

Unelected Government: Making the IMF and the World Bank More Accountable

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Accused of being secretive, unaccountable, and ineffective, both the International Monetary Fund and the World Bank are seeking to become more transparent, more participatory, and more accountable. Yet few attempts have been made to dissect the existing structure of accountability within the organizations. Applying the concept of accountability as understood and refined in political science can illuminate both the existing accountability of the institutions and some of the ways in which they could better be held to account.

Accountability to Governments

Like many international organizations, the IMF and the World Bank face complex problems of accountability that originate in a simple question: to whom should they be accountable and how? Democratic political systems ensure accountability not just by elections but by mechanisms such as transparent decisionmaking, judicial review, and ombudsmen. The aim is to ensure that political actions are predictable, nonarbitrary, and procedurally fair, that decisionmakers are answerable, and that rules and parameters on the exercise of power are enforced.

Unlike a democratically elected government, international institutions cannot claim that voters elect them and can vote them out of office. Nor have they been subjected to the normal restraints politicians face from the checks and balances of government, including the role played by judges, ombudsmen, and the like. Rather, international organizations grapple with an unwieldy structure of government representation that makes ensuring their own accountability extremely difficult. Until roughly the 1980s, the mission of the IMF and the World Bank was narrowly technical, and accountability, accordingly, less an issue. Today, however, both the Fund and the Bank are being required to perform a much wider range of tasks directly affecting a broad range of people. The need for accountability has thus become more critical.

The IMF and the World Bank were established after World War II as mutual assistance organizations through which all member countries could help each other with postwar reconstruction and development as well as with balance of payments problems. The voting and governance structures of both organizations reflect that early vision. Today, however, both to lend only to developing and transition countries, and both condition those loans heavily on broad changes in borrowers' economic policies. Indeed, "conditionality" has widened dramatically over the past couple of decades, increasing the intrusiveness of the institutions' work and changing the nature of their relationship with stakeholders. Yet their structure of accountability has remained in many ways unchanged.

In both the Fund and Bank the basic structure of accountability works through representatives of governments. At the top of the system, Boards of Governors meet just once a year and are supposed to maintain overall oversight and control of the institutions. The day-to-day work is overseen by Executive-Directors, representatives of member states who sit on the Executive Boards and perform a dual role. Individually each Executive-Director represents a country or a group of countries; collectively they manage the organization. They

appoint and can dismiss the head of each organization, who in turn controls the management and staff.

The chain of representative accountability is long and imperfect. The links between most member governments and the IMF and the World Bank are extremely weak. Most member governments (with the most obvious exception of the United States) are too far removed from the workings of the Executive Board, which in turn exercises too little control over the staff and management. Four elements of this are worth elaborating.

Unequal Representation of Member States

The Executive Boards are the vital link from countries to the IMF and the World Bank. Yet only the largest member countries - the United States, Germany, France, Japan, the United Kingdom, Saudi Arabia, Russia, and China - are directly represented by their own Executive Director. All other economies are grouped within constituencies represented collectively by just one Executive-Director. Most national governments thus have only the weakest link to formal deliberations and decisionmaking. In the IMF, for example, 21 anglo-phone African countries, at least 11 of whom have an intensive-care relationship with the institution and all of whom are deeply affected by its work, are represented by a single Executive-Director and have a voting share of 3.26 percent. In the World Bank, the same group of countries plus the Seychelles is represented by one Executive-Director and has a voting share of 4.07 percent. This small formal share of votes reflects a rationale that was appropriate to the organizations' original mandate and membership. At its inception, each had far fewer member states; membership has since more than tripled with decolonization creating a host of new, independent states. Originally, members were mutually-assisting, and each had a vote proportional to its stake. Now that both the Fund and the Bank make highly conditional development loans only to developing and transition economies, the traditional voting structure looks anachronistic and inadequate as a formal mechanism of accountability.

Inadequate Oversight of Staff and Management

Although the Executive Boards appoint and oversee the senior management and work of both institutions, several practical impediments complicate this role. Often both Boards are perceived as simply nodding through decisions already made by the staff and management in consultation with the most powerful member countries. Several organizational features play into this. The Board is not independent of the staff and management. Executive-Directors are paid by and housed within each institution and have a dual role as officials of the organization as well as representatives of countries; many flit from Board to staff and back again. Many Executive-Directors are ill-placed to follow closely and to prepare positions on all issues in front of them. Unlike their counterparts in the G-7 (the finance ministers and central bankers of the seven major industrialized countries), few have the advantage of resources and staff working on Fund and Bank issues in their constituency countries. Furthermore, when proposals come before the Board, Executive-Directors are not privy to the disagreements and alternatives that have been debated among staff and senior management. The latter present just one proposal to the Board, leaving Executive-Directors either to accept or reject. Fine-tuning is seldom entertained.

Flawed Appointment Process

Neither the Bank nor the Fund has an open and transparent process by which to appoint its

head—to whom all staff are accountable. Rather according to a 50-year-old political compromise, the head of the World Bank is an American and the head of the IMF is a non-American, in practice always a Western European. This process came under scrutiny several years ago, when Germany's first candidate to head the IMF failed to win support from other major shareholders. Sensitive to adverse press and policy attention to the lack of transparency and accountability, both institutions established committees to improve the appointment process, but the result was pretty much an endorsement of the status quo - a failure on the part of U.S. and European members to put into practice their rhetoric.

Broad Conditionality, Narrow Accountability

All these accountability problems have been magnified by the increase in and transformation of the activities of the IMF and World Bank. Figures compiled in both institutions show a dramatic increase in the number and scope of conditions placed on loans in the past several decades. During the 1980s, loans to a sample of 25 countries were conditional on between 6 and 10 "performance criteria." During the 1990s the number of performance criteria had jumped to around 26. Borrowing countries are now being required to mobilize, redefine, strengthen, or upgrade government processes in an ever wider range of areas.

The conditionality in which both the Fund and the Bank engage affects budgets and policies in areas such as healthcare and education. Although both organizations now consult with civil society and a broader range of stakeholders, their formal accountability remains unchanged. Their official interlocutors, as set out in their Articles of Agreement, are the Treasury, Finance Ministry, Central Bank, or equivalent agency of a borrowing country. Such transactions erode democratic accountability in several ways. First, domestic policy discussions on health or education are weighted in favor of the Treasury or Central Bank view because these agencies are the conduits of Bank and Fund financing. Second, agreements make the Finance Ministry or Central Bank formally accountable to the Fund and Bank for policies for which a Minister of Education or Health should more appropriately be held to account by the population of the country.

Steps Toward Greater Accountability

Aware of the criticisms they face, and frustrated by their limited effectiveness in implementing wider policy reform, both the IMF and the World Bank have begun more explicitly to recognize a wider range of stakeholders in their work. Both are making themselves more accountable to such stakeholders through more transparency, new mechanisms of horizontal accountability, and closer collaboration with nongovernmental organizations. The implications for accountability are several.

Although transparency has improved, several crucial gaps remain. The Fund has yet to publish its internal rules, guidelines, and operating procedures; the Bank, the full output of its Operations Evaluation Department (OED). The omissions are important. The Fund can be accountable to its members only if they (in the broad sense of they) are privy to the guidelines and conventions governing the internal operations of the staff--especially given the weaknesses of the Board in holding staff and management to account. Making public the agencies' self-evaluations would invite outside scrutiny that could not only strengthen external accountability, but also ensure that the IMF and the Bank take seriously their own reviews. But transparency, though necessary, is not sufficient.

Monitoring and enforcement are also vital. National political systems rely on a combination of constitutionalism and democracy. In the U.S. system, for example, democracy

is served by Congress; constitutionalism, by the Supreme Court. Electoral accountability is given life through “horizontal” accountability--agencies and processes that monitor and enforce the mandate, obligations, rules, and promises of institutions.

The IMF and the World Bank have both recently created several agencies and processes to enhance horizontal accountability. The IMF’s new office for independent evaluation published its first study in 2002. More boldly, in 1993 the World Bank Executive Board created an inspection panel to consider complaints from groups claiming to have been adversely affected by the Bank’s failure to follow its own policies or procedures. In 1999 the Bank created a compliance officer/ombudsman’s office to deal with similar complaints about its International Finance Corporation and Multilateral Investment Guarantee Agency.

Both the Fund and the Bank are working in a world in which more people aspire to hold them to account. A wide range of nongovernmental organizations and other groups will continue to demand that both be more open and transparent, not just about what they do but about how they do it. The IMF has yet to rise to that challenge--not just by publishing its internal rules but by subjecting itself to independent review to ensure that its rules and guidelines are being respected. For example, an independent agency could monitor closely how the IMF applies its Guidelines on Conditionality (revised in 2002), thus permitting the Fund’s interlocutors to speak frankly about their work with Fund staff to produce programs and to record and measure their experiences against the standards the Fund has set itself.

Finally, both institutions have responded to demands for greater accountability by diversifying their contacts, and in particular with nongovernmental organizations. They no longer refer to their interlocutors in member countries exclusively as “national authorities.” Rather, the World Bank writes of “development partners”; the IMF, of “authorities and civil society” and of the need for its programs to enjoy “ownership by the societies affected.” At regional, country, and local levels, World Bank regional directors and IMF resident representatives are being told to seek out and maintain contacts. At the annual and spring meetings both institutions have been actively involved in more dialogue and meetings with a select group of transnational NGOs. Both have also begun to demand local participation by nonstate actors, as in the poverty-reduction strategy papers being required of countries seeking enhanced debt relief.

This is not to say that NGOs have taken a place as major “stakeholders”: they have acquired neither control nor a formal participatory role in decisionmaking except at the behest of their own governments. Transnational NGOs have fostered a global debate about what international organizations are doing and have been crucial in monitoring and demanding accountability from global actors. In turn, their own accountability is often questioned, particularly where Northern NGOs have allied with or used political leverage in major shareholding countries such as the United States. Developing countries complain that such NGOs end up with a stronger voice in the Fund and Bank than many smaller developing countries.

Different concerns are raised about local or grassroots NGOs. No one doubts the value of independent groups of citizens committed to monitoring their own governments. The question is whether the Fund and Bank can facilitate such a process. Critics argue that in fostering wider participation the IMF and the World Bank become gatekeepers of social organizations and power. Because the institutions must choose which NGOs to recognize and consult, they end up making decisions with deep social and political consequences. They create incentives for government officials to moonlight as NGOs thus avoiding electoral and constitutional accountability. They also create organizations that siphon away resources and talented officials from government departments.

In sum, improving relations with nongovernmental groups will not erase the

accountability deficit in the Fund and Bank. It takes the institutions into a minefield of social and political relations through which they must step with maximum knowledge and caution. And it does not obviate the need for the most powerful members of both intergovernmental organizations to modernize the ways in which each is accountable to its developing and transition country members.

Conclusion

Improving the accountability of the Fund and Bank became a mantra for economic policymakers in the G-7 in the late 1990s. As a result both institutions became more transparent and opened dialogues with new groups of stakeholders. These measures may improve governance, but they do not solve the core accountability deficit.

Each institution needs a structure of representation that better reflects the stakes of all member states, a stronger more independent role for the Executive Board in overseeing the work of the staff and management, a transparent set of operating rules that enables others to monitor how they do their work, and an open and participatory process for appointing the head of each organization. Perhaps most important, the powerful members of each institution must restrain their urge to have the Fund and Bank engage in conditionality across a wide range of issues. As a rule of thumb the scope of the activities of the Fund and Bank should not exceed the scope of their accountability. If they represent and negotiate with Central Banks and Treasuries, their work should not stray beyond the mandates of such agencies. Rather than imposing strong external accountability on weak national systems, they should whenever possible look for and strengthen local kinds of accountability. In the longer term people need to hold their own governments to account regardless of IMF and World Bank strictures.