tion office highlight the shortcomings of their respective missions to date (Independent Evaluation Office 2002, World Bank 2002c). Too often specific policy advice has been fashioned according to easy blueprints rather than hard research—ideological presumptions rather than tested theories. Certainly the institutions have had limited resources with which to fashion policies for poor, indebted countries. But even within those constraints, it would seem that they economized on staff time in designing programs for their most needy borrowers, they were very slow to seize and shape the issue of debt relief in respect to sums owed to themselves, and most poignantly of all even after two decades of engagement their main borrowers in sub-Saharan Africa seem no closer to the promise of economic growth, and are still highly indebted to the IMF and World Bank. This experience, set alongside that of emerging market economies such as Mexico, and transition countries such as Russia, discussed in earlier chapters, necessitates consideration of how each institution could be reformed.

Chapter 7

REFORMING THE IMF AND WORLD BANK

The IMF and the World Bank are extraordinary international institutions. Their money, remit, and expertise endow them with a power about which other international organizations can only dream. The fact that they are automatically funded and earn income from their lending and investments gives them a degree of independence unrivaled by other institutions. They exist to foster global monetary cooperation and financial stability, facilitate international trade, promote high employment and sustainable economic growth, reduce poverty, and improve the living standards of people in the developing world. They can pursue these aims through lending and conditionality as well as through research. They employ the largest number of applied economists of any institution in the world, aggregating an awe-inspiring bank of economic data and applied research.

Critics assail the IMF and World Bank from all sides. They accuse the institutions of being U.S. dominated. They charge them with peddling poor quality economic advice. Each institution is indicted for supporting or even promoting corrupt and oppressive regimes. This chapter reviews and builds on the evidence assembled in this book. It argues that the work of the Fund and Bank is affected by the preferences of their most powerful members, by their own bureaucratic motives, and by politics within countries with whom they work. They are not purely technical institutions. Economists are naïve to assume that the Fund and Bank would work better if they were insulated from the hurly burly of politics. The agencies cannot escape the political decisions and debates they sit within. What would make them more effective is a governance structure that better mediated the competing interests they face. This chapter seeks to lay out that structure.

What Drives the Institutions?

Three forces drive and shape what the IMF and World Bank try to do. First, there are the interests of their most powerful member countries—very much led by the

United States. Powerful countries define the outer perimeter within which each organization works. Often, this means particular agencies within a powerful country—such as the U.S. Treasury. This sets down a general direction for the institution, but seldom defines the detail of what each of the IMF and World Bank do.

The second set of forces is economic ideas, fashions, and orthodoxies, as shaped by the needs of each institution. The well-known Washington consensus is one example. Fiscal and monetary prudence were bastions of a consensus emerging in economics as well as in politics by the end of the inflation-prone 1970s. For the IMF, this offered a clear starting-point for dealing with the chaos of the debt crisis. For the World Bank, the consensus on adjustment through privatization, deregulation, and sectoral reform did the same. It offered a conditionality-heavy but relatively resource-light way to deal with a large number of member countries in crisis at the same time. The alternatives would have required more staff effort and time, more resources, and greater political largesse on the part of major shareholders.

The third set of forces is bureaucratic. They take us into the offices of the staff and management to discover pressures and incentives within which they work. In the World Bank a disbursement culture has long prevailed for the obvious reason that it is IBRD lending which sustains each institution. Staff are rewarded for lending more not less. In the IMF staff face pressures to come up with programs that are approved not just by their senior managers but by the borrowing government. The way to achieve this is to maximize the amount that can be lent by massaging growth projections and the link to make a larger loan possible.

Other pressures shape the detail of the work. Consider the individual staff member sent to a faraway country to negotiate loan conditions. He or she could attempt an altogether innovative approach that drew on local customs and circumstances. But that would be both time-consuming and risky. It would attract considerable scrutiny and questioning by senior managers and the Board back in D.C. If things went wrong, the individual designer would be held to account. By contrast, if the staff member simply replicates what the organization has done in all other countries, the program becomes collectively the organization's responsibility.

Traced through time, the three forces shaping the IMF and World Bank explain how and why each organization has developed a particular mission. Chapter 1 began this journey depicting agencies born in the cauldron of the Second World War, delivered by statesmen who dramatically rewrote the rules of economic cooperation among states. The result was not simply a projection of U.S. interests. A powerful set of ideas and circumstances informed a bold new model which accorded the institutions important degrees of independence. Over time that independence has eroded. The IMF and World Bank have come under increasing U.S. influence. Yet political differences within the United States and uncertainty about how best to achieve the goals of each institution have opened up scope for other factors to shape the work of the IMF and World Bank. Prime among these is the study of economics, as explored in chapter 2.

Economics does not give perfect answers to how governments should run economies. The growth of any economy depends heavily on its vulnerability to shocks, many of which lie beyond its control—exchange rate movements, commodity price shifts, private capital movements, the weather and natural disasters, and volatile aid flows. Equally, the effects of economic policy depend on the nature of a country's infrastructure and industrial capacity, and the state of its political institutions. Yet since at least the 1980s the IMF and World Bank have promulgated a relatively simple answer to what government should do, and that is to stabilize, liberalize, privatize, and deregulate.

The advice and policy prescriptions of the IMF and World Bank have not emerged as a result of pure economic research and debate. Rather, the institutions have adapted economic ideas to fit their available resources and instruments. Facing new challenges, each institution has dashed in using tools already at hand. Necessarily, each has left behind economic theories or policy prescriptions which would require greater resources or a different expertise. This greatly narrows the consensus forged within the institutions and used to prescribe conditionality for countries. In turn, the narrow consensus can become a trap for the institutions, creating fertile conditions for groupthink and a fixation on a particular interpretation of events, screening out alternative scenarios and thereby failing to foresee crises.

On the other side of the work of the IMF and World Bank lie member governments with whom they must work. Developing, transition, and emerging economies all borrow from the institutions. Chapter 3 explored the ways the Fund and Bank coerce or persuade able and willing interlocutors in these countries. In respect of needy governments, they have considerable bargaining power. Each institution can lend or withhold resources, disburse or suspend payments, and impose various forms of conditions. Yet influence depends heavily on whether they can find and work with the right (as seen from the perspective of the Bank and Fund) government officials.

Sometimes Fund and Bank officials find themselves working with sympathetic policy-makers in borrowing countries who are willing and able to embrace at least the main priorities preferred by the institutions. The willingness of interlocutors is influenced by their circumstances as well as their training and mindset. For example, in many countries the 1980s debt crisis helped to discredit existing ideas about economic policy and demolished the resources necessary to implement them. In that context, debtor governments sought new policies. The so-called Washington consensus offered a solution that fit both within the immediate resource constraint faced by governments and within international political pressures to which they were subjected. The consequence was an emphasis on squeezing expenditure rather than more effective investment.

But not all governments implemented Washington consensus policies. Where finance officials enjoyed power in a centralized government relatively insulated from other political pressures, they had more scope to undertake reforms under the tutelage of the IMF and World Bank. The prospects of change were yet greater where the bureaucracy could be swiftly reconfigured to reflect new priorities. It

is under these conditions that the international institutions have more influence. But is this ideal?

All economic policy redistributes benefits, risks, and opportunities. Those who win from a policy are always likely to argue that it is the optimal policy, best reflecting national interests. Losers will argue the opposite. The key question is who should decide which measure is adopted? Some argue that expert economists should decide. Indeed, in the same vein they argue that economic reform should be pursued as rapidly as possible so as to forestall political mobilization against change (Krueger 2004). Politics, in other words, should be kept out because it mainly opens up opportunities for rent-seekers. In this view, the legitimacy of economic policy should rest on its outcomes—such as economic growth.

The problem with the technocratic view is that it assumes that we know what measures will bring about economic growth or indeed balanced growth—not in a general way but in a specific way. Experts, in other words, have hard facts to use in adjudicating among competing alternatives. Yet once economists step outside of pure theory they find it difficult to forecast the growth effects of competing policies (Helleiner 1982). In the Bank and Fund such forecasts are shaped not just by poverty or distributional effects but by the institutional and political preferences of powerful member governments. A clear example is IMF and World Bank work in support of HIPC debt relief where staff take the amount of relief as a given (i.e. what donors are prepared to put on the table) and then make overly optimistic projections in respect to an indebted country's macroeconomic growth, tax collection, and fiscal balances to ensure that HIPC sustainability and MDG criteria are met.

This pries open the question of legitimacy. It means that economic policy as prescribed by the Fund and Bank cannot be justified in purely technical terms. Not least because their work is at least partly driven by a political process within each institution. Furthermore, the implementation of policies preferred by the Fund and Bank relies on political processes within borrowing countries. These cannot be wished away. Interest groups within countries often succeed in capturing and distorting the way economic policy is implemented. In some cases this occurs in precisely the political conditions favored by the Fund and Bank for other reasons. The very same conditions that facilitate Fund- and Bank-favored "rational economic policy"—centralization and insulation from politics—can equally facilitate unbalanced policy capture by interest groups. In Mexico from 1982 to 1988, for example, private sector groups lobbied very actively to shape trade liberalization (Kraemer 1995), and in some sectors they were joined by foreign investors to promote protectionist tariffs (Grether and Marcelo 1999). In Russia, two notorious privatization programs were captured by powerful private sector interests (Hellman 1998, Hellman et al. 2000, and see chapter 5).

Participation and political competition in economic policy does not prevent corruption and inefficiency but it can make it more difficult to hide the "policy capture" that so often takes place by powerful interest groups (Hellman 2000). In more open and contested political systems finance officials can be subjected to the scrutiny and constraints of party politics, electoral cycles, and widespread social debate and protest. This often thwarts the "rational" reform conditions sup-

ported by the IMF and World Bank and marginalizes their influence. However, the messy and complex processes of democratic decision-making at least provide an imperfect and rudimentary form of political accountability.

At the core of a democratic political process is not simply the fact that governments are elected. Rather, the ideal democratic decision-making process is one bounded by agreed rules, usually including open consultation and deliberation and fairness in procedure. The rules are enforced by institutions that hold policymakers to account, including public and legal bodies such as judges, courts, ombudsmen, government auditors and evaluators, as well as private groups. People within the system may disagree with a particular decision and indeed bear losses from it. However, a general belief in the legitimacy and fairness of the system itself sustains it.

For the IMF and the World Bank open, participatory, and consultative decision-making processes open up a number of dilemmas. In their rhetoric both institutions have begun to shift their ultimate goals away from specific economic measures and toward a broader vision of persuading governments to build better and more accountable institutions of governance. Such a shift, however, has some perverse implications for the institutions, as illustrated by the cases of Mexico, Russia, and by the work of the IMF and World Bank in sub-Saharan Africa.

In Mexico up until 1994 the transformation of the economy was heralded by many as an exemplar of how the Washington consensus might be applied. As documented in chapter 4, a small group of Mexican policymakers worked very closely with officials from the IMF and World Bank—including in secret meetings and negotiations—to forge an agenda of reform that affected the whole economy. The influence of the Bank and Fund was at a high point when interlocutors sympathetic to their agenda had consolidated a grip across the bureaucracy that ran Mexico. Subsequently, however, the realm of the economic technocrats has been limited by democratization, which has brought to power a mixture of opposition forces and breathed life into Mexico's (previously rubber-stamping) Congress. This has narrowed the power of the technocrats and with it the influence of the IMF and World Bank.

Hidden yet further within the Mexico story is a recognition by both the IMF and the World Bank that sometimes their analysis is not "first rate." In interviews, IMF officials in the early 1990s argued that the IMF had to field its best economists and advice in Mexico since that country's officials were so highly qualified. More recently, the World Bank has noted that in Mexico it has needed to do "exceptionally good work, combining world-class international experiences and analytical skills with deep knowledge of the country and its institutions" (World Bank 2004d, 23). Later the same report speaks of the Bank having more influence where it provides "first-class policy analysis" (World Bank 2004d, 24). Both the IMF and the Bank recognize that in some instances and in respect to some countries their advice is not the best. This is borne out by evaluations into their advice to Russia, and in their advice to some of the poorest African countries where some of their least impressive technical work was proffered to governments. This further erodes the claim that technical knowledge should supervene over the democratic process.

In Russia the institutions had a tough job. As instruments of a wider Western agenda to stabilize Russia and support governments that were not hostile to the West, both the IMF and the World Bank soon found their usual bargaining power constrained by the political priorities of their most powerful members. Major Western powers did not delegate tasks to the Fund or Bank in a clear-cut way. At times the international financial institutions were expected to "do their job," at other times they were expected to tailor their work to secure political rather than economic results. Little surprise then that many Fund and Bank staff believe they would have been more successful had their conditions not been constantly diluted by special terms and exceptions made by the United States and others. Yet, this is not obvious.

In Russia, as elsewhere, the Bank and Fund needed interlocutors who were both ideologically willing and institutionally able to implement prescribed solutions. But politically Russia was difficult. Although decision-making in Russia was relatively centralized, as chapter 5 detailed, Yeltsin's presidential style involved constant trade-offs between Congress and executive. This gave little by way of a constant platform to interlocutors most sympathetic to the IMF and World Bank. On the roundabout of Russian "court politics" there was little the international institutions could do to strengthen their position or that of the agencies they were placed within. In that context, both the IMF and World Bank had little leverage in Russia. Their loans at most tipped a couple of tactical battles among the ruling policymakers.

But even had the Fund and Bank faced more propitious political circumstances in Russia, were their prescribed reforms the right ones? Was each institution in command of the best solutions, and were these solutions reflected in the conditions applied in loans? Economists continue to debate which of the various alternative policies might have had the best effects in Russia—there is evidence for and against particular measures. What we can say is that Fund and Bank priorities were not shaped purely by economic research and analysis. Policies were prioritized by the IMF and World Bank according to political pressures, judgments, and opportunities, as well as by institutional exigencies and resource constraints. This severely dents the view that Fund and Bank conditionality is legitimized by the fact that it represents the best economic solution and that which is most likely to foster economic growth.

Unlike Russia, across countries in sub-Saharan Africa the IMF and World Bank have had a freer hand to set conditionality and to use their bargaining power with governments. For these reasons, the continent should be a showcase for the technical expertise of the IMF and World Bank. Unlike Mexico and Russia, the country-level work of each international institution is not overridden by threats to international financial stability or the need to stabilize a nuclear arsenal. Nowhere has good quality economic advice been more needed. Many African governments have limited capacity to analyze global economic trends and shocks, yet their economies are hugely influenced by such forces. The IMF and World Bank also have a very strong bargaining position in sub-Saharan Africa. Many borrowing governments face a disastrous external position and few have other sources of finance. Bilateral aid flows have long tended to follow behind IMF and World Bank accreditation, loans, and programs. In brief, the Fund and Bank have been powerful gatekeepers to all aid flows.

The experience of sub-Saharan Africa underscores deep challenges for the international financial institutions. The Fund and Bank rely for influence on interlocutors who are both willing and able. Borrowers must be represented by officials who are willing to take up and act on the priorities highlighted by the institutions. And the relevant officials must have the political authority and jurisdiction to implement such measures. In Africa, as revealed in chapter 6, this was often not the case. That said, a second powerful question arises: were the prescribed reforms the right ones?

The countries of sub-Saharan Africa seem to have been poorly served by the research and lending practices of the Fund and Bank. The most recent evaluations undertaken by the World Bank staff and the IMF's independent evaluation office highlight the shortcomings of their respective missions to date (Independent Evaluation Office 2002, World Bank 2002c). Too often specific policy advice has been fashioned according to easy blueprints rather than hard research—ideological presumptions have triumphed over tested theories.

It is true that the Fund and Bank have limited resources with which to research and fashion policies for poor indebted countries. The available data are often poor, they have limited time, and a large canvass to cover. But even within those constraints, it would seem that they economized on staff time in designing programs for their most needy borrowers. They were very slow to seize and shape the issue of debt relief in respect of sums owed to themselves. Most poignantly of all, even after two decades of engagement their main borrowers in sub-Saharan Africa seem no closer to the promise of economic growth, and are still highly indebted to the IMF and World Bank.

The experience in sub-Saharan Africa, set alongside that of emerging market economies such as Mexico, and transition countries such as Russia, demands that changes be considered. But what kinds of changes? The analysis of this book highlights that hiring different economists to work in each organization would change little unless the incentives within which they work are also altered. The Fund and Bank adopt particular economic models and priorities as a function of what is politically feasible, what is institutionally rational, and what is credible based on the available resources from creditor governments. Like it or not the process is influenced by politics within and outside of each institution. For these reasons, we need to scrutinize politics within each organization and ask whether it adequately balances competing demands and pressures from their various stakeholders. The result of that political process determines in the end what each institution does.

What Role for the IMF and World Bank?

Underpinning this study is a belief that the IMF and the World Bank can play a useful and constructive role vis-à-vis the people represented by governments who borrow from them. Yet much of the evidence assembled in this book demon-

strates ways in which the Fund and Bank have failed their borrowers. Their initial degree of independence has seeped away. Their lending has become overpriced and is often pro-cyclical, which means that instead of counterbalancing the inflow and outflow of volatile markets, the IMF and World Bank loans are often part of the herd. Their conditionality has been driven by political and bureaucratic pressures more than by evidence and technical expertise. Their political impact is often adverse. IMF loans are seen as protecting those responsible for a crisis by postponing their day of reckoning. World Bank loans seem to provide ample space for vested interests in both rich and poor countries to pursue private profit at the expense of public good.

Yet the IMF and World Bank have important tasks to complete. To date they have successfully magnified and accelerated the expansion of global commerce. Yet they were created to help manage and balance globalization, not simply to accelerate it.

The Bretton Woods twins are public institutions. Their founding documents direct them to ensure balanced growth, high levels of employment and income, and the development of productive resources in all their member countries. Their mission is to go where markets fail to reach, to intercede when markets fail, and to mitigate the harsh effects of volatility in the global economy. Put in economic terms, their role is to manage global externalities, and global and domestic market failures. To this end, there are distinctive roles each can play.

The IMF in the Global Economy

The international monetary system is driven and energized by global capital markets. But those markets create externalities and sometimes fail in ways that produce systemic risks, irrational behavior, contagion, spillovers from other countries' bad policies, and currency crises. All of these give governments strong reasons to cooperate in order to mitigate their vulnerability. This implies several roles for the IMF.

When a financial crisis explodes, the IMF has traditionally lent money and imposed conditionality on crisis-affected governments as a way to contain the crisis. But it has been difficult for the Fund to find an even-handed way to intervene. In the 1980s it only assisted countries that first paid their commercial creditors in full. This cast the institution into the role of debt-collector. Subsequently the institution is still searching for the right position even though it has now reversed its policy not to lend to countries in arrears on their payments to private creditors. A yet more fundamental constraint is that the resources the IMF can lend to a crisis-stricken country are now dwarfed by massive and growing capital market flows.

The solution favored by the management of the IMF is to increase the jurisdiction of the institution—to give it a central role in managing financial crises based on legal powers rather than financial resources. Hence in 2001 the senior management of the institution proposed a "Sovereign Debt Rescheduling Mechanism" which would permit a crisis-afflicted country to call for a standstill of all

payments with support from the IMF (Krueger 2001). However, this approach was firmly rejected by the United States (Taylor 2002).

A different role for the IMF in financial crises is advisory—offering member governments advice about how to mitigate the effects of a crisis, including the use of precautionary measures or capital controls. In the past this role has been compromised by the institution's failure to provide balanced advice. The Fund has long been associated with pushing hard for members to open up to foreign investment—or "capital account liberalization" as it is called. That policy in some cases increased the vulnerability of member countries (Prasad et al. 2003). It also made it taboo for economists within the institution to evaluate the potential use of limited capital controls or precautionary measures. The challenge for the IMF now is for its members to formulate a clear policy in this area (Independent Evaluation Office 2005). This is difficult in part because the institution cannot afford to be associated with any automatic imposition of capital controls (this would make it impossible to approach the Fund in a crisis). It is also difficult because there is a tradition of opposing capital controls among the staff.

A further advisory role for the IMF in financial crises relates to the institution's duty to ensure that governments are not forced to take measures destructive of national prosperity (to quote the Articles of Agreement of the IMF). It is striking that although the Fund has been involved in financial crises for over twenty years, it has not analyzed how different macroeconomic responses to a crisis impact social distribution and recovery. Meanwhile, outsiders claim that countries taking IMF advice and assistance do worse than countries who do not (Bordo and Schwartz 1998 and 2000). The IMF could usefully deploy its impressive research capacity and experience at least to begin collecting data that would help determine which crisis-management strategies might most mitigate the harshest social effects of a financial crisis.

In theory the Fund is well-placed to offer its members a more effective system of mutual insurance. For many emerging markets the current global monetary system poses a sharp triple risk of exchange rate crash, a sovereign debt default, and a domestic banking crisis. Some countries are attempting to protect themselves by building up massive foreign exchange reserves. In East Asia, for example, by the end of May 2002, monetary authorities had doubled their reserves to a level of some 38 percent of the world total and well beyond what standard monetary theory suggests they needed (Aizenman and Marion 2003). Since then, reserves in Asia have doubled once again. The IMF foresees them reaching US$1430.4 billion by 2005, up from a level of US$496.9 billion in 2002 (IMF 2005, 269).

The cost of self-insurance to Asian countries is very high. Less costly would be for countries to offer one another mutual insurance (as occurs in monetary unions or in bilateral swaps arrangements). However the most efficient way to mutually insure would be across regions and countries, pooling different and less correlated risks. The IMF offers a multilateral framework for such pooling. However, as the organization is currently structured it does not deliver.

In the IMF all members can draw automatically on the first tranche (25 percent) of the quota they lodge in the IMF. These sums however are too small to

make a difference to a country in a liquidity crisis. One way to increase available resources would be dramatically to increase the IMF's quotas so that countries could draw automatically on a greater sum. Alternatively, the rules for drawing on existing credit could be changed. Undergirding either idea, however, is an assumption that members of the IMF share a confidence in the institution as a mutual insurance scheme. In the absence of some radical changes in governance, conditionality, and voting, such confidence is unlikely to emerge, especially from East Asian countries who since 1997 seem to have opted to ignore the institution rather than attempt to reform it.

Exchange rates are another neglected area of influence for the IMF. Exchange rates were a primary reason for creating the IMF back in 1944. The Great Depression had provided ample evidence of the downside to countries competitively devaluing with no restrictions. Yet the IMF has virtually no role in managing exchange rates today. It conducts surveillance, monitoring, and assistance in data dissemination in economies around the world. However, it plays no role as an independent arbiter of what constitutes a fair exchange rate. This leaves individual countries threatening trade sanctions and the like on the basis of their own unilateral judgments about the exchange rates of others. More broadly, the lack of multilateral coordination on exchange rates further exacerbates the pressures on developing countries currently trying to negotiate the perils of a fixed or floating rate.

Finally, in low-income countries as well as across all its membership the IMF has a role as a standard-setter and adviser. In theory, it could deploy its research, data, and expertise to assist members in identifying vulnerabilities and opportunities they face regionally and internationally, and offer practical ranges of solutions to those problems. Nowhere could this role be more valuable than in the poorest, least resourced countries of the world. Yet these countries do not perceive of the institution as experts to whom they can turn for practical, impartial advice. They experience the IMF as an institution which sets down terms and demands responses from them. As detailed in chapter 6, too often those terms have been blanket market-opening targets rather than a sharing of experience and advice aimed at helping a government manage integration into the world economy in a way which ensures a balanced and equitable pattern of growth within its borders.

Fairly radical reform is required for the IMF to redirect its research and policy so as to play an advisory and standard-setting role in a way that would better advantage its borrowers, and particularly its poorest and least developed borrowers. For this reason, again we are returned to the need for changes in the governance structure of the institution.

The World Bank and the Global Economy

The potential role for the World Bank is different from that of the IMF. The IBRD pools the credit ratings of its members, backed by their guarantees, to raise funds

from capital markets to lend to members needing to borrow for development or for post-war reconstruction. Raising capital in this way can work even among much smaller groups of small and poor countries as evidenced to a limited degree by the Andean Development Cooperation. However, the larger the number of countries participating in such a pool, the more cheaply and effectively an institution can raise capital. In theory, the World Bank is ideally placed to raise development finance on behalf of all its membership.

Three things have altered the availability and costs of World Bank resources. First, wealthy non-borrowing members have reduced their contributions to the institution (as will be discussed in detail below). Second, an increasingly onerous bureaucratic process has grown up within the World Bank—principally as a way for the large bureaucracy to mitigate risks within its own walls. Finally, the conditions attached to loans have grown in breadth and depth. The result of the three forces described is that developing countries are displaying a diminishing appetite for borrowing from the World Bank. The financial consequences are elaborated later in this chapter.

Alongside lending, the World Bank is at the heart of global research and the production of technical advice on development. By "pooling" research resources, all countries stand to gain. However, the internal incentives and governance structure of the Bank have channeled research and policy prescriptions toward a very general level of overly prescriptive advice. The Bank's research has focused heavily on trade liberalization and the benefits of market-opening. Less attention has been paid to producing country-specific—and regionally sensitive—advice about the different kinds of infrastructure and social capital which could enable members to better exploit global markets.

A further "pooling" function the Bank could play is coordination in international development assistance which is notoriously fragmented, duplicative, and cluttered with a large number of donors tripping over each others' bilateral rather than multilateral efforts. Here, for example, the World Bank's International Development Association (IDA) offers concessional finance to poorer countries, serving not just as a source of finance but as a coordinated aid mechanism. This reduces transaction costs and improves information in a way that could be much more greatly leveraged by donors. However, at present donor countries typically contribute to IDA but at the same time set up multiple mechanisms for disbursing aid bilaterally. A recent such initiative was the Millennium Challenge Corporation (MCC) created by the United States. The set-up costs of the MCC alone were $5 million dollars in its first nine months. It took a further two years for the new institution to make its first loan (Millennium Challenge Corporation 2004). Multilateralism has the potential to cut out these costs as well as the yet more damaging ones inflicted on aid recipients by a fragmented and duplicative aid system.

Both the IMF and the World Bank have policy advice to offer. Yet their conditionality has attracted widespread criticism from outside the institutions as well as critical appraisal from within. A widely accepted conclusion has been that greater "ownership" by borrowing countries is required to make policy advice effective. To this end the Fund and Bank are now doing more consultation and

better public relations in borrowing countries and building a stronger presence on the ground (as many other donors are also doing). The result, however, is not the kind of "ownership" their experience suggests is necessary. Lacking is the shift in responsibility, priority-setting, and choice which has been indicated by previous failures of conditionality. Furthermore, at a more political level, the greater presence on the ground by the Bank and Fund and more intensive and widespread relations may well be further smothering local officials, reducing "ownership" rather than fostering nationally owned initiatives.

Steps which might genuinely confer ownership of policy on borrowing countries are much more difficult. They require the IMF and World Bank to put away their preconceived priorities and targets and to roll back their templates of economic policy goals and ideals. Their relationship with their borrowing members would have to become a genuine conversation—initiated by borrowers—rather than a school-masterly tirade however politely delivered. Conditionality might have to be consigned to the scrap-heap or at least completely rethought. Imagine conditioning lending on a simple judgment as to whether a government adequately accounts to its own people for its revenue and expenditure. And where governments are too weak or too corrupt to qualify, making no pretense of attempting to positively impact on governance. We will return to this below.

New approaches to conditionality within the Bank and Fund push each institution toward inherently more political decisions about to whom they should lend. To this end, reforming their governance is imperative to give assurance that such decisions will not simply reflect the interests and political preferences of a handful of powerful states. In sum, the IMF and World Bank have important roles to play in the world economy as public institutions. Each institution now needs a governance structure which would permit it to fulfill its role.

The Flawed Political Process at the Heart of the IMF and World Bank

In theory the IMF and World Bank each represent 184 countries who collectively fund and run each organization. Yet most of these countries have little say over either organization. More than three-quarters of the members of each of the IMF and World Bank are not directly represented on the Board of Executive Directors. Nor are they represented in the senior management of either institution. Many have virtually no nationals even working on the staff. These are the countries who are most deeply affected by each of the institutions.

A small number of economically powerful countries run the institutions. They dominate the board where they have a majority of the weighted votes. They choose the leadership and senior management in each organization. Little surprise that their interests and views are closely watched and heeded by the management and staff of each organization. Behind these governments line up powerful companies who stand to gain or lose from decisions. In the World Bank, the vast business of bidding to deliver World Bank projects—be it building dams, or writing new codes for governments—creates huge incentives for the private sector to lobby and to influence decisions being made in Washington. Equally the effects of IMF interventions and policies—particularly in emerging markets—push Wall Street, bond-holders, and other financial institutions to organize and lobby their own governments and the Fund itself. Adding to the political fray are non-governmental organizations pressing a variety of Northern and Southern concerns and interests, most (but not all) of whom are based in wealthy countries.

In respect of the IMF, the dominance of industrialized countries is yet clearer due to the role of the Group of Seven. A subgrouping of G-7 Finance Ministry deputies regularly convenes to discuss the issues confronting the organization and the world economy, updated and advised by the U.S.-appointed first deputy managing director of the IMF. It is this group rather than the formal oversight body—the International Monetary and Financial Committee (IMFC)—which guides the institution, or as a report in 2004 puts it, assumes the strategic guiding role in respect of the IMF (Kenen et al. 2004).

Other countries in the IMF have little say. To a large degree the same is true in the World Bank. This is in part a result of the way the board of each organization is structured. A handful of members have every incentive to do their job thoroughly, the rest have virtually no incentive. The five largest members of each organization appoint their own Executive Director (the United States, Japan, Germany, France, and UK) whose work is backed up by staff working in the director's office in Washington, D.C., as well as teams in home ministries working on Fund and Bank related issues. All other countries gravitate into groupings or "constituencies" of countries, which elect a director to represent them. That director wields the collective vote of all of his or her members. The power and influence of each director is affected by the voting power they represent as well as the quantity and quality of staff and resources they can mobilize both in the director's office as well as in their member countries.

There is little if any power in numbers in the Bank or Fund. For example, the twenty-four-country African group in the IMF collectively wields 1.42 percent of total voting power. This means that if a country such as Rwanda wished to push a concern about debt relief, it would need first to persuade other countries in its twenty-four-member constituency (some nineteen of which are already HIPC countries). That would be a first small step. Rwanda's constituency would then need to persuade other groups of countries likely to share the same concerns. The obvious group is the other African constituency whose nineteen members (of whom ten are already HIPC countries) wield 3 percent of the vote. But having gathered consent from some forty-three members of the organization, the coalition would still only wield 4.41 percent of votes. A third constituency to approach might be that of fellow HIPC countries Laos and Myanmar, a constituency that includes some emerging markets such as Malaysia and Singapore and commands 3.18 percent of the vote. Some fifty-five members of the organization might now be mobilized behind the concern. Yet their collective share of votes in the organization—7.61 percent—would be insufficient even to veto a proposal, let alone positively to push one.

Compare the situation of borrowing countries to that of the G-7, which wields 47.13 percent of the vote (with Italy and Canada wielding the votes of constituencies in which each has over three-quarters of the voting power). In practice this means that the G-7 finance deputies have a strong incentive regularly to consult and to formulate shared views on issues. After all, these views will become the agenda of the IMF Board, commanding pretty close to a majority of voting power. Similarly development agencies in the same group of countries can consult and press issues in the board and committees of the World Bank. By contrast, there is no incentive for developing countries to do the same.

A direct knock-on effect of the power of the agenda-setters is that they command the attention of the staff and management in each organization. Small surprise that the Fund's senior management are happy to advise and provide the G-7 finance deputies with the necessary briefings to guide their decision-making. Similarly, the senior management in the World Bank respond with alacrity to requests for information, support, research, or particular kinds of evaluation when these requests are made from their most powerful shareholders. Conversely, other countries have little incentive even to formulate such requests, let alone to make them.

Further unbalancing the workings of the boards of the IMF and World Bank is the fact that two very different systems of accountability are at work. There is little by way of an overarching set of standards for executive directors. The job of holding directors to account is largely left to national authorities, but this produces an unbalanced result.

Executive directors from the United States, Japan, Germany, France, and the United Kingdom are held directly to account by the government that appoints each. If a director fails to perform, fails to follow instructions of his or her government, or manages the office badly, he or she can be summarily removed and replaced. By contrast no country in a constituency can require their executive director to resign. Once elected a director stays in office until his or her two-year term has expired. No member can require their resignation (Gold 1974, 65).

Yet more surprisingly, executive directors representing multiple countries have only a diluted responsibility to represent the views of their members. The Articles of Agreement of the IMF and of the World Bank require directors to wear two hats, one as official of the institution (which pays his or her salary) and a second as representative of member countries. The IMF's legal counsel has argued that a director is not obliged to defer to the views of his or her member states, nor to cast votes in accordance with their instructions. The votes of the director will be "valid even if they are inconsistent with any instructions he may have received from his constituents" (Gianviti 1999, 48). So on what basis are the director's actions legitimate? And how can they be held to account?

The coup de grâce for the accountability of the boards of the IMF and World Bank is that their proceedings are not published. Elected directors are not bound to follow the instructions of their members, they cannot be removed, they are not subject to formal reviews or evaluation, and their actions are not made public.

The transcripts of board meetings cannot be accessed in any timely way. The IMF produces summaries of board discussions but the full record of meetings cannot be accessed except after at least ten years under the IMF's archives policy. The World Bank has recently begun to publish the formal minutes of its board meetings, but these give little indication of the positions taken by directors—who act in part as representatives—on the board. In neither institution can members outside of the boardroom know what positions are being taken on issues by those ostensibly representing them.

The governance structure of the IMF and the World Bank gives strong incentives to the directors of a small number of wealthy board members closely to represent their country's interests and to perform at the highest level. Conversely, directors representing all other countries face no such incentives. They may—and often do—perform well. But without any formal incentives, the matter is left purely to chance.

The unbalanced incentives facing directors are complemented by an equally unbalanced workload. The most work-intensive countries in the Bank and Fund are in large groups represented by just one director. The least work-intensive countries have their own director and a large staff at his or her disposal both in the institution and in their home agencies. Take the twenty-four-member African constituency in the IMF, of which nineteen are currently in Poverty Reduction and Growth Facility (PRGF) debt relief programs. The director's office needs to undertake almost forty on-site missions and present semiannual reviews to the board, as well as preparing some twenty-four countries' article IV Consultations (typically on an annual basis), Poverty Reduction Strategy Papers (PRSP) Joint Staff Assessments, or informal board meetings on country matters to update on country developments, and prepare for board discussions on the progress of each member under the HIPC Initiative. There are also field missions for members undertaking a voluntary assessment of international standards, missions related to Financial Sector Assessment Programs, as well as possible technical assistance missions. Little surprise that only executive directors from the wealthiest countries seem to have the time or the will to engage in longer-term strategic discussions about the role and structure of each institution.

Much of the good governance and global governance rhetoric of the 1990s was about inclusion, participation, and ownership. Developing countries were urged to take charge of their own destinies and to be more forthcoming in producing their own economic agendas. Yet there is no incentive for them to do so in the governance of the IMF or the World Bank. Indeed, there are many obstacles. The governance structures of the institutions produce a dramatic asymmetry of accountability whereby paradoxically those countries least affected by the decisions and actions of the World Bank and IMF have the most influence and the most capacity to hold either institution to account. Many justify this state of affairs by pointing out that "he who pays the piper should get to call the tune," but that risks misrepresenting how the IMF and World Bank are respectively financed.

Who Pays the Piper?

Do the wealthiest and most powerful members of the IMF and World Bank fund the organizations? In fact, the running costs of both organizations are paid mostly by borrowing members.[1] The charges they have to pay on loans join the proceeds of investment made by each institution to cover the salaries of board members and senior management and staff; the buildings; research, monitoring, and evaluation activities; safeguard policies in the World Bank; and perhaps most astonishingly of all, huge payments by the IMF to its wealthy creditor countries who are remunerated for the quotas they lodge with the organization.

The core capital of each organization relies on the participation of their wealthiest nonborrowing members. The IMF's core capital comprises quotas lodged by every member, with the largest quotas being lodged by the wealthiest countries. In the World Bank a very small amount of core capital is paid in by all members, but the Bank's credit rating reflects the "callable capital" or guarantees given by all members—the largest being from the wealthiest members—to back the bonds sold by the institution. In the past both the IMF and the World Bank relied on wealthy nonborrowing countries for both their capital and their running costs, but that equation has changed dramatically over time.

Financing the IMF

Originally the IMF's members all lodged parts of their quota with the organization, thereby creating a pool of resources that could be lent to any member in need at low and stable interest rates. This would encourage countries to turn for help to the IMF before getting into serious difficulty and thereby bolster global financial and monetary stability. If the IMF needed more resources, it could borrow from members (which it has done several times: IMF 2001g, 75) or from the markets (which it has never done). The Fund later began to supplement its resources from investments and from members' contributions to special trust funds.

Radical change in the IMF came when wealthy nonborrowing countries began to demand that they be paid by the organization. This began with a relatively modest demand in 1968 that creditors be paid interest on a portion of the quota they lodged with the IMF. Later, the Reagan administration in the United States aggressively pushed for creditors to be paid at market interest rates.[2] The United States also insisted that creditors should not have to shoulder the burden of bad loans—a view promulgated robustly even though some such loans had been made for geostrategic reasons under strong pressure from the United States and

[1] On one calculation, in 1982 the Fund's debtors were contributing 27.7 percent of the Fund's administrative expenses, by 2002 this figure had risen to 75 percent. By contrast, the contribution of wealthy creditor countries had dropped from 72.3 percent to 25 percent (Mohammed 2003).

[2] U.S. law mandated the U.S. executive director to work toward raising the remuneration rate to the SDR interest rate (Boughton 2001, 908). The SDR interest rate is determined weekly by reference to short-term market interest rates on the currencies used for SDR valuation.

other creditors, such as to Zaire, and other arrears resulted directly from sanctions imposed by creditor countries, such as in Vietnam and Panama. Finally, the Reagan administration pushed for borrowing charges to be increased so that the institution could generate a net income. By the mid 1980s the United States had gotten its way. By 2003 the remuneration of creditors was costing the IMF double the organization's total administrative expenses (IMF 2004b, 154).

As the IMF increased what it paid to wealthy creditor members, it also increased what it charged borrowers—and it continues to increase that rate. Until 1977 rates of charge were low and concessional. In a first series of steps they rose to close to market rates on short-term loans (Boughton 2001, 909). Subsequently they have continued to rise. In 1999 the rate of charge was set at 113.7 percent of the SDR rate. By 2004 it had risen to 154 percent of the SDR rate. The SDR rate reflects the short-term market interest rate of the four currencies used to value the SDR (which is the international reserve asset of the IMF). Put simply, loans at concessionary rates had given way to loans at market rates in all but the special loans the organization makes from Trust Funds (such as HIPC).

Further fueling increases in borrowing charges has been a policy set in 1981 that borrowing charges should generate a target net income for the organization. An initial target of 3 percent of beginning-of-period reserves was set for net income in 1981. That target rose to 5 percent in 1985 and subsequently to 7.5 percent in 1987–88 before being pegged back at 5 percent. Put simply, since 1981 borrowers have also been asked to fund an increase in the precautionary balances of the institution.

The costs of running the IMF have increased in the last decade as it has expanded its activities better to fulfill its role of ensuring international financial stability. For example, in the wake of the East Asian financial crises in the late 1990s the IMF's oversight activities have been expanded to include the development of benchmarks of good practices on data dissemination, fiscal transparency, monetary and financial policy transparency, and in banking supervision (in cooperation with other agencies). By 2003 the institution had produced 343 Reports on the Observance of Standards and Codes (ROSCs) for some eighty-nine economies—reports that aim to pinpoint areas of institutional weakness, advise policy actions, and focus technical assistance (IMF 2003b). Similarly, in 1999 a Financial Sector Assessment Program (FSAP) was developed with the World Bank to detect potential vulnerabilities in the financial system of member countries and reduce the likelihood and magnitude of financial crisis. By 2003 some ninety-five countries had participated in the scheme (IMF 2003c).

Who is paying for the IMF's expanded activities? A quota increase which came into effect in 1999 means that most members (including borrowers) have contributed to an increase in the institution's resources from SDR 145.6 billion (about US$204 billion) to SDR212 billion (about US$297 billion), increasing the institution's useable resources by about SDR45 billion (about US$63 billion). However, the overall costs of new actions urged on the IMF and World Bank in the wake of the East Asian crisis are virtually all being borne by borrowers. The additional work required to complete reports on the observance of standards and

codes (ROSCs) on fiscal and data transparency is performed by Fund staff and paid for out of the administrative and operational expenses of the organization. In respect of FSAPs and ROSCs relating to the financial sectors, national agencies provide about 20 percent of professionals working on such assessments but the rest of the cost is borne by the IMF (and by the World Bank, which participates in FSAPs in non-OECD countries). Paradoxically, while the lending activities of the institution are supposed to pay for most of its activities, it is the non-borrowing creditors who have set and pushed the expanded agenda of the IMF.

Borrowers now pay a high premium for using IMF resources. Indeed, a new Supplementary Reserve Facility created for emerging markets in crisis proposed yet higher interest rates. Creditors, by contrast, are remunerated for their contributions. The result is that borrowers are paying a larger share of a larger budget as the Fund's administrative expenses have increased from 189.4 million SDRs in 1991 to 530.8 million SDRs in 2002 (Mohammed 2003, 20). This means that the IMF—in fulfilling its global public goods functions—has come to rely ever more heavily on its borrowers since without their borrowings and payments, the IMF would run higher and higher deficits (as it did in the 1970s Boughton 2001, 899). A similar reasoning applies to the rather differently structured finances of the World Bank.

Financing the World Bank

The World Bank's main lending arm, the IBRD, does not use periodic donations from rich countries to lend to the poor. It is only the concessional lending arm of the Bank that does this. Mostly, the IBRD raises money in capital markets and lends that money to developing, emerging, and transition economies. In essence it uses guarantees provided by its wealthy members to enable it to sell triple-A rated bonds in capital markets.[3] These "debt securities," which are issued in a variety of currencies, are sold to both institutional and retail investors. The money so raised is then lent to borrowers. Borrowers pay the cost of funding the loan plus a lending spread that helps fund the Bank's reserves, investments, and administrative expenses.

Backing the Bank's issues of debt securities are three things. First but no longer foremost, there is the capital stock of the institution contributed (or at least promised) by every member. Countries do not actually pay these amounts to the Bank, nor is there an expectation that they would need to. Instead they pay in a tiny fraction. The rest is "callable capital"—a kind of guarantee pooled together by the promises of all members. Of the U.S. contribution of $31,965 billion, some $29,966 billion remains uncalled.

A second but increasingly important source of financial strength of the IBRD

[3] All members pay in a small fraction of their capital subscription, the rest is pledged as "callable capital" on which no call has been or would ever be made unless the Bank were to go bankrupt and need to pay off its bondholders.

is its principal asset—its loans to member countries and their record in meeting their debt-service obligations to the Bank. This record sustains the high credit-rating of the IBRD. The third financial foundation of the Bank is what it earns through investments of its own income from lending. To give a sense of the proportion of this contribution, in June 2004 the IBRD had loans and guarantees outstanding to the value of $119.275 billion. Its reported loan income (from fees and charges) was $4.403 billion (down from $8.143 billion in 2001), and its investment income was $304 million (down from $1.540 billion in 2001) (World Bank 2004d, vol. 2, 3–4).

Over time what has changed in the Bank is the relative burden of paying for the World Bank. As with the IMF, in the 1980s the Reagan administration began to push for an increase in the Bank's loan charges so as to increase the reserves of the organization and to cover the costs of failing loans falling into nonaccrual status. In 1979 the "spread" or amount the IBRD charged to its borrowers over and above what it was paying to raise the money it was lending them, was 0.5 percent plus a commitment fee of 0.75 percent. But during the early 1980s this increased dramatically as a result of three decisions.

As monetary problems afflicted its European nonborrowing members, they urged the IBRD to stay away from their capital markets. The IBRD had then to turn to the much more costly U.S. bond market which favored shorter maturity, variable-yield instruments (Kapur et al. 1997, 1025). The result was more costly finance, the cost of which was passed on to borrowers. Additionally, as of early 1982 the Bank imposed a 1.5 percent front-end fee on all new IBRD loans "to forestall any potential decline in the IBRD's income over the medium term" (World Bank 1982, 52). This effectively doubled the spread on the Bank's loans. In that same year, the IBRD also began lending at variable rates. The result of these changes was to drop the nominal grant element of loans from about 14 percent in 1974–78 to minus 2 percent in the period 1980–84 (Kapur et al. 1997, 1028). The resulting build up of reserves meant that by 1985 the front-end fee was reduced to 0.5 percent. And in 1988 the Bank's finances were boosted by the third ever general capital increase in the Bank—an increase to the tune of $74.86 billion, which took effect on 28 April 1988, just as Bank disbursements were slowing (World Bank 1989b, 61).

As charges on loans have increased, the Bank has increased its reserves-loans ratio and built up an additional "surplus account" to add to its financial strength (and reduce the risks covered by its members' guarantees). The Bank also increased its "net income."

A further shift was made in 1998 when the G-7 led a coalition to vote to further augment the Bank's net income and reserves—a highly contentious decision that increased borrowing costs to the developing, transition, and emerging-market members of the Bank (Kapur 2002).

Borrowers now pay the IBRD the cost to the institution of raising money plus a spread comprising an interest charge (calculated as a percentage of balance disbursed to the borrower and paid semiannually), a commitment charge (calculated as a percentage of balances committed and yet to be disbursed and paid semian-

nually), and a front-end fee calculated as a percentage of total amount committed and paid up-front.

Borrowers are being expected to pay more to the World Bank not just to build up the institution's reserves but also to cover the costs of an expansion in the Bank's activities. Between the mid 1970s and the mid 1990s the Bank's administrative expenses per project doubled (Kapur 2002, 346).[4] At the behest of its wealthy shareholders, the Bank spent money on special initiatives. In the 1990s, some US$30 million of the Bank's net income was paid for the G-7–requested study of the economy of the former Soviet Union (mentioned in chapter 5). Further resources were put into a trust fund for Bosnia, and a trust fund for the Gaza Strip and the West Bank. Debt relief for the poorest countries placed a further demand on the Bank's net income. Meanwhile staff time and resources were also increasingly required to implement stricter Bank operational standards (fiduciary and safeguards policies, discussed in greater detail below).

The Bank's expanded activities have doubtless all been worthy. However, should borrowing members bear the cost? The special initiatives in the Soviet Union, Bosnia, and Palestine have all been projects closely associated with political initiatives of the G-7. Yet rather than funding these worthy projects from their own aid budgets, the G-7 effectively turned the costs over to the borrowing members of the IBRD.

The World Bank's concessional lending arm is financed in a different way and here wealthy countries do provide most of the funds and enjoy overall control. The International Development Association (IDA) is a fund replenished every three years, mostly from a core group of donors who conduct lengthy negotiations about who will contribute what. IDA13 refers to this pot of money in the period 2002–05. About half its money (US$13 billion of approximately US$23 billion) came from contributions from donor countries. A further chunk of resources comes from borrowers' repayments (about US$4 billion in IDA13), investment income, money left over from previous replenishments, and contributions from the IBRD's net income (approximately US$900 million in IDA13).

The original 1960 voting structure of the IDA reflected the initial subscriptions to the Fund. But it was decided early on that replenishment contributions would not automatically change voting rights (International Development Association 2001). Indeed, as U.S. contributions slipped from its initial clear leadership position, it has retained the largest share of votes. Up until 2005 the largest cumulative contributor to IDA was Japan which gave 22.07 percent of the Fund's resources (International Development Association 2005). Yet Japan's voting share up to 2005 was 9.14 percent and has now dropped to 8.92 percent—below that of the United States whose cumulative contribution up to IDA13 was

[4] Since the late 1990s and a compact not to increase further the Bank's administrative expenses, they seem not to have increased dramatically. The Bank's 1996 *Annual Report* shows a total administrative budget for 1994 of US$1.3884 billion and a similar figure for 1995 and 1996 (Appendix 6, 235), as does the 1998 *Annual Report* for 1997 and 1998 (Appendix 5, 153). The 2001 *Annual Report* suggests a slight reduction to US$1.094 billion in 1999 and then to US$1.006 billion in 2001 with these figures continuing into 2002 and 2003, rising to US$1.113 billion in 2004 (*Annual Report* 30 June 2004, 33).

21.74 percent but which enjoyed 12.07 percent of votes. In IDA14 the United Kingdom is contributing the same amount as the United States (each are contributing 13.18 percent of the Fund), yet the United Kingdom has 4.72 percent of the vote while the United States has 11.61 percent of the vote.

Since at least the early 1990s the donors have exercised a very heavy hand in the lending of the IDA, using replenishment negotiations not just to set goals for the Fund, but to detail recommendations and even to specify the share of lending that should go to specific sectors and countries. The donor-set goals, as reviewed by the World Bank's Operations Evaluation Department in 2002, have been unrealistic with respect both to what can be achieved and the requisite budget resources—indeed this led to efforts in IDA13 and IDA14 negotiations to include some borrower representatives in replenishment negotiations (OED 2002). However, the IDA governance structure does not permit borrowing countries to contribute or buy subscriptions in the Fund so as to gain a voice.

The Implications of Who Funds the Institutions

The IMF and the various agencies of the World Bank are multilateral institutions created to ensure growth, stability, and equity in the world economy for the benefit of all countries. The wealthy members of each organization have mostly defined precisely how these goals should be met, in several instances expanding the activities of each organization and thereby increasing their running costs. Yet wealthier nonborrowing countries have reduced their own contributions and liability at the same time as they have leaned more heavily on the institutions to fulfill global public goods functions. This has left an increasing burden on borrowing members.

The paradox of contemporary arrangements is highlighted by the role of the heads of each organization. The wealthy countries have long arrogated to themselves the right to choose the head and senior management of the Bank and Fund. For this reason the Bank president is always American and the managing director of the Fund is always a West European who is closely shadowed by an American first deputy managing director. Yet borrowing countries now shoulder the costs not just of the salaries of these officials but also of the new initiatives or corporate restructuring that each new incumbent tends to bring with him.

There are deep flaws in the reasoning that wealthy countries pay for the IMF and World Bank and should therefore run the organizations. The argument is neither wholly true nor conducive to effective institutions. A substantial burden of costs is being borne by borrowing members of each institution. But a deeper problem was recognized by the founders some sixty years ago. In a debate on the issue of who should govern the institutions, Harry Dexter White (representing the United States), argued that to accord voting power strictly proportionate to the value of the subscription would give the one or two powers control over the Fund. This, he argued, would destroy the truly international character of the Fund, and seriously jeopardize its success (cited in Gold 1972, 19). There are several reasons to believe that White was right.

The United States has used its dominant position in each of the Bretton Woods twins to radically reshape their finances since the 1980s, as well as to reinforce and elaborate the conditionality associated with their loans. Other wealthy industrialized countries have either supported or permitted this to happen. This has made borrowing from each of the institutions more costly. The first casualty of this is the willingness of countries to use the organizations. Recall for a moment that the rationale for low loan charges in each organization was to attract members to use them. This has been dumped at a cost.

High borrowing charges and onerous conditionality make the IMF at best the very last port of call for developing, emerging market, or transition economies. Rather than approaching the Fund for assistance in a timely way when a crisis still might be forestalled, countries do all they can to avoid the institution. This has been demonstrated in individual cases such as Korea (as discussed in chapter 2) but more dramatically when the IMF set up a new special facility for emerging markets at risk of contagion—a facility bearing a yet higher rate of charge and conditionality than the IMF's own competing product, the normal "standby" arrangement. Unsurprisingly not a single member availed itself of the new facility. Increasing charges have steadily eroded the incentive on members to approach the Fund. In turn, this erodes the extent to which the Fund can work with members to prevent or manage crises. In the World Bank the main lending arm (the IBRD) is suffering equally from its increased charges and conditions and the "hassle factor" associated with Bank loans. As creditors have forced up the rates at which the Bank lends, so too it has begun to push away some of the Bank's most successful borrowers.

Neither the Fund nor the Bank can fulfill their main objectives without cooperation from developing, emerging, and transition economies. Core among these objectives is to ensure a degree of balance in the world economy—to ensure that untrammeled global markets did not simply result in a "rich take all" system. Yet the institutions themselves are today distributing money from poor to rich countries as borrowers increasingly shoulder the burden not just of bad loans but also of building up the reserves of each organization and of remunerating creditor members in the IMF.

Who Sings the Loudest—Is It Really NGOs?

NGOs have had a roller-coast relationship with the Fund and Bank. Hailed as the champions of transparency and democracy in the 1990s, in 2005 they are attacked by some for usurping their position and pursuing an agenda that hurts the poor and those they purport to represent. Indeed, at least one organization has been set up for the purpose of exposing the unaccountable nature of some NGOs (www.ngowatch.org). Amid the loud debate about NGOs, however, there is a lack of clarity about their actual role.

There are three roles NGOs have played in the last decade in respect of the IMF and World Bank. These include an operational role delivering aid; a policy-advisory role in respect of governments and officials including within the international institutions; and an accountability role in respect of Bank and Fund projects, policies, and governance. These roles are worth clarifying.

The operational role assumed by NGOs emerged in the 1980s when governments led by Ronald Reagan, Margaret Thatcher, and Helmut Kohl were pressing to reduce the role of governments. NGOs were seen as an alternative way to deliver aid. Large Northern NGOs could be contracted by government. This would create more of a market in aid with greater flexibility and adaptation. For some Northern NGOs this meant becoming rather heavily dependent on their contracts with Northern governments. On the other side of the equation, NGOs in developing countries rose up to receive aid. In the ideal case this permits innovation and grassroots projects to flourish, strengthening civil society on the ground and offering a solution to lack of government capacity. But critics argue that channeling aid around and away from governments erodes democracy and creates incentives for individuals to reinvent themselves as NGOs and to replicate the kinds of corruption, diversion, and clientelism that formed the basis of the critique against aid to governments in the first place. All that said, NGOs from both North and South have been and still are a crucial link in delivering aid across much of the developing world.

Flowing out of that role, NGOs have also taken up a policy-advisory role in respect of aid and development assistance. Many operational NGOs from both North and South are included in IMF and World Bank consultations—in country as well as at headquarters in Washington. As detailed in chapter 6, in the process of putting together Poverty Reduction Strategy Papers, governments are encouraged explicitly to work with NGOs. This is challenging for both borrowing governments, and the staff of the Bank and Fund who strive to meet deadlines and disburse loans in a timely way within a set of aspirations which are much more long term.

A third role NGOs have come to play concerns transnational advocacy of particular issues—especially concerning the environment. Coming to prominence in the 1970s and 1980s, environmental and other NGOs have highlighted adverse impacts of World Bank projects and IMF structural adjustment across the developing world. In the 1980s, a group of environmental NGOs joined forces with members of the U.S. Congress to press the World Bank to answer to their claims (Wade 1997). The Bank began more closely to scrutinize its own performance. In 1992 two investigative reports were produced. The first was the Morse Commission—an independent review of India's Sardar Sarovar loan projects that uncovered that the Bank had failed properly to implement its own policies such as on resettlement and energy. The second was an internal review of the Bank's lending portfolio (the Wapenhans Report), which was leaked to the press and contained damning evidence of the "culture of approval" wherein Bank staff face a much stronger incentive to disburse loans than to ensure that their own rules are met.

Not just NGOs but a combination of pressures from the U.S. government, from within the Bank, and from among NGOs caused a minor revolution in the

World Bank in 1993–94. The Bank tightened its safeguards policies, which direct Bank staff properly to assess the impact of Bank-supported projects on the environment, cultural property, and indigenous peoples, and mandated a new standard of transparency. Topping this off, the Bank board created an Inspection Panel, which would enforce the institution's safeguards policies—in a sense countervailing the "disbursement culture" that had been identified by the Wapenhans Report. Any community of people affected by a Bank project could now push for an investigation into whether the Bank staff had complied with the institution's own rules and policies. Alongside the panel, the Bank announced a new disclosure policy in 1994 opening the institution to greater scrutiny from the outside.

For NGOs the changes in the World Bank were empowering. The public was granted greater access to information about what the Bank was doing. Nongovernmental actors were given access to a mechanism of accountability in respect of the Bank's own rules and procedures.

The revolution in the Bank's accountability also significantly altered—and complicated—the incentives within which Bank staff worked. Unsurprisingly, it soon became the bête noir of some staff within the Bank and various supporters outside the organization. Critics averred that the new standards and mechanisms added significantly to the cost of preparing Bank loans, forcing the staff to work with one eye constantly on the Inspection Panel (Wade 2000). More recently, it has been argued that environmental protection and the like have added dramatically to the Bank's costs of doing business, leading major borrowers to simply walk away from the Bank (Mallaby 2004a). To some degree if the safeguards and Inspection Panel have been at all effective, they will have altered staff behavior, and likewise had implications on costs. However, these claims have been somewhat overstated.

The Bank reported in 2001 that project supervision had risen in cost from US$130 million in 2001 to US$149 million in 2002, due to "higher fiduciary and safeguard standards," while the unit costs of "supervision" in lending rose from US$67,000 in FY1997 to US$74,000 in 2001 (World Bank 2001d, 33). These increases reflect a number of factors. As of the late 1990s, the World Bank tightened up three areas of its operational policies. One area was new higher standards of transparency, monitoring, and evaluation of the economic effectiveness of its projects. A second area is fiduciary policies, which cover rules governing financial management, procurement, and disbursement. A third area is safeguard policies that include Environmental Assessments and specific policies designed to prevent unintended adverse effects on things such as natural habitats, pest management, cultural property, involuntary resettlement, indigenous peoples, safety of dams, projects on international waterways, and projects in disputed areas. The third category is that on which most rage about safeguards has been focused, yet it accounts for about a third of the costs of the operational policies overall (World Bank 2001c).

Undergirding the arguments about how much World Bank safeguards policies cost is a deeper debate that pits the values of environmentalism and opposition

to the forcible resettlement of peoples against the goals of modernization, growth, and poverty reduction. This reverberates in the globalization versus antiglobalization debate. It has long affected both the IMF and the World Bank. It has been most clearly expressed in furors surrounding World Bank support for large infrastructural projects such as hydroelectric dams which require resettlements of peoples and directly affect the environment to the end of modernization. Such decisions and the conditionality attached to them are deeply contentious, affecting the lives and opportunities of many.

Infrastructure projects such as dams are deeply contentious because they affect the lives and opportunities of many. The way a dam is built affects those who may benefit from the irrigation water or electricity produced, as well as those who are displaced to build a dam. When the World Bank is involved it ought, in theory, to offer impartial and technically accurate advice. However, both the Bank's role and a borrowing government's decision are further complicated by the role international companies play in competing for the contracts to build and manage such dams. Transparency International finds that firms often try to influence decision-making in their favor by bribing officials, or by colluding with their competitors, or both, and that corrupt governmental officials become involved (Wiehen 1999, and see www.worldbank.org/html/extdr/pb/dams). When the World Bank is involved, very often major shareholders in the institution champion the interests of their own construction and electricity companies before, during, and after a loan is made. All of this makes the job of providing impartial and technically accurate advice to potentially dam-building borrowers extremely fraught.

Unlike NGOs, the private sector lobbies the Bretton Woods institutions much more quietly. Typically private sector advocacy is well-organized, highly funded, well-supported by the government, and highly effective. For example, in the wake of the debt crisis in the early 1980s, the financial sector created the Institute of International Finance to represent banks and investors affected by the crisis. This is now just one of several organizations representing private sector investors. In 2003 the organization spent over US$16 million advancing the interests of its members through research and advocacy (Institute of International Finance 2003).

In the World Bank, private sector influence is also powerful, although mostly exercised through governments. For example, the U.S. government invests heavily in ensuring that U.S. companies benefit from the World Bank's procurement contracts. The U.S. Department of Commerce maintains a liaison office at the World Bank (and at four other multilateral development banks) to inform and advise U.S. companies on bidding for contracts arising out of World Bank loans. It also operates as a resource for U.S. companies engaged in disputes over World Bank projects. This agency's work is supported by at least eight other government agencies, each of which has a brief to assist U.S. business in making the most of opportunities afforded by World Bank loans. These include the U.S. Trade and Development Agency; the U.S. Trade Representative; the Departments

of State, Homeland Security and Transportation; the Export-Import Bank of the United States; the Overseas Private Investment Corporation; and the Foreign Agricultural Service.[5]

The Bank—and the IMF—each need a political process at their helm that can fairly weight and counterbalance private interests with public goals. Governments and their representatives on the board do not work within incentives which clearly prioritize the public goals of the governments they are supposed to support—not least because private interests permeate the governments on all sides of the equation. This is as true in Washington as it is in the capitals of borrowing countries.

Over the past two decades large transnational advocacy NGOs have tried to hold each of the Bretton Woods institutions to account for their decisions. They have shone an uncomfortable and often inconsistent spotlight into the workings of the organizations. They have enraged borrowing countries, staff within the Fund and Bank, private sector investors, and critics who ask with what legitimacy NGOs presume to intercede. The obvious riposte to this is to ask what kind of governance structure cedes so easily to the demands of nongovernments—whether they are NGOs or private sector interests? The Fund and Bank are susceptible to a range of pressures, interest groups, special pleadings, political preferences, and ideological fashions. This chapter has argued that the political process for mediating these pressures could be vastly improved.

Changing the Tune

Independent boards have been advocated for each of the Fund and Bank by commentators keen to reform the institutions. To quote an eminent set of proposals to reform the IMF: "The obvious solution is to strengthen the independence of the Executive Board. If Directors are too inclined to take advice from their governments, then the Articles of Agreement should be amended to discourage them from so doing. The analogy with central bank independence is direct. The Statute of the European System of Central Banks, for example, prohibits members of the Board of the European Central Bank from taking advice from their governments. There is no reason why the IMF's Articles of Agreement could not follow suit" (De Gregorio et al. 1999, 91). This proposal self-consciously drew from an earlier report advocating a more independent central bank for the UK (CEPR 1993). A similar demand for greater independence of the board in the World Bank is also often made.

But the IMF and World Bank are not like Central Banks. They cannot be held to account purely with reference to a specified output such as inflation. The goals of the Fund and Bank are more wide-ranging. The IMF was told by its member

[5] The World Bank's Contracts Award Search database details to whom contracts are awarded—which companies and from which countries: see http://web.worldbank.org/WBSITE/EXTERNAL/PROJECTS/0,,menuPK:51565~pagePK:95864~piPK:95915~theSitePK:40941,00.html.

governments to take on a wide range of tasks in 2004. These included assistance to members affected by volatile oil prices, poverty reduction, effective and even-handed surveillance, and trade liberalization (IMFC 2004). The World Bank in the same year was directed to intensify its analytical work on the potential sources of growth from remittances and ways to mobilize them, to focus on infrastructure needs of member countries, to help the Doha Round of trade negotiations to succeed, to assist in the meeting of the Millennium Development Goals, and so on (World Bank 2004b). These goals are not like an inflation target. They could not be used to hold an independent executive board to account.

There are other more practical reasons for rejecting the idea of independent boards for the IMF and World Bank. Some independence is already entrenched in the Articles of Agreement of both the Bank and the Fund. The role of executive directors is not to represent their country. Rather, directors are responsible for the conduct of the general operations of the organization (IBRD Article V.4.a; IMF Art XII.3.a). They are deliberately not employees of their national agencies, rather they are employees of the Fund or Bank. They sit full-time in Washington, D.C., precisely as an insulation against undue political interference from capitals. The independence of each organization is further entrenched by provisions requiring the president or managing director and all staff to discharge their offices owing their duty entirely to the organization and to no other authority (article V.5.c in IBRD, article XII.4.c in IMF). The same articles call on every member to respect the international character of this duty and to refrain from all attempts to influence the management or staff in the discharge of their duties.

Despite their charters, politics has seeped into the board of each organization—and beyond. This is hardly surprising. As discussed above, the decisions of the Bank and Fund create winners and losers—and not just in borrowing countries. Within wealthy countries, corporations who bid for World Bank contracts or investment funds hoping for an IMF intervention will gain or lose from the institutions' decisions. Each lobbies vigorously their own governments and the institutions themselves. A theoretically independent executive board would not cause these interests to go away, nor their advocates. It would yet further distance most countries from the institutions. It would most likely leave a powerful system of informal influence to the private sector, nongovernmental organizations, and government officials based in Washington D.C.

What each institution needs is a board that can mediate competing interests in a way that is representative, transparent, and accountable. Adequate representation does not necessarily mean a UN-style system of one-country one-vote that would render the boards unwieldy. The present board structure offers a potentially useful framework for representing all members yet being small enough to be workable. Lacking is an incentive for the most powerful vote holders to consult and build coalitions across a wide range of members when they can command an easy majority of voting power among themselves. Equally lacking are incentives on developing, emerging, and transition economies to use their seats on the board and to use coalitions among themselves to affect the strategic direction and priorities of each institution.

Changing voting power is not the best solution to this problem. A series of complex formulae are used to ascertain the share of votes of each member of the Fund and Bank. Reforms have been proposed from several quarters (IMF 2001f; Van Houtven 2002; Buira 2005, 14–15). But changing voting distribution requires taking votes away from some members and giving them to others—a process that in the 1980s led to tortuous negotiations to increase Japan's share (Ogata 1989, Lister 1984, Rapkin and Strand 1996). Furthermore the calculations in proposals already mentioned would not result in a change that would give incentives to involve small, poorer countries in decision-making.

Basic votes offer a similarly flawed solution to the inclusion problem. In previous periods an allocation of basic votes to every member of the Bank and Fund ensured a slightly more equal distribution of votes among member states.[6] At the founding of the institutions, basic votes represented just over 10 percent of votes whereas they now represent just 2.8 percent of total votes in the World Bank and a similar proportion of votes in the IMF. The result has been subtly to bolster—over time—the erosion of equality among members in the institution. If basic votes were to be brought back to their original level, in the twenty-three-member African constituency of the World Bank voting power would rise from 3.41 to 4.06 percent. In the twenty-five-country African constituency, voting power would rise from 1.99 to 2.81 percent.[7] These changes are significant but would not achieve the goal of ensuring wider participation and coalition-building across the institution.

There is a simple way to change governance in each organization. Leaving voting power and shares to one side, decisions could be made by a double majority. Big powerful countries would then have to build coalitions among the more numerous small countries. An incentive would be created for greater inclusion in decision-making (more on this below).

Once there is an incentive to include smaller poorer countries in discussions and decisions within the IMF and World Bank, those countries' representatives need more clearly and effectively to be held to account. As we saw above, only directors from a small number of wealthy countries can directly hold their representatives to account. In the case of the United States the U.S. Congress is involved in approving the appointment of the U.S. executive director and subsequently demanding reports from him or her. The U.S. Congress also uses the investigative and oversight capacity of the U.S. General Accounting Office better to understand the policies and effects of the international financial organizations. More recently parliaments, including those in the United Kingdom, Ireland, France, and Italy, have begun to call for greater transparency and reporting to them about their governments' policies in the multilaterals.

Meanwhile directors from all other countries in the Fund and Bank have little incentive to be anything but virtually independent of their members. There are no formal mechanisms through which their members can hold them to account. Yet more egregiously, there is no transparency about board decisions, which would permit greater oversight of the actions of either rich or poor board members. These gaps need addressing through greater accountability, effectiveness, and transparency of all board members.

Better accountability is also necessary in respect of the head of each organization. Serving and chairing the board, each leader is in theory elected by all executive directors. In practice, as already mentioned, each head is appointed and held to account by the U.S. and European shareholders respectively. The World Bank president is selected by the U.S. administration in a process controlled by the U.S. Treasury and characterized by great secrecy. In a similar vein, the largest EU members in the IMF control the nomination of a West European candidate. In 2000, in breach of established convention, developing countries nominated their own candidate in a particularly shambolic selection, and this spurred a review of current procedures. The process is significant because it skews the accountability of each organization, making the leader accountable to those who appoint him. In turn the accountability of the staff is skewed because they all report to the leader. Headship selection is a core part of the overall accountability of each organization and at present that process is deeply flawed.

The work of the staff in the Fund and Bank is influenced by the way each agency is organized. Ideally any Fund or Bank staffer would face incentives to ensure that his or her institution best met its goals. Yet often more bureaucratic priorities get in the way. The narrow goals of ensuring that the institution runs smoothly, presenting a coherent face to the world, reducing costs where necessary, or spending its budget take precedence over the wider goals of reducing poverty, enhancing global financial stability, and so on.

Typical trade-offs are highlighted in issues such as how staff are deployed. Rotating the staff around different countries, or using temporary contracts can give the institution greater flexibility, give staff cross-country expertise, and in the old diplomatic parlance, prevent staff from going native and overly sympathizing with locals. However, as argued earlier in this book, the Fund and Bank are ill-served by staff who have not had the opportunity to acquire deep knowledge of particular circumstances within a country or of the culture of recipients and beneficiaries. A further casualty of short-term assignments is that they give no incentive to the staff to prioritize longer-term effects of their projects or policies (Ostrom et al. 2001). More broadly, there are few if any concrete incentives for staff missions from the Bank or Fund to ensure that projects or policies are sustained beyond the short-term lending period. Neither the evaluation of lending activities, nor procedures for staff promotion include such incentives. Finally, the "disbursement culture" in the World Bank, mentioned earlier in the book, is typical of most aid agencies keen to prove that they can use their budget within its annual allocation period and are deserving of more. That culture is at odds with the Bank's current emphasis on lending in ways that better serve governance, ownership, and participation in decision-making in borrowing countries.

The contradiction between bureaucratic incentives and institutional goals is

[6] Basic votes are attributed to the membership in a fixed amount regardless of the size of a member's quota. Each member is in total allocated 250 basic votes plus 1 vote for each part of its quota—in the IMF equivalent to 100,000 SDR (IMF: Art. XII, Sec. 5). See Lister (1984), Woods (1998) and Boughton (2003).

[7] These calculations are based on figures produced by the Development Committee (World Bank 2004b).

highlighted in attempts by the Fund and Bank to foster greater ownership by borrowers of policies and projects. Each institution has tried to incorporate a commitment to greater ownership into their work. The difficulty is that greater ownership by borrowers necessarily means less control by the staff and nonborrowers of the organizations. This shift of control is very clearly expressed in one seminal study of aid and incentives. Four conditions are outlined as vital for some degree of ownership in aid or lending in the pursuit of a sustainable policy or project (Ostrom et al. 2001, xx). First, beneficiaries need to have enunciated a demand for the aid or policy. Second, they need to exercise some control over the resources made available. Third, they need to allocate at least some of their own assets to the project or program so they have a real stake in it. Finally, clear responsibility needs to have been assigned to them, and they must participate in decisions regarding the continuance or noncontinuance of a project (Ostrom et al. 2001, xx). These are challenging findings for the IMF and World Bank.

Politically the problem for the Bank and Fund is that they are trying to incorporate "ownership" into the way they do business at a time when nonborrowers are also demanding that the institutions be yet more accountable and responsive to them. Like Dr. Doolittle's Pushmepullyou animal, the Fund and Bank are being pushed by their largest shareholders to give more control to borrowers and—at the same time—being pulled back to permit more control by the large shareholders. The contradiction is clearly expressed in the report of the commission created by the U.S. Congress in 1998 to frame U.S. demands for reforming the IMF and World Bank. The report calls on the IMF and World Bank to be more responsive to the U.S. Congress, and at the same time calls on the institutions to rely "more on incentives and local decision-making and much less on programs and conditions imposed by multilateral agencies" (Meltzer Commission 2000). Missing entirely from the analysis is a recognition that the U.S. Congress itself has demanded and shaped those very programs and conditions it accuses the multilateral agencies of imposing.

Six Important Reforms

The Bank and Fund need to be governed in a way that is more representative, transparent, and accountable. A number of key potential reforms stand out to address the flaws highlighted above.

A Rebalancing of Who Pays

In the first place, the burden of who pays for the institutions needs to be redistributed. Wealthy countries stepped away from funding the IMF and World Bank in the 1980s, forcing each institution to depend more on the charges it set on its borrowers. Yet those same wealthy countries today are demanding that the IMF and World Bank provide a wider-than-ever range of global public goods, including disseminating financial and banking standards; clamping down on terrorist financing; helping reach the Millennium Development Goals; fighting the wider war on poverty and disease, especially the HIV/AIDS pandemic; and assisting in providing a more stable global security climate. Simply put, those setting this agenda need to be prepared more amply to contribute to achieving it.

TABLE 7.1
Loan disbursements (gross)

Year	Disbursement amount (in billions of dollars)
1996	13.321
1997	14.009
1998	19.283
1999	18.100
2000	13.332
2001	11.784
2002	11.256
2003	11.921
2004	10.109

Sources: Information for 1996, 1997, and 1999 from AR 1998, 212; 2004 numbers from AR 2004, vol. 2, 4.

Borrowers may already be showing that they are not prepared to shoulder the burden thrust on them. They may not have many voting rights on the board but the income-generating borrowers of each institution can vote with their feet. In development financing, the World Bank's loans to its middle-income and IBRD borrowers have been dropping in recent years, as evidenced in the institution's annual reports, which show that loan disbursements have dropped from a high of US$19.283 billion in 1998 to US$10.109 billion in 2004 (see table 7.1). One direct result for the Bank is a steadily dropping loan income from around US$8 billion earned each year from 1999 to 2001 to US$4.4 billion earned in 2004 (World Bank 2004d, vol. 2, 4).

The IMF is equally shrinking. Its disbursements have dropped from 25 billion SDR in 2002 to 4 billion in 2004 (www.imf.org). Emerging economies are choosing not to use Fund resources, which have become so much more expensive and more conditional than they were prior to the 1980s and in relation to other sources of finance. As already discussed, some emerging economies are seeking to ensure that prospectively they will never need to use the IMF—by stockpiling their own foreign exchange reserve.

As borrowers walk away from the costly and highly conditional loans now on offer, the result is to leave each institution with a shrinking capacity to fulfill a growing mission. A first element of a solution is therefore to require more systematically that those who define the institutions' missions should be prepared to pay more to fulfill it—and that they must concede a stronger voice to those who share in those costs with them. This would bolster the cooperative and multilateral mission and capacity of each institution, just as Harry Dexter White proposed some sixty years ago.

Greater Inclusion through Double-Majority Voting

A wider range of members needs to be included in the decision-making of each institution. One way to achieve this is to alter the decision-making rule (Strand and Rapkin 2005, Jakobeit 2005). In both the Fund and the Bank some decisions already require both a special majority of voting power and a special majority of governors.[8] If a majority of voting power and a majority of countries in each organization were required to pass measures, the G-7 would need to find not just one further executive director's vote but also the support of half the membership. This reform would immediately create an incentive for the powerful members of the board to forge alliances with a larger number of borrowing countries—large and small. Equally, it would give borrowing members an incentive to participate more actively, more constructively, and with greater input into the strategic decisions made in each organization.

Publication of Board Transcripts

The discussions and decisions made by the board of each institution should be available for immediate public scrutiny. They are already carefully prepared and filed in each organization. They should be published in a timely way. The Fund publishes a summary of board discussions and the Bank has recently begun to publish the formal minutes of board meetings. But the full transcripts, including positions taken by directors, should be published. This would permit board members to be held more openly to account for positions they take in decisions of the board. It would permit people in member countries at least to know why a decision was taken and at whose behest in either of these public institutions. For these reasons, this measure has been recommended by many (e.g. Meltzer Commission 2000, Department for International Development 2000, De Gregorio et al. 1999).

Reporting to Parliaments

A fourth important reform adds a further element of accountability to the members of each institution's board. Parliaments in some industrialized countries already require reporting direct from the executive director representing them in one or other institution. More recently, demands have been made by international groups such as the Parliamentary Network on the World Bank, which was set up in 2000 (www.pnowb.org), and national groups such as the Frente Parlamentar in Brazil, which has called for legislation to ensure that information on loan agreements is made public, and for creating mechanisms to facilitate greater participation of officials and civil society in the design of programs

[8] In both the IMF and the IBRD an amendment of the Articles requires three-fifths of the members, having 85 percent of the total voting power (IBRD Art VIII; IMF Article XXVIII). In the IBRD the suspension of a member requires the support of a majority of the governors, exercising a majority of the total voting power (IBRD Art VI).

(www.rbrasil.org.br/frenteparlamentar). These demands are for greater accountability about what each institution decides and how it implements its decisions. Two caveats are in order about the effectiveness of broader accountability.

Broadening accountability differs from the outreach of staff in each organization to parliaments and others. Having seen their reforms rebuffed by parliaments in Russia, Turkey, and Indonesia, the IMF now encourages its staff to reach out (where governments permit) to a broader range of stakeholders including parliamentarians to build support for economic reforms. The Bank has been engaged in this for a longer time. However, actual progress toward engaging parliaments in their work has been slow. In preparing Poverty Reduction Strategy Papers (PRSP), both the Fund and the Bank have required low-income governments to undertake more participatory processes. The official review of the first stage of the process noted that the "role of parliaments . . . has generally been limited, although individual parliamentarians have been involved in some countries" (International Development Association 2002, 22). More staff outreach has the potential to complement greater accountability of board members but it is no substitute.

On its own, broadening the oversight of borrowing country directors would have little significance. Borrowing members need first to be empowered so that their stances matter (such as through double-majority voting) and the very large size of several current constituencies needs to be reduced—obviously a director attempting to report to twenty-four different countries' legislatures would have time for little else.

Representative Leadership Selection Process

A fifth necessary reform is leadership selection in each organization. As mentioned, the present process skews accountability across each organization toward the large shareholding members who still arrogate to themselves the right to appoint. The board of the IMF has already discussed changing these arrangements to ensure "a plurality of candidates representing a diversity of members across regions regardless of nationality" (IMF 2001h). A working group drawn from both the Fund and Bank Boards formally proposed in 2001 that there should at least be clear criteria for identifying, nominating, and selecting qualified candidates and that there should be transparency in the subsequent process (IMF 2001h). So far these proposals have gone nowhere. In 2005 the selection of a new World Bank president took place as secretly and as controlled by the United States as every previous selection. Blueprints for change have been ignored, yet an open and meritocratic leadership selection in the IMF and World Bank would confer greater legitimacy and result in better-balanced accountability in both organizations.

Staff Incentives

Finally, the incentives for staff need rewriting. Both the Fund and Bank have underscored the need to enhance ownership of policy and projects by borrowers. This

is unlikely to be achieved without governance reforms at the levels not just of the board but also of the staff. Previous sections highlighted that such measures could include ensuring that staff spend longer working in particular countries not just to acquire greater knowledge but also to create a clearer incentive to consider long-term goals within borrower countries. Equally important could be devolution of a genuine degree of control to borrowers over the resources lent and processes for evaluating their use, and finally, counterveiling more strongly the incentives within each agency to disburse (which will only strengthen as their lending drops).

The six reforms proposed are not a magic solution to global economic inequality and discord but they would help the Fund and Bank better focus on their core purposes and serve their borrowing members. They would do this by changing the way decisions are made in the IMF and World Bank. Deliberately, the focus is on *how* decisions are made rather than *what* decisions are made. This is because the important decisions taken by institutions are not (and cannot be) based on absolute or objective economic truths. Each member government, and the IMF and World Bank, must balance private initatives with public purpose, weighing competing priorities and making decisions which create winners and losers. For this reason they need to be structured so as to balance competing interests appropriately—not just through formal representation but through influence, voice, and accountability. From a procedural point of view, the public affected by their decisions needs to perceive the process as fair, even if as individuals they object to a particular decision because it adversely affects them.

The modest suggestions for change would rebalance power and accountability so as to give borrowing members more direct voice within each institution. At the same time, the proposed changes would also ensure that these governments are in turn held more to account within their own countries. More power would come with more responsibility and accountability.

At least some borrowing governments would not support a reinvigoration of the public purposes highlighted at the outset of this chapter—a new approach to financial crises, attention to the social consequences of financial crisis management, better aid coordination, and a rethinking of conditionality. Some governments may fear impeding the short-term availability of private finance, or losing leverage (gained from conditionality and loans) over particular parts of their own political system, or focusing yet more attention on social distribution within their own borders. More generally, they may see their broader interests as being met by tagging along behind the most powerfully country in the international system—the United States.

But many other countries in the IMF and World Bank participate in a multilateral system of economic coordination and cooperation because it is the best way to resolve specific collective action problems, to ensure the provision of particular public goods, and to manage globalization. For them, reform of the governance structures of the international financial institutions is a necessary first step toward reinvigorating these reasons for their very existence.

Globalization increases the potential workload of each multilateral institution. More capital flows, more trade, and more investment spell more opportunities for entrepreneurs across the global economy. The flipside is more risk, more financial crises, and more dislocation within and across countries.

Enter public institutions. Just as governments within industrialized countries provide social insurance for their citizens, so too the IMF and World Bank exist to mitigate the harshest effects of markets on countries and peoples across the world. But to do this effectively they need to be responsive to all countries that make up their membership and especially to those most harshly affected by global markets and failures.

The IMF and World Bank were born with an ability to do just this. Their finances made them relatively independent. Their political structures carefully balanced stakes across those making contributions and those whose representation and cooperation is vital for the organizations to fulfill their mandates. But they evolved—particularly in the 1980s—into institutions increasingly financed by poor and directed by the rich.

The place to begin a renaissance of the IMF and World Bank is at home—in their headquarters in Washington D.C.—where some simple reforms to the governance of each institution could empower the people who work in them and governments who work with them much more powerfully to fulfill their core mission—not as the handmaidens of globalization, but as the stabilizers and insulators of an increasingly volatile and risk-prone international economy.