odi

Overseas Development Institute *

10-11 Percy Street London W1P OJB
Tel: 01-580 7683

Briefing Paper

No 5 1980
October

THE IMF AND THE THIRD WORLD**

The uneasy state of relations between developing countries (ldcs) and the IMF continues to hit the headlines. Much publicity was given to a speech by President Nyerere of Tanzania in which he accused the Fund of exploiting Tanzania's economic difficulties in order to interfere with the management of its economy; of being a device by which 'powerful economic forces in some rich countries increase their power over the poor nations of the world'; and of trying to impose on them an anti-socialist ideology of economic and social development. A high-level international conference held in Arusha has since echoed these criticisms.

The Fund has recently had an equally well publicised row with Jamaica, with an 'IMF election' being fought partly on the issue of whether the government should accept the Fund's policy conditions in return for badly needed credits. There has also been a less public struggle in Zaire, where Fund staff are seeking to restore order to a badly run-down economy with policies which bring them into direct conflict with the power base of the Mobutu government.

The currently acute balance of payments difficulties of many ldcs (who together comprise 85% of its membership) have rekindled their long-standing complaints about the Fund, to which the *Brandt Report* added its own considerable weight (see ODI *Briefing Paper* No. 2, 1980). The main purpose of this paper is to review some of the chief points at issue but first we must set the controversy in the context of the global balance of payments situation. Basic information on the operations of the Fund is provided on the centre sheet.

Are the Fund's resources adequate?

The IMF failed to make much contribution to easing the oil crisis of 1974-79, even though one of its principal tasks is to provide financial assistance to members suffering from balance of payments disequilibria. Thus, while the aggregate current account deficit of non-oil ldcs in 1974-79 amounted to $233 bn, net Fund credit financed less than $10 bn of this. Commercial bank recycling loans were far larger, even with interest rates of up to 20% per annum – far above the charges of the Fund. Even in the crisis years of 1974-75 there was no increase in the number of stand-by agreements with ldc members and the real value of these credits was well below the 1970-73 level. In 1978-79 there was actually a net return flow from ldcs to the Fund. The consequence was that many of the ldcs could only manage their balance of payments by cutting the volume of imports and their development aspirations (see *Briefing Paper* No. 3, 1980).

This situation has prompted complaints that the Fund's resources are inadequate in relation to the magnitude of recent global balance of payments disturbances. Although there have been some absolute increases, aggregate quotas in the Fund have fallen dramatically as a percentage of the total value of international trade, from 14.2% in 1950, 11.5% in 1960, 8.2% in 1971 to 4.3% in 1978. It is therefore not surprising that governments complain that the Fund seeks to influence policies to an extent which is out of proportion to the limited assistance it can offer.

However, the adequacy of the Fund's resources must be judged against the probable magnitude of payments *imbalances* rather than against the total value of trade. By this criterion, the potential size of its credits is not negligible. The present value of Fund quotas for all non-oil ldcs (SDR10.3 bn) is equivalent to about a quarter of their total current account deficits in 1979. Taking into account inflows of aid, private capital and other long-term flows, if ldcs were all to make the maximum use of the Fund's facilities that is hypothetically available to them, the resulting credits would meet a large part of their residual financing needs. Admittedly, if they were all simultaneously to attempt such large-scale borrowing the Fund would face acute liquidity problems, because its usable resources are far less than the hypothetical ceiling on its lendings. Against this may be set the probability that agreement with the Fund would trigger additional lending from other official and commercial sources.

Individual ldcs could directly and indirectly obtain credits through the Fund that would meet a major portion of their financing needs in the next year or two. That they have not made fuller use of its facilities reflects their fear of the short-term policy conditions that would be imposed. The adequacy of the Fund's resources can thus only be judged in the context of the 'conditionality' attaching to their use and the speed with which they can be expected to adjust their economies in order to restore payments equilibrium.

This issue of conditionality is assuming increased importance in the current world economic situation because the present needs of non-oil ldcs for payments assistance are especially acute (see *Briefing Paper* No. 3, 1980). With a 130% increase in the price of crude oil during 1979 and early 1980, with further stagflation in the industrial world and with reduced real prices for

* The Institute is limited by guarantee.

** A research project on the International Monetary Fund and economic management in developing countries is currently being undertaken in ODI.

many of their exports, the non-oil ldcs are expected to run current deficits averaging $60 bn per annum in 1979-80. It appears increasingly unlikely that international commercial bank lending will meet much of this need, unless through collaborative arrangements with official agencies like the IMF. The real value of aid from industrial and OPEC countries is, at best, stagnant. Ldcs are thus likely to be left with a large payments gap in this and the next few years. Various suggestions have been made for the IMF to play a larger role in meeting this need but, with most of its existing resources underutilised, it is difficult to see how it could greatly expand its lending without some relaxation in its policy conditions.

Pros and cons of the conditionality debate

It is useful to begin with two preliminaries. First, not all the Fund's facilities are subject to stringent policy conditions (see centre sheet); out of the hypothetical credit maximum available to a member about two-fifths is not subject to demanding conditions. Second, the *principle* of conditionality is not much in dispute. It is the way that conditionality is applied that is under attack, so we turn now to review some of the chief accusations levelled against the Fund's approach to this.

ACCUSATION 1:
The IMF has a doctrinaire, pro-capitalist, anti-socialist approach to economic policy, which it applies rigidly to all countries irrespective of their circumstances and aspirations. It thus plays a key role in maintaining an exploitative pattern of ldc dependence on the industrial West

Critics have made several points under this heading. First, they point to the dominant voting power of Western industrial countries (dcs) on the Fund's boards (see centre sheet) and the dcs' resulting ability to ensure that decisions go the way they wish. To those who lean towards a dependency view of underdevelopment, who are suspicious of international trade as a vehicle for economic development, and who see the interests of the dcs and ldcs as fundamentally opposed, this domination makes the IMF (to return to President Nyerere's speech) a 'device by which the rich countries increase their power over the poor'. The critics can further argue that the Articles of Agreement, with their emphasis on the expansion of a liberalised system of world trade, already contain a bias towards a capitalist-oriented world economy. The critics allege, moreover, that the Fund lays down a virtually uniform package of stabilisation measures in support of upper-tranche and related credits – a package which includes ceilings on credit to the public sector, the liberalisation of trade and payments, a currency devaluation and cuts in real wages.

In defence, the Fund can argue that post-war developments have shown much change and flexibility within the existing general framework; that it has reconciled the objectives laid down in its Articles with fruitful co-operation with some of its centrally-planned members, most notably Yugoslavia; and that left-wing, interventionist governments like that of Jamaica have received extensive Fund credits. For Jamaica the total outstanding balance of these is currently equal to 358% of its quota, against an ldc average of 64%, and in 1979 the country was the largest recipient of IMF resources, on a per capita basis. In a number of ways the Fund has acted specifically to meet the needs of ldc members: in dissuading the dcs from their original intention to exclude ldcs from allocations of SDRs; in creating the Trust Fund and lines of credit such as the compensatory finance and extended facilities. The dcs argue that the voting power of ldcs has increased over time, that the remaining preponderance of the dcs is an accurate reflection of their two-thirds of total world trade, and that it is overwhelmingly their currencies which are used in the Fund's lending to ldcs.

It could be added that ldc Board members have been among those resisting suggestions for widening the number and scope of the economic variables which the Fund may lay down as performance criteria in stand-by arrangements. The Fund's staff are thus only authorised to specify policies for a limited number of macroeconomic variables and this necessarily restricts the extent of variety in its stabilisation packages. Even so, published evidence only partially corroborates the complaint that the Fund lays down a standard stabilisation programme. Of the 21 upper-tranche stand-bys in 1973-75 (18 of which were to ldcs) 15 included provisions for the deceleration of domestic credit and of credit to the government, but devaluation was envisaged in only 11 programmes, liberalisation in 10 and wage restraint in only 3 of the 21.

Nevertheless, when facing complaints of an anti-socialist bias the Fund's staff are ill at ease. The majority of the professional staff are Western trained and do believe in the efficacy of market-oriented policies and a liberalised system of world trade and payments, beliefs which make easy working relations with interventionist left-wing governments difficult to achieve, however genuine the attempt.

ACCUSATION 2:
The Fund works on the incorrect assumption that all payments disequilibria are caused domestically

The Group of Twenty-four (G-24), on behalf of ldc members, and UNCTAD have complained that the Fund does not distinguish sufficiently between disequilibria with predominantly external as opposed to internal causes. This criticism was voiced in the aftermath of the oil crisis. Then ldcs found themselves with payments deficits due mainly to adverse changes in their terms of trade over which they had no control but with the Fund prescribing stabilisation programmes similar to those suggested for deficits caused, say, by government over-spending. Faced with long-term, externally-generated disequilibria, the G-24 argues that ldcs should be allowed more time to adjust their economies and that the policies needed to achieve such adjustment are different from demand-management programmes devised primarily with internally-generated disequilibria in mind.

The Fund's position on this is that although a long-term imbalance may have external origins this does not diminish the need for corrective domestic measures. It has nevertheless moved some way towards meeting its critics. Stand-by credits can now be made available for up to three years, instead of the traditional one year; the extended, supplementary and oil facilities were created partly with such considerations in mind; and the Executive Board recently agreed that the Fund's programmes should pay more attention to supply-side

continued on page 5

considerations (such as measures to raise productive capacity utilisation), against its former preoccupation with demand management. However, it is doubtful whether these changes will go far enough; the World Bank's recent decision to begin offering 'structural adjustment' loans implies a judgment that changes by the Fund will leave an unsatisfied need.

There is also a troublesome piece of accounting logic. So long as the OPEC group earns large payments surpluses and adds to its reserves, and the dcs continue to shift much of the burden of this to non-oil ldcs (see *Briefing Paper* No. 3, 1980), then, as a matter of book-keeping, the ldcs *must* continue to show deficits. Their deficits are simply the accounting counterparts of OPEC surpluses. While adjustment appears feasible for an individual country, the same is not possible for ldcs considered as a group so long as the rest of the world remains in surplus. The international monetary system thus induces ldcs into deflationary policies in pursuit of an adjustment which, considered collectively, is impossible to achieve.

ACCUSATION 3:
The effects of Fund policies are anti-developmental

There has long been a strong body of opinion which is sceptical of the value of economic stability in ldc conditions. While advocacy of the deliberate creation of inflation as a development policy is out of fashion, many economists still regard inflation as a necessary, if inconvenient, outcome of an adequate development effort and argue that the benefits of anti-inflationary policies do not justify the costs of the development foregone. Similarly, it is suggested that the foreign exchange problems of ldcs are derived from the structures of international trade, and of domestic demand and production. The use of the exchange rate and credit restrictions, frequently advocated by the Fund, is rejected as irrelevant, unsuccessful and self-defeating. In support of their arguments, the critics point to the generally deflationary effects of IMF programmes – quickly leading to losses of output and employment in economies where already incomes are low and unemployment is high. Moreover, it is sometimes claimed that the burden of the deflationary effects is borne disproportionately by the poor.

Others would dispute these arguments. The inflationary and balance of payments experiences of ldcs, it is countered, cannot plausibly be explained in such terms. There is strong evidence that the policies of import substitution, exchange controls and deficit financing, which are the chief alternatives to the IMF approach, often have adverse effects on economic growth and income distribution, and that devaluation has been a far more successful economic weapon than its critics allege. These critics are accused of concentrating too much on the short-run effects of stabilisation programmes and of neglecting the fact that the Fund's assistance has given members more time to effect changes, thus reducing the cost of adjusting their economies to restore equilibrium. And, it is argued, there are as many programmes which have reduced inequalities as have increased them.

A more general rejoinder is that critics rarely consider what would have happened in the absence of a stabilisation programme. A country faced with a payments crisis and rapid inflation has to 'do something about it'. Failure to act or attempts to suppress the problems with administrative controls, which are often seen as the main policy alternative, may have even more detrimental consequences for growth and, perhaps, income distribution. Thus, policies advocated by the Fund can only be assessed by comparison with some alternative, or with the costs of inaction.

ACCUSATION 4:
Harsh policy conditions are self-defeating

The policy strings attached to the Fund's upper-tranche and related credit facilities are generally considered harsh by member governments. Insistence on such conditions, it is argued, is self-defeating in a number of ways:

(a) Members will go to almost any length to avoid using the higher-conditionality facilities, including the accumulation of a large, high-cost indebtedness to commercial creditors. When a member finally runs out of alternatives, the state of its economy will be much worse than if it had gone to the Fund initially. So a vicious circle develops, with the Fund left with little alternative but to propose drastic medicine.

(b) Acceptance by a government of IMF terms may erode its own popular support, thus increasing political alienation and instability. Governments may then be swept from office at the polls or at the end of a gun and their successors may repudiate the policies they inherit.

(c) Even if the government survives, it is likely to feel little commitment to policies it regards as having been imposed from outside. It is common for agreements with the Fund to break down mid-way, or for policies to be abruptly discontinued shortly after the agreement expires. Many stabilisation attempts fail because they are abandoned too early. Sustained stabilisation requires sustained commitment; the alternative may be a stop-go cycle resulting in the worst of both worlds – reduced economic growth but continuing instability.

A defender of the Fund can reply that it is domestic mismanagement, resulting in instability and forcing eventual retrenchment, which is the true culprit. Mobutu's Zaire, Nkrumah's Ghana, and Allende's Chile are clear examples; some would add Manley's Jamaica (where the opposition uses 'IMF' to mean 'It's Manley's Fault'). On this view, then, mismanagement leading to rapid inflation and acute shortages of foreign exchange is itself an enemy of sustained development through its adverse effects on saving, investment and capacity utilisation; and the Fund's support of stabilisation is more likely to strengthen a government's political base than to weaken it.

It could be added that the Fund sees it as important to persuade governments that effective stabilisation measures are in the national interest, and its policy advice as a valuable service. If it succeeds in changing governments' perceptions of the best ways of dealing with their economic problems then the problem of weak commitment to its programmes is reduced. Finally, the Fund's Managing Director has recently been trying to introduce greater flexibility in its policies, e.g. by reducing the frequency of its insistence on devaluation, although his impact has been reduced by the cool response of dc members of the Executive Board towards this initiative.

ACCUSATION 5:
The Fund's policies lack a clear economic rationale

The best policy advice builds upon a theoretical foundation but the rationale for the precise stabilisation measures promoted by the Fund is not clear. The inferences drawn from theory have to be modified in the light of political, bureaucratic and other realities; and it is unreasonable to look for a highly articulated theory of policy underlying the actions of a large organisation such as the IMF, no doubt with its share of differing opinions and departmental rivalries, and dealing with countries with widely varying economic circumstances. Nevertheless, the Fund does appear to take a strong and consistent line on policy and it is therefore appropriate to ask about the rationale underlying its recommendations.

Because its stabilisation packages almost invariably include credit restrictions, the Fund's approach is often described as monetarist, yet there are strong Keynesian echoes in its view of the uses of fiscal policy and in the generally interventionist flavour of its programmes. If it is monetarist it is so only in a loose sense. Its programmes are influenced by more than one school of thought but this eclecticism carries the danger of inconsistency and there is a lack of clarity about the theoretical underpinnings of the Fund's advice. It is perhaps for this reason that empirical research suggests that the Fund's programmes do not have much impact on countries' economic performances and that its programme targets are rarely achieved.***

Conclusion

There is thus much to be said by both sides. Clearly, a good deal of unpopularity is intrinsic to the role of any lender of last resort, especially if it is a rather secretive international institution dominated by the voting power of rich-country interests. The Fund's Articles (see centre sheet) lay down objectives which will not always coincide with those of a national government. However desirable as a general goal, the expansion of world trade through a liberalised multilateral system of payments, which the Fund exists to promote, is unlikely to come high among the priorities of a government in a tight corner. Conflicts of objectives and interests are therefore built into the Fund's terms of reference as an emergency source of international credit.

The Fund is thus bound to attract hostility and it may be useful that it should do so. Ldc governments confront the most acute difficulties in reconciling their developmental and other economic objectives with the realities of scarce resources, pluralistic societies and a frequently hostile global environment. The Fund can provide 'scapegoat services' to governments who know that unpopular measures are inevitable and are delighted to be able to attribute the blame to the machinations of international bankers and their paymasters.

Nevertheless, there are also genuine, sometimes profound, disagreements over policy between the Fund and ldc governments; the Fund is still seen as insensitive to the aspirations and political imperatives of its ldc members. The limited ability of private international banking flows to meet the needs of ldcs at a time of massive global imbalances adds further urgency to pleas for reform of the Fund. And the case still stands for greater flexibility in the policy conditions it imposes, especially to differentiate the types of adjustment called for by internally– and externally–caused disequilibria, and to reduce the deflationary bias of an international monetary system that exerts no comparable leverage on persistently surplus countries.

It is a case that should be directed not so much at the top management of the Fund as to its Board of Governors and Executive Board. For it is the Board members of the Group of 10, with their dominant voice in decisions, who insist on tough policy conditions, who resist greater flexibility and who have failed to keep the international monetary system abreast of changing world conditions. There remains truth in the charge that the Fund is used by rich countries to increase their power over poor countries.

Ldc dissatisfaction with the IMF therefore emerges as yet another variable in the north-south debate. At the June 1980 Venice economic summit heads of government of the major industrial countries professed great concern for the plight of the non-oil ldcs. If they were sincere, a politically and economically rather costless way of putting their concern into practice would be quietly to instruct their Executive Directors to relax conditionality and hence open the way for the Fund to provide more balance of payments support to ldcs.

*** This is the principal conclusion of T.A. Connors' 'The apparent effects of recent IMF stabilization programs', Washington, Federal Reserve System International Finance *Discussion Paper* No 135, April 1979. See also T.M. Reichmann, 'The Fund's conditional assistance and the problems of adjustment', *Finance & Development*, 15(4), December, 1978.

Printed in England by Expedite Graphic Ltd London

AN OUTLINE OF THE FUND AND ITS FACILITIES

The 1944 Bretton Woods conference resulted in the creation of the World Bank and the IMF. The Bank was intended primarily as a source of long-term loans for the reconstruction of war-devastated countries and, subsequently, for what are now called the developing countries. The IMF, on the other hand, was designed for the stabilisation of international payments arrangements, providing short-term credits for that purpose. Inaugurated in March 1946, the Fund's Articles state that the Funds should facilitate

- The expansion and balanced growth of world trade;
- exchange rate stability;
- a multilateral system of payments free of foreign exchange restrictions;
- the correction of payments imbalances by making the resources of the Fund 'temporarily available' under 'adequate safeguards';
- a shortening in the duration and size of payments disequilibria.

Each member of the Fund is assigned a 'quota', expressed in Special Drawing Rights (SDRs). This is determined partly by economic criteria, such as the size of a country's GDP and international trade, and partly as an outcome of political negotiations. The size of a country's quota largely determines its voting strength in the Fund, its allocations of SDRs and the amounts of credit it can obtain from the Fund's facilities.

The Fund's membership has grown from 39 to 140 countries, to include almost every non-communist country as well as some communist ones (Romania, Yugoslavia, Vietnam, Laos and, most recently, mainland China). Although their dominance is less extreme than in the early years (they had three-quarters of all votes in1960), the Western industrial countries command a large majority of the votes in the Fund's decision-making bodies, as is clear from the following table, even though they now make up only one-seventh of the total number of members.

	No. of members[a]	Quota[a] (SDR bn.)	Votes (% of total)[b]
Industrial countries	21	24.9	60.7
Oil-exporting ldcs	12	3.8	10.0
Other ldcs	107	10.3	29.3
TOTALS	140	39.0	100.0

a As at end-January 1980.

b As at end-April 1980. Excludes China, Egypt, Kampuchea and South Africa, which have not recently participated in the election of Executive Directors.

Besides providing a permanent forum for the settlement of international monetary arrangements, the Fund provides training facilities and technical assistance for member governments, as well as publishing a large volume of statistics and research findings. However, for the purposes of this paper, its most important potential contribution to the welfare of developing countries is through the provision of balance of payments support. This support takes a number of forms, summarised below.

Issuance of SDRs. SDRs are a form of interest-bearing international money which is issued ('allocated') from time to time to members in proportion to their quotas, who in return, have agreed to accept SDRs for specified international transactions. Annual allocations are being made in 1979-81, totalling about SDR4 billion each year. By mid-1980 total SDR allocations amounted to SDR17.3 (at current exchange rates, about $22.5 bn), equal to 44% of the present total value of quotas. A member may use SDRs in a variety of ways, by agreement with other members or to discharge obligations to the Fund, and can use SDRs to obtain foreign exchange whenever it has a balance of payments or reserve need to do so. There are no repayment schedules or policy strings, but members must normally maintain a minimum holding of 15% of the amounts received in allocations.

The reserve tranche. The 'first' 25% of a country's quota is designated as the reserve tranche. A member can obtain SDRs or foreign currencies from the Fund equal to the value of this tranche without policy conditions, free of service and interest charges, and without any schedule for repayment.

The first credit tranche. The next 25% of a country's quota is designated the first credit tranche. Access to this is available to any member regarded as making 'reasonable efforts' to solve its balance of payments problems and in practice is virtually automatic.

The upper credit tranches. Credits in the next three tranches of 25% of quota, called the upper credit tranches, have given rise to most of the controversies. These are normally given in the form of a one-year (but recently for up to three years) 'stand-by' arrangement in support of a stabilisation programme agreed between the Fund and the member government. There have been frequent disagreements between the Fund and members concerning the policy measures needed to improve the balance of payments, resulting in some hard negotiations. Access to the credit is usually in instalments and can be withdrawn if the member fails to meet certain performance criteria and no new understanding can be agreed.

The extended facility. This was set up in 1974 to meet the needs of countries in 'special circumstances of balance of payments difficulty' requiring support over a longer period than normally covered by stand-bys. It provides support for up to three years. The degree of policy conditionality is as for the upper credit tranches and the conditions are operative throughout the three-year period. The maximum credit is equal to 140% of a member's quota.

The supplementary facility. To qualify for this facility, which became operational in February 1978, a member must (a) require assistance in excess of the amount available to it in the credit tranches, (b) have a problem that requires a relatively long period of adjustment, and (c) first obtain an upper-tranche or extended credit. The conditionality is thus the same as for the upper tranches. The maximum credit under this facility is normally up to 140% of quota, although there is discretionary power to go above these limits in exceptional cases.

The compensatory financing facility. This provides assistance to primary product exporters with payments difficulties because instability in world commodity markets or hardships such as crop failures have led to a decline in export earnings. The shortfall must be judged to be temporary and largely beyond the control of the member. A mathematical formula combined with judgements about balance of payments needs determine eligibility for this assistance, which may not exceed 100% of quota. The member is expected to 'co-operate' with the Fund to find solutions to its payments problem but this requirement is interpreted broadly and policy conditions are generally regarded as slight. (See *Briefing Paper* No. 1 of 1979 for a fuller description and analysis.)

The buffer stock financing facility. This compensates a member having difficulties in making due payments to an international commodity buffer stock agreement. Credit of up to 50% of quota can be given and conditionality is slight but this facility has been little used.

The Trust Fund. Established in 1976, this is financed out of the proceeds of the sale of part of the IMF's holdings of gold and provides additional assistance on highly concessionary terms. Under current arrangements, to be eligible a country must have had a per capita income not in excess of $520 in 1975 and to be carrying out a programme of balance of payments adjustment, usually in connection with a stand-by or extended arrangement. In many cases, therefore, the effective degree of conditionality is stringent, although use of the Trust Fund does not carry any policy conditions additional to those agreed for the stand-by or extended credit. The size of the credit available depends in part on the value of the gold sale proceeds and on the member's quota relative to that of other qualifying members.

Oil facilities, 1974 and 1975. Largely financed by resources lent to the IMF by OPEC surplus countries, these facilities were to assist countries whose balance of payments had been seriously affected by the oil crisis of that period. Conditionality was generally regarded as moderate. Credits from these facilities were only available until March 1976 and are currently being repaid. Although some OPEC countries have again swung heavily into surplus it is unlikely that a similar facility will be revived in 1980 or 1981.

Terms. For most of the above facilities, the Fund's charges (ie rates of interest) are low (averaging 5¼% per annum in 1979/80), although they are substantially higher for use of the supplementary facility (currently about 11½%). Regular stand-by credits and use of the compensatory financing facility are normally repayable over five years; credits from the extended facility are repayable over a maximum of ten years.

Organisation. The Board of Governors is the supreme decision-making body. This normally meets once a year There is also an Interim Committee, which meets two or three times a year and advises the Board of Governors on international monetary arrangements and deals with sudden disturbances which might threaten the system. There is an Executive Board responsible for everyday business, and this meets frequently. A country is generally represented by its Minister of Finance on the Board of Governors (with the head of the central bank as his alternative); members (and alternates) of the Executive Board are full-time appointees. The voting power within these bodies is as indicated in the table. It is, in fact, only rarely that issues come to a formal vote but the availability of a consensus is doubtless influenced by judgements about the likely outcome of a vote. For most proposals bearing upon the financial structures of the Fund, however, 70% or 85% of the total voting strength must be in favour. If they vote together, ldcs are therefore in a position to exercise a veto on these proposals.

The Fund's staff is headed by a Managing Director, who is also chairman of the Executive Board. The current incumbent is Mr Jacques de Larosière of France. There are two important special-interest groups for the co-ordination of policies on the matters that come before the Fund. There is a Group of 24 which is intended to represent the interests of all ldcs (although it tends to be dominated by the larger ldcs). And there is a Group of 10, made up of the major industrial countries and which, therefore, has a very powerful influence on the deliberations of the Fund.