

'Making the IMF and the World Bank more accountable'¹

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Abstract

Accused of being secretive, unaccountable and ineffective, both the IMF 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 international financial institutions (IFIs). This paper critically examines the existing accountability of the institutions, and offers some recommendations for making them more accountable. It also warns that the limits of their accountability should limit the legitimacy of their activities.

Introduction

The International Monetary Fund (IMF) and the World Bank (the Bank)¹ are now regularly accused of being secretive, unaccountable and ineffective. Not only radical non-governmental organizations (NGOs) but equally their major shareholders are demanding that the institutions become more transparent, more accountable, and more participatory. Accountability, in particular, has become the catchcry of officials, scholars, and activists in discussing the reform of the institutions. Yet few attempts have been made to dissect the existing structure of accountability within the international financial institutions (IFIs), to explain its flaws, and to propose solutions. That is the aim of this paper.

The first section examines the structure of accountability planned by the founders of the IMF and the World Bank. The second section discusses the defects in this structure. Section three analyses recent attempts to make the institutions more accountable. The conclusion offers some recommendations for improving the institutions and a warning about the limits of accountability at the international level.

How are the IMF and the World Bank accountable to their government members?

Like many international organizations, the IMF and the World Bank face complex problems of accountability which begin when one tries to answer the simple question: to whom should they be accountable and how? Within democratic political systems, several mechanisms exist to prevent the abuse or misuse of political power.² These measures range from elections, through to the

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appointment of ombudsmen, and judicial review. The aim is to ensure that political actions are predictable, non-arbitrary, and procedurally fair, that decision-makers are answerable, and that rules and parameters on the exercise of power are enforced. For all these reasons, accountability within public institutions, whether national or international is a desirable thing.

Unlike a democratically elected government, international institutions cannot claim that voters elect them and can vote them out of office. Nor, in the past, have the institutions 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 which makes ensuring their own accountability extremely difficult. In the past when such institutions were required to perform a narrow range of technical functions, the problem was less acute. Today, however, the international financial institutions are being required to perform a much wider range of tasks directly affecting a wider range of people. This makes their accountability all the more important.

The basic structure of accountability in the international financial institutions works through representatives of governments. At the top of the system are the Boards of Governors - the Ministers of Finance or Development, Central Bank Governors and equivalents - who meet just once per year and are supposed to maintain overall oversight and control of the institutions. However, the day-to-day operations and main work of the institutions is overseen by representatives of member states who sit on the Executive Boards of each institution. The Executive-Directors (as they are called) have a dual role: to represent a country or a group of countries (this is further described below); and collectively to manage the organization. Executive-Directors appoint and can dismiss the head of each organization who in turn controls the management and staff.

The chain of representative accountability described is in practice a long and imperfect one. Flaws in each link highlight how weak the relationship between most member governments and the IMF and the World Bank are. Simply put, member governments (with the obvious exception of the United States) are too far removed from the workings of the representative body (the Executive Board) which in turn exercises too little control over the staff and management of the institutions for its role to be described as an exercise of vertical accountability.

Why do the IMF and World Bank not seem accountable?

The core of the problem of accountability lies in the flawed representativeness of the Executive Board in each of the Fund and Bank. The Board should reflect governments who are members of each organization. Yet representation is inadequate in two respects. In the first place, the Board does not adequately represent all members, and it particularly fails adequately to represent countries with the most intensive relationships with the institutions, for example the African members. Secondly, the representatives on the Boards of the institutions are too distant from the governments they represent and stakeholders most affected by the work of the institutions. Let us examine each of these arguments in turn.

Representation on the Executive Boards is too unequal

The Board of Executive Directors ('the Board') is the vital link from countries (and voters) to each of the IMF and the World Bank. Yet only the largest member countries (USA, Germany, France, Japan, UK, Saudi Arabia, Russia, and China) are directly represented by their own Executive Director. All other economies are grouped within constituencies represented by just one Executive-Director. This means that most national governments have only the weakest link to the formal deliberations and decision-making processes of the institutions. For example, in the IMF 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 just one Executive Director and have a voting share of 3.26%. In the World Bank, the same group of countries plus the Seychelles, again are represented by just one Executive-Director and have a voting share of 4.07%. Further exacerbating this lack of representation is the fact that these countries also lack influence in the informal processes of consultation and decision-making with both the IMF and the World Bank.

When the Board makes decisions, each country has voting power exercised by the Executive-Director representing it. This voting power depends upon a country's 'quota' which is determined by a formula which attempts to translate relative weight in the world economy into a share of contributions and votes (and in the IMF, access to resources) in respect of each institution. The formula has been criticised for some time and its technical elements have recently been reviewed for the Managing-Director of the IMF.³ The real problem with quotas and voting power, however, is that they were created to govern institutions with very different world roles to those played by the IMF and the World Bank today.

Voting shares in the World Bank and IMF are allocated according to rules formulated in 1944. At that time, members of both institutions were expected to be both contributors and borrowers (with the exception of the United States). European countries expected to draw both upon the IMF for assistance in crises and on the International Bank for Reconstruction and Development (later part of the World Bank group) for post-war reconstruction and development. Hence, 'shareholding members' were also 'stakeholders' in the work of the institution. Furthermore, the accountability of the IMF was largely 'constitutionalist' with its duties and actions carefully proscribed by its Articles of Agreement. Neither the Bank nor the Fund were given an explicit mandate to enter into policy conditionality and to attempt to alter in a far-reaching way the economic structure of a member's economy.

These founding presumptions of the IMF and World Bank were rapidly superseded by events. The role of the World Bank (then actually the IBRD) was transformed in 1947 when the Marshall Plan was announced to deal with reconstruction in Europe. This left the World Bank lending exclusively to developing countries. In the 1970s the IMF's role changed dramatically when the Bretton Woods system of exchange rates collapsed. By the 1980s, both institutions had become heavily involved in conditionality and policy-based lending. Throughout this time, the membership of both institutions more than trebled as decolonization brought a host of new, independent states into their midst.

The result of these changes has been dramatically to expand the 'stakeholders' in the institutions. The original stakeholders made large contributions to the basic capital of the institutions. A subsequent group of stakeholders have become those who pay most of the running costs of the institutions through loan charges (non-concessional borrowing countries). A further (overlapping)

group of stakeholders are those whose cooperation is vital if the IMF and World Bank are to fulfil their respective purposes. This now embraces a much wider, indeed universal, category of countries.

By 2000, in the wake of the financial crises of the 1990s, the powerful industrialized members of the IMF and the World Bank had cast the institutions into the role of ensuring 'forceful, far-reaching structural reforms' in the economies of all members in order (among other things) to correct weaknesses in domestic financial systems and ensure growth and poverty alleviation.⁴ The result is not only that all members have a high stake in the institutions but that equally the institutions have a high stake in gaining a deep political commitment to change in all member countries. Yet the stake of countries whose commitment is now being sought is not reflected on the Executive Boards of either the Fund or the Bank - indeed it has even been diminished.

When the IMF and World Bank were created, there was a clear and explicit concern to ensure some equality among members to reinforce the 'universal' and 'public' character of the institutions as opposed to giving them a structure which simply reflected economic and financial strength in the world economy.⁵ This was achieved by giving every member of the institution 250 'basic votes',⁶ to which were added weighted votes apportioned on the basis of the quota (mentioned above). In this way two kinds of stake were recognized: to a degree every member had an equal stake in the institution, and to a degree the different contributions and influence of states was also recognized. As I have argued elsewhere, this balance which was explicit in the foundation of the institutions, has subsequently been dramatically eroded. The proportion of 'basic votes' to total votes has diminished from its high point of 14% of all votes in 1955, to around 3% in both the Fund and the Bank.⁷ Yet if anything, the role of basic votes should have increased as the stakes in the institution changed in the ways described above.

The Executive Boards do not adequately hold the staff and management to account

The Executive Boards are the lynchpin of accountability of the Fund and Bank, For this reason the quality and depth of their oversight and control of each institution's work is vital. In each organization the Board is expected to appoint and oversee the senior management and work of the institutions. However, in practice, the Board rarely hold the management and staff of the institutions tightly to account. Executive Directors often (although not always) rubber-stamp decisions coming before them. This occurs for several reasons.

In the first place, it is difficult for members of the Executive Boards to prepare positions on all countries, papers, and issues brought to Board meetings. Many Executive Directors are in the job only for a short time. Indeed, in some multi-country constituencies there is regular and short-lived rotation of the Executive-Directorship.

In the second place, the Executive Board is not assisted in playing an active role by the staff and management of each institution who seldom divulge internal disagreements to the Board, tending instead to attach 'considerable importance' to presenting a unified view in Board discussions.⁸

A third feature of the Executive Boards is that many decisions are taken prior - or agreement reached on them - prior to Board meetings. As reports on both the Fund and the Bank aver, real

debates over policy and issues are conducted outside of the Board.⁹ Controversial cases and stand-off debates are rare. A loan, for example, that did not meet with US approval would seldom be presented to a Board for discussion. Before getting that far, in most (but not all) cases, staff and management would have been in dialogue with those whose agreement was necessary for the loan to go through.

Finally, it has been argued that the Executive Board's limited oversight is also due to the fact that Directors are protective about the countries they represent, and expect (and reciprocate) similar deference from their colleagues on the Board. Hence, in the words of the External Evaluation into Surveillance, what is supposed to be 'peer pressure' in fact becomes 'peer protection'.¹⁰

The heads of both organizations are selected by a non-transparent, process which excludes most member countries

A further, very obvious way in which the IMF and the World Bank seem inadequately accountable to their membership lies in the appointment of the heads of each organization. Appointed by the Executive Boards, it is to these heads of the organizations that all staff must eventually account. Yet in neither the Bank nor the Fund is there an open and transparent process of appointment: whether aimed at achieving political representation or technical excellence. Rather a fifty-year-old political compromise means that in each organization the head is appointed by convention according to the wishes of the United States (in respect of the World Bank) and Western Europe (in respect of the IMF). This process came under scrutiny during the last appointment of the Managing Director of the IMF when Germany's first favoured candidate failed to win support from other major shareholders leading to much adverse press and policy attention not so much to the personalities involved but to the lack of transparency and accountability in the process of selection. Although both institutions have established committees to propose improvements in the appointment procedure, until the United States and European countries are prepared to give up their privilege, change in this procedure will not occur.

The role of the IMF and World Bank has expanded, their accountability has not

The problems of accountability highlighted above have all been magnified by the increase and transformation of the activities of the IMF and World Bank. Previously, the need to respect the sovereignty of member governments limited their range of activities. However, both now reach deep into policy-making within member governments, going well beyond the delicately respectful parameters set out in the original Articles of Agreement.

Specifically, as Devesh Kapur has argued, both the IMF and the World Bank embrace areas of policy it was inconceivable for them to touch prior to the 1980s. The expansion can be tracked by measuring numbers of 'performance criteria' on which loans are conditional have increased: in a sample of 25 countries, there were between 6 and 10 measures in the 1980s as contrasted with around 26 measures in the 1990s.¹¹ Equally, if not more revealing is the way the number of programme 'objectives' being included in loans and programmes have increased, with countries now being required to undertake actions such as to mobilize, redefine, strengthen or upgrade government processes in an ever wider range of areas.

The new conditionality is dramatically deepening and broadening the purview of the international financial institutions within member countries. No longer are they engaged in monitoring specific macroeconomic policy targets in the context of a crisis, or specific project loans and conditions. Both institutions are now engaging governments in negotiations which cover virtually all issues of economic policy-making - and beyond (with good governance extending into the rule of law, judicial reform, corporate governance, and so forth). This new wide-ranging domain of advice and conditionality directly affects a wider range of policies, people, groups and organizations within countries.

Yet the IMF and the World Bank were not created, nor structured, to undertake or to be accountable for such wide-ranging activities. They were created to deal with a narrow, clearly stipulated range of technical issues. For this reason, at their birth it was decided that they should only deal with member countries through the Treasury, Finance Ministry, Central Bank or like of a country and that only a representative of these agencies could sit on the Boards of the institutions.¹² This is still true today.

Meanwhile, the work of both the IMF and the World Bank has broadened and deepened far beyond the purviews of the Finance Ministries or Central Banks with whom they are negotiating. This means that, through conditionality and loan agreements, the Fund and Bank are making Finance Ministries or Central Banks formally accountable for policies which should properly lie within the scope of other agencies, and for which those other agencies are domestically accountable. A policy affecting the distribution of healthcare, for example, we would expect to be the responsibility of the Minister of Health whom we could expect to be answerable for it to voters and his or her society at large. Yet, as the Fund and Bank intrude further into these kinds of decisions, the risk is that the line of accountability they establish with the Finance Ministry or Central Bank will override other agencies and local or democratic accountability.¹³

A further implication is that while in theory, different agencies within government compete for and debate competing priorities and goals, negotiations with the Fund and Bank heavily sway these debates, subjecting broad areas of policy to the narrower focus, priorities and analysis of the Central Bank and Finance Ministry - even though neither necessarily have the desire, mandate, accountability, nor expertise to evaluate and formulate policy in respect of these broader issues. In a subtle way, this point is underscored by a remark in the External Evaluation into IMF Surveillance, where the evaluators found that 'the most favourable appraisals came from those whose lines of work bore close similarities to the Fund's - central banks, and, to a lesser extent, finance ministries'.¹⁴ Turned on its head, this statement emphasizes the degree to which the Fund's core mandate remains that shared with central bankers. Yet at the same time, the institution is now formulating directions for policy in areas outside of this formal mandate and expertise.

In the extreme, the problem becomes that succinctly expressed by Martin Feldstein in response to the IMF's intervention in East Asia: 'The legitimate political institutions of the country should determine the nation's economic structure and the nature of its institutions. A nation's desperate need for short-term financial help does not give the IMF the moral right to substitute its technical judgements for the outcomes of the nation's political process'.¹⁵ (Feldstein 1998, p.24) The accountability problem underscored here is: who makes particular policy decisions? By whose rules? And under whose scrutiny?

Making the IMF and World Bank more accountable

Aware of the criticisms they face, and also 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 institutions have undertaken a number of steps to make themselves more accountable to such stakeholders, including: more transparency, new mechanisms of horizontal accountability, and working more closely with non-governmental organizations. The implications for accountability are worth examining.

Transparency

First and foremost among the steps taken by the institutions in improving their own accountability is an increase in transparency. Both the IMF and the World Bank now publish a large amount of their own research and explanation of what they are doing (and to what effect) on their websites. They are also pressing governments to permit greater disclosure and publication of policies and agreements made with governments (which are confidential if the government so wishes).

Transparency is crucial to improving the accountability of both institutions. It makes it possible to hold them to account by opening up their express objectives, advice and agreements. At the same time, however, some important limitations deserve noting. First, there are still many gaps in what is publicly available to date. For example, the World Bank has an excellent, independent unit of evaluations - the Operations Evaluation Department - yet not all of its publications are available. In the IMF internal review documents are not available. These omissions are important for the outside scrutiny of such documents not only adds to the external accountability of the organizations, but also ensures that such reviews are taken seriously within the institutions themselves.

A second issue raised by the new penchant for transparency is its cost. Often underestimated by major shareholders pushing for greater transparency are the costs of collecting, editing and publishing information are high. Of course, such costs are borne in large part by borrowing members of the institutions since they add to the running costs of the institutions and thereby to their loan charges. Finally, if not carefully considered and balanced, transparency of selected data, policy or considerations - and not of others - can distort decision-making or perceptions of it.

Most importantly of all, however, transparency provides the most important and necessary but not the sufficient means for the international financial institutions to be held accountable.

Ensuring member governments are accountable to their own people for policies agreed with the IFIs

A second part of the new transparency policies of both the Fund and the Bank has been to promote transparency within countries with whom they work. The rationale here is that the IFIs advise and assist member countries but it is governments in those countries who are accountable for all policies both to global markets and to their own people. Of course, this formulation glosses over the fact that some governments perceive little choice but to accept Fund or Bank advice and assistance - having resorted to the IFIs for assistance precisely because they have no alternatives.

The transparency being pursued by the IMF involves releasing their documentation and agreements with countries, with the agreement of the member governments concerned. The result has been the publication of information such as: Public Information Notices (PINs) following about 80% of its Article IV consultations, and publishing Letters of Intent (LOIs) and related country documents that underpin Fund-supported programs with respect to about 80 percent of requests for or reviews of Fund resources.

Going yet further, in some cases, the IMF and World Bank now require governments to consult more and to be more actively accountable to their own people. At the behest of their largest contributors, both IFIs are requiring governments wanting enhanced debt relief under the Heavily-Indebted Poor Countries (HIPC) initiative to produce a plan as to how they intend to reduce poverty. The plan (labelled the Poverty Reduction Strategy Paper or PRSP) must be 'nationally owned' and produced in consultation with 'civil society'. Uganda and Mauritania were the first to qualify for enhanced debt relief under this programme, having each had a pre-existing well-developed plan for poverty reduction. Bolivia also qualified early by producing an interim PRSP on the basis of a 'national dialogue' already undertaken which sets out future plans for reducing poverty, and for engaging civil society in the formulation of its full PRSP.¹⁶

The new disclosure and consultation measures highlight the sensitivity of the IFIs to concerns about accountability not just within the institutions, but within countries with whom they are working. Significantly, neither the Fund nor the Bank any longer describe their interlocutors in member countries exclusively as 'national authorities'. Rather, the World Bank writes of 'development partners'¹⁷ and the IMF of 'authorities and civil society', and of the need for its programmes to enjoy 'ownership by the societies affected'.¹⁸ Along with this recognition has come the opening up of new mechanisms through which these groups can question or probe the legitimacy of the international financial institutions' assumptions and recommendations.

Agencies of horizontal accountability

The terms 'constitutionalism' and 'democracy' have been used to contrast different kinds of accountability.¹⁹ For example, in the US political system, while democracy is served by the US Congress, constitutionalism is served by the Supreme Court. This simple contrast usefully highlights the way 'horizontal' or 'sideways' accountability can add to vertical accountability by contributing agencies and processes which exist to monitor and to enforce the mandate, obligations, rules and promises of institutions.

Within the international financial institutions, several agencies and processes have recently emerged with the aim of enhancing horizontal accountability. For example, the IMF has commissioned three independent external evaluations in the past decade and has published their reports, and is now in the process of creating an office for independent evaluation.²⁰

Much more established is the independent evaluation unit in the World Bank (the Operations Evaluation Department or OED) which reports to the Executive Board. The OED rates the development impact and performance of all the Bank's completed lending operations, as well as the Bank's policies and processes and reports its findings to the Board. In 1993, in the context of a broad review of the Bank's Disclosure Policy, access was opened up to the OED's "Annual

Review of Evaluation Results" and summaries of evaluation reports ("Précis") for selected projects. Since that time, much more of the OED's work has become publicly available.

A more powerful and unprecedented step towards greater horizontal accountability was taken in the World Bank in 1993 when an Inspection Panel was created by the Executive Board. The Panel opens up the possibility for complaints to be made by any group able to show that: (1) they live in the project area (or represent people who do) and are likely to be affected adversely by project activities; (2) they believe that the actual or likely harm they have suffered results from failure by the Bank to follow its policies and procedures; (3) their concerns have been discussed with Bank management and they are not satisfied with the outcome.

The three-person Inspection Panel has powers to make a preliminary assessment of the merits of a complaint brought by a group, taking into account Bank management responses to the allegations. Subsequently, it can recommend to the Board that a full investigation be undertaken, and make recommendations on the basis of such a full investigation.

The Executive Board retains the power to permit investigations to proceed, and to make final decisions based on the Panel's findings and Bank Management's recommendations. The Inspection Panel thus enhances the power of the Executive Board, as well as of a wide group of affected 'stakeholders' in the Bank's work.

The most highly publicized of recent cases is that of the Western Poverty Reduction Project in Qinghai, China. The case resulted from a complaint filed by the International Campaign for Tibet (ICT), a US-based NGO, acting on behalf of local people affected by the project, claiming in particular that it would harm Tibetan and Mongolian people. The final report of the inspection panel found that the Bank had failed to comply with some of its own policies including on environment, indigenous peoples and disclosure of information.²¹ The case became a notorious one in the media, mobilizing US and international Tibet campaign groups as well as environment lobbies and supporters of indigenous groups.

Behind the media glare of such cases, a couple of serious questions of governance emerge as to the role and implications of such inspections, as highlighted in retrospect by one of the expert consultants who advised the Inspection Panel in the China case. Robert Wade points out that an initial problem with the Panel is that its 'image of success is to find projects out of compliance', he then writes that

'since almost any project can be found to be out of compliance if one pushes hard enough, and since there is no limit to the cases that affected groups can bring—assisted by Washington-based NGOs—the Bank is likely to be deluged with Inspection Panel investigations'.²²

The problems hinted at here are worth examining further for they touch on the core question of how widely or narrowly 'accountability' should be defined, and what kind of breach should trigger an enforcement action.

If the 'triggering mechanism' for inspection is unlawfulness, this not only presumes that actions that are legal must also be legitimate in the eyes of the citizenry, but opens up the risk that minor 'legal' infractions can be used as a weapon for much larger political purposes. This point has been made in

a study of accountability in which one scholar, alluding to the Clinton/Lewinsky scandal, reminds us that 'minor legal infractions can be used by partisan opponents to thwart the clearly expressed preference of the public-at-large'.²³ In other words - beware of the fact that agencies of horizontal accountability can be abused.

The warning about the abuse of inspections or horizontal accountability agencies is an important one because inspections cost money and take time. Wade reports that the East Asia region of the Bank spent about \$3 million on work responding to the panel's investigation of Qinghai, in addition to the extra costs incurred by the Chinese government. The cost of the extra work that the East Asia region proposed to be done came to another \$2.5 million. The cost of the extra work that the panel report calls for is estimated at around \$4 million, or 10 percent of the total loan. Wade reports that this cost (and the fear of an inquisitorial process) mean that Bank staff are now refusing to contemplate projects involving either involuntary resettlement or indigenous peoples, because they cannot compete with other sources which do not have to take into account such high additional costs. This, he implies, is ultimately to the detriment of the disadvantaged groups the Bank is setting out to assist.²⁴

An alternative model of accountability, which avoids some of the problems above, is that provided by the new Office of the Compliance Adviser/Ombudsman (CAO) of the IFC and the Multilateral Investment Guarantee Agency (MIGA). This new ombudsman's office was created in June 1999, after consultations with shareholders, NGOs and members of the business community. The aim was to find a workable and constructive approach to dealing with environmental and social concerns and complaints of people directly impacted by IFC and for MIGA financed projects. The CAO or ombudsman and her staff are independent of the Bank and IFC and report directly to the President of the World Bank. The emphasis of the office's work, however, is very much dialogue, mediation and conciliation. Other than the power to make recommendations, the CAO has no formal powers. Indeed, the draft operational guidelines of the office state: 'The ombudsman is not a judge, court or policeman'.

In the absence of enforcement powers, one must ask whether an ombudsman can really be considered a mechanism of accountability. Clearly the CAO office provides for transparency and monitoring, and these are vital to accountability. It also provides for a very light form of indirect enforcement. For this reason, it avoids the costs highlighted with the Inspection Panel above, and possibly also the incentive for users to abuse the process of accountability in the pursuit of other goals. However, it remains to be seen whether this mechanism has enough power to hold decision-makers to account. More generally, such mechanisms cannot be seen as sufficient in and of themselves to patch up the accountability of international institutions. They operate alongside the vertical accountability already outlined above, affording another 'check' on IFI officials.

The experiments in compliance-enforcement being undertaken in the World Bank and IFC, highlight how little horizontal accountability exists for the international financial institutions. Obviously the primary agencies which should hold the institutions to account are their member governments, through bolstered and improved forms of vertical accountability. However, both IFIs are now working in a world political system in which groups both within and across countries are becoming more effective at demanding more account of the work of international organizations: both through governments and directly from the organizations concerned. It is for this reason that horizontal

accountability has become a large plank in both IFIs responses to those who criticize their unaccountability. A further part of this response has been to engage more directly with their critics, and in particular with non-governmental organizations.

Engagement with non-governmental organizations

In recent years both the IMF and the World Bank have begun to recognize non-state actors and non-governmental organizations (NGOs). The trend has been acknowledged by the US Secretary of the Treasury in discussing the Fund's modus operandi:

‘it should become more attuned, not just to markets, but the broad range of interests and institutions with a stake in the IMF's work. Just as the institution need to be more permeable for information to flow out, so too must it be permeable enough to let in new thoughts - by maintaining a vigorous ongoing dialogue with civil society groups and others.’²⁵

Both the Fund and Bank make much more information and analysis available to NGOs. The World Bank's NGO-World Bank Committee (established in 1982) has become more active. Both the Bank and Fund now consult with lobbying organisations in Washington DC, with grassroots organisations in member countries, trade unions, church groups, and such like. These contacts are taking place at regional, country, and local levels. World Bank regional directors and IMF resident representatives are being told to seek out and maintain such 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. In addition to these measures which increase transparency and consultation, the institutions have also moved more recently to permitting some level of local participation by non-state actors, such as in the poverty reduction strategy papers being required of countries seeking enhanced debt relief.

It is worth clarifying that NGOs have not taken a place as major ‘stakeholders’ in the institutions: they have not acquired control, nor a formal participatory role in decision-making except at the behest of their own governments. However, where ‘Northern’ NGOs have allied with or used political leverage in major shareholding countries - at any rate in the United States - they have exercised considerable informal power and influence. Indeed, in such cases, the position of some NGOs starts looking much stronger than that of many smaller developing countries - whose formal right to participate in decision-making is diluted by the problems of representation described earlier. For this reason, the recognition of NGOs as stakeholders has led to a vociferous debate about the accountability and legitimacy of the NGOs themselves - in particular among developing country governments.

In further analysing this debate it is useful to distinguish local or ‘Southern’ NGOs within borrowing countries, and transnational or ‘Northern’ lobbying organizations, usually based in Washington DC or one of the G-7 capitals. The implications of developing relations with each are somewhat different for the accountability of the IFIs.

(i) Engagement with Southern NGOs

Local or Southern NGOs are stakeholders in a direct sense of the term: they represent groups

directly affected by the programs and policies of the IFIs. Their inclusion in discussions and strategy formulation is required because of the way in which the activities of the IFIs have broadened. Both IFIs recognize that, to quote the World Bank, 'policy reform and institutional development cannot be imported or imposed'.²⁶ In countless publications, both IFIs recognize that wider participation and ownership is required for policies to be successfully implemented.²⁷ For these reasons, the IMF and the World Bank are encouraging both their own local representatives and government officials (such as in the PRSP process outlined above) to develop consultative links with local NGOs. At the same time, NGOs now have access to the complaints procedures described above (World Bank Inspection Panel and IFC Ombudsman).

However, new relations with Southern NGOs do not resolve the problems of accountability faced by the IFIs, even if they add some positive additional elements. Neither the Fund nor the Bank have been structured as agencies of forceful, far-reaching domestic reforms. Their governance structure gives them neither the necessary elements of legitimacy nor accountability for such tasks. They are being forced for practical and political reasons to look beyond their traditional and narrow points of contact with 'national authorities' (Finance Ministries, Central Banks and the like) to the wider 'civil society'. However, such relations should not divert attention from the core lack of accountability to developing country governments. Are the IFIs beginning to step around governments and themselves attempt to persuade societies to support certain kinds of reform? The problem here is that the government itself should be the agent of persuasion. And borrowing governments will not be able to persuade their own societies to accept changes required by international institutions in which they (developing country governments) cannot claim to have an effective voice.

Relations with NGOs also bring problems of accountability and legitimacy of their own. Foremost is the question of which 'civil society groups' ought to be consulted or recognized. As Jan Aart Scholte has documented in the case of the IMF, some non-governmental groups (such as business groups) are being consulted much more than others.²⁸ This poses the question: to whom are local NGOs accountable, and for what? Until now, both the IMF and the World Bank have been pursuing relations with NGOs in an *ad hoc* and reactive way. However, as Charles Abugre and Nancy Alexander have noted, one needs to consider more systematically criteria such as the effectiveness, representativeness, internal decision-making structure, membership, and accountability of groups being so consulted.²⁹

The problem of accountability of local NGOs is further heightened where they are given a more active role in implementation or formulation of policy. In such cases, the accountability of local NGOs ought to be compared to that of local government agencies. In the 1980s and early 1990s it was sometimes too readily assumed that the former were preferable - in the World Bank's work in Africa this led to criticisms of the Bank for undermining the capacity of governments in the region.³⁰ A decade later, it has become more obvious that using NGOs to bypass government institutions risks thwarting the 'institution building' and 'state modernization'.

A final problem concerning relations with Southern NGOs is about who shapes and influences the modalities and processes of consultation with such groups. In the PRSP process described above no framework was spelled out. There is nevertheless a risk that certain kinds of consultations become recognized in *de facto* way as preferable to others, not on the grounds that they enhance existing mechanisms of local accountability, but rather on the grounds that they please the political

sensitivities and preferences of major shareholders in the IFIs. In other words, there is a risk that a new 'Washington consensus' on the politics of participation and consultation will be forged, and that this will pay insufficient attention to the complex social and political arrangements which give life to accountability at the local level.³¹

Nonetheless, the vociferous debate about NGOs and their lack of accountability risks being overplayed in the context of Southern NGOs. Certainly they now have access to more information: and transparency is a powerful step towards holding governments and institutions accountable. NGOs are also, with government approval, consulted more regularly. In the World Bank and IFC they have the right (although not necessarily the resources) to access the new complaints procedures. These steps, however, do not amount to a transfer of decision-making power or substantial influence. Indeed, the argument has been made that Southern NGOs should be strengthened and more strongly used by developing-country governments in order: (1) to enhance their own information and analysis about the IFIs; (2) as a bargaining counter (in alliance with Northern NGOs) to pressures by major shareholders, who face demands from their own publics to pay attention to NGOs; (3) to counter the power of Northern NGOs.³²

New consultation mechanisms with NGOs in borrowing countries do not, however, resolve the deeper problems of accountability both within the IFIs and in relation to their government interlocutors. Indeed, these problems may well be exacerbated by new developments in the IFIs' relations with the other category of new lobbyists and stakeholders: Northern NGOs.

(ii) Engagement with Transnational and Northern NGOs

Transnational NGOs do not have the same stake in the IFIs as directly affected local groups. In defining their 'stake' in international organizations, one needs to consider their broader place in global governance. Even there, they are not part of the state-based system of representation in world politics. But politics is not just about representation, it is equally about debate. And in international politics, NGOs open up and contribute to an active debate about the IFIs and their policies. Their role is to speak for different views and interests which are not necessarily expressed through the formal channels of representation, i.e. to act as lobbyists for particular interests relevant to notions of justice, development, the environment and so forth.

In more academic terms, the argument for the place of NGOs in an international 'deliberative democracy' is voiced by theorist James Bohman: 'In the case of a political setting where there is no public to whom appeal can be made or institutions in which voice is important, international institutions and the NGOs that attempt to influence their procedures and standards themselves can function as a public to whom equal access of political influence is guaranteed and open'.³³ (Bohman 1999, p.511)

The accountability problem posed by transnational NGOs lies first and foremost in the question, to whom are they themselves accountable. Most TNGOs are accountable in various ways to at least three constituencies: their membership (actual and potential and predominantly Northern); their major funders and/or clients (which include governments and corporations); and in many cases NGO partners (some in the South). Overall, there is a tendency for such groups primarily to be accountable to Northern groups, funders, and partners. For this reason, a long-standing concern

about TNGOs has been that they magnify Northern views - both outside of governments, and through governments - in the international organizations, adding yet another channel of influence to those peoples and governments who are already powerfully represented.

The risk here is that TNGOs further distort the inequalities of power and influence already emphasised in this paper. As Abugre and Alexander found: 'Activism by United States NGOs has probably expanded the already disproportionate role of the United States in the international financial institutions, especially the World Bank'.³⁴ Similarly, where TNGOs deploy their considerable resources and expertise in representing and assisting local groups bringing cases to the Inspection Panel, it is not always the case that the interests of those being represented are the same as the interests of those to whom the TNGO is primarily accountable (members and funders). The TNGO has an incentive to favour an outcome which maximizes publicity and support for itself. Yet in some cases the quieter, compromise decision may well do more for the group they claim to represent.

The difficulty for critics is that whilst the work of many TNGOs has undoubtedly magnified Northern influence in the IFIs, other TNGOs have used their influence with the US government (both Congress and the Executive) and other G-7 governments, effectively to campaign for greater transparency, disclosure and new forms of horizontal accountability, which are of interest to all stakeholders. Hence, some TNGOs have assisted in enhancing the accountability of the IFIs, even whilst at the same time further undermining the relative power and participation of both developing countries and Southern NGOs.

The devil with TNGOs lies not so much in the detail but in the objectives, priorities, and constitutions of the organizations. Some TNGOs working on and with the IFIs are fully aware of the risks mentioned and steer clear of them by prioritizing multilateralism, local accountability and capacity-building in developing countries. In so doing such groups are implicitly respecting the claims of more directly-affected stakeholders to have priority in holding the institutions to account. TNGOs that do not so delimit their priorities, it is argued here, are wrong to claim that their stake in the institutions gives them a right of account.

Conclusion

Improving the accountability of the IFIs has become a mantra for economic policy-makers in the G-7. In the present debate this has come to mean making the institutions more transparent and opening up dialogues with new groups of 'stakeholders'. This paper has shown that these measures may improve governance, but they do not solve the core accountability deficit in the IFIs. The institutions are supposed to be directly accountable to their member governments through their Executive Boards. Yet there are deep flaws in this structure. Furthermore, as the activities of both IFIs expand to embrace wider and deeper conditionalities, the accountability deficit is further widened. This is because just as the activities of the Fund and Bank are widening, so too are the categories of affected groups who might legitimately claim to be stakeholders in the institutions and therefore to have some right to hold them to account.

The implications for the institutions are several. First, the flaws in the vertical structure of accountability need redress. This means working to put into place:

- an open and legitimate process of appointment for the heads of the institutions;
- a stronger role for the Executive Board in overseeing the work of the institutions;
- a structure of representation which better reflects the stakes of all state-members; and
- measures which assist in enhancing the accountability of Executive-Directors representatives to their governments and voters.

These measures, along with positive steps towards independent evaluation, inspection and transparency would doubtless improve the accountability of the IMF and World Bank. However, ultimately there are limits to how accountable the IMF and World Bank can be to the governments and peoples most affected by their lending and policies. This raises a more profound issue as to how far-reaching the activities of relatively unaccountable agencies should be.³⁵ In his essay on whether international institutions can be democratic, political theorist Robert Dahl warns that we should be 'wary of ceding the legitimacy of democracy to non-democratic systems'.³⁶ His point is that domestic political systems have a potential to be democratically accountable in a way that international organizations cannot. The implication is that the IMF and the World Bank should be reined in from far-reaching policy conditionality. Their activities should be limited to those for which they can claim to be effectively accountable.

Footnotes

1. The terms 'World Bank' and 'the Bank' are widely used (and also in this paper) to refer to the World Bank Group of institutions which comprises the International Bank for Reconstruction and Development (IBRD), the International Development Association (IDA), and the International Finance Corporation (IFC).
2. Andreas Schedler, Larry Diamond and Marc Plattner, *The self-restraining state: power and accountability in new democracies* (Boulder, Co; Lynne Rienner, 1999).
3. See the Report to the IMF Executive Board of the Quota Formula Review Group (Washington DC, IMF, 28 April, 2000). For earlier critiques see: Nancy Wagner, 'A Review of PPP-Adjusted GDP Estimation and its Potential Use for the Fund's Operational Purposes', *IMF Working Paper* (Washington DC: IMF, 1995); and Ariel Buirá, 'The Governance of the International Monetary Fund', in Roy Culpeper and Caroline Pestieau (eds), *Development and Global Governance* (Ottawa: International Development Research Centre, the North-South Institute, 1996).
4. IMF, *The IMF's Response to the Asian Crisis* (Washington DC; IMF, 1998).
5. Joseph Gold, *Voting and Decisions in the International Monetary Fund* (Washington DC: IMF, 1972) p.18 and pp.173-4.
6. Keith J. Horsefield, *The International Monetary Fund, 1945-1965: Twenty Years of International Monetary Cooperation*, Vol. 1 (Washington D.C., IMF, 1996).
7. Ngaire Woods, 'The Challenge of Good Governance for the IMF and the World Bank Themselves', *World Development* Vol 28, No. 5 (May 2000)
8. IMF, 'External Evaluation of IMF Surveillance', Report by a Group of Independent Experts (Washington DC; IMF, 1999), p.34; World Bank, 'Report of the Ad Hoc Committee on Board Procedures', May 26 (Washington DC: World Bank, 1992).
9. IMF, 'External Evaluation', and World Bank 'Report of the Ad Hoc Committee'.
10. IMF, 'External Evaluation', p.34.
11. Devesh Kapur, 'Expansive Agendas and Weak Instruments: Governance Related Conditionality of the International Financial Institutions', *Journal of Policy Reform* (forthcoming); and Devesh Kapur and Richard Webb, 'Governance-related conditionalities of the international financial institutions', (Geneva, UNCTAD, 2000).
12. See in the Articles of Agreement of the IMF (Article V, section 1) and the World Bank (Article III, section 2).
13. Of course, the external line of accountability does not always produce the outcomes desired by the IFIs, as argued by Paul Collier, 'Learning from failure: the international financial institutions as agencies of restraint in Africa' in Schedler et al, *The self-restraining state*, pp. 313-332.
14. IMF, 'External Evaluation', p.35.

15. Martin Feldstein, 'Refocusing the IMF', *Foreign Affairs*, 77:2 (March/April 1998) pp. 20-33.
16. For an updated list of countries preparing PRSPs see www.imf.org/external/np/prsp/.
17. World Bank, *Partnership for Development: From Vision to Action* (Washington DC: World Bank, 1998).
18. IMF, 'The IMF in a Changing World', Remarks by Horst Köhler, Managing Director Given at the National Press Club (Washington, DC, 7 August 2000).
19. See comments by Richard Sklar on Guillermo O'Donnell, 'Horizontal accountability in new democracies' in Schedler et al, *The self-restraining state*, 29-51.
20. See IMF, Report to the IMFC on the Establishment of the Independent Evaluation Office and its Terms of Reference (Washington DC, 12 September, 2000).
21. World Bank, *China Western Poverty Reduction Project Inspection Panel Report* (Washington DC: World Bank, 2000) and see www.worldbank.org/eap/eap.nsf/.
22. Robert Wade, 'A defeat for development and multilateralism: the World Bank has been unfairly criticised over the Qinghai Resettlement Project' (full manuscript unpublished, short version published in *Financial Times* 4 July 4th 2000).
23. See comments by Philippe Schmitter on Guillermo O'Donnell, 'Horizontal accountability in new democracies' in Schedler et al, *The self-restraining state*, 29-51.
24. Wade, 'A defeat for development'.
25. Lawrence Summers, 'The right kind of IMF for a stable global financial system', Remarks to the London Business School, December 14, 1999 (US Treasury: LS-294)
26. World Bank, *Annual Review of Development Effectiveness* (Washington DC: World Bank, 1999).
27. See World Bank: *Sub-Saharan Africa: From Crisis to Sustainable Growth* (Washington DC: World Bank, 1989); *Governance and Development* (Washington DC: World Bank, 1992); *Governance: The World Bank's Experience* (Washington DC: World Bank, 1994); *The World Bank Participation Source Book* (Washington DC: World Bank, 1996), and *Annual Review*. See IMF: *Good Governance: The IMF's Role* (Washington DC; IMF, 1997); "External Evaluation of the ESAF," Report by a Group of Independent Experts (Washington DC; IMF, 1998); *A Guide to Progress in Strengthening the Architecture of the International Financial System* (Washington DC, IMF, 2000).
28. Jan Aart Scholte, 'The IMF meets Civil Society', *Finance and Development*, Volume 35, Number 3 (September 1998) pp. 42-45.
29. Charles Abugre and Nancy Alexander, 'Non-governmental organizations and the international, monetary and financial system', *International Monetary and Financial Issues for the 1990s Volume IX* (Geneva, UNCTAD, 1998): 107-125.

30. Abugre and Alexander, 'Non-governmental organizations', p. 114.
31. For the original statement of the Washington consensus see John Williamson, *Latin American adjustment: how much has happened?* (Institute for International Economics, Washington DC, 1990). For subsequent analysis see: Moises Naim, 'Washington consensus or Washington confusion?', *Foreign Policy* (2000), No.118, p.86 ff; Joseph Stiglitz, *More instruments and broader goals: moving towards the post-Washington consensus* (Helsinki: WIDER/United Nations University, 1998); and Robin Broad and J. Cavanagh, 'The death of the Washington consensus?', *World Policy Journal* (1999), Vol.16, No.3, pp.79-88.
32. Abugre and Alexander, 'Non-governmental organizations'.
33. James Bohman, 'International regimes and democratic governance: political equality and influence in global institutions', *International Affairs* 75:3 (1999), pp.499-513, at p.511.
34. Abugre and Alexander, 'Non-governmental organizations', 116.
35. I am grateful to Devesh Kapur for spurring me to think about this issue.
36. Robert A. Dahl, 'Can international organizations be democratic?' in Ian Shapiro and Casiano Hacker-Cordon, *Democracy's Edges* (Cambridge: Cambridge University Press, 1999) 19-36 at p.33.