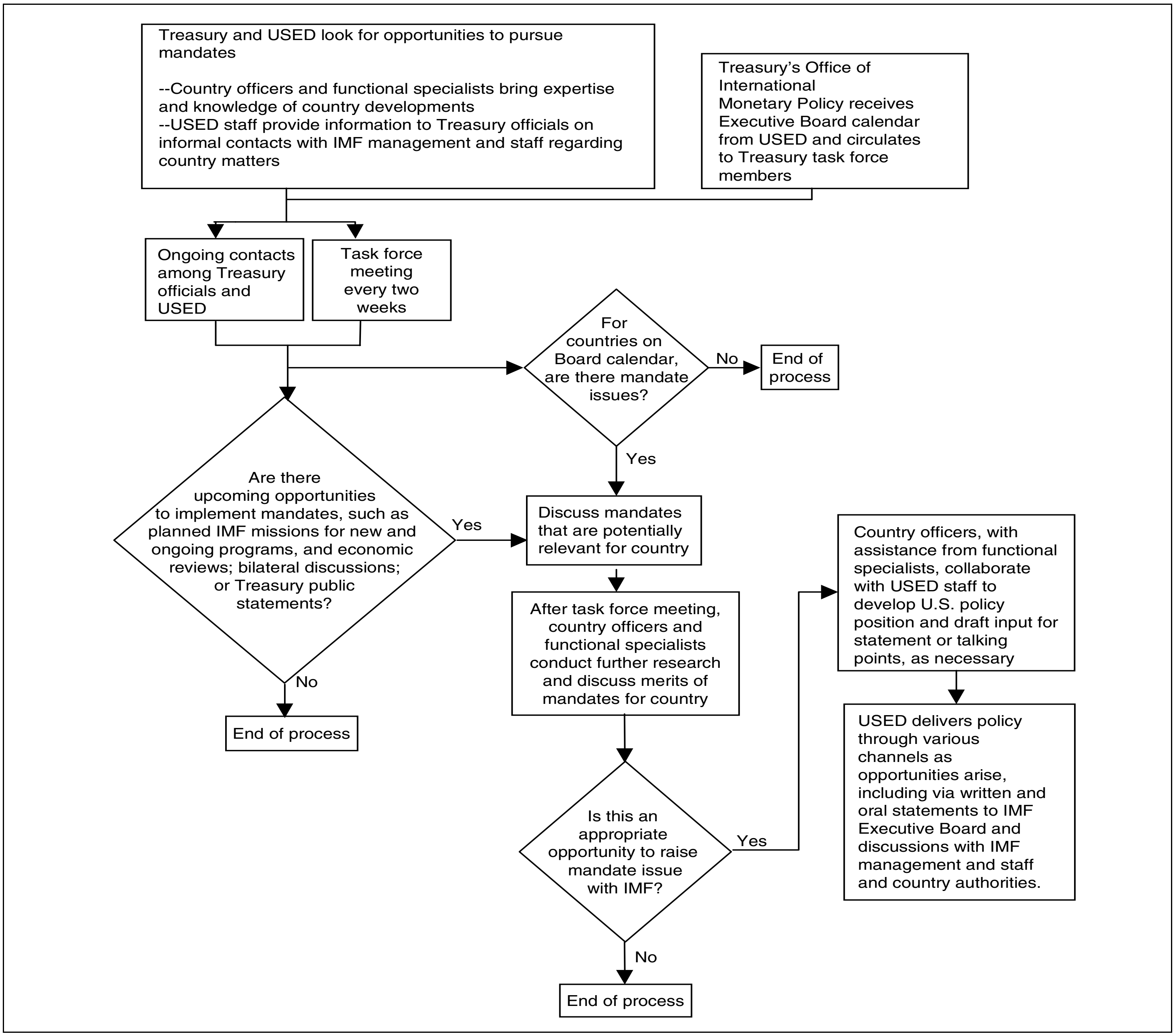
Treasury country officers, policy specialists, and U.S. Executive Director staff share the responsibility for applying to countries the standards set forth in the mandates, although their roles differ somewhat. Treasury country officers are responsible for being broadly aware of U.S. policy and legislative mandates and the topics these mandates cover; policy specialists are responsible for tracking specific U.S. policies. Country officers generally consult the policy specialists first when evaluating whether a mandate applies to a country's circumstances.

Like Treasury country officials, U.S. Executive Director staff must be mindful of legislative mandates as they monitor the status of the countries they cover. They are also responsible for assisting Treasury staff in the development of the U.S. policy position for IMF member countries. Specifically, they are tasked with (1) providing additional perspectives about country circumstances and whether mandates apply, (2) helping craft input to the U.S. Executive Director, (3) alerting Treasury officials about upcoming opportunities to pursue legislative mandates, and (4) sharing information about discussions among Executive Board members and IMF staff. U.S. Executive Director staff are in regular contact with Treasury staff about specific country matters.

The ongoing collaborative approach Treasury and U.S. Executive Director officials use to formulate and implement U.S. objectives at the IMF, including legislative mandates, is illustrated in figure 1. It starts with Treasury and U.S. Executive Director officials identifying and sharing information with one another on upcoming opportunities to influence the Fund concerning U.S. objectives. According to Treasury officials, on a daily basis Treasury and U.S. Executive Director officials consult about when countries are coming before the IMF Executive Board for a program or economic review or when IMF missions to a country are planned as part of these reviews.[1] Working together, Treasury and U.S. Executive Director staff determine whether legislative mandates are relevant to these countries and jointly develop input to the U.S. Executive Director on U.S. objectives to be used in oral or written statements to the Executive Board or other discussions with IMF officials. In addition to this ongoing contact, Treasury's task force is used to coordinate and collaborate on developing and implementing the U.S. policy position toward IMF members.

[1]Treasury focuses more attention on countries that are requesting IMF assistance or have a program under way because the IMF has greater leverage over the reforms that these countries pursue, according to Treasury officials.

Figure 1: Treasury's Process for Pursuing IMF Mandates



Source: GAO analysis.

Legend

USED = U.S. Executive Director.

Composition of the Task Force

Treasury's task force is composed of staff-level representatives from the regional and functional offices within Treasury's Office of International Affairs, Treasury's Office of General Counsel and the U.S. Executive Director's office and meets every 2 weeks to discuss how Treasury and the U.S. Executive Director can best apply legislative mandates given a country's economic circumstances. Task force members seek to provide early input to the U.S. Executive Director as opportunities arise to influence the IMF, in part because Treasury and U.S. Executive Director officials believe the United States can have the most impact if it engages early with IMF officials prior to decisions regarding program and economic reviews. Task force meetings are conducted informally and are designed to address several goals:

- Ensure that Treasury staff are aware, as early as possible, of upcoming opportunities to provide input to the U.S. Executive Director, especially with respect to requests by IMF members for new programs, IMF reviews of existing programs, periodic IMF reviews of members' economic policies, and general policy discussions.
- Exchange views at an early stage regarding which policy goals and legislative mandates are especially important for particular upcoming events.
- As needed, seek to resolve issues concerning particular policy goals or mandates.
- Encourage consistency of purpose across and coordinate U.S. strategy among the international financial institutions.[2]

Task Force Serves as Coordinating Mechanism but Not Final Arbiter of U.S. Policy Position

According to Treasury officials, the task force serves an important role as a mechanism to systematically remind Treasury officials of the need to address legislative mandates. As shown in figure 1, prior to each task force meeting, a tentative schedule of the IMF Executive Board meetings for upcoming weeks is circulated to task force members. Also before the meeting, task force members review the schedule to keep abreast of what countries will be discussed by the Board and when Treasury should be ready to provide input to the U.S. Executive Director staff for the Board discussions. In addition, Treasury officials, through their ongoing contacts with U.S. Executive Director staff, may identify and come prepared to

[2] Many legislative mandates also concern other international financial institutions besides the IMF, such as the World Bank. The task force serves as a mechanism to help promote consistency in Treasury's position across these institutions.

share information on other opportunities to attempt to influence the IMF, such as through discussions with Fund officials when an IMF mission is planned to a given country as part of negotiations for a new or existing program or an economic review.

At their meetings, task force members informally discuss both what opportunities exist to implement mandates and whether there are mandates that may be potentially relevant for a given country. According to the Treasury official who generally chairs these meetings, the aim of the discussion is to identify the best opportunities to make a credible and convincing case for pursuing a mandate at a given time. If possible, members try to reach agreement in the meeting on two questions: (1) whether there are relevant mandates for the countries discussed and (2) whether the opportunity available is an appropriate one to pursue the mandate. According to Treasury officials, some mandates that are directive in nature must be applied in all cases, regardless of country circumstances.

Once agreement is reached on whether to pursue a mandate, Treasury country officers collaborate with U.S. Executive Director staff and functional specialists where appropriate on drafting a policy position for the U.S. Executive Director. This can be in the form of input for a written statement or talking points for an oral statement to the Executive Board. The policy position may undergo several revisions until country officers, functional specialists, and U.S. Executive Director staff reach agreement.

Although the task force helps facilitate coordination among Treasury officials and with the U.S. Executive Director, it is not the final arbiter for determining the U.S. policy position toward the IMF on any given issue. The task force is not a review or approval mechanism to give Treasury's sanction to pursue individual mandates. Instead, it is a forum to discuss and debate the merits of how mandates fit into the macroeconomic focus of the IMF, whether certain mandates apply to individual countries, and what the best opportunities are to pursue various mandates. When members disagree on the best approach for pursuing a mandate and are not able to reach agreement in discussions that continue after a task force meeting, the matter is forwarded to Treasury's senior management for a policy decision.

U.S. Policy on Sound Banking Principles at the IMF

In 1998, Congress passed legislation that encourages the U.S. Executive Director at the IMF to work to strengthen the financial systems of IMF member countries and encourage them to adopt sound banking principles and practices. Over the last 5 years, the promotion of sound banking practices have come to be regarded as a core mission of the IMF. As a result, there is general agreement in the IMF that it is appropriate for the IMF to advance sound banking policies and practices in member countries. In addition, IMF members generally agree on the steps that need to be taken to implement banking reform in member countries. For example, executive directors generally agree on the details of how to strengthen members' banking systems when countries have financial arrangements with the IMF. They also agree on the need for members that do not have financial arrangements to adhere to international banking standards. The U.S. Executive Director has been a strong advocate of encouraging the IMF to increase its emphasis on the stability of the banking sector and pushing banking reforms in member countries. However, the general support of other IMF members for sound banking principles makes it hard to discern the U.S.' unique influence within the IMF.

Background

The U.S. policy concerning sound banking principles and practices toward the IMF, as laid out in federal law,[1] requires that Treasury instruct the U.S. Executive Director to vigorously promote policies to increase the effectiveness of the IMF in strengthening financial systems in developing countries and encouraging the adoption of sound banking principles and practices. This requirement includes encouraging the development of laws and regulations that will help to ensure that domestic financial institutions meet strong standards regarding capital reserves,[2] regulatory oversight, and transparency.

To assess whether Treasury and the U.S. Executive Director have been able to influence IMF operations and other members' policy positions regarding the adoption of sound banking principles and practices, we reviewed the financial assistance arrangements and economic program reviews for five countries: India, Mexico, Romania, South Africa, and Thailand. We selected

[1] U.S. policy on banking issues is set forth in section 22 U.S.C. 262o-2 (Oct. 21, 1998).

[2] Standards involving capital reserves concern the ability of a bank to absorb operating losses or shrinkage in asset values.

these countries, in part because of banking sector issues, geographic location, and type of IMF arrangement, where applicable.

Sound Banking Practices Have Become Part of the IMF's Core Mission

Before the mandate was implemented, the international financial institutions, particularly the IMF, had already begun to focus their attention on what constitutes sound banking practices and how sound banking practices could be put in place in the banking systems of member countries. Focusing on sound banking systems has become more important in recent years because many financial crises in emerging markets have either been precipitated or exacerbated by problems in banking systems. The financial crises of the 1990s, specifically the 1994-95 Mexico and the 1997 Asia crises, led the IMF to intensify its focus on members' banking sectors. In early 1996, the Executive Board of the IMF began to examine the relationship between banking system soundness and macroeconomic and structural policies, as well as the ways in which issues of bank soundness could be incorporated into the IMF's periodic economic reviews, financial assistance programs, and technical assistance. The IMF's efforts were focused on where there was a possibility that financial system problems could have systemic implications, not only domestically, but also by affecting the financial systems of other countries.

According to Treasury and IMF officials, by the time the U.S. mandate was implemented, sound banking had come to be considered a core mission of the IMF. As such, the IMF's and the U.S. Executive Director's efforts to strengthen member countries' banking systems and promote sound banking practices would have been pursued by the IMF irrespective of whether the U.S. sound banking mandate had come into being. IMF members and staff had already realized the importance of countries having and maintaining sound financial systems and had begun to increase their emphasis on the stability of members' banking systems.

IMF Staff and Executive Board Generally Agree on How to Implement Banking Reform in Member Countries

As an accepted part of the IMF's core mission, the IMF pursued sound banking practices and policies in both its financial assistance arrangements and its periodic economic reviews. Generally, the executive directors agree on the steps that countries need to take in order to make necessary reforms in their banking sectors. Executive directors told us that directors may disagree over the pace for implementing reforms, mostly due to concerns about countries' abilities to implement reforms quickly. However, executive directors said that within the IMF's Board there is general agreement on the content of a country's financial arrangement regarding banking reform, including the diagnosis of the problem facing a country and the reforms needed to fix the problems. The same is generally true for suggestions the IMF Executive Board makes to member countries during the periodic economic review.

In reviewing IMF financial assistance arrangements, executive directors focus on the specific banking situation of each country seeking financial assistance from the IMF. For example, when Thailand sought financial assistance from the IMF during its financial crisis in 1997, there were numerous banking sector problems that had to be addressed, such as weak licensing requirements, lax banking supervision, and no formal deposit insurance. The IMF's financial assistance to Thailand was conditioned upon Thailand's undertaking a set of actions that would address those and other issues that were specific to Thailand's banking sector.

The IMF has also sought ways to focus on sound banking practices in its economic reviews. The IMF holds annual consultations with most member countries as a part of its economic reviews to discuss, among other things, the country's banking sector practices and policies. During the last few years, the IMF has implemented a number of voluntary assessments that member countries can undertake to help the IMF assess the stability of members' financial systems and encourage members to implement internationally accepted banking standards. For example, IMF members can volunteer to participate in the Financial Sector Assessment Program. This joint World Bank-Fund program provides a diagnosis of financial sector vulnerabilities and development needs. It is used by the IMF as a basis for its Financial System Stability Assessments, which focus on examining the soundness and operation of a country's financial sector and its link to the country's macroeconomic performance. The IMF staff prepares Financial System Stability Assessment reports during the periodic economic review process, and these reports become a part of the IMF staff papers presented to the IMF Executive Board. In addition to the Financial System Stability Assessment program, the IMF, in cooperation with the Basel Committee on Banking Supervision, has been undertaking assessments of countries' compliance with the Basel Core Principles for

Effective Banking Supervision.[3] In many instances, these assessments are published as Reports on the Observance of Standards and Codes modules. The IMF has used the Basel core principles assessments to identify specific gaps in a country's regulatory or supervisory framework and to develop an appropriate focus for reforms. Similar to the Financial System Stability Assessments, the Basel core principle assessments are also to be included in the IMF's economic reviews.

We reviewed how the IMF and the U.S. Executive Director worked together in promoting sound banking principles in five countries—India, Mexico, Romania, South Africa, and Thailand (see table 3 for examples of IMF and U.S. Executive Director proposed banking reforms in these five countries). The U.S. Executive Director generally agreed with the focus of the IMF Executive Board in the three countries that had an IMF arrangement (Mexico, Romania, and Thailand) and in the two countries that were not under an IMF arrangement (India and South Africa). Table 3 provides an analysis of examples of reforms promoted by the U.S. Executive Director and the IMF in the five countries we reviewed.

[3] In 1996, the Basel Committee on Banking Supervision—a committee of banking supervisory authorities, which was established in 1974 by the central bank governors of the Group of Ten countries (Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, the United Kingdom, and the United States)—issued core principles for banking supervision that were intended to serve as standards against which countries may evaluate the adequacy of their supervisory systems as well as guidance to countries changing their systems. The core principles provide operational guidance for (1) preconditions for banking supervision, (2) licensing and structure, (3) prudential regulations and requirements, (4) methods of ongoing banking supervision, (5) information requirements, (6) formal powers of supervisors, and (7) cross-border banking.

Table 3: Examples of Banking Sector Reforms Promoted by the IMF and the U.S. Executive Director in India, Mexico, Romania, South Africa, and Thailand Since 1998

	Current IMF arrangement as of November 2000	Examples of reforms promoted by U.S. Executive Director
India	No	• Encouraged India to strengthen supervision, regulation, and the oversight of nonbank financial institutions • Stressed the need for India to withdraw from public ownership of banks
Mexico	Yes	• Urged Mexico to further strengthen its bankruptcy procedures • Urged Mexico to aggressively implement its plans to recapitalize[a] banks, establish a suitable legal framework for bank lending, and bring regulatory capital[b] standards closer to international standards
Romania	Yes	• Encouraged the license withdrawal of a major state-owned bank and stressed that the privatization of banks would help to restore healthier financial markets • Encouraged the aggressive implementation of supervisory and prudential elements in the financial sector as being critical both for the viability of Romania's financial institutions and for rebuilding public confidence in the country's currency and financial institutions
South Africa	No	• Agreed with the findings of the IMF's staff in the consultation process and commented on the Financial System Stability Assessment
Thailand	No	• Cautioned against a large state role in the bank recapitalization process • Encouraged Thai officials to focus on financial conditions of banks and the high level of nonperforming[c] loans, especially of those banks that had intervention programs • Encouraged foreign investment • Promoted bankruptcy statute and related corporate laws

Examples of reforms promoted by the IMF	Discussion
• Supported India's efforts to tighten its regulatory regime, improve bank supervision, and reduce directed lending and domination by its public sector banks • Commented on India's compliance with Basel core principles	Both the IMF and the U.S. Executive Director encouraged India to keep making banking sector reforms. India had volunteered for the Financial System Stability Assessment program and a Basel core principles assessment. Both the IMF and the U.S. Executive Director supported India's efforts to assess its banking sector. India had embarked on a broad-based reform in the early 1990s to open the economy and foster private sector activity. By the late 1990s, India had made a number of changes.
• Promoted strengthening and consolidating the banking system • Pushed for improving the capitalization of Mexican banks, issuing new loan classification[d] rules, and changing capital requirements • Wanted the role of the Bank Savings Protection Institute to be clarified and for Mexico to specify actions for banks in distress	The U.S. Executive Director had supported the IMF's financial arrangement for Mexico and directed its comments on urging Mexico to continue to make progress in areas Mexico was trying to change, such as bankruptcy reform, and also supporting Mexico as it met IMF targets. As a result of its program, Mexico adopted important measures to strengthen the operating environment of the banking system and improve the soundness of its banks.
• Required Romania to reduce public enterprise losses through accelerating the restructuring and privatization of state banks and enterprises • Required the liquidation of a large, state-owned bank and privatization of other banks •	The IMF arrangement for Romania was conditioned upon Romania's privatizing a large, state-owned bank. The U.S. Executive Director's focus was also on the privatization of state-owned banks. As a result of its program, Romania successfully closed a large, insolvent, state-owned bank.
• Encouraged South Africa's central bank to have a more active role in on-site examinations, bring limits on large credit exposures[e] more in line with international best practices, and adopt a formal framework to govern the government's strategy for removing itself from involvement in a bank in which it had previously intervened	Both the U.S. Executive Director and the IMF agreed with the IMF's staff assessment that South Africa had a sound banking sector and that a few changes could be made in order to further strengthen South Africa's system. South Africa had also participated in the Financial System Stability Assessment program, and both the U.S. Executive Director and the IMF agreed with the findings of the assessment. However, the Financial System Stability Assessment caused the U.S. Executive Director to question South Africa's efforts to stimulate credit to small- and medium-sized enterprises, since the assessment revealed that those efforts were not benefiting those enterprises.
• Required Thailand to prepare restructuring[f] and privatization strategies for recently intervened banks • Required Thailand to review the Financial Institution and Development Fund policies and operations, and finalize a plan for the introduction of a deposit insurance scheme to replace the current system by Dec. 1998 • Required Thailand to assist banks in reducing nonperforming loans • Required Thailand to finalize recapitalization plans for all banks and finance companies	The IMF and the U.S. Executive Director were in agreement about Thailand's program and the changes Thailand needed to make. The U.S. Executive Director focused its comments on the issues that Thailand was to address to meet its program targets, congratulating Thailand when targets were met but also raising issues that could come up and/or worsen.

[a]Recapitalization refers to any restructuring of a troubled bank assisted by a deposit insurance fund, as in a bailout of a failing bank, where the insurance fund pays the acquiring bank the difference between

the book value of a troubled bank's assets and the estimated market value of the assets. The insurance fund may also take an equity position in the restructured bank.

[b]Capital refers to the funds invested in a bank. Banking supervisory agencies generally require banks to maintain certain capital levels to meet the claims of creditors and depositors.

[c]Non-performing loans are loans that are not performing according to the borrower's original loan agreement.

[d]Loans are usually classified by different categories such as maturity, industry, security, and type of borrower.

[e]Exposure limits are the total amounts of credit a bank can extend to one borrower.

[f]Restructuring refers to a condition where a lender grants a concession to a borrower in financial difficulty. Typically, the lender negotiates a workout agreement with the borrower to modify the original credit terms rather than initiate foreclosure proceedings against the delinquent borrower.

Source: GAO analysis of IMF documents.

U.S. Executive Director Has Been a Strong Advocate of Banking Reform

The U.S. Executive Director told us that the United States was already promoting the importance of the IMF's focus on banking sector reform, prior to the implementation of the banking mandate. The U.S. Executive Director's emphasis has been on two factors that the IMF should be concerned with regarding sound banking and financial system stability. The first factor was to determine the vulnerability of countries' financial systems in order to prevent a financial crisis. The second factor was to focus greater attention on establishing efficient financial intermediation—the process of transferring funds from savers to borrowers. According to the U.S. Executive Director, the most critical piece in determining the vulnerability of members' financial systems was assessing the health of each member's banking system. In addition, the U.S. Executive Director stated that the IMF's main role in the financial sector agenda was surveillance—the job of alerting members to the weaknesses in their banking systems and supervisory regimes, and monitoring a member's progress to that end. Over the last 3 years, the U.S. Executive Director has supported the IMF's efforts to incorporate Financial System Stability Assessment reports into the IMF's surveillance efforts and has actively supported the adoption and monitoring of the Basel core principles by member countries and assessments of countries' progress.

Other executive directors have said that the U.S. Executive Director was a driving force in focusing the IMF's attention on sound banking practices. However, it is difficult to discern the extent of the U.S. Executive Director's influence in relation to other executive directors in promoting sound banking practices in member countries, because the IMF generally operates on a consensus decision-making basis. In addition, there is broad agreement among IMF members that pursuing sound banking principles and policies in member countries is an important part of the IMF's work.

U.S. Policy on Labor Issues at the IMF

Since 1994, Congress has enacted two provisions of law that set forth U.S. policy on internationally recognized core labor standards and worker rights in the context of International Monetary Fund programs. However, the predominant view at the IMF is that a country's adherence to those standards is usually not relevant to its macroeconomic condition and thus not directly relevant to the IMF's mission. Therefore, although U.S. officials have taken several different approaches to actively promote U.S. policy on core labor standards in an effort to garner support for the inclusion of this policy within the IMF's dialogue with borrowing countries, they have not had much success in influencing the IMF on this issue.

Background

Under U.S. mandates concerning labor issues at the IMF,[1] the Secretary of the Treasury must instruct the U.S. Executive Director to urge the IMF, as an institution, to encourage countries to guarantee internationally recognized core labor standards and worker rights. The five internationally recognized core labor standards advanced by Treasury and the U.S. Executive Director are

- the freedom of workers to associate with one another,
- the right to organize and bargain collectively,
- the prohibition of exploitative child labor,
- the prohibition of forced or compulsory labor, and
- the prohibition against employment discrimination.[2]

[1] U.S. policy on labor issues at the IMF is codified in 22 U.S.C. 262o-2 and 22 U.S.C. 262p-4p.

[2] Federal law also sets forth that the U.S. Executive Director shall urge the IMF to encourage borrowing countries to guarantee five internationally recognized worker rights. The first four rights specified in the law are the same as the first four core labor standards, but the fifth right specified—acceptable conditions of work with respect to minimum wages, hours of work, and occupational safety and health—differs from the fifth core labor standard concerning employment discrimination. According to Treasury officials, Treasury and the U.S. Executive Director focus their efforts more on the five core labor standards because they have widespread recognition, but added that Treasury and the U.S. Executive Director also take into account the fifth internationally recognized worker right specified in federal law. Because Treasury and the U.S. Executive Director focus their efforts more on core labor standards, we refer to this aspect of labor policy as core labor standards.

Through the International Labor Organization (ILO), the international community has codified these core labor standards in eight international treaties, or conventions.[3] At the ILO's 1998 conference, ILO members adopted the "ILO Declaration on Fundamental Principles and Rights at Work," which renewed all ILO members' commitment to respect, promote, and realize these core labor standards.

The Department of the Treasury and the U.S. Executive Director collaborate to formulate and actively advance their objectives concerning labor policies at the IMF. To advance U.S. policy on core labor standards, the U.S. Executive Director urges the IMF to consider the implications of its programs on borrowing countries' adherence to these standards. To illustrate the influence that Treasury and the U.S. Executive Director have had on IMF policies and practices with respect to labor issues, we reviewed their efforts to affect IMF programs for Argentina, Ghana, Kazakhstan, Mexico, and Thailand. We selected these countries, in part, because of the range of labor issues in each country, especially as they related to the economic challenges the countries have faced. General information on the countries and a summary of our findings are presented in table 4.

[3] The eight relevant conventions are the Freedom of Association and Protection of the Right to Organize Convention (no. 87); the Right to Organize and Collective Bargaining Convention (no. 98); the Minimum Age Convention (no. 138); the Worst Forms of Child Labor Convention (no. 182); the Forced Labor Convention (no. 29); the Abolition of Forced Labor Convention (no. 105); the Discrimination (Employment and Occupation) Convention (no. 111); and the Equal Remuneration Convention (no. 100).

Table 4: Labor Issues in Argentina, Ghana, Kazakhstan, Mexico, and Thailand Since 1998

	Argentina	**Ghana**
Level of economic development[a]	Developing	Heavily Indebted Poor Country
GDP per capita (US$, 1998)	$8,253	$406
Adherence to core labor standards[b]		
Right to associate[c]	• Constitutionally provided and generally respected	• Legally provided and generally respected
Right to organize and bargain collectively[d]	• Constitutionally provided and generally respected	• Legally provided and generally respected
Prohibition of exploitative child labor[e]	• Prohibited, but some illegal child labor occurs	• Prohibited, but illegal child labor is widespread
Prohibition of forced or compulsory labor[f]	• Effectively prohibited	• Prohibited, but occurs as part of rural or religious customs
Prohibition of employment discrimination[g]	• Constitutionally prohibited, but discrimination occurs	• Constitutionally prohibited, but discrimination occurs
Treasury and USED's efforts to advance U.S. policy on core labor standards issues	• While expressing support for flexibility enhancing labor market reforms, asked IMF staff to comment on consistency of collective bargaining reform with ILO convention on this issue	• Supported the government's proposed labor code reform, noting that it conformed with ILO standards
IMF efforts on core labor standards issues	• Discussed reforms to enhance labor market flexibility with Ministry of Labor officials and representatives from labor unions but did not raise adherence to core labor standards • Core labor standards not part of program	• Discussed labor issues such as minimum wage and civil service wage structure with Ghanaian government, but did not raise adherence to core labor standards • Core labor standards not part of program

Kazakhstan	Mexico	Thailand
Transitional	Developing	Developing
$1,410	$4,106	$1,819
• Legally provided, but government infringes	• Legally provided, but government has interfered	• Legally provided, except for state enterprise employees until recently
• Right to organize legally provided, but right to bargain collectively is not • Government has imposed significant limits on both	• Legally provided, but government has interfered	• Legally provided, except for state enterprise employees until recently
• Effectively prohibited	• Prohibited, but common in small companies, agriculture, and informal sector	• Prohibited, but a problem in agricultural and informal sectors
• Effectively prohibited	• Effectively prohibited	• Prohibited, but occurs in informal sector
• Prohibited, but discrimination occurs	• Constitutionally prohibited, but discrimination occurs	• Constitutionally prohibited, but discrimination occurs
• In response to proposed Kazakhstani reforms that would dismantle old Soviet-based labor code, urged government to make further reforms so labor code would be consistent with core labor standards and to consult with ILO	• Raised concerns for freedom of association, collective bargaining, gender discrimination, and the treatment of workers in export processing zones • Raised concerns for implications of proposed labor reforms on core labor standards • Encouraged IMF staff to consult with ILO and labor leaders in Mexico	• Raised concerns about progress of reforms to allow state enterprise workers the right to associate, organize, and bargain collectively
• Discussed labor issues such as wage arrears and the minimum wage but did not raise adherence to core labor standards • Core labor standards not part of program	• Discussed increasing labor mobility and labor participation in developing reforms, but did not raise adherence to core labor standards • Staff included an appendix on labor market reforms in a report to the Executive Board • Core labor standards not part of program	• Monitored progress of reforms to allow state enterprise workers the right to associate, organize, and bargain collectively but did not discuss in terms of adherence to core labor standards • Core labor standards not part of program

Legend

GDP = gross domestic product.

USED = U.S. Executive Director.

[a]According to the IMF's *World Economic Outlook: A Survey by the Staff of the International Monetary Fund* (Washington, D.C.: International Monetary Fund, Sept. 2000).

[b]According to the Department of State's Human Rights Report for each country, which describe the countries' adherence to each core labor standard.

[c]The right of association is the right of workers to establish and join organizations of their choosing without prior authorization.

[d]The right to organize and bargain collectively is the right of workers to organize unions without employer reprisals, and government promotion, where necessary and appropriate, of measures to encourage voluntary collective bargaining to establish wages, hours, and working conditions.

[e]The prohibition of exploitative child labor states that children should not be forced to work under abusive conditions. Consideration is made for work on family farms, in family businesses, and light work that does not interfere with schooling.

[f]The prohibition against forced labor states that persons should not be forced to work, except in certain defined circumstances, such as compulsory military service or when imposed through conviction in a court of law.

[g]The prohibition against employment discrimination proscribes that employers shall not discriminate against workers because of their race, gender, ethnicity, or religion in terms of their pay, working conditions, or performance standards.

Sources: GAO analysis of data from the IMF, World Bank, Department of State, and Department of the Treasury.

IMF Members Have Not Embraced U.S. Policy on Core Labor Standards

The IMF does not regularly pursue adherence to core labor standards with borrowing countries. According to IMF officials, while the IMF supports core labor standards in principle, the IMF has not found that the degree to which a country has adhered to core labor standards is directly related to the country's macroeconomic difficulties. Therefore, IMF members and staff do not consider the issue to be within the IMF's core mandate and have not addressed this issue in the IMF's country programs. Also, the IMF's staff lacks expertise in this complex and sensitive policy area. Our analysis of five borrowing countries found no evidence that IMF staff had incorporated the countries' adherence to core labor standards issues into the countries' performance criteria or structural benchmarks.

According to Treasury officials, the IMF's reluctance to consider core labor standards within the scope of its work is due in part to conflicting academic literature on whether certain labor standards have beneficial or detrimental effects on economic growth. Conventional economic theory treats certain social policies, such as labor and environmental standards, as government interventions that can inhibit the efficient operation of markets and, in turn, overall economic growth. According to Treasury officials, since most IMF staff and country representatives are trained as economists, they are reluctant to pursue policies that their training tells them could be counter to the IMF's goal of encouraging economic growth. As one Executive Director at the IMF expressed, the implication of promoting stronger social standards in a country is higher unemployment. If the choice is between workers being employed under less than ideal labor conditions or not having them work at all, this Executive Director favored having the workers be employed and earning income.

Other IMF members are also reluctant to have the IMF include consideration of these standards because it is a policy area where the IMF does not currently have expertise or institutional knowledge. Some executive directors with whom we spoke noted that other institutions, particularly the ILO, are better placed to address labor standards. In addition, some executive directors noted that the World Bank also has some expertise and institutional knowledge to help countries address core labor standards. Executive directors also noted that they would be agreeable to IMF staff consulting with the ILO or the World Bank on labor issues in borrowing countries if the staff found that labor issues were relevant to the country's program.[4] Furthermore, one Executive Director noted that there is concern that a country's adherence to core labor standards is primarily a political issue, and as such the IMF is prohibited from addressing them by its charter. As another Executive Director noted, the issues embodied in the core labor standards are complex and must be handled with careful regard for various cultural and political factors facing borrowing countries.

Treasury and the U.S. Executive Director Actively Promote U.S. Policy on Core Labor Standards

Since other IMF members and IMF staff have not widely embraced U.S. policy on the relevance of core labor standards to the IMF's work, Treasury and the U.S. Executive Director have made special efforts to advance this policy at the IMF. Nevertheless, they have not had much success in influencing the IMF to consider core labor standards in its programs. In certain circumstances, Treasury and the U.S. Executive Director's staff have had difficulty reaching consensus on how adherence to core labor standards best fits into the IMF's work and how to effectively advance U.S. policy on labor issues at the Fund. As part of its efforts to reach consensus, Treasury, with input from the U.S. Executive Director, has completed two documents since April 2000. The first document circulated within Treasury presents economic arguments for the relevance of core labor standards to the macroeconomic focus of the IMF's work. The second document, which was finalized in November 2000, sets out guidelines for Treasury officials as they pursue U.S. objectives on core labor standards and try to build support for U.S. policy among other IMF members. These guidelines clarify U.S.

[4] In the past few years, the ILO and the IMF have been increasing the level of cooperation and collaboration between them. The ILO has official observer status at the IMF's International Monetary and Financial Committee and IMF-World Bank annual meetings and joint Development Committee. The ILO is also involved in ongoing IMF-World Bank poverty reduction efforts.

policy objectives and legislative obligations concerning labor standards to facilitate Treasury's efforts to provide the U.S. Executive Director with timely and effective input.

Engaging the IMF on the Relevance of Core Labor Standards

Treasury and the U.S. Executive Director are simultaneously following two approaches to change the thinking of other IMF members, IMF staff, and IMF management on this issue. The first approach is to engage other executive directors and IMF staff on the relevance of core labor standards to the IMF's mission. Treasury and the U.S. Executive Director have argued that the IMF should not develop programs that may negatively impact countries' adherence to core labor standards without taking those impacts into consideration. Treasury officials have also taken advantage of other forums to promote U.S. policy on the relevance of core labor standards to the IMF's mission. For example, Treasury officials have promoted U.S. policy at meetings with government officials of the Group of Eight,[5] through personal contact with other countries' officials, and at IMF annual meetings. In addition, Treasury and the U.S. Executive Director organized a seminar on core labor standards for the IMF and the World Bank's 1999 annual meeting in cooperation with the IMF, the World Bank, and the American Federation of Labor-Congress of Industrial Organizations (AFL-CIO).[6] Senior officials from these institutions, as well as a Minister of Finance from Chile and a noted academic, presented their views on the role of core labor standards at the IMF and the World Bank.

[5] The Group of Eight, or G-8, refers to the governments of the eight major industrial democracies: Canada, France, Germany, Italy, Japan, Russia, the United Kingdom, and the United States.

[6] The AFL-CIO is a voluntary federation of 68 U.S. unions that promotes their concerns on labor issues at the national and international level.

Treasury and the U.S. Executive Director's second approach has been to pursue the best examples of countries where they believe that adherence to core labor standards is deficient and that the IMF should consider core labor standards as relevant to their macroeconomic stability. Treasury and the U.S. Executive Director can then use these examples as successful precedents to urge the IMF to advance core labor standards in other countries and at the broader level. According to Treasury officials, countries that make the best cases are those where the conditions of its IMF program will clearly have implications for the labor market. For example, the IMF and the Argentine government agreed that to stimulate economic growth, Argentina would need to increase labor market flexibility through various reforms, including legally decentralizing union collective bargaining.[7] While Treasury and the U.S. Executive Director agreed with Argentina's need to increase labor market flexibility, they also recognized that some of the reforms discussed would have implications for Argentina's adherence to the core labor standard concerning collective bargaining. Therefore, they monitored the progress of these reforms and asked IMF staff to clarify whether the reform proposed to decentralize union collective bargaining would be consistent with the ILO Right to Organize and Collective Bargaining Convention (no. 98).

The U.S. Executive Director also tries to set precedents by pursuing labor policy with IMF management and staff in advance of an IMF mission to a member country as part of a program or general economic review. For example, Treasury and the U.S. Executive Director became aware that the IMF and the Mexican government were exploring a possible financial arrangement at the end of 1998. Officials from Treasury and the U.S. Executive Director's office collaborated to determine whether the U.S. labor mandates were relevant to the proposed IMF program in Mexico. Based on their analysis, they became concerned that reforms the Mexican government was proposing to increase labor market flexibility and modernize the labor relations system could have negative implications for the rights of workers to organize and bargain collectively. The U.S. Executive Director therefore sent a memo to the Managing Director of the IMF, urging the IMF's mission team to, among other things, (1) incorporate

[7] Collective bargaining can occur at various levels, from highly centralized, such as between all of the workers and employers in an industry at once, to highly decentralized, such as between a particular group of workers in one factory and their common employer. While there is no consensus among labor policy specialists on the most appropriate level of collective bargaining, it is agreed that generally, the more centralized the level of collective bargaining, the more strength organized labor holds.

the discussion of core labor standards into their policy dialogue with Mexican authorities in the context of any discussion of broader labor market reforms and (2) survey labor market policies and practices in Mexico and recommend policy initiatives that will help ensure the maintenance or improvement of core labor standards.

As part of another means for establishing precedents, the U.S. Executive Director encourages IMF staff and borrowing country governments to consult with the ILO when labor issues come up in a country or when a country's program may have implications for the country's adherence to core labor standards. For example, in commenting on Kazakhstan's 1999 request for a new arrangement at an Executive Board meeting, the U.S. Executive Director encouraged the Kazakhstani government to consult with the ILO concerning proposed reforms to Kazakhstan's labor code. In doing so, Kazahstan could ensure that these reforms were not only better suited to the market economy that it is trying to develop, but also consistent with core labor standards.

Officials at Treasury and U.S. Executive Director's office do not often advance core labor standards with two groups of countries—advanced industrial economies and the poorest countries—because they believe that these countries do not make good precedents. According to Treasury officials, they do not pursue these issues with advanced industrial economies, such as France, Germany, or Japan, because their adherence to core labor standards is generally high. In reviewing the poorest countries, Treasury officials have found that they also do not generally make good cases because they do not have a sufficiently large industrial base for the core labor standards of freedom of association and freedom to organize and bargain collectively to be important issues relative to the other challenges facing these countries. Moreover, although child labor can be a concern in these countries, Treasury officials noted that the root of the problem is in the high level of poverty, cultural and societal norms, and lack of opportunities for the children. In addition, concerns that Treasury might have about forced labor or gender inequality in these countries are more closely related to human rights issues than to core labor standards. Therefore, according to Treasury officials, they address these issues in that context. For example, according to Treasury officials, Ghana's adherence to each of the core labor standards could be improved, but since Ghana has a pressing need to address poverty, and most of its labor force is engaged in agriculture, Treasury did not urge the U.S. Executive Director to comment on core labor standards in Ghana until recently.

To enhance Treasury's and the U.S. Executive Director's efforts to advance U.S. policy on core labor standards, Treasury hired a labor policy specialist in 1998 to provide background information and policy guidance on core labor standards issues to other Treasury officials and the U.S. Executive Director. The labor specialist is responsible for reviewing the labor situation in each IMF member country as it comes before the IMF's Executive Board as part of a program request, a review of an existing program, or the IMF's periodic reviews of the country's economic conditions. For each country, the specialist determines whether there are concerns for that country's adherence to core labor standards and coordinates with Treasury's country desk officers to provide the U.S. Executive Director with input for an oral or written statement to the IMF's Executive Board.

Although U.S. officials have been targeting their efforts to pursue core labor standards, two executive directors noted that some developing countries do not support U.S. policy on core labor standards because these countries do not believe that U.S. motives are altruistic. Rather, they view U.S. promotion of core labor standards as a trade protectionist measure meant to increase labor costs in developing countries, thereby potentially averting the relocation of U.S. firms and the loss of U.S. jobs. Despite this resistance, officials at Treasury and the U.S. Executive Director's office note that they have seen signs that their efforts to advance U.S. policy are being heard. For example, in response to U.S. interest on labor issues in Mexico, IMF staff included an appendix concerning Mexico's efforts to modernize labor markets and improve their efficiency in their 1999 report on Mexico's request for an arrangement.[8] In addition, during visits to Argentina to discuss its ongoing arrangement, IMF staff consulted with union officials on a variety of labor issues related to the flexibility of its labor markets.

[8] "Mexico—Request for Stand-By Arrangement" (Washington, D.C.: International Monetary Fund, June 18, 1999).

U.S. Policy on Audits of Military Expenditures at the IMF

In 1996, Congress enacted the audits of military expenditures legislation,[1] which includes a specific directed voting provision that requires the U.S. executive directors at international financial institutions to oppose nonbasic human needs assistance to countries that do not conduct and report regular audits of their military spending to civilian authorities. In the five cases we reviewed, we determined that the United States has achieved some success in advancing this mandate at the IMF and in convincing some borrowing countries to conduct audits of military spending. The U.S. Executive Director's effectiveness in advancing this particular mandate at the IMF is due in part to a widespread view in the international community that good governance, transparency of budgets, unproductive spending, and military spending are economic issues that could impact the effectiveness of a country's macroeconomic reform effort. Nevertheless, the pursuit of this mandate has had an uncertain impact on the broader U.S. influence at the IMF. While there is strong IMF support for the intent of the legislation, U.S. and IMF officials emphasized that the military audit mandate sometimes competes with countries' priorities and that U.S. officials have limited discretion on when to advance the mandate for countries deemed out of compliance. As a result, U.S. and IMF officials believe that the limited discretion that U.S. officials have in advancing this mandate runs counter to the consensus decision-making approach of the Fund and could negatively impact U.S. influence at the IMF.

[1]Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1997 (P. L. 104-208, title V, sec. 576, 22 U. S. C. 262k-1), as amended by section 572, Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1998 (P. L. 105-118).

Background

Congress has been concerned that military expenditures by some developing countries are excessive and an unproductive drain on their limited resources. Congress was also concerned that public information on military expenditures for some countries is generally characterized by incompleteness, lack of transparency, and inaccuracy.[2] Partly in response to these concerns, in 1996 Congress passed the audits of military expenditures legislation. The legislation states that the U.S. Executive Director is to use its voice and vote to oppose the use of funds, other than those to address basic human needs, for any government that does not have in place a functioning system for reporting audits of military expenditures to civilian authorities or has not provided such information to any institution that requests it.[3] The U.S. Treasury was given a 3-year window to develop an implementation approach, with the voting requirement taking effect on October 1, 1999. After that date, the U.S. Executive Director was instructed to oppose approval of IMF arrangements for countries deemed not in compliance with the standards set forth in the mandate. On October 18, 1999, 22 countries were deemed noncompliant with the standards of the mandate, but by November 9, 2000, this number had declined to 17 countries.[4]

In 1999, Treasury formed an Interagency Policy Group to assess countries' compliance with the military audit legislation. The group is comprised of the Treasury, the Department of State, the Department of Defense, the U.S. Agency for International Development, the National Security Council, and the Office of Management and Budget. The Policy Group developed the following interpretation and definitional guidance for the legislation:

- A country must be routinely conducting a post-expenditure examination, verification of accuracy, and reconciliation of irregularities

[2] Four separate pieces of legislation have been passed since 1992 requiring the United States to consider a country's military spending when making decisions on providing international financial institution assistance. Descriptions of these legislative mandates are provided in appendix I.

[3] For the purposes of this legislation, international financial institutions are the International Bank for Reconstruction and Development, the Inter-American Development Bank, the Asian Development Bank, the Asian Development Fund, the African Development Bank, the African Development Fund, the International Monetary Fund, the North American Development Bank, and the European Bank for Reconstruction and Development.

[4] According to Treasury, the list of noncompliant countries is not publicly disclosed.

of receipts that fund the military (annually, though a 2-year completion lag is acceptable).

- Results of the audit must be reported to a nonmilitary entity.
- Significant off-budget or commercial revenue (defined as greater than 5 percent of the total defense budget) that funds the military must also be audited and reported to a civilian authority.

Treasury has taken several steps to advance the military audit mandate at the IMF, including working with the State Department to inform IMF member countries of the legislation through U.S. embassies and providing information to the U.S. Executive Director on the countries that are noncompliant with the mandate. The U.S. Executive Director's office also informed IMF management and staff of the importance it attached to the mandate and the compliance requirements.

The Process for Registering Opposition to IMF Programs

When a country is found to be not in compliance by the Policy Group, the U.S. Executive Director is directed to oppose the use of IMF resources. The process for registering opposition to the use of IMF resources is as follows:

- The Policy Group recommends to the Secretary of the Treasury that the U.S. Executive Director oppose the use of Fund resources to that country.
- The Secretary of the Treasury then instructs the U.S. Executive Director to oppose the use of Fund resources to that country.
- The U.S. Executive Director then states in an oral or written statement to the Executive Board that the United States wants to record its opposition to that country's program.
- The Secretary of the IMF's Executive Board records U.S. opposition in the Board minutes.

The Policy Group has determined that the reference in the legislation for the U.S. Executive Director to "oppose" provides flexibility to either abstain or vote no. The use of a "no" vote versus "abstain" would be the Secretary's determination, based on interagency consultation on a case-by-case basis. The Policy Group has also determined that in cases where the only reason for opposing the use of IMF resources is a lack of compliance with the military audit legislation, the U.S. Executive Director should abstain. In addition, in cases where countries are actively engaged in making necessary changes to become compliant, the U.S. Executive Director would include strongly supportive comments in Board statements accompanying the directed vote. The U.S. Executive Director has never voted no under the military audit mandate but has abstained 3 times, as of September 30, 2000. Regardless of whether the United States chooses to abstain or vote no, its actions alone are not sufficient to veto a country's access to IMF resources because approval of a country's arrangement requires support from a majority of the Executive Board. Although the United States has the largest voting share of any member (17 percent), this is insufficient to unilaterally block access to IMF resources.

The decision by the United States to record its opposition to a country's program is considered by the Secretary to the Board to be a vote (and recorded as such in the minutes). However, other members do not have to formally vote in response. Formal votes are rarely taken at IMF Board meetings, but any executive director may require a formal vote to be held. According to an IMF official, Board decisions are expected to reflect the consensus of Board members, with the views expressed as part of the overall discussion. Over the course of the meeting, the Secretary keeps track of each executive director's position. While directors in almost all cases support IMF programs on the whole, they may express differences of views with programmatic details or broader issues regarding the quality of the program. However, if there is evidence of widespread opposition, the Chairman or an individual member may request a poll of members' views. Such a poll is not considered a "vote" by the Board but a tool for accurately gauging the views of Board members. An analysis of the U.S. Executive Director's voting record for the period of October 1997 through September 2000, shows that the U.S. Executive Director voted against or abstained from voting a total of 21 times.[5] Of these 21 votes, 3 were related to abstentions under the military audit mandate.

[5] The U.S. Executive Director voted against a proposed decision 11 times, abstained 9 times, and in 1 situation it was uncertain as to whether the U.S. Executive Director had abstained or voted against the decision. In seven instances, the U.S. Executive Director's actions were related to the IMF's administrative and personnel matters, and in the other cases, the actions taken were related to specific country programs.

U.S. Efforts to Advance the Military Audit Directed Vote Mandate Have Been Successful

The United States has been actively advancing the military audit mandate and has been successful in the majority of the cases we analyzed. The U.S. Executive Director has emphasized issues of fiscal controls and budget transparency in U.S. country statements to the Board, in attempting to integrate the military audit mandate within the IMF's own operating guidelines and institutional processes. According to the U.S. Executive Director, the military audit mandate is easier to advance than, for example, the labor mandate, because it fits well within the Fund's efforts to promote good governance, fiscal transparency, and the control of unproductive spending.[6] While the IMF does not generally require audits of military spending as a condition for the use of its resources, the IMF has asserted that its staff may need information about the level of and trend in military expenditures and related transactions in order to permit a full and internally consistent assessment of the member's economic position and policies. In addition, IMF members we spoke with generally agreed that the auditing and transparency mechanisms promoted by the mandate could potentially bring important information regarding military spending to the attention of donors.

We reviewed five countries that were included on the October 1999 list of 22 noncompliant countries established by the U.S. Treasury (Burkina Faso, Guinea-Bissau, Indonesia, Kazakhstan, and Rwanda).[7] Of these five countries, as of November 9, 2000, only Guinea-Bissau is not in compliance with the military audit mandate (see table 5).

[6] Various mechanisms in the IMF and other international financial institutions have contributed to the United States effectively advancing the military audit legislation. These mechanisms include *The IMF's Annual Survey of World Military Spending, Public Expenditure Reviews, Performance-based Lending Criteria, and Advance Budget Commitments.* In addition, the IMF, with strong U.S. encouragement, established the *Code of Good Practices on Fiscal Transparency* in 1998 that promotes budget, expenditure, and auditing standards.

[7] The directed vote aspect of the mandate is only pertinent to countries under an IMF financial arrangement. Of the original 22 countries that were deemed noncompliant, these 5 countries were the only ones under such an arrangement since the mandate went into effect and thus were suitable as case studies. Although the United States pursued the mandate at some of the other 17 countries, none faced the prospect of U.S. opposition to their program at the IMF, and only 1 of these 17 countries has become compliant as of November 9, 2000.

Table 5: The United States, the IMF, and Five Countries' Efforts to Conform to the U.S. Audits of Military Expenditures Mandate, as of November 30, 2000

	Burkina Faso	Guinea-Bissau	Indonesia	Kazakhstan	Rwanda
Arrangement approved after September 30, 1999	July 10, 2000	January 7, 2000	February 4, 2000	December 13, 1999	November 19, 1999, and July 31, 2000
U.S. Treasury's determination as of October 18, 1999	Noncompliant	Noncompliant	Noncompliant	Noncompliant	Noncompliant
U.S. Treasury's efforts	Worked indirectly through the IMF Country Director and directly through U.S. embassy.	Worked with U.S. embassy in Senegal to apprise Guinea-Bissau of its noncompliant status and to advance the mandate.	High-level Treasury and U.S. embassy officials conducted several meetings with top Indonesian officials and advanced mandate.	Worked with U.S. embassy to obtain information on the audit process for military spending.	Worked with U.S. embassy and IMF staff to obtain information on audit system and status of military audit.
U.S. Executive Director's efforts using its voice/vote[a]	Fund program reviewed on September 10, 1999, prior to mandate becoming effective. The U.S. Executive Director's statement voiced concerns regarding the absence of annual audits of Defense Ministry.	Fund program reviewed on September 14, 1999, prior to mandate becoming effective. The U.S. Executive Director's statement encouraged annual audits of military spending. Abstained: January 7, 2000	U.S. Executive Director voiced several concerns about unaudited, off-budget revenue that funds the military and actively pursued with IMF staff.	On October 19, 1999, U.S. Executive Director at the European Bank for Reconstruction and Development abstained on a project. No action was necessary by the U.S. Executive Director at the IMF on December 13, 1999.	Abstained: November 19, 1999 Abstained: July 31, 2000 Authorities had not begun an audit of the Defense Ministry.
IMF efforts	IMF mission officers discussed the mandate and U.S. Executive Director's concerns with country officials.	The audit and control of military expenditures is a key aspect under an upcoming IMF arrangement and the IMF-World Bank portion of the Heavily Indebted Poor Countries Initiative debt relief.	IMF staff worked with Indonesian authorities to commit in the Letter of Intent[b] to audits of off-budget revenues that fund the military.	No action was necessary by IMF staff because country was deemed compliant by U.S. Treasury after the U.S. abstention at the European Bank for Reconstruction and Development.	Urged the authorities to give priority to the audits of key ministries, including Defense. IMF believes that authorities' commitment were strengthened with assistance from the Canadian, Dutch, and Swedish governments

(Continued From Previous Page)

	Burkina Faso	Guinea-Bissau	Indonesia	Kazakhstan	Rwanda
Country's efforts	President issued a decree in April 2000 calling for annual audit of Defense Ministry.	Audit of the Defense Ministry has not been initiated but is anticipated.	Authorities agree with intent of mandate and have initiated steps to account for all off-budget funds in its audits of public institutions, including the Defense Ministry.	Authorities provided information that indicates a functioning audit system, including Defense Ministry.	Authorities agreed to give a high priority to the audit of the Defense Ministry.
Current country status	Compliant June 29, 2000	Noncompliant January 6, 2000	Compliant February 3, 2000	Compliant November 29, 1999	Compliant September 13, 2000

[a]Vote = abstain or vote "no." Voice = stating U.S. position without a vote. A formal vote is never actually taken. The U.S. Executive Director provides a written statement for the record.

[b]The Letter of Intent describes the policies that a country intends to implement in the context of its request for financial support from the IMF.

Sources: GAO analysis of data from the Department of the Treasury, U.S. Executive Director at the IMF, and IMF.

According to the U.S. Executive Director, U.S. success in advancing the audits of military expenditures mandate was aided by two factors: acceptance by the IMF of the merits of the issue, and the possibility that the United States would oppose a country's use of IMF resources. There is a widespread view in the international community, including at the IMF, that good governance, transparency of budgets, unproductive spending, and military spending are economic issues that could impact the effectiveness of a country's macroeconomic reform effort. Therefore, IMF staff consider it appropriate to raise concerns about military expenditures in the context of their efforts to assist countries. As shown in table 5, IMF staff encouraged the countries' authorities to audit government accounts, including military receipts and expenditures. In the case of Kazakhstan, IMF support was unnecessary because the country was already compliant. In these cases, the changes encouraged by the IMF also helped the country in its efforts to comply with the U.S. mandate. For example, in the case of Indonesia, IMF staff strongly encouraged Indonesian officials to include a commitment to audit off-budget military expenditures as part of its Letter of Intent to the IMF. The inclusion of this commitment within the Indonesian Letter of Intent was a contributing factor in the U.S. decision to remove Indonesia from the list of noncompliant countries.

Based on our review of country documents and discussions with Treasury, U.S. Executive Director, and IMF officials, we have determined that the success of the mandate was also aided by countries' desire to avoid having the United States oppose their receipt of resources under their IMF arrangements.[8] As our military audit mandate case study revealed, certain countries have agreed to undertake military audits as a response to U.S. pressure. According to Treasury and U.S. Executive Director's officials, because of the key role of the U.S. government in the IMF and the donor community, recipient countries do not like having the United States oppose their IMF program. Although U.S. opposition is not sufficient to veto a country's access to IMF resources, according to U.S. and country officials, the U.S. position raised the priority of this issue and motivated some of the countries on the noncompliant list to become compliant more rapidly. For example, according to Treasury, because the United States was threatening to oppose debt relief to Burkina Faso, the authorities agreed to initiate an audit of military spending earlier than they otherwise would have. In the case of Guinea-Bissau and Rwanda, despite their efforts to become compliant with the audits of military expenditures mandate, the U.S. Executive Director opposed their receipt of IMF resources because at the time of the review of their IMF arrangement, they were not compliant with the criteria established by the Policy Group. Both countries continued to address U.S. concerns following their reviews; Rwanda became compliant in September 2000, and Treasury believes the government of Guinea-Bissau is beginning to take steps to audit government expenditures, including the military. According to a Treasury representative, the Treasury is working with U.S. embassy representatives to ensure that Guinea-Bissau understands U.S. legislative criteria requiring the reporting of its military audit to civilian authority.

[8] It should not be concluded that U.S. leverage is always this evident when a mandate requires a directed vote. The U.S. Executive Director at the World Bank routinely opposes loans to countries due to several additional directed vote mandates, including those pertaining to human rights, the environment, and nuclear nonproliferation. According to an official from the World Bank's U.S. Executive Director's office, the routine nature of the U.S. opposition has blunted its impact and has not necessarily led to any change in countries' policies.

The Impact of the Military Audit Mandate on Broader U.S. Influence at the IMF

The impact of pursuing the military audit mandate on the broader U.S. influence on IMF policy is uncertain. Based on our discussions with U.S. and IMF officials, we have determined that the directed nature of the mandate has worked to advance U.S. policy goals; nevertheless, it may also limit U.S. credibility with other IMF members. There is widespread support by IMF members with the intent of the legislation, meaning that countries should strive to control their level of military spending and have in place a system that provides accurate and reliable information to the public. As our military audit mandate case study revealed, certain countries have agreed to undertake military audits in response to U.S. pressure. However, other IMF members we spoke with questioned whether the United States may have promoted the military audit issue in certain countries simply because it is a legislatively mandated directed vote and not necessarily because it was in the best interest of the country at the time. Therefore, while U.S. officials are pleased with the progress realized through their pursuit of the mandate, they see a risk to U.S. credibility when they must emphasize one issue over other more pressing matters that a country may be confronting.

The mandate does not give the U.S. Executive Director the discretion to determine when to pursue the military audit issue. As a result, the U.S. Executive Director is compelled to advance the mandate with country authorities and with IMF staff regardless of whether the U.S. Executive Director believes it is an appropriate time to pursue the mandate with a given country. Treasury staff and all of the executive directors we interviewed at the IMF expressed concern with the inflexibility of the law. The executive directors believe that the U.S. Executive Director has been very effective in advancing the military audit mandate but, due to the inflexibility of the mandate, has at times been too aggressive in this pursuit.

The constraints imposed by the directed nature of the military audit mandate were evident in our case study analyses. For example, as a result of a severe economic crisis and the subsequent collapse of 30 years of military dictatorship, Indonesia has been faced with many competing priorities. Numerous Treasury and IMF documents and Board meeting agendas over the past 3 years indicate that the major priorities of the IMF Board for Indonesia centered on issues such as banking and corporate restructuring, bankruptcy law, and social safety net issues. Annual audits of off-budget revenues that fund the military were not one of these major priorities. According to IMF staff, while the new democratic government of Indonesia is receptive to the military audit mandate, discussions with authorities on this issue were highly complex. For example, according to

IMF staff, the auditing capacity in Indonesia is limited, and it has been a challenge getting the overall fiscal accounts under control, especially when it requires the cooperation of the military. In addition, according to IMF staff, the time frame needed to achieve transparency in military expenditures is quite burdensome, and there are many immediate, more urgent issues to address. IMF staff also believe that the Letter of Intent commitment to audit off-budget sources that fund the military was ambitious and should be recognized as such. IMF staff expressed concern about having U.S. officials overemphasize this issue at this point.

Similarly, Rwanda, as a post-conflict country, has several major priorities, including government and macroeconomic stability, building administrative capacity, and satisfying the requirements of the Heavily Indebted Poor Countries Initiative.[9] Based on issues before the IMF Board, an audit of its military spending was only one of a large number of important priorities. According to the U.S. Executive Director, as of July 2000 Rwanda continued to face very difficult humanitarian and economic problems that require the utmost resolve and determination to effectively address. In addition, according to the U.S. Executive Director's representative, when the United States abstained from voting on Rwanda's program in July 2000, it required the U.S. Executive Director to raise as the first priority an issue that was just one of the necessary steps to address the country's many problems. The U.S. Executive Director was compelled to abstain from voting to make a financial disbursement for Rwanda's program because Rwanda was not yet in full compliance with the military audit mandate's requirements. This occurred despite the administration's knowledge that Rwanda would become compliant with the mandate shortly and, in its judgment, was making good progress in implementing economic reforms and improving fiscal transparency.

IMF Board members understand that in certain cases the U.S. Executive Director advanced military audit concerns because of the legislative requirements and not necessarily because a focus on military audits was among the most important issues confronting that country. These Board members noted that the Executive Board generally makes decisions on a consensus basis and that limitations on an executive director's discretion runs counter to this practice. Therefore, while U.S. officials agree with the

[9] The Heavily Indebted Poor Countries Initiative is a framework developed jointly by the IMF and the World Bank to address the external debt problems of the heavily indebted poor countries.

intent of the mandate, they believe that there is a risk to U.S. credibility at the IMF when the U.S. Executive Director must emphasize an issue over other, more pressing priorities for a borrowing country.

Objectives, Scope, and Methodology

The Consolidated Appropriations Act for Fiscal Year 2000 (P.L. 106-113 sec. 504 (e)) requires GAO to report on the extent to which Fund practices are consistent with U.S. policies set forth in federal law. In order to address this requirement, we (1) identified how the U.S. Treasury and the U.S. Executive Director promote U.S. policies mandated by Congress for the Fund and (2) assessed whether Treasury and the Executive Director have been able to influence Fund operations and other members' policy positions in a direction that would be consistent with U.S. policy as set forth in law.[1] To help answer these objectives, we analyzed the process by which Treasury pursues its legislative mandates and conducted case studies of specific U.S. policies and Treasury's efforts to promote them for individual countries' Fund arrangements from 1998 through 2000.

To identify how the U.S. Treasury and the U.S. Executive Director of the International Monetary Fund promote U.S. policies mandated by Congress for the Fund, we analyzed the process by which Treasury pursues legislative mandates. Specifically, we reviewed Treasury documents, including internal correspondence, concerning the creation in 1999 of Treasury's *Task Force on Implementation of U.S. Policy and Reforms in the International Monetary Fund*, its operations, and the challenges that Treasury has faced in implementing its process for addressing legislative mandates. We also reviewed examples of Treasury officials' draft policy position input to the U.S. Executive Director for oral and written statements to the Executive Board. In addition, we interviewed officials within all 10 Treasury offices[2] who are responsible for developing the U.S. policy position toward the Fund, including members' Fund arrangements.[3] Further, in July 2000 we attended one task force meeting to observe Treasury's efforts to address legislative mandates. We also reviewed U.S.

[1] Recognizing that influence by any member of the Fund is hard to discern in an organization that generally operates by consensus, for the purposes of this report we defined "influence" as the ability of the United States to affect Fund policies as contained in Fund programs, as well as the actions of countries using Fund resources.

[2] Specifically, we interviewed Treasury officials within the following offices: the Office of African Nations; the Office of Middle East and South Asian Nations; the Office of Central and Southeastern Europe; the Office of Russia, Eastern Europe, and Central Asia; the Office of Latin American and the Caribbean Nations; the Office of East Asian Nations; the Office of International Monetary Policy, the Office of International Banking and Securities Markets, the Office of Development Finance, and the Office of International Trade.

[3] We also interviewed Treasury officials within the office of Multilateral Development Banks to compare how legislative mandates concerning other international financial institutions, such as the World Bank, are pursued.

statements to the Executive Board and internal U.S. Executive Director documents from 1998 to 2000 regarding U.S. Executive Director efforts to pursue legislative mandates. Finally, we interviewed the U.S. Executive Director and all of the staff in that office who monitor country and policy developments concerning the Fund, as well as numerous Fund staff and other Executive Board members.

To assess whether Treasury and the U.S. Executive Director have been able to influence Fund operations and other members' policy positions in a direction that would be consistent with U.S. policy as set forth in law, we conducted case studies of specific U.S. policies and Treasury's efforts to pursue them for individual countries' Fund arrangements. To select these case studies, we identified legislative mandates concerning U.S. policy objectives with respect to the Fund, using our own legal analysis supplemented with documentation obtained from Treasury. We used two criteria as the basis for identifying the relevant laws for this review. We defined these criteria as (1) any current law that explicitly directs the U.S. Executive Director to use the U.S. vote at the Fund to achieve a policy goal and (2) any current law that seeks to have the U.S. Executive Director use the U.S. voice at the Fund to promote a U.S. policy or make a policy change.

We selected sound banking principles, labor policies, and audits of military expenditures as the U.S. policy focus for our case studies. We chose these policies because they represent a range of types of legislative provisions, or mandates, that are set forth in federal law, including both voice and directed vote provisions. We also chose these policies on the basis of our preliminary analysis, which suggested that the U.S.' ability to impact Fund practice was related to whether policies encompassed issues that were viewed as central to the traditional focus of the Fund's mission. For each policy issue, we reviewed Fund practices with respect to five member countries that we selected based on a number of factors, including geographic diversity, level of economic development, type of Fund arrangement, and range of issues connected to the policy concern. For the labor policies and audits of military expenditures case studies, we selected only countries that have a financial arrangement with the Fund because the language in their corresponding mandates is expressly directed at those countries. Specifically, we selected the following countries for each case study: (1) for sound banking principles, India, Mexico, Romania, South Africa, and Thailand; (2) for labor policies, Argentina, Ghana, Kazakhstan, Mexico, and Thailand; and (3) for audits of military expenditures, Burkina Faso, Guinea-Bissau, Indonesia, Kazakhstan, and Rwanda. We limited our review to the activities of the Treasury, the U.S. Executive Director, and the Fund for the last 3 years; that is, the period from January 1998 through November 2000. Since we focused primarily on the Fund rather than on country practices, we did not travel to any of these countries as part of this review. However, we interviewed Fund officials who monitor developments in these countries as well as seven other executive directors of the Fund's Executive Board in Washington, D.C. Our basis for selecting these executive directors to speak with is discussed below.

We reviewed numerous internal Treasury and U.S. Executive Director documents dating from 1998 to 2000 to answer our second objective. These documents included internal correspondence among officials within Treasury and the U.S. Executive Director's office concerning their deliberations to develop U.S. policy positions with respect to both general mandate issues as well as the case study policies. We also reviewed Treasury's policy position input to the U.S. Executive Director and all U.S. statements to the Fund's Executive Board for each country covered for our case studies. In addition, we interviewed Treasury and U.S. Executive Director officials who monitor sound banking, labor, and military audit issues as well as those who monitor the country developments and are charged with formulating and implementing the U.S. policy position for each country with respect to the Fund. We also reviewed all Fund staff documents provided to the Executive Board concerning these countries for their program and economic policy reviews. These included Fund staff reports concerning countries' requests for arrangements, reviews of ongoing arrangements, and countries' periodic economic reviews, as well as staff summaries of Executive Board meetings.

In addition, we interviewed numerous officials at the Fund to answer our second objective. Specifically, we interviewed staff at the Fund who monitor each of the countries under our review, except for Fund staff who monitor developments in Burkina Faso, who were not available to meet with us. For the other countries, we discussed with Fund staff how they set priorities in negotiating arrangements with these countries and how our case study policies fit into these priorities. We also met with officials from the Fund's Policy Development and Review Department to discuss how the Fund pursues labor and military audit issues and we met with the Fund's Monetary and Exchange Affairs Department to discuss how the Fund pursues strengthening sound banking principles in countries. In addition, we met with 7 of the 23 non-U.S. Executive Board directors and discussed their views of these policies and the impact of U.S. influence at the Fund. Specifically, we met with the appointed executive directors of France, Germany, Japan, and the United Kingdom, and the elected representative executive directors from Gabon, Mexico, and Thailand. We selected these executive directors to speak with because (1) they represent the largest donor countries and a mix of borrower countries at the Fund and (2) the elected executive directors represent several of the countries we reviewed in our case studies.

Finally, we also interviewed the Assistant Secretary of the Fund's Executive Board and the Deputy General Counsel of the Fund to obtain information on the Board's process for voting and how often voting occurs. For comparison purposes, we interviewed an official within the U.S. Executive Director's office at the World Bank about the voting process in that institution as well.

We conducted our work from March through November 2000 in accordance with generally accepted government auditing standards.

Comments From the Department of the Treasury

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C.

UNDER SECRETARY

January 8, 2001

Mr. Harold J. Johnson
Director, International Affairs and Trade Issues
General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Johnson:

Thank you for your letter of December 21, 2000, and the opportunity to review the draft report, "Efforts to Advance U.S. Policies at the Fund." In addition to the technical comments already transmitted to GAO by Treasury staff, I would like to make a few broad points.

Our view is that the draft report provides a thorough and balanced appraisal that will contribute to a deeper understanding of the Administration's efforts to advance in the International Monetary Fund policies set out in U.S. legislation. The draft report carefully documents the seriousness with which the Treasury Department and the Office of the U.S. Executive Director at the IMF have sought to advance legislatively mandated policy objectives. Moreover, in recent years we have taken steps, as the draft report indicates, to intensify and make more systematic our efforts, notably through the establishment in 1999 of an internal task force on legislative mandates applicable to the IMF. Since October 1999, Treasury has provided extensive annual progress reports to Congress which are publicly available on Treasury's website ("Report on IMF Reforms – Report to Congress in Accordance with Sections 610 (a) and 613 (a) of the Foreign Operations, Export Financing and Related Programs Appropriations Act, 1999").

The draft also accurately reports that progress has varied in advancing the full range of policy objectives set out in numerous legislative mandates. In this context, it is important to bear in mind, as the draft indicates, that while the United States exercises considerable influence in the IMF, policies cannot be changed without the support of other member countries. Experience shows that our success in winning support of other countries depends largely on the degree to which the policy objective is relevant to the IMF's mission and pertinent to a given country or policy discussion.

The draft report helps illustrate the risk that legislative mandates can at times weaken our ability to promote in the IMF the very objectives that the mandates aim to achieve as well as weaken our overall effectiveness in the institution. When our position in the Fund is pre-determined by U.S. legislation – especially legislation requiring us to vote in a specified manner because of a particular issue regardless of how important that issue may be – and is so perceived by the rest of the Fund's membership, our ability to influence the shape of the program or policy at issue can be undermined.

The draft report usefully notes that there is a substantial number of mandates applicable to U.S. participation in the IMF -- the draft identifies 60 such provisions, some going back over 30 years -- and points out that the number has grown rapidly in the past several years. Sometimes these provisions overlap, and in some cases they are inconsistent. The continued expansion of legislative mandates and associated reporting requirements by Congress, without consolidating or rationalizing the provisions already in effect, risks overloading and thereby weakening our policy message and influence in the Fund. This situation also makes it more difficult to give adequate attention to the full range of mandates. These problems could be addressed in a number of ways, for example through the adoption of appropriate sunset or consolidation provisions based on a periodic comprehensive review of existing mandates.

Once again, let me thank you and your staff for a job carefully and well done.

Sincerely,

Timothy F. Geithner
Under Secretary
(International Affairs)

GAO Contact and Staff Acknowledgments

GAO Contact

Thomas Melito (202) 512-9601

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