

THE INTERNATIONAL MONETARY FUND AND WORLD BANK

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A brief history

The International Monetary Fund (IMF) and the World Bank were founded while the Second World War was still raging. In 1944 at Bretton Woods, the USA – as one historian memorably described it – a global conference of ‘one and a half’ parties took place. The goal was to establish global economic rules which would prevent a replay of the Great Depression and its aftermath. The USA led the negotiations. It was already emerging from the war with a clear military, technological and economic superiority over all other Western allies. The United Kingdom constituted the other ‘half’ party due not just to its position in the alliance at the time but also to the fact that it was represented at Bretton Woods by the internationally renowned economist John Maynard Keynes.

The new system planned at Bretton Woods put the IMF at the heart of a new monetary system, managing a system of fixed but adjustable exchange rates and lending on a strictly short-term basis to countries facing short-term balance of payments crises. Investment in the post-war economy would be facilitated by the International Bank for Reconstruction and Development (the World Bank) which would raise capital in money markets and lend it at advantageous rates to war-torn and developing countries.

The original Bretton Woods plan was at first subsumed by the Cold War. The Marshall Plan announced in 1947 provided the USA with a more immediate bilateral way to ensure stabilization, investment and reconstruction in Western Europe. Nevertheless, by the 1950s both the IMF and the World Bank were modestly assuming a place in the international economy. The IMF was managing a fixed exchange rate system and making short-term loans to assist countries with balance-of-payments deficits. The World Bank was channelling funds from private capital markets to developing countries by issuing top-rated bonds on world financial markets and lending on the money for specific development projects.

In ensuing decades the role of each institution changed dramatically. The World Bank expanded its resources and moved steadily away from pure project lending into more policy-based lending. Over time the institution acquired three new arms. In 1956 the International Finance Corporation (IFC) was founded to mobilize private invest-

ment through syndications, underwritings and cofinancing. In 1960 the International Development Association (IDA) was established to provide long-term credits at concessional rates to the poorest country members of the World Bank. In 1988 the Multilateral Investment Guarantee Agency (MIGA) was formed to stimulate foreign direct investment by providing guarantees against political risk, armed conflict, civil unrest and so forth. Meanwhile in the 1970s under the Presidency of Robert McNamara the Bank began to express its core objectives in terms of redistribution with growth and basic human needs. Rural development projects were added into the overarching modernization and growth-promoting priorities of the institution.

Over this period, the IMF's fortunes fluctuated. In the 1960s, concerns about global liquidity led members to create a new virtual reserve asset managed by the IMF and called the Special Drawing Right (SDR). It never took off. The move was soon superseded by an opposite problem – the excess of dollars in the international financial system. Unable to back a surplus of dollars with its gold reserves, on 15 August 1971 the USA suspended the gold-convertibility of the dollar. In one swoop the IMF's central role as manager of a fixed exchange rate system disappeared. The IMF then attempted unsuccessfully to take a lead role in negotiations over what kind of exchange rate regime would replace the Bretton Woods system. By 1973 major industrialized countries together embarked on a new system in which countries could opt to float their currencies, relying on demand and supply in the foreign exchange market to determine the value. It was not until 1978 that the new system was formally recognized by an amendment to the IMF's Articles of Agreement.

The events of the early 1970s have limited the Fund's subsequent role in respect of non-borrowing members to surveillance. This entails monitoring and reporting on the exchange rate policies of member states and thereby helping to assure a stable international exchange rate system. In practice this means that the IMF staff work with their own information as well as the economic data provided by member countries, to compile reports on each member's economic policy and performance. These reports are then presented to the Board of Governors. They rarely have an impact on the stronger wealthier members of the institution.

The debt crisis of the 1980s

The IMF and the World Bank underwent further change in the 1980s. The debt crisis which began in Latin America in the early 1980s drew them into a new role. Throughout the 1970s they had been marginalized as lenders to countries who could instead borrow from commercial banks anxious to recycle the massive surpluses of the Organization of Petroleum Exporting Countries (OPEC) and a new excess of liquidity within international capital markets. The IMF initially responded by expanding access to its resources, particularly to countries with no access to commercial finance. The World Bank undertook more policy-based lending and expanded its focus to include rural development.

The festival of lending ended when the US Federal Reserve increased interest rates in 1979. Suddenly indebted governments found that their creditors would not roll over their loans. The borrowers could not meet their debt repayment obligations. Several large commercial banks were on the brink of failure. The IMF and World Bank were called upon to make loans to the debtors to ensure that they would repay

their over-exposed creditors and therefore avert an international banking crisis. The conditional loans required borrowers to undertake stringent measures to stabilize and ensure adjustment in their economies in order to access credit from the IMF or World Bank.

Conditionality in the first phase of the debt crisis emphasized stabilization. This meant that governments were required to reduce inflation, to rationalize and stabilize the exchange rate, to increase interest rates, to reduce public sector expenditure and investment, to increase taxation, and to eliminate subsidies. These are the staple requirements of IMF conditionality. They are reinforced by requirements made by the World Bank in its structural adjustment loans which require governments to liberalize trade and minimize tariffs, to privatize state-owned industries, to encourage foreign investment, and to deregulate their economies. Taken together the conditionality of the IMF and World Bank came to be labelled the Washington consensus.

Facilitating transition at the end of the Cold War

In the early 1990s the institutions took on a new challenge: transforming the former Eastern bloc economies. The end of the Cold War left Western policy-makers attempting to secure both economic and security goals in what had been the Soviet sphere of influence. These ‘transition economies’ posed significant new challenges to both institutions and led to a rethinking the role of institutions in the process and goals of policy-reform. Criticized by borrowing countries as well as their major industrialized country members for the inadequacy of their efforts, the ‘conditionality’ of the Fund and Bank became broader. A wide raft of good governance measures were included which aimed at strengthening and modernizing the institutions of government, rooting out corruption, and bolstering the rule of law within countries.

Coping with financial crises in emerging economies in the 1990s

By the end of the 1990s, both the IMF and the Bank were being called upon to manage a slew of new financial crises. In 1995 the Mexican peso went into free fall catalysing economic disaster within Mexico in spite of its extraordinary decade-long programme of economic reform. In 1997 the dangers of contagion were highlighted when a crisis in Thailand soon spread even to the relatively sound and prospering economy of South Korea. The East Asian financial crisis was followed in 1998 by Russia, then Brazil, Turkey and Argentina. Common to each country’s plight was an initial liberalization which had permitted a very substantial inflow of short-term investment, often into a very poorly regulated the private sector. When market confidence teetered short-term capital fled the country, leaving a massive repayments crisis for the government.

The first resort in managing the financial crises of the 1990s was for the IMF to make large loans to try to stem the crisis of confidence in a country. The World Bank was subsequently deployed to make longer term loans and to try to ensure that social safety-nets were put in place to protect the most vulnerable from the harsh adjustment resulting from the first round of crisis management. The experience of

the crises led to a very public questioning as to the role of the institutions and the down-side of liberalization and globalization. The starkest reminder of this was the massive anti-globalization street demonstrations which came to accompany the Annual Meetings of the IMF and World Bank from the late 1990s onwards.

The street protests of the late 1990s highlighted not just the plight of emerging economies. One of the most powerful motivating factors behind public engagement in the work of the IMF and the World Bank was their perceived failure to assist the poorest and most heavily indebted countries within the world economy.

The debts of the poorest and most heavily indebted countries

Throughout the 1980s and 1990s both the IMF and World Bank had become deeply embroiled in lending to the poorest and most highly indebted countries in the world economy. The unrepayable debts of these countries had been rescheduled throughout the period leaving the lion's share owing to the Fund and Bank. Both institutions were concerned to prevent members going into arrears on their loans and thereby eroding the institutions' own resources. These concerns added to public and political pressures for more to be done to alleviate suffering in the world's poorest and most heavily indebted countries. The political pressure was intensified by the activities of non-governmental organizations such as the umbrella group Jubilee 2000 which campaigned for debt relief. The result was a succession of official debt relief announcements made within the framework of the highly indebted poor countries initiative (HIPC) based in the IMF and the World Bank.

By the turn of the century two public concerns were influencing the policies of the IMF and World Bank. The first concern was to stave off financial crises and debt defaults. The IMF was the leader on this issue. By 2002 the most powerful members of that organization were forced to discuss in earnest a more robust and rule-based mechanism for dealing with financial crises which would more deeply involve the private sector. Several official and commentators were calling for some form of international bankruptcy or standstill provision.

The second concern of the institutions was to alleviate poverty, especially in the poorest countries of the world. Traditionally this had been more part of the World Bank's mission than the IMF. In the late 1990s, both institutions were linking new forms of debt relief to poverty alleviation. Highly indebted poor countries wishing to avail themselves of greater debt relief were required to submit to the IMF and World Bank poverty reduction strategy papers (PRSPs) formulated through a process of national consultation and participation.

The new poverty reduction strategy requirement brought to bear the lessons both institutions had learnt from their experience with good governance conditionality. Ownership and participation had to be at the core of any reform process for it to be effective. In other words, to increase the effectiveness of reforms you had to engage, consult, and devolve responsibility to key groups within the society or country undertaking reform. For each of the IMF and the World Bank such a lesson was a deep challenge to their traditional ways of thinking and working, requiring them to spend more time in the field, deploying staff more as facilitators rather than as policy experts.

Over this time the debt relief initiative proceeded very slowly. The new consultative PRSP process proved to be less of a challenge than rhetoric suggested. Faced with the need to disburse debt relief rapidly, both institutions quickly instituted interim procedures so that deeply indebted, poor countries could access debt relief even before they embarked on lengthy public consultations. That said, the problem of unsustainable and unrepayable debt crippling many of the poorest economies of the world remained unresolved.

A brief history of the IMF and the World Bank highlights several forces which have influenced their work and role in international affairs. In the first place they have had to respond to changes in the global economy wrought by new technologies and the policies of major industrialized country governments. In particular, these changes have led to a massive increase in short-term capital flows creating not just new opportunities but new vulnerabilities particularly for developing countries. Politically the world in which the IMF and the World Bank operate has changed. In particular, they must now contend with powerful, transnational non-governmental organizations determined to hold the IMF and the World Bank to account on a wide range of issues including the environment, human rights, and poverty alleviation. Finally, the shifting priorities and interests of the most powerful members of the IMF and the World Bank – and in particular the USA – have profoundly shaped the institutions over the period. This is worth examining further.

Who governs the institutions?

On one interpretation, the IMF and World Bank were created by the USA to assist in dominating the post-war world. The institutions were from the outset a ‘US-serving control instrument over the economic and financial policies of other countries, especially the so-called under-developed countries’.

At the same time however, the IMF and World Bank are home to several thousand economists doing their best to collect, analyse and interpret data in a professional way and to provide high quality advice to members. They can be viewed as technical institutions who guide and educate their members in an impartial way and foster greater cooperation among states, enhancing the scope for every country to benefit from the world economy.

Different interpretations of the IMF and World Bank reflect competing views of academic analyses of international institutions. On one view – a realist account – the institutions are arenas of competition with which states vie for power and influence. On another view – an institutionalist account – they are arenas of inter-state cooperation permitting countries to work better together by providing information, new solutions and possibilities for greater coordination and the enforcement of agreements. Both views are rationalist in that they assume states have specified sets of interests and that in essence international relations is about the strategic decisions states make in order to maximize those interests. A third view – the constructivist approach – delves behind the assumed interests of state members of the international agencies and examines the ideas, identities and social forces which shape interests and preferences.

An assessment of the formal structures of power and the informal structures of influence within the IMF and World Bank helps us to adjudicate among these competing views.

The political heart of each of the IMF and the World Bank is the Executive Board on which all members are represented. The Executive Board sits in almost continuous session and makes decisions on the day-to-day work of each institution. It is composed of officials from economic agencies within member states. They are called Executive-Directors. Their bosses – the Ministers of Finance and Central Bank Governors from each country – meet only once a year as the Board of Governors.

Representation on the Executive Board is not equal. Only the largest shareholders in each organization – the USA, Japan, Germany, France, and the United Kingdom – along with China, Russia, and Saudi Arabia, have their own seats on the Board. The other 16 Executive Directors are elected for two-year terms by groups of countries, known as constituencies represented by just one Executive-Director. For example, 21 African countries are represented by one Executive Director in the IMF, and 22 African countries by one Executive Director in the World Bank.

Not all countries have the same number of votes on the Executive Board. This matters since even though the Boards work by consensus, all of their work and indeed, the work of the staff, is underpinned by an awareness of voting power. Each country has a weighted number of votes which depends on their ‘quota’. The quota is determined by formulae which translate relative weight in the world economy into a share of contributions and votes (and in the IMF, access to resources). Although the notion of a formula implies a technical allocation of votes, this is not strictly the case.

The allocation of quotas has always been deeply political. Raymond Mikesell was the man who was asked in 1943 to determine the very first allocation of quotas within the IMF describes how he was simply told by the US Secretary of the Treasury to

‘give the United States a quota of approximately \$2.9 billion; the United Kingdom (including its colonies), about half the US quota; the Soviet Union an amount just under that of the United Kingdom; and China somewhat less. White’s major concern was that our military allies (President Roosevelt’s Big Four) should have the largest quotas, with a ranking on which the President and the Secretary of State had agreed’.

Quota allocations continue to be deeply political and the current voting power is as follows: (IMF figure followed by IBRD figure in brackets):

United States	17.78%	(16.68%)
Japan	50.53%	(8%)
Germany	5.53%	(4.57%)
France	4.98%	(4.38%)
United Kingdom	4.98%	(4.38%)
Saudi Arabia	3.45%	(2.83%)

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Italy	3.09%	
Russia	2.9%	(2.83%)
Canada	2.91%	
The Netherlands	2.32%	
China	2.28%	(2.83%)

To some degree unequal voting power is masked by the fact that the Executive Boards of both the Fund and Bank operate by consensus. Formal votes are virtually never taken. Contrary to what both organizations often say however, this does not mean that voting power is irrelevant. Far from it, voting power is taken into account in determining the extent of consensus on any issue. For example, in IMF Executive Board meetings, the Secretary keeps a tally of the extent of agreement (in voting power terms), making the voting structure a key ‘behind-the-scenes’ element in decision-making. Furthermore, even before any loan proposal or policy comes to the Board, the staff and management involved in writing it are all keenly aware of the voting structure of the Board and which members’ approval is most important to the success of their proposal or policy.

Only one member has an individual veto power over major decisions. The USA can veto any decision requiring an 85% majority and has clung to this veto power even as its share of votes has declined, always negotiating an increase in the special majority to ensure its veto remained intact . though on occasion other countries have grouped together to veto decisions, they rarely do so. European Union countries have a caucus within the institutions but they seldom coordinate their positions. Similarly, developing countries only rarely act collectively. As a result, the USA remains the only member with an effective and practised veto power.

Power and influence within the IMF and World Bank also derive from the way members exercise their voice. The US is not only the largest single vote-holder in the Fund and Bank, it is also the most vocal member of the Boards of both institutions. To cite a Senior Treasury official’s testimony to a Congressional Committee examining the IMF: ‘Representing the largest, most influential member, the US representatives speak on virtually every issue coming before the Board’.

Focusing further on the IMF, the US capacity to speak on all issues in the institution derives from the considerable resources which lie behind US representation. While many countries have one or two officials at the Fund, the USA has at least three dozen US Treasury officials regularly involved in working with, thinking about, and offering advice concerning the IMF. As well as the Executive Director at the IMF (supported by an Alternate Director, an economic adviser, three technical assistants, and two administrative assistants), there is also the Deputy Assistant Secretary of the Treasury for international monetary and financial policy office who presides over an office of the IMF within the Treasury supported by 4–6 Treasury staff. Furthermore, most US Treasury country and regional offices spend time liaising with the IMF about analyses and programmes affecting their particular

countries or regions. Additionally, staff working on G-7 coordination, as well as on private sector involvement, capital account issues, crisis management, appropriate conditionality and so forth work regularly with the IMF. The US Federal Reserve also works closely with the staff and officials of the IMF.

In respect of the World Bank the USA has a similar structure with an Executive Director's office within the Bank supported by the office of international development, debt and environmental policy within the Treasury, with input from USAID, and the State Department.

A large staff enables the US bureaucracy to coordinate positions with other members and build support for its views. US officials make frequent direct contacts with the Management, staff, and the Offices of Executive Directors within the Fund, either individually or in groups. Both the US Treasury and the Federal Reserve also use bilateral relations, the Group-of-Seven framework, and other multilateral fora to garner support for positions within the IMF. This behind-the-scenes work means that when the US does raise an issue within the Fund's Board it can do so 'without triggering counterproductive reactions and a hardening of positions'.

The fact that the US must persuade its fellow members on the Boards of the IMF and World Bank highlights that others can put brakes on US initiatives. It is worth noting that other Executive Directors do not always do this for national reasons. Sometimes they will take a strong stand in order to defend what they perceive as the institution's interests. This underlines the fact that Executive-Directors are both representatives of countries *and* officers of the institutions. As anyone who has spent time in the institutions will testify, the Executive Directors take this latter role seriously and are bolstered in so doing by the close relationship many have with the staff of the organizations. Indeed, hailing from finance ministries and central banks from all over the world, many Executive Directors have also spent time on the staff of one or other of the institutions.

Finally it bears noting that whilst the Executive Boards are supposed to be the political masters of the Fund and Bank, controlling the work and policies of the organizations, in practice, this formal control is very light-handed. Board members face a heavy workload and therefore many issues are barely touched by the Directors. This leaves issues such as the administration and organization of the institutions very much in the hands of the management or senior bureaucrats. This does not, however, mean that political influence is averted.

The staff who prepare everything that comes to the Board are overseen by the head and senior management of each organization. In theory the whole Executive Board decides the head of each organization. In practice, however, the World Bank always gets a President nominated by the USA, a tradition dating back to early days when it was thought vital if the institution were successfully to float bond issues within the US markets. The IMF always gets a Managing-Director nominated by Western Europe. In recent years, these conventions concerning headships have attracted increasing critical attention. Lower down the chain of command, however, similar conventions also continue in force. The Deputy Managing-Director of the IMF is always an American and most senior appointments in both organizations are made after the US view is ascertained. All that said, this informal power of appointment does not necessarily confer control.

Political appointments in each organization have not always produced obedient servants. Certainly, the overall perspective of any successful candidate is never incongruent with the views of the major appointing shareholders. However, individuals in these jobs can wield influence based on their charisma, ideological legitimacy, administrative competence, expert knowledge, previous association with the organization, negotiating ability, and ability to persist in intransigence. Their formal powers derive from the fact that the head of each of the IMF and World Bank chairs Executive Board meetings, sets the agenda, directs the discussion, and sums up at the end. They also have the power to appoint and dismiss officers and staff.

Perhaps the most significant constraint and mechanism for overt and covert political influence within each of the IMF and the World Bank concerns resources.

Who pays for the IMF and World Bank?

Many walking past the large prestigious-looking offices of the IMF and World Bank in the heart of Washington DC wrongly believe that the US government is paying for their air-conditioning, economists, car-parks, and overall running costs. To the contrary however, the overheads and running costs of the institutions are paid for out of income which derives mainly from payments by developing and transition country members who borrow money from the institutions. In fact, their payments amount to a considerable inward investment into the economy of Washington DC.

Unlike the United Nations, the IMF and the World Bank do not depend upon annual subscriptions or levies from the USA and from their other members. As a result, in theory they should be more independent of direct political pressures exerted by those with the power to withhold contributions. However, each institution has some funds which do rely on contributions. In the World Bank these include the International Development Association (IDA) which is the soft-loan facility of the World Bank, and the special World Bank trust funds such as that created for debt relief in the 1990s. In the IMF any increase in general resources or quotas require political agreement from members, as do special agreements called the general arrangements to borrow (GAB) and the new arrangements to borrow (NAB).

The IMF's resources

It is often assumed that there is a simple congruence between who funds the IMF and who has the largest say in the organization. This is misleading. The largest shareholders in the IMF enjoy the lion's share of the votes but the actual expenses of running the institution are paid for out of income. The IMF's income is mainly made up of the charges it levies on borrowers. A very small income is generated from other accounts. It bears noting that these charges have been increased substantially since the 1970s, putting a high burden on borrowing countries.

The largest shareholders are so called because they contribute subscriptions of capital which form the IMF's core assets. Each country contributes according to its 'quota' which roughly reflects the size of its economy relative to others (as discussed above). For this reason, the USA is often described as the largest shareholder. It contributes 17.67% of the capital subscriptions in the IMF. Since 1968 it bears noting that the USA (and all other creditors) has been remunerated for providing

this credit and indeed this is a serious expense for the IMF. Furthermore, the USA benefits from the fact that all countries have to provide 25% of their quota in 'reserve assets' which gold or the US\$ and this makes it easier and cheaper for the USA than for other countries.

The 'quota system' directly links money and votes. It determines how much a country contributes to the Fund's core assets as well as that country's voting power and credit limits. The USA contributes 17.67% of capital subscriptions and enjoys 17.33% of votes on the Executive Board. It is this symmetry which leads people to think that the USA contributes most of the IMF's resources. As we have seen, they are ignoring the fact that the Fund's operational income accrues from its lending to transitional and developing countries, not to mention the fact that creditor countries are remunerated for providing credits.

At least every five years, there is a review of the Fund's quotas which inevitably results in the US Congress demanding changes in the IMF. How does this come about? Normally, each year member countries pay an automatic subscription to the IMF which does not require political approval or debate within any member country, including the US Congress. However, an increase in subscriptions does require political approval. Hence, it offers members an opportunity to express their views on the direction and work of the institution.

In practice, the US voice (or better said, voices) in quota increase debates is always the loudest. In part this is because any increase in quota requires an 85% majority hence the USA has a veto. Normally the US government agency in charge of looking after the IMF is the Treasury Department (with input from other Departments and the Federal Reserve). However, a quota increase requires the approval of the US Congress. And once Congress begins to debate policies towards the IMF, a much bigger debate is engaged. For example, over the 1990s, the Congress attempted to influence Fund conditionality over issues such as worker rights, the role of the private sector, human rights, and military spending. In 1998 in negotiations over the US share of a 45% increase in Fund quota, the US Congress established an International Financial Institution Advisory Commission (the 'Meltzer Commission') to recommend future US policy towards the IMF, as well as the World Bank and other multilateral economic organizations. The resulting report proposed deep changes in each of the IMF and World Bank.

The World Bank's resources

The IBRD is the main arm of the World Bank Group and lends to developing countries at market-related interest rates. This main body of the World Bank has extraordinary independence in its financial structure. It does not require regular contributions from members. It does not need to ask the US Congress for 'top-ups'. With the backing of paid-in capital subscriptions from member countries, the IBRD raises its lending resources on the financial markets. It sells AAA-rated bonds and other debt securities to pension funds, insurance companies, corporations, other banks, and individuals around the world. The Bank's paid-in capital subscriptions, which are essentially guarantees provided by governments, have never been called upon. Furthermore, they amount to less than 5% of the Bank's funds, a proportion which is diminishing over time .

However, it is important not to underestimate the capital subscriptions which are the core assets of the Bank. The members' subscriptions are a prerequisite for the Bank's activities. They permit the Bank to borrow at the lowest market rates available 'applying the sovereign credit of its rich shareholders – in the form of their capital guarantees. Like a credit club, the Bank disperses the risks of lending, whilst aggregating its capacity to borrow money.

The USA contributes 16.98% of the paid-in capital subscriptions. The flipside of this contribution is that the US enjoys 16.52% of votes on the Bank's Board and a veto over all decisions requiring an 85% majority. Yet US influence within the Bank extends well beyond the picture these facts depict. This is because of what occurs in another arm of the Bank.

The International Development Association (IDA) was created in 1960 to make concessional loans to the poorest developing countries. The IDA's finances are different to the IBRD. Specifically, it relies upon governments agreeing and providing it with periodic replenishments. As a result, the funding of the IDA opens up political negotiations within and among member governments each time it needs replenishment.

The USA contributes 20.86% of IDA fund, with the next largest contributors being Japan 18.7%, the United Kingdom and France at 7.3%. As provider of a fifth of the funds of the agency, the USA doubtless has great influence within the IDA. However, its actual influence reflects more than its level of contribution. Specifically, a US exit or reduction in commitment to the IDA would affect other contributors and therefore have a devastating effect on the agency. This effect was further magnified during negotiations on the fifth replenishment of the Fund when it was agreed then that all other members could reduce their own contributions pro-rata by any shortfall in US contributions. This *pro rata* provision ensured an evenly shared burden across contributors. However, it has also enhanced the impact of any US threat to diminish its contribution: for if the USA does so, all other contributors can follow suit. For these reasons, the USA has long enjoyed a high degree of influence within the IDA.

However, the US influence in IDA replenishment negotiations has been used to leverage influence across the Bank as a whole. Even though the IDA itself accounts for only about 25% of IBRD/IDA total lending, there have been several instances where the USA has used threats to reduce or withhold contributions to the IDA in order to demand changes in policy in the World Bank as a whole. For instance, during the late 1970s, the Bank was forced to promise not to lend to Vietnam in order to prevent the defeat of IDA 6, and in 1993 under pressure from Congress, the USA linked the creation of an Independent Inspection Panel in the World Bank to IDA 10. In effect, the USA has used its grip on the IDA to shake the whole of the Bank – the 'tail' has been used to shake the dog.

Finally, there is a new way in which the finances of the Bank are introducing political influence. Increasingly the Bank is using cofinancing and Trust Funds arrangements. By the financial year 1999, disbursements under these arrangements had increased by 17 percent to account for nearly a half of all World Bank disbursements. Both Trust Funds and other forms of cofinancing give a much more direct control over the use of resources to donors whose Trust Fund Administration Agreement with the Bank governs how the funds are used. It bears noting, however,

that this does not mean that Trust Funds have become a conduit of exclusively US influence. Indeed the US contribution in 1999 was less than that of the Netherlands and Japan, and for a period it was not a contributor to the HIPC Trust Fund (the Bank's largest) which meant it did not exercise direct influence over that fund. More generally, the growth of Trust Funds and cofinancing arrangements signals the potential for increased bilateral and selectively multilateral control over Bank lending, but not necessarily an enhancement of US influence.

By far the most politically influential work of both the IMF and the World Bank lies in their loans and policy advice to developing countries. It is worth investigating the degree to which the political influence so far discussed translates into control over the decisions of either institution in this regard.

Who uses the resources of the IMF and the World Bank and on what conditions?

In theory the lending practices and policies of the IMF and World Bank are a strictly technical affair. The Articles of Agreement of each institution declare that politics should play no role in their lending. Any member country can propose a loan for the Bank or Fund to consider. The staff carefully prepare the proposal in close negotiations with the borrower. A detailed proposal goes to the Board and a successful proposal requires a simple majority of votes. No one country can veto a loan. Ostensibly all cases are decided on technical and economic grounds. Indeed, the Articles of Agreement of both the Fund and the Bank set out deliberately to curb potential political influence.

The Articles of Agreement of the IBRD state:

'The Bank and its officers shall not interfere in the political affairs of any member; nor shall they be influenced in their decisions by the political character of the member or members concerned. Only economic considerations shall be relevant to their decisions, and these considerations shall be weighed impartially in order to achieve the purposes stated in Article I'.

Likewise the staff of the Bank and the Fund must owe their duty entirely to the Bank and to no other authority. Members states must refrain from all attempts to influence any of the staff in the discharge of their functions.

Does all this mean that the lending of the IMF and World Bank is not politically influenced? In reality the Executive Boards are influenced by political considerations in making their lending decisions. Furthermore, the staff and management of the institutions in working with members to propose loans do so with an eye to the political possibilities and constraints awaiting them in Washington DC. Indeed, studies demonstrate that the lending record of each of the IMF and the World Bank during the cold war very clearly reflects the desire of Western allies to shore up sympathetic regimes and to limit Soviet influence in the Third World.

That said, in order to do their job Fund and Bank staff rely on good relations forged with sympathetic interlocutors in lending countries. Powerful shareholders

may well push and shove on the Executive Board and demand or block speedily disbursed loans. Over the longer term however any loan proposal must be negotiated and detailed by the staff and presented to the Board of the Fund or the Bank for approval. In preparing the loan, officials from the Fund or Bank must persuade governments to share data and to enter into detailed negotiations on a wide range of areas. The conditionality which results is not usually the result of overt political pressures. Although a case such as the IMF's agreement with South Korea in 1997 where US political pressures played a key role in shaping the details of the agreement presents an obvious exception. More usually the content of conditionality agreements are shaped by the staff and management of the Fund or Bank, and in particular by the prevailing economic theories, beliefs and orthodoxies within those institutions. This requires us to examine more deeply the nature of expertise and knowledge within the IMF and the World Bank.

Several thousand economists sit in offices in the headquarters of the IMF and World Bank, all within a couple of hundred metres from each other. All this collective brain power, applied to a wealth of information about most economies in the world, and state-of-the-art theorizing about economics cannot fail to have a dynamism of its own. For some the so-called 'Washington consensus' on policy reforms forged by the IMF and World Bank throughout the 1980s and 1990s demonstrates the way their technical capacity can be brought to bear on key questions of economic policy. Others argue that this 'expertise' is itself based not just on research but equally on political interests and influences.

Subtle forms of political influence are exercised in a number of ways. It has long been the case that countries wishing to influence a project or loan make their views known to senior management and let them percolate down to staff working with a country. In the early days of the IMF it was said that 'the US voice in the Fund was decisive....The practical question in those years, in any prospective large use of Fund resources, was whether the USA would agree—and the answer was usually obtained by direct inquiry'. Direct inquiries still occur, or at least informal soundings among powerful Board members with direct interests in a particular loan or country. This behind-the-scenes politics within the IMF and World Bank reverberate throughout the institutions. When staff know that their senior managers will be unwilling to take particular kinds of recommendations to the Board, they will naturally not want to waste their time preparing such recommendations. The work of the institutions becomes invisibly bounded by the known preferences of powerful members. That said, the staff and experts of the IMF and World Bank do not do all of their work directly under the gaze of US officials.

The staff of the IMF and World Bank often work far away from Washington DC gathering information and negotiating deals with governments in the capital cities of borrowing countries. The nature of their work takes them not just physically but also mentally out of reach of the Executive Board and their most powerful government members. As experts, they can only do their job of collecting confidential data from governments if they succeed in persuading or coercing governments to trust them and give them access. This sometimes even means that senior staff have to promise confidentiality to government officials, keeping secrets either from other staff members or from the Executive Board. The result is that the staff and management gain control over information which the Executive Board does not have.

Furthermore, once the staff put a proposal to the Board, it is rarely if ever amended. Rather the Board will simply say 'yes' or 'no' for any amendment would unpick long and careful negotiations between the staff and government officials in a borrowing country. In this way, control of the details of loan proposals remains in the hand of the staff and management of the organizations.

So what explains the content of Fund and Bank conditionality? We have seen that overt political pressures affect some loans but not all. Furthermore, even in politically high-profile cases much of the detail is left to Fund and Bank officials. So what explains why particular priorities and policies prevail so strongly within the institutions? Some would argue it is simply state-of-the-art economics. However, this does not answer why certainties about policies and priorities emerge even while academic economists are still debating them. Sociological and institutional approaches examine the people and organizational structures involved, focusing on how the institutions are staffed, what kinds of qualifications are respected within the agencies, how they react to challenges or criticism and so forth. In the Fund and Bank most of the staff have a background education in economics or finance which they bring to bear in institutions which have to project coherence and even-handedness. The result is a framework which ensures a high degree of uniformity and which it is slow and difficult to adapt or to change.

How successful have the IMF and the World Bank been?

There are several yardsticks for measuring the success or failure of the IMF and the World Bank. The narrowest yardstick is that used by the institutions themselves in measuring their own successes and failures. Each of the IMF and the World Bank conduct fairly rigorous internal reviews of the quality and success of their operations.

In the IMF some dozen studies which examine and compare up to 27 countries at a time have been undertaken. To quote the IMF's historian James Boughton, these studies confirm that 'successful adjustment and sustainable growth are elusive goals'. One reason for failure is poor advice. The IMF's own studies points to initial underestimations of a country's economic problems and excessive optimism about the availability of external financing. Such revelations caused the policy-making Interim Committee of the IMF in 1988 to call for 'better analysis by the Fund of economic conditions before approving lending arrangements, better design of adjustment and reform programmes'. The other reason for failure is political. Borrowing governments prove either unwilling or unable to implement conditions to which they have signed up. For this reason, the Fund have moved recently to try to enhance the ownership and participation of borrowing governments in the design of conditionality.

Reviews of the World Bank's lending are conducted in an ongoing fashion by the Bank's Operations Evaluation Department (OED) which operates fairly independently of the rest of the organization, producing an Annual Report on Development Effectiveness (ARDE). This report judges how satisfactory Bank programmes and structural adjustment loans have been in terms of : (1) outcomes, including whether the project achieved most of its major relevant goals with few shortcomings at the end of disbursement; (2) institutional development, which comprises and evaluation of the extent of improvement in the ability of an agency or country to use its human

and financial resources effectively and organize the economic and social activities prompted by the project; and (3) sustainability, meaning whether or not the project will last over its intended useful life. Some critics of the Bank point to the percentage of loans which register unsatisfactory on one, two or three of these criteria. Indeed, a high level review commissioned by the Bank itself reported in 1992 that nearly forty percent of borrowing countries had 'major problems' with at least 25% of their projects. However, the Wapenhans Report also noted that a very low failure rate could indicate that the Bank was 'not taking risks in a high-risk business'.

A much broader yardstick for measuring the success or failure of the IMF and World Bank is provided by widely specified objectives in their Articles of Agreement. Both are charged with enhancing stability and growth in the world economy. The Fund's contribution to this has been as a forum for cooperation among states, as a framework for managing exchange rates, and as a short to medium-term lender to countries with debt problems so as to prevent international financial crises. The Fund's success in these broader goals has been hailed in several studies and in its own histories. Fund critics allege that it has pursued these objectives in ways which have consistently ignored or further impoverished the poorest and most vulnerable members of developing countries. The Bank has contributed to global growth and stability by lending to developing countries at rates and in quantities permitted only because the Bank pools the credit-ratings of all of its members. Poorer countries thus gain from sharing the strong credit ratings of other non-borrowing World Bank members. The Bank's critics allege that Bank lending has had adverse effects on poverty, the environment, and human rights.

Conclusion

As critics have become steadily more powerful, the IMF and World Bank have come face to face with problems in their legitimacy as well as their effectiveness.

The effectiveness of the institutions in the twenty-first century is limited by two key factors. First, their resources look increasingly meagre when compared to burgeoning global capital markets. This strictly limits their capacity to affect or influence those markets through their own lending behaviour or actions. For this reason, the IMF is now seeking to establish a new form of sovereign debt resolution mechanism, and the Bank is making much of its capacities as a knowledge bank rather than a lending bank. Second, both the IMF and the World Bank have encountered profound difficulties in trying to implement deeper sets of conditions on their borrowers. In both institutions this has led to a new rhetoric highlighting the need for participation and ownership in borrowing countries. They are still searching for ways to translate this into a workable *modus operandi*.

The legitimacy of the IMF and the World Bank has been placed under scrutiny by its developed and developing country members alike. At the behest of their members, both institutions have become more accountable. The Fund and Bank now each have a more-or-less independent evaluation unit assessing how well their programmes are working. There is much greater access to documents about what they do and how they are doing it. The World Bank has an Inspection Panel which can adjudicate claims that Bank staff have acted outside of the Bank's rules and guidelines. The Fund's member countries have yet to consider establishing such an

oversight mechanism. Yet both institutions still face the accusation that they are insufficiently accountable. This is largely because the voices of those they most profoundly affect – poorer countries and poor people within those countries – remain marginal and uninfluential within their decision-making processes. These groups have long argued that they need a greater voice in institutions which so profoundly and asymmetrically affect them. Their call for reform remains unheeded by the powerful industrialized countries who would need to step aside – or at least back a little – in order to make this possible.

Further reading

- Official documentation from the organizations is available on their websites (<<http://www.imf.org>> and <<http://www.worldbank.org>>) and from their archives (see website guidelines for using IMF archives).
- Birdsall, Nancy and John Williamson (2002) *Delivering on Debt Relief: From IMF gold to a new aid architecture*, Institute of International Economics. (A very short, pithy analysis of the problems of debt relief and the position of the poorest and most highly indebted countries, written by two policy-oriented economists.)
- Blustein, Paul (2001) *The Chastening: Inside the Crisis that Rocked the Global Financial System and Humbled the IMF*, Public Affairs. (A compellingly written, informative account of the IMF's involvement in the East Asian crisis written by a Washington Post journalist.)
- Boughton, James (2001) *The Silent Revolution: The IMF 1979–1989*, International Monetary Fund. (An authoritative, official history written by a staff member of the IMF.)
- Caufield, Catherine (1997) *Masters of Illusion: the World Bank and the Poverty of Nations*, Henry Holt. (A very readable and provocative attack on the World Bank by an environmental journalist.)
- Harold, James (1996) *International Monetary Cooperation since Bretton Woods*, Oxford University Press. (An excellent overview of the IMF's activities set within the context of managing the global economy.)
- Kapur, Devesh, John P. Lewis and Richard Webb (eds) (1997) *The World Bank: Its First Half Century*, Brookings Institution. (A long and rich two-volume history commissioned by the World Bank and the Brookings Institution, and written by a team of academics and practitioners.)
- Mason, Edward and Robert Asher (1973) *The World Bank since Bretton Woods*, Washington DC. (A history of the World Bank's early years.)
- Soros, George (2002) *On Globalization*, Public Affairs. (An examination of the IMF, the World Bank, and other international organizations and a proposal for strengthening the international monetary system written by a financier, philanthropist and intellectual.)
- Stiglitz, Joseph (2002) *Globalization and its Discontents*, Norton. (A controversial (especially within the IMF) critique of the IMF and its performance in the late 1990s by a Nobel Prize-winning economist.)
- Woods, Ngaire (2001) 'Making the IMF and the World Bank more accountable', *International Affairs* 77, 1: 83–100. (A short critical overview of the governance structures of both the IMF and the World Bank.)
- (2002) 'The United States and the Bretton Woods Institutions' in Rosemary Foot, Neil MacFarlane, and Michael Mastanduno (eds) *US Hegemony in an Organized World: the United States and Multilateral Institutions*, Oxford University Press.