A High Price to Pay: IMF Governance, Management of Developing Country Financial Crises, and Health Impacts

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The Commission on Social Determinants of Health, established by the World Health Organisation, found that

"it is only through… a system of global governance, placing … genuine equality of influence at the heart of decision-making, that coherent attention to global health equity is possible."
(CSDH, 2008, p19)

Nowhere is this more starkly demonstrated than in the case of the IMF.

As financial globalisation has proceeded since 1980, economic performance and living conditions in the developing world have been shaped more and more by international financial markets and official financing flows. These in turn are a product of the global financial system, which is largely shaped by decisions taken in the IMF. At the national level, economic and social policies are both influenced and constrained by these international economic forces; and in many developing countries they have been driven more explicitly, in some cases for more than a generation, by detailed policy conditions attached directly or indirectly (through cross-conditionality) to IMF loans on which they have been made critically dependent by the operation of the international financial system.

The IMF is thus a key driver of health outcomes in the developing world, through effects on both health systems and social determinants, and thus of overall health outcomes and of global health equity and inequity. However, far from providing “genuine equality of influence” among its members, the Fund’s governance structures actually institutionalise and reinforce extreme inequality of influence, through an explicitly anti-democratic “economically-weighted” voting system, reinforced by a number of less formal and more indirect processes described later in this submission.

This paper begins with a detailed critique of the governance structure and processes of the IMF, with a particular focus on the weakness of its accountability mechanisms (in Section 1), and the structural and indirect factors which systematically skew of influence towards developed country governments (in Section 2). It continues with an assessment of how these factors have been translated into the Fund’s policies and practices, particularly with respect to its responses to debt and financial crises affecting developing countries and the policy conditionality of its lending since the late 1970s (Section3), followed by an illustration of the health consequences of these policies, in Sub-Saharan Africa in the 1980s and 1990s (Section 4). Possible counter-arguments to democratisation of the Fund’s governance are discussed in Section 5; and Section 6 assesses the appropriateness of the Fund’s governance structures against the background of its evolving role since its inception in 1944. Finally, the conclusion proposes a number of principles for IMF governance reform, based on the application of democratic principles as applied at the national level.
1. **A Law unto Itself: Limited and Asymmetric Accountability**

1.1 *The Board of Governors*

In principle, the highest decision-making body of the IMF is its Board of Governors, made up of representatives of all member governments, at Ministerial level. The Board of Governors must approve all major policy decisions, by a specified majority.

However, the Board of Governors meets only twice a year, for two days at a time, at the Annual Meetings in October and the “Spring Meetings” in April. (It is symptomatic of the Northern orientation of the IMF and World Bank that meetings held in the Southern autumn are invariably referred to as “the Spring Meetings”.) While important discussions are held informally “in the margins”, this provides no opportunity for substantive discussion in the formal sessions, which are entirely made up of prepared statements by each Governor in turn.

Apart from formal votes on major policy issues, the main outcome of the Annual and Spring Meetings are the communiqués issued by the International Monetary and Finance Committee. These committees are made up of the Governors of those countries represented on the Executive Board (see Section 2.4).

In the absence of any opportunity for substantive discussion by the Board of Governors, major policy discussions take place in the Executive Board, which effectively makes decisions subject to the approval of the relevant Board of Governors (as well as discussing and approving all programme and lending decisions). Since decisions are submitted to the Board of Governors for its approval only if the requisite majority has already been established in the Executive Board, its role is essentially that of rubber-stamping decisions already taken by the Board.

1.2 *The Executive Board*

Given the limitations on the Board of Governors, the Fund's primary decision-making body is the Executive Board, which is made up of 24 Executive Directors (EDs). Directors can be divided into three categories:

- five “appointed” Directors, who are appointed directly by the governments of the five countries with the largest IMF quotas (currently the US, France, Germany, the UK and Japan);
- 16 Directors who are “elected” by constituencies of between four and 23 countries; and
- three Directors who are notionally “elected” by constituencies made up of a single country (Russia, China and Saudi Arabia)

Each Executive Director is entitled to cast the votes of the country which appoints him/her or the members of the countries in the constituency which “elects” him/her.

In practice, however, “election” processes for Executive Directors merely confirm an informal standing agreement among the members of the constituency concerned. Where a single country has substantially the largest Quota (see below) in the constituency, as in the case of Canada, the arrangement is generally that that country will nominate the Director, while another appoints the alternate, and others Advisers and Technical Assistants (generally on a rota basis). Where several countries in a constituency have relatively equal quotas, as in the case of Spain, Mexico and Venezuela, those countries may alternate in appointing the Director and Alternate. In the case of the constituency including South Africa and Nigeria, all 20 members take turns in appointing the Director, despite the dominance of these two countries within the constituency in terms of quotas.
In reality, therefore, most IMF members have no effective say in the selection of any Executive Director serving at any point of time; and the majority of members never do. Once elected, there are no formal mechanisms for the accountability of an Executive Directors to their constituents, or for constituents to remove them until the end of their terms. Thus the only formal means available whereby a constituent can challenge a Director is to seek to join another constituency – an option which is seriously constrained by peer pressure, due to the potential disruption this could cause.

According to the Fund’s General Counsel, Directors are not representatives of the members of their constituencies, but rather officials of the IMF; and their responsibility is solely to the IMF as an institution, and not to their constituents (Gianviti, 1999).

Each Director representing a constituency is only permitted to cast the votes of all the members of his/her constituency as a single block, even if different members have diametrically opposed views or interests in the issue under discussion. A voting power analysis by Leech and Leech (2003) finds that, even if elected Directors’ positions were decided by voting within each constituency, the need to cast votes as a single block would leave 41 countries (22.3% of the membership, with 4.4% of the votes in the Fund) powerless. By contrast, the voting power of the US was found to be greater than its voting share in the Boards of Governors (20.4%, compared with a voting share at the time of 17.1%), as was that of the US Director in the Executive Board (21.5%)\(^1\).

In practice, however, the Executive Board does not have formal votes. Rather, each Director says in his or her statement (“intervention”) in the Board meeting how he/she would have voted if there had been a vote. Neither are Directors’ positions necessarily determined by the relative votes of their constituents. Elected Directors may consult their constituents in deciding the positions they will take in Board discussions, and some (notably the Director for the Scandinavian-Baltic constituency) also receive instructions from them. However, consultation with constituency members is in most cases informal and sporadic; Directors are under no obligation to take account of their constituents’ views or interests; and how conflicts within the constituency are balanced is entirely at the discretion of each Director. This makes the representation of constituents’ interests and views at best indirect (Woods and Lombardi, 2006). Appointed Directors, in practice, are much more accountable to their authorities; but, as discussed in Section 2.2, the asymmetry this creates is itself seriously problematic.

In the absence of formal votes, the “sense” of each Board meeting is interpreted by the Managing Director (with the assistance of the Secretary), to determine whether the draft decision presented to the Board has or has not been approved, based on the votes controlled by each Director. The MD and the Secretary also produce a summing-up of the discussion which is interpreted as indicating the views of the Board on more specific issues, as a guide to future action by the management and staff (eg on the content, terms and conditionality of programmes, or where a revised or refined policy proposal is to be presented for future discussion).

The Managing Director’s summings-up of Executive Board discussions thus play a central role in the Fund’s decision-making processes, accentuating the importance of issues surrounding his\(^2\) selection and accountability (see Section 2.3). The accuracy and objectivity of the summings-up is therefore critical. However, the IEO evaluation of the Fund’s governance found that “minority views are not covered consistently” in summings-up, and that 80% of all Executive Directors found them “sometimes’ or ‘often’ vague and/or contradictory” (IEO, 2008a, para 48, p14), while one of the two Executive Directors from low-income countries was dissatisfied with their accuracy (IEO, 2008b, para 12, p23).

Not only is there no mechanism to ensure the accountability of individual Directors to the members whose votes they cast – there is also no effective mechanism to hold the Executive Board as a whole accountable, even for its implementation of its own decisions. The IEO investigation found that the majority of the Fund’s Executive Directors found mechanisms for holding the Executive Board accountable at any point of time.

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1. Voting power analysis considers all possible combinations of votes on a random basis, and assesses the proportion of cases in which a particular country’s vote could be decisive to the outcome.
2. A woman has yet to be appointed to – or even proposed as a candidate for – the position of Managing Director.
accountable “inadequate or nonexistent”, while another quarter considered that they were “not used sufficiently” (IEO, 2008a, para 23, p8).

In consequence, critical Board decisions, establishing guidelines for future policies and actions, have simply not been implemented. Guidelines endorsed by the Board in 2001 for future selection of the Managing Director, for example have not formed the basis for the three subsequent selection processes. (See Sections 1.3 and 2.6.) Neither have guidelines on streamlining conditionality, approved by the Board in 2002, been implemented in subsequent programmes: a recent review by the Fund’s Independent Evaluation Office found no statistically significant reduction in the number of structural conditions attached to loans since the guidelines were approved (IEO, 2008a, para 22, p8). Moreover, the 2002 conditionality guidelines replaced a previous version approved in 1979, which had itself been “increasingly ignored by the staff in response to external pressures and to the views of some senior Fund officials” (Bui, 2003c, p 68). This failure reflects on the Board as much as the staff and management, as the Board approves every IMF programme.

The Executive Board’s failure to comply with guidelines it has itself established and authorised, in central areas both of its governance and of its policies and operations – in the latter case for a period of decades – clearly demonstrates the absence of any effective mechanism to hold the Board to account for its decisions.

The accountability of the Board is further undermined by its complete lack of transparency. The proceedings of the Executive Board are confidential - while transcripts are made for internal use, they are not made publicly available. The Managing Director’s summing up of the discussion is released; but this does little to increase transparency, as it does not allow the positions of individual Directors to be identified, rather using coded language to refer to positions taken by “a Director”, “a few Directors”, “some Directors”, “many Directors”, “most Directors” “nearly all Directors”, etc. Uniquely, summings-up use specific language (“the view is held that...”) to identify a position taken by the US (Chelsky, 2008, footnote 24 p13, citing IMF, 1983) – highlighting the US Director’s unique ability to veto major policy decisions. These terms were deliberately not defined even to the Board members until 1983 in the interests of “constructive ambiguity” (Chelsky, 2008, para 21, p13) and do not appear to have been publicly available until 2008.

Even with this information, it remains impossible for anyone other than those in government who are directly involved (if they receive reports on Board discussions) to ascertain how his or her country’s votes were effectively “cast” in the Executive Board, except in the case of the US, where it takes an isolated position. This applies even in countries which appoint their own Executive Directors. Attempts in the UK, for example, to secure access to the interventions of the UK Executive Director (which are normally written in advance, amended as required during the course of discussion, and read verbatim at Board meetings) under Freedom of Information legislation were rejected on the grounds that the Director is an official of the IMF and not a civil servant, and therefore excluded from the legislation.

1.3 The Managing Director and Staff

The Managing Director plays a central role in the Fund’s governance, combining the role of chair of the Executive Board with that of heading the Fund’s management. In the former role, he determines what decisions are presented to the Board for their approval, and approves all papers presented to the Board as a basis for these decisions, as well as deciding the outcome of meetings on the basis of interventions in the Board (Section 1.2). As head of management, he issues guidelines for the conduct of Fund operations, appoints senior staff (who in turn appoint staff on lower tiers), and represents the pinnacle of the chain of accountability of staff and management.

This makes the accountability of the Managing Director critical to the whole governance structure – especially given the exclusive and non-transparent process for selection (Section 2.6). However, the mechanisms for holding the IMF’s management and staff accountable are seriously inadequate and ineffective. The IEO’s recent evaluation of the Fund’s system of governance described the accountability framework for the Managing Director as being “of no greater practical use” than that for the Board” (IEO,
2008a, para 24, p8). It found no agreed standards or adequate mechanisms to hold the Fund accountable, and "no adequate oversight of financial management and conflict of interest" (IEO, 2008a, para 22, p8). These failings are clearly demonstrated by the example of non-compliance with conditionality guidelines since 1979 (Section 1.2).

In the absence of any effective mechanisms to ensure that the MD is accountable either to the membership as a whole or even to the Executive Board (whose accountability to the membership, as discussed above, is at best very limited), there is no obvious obstacle (beyond moral pressure and the MD's personal integrity) to the IMF becoming little more than a personal fiefdom.

Even now, IMF staffing appears to indicate a considerable Northern bias in staff selection. In April 2003, 81% (26 of 32) of senior officials in the Fund were nationals of developed countries, the proportion having declined only fractionally (from 26 of 31, or 84%) over the previous seven years (Buira, 2003b). This greatly exceeds even the developed countries’ disproportionate share of voting power (61%). There is also a conspicuous predominance among the staff at all levels, irrespective of their geographical origins, of those who have received part or all of their tertiary education in developed, and more specifically Anglo-Saxon, countries, especially the US, the UK and Canada. Ariel Buira, a former IMF Executive Director, sees this simultaneously as a product, at least partly, of "the control of the major developed countries over the governance of [the IMF and World Bank], their policies, their operations, their resources and their appointment of high officials", and as an important factor underlying the "remarkable homogeneity in economic thought" within the Fund (Buira, 2003a, pp 4, 233).

Staff accountability beyond the Managing Director is undermined by the absence of clear and transparent operational procedures. With one exception (on the implementation of the 2001 conditionality guidelines), the IMF does not have formal operational procedures, but rather

informal procedures in the form of memoranda and notes from management to the staff that provide guidance in how they should conduct IMF operations. These existing procedures are informal in the sense that they have not been presented for board approval and are not contained in a publicly available document.

(Bradlow, 2005)

Thus accountability of staff is in practice entirely to the Managing Director. In the absence of effective mechanisms for the accountability of the MD to the Executive Board, or of the Board to the membership, this is seriously problematic.

1.4 External Mechanisms

While the IMF is a specialised agency of the United Nations system, the terms of its agreement with the UN gives the latter only an advisory role, and the Fund is under no obligation to follow its advice. Neither is the Fund apparently subject to the jurisdiction of international judicial processes under civil or criminal law (the International Court of Justice and the International Criminal Court).

The Fund’s General Counsel has also argued strongly that the Fund is not subject to international legal instruments such as human rights law (Gianviti, 2002), although the Special Rapporteur on the Right to Food, takes a contrary view. While reserving judgment on the obligations of the Fund as an institution under human rights law for a future decision, he argues that the Fund’s member governments have a negative obligation to ensure, through their role in the Fund’s decision-making, that its activities do not violate human rights law.

However, this view is subject to two serious limitations. First, to the extent that Executive Director’s are officials of the Fund, and not representatives of member countries (as Gianviti also argues), the obligations of governments as members of the Fund are limited to their role in the Board of Governors, which in practice plays a minimal role in the Fund’s decision-making. (See Sections 1.1 and 1.2.)
Second, given this apparent conflict of interpretations of international law as it relates to the IMF, the absence of any international judicial process means that there is no means (at least outside the IMF) of establishing a definitive ruling on the issue. In the absence of such a resolution, the Fund can continue to act in accordance with its own interpretation.

1.5 Conclusion

The IMF’s governance structure is almost entirely devoid of any effective mechanisms to ensure either its accountability to its membership or its compliance with international law or even with its own Articles of Agreement.

- The infrequency, limited duration and nature of meetings of the Board of Governors makes it little more than a rubber-stamp for Executive Board decisions.
- The great majority of the membership has no effective say in the selection of the Executive Directors who control their votes, no control over how those votes are used, and no means of removing “their” Director in any circumstances.
- Even if each Director’s vote were determined by voting weights within his/her constituency, more than one-fifth of the membership would have no possibility of influencing the outcome of any decision.
- A majority of Executive Directors consider the mechanisms for ensuring the Board’s accountability “inadequate or nonexistent”, and a further quarter that they are “not used sufficiently”.
- The absence of formal votes and confidentiality of Board discussion makes it impossible for those outside government to ascertain how “their” votes have effectively been used.
- The outcome of Board meetings is decided by the Managing Director, on the basis of “summings-up” whose quality and accuracy has been challenged by Executive Directors.
- The Fund’s operations are driven mainly by “informal procedures” directed by the management, without Board approval.
- Even where guidelines are approved by the Board, there is no mechanism for ensuring that staff, management, or even the Board itself comply with them; and guidelines in key areas of both policy and governance have not been implemented, in some cases for decades.
- The Managing Director is effectively selected by a small minority of the membership on the basis of a 65-year-old “tradition” which has no legal basis, despite the Board’s adoption of guidelines for a more transparent and inclusive process.
- There are no effective mechanisms for ensuring the accountability of the Managing Director, once appointed, either to the Executive Board or to the membership.
- The only effective accountability mechanism in the Fund is that linking the staff to the management, and ultimately to the Managing Director.
- Although a specialised agency of the United Nations, the terms of the Fund’s agreement with the UN give the latter only a purely advisory role.
- The Fund does not consider itself to be bound by international law, including human rights conventions; and there are no legal or judicial mechanisms to ensure its compliance with such law.

In the absence of any effective mechanisms to ensure the accountability of the staff, management, or even Executive Directors either to the membership as a whole or to any more accountable institution or judicial authority, the Fund is, in a very real sense a law unto itself.
2. Disenfranchising the Majority: the Mechanisms of Developed Country Dominance in the IMF

While there are virtually no effective mechanisms to ensure the Fund’s accountability to its members, they clearly exert some influence on the formulation and implementation (or non-implementation) of policies, principally through the Executive Board. However, such influence is strongly skewed towards the high-income countries, and particularly the largest developed countries, while middle- and (especially) low-income countries are almost entirely excluded.

Developed countries in practice exercise disproportionate influence in other institutions of global governance such as the WTO (Jawara and Kwa, 2004). However, the IMF and World Bank are unique in having decision-making structures which formally institutionalise such inequality of power through voting systems which give countries power in proportion to their weight in the global economy – that is, which operate on the basis of one-dollar-one-vote rather than the democratic principles of one-person-or-one-member-one-vote. This is compounded by a system which allows a sub-set of (Western European) developed countries to select the Managing Director, given his central role in the Fund’s governance and his lack of accountability, and by a number of less explicit and visible mechanisms which further disempower developing countries and their Directors.

2.1 Economically-Weighted Voting

Each country’s vote in the IMF is made up of two elements. One element – the basic vote – is equal for all countries. The other is proportional to the county's IMF Quota, which also determines its financial contribution to the Fund and the amount of the Fund’s resources on which it may draw. In principle, each country's quota is calculated in accordance with its relative importance in the global economy, which in turn varies broadly in line with total income (although the actual relationship is less precise, as discussed below).

While agreement was reached in 2006 to triple the basic vote, it will still represent only 6% of total votes – barely half its level when the Fund was founded in 1944 (11.3%), and still further below its peak of nearly 16% in the late 1950s (Bryant, 2008, Figure 2).3 Thus, while the basic vote increases the votes of the smallest member countries significantly, votes will otherwise remain broadly proportional to economic weights, and economic weighting will continue to play a substantially larger role than when the Fund was established.

While quotas are notionally the product of a technical exercise to assess each country’s relative weight in the global economy, the process is in practice largely political in nature. This is demonstrated by the outcomes of successive Quota reviews, which have given rise to exact equality of votes between certain members with particularly large quotas with implausible frequency. The 2003 Quota Review, for example, resulted in the UK and France each having exactly 107,635 votes, and Canada and China each having exactly 63,942 votes, while the previous review in 1998 similarly gave Germany and Japan identical votes. This was not an extraordinary mathematical coincidence, but the result of keenly negotiated political compromises.

While Quota arrangements and voting weights have been reformed since 2006, these reforms leave the principle of economically-weighted voting wholly intact, and almost entirely unchallenged; and the overall impact of the outcome is very limited. Even the very minor adjustment in the balance of voting power between developed and developing countries which will occur as a result of the reform arises partly because some developed countries have agreed to forgo part (but only part) of the quota increases to which they would otherwise have been eligible (IMF, 2008).

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3 In the Fund’s early years, total basic votes were increased by the Fund’s growing membership, while quotas were not increased.
Figure 1: Shares in IMF Membership, Population and Votes: “Advanced Economies” cf Low-Income Countries

Membership

Population

Votes – Before Reform

Votes – After Reform

"Advanced"  Low-Income
Figure 2: Shares in IMF Membership, Population and Votes: United States cf Sub-Saharan Africa

<table>
<thead>
<tr>
<th>Membership</th>
<th>Population</th>
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<tbody>
<tr>
<td>Votes – Before Reform</td>
<td>Votes – After Reform</td>
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- **US**: Red
- **SSA**: Blue
- **Others**: Grey
The reforms thus leave the essentially plutocratic nature of the IMF’s voting system virtually untouched. Even after complete implementation of the reforms\(^4\), the “advanced economies”\(^5\), will retain a substantial majority of the votes (55.2%, compared with 60.6% before 2006) – nearly three times their share of the membership and more than three times their share of world population, The US alone – a single member, with just 4.5% of the world population – retains 16.5% of the vote (down from 17.0%), enough to veto any major policy decision, including any further changes in voting weights, or limits to the use of the veto itself.

The use of such vetoes is by no means unknown:

Special majorities have been used to block decisions supported by an absolute majority of votes on increases in the size of the IMF (that is, quota increases) and on SDR allocations, sales of the IMF’s vast gold holdings and policies on access to IMF resources. The special-majority requirement has had the effect of inhibiting the discussion of even the important and difficult issues.

(Buira, 2003d, p18)

By comparison, low-income countries, which account for 18.6% of the membership and 11.7% of world population, have only 4.5% of the vote (increased from 4.0%, the increase in basic votes more than offsetting a reduction in quotas). Sub-Saharan Africa, already seriously under-represented relative to its share of the membership (25.5%) and of world population (12.5%), actually lost voting share as a result of the reforms, falling from 6.0% to 5.7%, as a 20% relative reduction in their quotas outweighed the benefits of increased basic votes (IMF, undated.) (See Figures 1 and 2.) Perversely, a major reason for the reduction in Sub-Saharan Africa’s vote, despite the benefits of increased basic votes, is their very weak economic performance over most of the last 30 years. This is itself attributable in large measure to the failings of the IMF’s response to the debt problems of low-income countries in the 1980s and 1990s, which in turn may be seen as arising from the under-representation (see Sections 3.2 and 4).

The egregious effects of the weighted voting system may also be seen in comparisons between individual high- and low-income countries. Thus Iceland (population 0.3 million) and Luxembourg (population 0.5 million) have more votes than Ethiopia and Bangladesh respectively, with 300 times their population (87 million and 150 million).

### 2.2 Asymmetric Accountability

As noted in Section 1.2, the IMF maintains that Executive Directors are not representatives of member countries, but officials of the Fund, whose responsibility is to protect and promote the interests of the Fund itself, and not to represent the interests of views of the countries whose votes they control in the Executive Board. Together with the (associated) absence of any mechanisms to ensure elected Directors’ accountability to their constituents, and their at best limited role in the Director’s selection (except for the country designated to make the appointment by the constituency’s particular convention), this means that countries in multi-member constituencies – the vast majority of the membership – and especially those which do not have their own Executive Director, have no effective means of ensuring that their views are expressed in the Board.

This gives rise to a major asymmetry. While the five appointed Directors have a similar legal status, in practice they generally receive (and follow) instructions from their governments on what they should say ahead of each Board meeting. The US Director has been subject to Congressional policy mandates and directed votes since 1945, requiring support or opposition to particular policies, and blanket opposition to any loans to certain countries. In 2003, there were some 67 such mandates in operation (Eggers et al, 2005). Appointed Directors may also be removed at the sole discretion of the government which

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\(^4\) At the time of writing (January 2012), the reforms agreed in 2010 have not been fully implemented.

\(^5\) Western Europe and high-income countries in Central Europe, the US, Canada, Australia, New Zealand, Japan, Korea, Singapore and Israel (Nielsen, 2011, Table 4).
appointed them; and they are generally career civil servants who will be dependent on their governments after ceasing to be Executive Directors.

This represents a major asymmetry in the Fund’s accountability as between developed and developing country governments, as all the appointed Executive Directors are appointed by developed country governments (and members of the G8), and they account for together 38.4% of the votes. (The position of the three Directors representing single-country constituencies, which account for 9.5% of the votes is more ambiguous.) It is noteworthy that this asymmetry is much more marked than when the Fund was established, when the five members entitled to appoint Directors by virtue of having the largest initial Quotas were the five Permanent Members of the United Nations Security Council – the US, the UK, France, the USSR and China.

There is also some evidence that developing country Directors are further disenfranchised by the absence of formal voting, and the reliance on the Managing Director’s summings-up to determine the outcome of meetings. The IEO’s finding that “minority views are not covered consistently” (IEO, 2008a, para 48, p14) is lent particular significance in this context by the fact that any position taken by low- and middle-income country Directors, even if unanimous, is by definition a “minority view” in terms of voting power unless it also commands substantial support among Directors from high-income countries. This is further underlined by the dissatisfaction of one of the two low-income Directors from low-income countries with the overall accuracy of summings-up (IEO, 2008b, para 12, p23). (See Section 1.2.)

### 2.3 The Constituency System

The under-representation of developing countries is further exacerbated by the inability of Executive Directors to split their votes, as many developing countries are in constituencies which also include developed countries – and their relative voting power within these constituencies is diminished by the weighted voting systems. This is the more important because (notwithstanding the lack of elected Directors to their constituents), in practice “the Director’s position will normally reflect that of his [sic] own country or the majority of the votes in his constituency” (Buira, 2003d, p17). In all but one of these “mixed” constituencies (the sole exception being that including Spain, Venezuela and Mexico), high-income countries have both the largest single vote and an absolute majority of the total constituency votes, in three cases exceeding 90% of the total (Rustomjee, 2005).

<Member countries can choose which constituency they wish to belong to. However, it seems likely that the choice by some developing countries to join constituencies dominated by one or more developed countries reflects a desire to have an influential voice to speak on country-specific issues such as IMF programmes which impact on them directly, rather than a Director who will reflect their views on broader policy issues, where their influence will in any case be at best very limited.)

Under their current constituency arrangements, six of the eight “mixed” constituencies are permanently represented by a Director from a developed country, the others rotating between Spain, Mexico and Venezuela, and between Australia and Korea. The latter rotation was introduced only in 2004 (Woods and Lombardi, 2006), after Korea became a high-income country and joined the OECD. While Directors for “mixed” constituencies do on occasions “break ranks” and support a developing country position in the Fund, “the large bulk of [such cases] occur in regard to the details of country-specific programmes, and not in respect of policy issues; and almost never by means of a collective shift in vote by all mixed constituencies” (Rustomjee, 2005).

Of the 41 IMF members found by Leech and Leech (2003) to be wholly disenfranchised by the constituency system even if Directors’ positions were determined by (weighted) voting among their constituents (Section 1.2), no fewer than 38 are developing countries, the only developed countries being Portugal, Ireland and Greece.
2.4 Composition of Decision-Making and Advisory Bodies

The composition of the Executive Board broadly reflects the weighted voting system, but is compounded further by the constituency system. At the time of writing (January 2013), high-income countries account for 14 of the 24 Directors, casting 71.2% of the votes, and upper-middle-income countries for a further six Directors, casting 17.8% of the votes. Only four of the 24 Executive Directors are from low- and lower-middle-income countries, and together controlling just 10.8% of the votes, despite accounting for 48% of the world population, thus account for only one-quarter of Executive Directors and control only 14.6% of the votes. Thus, even a unanimous stance by all the Directors from low- and lower-middle-income countries is insufficient either to counter the vote of the US Director, or to prevent a major policy change.

It is only in the case of the two Sub-Saharan African constituencies, and in one case only because of their unique policy of rotating the Directorship among all their members, that low-income countries are represented on the Board at all: if these rotation systems resulted in both seats being held by middle-income countries, low-income countries would be wholly absent from the Fund’s main decision-making body.

The skewed composition of the Executive Boards also pervades other decision-making bodies in the Bank and Fund, whose membership is based on it. For example:

- the IMFC includes (in January 2013) the IMF Governors of fourteen of the richest 23 countries (in terms of gross national income per capita), but only two of the poorest 90, seven of the nine low- and middle-income countries on the Committee also being among the nine developing countries included in the G20;

- the eight members of the Fund Working Group to Review the Process for Selection of the Managing Director included four from developed countries (Japan, Canada, Australia and Germany), and three from upper-middle-income countries (Russia, Venezuela and South Africa), but only one from a lower-middle-income country (Egypt), and none from low-income countries.

2.5 Other Constraints on Developing Country Directors

A further asymmetry in the Fund’s accountability to developing (and especially low-income) countries compared with developed countries arises from the disadvantaged position of the Executive Directors representing the former in relation to the IMF Management. Since they also play a major role in the negotiation of IMF programmes for countries in their constituencies – which is generally a much more direct concern than broader policy issues – maintaining good relations with the IMF’s staff and management is essential; and this can seriously compromise their ability to challenge the Fund’s management and staff.

As Ariel Buira – himself a former Mexican Executive Director to the IMF – has observed:

Not wishing to diminish their own effectiveness in securing financial support for the countries they represent often means [developing country] directors will not challenge or antagonise staff, much less management, on whose judgement and goodwill their countries have to rely.... Indeed, directors who try to exercise their supervisory role run the risk that the staff or management complain about them to their authorities at the time financial support is negotiated, giving rise to a particularly delicate situation for directors from third countries, since the confidence of the authorities in them may be undermined.

(Buir{	extregistered}a, 2003a, p232)

This observation was confirmed by the recent IEO inquiry into the Fund’s governance system, which found evidence of a “chilling effect” that deters Directors and their authorities – especially those from low-income countries – from challenging Management and staff views for fear of negative repercussions. IEO surveys show that one-third of the authorities and 36 percent of Board
members believed that they can criticize staff and Management without fear of repercussions “rarely” or “only on some issues.” This opinion is most pronounced among authorities and Directors from low-income countries: as many as 56 and 67 percent of them, respectively, felt they can freely criticize staff “rarely” or “only on some issues”.

(IEO, 2008a, para 28, p8)

The role of Executive Directors in programme negotiations and IMF economic reviews of their constituents further disadvantages them by imposing a vastly greater workload on them than on developed country Directors (Rustomjee, 2005). Not only do they generally represent many more countries (in some cases more than 20), but many more of these countries have IMF programmes, requiring a considerable amount of work for the Director concerned and his/her staff, in the initial negotiation of the programme, subsequent reviews, and renegotiation if the programme is unsuccessful.

Together with the much more limited technical support they can call on from the governments in their constituencies, this enormous workload seriously limits their ability to contribute substantially to policy discussions. According to Buira,

those Directors each representing 20 countries or more are barely able to attend to the copious amounts of bilateral business with the IMF of the countries they represent.... This provides little time to devote to the consideration of systemic policy issues.

(Buira, 2003a, p233)

Since the two constituencies with 20 or more members are those comprising Sub-Saharan African countries (reflecting their very small voting shares) – and, as noted above, they are the only constituencies ever represented by low-income countries – this represents a systematic (and discriminatory) exclusion both of the continent and of low-income countries from effective participation in the Fund’s policy on policy and systemic issues.

The time constraints on developing country Directors are compounded by shortcomings in the provision to the Board of information essential to their discussions: 45% of all Executive Directors told a survey conducted on behalf of the IEO that the information they received was “often late” or “usually not adequate” (IEO, 2008b, Question 7, p73).

The combination of very small votes, serious time constraints and often markedly different interests among constituents renders it almost impossible for developing country Directors to undertake the networking, moral suasion and analysis necessary to build alliances on particular issues sufficient to affect the outcomes (Rustomjee, 2005; Woods and Lombardi, 2006). By contrast, established institutional and quasi-institutional arrangements among developed countries – notably the G7 and to a lesser extent the European Union – allow close collaboration and coordination among blocks accounting for large total shares of the vote. All G7 countries have permanent places on the Executive Board (five having the right to appoint their own Directors), with 46.1% of the votes. EU countries currently make up one-third of the Board, with 37.5% of the vote. Together, G7 and EU Directors account for 63.9% of the vote. By comparison, the ten Directors from low- and middle-income countries (who include the six with the smallest votes) account for only 26.6% of the votes.

2.6 Selection of the Managing Director

As noted in Section 1.3, the Managing Director plays a central role in the decision-making of the IMF, as both head of its management structure and chair of the Executive Board. This makes the selection of the MD critical – particularly given the limited accountability of the incumbent once appointed.

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6 There are no countries from outside the region in either constituency, and Ghana is the only Sub-Saharan country not in these constituencies.

7 It should be noted that this figure depends on whether Spain, Venezuela or Mexico holds the position of Director in the constituency they share.
When the IMF and World Bank were established in 1944, an informal arrangement was adopted whereby the United States would select the President of the World Bank, and the (Western) European members would select the Managing Director of the IMF. While this “tradition” (as it is euphemistically described) has no formal status or legal basis, and both appointments must be approved by the relevant Executive Board, it has always been observed in both institutions.

In 2001, a joint committee of the Executive Boards of the IMF and World Bank developed guidelines for the selection of the IMF Managing Director and the World Bank President (The Bank Working Group to Review the Process for Selection of the President and The Fund Working Group to Review the Process for Selection of the Managing Director, 2001), which both Executive Boards “endorsed… as guidelines for future selections”; but these have not been followed in two subsequent selection processes in each institution.

2.7 Conclusion

Decision-making in the IMF is strongly and systematically skewed towards the developed countries, both explicitly through the voting system and through a number of less formal and indirect processes, giving them almost absolute control over the institution, although they represent a small minority both of the membership and of the world population, and are much less affected by the Fund’s policies and activities.

- The economically weighted voting system gives the developed countries a substantial majority of the votes, and three times the total vote of all low- and lower-middle income countries, which represent the majority both of the membership and of the world population.
- The US alone has a veto on all major policy decisions, whereas all the low-income countries, voting together, would have less than one-third of the votes required.
- Five developed countries are entitled to appoint Directors, giving them effective control over 38.4% of the votes, while developing countries and smaller developed countries have “elected” Directors who are not accountable to them.
- Developing countries are further disenfranchised by a constituency system in which many are represented by developed country Directors over whose positions on policy issues they have little influence.
- Low- and lower-middle-income countries are systematically under-represented on the Executive Board and other decision-making and advisory bodies.
- The presence of even a single Director from the low-income country on the Board is now dependent on the rotation of the Directorship in the two Sub-Saharan constituencies.
- The independence of developing country Directors is compromised by their dependence on the goodwill of the staff and management for the negotiation of programmes.
- The ability of Directors from most developing countries, and especially low-income countries and Sub-Saharan Africa, to engage effectively on policy issues is further reduced by heavy workloads on their constituents’ bilateral relations with the Fund, compounded by inadequacies in Board documentation.

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8 http://www.imf.org/external/spring/2001/imfc/select.htm; http://go.worldbank.org/VDK7USYK40. It is noteworthy, however, that the identically-worded official summings-up of both Board discussions stated that “This endorsement does not constitute a formal decision of Executive Directors adopting the specific recommendations in the Report”; and that the report itself still appears to exist only as a draft.

9 While subsequent selection processes in the IMF have allowed the Board to consider more than one candidate; but it fell far short of the Joint Committee’s recommendations, and the preferred candidate of the Western European members was once again appointed on both occasions (Mahdi, 2011).
There are serious constraints on collaboration and coordination among developing country Directors, which is essential to their influence on policy decisions – particularly in view of their limited voting power.

The Managing Director, who plays a central role in the Fund’s decision-making, and has very limited accountability once appointed, is effectively selected by Western European governments. The result is a system which gives almost complete power to a rich minority of the membership of an institution whose activities impact overwhelmingly on the poor majority. Given the considerable role of the IMF in national policy-making in many developing countries over the last 30 years, it is by no means unreasonable to interpret this as an institutionalisation of neo-colonialism.

3. Why it Matters: IMF Governance, Decisions and Consequences

Although the IMF is responsible for maintaining the stability of the global financial system, it has in fact presided over a massive increase in the frequency of financial crises since the late 1970s (Cornia et al, 2006, Figure 3, p28), many of which have had major economic and human impacts in the countries affected. (See Section 4.) Until the 1980s, the occurrence of major international financial crises was remarkably regular, such crises coming at approximately 50-year intervals. In the last 30 years, by contrast, there have been three major crises (the 1980s debt crisis, the Asian crisis of the late 1990s, and current financial crisis), interspersed with lesser widespread, but nonetheless serious crises, notably in Mexico and Argentina.

This increased frequency of crises suggests a serious failure of the IMF in crisis prevention; and their considerable economic and human impacts raises major questions about the appropriateness and effectiveness of its response. Moreover, its failings in both these respects can, to a considerable extent, be traced to decisions taken (or in some cases avoided) in the Executive Board, and to the influence of the Fund’s governance structures on these decisions.

3.1 The 1980s Debt Crisis of Middle-Income Countries: Prioritising Creditor Interests

The 1980s debt crises of low- and middle-income countries arose as a result of debts incurred by developing countries as a result of the “recycling” through syndicated loans by commercial banks of high-income oil exporters’ surpluses. This recycling was actively promoted by the developed countries, as a means of staving off the adjustment that would otherwise be required in oil-importing developing countries without themselves (directly or indirectly) providing additional official financing. It provided them with the additional benefit of providing a very large and (in the short term) highly profitable new market for their commercial banks.

Increasingly through the 1970s, the IMF warned about the dangers of the increasing indebtedness of many developing countries. However, given the strong interest of the developed country governments in the continuation of the “recycling” process, the Fund was unable to act to provide more appropriate financing mechanisms.

After the 1973 oil price increase, the “recycling” process appeared sustainable, largely because the expansionary policy response of the major developed countries resulted in a combination of low or negative real interest rates and rapidly increasing world prices for commodity exports. After 1979, however, this was no longer the case: the developed countries adopted a contractionary response to the further increase in oil prices, prioritising inflation control over the maintenance of economic growth; and this led to historically high real interest rates and a rapid reversal of commodity price increases. Coupled with already high levels of indebtedness and the major increase in the borrowing needs of oil importing countries as a result of the oil price rise, further borrowing became unsustainable, and the burden of adjustment required to reduce it to sustainable levels became economically, socially and politically
The need for an alternative, and the inevitability of a crisis without such an alternative, was clear.

Despite the imminent crisis, however, the dominance of creditor interests in the Fund rendered it powerless either to temper or modify the developed countries’ response, or to establish more sustainable financing mechanisms which might have allowed the crisis to be averted. Consequently, the Fund could do no more than watch as the crisis unfolded, until it became systemic with the Mexican crisis of 1982 and its aftermath.

The response to the crisis after the 1982 watershed was also dictated by the developed countries. While debt problems were clearly much more severe, both economically and in their human impacts, in low-income countries (especially in Sub-Saharan Africa), the emphasis was overwhelmingly on middle-income countries (primarily in Latin America). This was a clear reflection of the much greater financial interests of developed country commercial banks in the large middle-income debtors. Equally, the emphasis until 1989 was exclusively on the provision of new loans for middle-income countries and not the reduction of debts, and (throughout) on the principle of voluntary participation in financing packages by commercial banks, subject to no more than moral suasion.

As well as the overall nature of the response to the debt crisis, there is also evidence that the scale and conditionality of IMF lending to different countries was influenced by creditors’ financial and/or geopolitical interests: Oatley and Yackee (2000) found US banking exposure to be a significant determinant of the size of IMF Stand-By Arrangements (SBAs) and Extended Financing Facility (EFF) loans, which they interpret as indicating that the Fund is used as a means of bailing out US commercial creditors in the event of debt and financial crisis, and as making debt and financial crises more likely by encouraging commercial creditors to lend more recklessly. The result, they argue is “a pattern in which an international institution raises private sector incomes at the expense of aggregate social welfare” (op. cit., p30).

The problem is not with the particular rules that guide IMF lending decisions, for IMF guidelines during the 1980s and 1990s hardly explicitly encouraged bailouts. Instead, as Keynes recognized in 1944, the problem lies in how political influence shapes the application of rules. And here is the root problem: as long as American financial institutions are important international lenders and as long as American policymakers retain disproportionate influence over IMF lending decisions, the implicit guarantee the IMF provides to American financial institutions is likely to persist. To reduce moral hazard in the contemporary international financial system, therefore, American influence in the IMF will likely have to be reduced.

(op. cit., p29)

The exclusive emphasis on rescheduling and new lending was maintained until 1989, even though it was apparent from an early stage that the problem in many middle-income countries was one of insolvency rather than illiquidity, clearly implying a need for debt cancellation. This had the effect of enabling commercial creditors to acknowledge their losses through bad debt provisions much more slowly than was justified, while extending and intensifying the impact of the crisis on debtor countries.

As the Meltzer Commission observes:

It soon became apparent [after 1982] that the growing debt burdens of Latin America’s debtor countries were not sustainable, regardless of whether countries followed or ignored IMF advice. IMF assistance postponed debt reduction. The postponement of the inevitable debt write-down and restructuring was costly. It delayed renegotiation of the debt and the resumption of capital inflows, investment and economic growth. As a result the decline in living standards was deeper and more prolonged.

(Meltzer, 2000, p26)

Even within the context of a liquidity response, the inadequacy of the IMF’s resources, as a result of the failure to increase quotas in line with growth of global financial markets, meant that IMF lending represented only a relatively small fraction of the borrowing needs of the countries affected, during both the 1980s debt crisis. This required extensive financing packages of rescheduling, refinancing and new
lending to be assembled from other multilateral, bilateral and (in the case of the 1980s debt crisis) commercial sources. (As discussed in Section 3.6, this issue was not addressed, and arose again still more severely in the 1990s financial crisis.) Coupled with the very limited effectiveness of the Fund’s “catalytic” role in harnessing resources from other sources, this resulted in a substantial increase in the extent and pace of macroeconomic adjustment required, contributing to frequent programme failures, and further increasing economic and social costs in debtor countries (Buira, 2003d).

The IMF also played a very limited role in determining the balance between financing and adjustment. While it provided indicative figures to creditors on countries’ needs for rescheduling and new lending, actual amounts were limited to what they were will to provide, effectively allowing the Paris Club of government creditors – a forum in which only creditors were represented, whose meetings were entirely secret, and which had no legal status – and the commercial creditors to dictate the balance between financing and adjustment. While governments showed some willingness to reschedule and provide new loans, and generally acted relatively quickly, commercial banks were much more reluctant.

In response to the inadequacy of financial resources to debtors, the US Administration launched the Baker Initiative, which provided guidelines on the aggregate amounts that should be provided by government, multilateral and commercial creditors – but only to the 15 largest debtors, almost all of which were middle-income countries. However, this remained entirely voluntary, and net commercial lending to these countries remained virtually zero.

A major reason for delays in commercial rescheduling and new lending was the need for a “critical mass” (typically 95%) of a country’s commercial creditors, which in some cases numbered more than 500, to approve the terms agreed by a steering committee of banks before the agreement could come into effect. Many smaller creditors, themselves in a more of less serious financial position and under no real pressure to do so, understandably saw little reason to hasten a process which would result in an increase in their exposure to a problem debtor. This was seriously disruptive, as the viability of IMF programmes often depended on the implementation of such agreements.

To overcome this problem, the IMF’s Executive Board in 1987 discussed the possibility of using the Fund’s power, under Article VIII.2(b) of its Articles of Agreement, to approve the accumulation of arrears up to the amount indicated by financing packages agreed in principle but not yet implemented. This would have allowed debtors to receive the financial benefits of the package before its implementation, by giving it protection against legal action by creditors to recover the payments. (Article VIII.2(b) has the effect of making contracts inconsistent with exchange restrictions imposed by an IMF member unenforceable in the courts of any member country.) However, this proposal – possibly the only substantial proposal to deal with the debt crisis initiated by or through the IMF in the 1980s – was abandoned following vociferous opposition from the US Director. (As discussed in Section 3.6, this scenario was repeated in 1999, in the context of the Asian crisis.)

While proposals for debt reduction proliferated in official, academic and even commercial finance circles, it was only in 1989 that a proposal put forward to address the liquidity problems of middle-income debtors received serious consideration – the Brady Initiative. This proposed that commercial banks should negotiate a set of alternative mechanisms for reducing their claims on each (major middle-income) debtor, typically including reduction in the face value of debt, reduction in interest rates to a fixed rate, conversion to equity investments in (usually privatised) companies, and so-called debt-for-nature swaps. Each bank should then be permitted to choose whichever option or combination of options best suited it, on a wholly voluntary basis. Again, significantly, this proposal came, not from the IMF, but from the US administration.

The voluntary approach, which, at the insistence of the developed countries, was central to the treatment of commercial debt throughout the debt crisis, seriously undermined the effectiveness of the Brady Initiative. At a time of declining interest rates, the “low” fixed interest rates agreed in the initial negotiations

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10 While the IMF Executive Board discussed one such proposal (put forward by the Indian and Mexican Executive Directors) in 1987, this was accorded the status only of a Board seminar. Despite positive responses from a number of developing country Directors, there was no further discussion.
looked much higher by the time banks selected their options; and consequently a large proportion of commercial debt was dealt with in this way. Even in 1992, an analysis of the first five countries to negotiate Brady deals found that only two – Mexico and Costa Rica (which avoided the interest reduction option), but not Venezuela, the Philippines or Uruguay – benefited from a significant reduction in their debts in present value terms (Berthélemy and Lensink, 1992). Further reductions in interest rates subsequent to this analysis, and their continuation at levels well below those envisaged at the time of the Brady deals, together with the effects of “recapture” clauses increasing debt-service payments in the event of favourable outcomes in other economic variables will inevitably have reduced net benefits still further, and almost certainly led to Brady deals actually increasing the present value of total debt of some of the countries concerned.

The Brady Initiative deals struck over the following years nonetheless marked the end of the 1980s debt crisis for major (and some smaller) middle-income countries – not because they actually reduced the burden of debt, but because the perception that they would do so restored market confidence, attracting greatly increased capital inflows of other kinds, notably foreign direct and equity investment. These capital inflows off-set the continued debt-service payments from a balance of payments perspective.

However, this left two issues unresolved. Firstly, the new capital inflows in most cases went predominantly to the private, not the public sector, and thus did not resolve the debt problem from a fiscal perspective. Faced with continued high debt-service payments without a corresponding capital flow to the public sector, many countries had to borrow domestically to finance the resulting budget deficits. Combined with much higher real interest rates on domestic than on foreign borrowing, this resulted in rapidly escalating domestic debts and tightening fiscal constraints (most notably in Brazil).

Secondly, the new capital inflows – despite often sanguine assessments of their long-term financial effects – gave rise to increasing non-debt liabilities, in many cases of a highly volatile nature. These in turn contributed to subsequent financial crises, most conspicuously the Mexican crisis of 1993, but also the contagion to Latin American countries of the 1997 Asian crisis.

3.2 Low-Income Country Debt: the 30-year Crisis

Like that of the middle-income countries (Section 3.1), the debt crisis of the low-income countries arose primarily from increased borrowing in response to the massive increases in energy prices arising from the oil price shocks of the 1970s (energy, and particularly oil, forming a major component of imports for most low-income countries). This was compounded following the second oil price shock in 1979 by the combination of a dramatic increase in international interest rates on the substantial debts which had been accumulated, together with a collapse of commodity export prices as a result of slower demand growth, coupled (in the 1980s) with increasing efforts to increase supply as a means of generating additional foreign exchange to meet much higher debt-servicing costs.

While much attention has been devoted to the perceived profligacy of the governments of low-income country governments in borrowing to meet higher energy import costs rather than reducing other imports through adjustment at an earlier stage, the emergence of debt problems in low-income countries may at least equally be attributed to the failure of the developed countries to fulfil their aid commitments during this period.

In 1970, the United Nations General Assembly passed a resolution that (inter alia)

Each economically advanced country will progressively increase its official development assistance to the developing countries and will exert its best efforts to reach a minimum net amount of 0.7% of its gross national product at market prices by the middle of the Decade [ie 1975].

(United Nations, 1970)

Despite frequent repetitions of this commitment, aid has remained consistently below half this level ever since, and well below the lowest annual figure for the 1960s (0.39%, in 1969), let alone the peak (0.57% in 1961). Had the terms of the Resolution been fulfilled, this would have increased aid by around 160%
between 1970 and 1975 (and further thereafter, in line with developed countries’ subsequent economic growth), providing an additional $15.5bn per year by 1975, rising to nearly $28bn by 1980. This would have averted the need for borrowing, and hence the accumulation of debts, and the debt crisis. In the event, however, aid remained broadly flat as a proportion of donors’ national income, until the early 1990s, when it declined. (See Figure 3.)

![Figure 3: OECD Countries: Total Official Development Assistance, 1960-2010 (% of GNP)](image)

Even had the commitment been fulfilled only after the crisis became general in the early 1980s, this would have provided sufficient additional financing to resolve the crisis in at most a few years: the total debt of Sub-Saharan Africa, the worst-affected region, was $60.9bn at end-1980 in nominal terms (that is, not adjusted for below-market interest rates), rising probably to around $80bn in 1982. This is approximately equal to the region’s pro rata share in the total shortfall of aid from the 0.7% target in 1983-5.

In the absence of governance structures which strongly and systematically skew decision-making towards the interests of the developed countries, it seems likely that the IMF would have placed as much weight on the financial commitments of developed countries as to the macroeconomic policies of developing countries from 1970 onwards, and at least possible that would have developed in such a way as to ensure a similar degree of influence in this regard. Had this been the case, both the severity and the duration of the low-income countries debt crisis could have been substantially reduced.

As well as its inability to act effectively to avert the crisis, the IMF’s response to the crisis as it unfolded was also seriously inadequate, and in some respects arguably inappropriate. Only after the Brady Initiative in 1989 did the IMF seriously turn its attention to the severe debt problems which had been ravaging many low-income countries, especially in Sub-Saharan Africa, for the previous decade. As in the case of middle-income countries (Section 3.1), the IMF took an essentially passive role, designing adjustment programmes according to the financing made available voluntarily from other sources. Given the predominance of official creditors in the debts of most low-income countries, this had the effect of shifting the effective locus of decision-making on the balance between financing, debt reduction and adjustment from the IMF to the Paris Club – an entirely non-transparent and unaccountable forum, with (at the time) no formal status, in which only the developed countries were represented. Thus Callaghy

11 Requests by some other countries (notably Russia and Brazil) to be included even in Paris Club discussions of debt rescheduling for countries of which they were substantial creditors, let alone in “Methodology” (policy) discussions, met with strenuous resistance from established members, on the grounds that, as developing countries,
(2002, p v) identifies as one of the “striking innovations” brought by the HIPC Initiative in 1996 “quietly shifting the center of gravity of the debt regime from the Paris Club to the IMF and the World Bank”.

This abdication by the IMF of a major part of its mandated role as a global institution in relation to the debt crisis of low-income countries until the mid-1990s is a clear reflection of its governance structure. In effect, the developed countries were able to use their majority voting power in the IMF to divert decision-making on the debt crisis into a body in which they had exclusive control, and whose nebulous and non-transparent nature seriously limited the potential for advocacy by other governments or civil society.

Coupled with the refusal by the IMF and the World Bank to countenance cancellation of their own debts, this meant that the availability of debt reduction – essential to deal with what was clearly a solvency crisis – was left entirely in the hands of the Paris Club. Not only did this leave control over the sole means of dealing with the crisis exclusively in the hands of the creditors, but the Paris Club’s principle of consensus meant that the terms available were limited to those considered acceptable by the most reluctant country willing to block such a consensus (generally the US or Japan).

The result was that measures with the potential to improve solvency were (until 1994) limited to the cancellation of debt-service payments by a specified percentage, as they fell due, the country concerned having to return to the Paris Club to request such cancellations at regular (initially annual) intervals. While the percentage was progressively increased, the limitation of such measures to debt-service cancellation had a minimal effect either on solvency or on the debt overhang.

Until the introduction of the Structural Adjustment Facility (SAF) in 1986, the IMF’s own financial contribution was essentially limited to providing new loans at non-concessional interest rates. Not only were these loans seriously inadequate to meet countries’ financing needs, making programmes critically dependent on (voluntary) rescheduling and new financing from creditors, but their non-concessional nature compounded insolvency problems, extending and intensifying the crisis. They were also conditional on policies which were of questionable economic benefits and came at a considerable human cost in terms of poverty and health (Section 4).

In recognition of the inappropriateness of non-concessional lending to insolvent countries, the IMF introduced the Structural Adjustment Facility (SAF) in 1986, as a means of allowing the IMF to impose policy conditions without lending its own resources on unaffordable terms (instead lending on funds provided by creditor countries at concessional rates). However, the size of the SAF remained very limited relative to borrowers’ financial needs even after the introduction of the Enhanced Structural Adjustment Facility (ESAF) in 1987, being constrained by creditors’ willingness to provide funds. The terms were also considerably less concessional than the World Bank’s routine lending to low-income countries through the International Development Administration (IDA).

The IMF only took a proactive role in dealing with the debt crisis in the mid-1990s, with the advent of the Highly-Indebted Poor Countries (HIPC) Initiative. This represented an important turning point in the crisis. Even then, however, the driving force was not pressure from developing countries within the Fund, as might be expected in a functional system of global governance, but advocacy by (primarily Northern) civil society for debt cancellation, most notably from the Jubilee 2000 campaign; and it was the World Bank which took the lead, often against resistance or even active opposition from the IMF, informally enlisting support from civil society activists to exert pressure on the Fund and developed country governments for concessions.

The HIPC Initiative belatedly embodied three key principles whose need had been increasingly apparent for more than a decade. It adopted a comprehensive approach to the debts of low-income countries (though providing some protection to debts to multilateral institutions); it allowed the reduction of the stock of debt, and not only of debt-service payments as they fell due; and it aimed (in principle) to reduce debts they might at some time in the future wish to avail themselves of Paris Club rescheduling; and that this, combined with the principle of precedent in Paris Club decision-making, gave rise to a potential conflict of interest.
to a level defined as sustainable, rather than to reduce debt-service payments by a specified percentage considered acceptable by the most reluctant creditor.

However, the HIPC Initiative had two serious shortcomings. First, the sustainability criteria used were essentially arbitrary, and based (at least notionally) on the level of debt which would allow countries to meet their remaining debt-service obligations, rather than with reference to the continuing economic effects or human costs of debt.

In practice, however, the criteria were largely political in nature, and defined largely by the overall amount of debt cancellation the developed countries were willing to concede at the time (estimated at the time at $5.6bn), reflecting their dominant role in the formulation of the Initiative. This was modified by the geopolitical considerations, as demonstrated by the addition of a fiscal criterion to the originally proposed export criterion. This was added at the insistence of France, in order to allow Cote d'Ivoire to benefit; but it was subject to a number of other (essentially arbitrary) conditions, whose effect was to exclude all but seven other countries, in order to limit the additional cost.

Second, qualification for stock-of-debt cancellation under the HIPC Initiative required a track record of six years of successful implementation of IMF- and World Bank-supported structural adjustment programmes. Besides extending the imposition of economic policies of questionable merit and effectiveness (see below), this imposed serious delays before the benefits were felt, during which time the effects of continued over-indebtedness continued to sap the economy and impose further human costs. Even though some (limited) credit was allowed for structural adjustment over the previous 15 years, the result was that, by the end of 2003, only seven countries had qualified for full debt reduction (IDA/IMF, 2011). These built-in delays, included explicitly to maintain policy conditionality, unnecessarily extended and greatly added to the human cost of the debt crisis.

More substantial debt reduction was eventually provided under the Millennium Debt Relief Initiative of 2005; and, by the second half of 2011, creditor governments, the World Bank and the African Development Bank had provided debt reduction totalling $59.5bn to 29 Sub-Saharan countries under the HIPC Initiative and the MDRI in present value terms (that is, adjusted to reflect below-market interest rates) (IDA/IMF, 2011). The IMF had provided a further debt reduction of $7.3bn without such adjustment (World Bank, 2012). By comparison, the present value of the remaining debt for these countries was $52.9 billion at end-2010, implying an effective debt reduction in a range of 53-56%. The absolute reduction for the entire continent amounts to around one third of that now available to Greece.

While it was a marked improvement on what had gone before, the limitations and shortcomings of the HIPC Initiative and the inordinate delay in the agreement and delivery of debt cancellation reflect a serious failure of by the IMF – and the system of global economic governance more broadly – to deal with the debt crisis effectively or equitably. This failure is further underlined by the process which brought it about.

According to Callaghy (2002), in a review commissioned by the World Bank’s Operations Evaluation Department:

The rise of HIPC, given previous practice, brought striking and important, but ultimately limited change, to the sovereign debt regime for a specifically designated group of countries for which more uniform rules were developed.... These changes were brought about by a confluence of factors: (1) a slow and uneven learning by bilateral and multilateral creditors about the existence of group of states that were not benefiting much from structural adjustment, while greatly increasing their debt loads in the process; (2) the growing pressure, influence, and effectiveness of a new set of actors in international economic governance – networks of NGOs that believed the existing situation for these states was unjust and untenable and had new ideas and proposals of their own, plus a social movement to back them up; (3) the influence of a group of economists, both inside and outside creditor institutions, who provided knowledge, advice, and technical understanding on this issue; (4) the leadership of a group of small creditor states and eventually several members of the G-7; (5) new leadership at the World Bank that was more open to new ideas; (6) evolving views
of the major creditor countries; and (7) eventually tough negotiation between all major creditor countries and institutions. The outcome was not inevitable, however: a change in one of [sic] two of these factors, such as different G-7 governments or leadership at the Bank, might have led to quite a different outcome.

(Callaghy, 2002, p v)

While it is not Callaghy’s main thesis or concern, this represents a searing condemnation of the system of global economic governance. Measures which were clearly necessary to deal with a crisis affecting a substantial proportion of the world population, and which was clearly having a severe human impact, were adopted only a decade after they were widely recognised as necessary. Even then, they were only partially adopted; and even this was critically dependent on a largely fortuitous conjunction of favourable circumstances. Moreover, while the role of NGOs and individuals was positive (NGO pressure and proposals, and support from sympathetic economists), that of the IMF and major creditor countries (“slow and uneven learning”, “evolving views” and “leadership… eventually”) primarily represented the eventual lifting of the constraints they had imposed upon progress since the beginning of the crisis.

Ultimately, the HIPC Initiative had limited effectiveness in achieving even its own stated objectives.

The original aim of HIPC was to provide debt sustainability that would help to remove a major constraint on investment and growth and be a spur to further adjustment, in part by galvanizing increased private external investment. It is not at all clear that this is happening or would happen even if HIPC were broadened significantly.

(Callaghy, 2002, p vi)

As the inadequacy of the debt reduction afforded by the HIPC Initiative (highlighted by civil society at the time of its approval) became increasingly inescapable, its terms were improved somewhat, first through the Enhanced HIPC Initiative in 1999, and then, as the continued inadequacy of the available debt cancellation became more widely recognised, through the Multilateral Debt Reduction Initiative (MDRI) in 2005.

Again, however, the process by which these initiatives were developed – not through the IMF, but in parallel with it – is indicative of the Fund’s failure. Both initiatives came from G7/8 Summits (in 1999 and 2005), as a result of intense pressure on G7 governments from civil society (Jubilee 2000, at the culmination of its campaign, and Make Poverty History/Global Campaign Against Poverty respectively).

The debt crisis of the low-income countries has been the most spectacular failure of the IMF, and of global economic governance as a whole. For more than a quarter of a century, it was clear that many low-income countries were insolvent; that their insolvency was seriously undermining their economies and imposing considerable human costs (Section 4); and that the situation could only be resolved by providing sufficient debt cancellation to restore solvency, remove the debt overhang, and release resources for sustainable human development. It was equally clear throughout this period that the response was consistently too little too late; that its inadequacy caused the situation to deteriorate further, requiring further (but still inadequate) concessions; and that this was a direct result of the exclusive control of creditors over the process. This control, in turn, is directly attributable to the governance structure of the IMF, which gives the developed countries a majority of the votes, and low-income debtors a fraction of the votes required even to block major policy changes.

The direct connection between the IMF’s skewed governance arrangements and the serious inadequacy of debt relief to low-income countries is amply demonstrated by the contrast with the response to the current financial crisis in the Euro Zone. While it took some 30 years for Sub-Saharan Africa to achieve debt cancellation in the order of just over $50bn or 50% in present value terms, Greece had secured a deal to reduce its €197bn debt to bondholders by an estimated 70-75% ($180-195bn, or around 40% of total public sector debt) on an equivalent basis within two years of starting its first IMF programme (IMF, 2012b, Box 1, p45). Moreover, just six months later, the Managing Director of the IMF was publicly calling for still further debt cancellation (Christie and Rastello, 2012) – an extraordinary contrast with the position of the IMF’s senior management on the debts of low-income countries throughout the 1980s and early
1990s. There can be little question that this reflects the very different interests of the developed countries in the Euro Zone crisis, and their dominant role in the IMF’s decision-making (including the selection of the Managing Director).

3.3 Policy Conditionality

Policy conditionality has been a central component of the debt strategy and the response to subsequent crises, and particularly of the IMF’s role in it. A central principle throughout the last 30 years has been the conditionality, not only of access to the IMF’s own resources, but also of financing and debt relief from other sources, on macroeconomic and policy conditions embodied in IMF programmes. As noted above, urgently needed debt cancellation under the HIPC Initiative was even deliberately delayed for many years, explicitly as a means of maintaining such conditionality.

The scope and coverage of conditionality has increased considerably over the last 30 years. The average number of conditions in IMF programmes increased from about six in the 1970s to ten in the 1980s (Kapur and Webb, 2000), continuing to increase through the 1990s. The programmes for Indonesia, Korea and Thailand in the wake of the 1997 Asian financial crisis, each included between 73 and 140 conditions, and that for Turkey in 2002 included 42 (Buira, 2003d).

This is partly a reflection of the extension of IMF conditionality since the early 1980s well beyond what Buira (2003d) describes as "the Fund's core areas of competence" (fiscal, monetary and exchange rate policies), to a much broader range of structural policy issues, such as trade and investment liberalisation, market deregulation and privatisation since the 1980s, and to governance issues since the mid-1990s, particularly in low-income countries and “transition” economies. The average number of structural conditions per programme year increased from two in 1987 to a peak of 16 in 1997, falling back only to 12 in 1999 (Buira, 2003d, Figure 1, p61).

The Meltzer Commission found that

    detailed conditionality (often including dozens of conditions) has burdened IMF programs in recent years, and made such programs unwieldy, highly conflictive, time consuming to negotiate, and often ineffectual.

    (Meltzer, 2000).

The increasing level and detail of IMF conditionality has been associated with a corresponding increase in incidence of programme failure since the mid-1980s. While the majority of programmes were at least 75% disbursed consistently between 1973 and 1987, the proportion fell to just 27.6% in 1993-7, while fewer than one in six programmes were fully disbursed (Buira, 2003d, Table 2). By triggering conditions in other loan, grant and debt relief agreements, non-disbursement may lead to an abrupt reduction in financing giving rise to serious economic dislocation.

If the conditions of an IMF programme are not fulfilled, this requires a waiver, which must be approved by the Executive Board, to allow the corresponding disbursement to be made. If the programme is considered seriously off-track, it may be revised, or a new programme may be negotiated. The proliferation of conditions greatly increases the likelihood that one or more of them will not be fulfilled. Even where disbursements go ahead, this may create considerable uncertainty among domestic and foreign investors, with substantial adverse effects, and potentially increasing still further the likelihood of conditions not being fulfilled.

This problem is particularly acute because the political (and in some cases even the economic) feasibility of such programmes has often appeared questionable. (Assessment of the political feasibility of reforms does not appear to have played a significant role in the design of IMF programmes; and the basis of programmes on the financing made available voluntarily by creditors has imposed a pace of adjustment which may well be untenable.)
Additional uncertainty also arises from the inter-dependence of IMF and World Bank programmes: while World Bank structural adjustment programmes were formally conditional on continued compliance with IMF programmes, fulfilment of the IMF performance criteria depended on receipt of the projected financing from other sources, of which (policy-conditional) World Bank lending was a major part.

The motivation for policy conditionality is open to different interpretations.

At its best, conditionality is a form of paternalism, by which a country is guided to act in its own best interests rather like a parent or teacher guiding a child…. At its worst, conditionality implies the imposition on a country of an alien policy agenda that contains elements not necessary for overcoming the payments crisis, and which may have been suggested by a third party, but may not be in the country's best interest.

(Buiria, 2003d, p60)

There is no question, however, that the maintenance and extension long after its problematic nature became clear represents an imposition by developed countries on developing countries, by virtue of their dominance of IMF decision-making. As Rustomjee observes,

Despite clear and mounting evidence over many years that programme conditionality had become excessive, irrelevant and counter-productive to the interests of the programmes themselves, decisions approved by the Executive Board continued, over several years, to favour excessive conditionality in IMF-supported programmes. This was despite repeated and well-argued objections by the debtor countries in the board, both to the IMF’s policy on conditionality, and to the manner in which it was being implemented.

(Rustomjee, 2005)

These problems were recognised in the guidelines approved by the Executive Board in 2002, which were intended to streamline conditionality; but these guidelines have been effectively ignored by the staff, the management and the Executive Board itself in subsequent programmes. (See Section 1.2.)

3.4 Structural Adjustment

The problems associated with the proliferation of policy conditions might (but would by no means necessarily) have been a price worth paying if the policies on which financing was conditional were appropriate and beneficial. In practice, however, this is highly questionable. The policy conditions attached to IMF- (and World Bank-) supported adjustment programmes have been widely criticised as ineffective economically and/or socially and environmentally damaging since the mid-1980s, and particularly since the publication of UNICEF’s Adjustment with a Human Face in 1987 (Cornia et al, 1987; 1988). At best, the adjustment process has taken far longer and brought much more limited benefits than was originally envisaged.

Besides issues regarding the policy content and design of adjustment programmes, this is also at least partly a consequence of the financial constraints arising from the debt crisis and the IMF’s handling of it. In a major report on Sub-Saharan Africa, published 1981, the World Bank had warned that:

without greatly increased aid there will be insufficient foreign exchange and investment funds available to allow full structural adjustment…. [M]any African countries could not undertake reform without additional assistance.

(World Bank, 1981, p123)

Specifically, successful structural adjustment was predicated on a doubling of real aid by 1990, equivalent to an increase of 51% in real terms. Optimistic as this might sound, it was significantly less than the increase of 126% in the previous decade (or the increase of 128% achieved in 2000-06). Fulfilling the terms of the 1970 UNGA Resolution by 1990 (that is, 15 years later than originally envisaged) would have resulted in an increase in total aid in the order of 150% between 1970 and 1980, and hence a similar increase in aid to Sub-Saharan Africa even without any geographical reorientation. (As noted in Section
3.2, had the resolution been fulfilled in the original timeframe, the debt crisis of low-income countries could almost certainly have been averted.)

In the event, however, per capita aid increased only by 15.6% between 1980 and 1990, one-third of the projected amount, giving rise to an annual shortfall of $8.4bn relative to the World Bank’s projections; and even this modest increase was reversed in the 1990s, leaving per capita aid 27.3% lower in 2000 in real terms than in 1980 (OECD, 2012).

In addition to this very considerable shortfall in aid receipts, the debt crisis – because of the chronic inadequacy of financing and debt cancellation, as discussed in Section 3.2 – resulted in a considerable reduction of net financial inflows from borrowing, resulting in a $13.6bn reduction in net transfers on debt (new borrowing minus debt-service payments) from the 1976-80 average by 1990. By 2000, interest payments exceeded new borrowing, and the combined inflow from aid and new loans (net of interest) had fallen by 70% by 2000. Thereafter, net inflows recovered dramatically, rising from $10bn in 2000 to $56bn in 2010. (See Figure 4.)

Equally, rather than modifying their policy prescriptions substantially in the face of widespread criticism and mounting concerns about their limited economic benefits and mounting human costs, the IMF (and more particularly the World Bank) responded primarily with a robust public defence of their policies, based almost exclusively on studies they have themselves conducted or commissioned. While some significant modifications were made (eg relative, though not absolute, protection of public spending on health and education and the parallel implementation of limited social safety net programmes), these were essentially peripheral to the overall design of programmes.

Rustomjee highlights the connection between failings of the Fund’s governance structure and poor programme design:

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inefficient representation arrangements are leading to less than optimal decision making based on a failure to adequately understand the needs of the majority of the institution's clients. The inadequate understanding leads to instances of poor policy and program design; and ultimately in some instances policy and program failure. (Rustomjee, 2005)

More specifically,

The absence of adequate voice [of Sub-Saharan countries in the IMF Board] has meant a direct and unnecessary cost to the Fund's reputation and its ability to succeed in its own objectives of reducing poverty [sic], by not adequately understanding and incorporating the views of a significant share of the membership, on a set of issues which in fact affects a majority of the IMF's member countries and on which these countries have the most incisive and direct experience and knowledge. (Rustomjee, 2005)

3.5 Poverty Reduction Strategy Papers – a “Lost Opportunity”

As well as building on the HIPC Initiative, the Enhanced HIPC Initiative also saw the replacement of conventional IMF programmes in low-income countries with Poverty Reduction Strategy Papers, which were to be developed through a country-led process of engagement with civil society organisations. However, while the PRSP process in some respects represented a significant step forwards, like the HIPC Initiative it has in practice fallen far short of its objectives.

The extent of civil society involvement in PRSP processes has often been often limited; the policy options available to governments were severely constrained by the prior and separate negotiation with the IMF of a Medium-Term Expenditure Framework; the policy guidance offered to countries (notably from the World Bank’s PRSP “Source Book”) remained strongly oriented towards neoliberal policy prescriptions; and debtor countries, under considerable pressure to produce PRSPs quickly (in order to start the long process towards urgently needed debt cancellation) but with severe capacity constraints, in some cases engaged for the purpose the same consultants who had previously helped to design structural adjustment programmes. Analyses of the policy contents of PRSPs have thus found marked similarities with the structural adjustment programmes they replaced (Stewart and Wang, 2003; World Development Movement, 2005).

As of 2001, countries eligible for the HIPC Initiative accounted for 2.29% of the votes in the IMF, and other PRSP-eligible countries for a further 3.67% (Evans and Finnemore, 2001), so that their combined voting weight was little more than one-third of the US, and less than that of either Germany or Japan. As the account of Cyrus Rustomjee, one of the two Executive Directors from Sub-Saharan Africa at the time, makes clear, the failings of the PRSP process are, in large measure, directly attributable to this under-representation.

Lowest-income developing countries raised significant objections, on grounds of both procedure and practice, when the PRSP initiative was launched in December 1999. These included the lack of institutional capacity in their countries to incorporate the new PRSP process and the consequent need for longer timeframes for implementation, the need for PRSPs to be conducted over a period longer than three years, the need for stronger support in linking PRSP objectives to the budget process in member countries, and the need for countries emerging from conflict to be provided with other means to develop poverty-reducing strategies which would nonetheless enable them to qualify for HIPC debt relief at an earlier stage. (Rustomjee, 2005)

Other concerns included the lack of fiscal resources to give effect to the recommendations which PRSPs were likely to generate; [and] diversion of policy-makers’ efforts from other crucial activities, including their macroeconomic reform efforts and their efforts to secure bilateral and multilateral debt relief.
However, although some objections were incorporated at the inception of the PRSP, the bulk of these were overridden because of the overwhelmingly superior voting power of the creditor group. The consequence was that in almost all instances, the PRSP process encountered precisely the challenges and difficulties which developing countries and particularly the [PRSP-eligible] members had predicted.

(Rustomjee, 2005)

While some of these problems were recognised and corrected when the PRSP process was reviewed in 2002, others remain unresolved, and "The three-year delay... resulted in serious and unnecessary capacity constraints on low-income country members". The PRSP-eligible group continues to object to some aspects of the design of PRGF programmes. Given the current distribution of voting power and particularly of board representation, these members consider that there is little prospect of redress by relying on their direct experience of the flaws in PRGF programme design, because of their limited voice at the table.

(Rustomjee, 2005)

The Commission on Social Determinants of Health found the PRSP process to have been "something of a missed opportunity" (CSDH, 2008, p128). It is clear from Rustomjee’s account, as a central participant in the decision-making process leading to its establishment, that this is in large part attributable to the failings of the IMF’s governance structure.

3.6 The Asian Financial Crisis: the Wrong Response

In the case of the Asian financial crisis beginning in 1997 (and the subsequent contagion to other regions), the IMF failed conspicuously not only to prevent the crisis, but even to anticipate it. Moreover, IMF policies over the previous decade arguably contributed to creating the conditions which gave rise to the crisis. As noted above, the private sector liabilities generated by financial flows following the Brady Initiative – the primary reason for its success in resolving the balance of payments problems arising from the debt crisis given the minimal reduction it debt-service payments it afforded – were a significant factor underlying the crises in some Latin American countries as a result of “contagion” from the Asian crisis. More generally, the Fund’s proactive promotion of capital account liberalisation is widely seen as having been a major contributory factor. This view is supported by the notably greater ability of countries such as China, Malaysia and Chile, which had resisted such policies, to weather the financial storm.

The principle of capital account liberalisation was actively promoted in the Fund by some developed country governments, who, for some years prior to the crisis, had been seeking an amendment to the Fund’s Articles of Agreement to extend its mandate on exchange restrictions from current to capital account transactions. This is one part of a longer process through which some major developed country governments have sought to establish international rules which would limit the ability of governments to regulate international capital flows and particularly foreign investors.

The developed countries’ pursuit of this issue in the Fund followed their failure to achieve a Multilateral Agreement on Investment with similar effects through the OECD as a result of strenuous and effective opposition from Northern civil society. Efforts to promote the amendment to the Fund’s Articles subsided following the Asian crisis; but a variant was subsequently promoted as one of four “New Issues” promoted by the developed countries in the Doha Round of trade negotiations – a proposed WTO Agreement on Investment (Jawara and Kwa, 2004). While developing country opposition (again supported by civil society activism) succeeded in removing this from the Doha agenda, it has only been deferred until the next round of negotiations.

The Fund’s failure to anticipate the Asian crisis contributed to a serious failure to deal with it appropriately or effectively. The Fund’s response was widely criticised, such criticism focusing primarily on the policy
content of the adjustment programmes on which its financial support to affected countries was conditional. It was widely held that such policies – essentially similar to those applied in response to the 1980s debt crisis – were inappropriate in the context of a crisis of a fundamentally different nature, and with very different causes.

Further criticism was levelled at the inclusion in such programmes of policies clearly unrelated to the resolution of the country’s crisis, but which were long-standing issues in its bilateral commercial relations with one or more major creditor countries. (The conditionality of Korea’s IMF programme on liberalising imports of car parts, a major bone of contention with the US for several years previously, was a case in point.)

Such conspicuously creditor-driven policies were not a direct result of developed country domination of the Fund’s decision-making. Rather, they were included in programmes as a condition imposed by certain developed countries for providing the additional financial support necessary to make programmes viable, given constraints on the resources the Fund itself could make available. Nonetheless, this does reflect on the Fund’s governance in two ways.

First, while such policies do not appear to have been included in programmes at the instigation of developed country Directors, neither did the Board challenge their inclusion, as would seem appropriate given the highly questionable nature of their inclusion. It seems likely that the dominance of the developed countries in the Board is a major reason for this.

Secondly, and more importantly, the opportunity for developed countries to secure such conditions in IMF agreements arose from the need to assemble, in a very limited timeframe, financing packages which vastly exceeded the resources the Fund itself could make available. This inadequacy reflects a serious failure of IMF Quotas to keep pace with world GDP, or even inflation, let alone rapidly growing international capital flows (Buira, 2001). As a result, while the Fund was originally envisaged as itself providing the resources necessary to deal with financial crises itself, they became progressively more inadequate as the scale of crises increased.

By the time of the Asian crisis, the Fund could provide only a small fraction of the “rescue packages” required, and had to rely on assembling massive packages of bilateral and multilateral loans – although in this instance the Fund took a much more proactive role in assembling such packages. As well as requiring the inappropriate and abusive inclusion of irrelevant policy measures in IMF conditionality, the time taken to assemble such packages in a context of crises which entailed very considerable and very rapid (and, in the absence of capital controls, uncontrollable) haemorrhages of funds seriously undermined the effectiveness of the crisis response.

The Fund’s use of its existing financial mechanisms, as well of its established policy principles, in the Asian crisis was also arguably problematic. These mechanisms, based on the provision of loans to governments from (mostly) official sources were designed for, and appropriate to, crises arising from liquidity problems (though not solvency problems) arising from liabilities of the public sector largely (or at least partly) to the public sector. However, in the very different context of the Asian crisis, which arose from liabilities of the private sector to the private sector, dealing with the resulting balance of payments problems through the provision of loans from official sources to the government may be seen as resulting in a socialisation (transfer from the private to the public sector) of both liabilities and risks.

Both are seriously problematic: the socialisation of liabilities undermines the financial position of the public sector in the affected countries, diverting resources from social programmes and economic development to debt-servicing; and the use of public resources to relieve investors in high-risk investments (in part) of the costs when the related risks were realised gives rise to a potentially serious moral hazard problem, increasing the risk of future crises by encouraging similar investor behaviour in the future.

This is a further example of the Fund’s failure to respond appropriately to a problem which had already been highlighted by a previous crisis – in this case the Mexican financial crisis of 1993-4:
After the IMF, the U.S. Treasury, and the foreign creditors had been repaid, however, the Mexican taxpayer was left with the bill. The cost of the banking system bailout is currently estimated at roughly 20 percent of Mexico's annual GDP. Real income per capita in 1997, despite ups and downs, was no higher in 1997 than twenty years earlier. Real wages of the lowest paid workers, those receiving the minimum wage, have fallen 50% since 1985.

(Meltzer, 2000, p29)

A much more appropriate means of dealing with the Asian crisis (and the risk of similar crises in the future) would have been through a payments standstill – and there was considerable discussion of this option in the aftermath of the initial crisis. This prompted consideration of a variant of the Article VIII proposal abandoned in 1987 as a result of US opposition (see Section 3.1), the Board discussing an amendment of the Article to enforce payment standstills in 1999.

However, the proposal was again rejected. While “A number of Directors considered that the possibility of amending Article VIII, Section 2(b) so as to allow the Fund to sanction a temporary stay on creditor litigation warranted additional consideration…. [o]ther Directors… were not persuaded by the need for an amendment or for consideration of other similar approaches” (IMF, 1999, p xii). According to a senior IMF official:

There are a number of countries in our Board who are in favour of [modifying Article VIII 2b of the Fund's articles of agreement to allow the IMF to endorse a stay on payments]. There may even be a slight majority by voting power. However, the United States, among others, is quite opposed to it, on the grounds that it is not needed.... The idea of going to the US Congress with this proposal and expecting them to smile and agree is beyond my comprehension. So, I don’t think it is going to happen in the near future.

(Boorman, 2000)

Assuming that opposition to the proposal comes primarily from the developed countries, even the possibility of majority support in terms of weighted voting implies the support of a very considerable majority of the Fund’s membership – and the possibility, at least, that the necessary qualified majority (85%) might well have been achieved with a voting system consistent with democratic principles. This suggests that the impediment to an effective response to similar crises in the future arising from the Fund’s inability to enforce payments standstills, and the attendant human and economic costs, will be directly attributable to the undemocratic nature of the IMF’s current voting structure.

3.7 Skewed Lending Allocations: the IMF as an Instrument of US Foreign Policy?

The allocation of IMF resources according to political criteria is directly contrary to the explicit provisions its Articles of Agreement. However, as well as skewing of lending decisions in accordance with US financial interests (Section 3.1), there is also evidence that IMF lending decisions have been significantly affected by the geopolitical interests of the major developed country governments, particularly the US.

Thacker (1999) found that both movement towards, and to a lesser extent by proximity to, US positions on UN General Assembly resolutions identified by the US as “key votes” (on which they lobby proactively) were significant determinants of IMF lending in 1985-94, after controlling for economic variables13. Dreher and Jensen (2004) also find that the number of conditions included in IMF programmes are significantly affected by the borrowing country’s relationship with the US.

Andersen et al (2006) find that IMF lending is affected by the difference between voting patterns between “key votes” and other votes (on which the US does not lobby), which they interpret as a proxy for the political price paid by governments (implicitly to the US government) for IMF lending and other

13 Oatley and Yackee (2000) find the significance of proximity to US foreign policy to depend on the measure of bank exposure used. However, this may be a reflection of their use only of countries’ positions and not changes in position in their analytical specification.
concessions. They found this result to be valid for both 1985-94 and 1995-2000, except for lending under the Enhanced Structural Adjustment Facility (the predominant instrument for lending to low-income countries) in the latter period.

Two specific examples of this phenomenon are of particular note. The Meltzer Commission (Meltzer, 2000) demonstrates the role of G7 dominance of the IMF's decision-making in the extension and course of its role in the former Soviet Union in the 1990s.

Pressed by the United States and other industrial countries, the IMF undertook to advise and support the transformation of the former Soviet Union and its allies from socialist command and control to market economies with private ownership of the means of production and distribution. The IMF was ill-equipped for this task; it had no previous experience to guide it.

(Meltzer, 2000, p27)

The IMF's heavy financial support to Russia in the mid-1990s was supported enthusiastically by the G-7 governments, who sought to support Boris Yeltsin and the reform process in Russia. By using the IMF, the major donor members could supply aid without asking their legislatures to appropriate the money. Increasingly, concern about Russia's political stability---especially given its nuclear capabilities---underlay decisions to provide assistance. Aid continued even when the prospects for reform were bleak and there was little or no economic rationale for assistance.

(Meltzer, 2000, p32)

The essentially political basis of such support is demonstrated by the reversal of the process once the Russian government fell out of favour with the developed country governments. As debts mounted and economic policies promoted by the Fund failed to generate the anticipated benefits, a financial crisis ensued, and the IMF responded with a $20bn rescue programme. Again, however, the Fund's governance structure intervened:

The IMF suspended the program in late 1998 under pressure from the U.S. Congress and other critics, who viewed assistance to Russia's corrupt government as wasteful and counterproductive.

(Meltzer, 2000, pp32-3)

There is also evidence of the allocation IMF (and World Bank) lending in towards US allies in the Middle East. Harrigan et al (2006) undertake qualitative and quantitative analyses demonstrating the influence of US geopolitical objectives in the Middle East on IMF and World Bank lending to countries in the Middle East and North Africa. Their qualitative analysis finds "very little evidence of economic need" at the beginning of IMF lending (also a trigger for World Bank policy-based lending) in four out of six cases; but that a shift toward a pro-Western foreign policy, peace overtures to Israel, domestic political liberalization, and the often related challenge to the regime by Islamic opposition prompt an inflow of funds not just from the United States but also from the [World] Bank and [International Monetary] Fund.

(op. cit., p262)

These results are confirmed by their quantitative analysis.

3.8 Conclusion

The Fund has proved unable to prevent successive crises – even where, as in the 1980s, it appears to have anticipated them – resulting in a considerable increase in the frequency of such crises in the last 30 years as compared with the century before the Fund’s existence. Such crises have generally been at least partly attributable to failings in the Fund’s own policies (eg its promotion of capital account liberalisation) or its response to previous crises (eg the Brady Initiative), or its impotence to act in the face of opposition by major developed countries (eg the unsustainability of the “recycling” of oil surpluses in the 1980s, and the build-up of high risk assets in the US financial system in recent years). In the case of...
the debt crisis in low-income countries, it has presided over a severe crisis, with heavy economic and human costs for the countries affected for 25-30 years.

When crises have struck, the Fund’s responses have been inadequate or inappropriate. Its own resources have been increasingly inadequate to deal with crises, requiring it to play a “catalytic” role in securing funding from other resources; but, rather than playing a catalytic role in securing such funding, it has been essentially passive, allowing the pace of adjustment to be driven by the willingness of creditors to offer debt relief or lend new money. It has worsened solvency crises in low- and middle-income-countries by treating them initially as liquidity crises, and, in the former case by leaving the scale of debt cancellation to voluntary actions by creditors, despite their evident inadequacy. In the latter case, such voluntary debt cancellation appears to have allowed debt-servicing to resume, but at the expense of contributing to subsequent crises. The national policies promoted in response to both debt and financial crises have been widely criticised as ineffective or inappropriate; and the conditionality mechanisms used to enforce such policies have themselves undermined the effectiveness of crisis responses.

All of these failings can be more or less directly attributed to the Fund’s current governance structure, and particularly to an economically-weighted voting system which gives an overwhelming preponderance of power to creditors, and particularly the developed countries, while disempowering borrowing countries almost entirely. In the 1970s, it was unable to act to prevent or discourage the unsustainable accumulation of debts arising from the “recycling” process, which was actively promoted by the developed country governments, or to limit the impact of the latter’s response to the second oil price shock which was largely responsible for triggering the crisis.

In the 1980s, the Fund prioritised the debt problems of the middle-income countries, where the developed countries had a much greater financial stake to the near exclusion of a much more serious crisis in low-income countries, despite the far greater human impact of the latter. In the middle-income countries it followed the developed country governments in insisting on a voluntary approach to commercial creditors which seriously limited both new lending and debt reduction, greatly increasing the degree and pace of adjustment required to a level which undermined its viability and human impact, and gave rise to adverse long-term effects.

In relation to the low-income countries, the Fund largely abdicated its key role as arbiter of the balance between debt reduction, new financing and adjustment to the Paris Club – a wholly unaccountable and non-transparent forum in which only high-income countries were represented – from the late 1970s until the mid-1990s. Even then, it took a greater role only reluctantly and under considerable external pressure, leaving the World Bank to take the lead. Initiatives for debt reduction have come, neither from nor through the Fund, but from developed country governments through creditor-only fora (the Paris Club and the G7).

Through the 1990s, the developed countries were able to use their majority position to use the Fund to promote capital account liberalisation (although not to secure the amendment to the Articles of Agreement which was their ultimate objective). This is widely seen as having been an important contributory factor to the Asian crisis from 1997. However, the Fund’s positive disposition towards free capital flows appears to have prevented them from anticipating the crisis.

While the Fund took a greater leadership role in responding the Asian financial crisis (as compared with the 1980s debt crises), its effectiveness was seriously undermined by the inadequacy of its own resources (due to the inadequacy of successive Quota increases) and its failure to anticipate the crisis, or therefore to develop appropriate financial mechanisms or policy responses. Its resulting dependence on developed countries for additional financing also resulted in the addition of clearly unnecessary and commercially-driven policy conditions in programmes, contributing to a proliferation of conditionality which undermined programme effectiveness.

While it is unclear to what extent the Fund anticipated the current financial crisis, its ability to act effectively to pre-empt it was clearly compromised by the dominant position of the US, as the country whose policies caused it, in its decision-making. Its response to the crisis indicates a fundamental
contradiction in the policy responses it promotes in the major developed countries (“stimulation packages”) as compared with other countries in the current crisis, or developing countries in previous crises, where it promoted programmes whose basic principle was austerity. It has also arguably undermined the United Nations process to reform the global economic system in response to the crisis through its legitimisation of the G20 – an unaccountable, non-transparent and creditor-driven process, on which lower-middle-income countries are grossly under-represented, and from which low-income countries are wholly excluded.

As discussed in Section 4 below, these serious failings have given rise to very considerable human costs across much of the developing world. Moreover, the Fund’s role in undermining the UN process for reform of the global economic system – and its structural inability to deal objectively or effectively with central issues in the global economy due to its governance structure – limits the prospects for any improvement in the foreseeable future.

4. An Illustration of Health Impacts: Debt and Adjustment in Sub-Saharan Africa

Financial crises, and the responses to them have potentially important effects on employment, incomes, prices, public expenditure, taxation and access to credit; and these translate into health effects through impacts on food security and nutrition, living environments, working conditions, stress, behavioural risk factors, access to and quality of health services and education, etc. These impacts have been most conspicuous in the case of Sub-Saharan Africa, which is presented here as an illustration of the importance to health of the IMF’s role in relation to financial crises, and hence of the constraints its governance structures impose on its effectiveness in this regard.

4.1 Evolution of Health Outcome Indicators

The evolution of health outcome indicators in Sub-Saharan Africa closely mirror the sequence of developments in debt and adjustment outlined above, showing a dramatic slowdown in the rate of progress beginning from the onset of debt problems in the late 1970s, accelerating until the mid- to late 1990s, as the financial situation deteriorated and strict conditionality on structural adjustment programmes, then recovering as structural adjustment was superseded by poverty reduction strategies and more substantial debt cancellation became available.

While life expectancy increased at an average annual rate of nearly 0.4 years between 1960 and 1980 and of more than 0.4 years between 2000 and 2010, the annual increase was less than 0.1 years between 1980 and 2000, life expectancy actually declining between 1990 and 1995 (Figure 5). Under-five mortality rates followed a broadly similar trajectory, though with a less pronounced dip and a somewhat earlier recovery, falling by 0.9% in 1980-95, compared with average of 1.7% pa in the previous 15 years, and 2.2% pa in the following 15 years (Figure 6).

4.2 Evolution of Mediating Variables: Growth, Poverty and Health Expenditure

Clearly, the coincidence of timing between financial developments and health indicators in Sub-Saharan Africa over the last 50 years does not prove a causal connection. However, consideration of the evolution of intermediary variables – those affected by the debt crisis and affecting health – is strongly supportive of

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14 Except where otherwise indicated, data are either taken directly from, or are the author’s estimates based on data from, PovcalNet, the on-line tool for poverty measurement developed by the Development Research Group of the World Bank [http://iresearch.worldbank.org/PovcalNet/index.htm](http://iresearch.worldbank.org/PovcalNet/index.htm) (in the case of poverty and income distribution); and the World Development Indicators database ([http://databank.worldbank.org/data/home.aspx](http://databank.worldbank.org/data/home.aspx)) for all other indicators.
this interpretation; and consideration of other potentially important factors suggests that they cannot fully account for the observed pattern.

Sub-Saharan Africa’s economic growth performance closely mirrors both the evolution of its debt situation and trends in health outcome indicators (Figure 7). Having grown relatively strongly until the oil price crises of the 1970s, GDP per capita fell by more than one sixth from 1980 until 1994 (with a temporary stabilisation in 1984-90). The beginning of the recovery in 1994 coincides with the availability of stock-of-debt reduction; but the pre-oil crisis growth rate was regained only after 2002, as a significant number of countries became eligible for full debt reduction under the HIPC Initiative. It took 28 years, until 2005, for GDP per capita to regain its 1977 level.

Similarly, extreme poverty (based on the World Bank’s “$1.25-per-day” poverty line) rose from 51.4% in 1981 to 59.4% in 1993, thereafter declining only marginally until after 1999 (Figure 8). Only after 2002 did the rate of reduction of the proportion of households below the “$1.25-per-day” line reach 1% per annum;
and the increase in poverty between 1981 and 1993 had not been fully reversed even in 2005. (It should
be noted that the apparent reduction between 2005 and 2008 is distorted by the inadequate weight given
to basic food prices by the purchasing power parity methodology underlying these figures, since the
prices of key staples such as rice and maize approximately tripled during this period; and, to a lesser
extent, by a possible optimistic bias arising from the extrapolation of past trends (Woodward, 2010a,
pp16-18).)

In assessing the likely health impacts, it is important to take account of the initial level of incomes from
which these reductions took place: the poorest 10% had an initial (and final) average income of $0.29 per
day, falling to $0.24 per person per day in 1990-93. All of the poorest five deciles had incomes below
$1.25 per day throughout the period; and even the second “richest” decile had an income of only $3.09
per day in 1981 (falling to $2.59 in 1993, and recovering to $3.23 in 2008).

More detailed analysis of incomes by decile indicates that this pattern is replicated across the whole
income distribution. (See Figure 9.) Incomes fell consistently in the second to tenth income deciles
between 1981 and 1993 (data not being available for the highest decile), and, despite a subsequent
recovery, remained around the 1981 level in 2008. The 1981-93 decline was greatest for the poorest 30%
(18%, 17.5% and 17% for the poorest, second poorest and third poorest deciles respectively, compared
with 15.5-16.2% for higher income groups); and the incomes of the poorest 20% remained marginally
below their 1981 level in 2008 – even without taking account of the effect of much higher prices for basic
foods.

Even at the top of the income distribution, a reduction of around one-sixth in income might be expected to
have a significant adverse effect on health outcomes. For households in the lower deciles, a substantial
negative impact would seem inevitable. The median of estimated infant and child mortality rates at the
“$1-a-day” line at 1985 purchasing-power parity (the predecessor of, and broadly equivalent to, the
current “$1.25-per-day” line) in Sub-Saharan countries in the 1990s were around 100 and 150
respectively (Wagstaff, 2003); and cross-sectional country data on household income and infant mortality
show a clearly observable, and in some cases very steep, gradient below $4-a-day (Woodward, 2010a,
Figures 5-11).

The likelihood of substantial effects on health outcomes is further supported by Edward’s (2006) finding
that income had a significant effect on life expectancy below a threshold income level which he estimated
to be in a range of $2.90 and $4.20 per day at 1993 PPP. (This might be considered equivalent to around
$3.35-$4.85 at 2005 PPP (using the ratio between the poverty lines adopted by the World Bank on these
bases as a multiplier.) While Edward’s original article argues that this may not be applicable to Sub-Saharan Africa, the basis for this argument appears questionable (Woodward, 2010b, pp30-37).
While consistent historical data series for health expenditure are not readily available, the scale of the reduction is indicated by the World Bank’s 1994 Better Health in Africa study. Comparing real central government expenditure per capita since 1986 (up to the latest then available) with that in 1980-85, it found an increase of 35.3% in five “high expenditure” countries (Botswana, Lesotho, Mauritius, Swaziland and Zimbabwe), but reductions of 9.3% in 12 “medium expenditure countries” and of 9.1% in 8 “low expenditure” countries (World Bank, 1994). Since the first group is mainly made up of countries relatively unaffected by the debt crisis in this period, and accounts for only 6.4% of the total population of the three groups, this confirms the general view that public expenditure on health was reduced substantially in debt-affected countries in the 1980s.

Overall, there seems little doubt that the substantial increase in the incidence and depth of poverty, and major reductions in the incomes of those already in extreme poverty, accompanied by falling public expenditure on health, at least contributed to the observed slowdown in health improvement in the 1980s and early 1990s. Equally, while the attribution of causality as between the financial effects of the debt crisis and the policy content of adjustment programmes is problematic, there can be little doubt that the observed changes in incomes and expenditure patterns is in large part attributable to the combined effect of these two factors.

### 4.3 Effects of Confounding Variables

Clearly, other factors also have a substantial effect on health outcome indicators; and there were unquestionably other significant developments affecting health during this period. In particular, HIV/AIDS has clearly had a considerable impact on health outcomes in Sub-Saharan Africa. However, the scale and timing of the changes shown in Figures 5 and 6 appear inconsistent with this being more than a very partial explanation. Moreover, other confounding factors operate strongly in the opposite direction: major developments in health interventions in the 1980s – particularly mass vaccination campaigns and widespread use of oral rehydration therapy – are likely to have had a substantial positive effect, particularly under-five mortality.

HIV/AIDS is estimated to have caused 60,000 in a total of 3.9 million deaths, and 3 under-five deaths per 1,000 live births in Sub-Saharan Africa in 1990, increasing to 313,000 of 4.5 million deaths and 12 under-five deaths per 1,000 live births in 2001 (Lopez et al. 2006). Interpreting these, as an approximation, as fixed points on an exponential progression up to 2001 (shown by the striped columns in Figures 5 and 6), and assuming an average impact on lifespan of 30 years, would place the impact of HIV/AIDS in the order of one fifth to one quarter of the observed slowdown in health improvement between 1980 and 1995. While the annual rate of increase in life expectancy in 1990-95 was 0.42 years less than in 1960-80, the reduction attributable to HIV/AIDS on this basis was in the order of 0.1 years. Similarly, the reduction in the rate of improvement of under-five mortality attributable to HIV/AIDS in 1990-95 was 0.5 per 1,000 live births, compared with a reduction from the 1965-80 rate of 2.6.

The immunisation rate for diphtheria, pertussis and tetanus across Sub-Saharan Africa as a whole more than doubled, from 26.3% to 56.7% between 1984 and 1990 (falling back to 52.8% in 1995), clearly indicating a greater increase in this period than the cumulative historical increase until 1984.15

Similarly, the rapid increase in the use of oral rehydration therapy during the 1980s should have given rise to a considerable reduction in deaths from diarrhoea. Globally, the estimated proportion of episodes of diarrhoea treated with ORT increased to 12% in 1984, 30% in 1986, and 35% in 1989. By 1988-90, the figure for Sub-Saharan Africa was estimated at 43%, rising further to 64% by 1995-7 (Victora et al, 2000).

Increased vaccination and ORT should have been sufficient to accelerate the improvement of under-five mortality between 1980 and 1995, despite the adverse impact of HIV. The reduction in mortality from diarrhoea alone is more than sufficient to outweigh the effect of HIV on under-five mortality in 1990-95: interpolating an exponential trend between the 1990 and 2001 estimates, as for HIV/AIDS, implies a

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reduction of 5.5 deaths per 1,000 live births in 1990-95, more than double the increase associated with HIV/AIDS over the same period (2.6).

It should also be noted that increasing poverty and tight financial constraints on health systems and health facilities are themselves closely related to a number of factors strongly associated with the rapid spread of HIV, including, in the former case, commercial and quasi-commercial sex, in-country and cross-border migration (particularly of male heads of household) and reduced resistance due to under-nutrition; and, in the latter case, non-treatment of sexually-transmitted infections and re-use of contaminated syringes. Increasing mortality associated with the rapid spread of HIV/AIDS is thus likely to be at least partly associated with the combined effect of the debt crisis and adjustment programmes. (See, for example, Rowden, 2009; de Vogli and Birbeck, 2005).

Overall, therefore, it seems reasonable to conclude, as an approximation, that other developments in public health during the 1980s and early 1990s were at least sufficient to off-set that part of the impact of HIV/AIDS during this period which is not attributable to the effects of debt and structural adjustment.

4.4 Order of Magnitude of the Health Impact of Debt and Structural Adjustment

To estimate the order of magnitude of the health impact of the debt crisis and structural adjustment, Figures 10 and 11 compare the actual trajectories of under-five mortality rates and life expectancy in Sub-Saharan Africa with the counterfactual of a continuation of the average pre-1980 trend (which, it should be noted, includes both the often violent and disruptive advent of Independence for many countries and the period of economic stagnation following the first oil price crisis of 1973-4, both of which might be expected to have slowed progress in improving health outcomes). This suggests that average life expectancy was 5.8 years shorter in 2000 than if the rate of improvement achieved in 1960-80 (and resumed after 2005) had been sustained, in the order of one-third of this being attributable to direct effects of HIV/AIDS. The effect on the overall child mortality rate peaked at 18.6 per 1,000 live births in 1995, of which again around one-third may be attributable to HIV/AIDS.

Applying these differences in child mortality to numbers of births (from United Nations, 2011) suggests a cumulative total of around 8 million additional under-five deaths up to 2010. Even if only a fraction of this toll were attributable to the debt crisis, it would suggest a human cost measurable in millions of deaths among under-fives alone, and a shorter life expectancy measurable in years for a generation, in a continent of (now) some 850 million people.
### 5. Is IMF Governance Defensible? Countering the Counterarguments

#### 5.1 Parallels with the Corporate Sector

The most commonly heard defence of the IMF’s economically weighted voting system refers to the parallels with the corporate sector: that, as voting in a public company is proportional to shareholdings, so voting in the IMF is proportional to each country’s financial contributions. It is noteworthy in this context that the IEO review included corporate sector governance as one of its comparators, while conspicuously excluding public sector governance at the national level – although, of course, this review did not address the issue of voting weights.

However, there are several fundamental flaws in the corporate argument. First, and most obviously, the IMF is not, and has never been, a corporation in any meaningful legal or economic sense. The Fund started its life effectively as a mutual institution, comprised entirely of national governments, and has
evolved into an institution of economic governance making public policy decisions at the global level. (See Section 6).

As a governance institution, the corporate argument is clearly invalid. There is no more reason for an institution of global governance to have the same governance structures as a corporation than for an institution of national governance – and here, the concept of economically weighted voting would clearly be unacceptable in any democratic society. Even considering the Fund in its original form, as a mutual institution with voluntary membership, at most permits the possibility of weighted voting, and certainly does not require it. In the UK’s pre-eminent mutual institution in the financial sector, the Nationwide Building Society, for example, every member has an equal vote, regardless of the size of his or her deposit or mortgage.

Second, the interest of shareholders in a company’s decisions is limited to the rate of return on and risk to their financial stake in that company. This is embodied in company law in the form of the requirement of public companies to maximise shareholder value (rate of return) and limited liability (risk). In the case of the IMF, not only is there no obligation to maximise rates of return, it does not seek to generate a surplus at all (net of operating costs), and there is no mechanism for remitting any such surplus to its members (cf dividend payments in the case of a company). Neither can they realise any increase any increase in the value of the Fund’s assets (cf sales of shares).

The direct financial interests of member countries in the Fund are thus limited to the potential consequences associated with a hypothetical future liquidation of the Fund while in a state of insolvency. Given the extreme improbability of such a scenario, should it be considered necessary for financial interests to be aligned with voting shares (notwithstanding the arguments adduced here), this could be achieved by shifting the financial burden of such a failure onto currently under-represented countries.

In fact, the interests of members in the IMF relate overwhelmingly to the effects of its decisions and activities on their respective financial and economic interests. Here, the corporate argument is wholly inapplicable. The equivalent for a company would be for shareholders to benefit much more from (for example) a company’s procurement decisions, through their other commercial interests, than from its own financial performance. In such a scenario, for a majority group of shareholders to make decisions on behalf of the company to benefit their other financial interests at the expense of those of minority shareholders (other than as a means of maximising overall shareholder value in the company itself) would seem at best of questionable legality. Clearly, it would also be possible to argue that votes should be proportional to each country’s interest in the effects of the Fund’s decisions beyond its own financial position. However, this is a separate argument. (See Section 5.2.)

Third, shareholdings in a public company, and hence the balance of voting, are a result of market transactions. Anyone who can afford to do so can increase his or her stake, and hence his or her voting share, by buying shares from others. In the IMF, by contrast, Quotas are determined by an administrative process which is ostensibly technical and in practical largely political. It would not be open to China, for example, to increase its vote by using part of its foreign exchange reserves to buy more shares – as it would unquestionably be in a position to do, and might well feel to be in its interests. Moreover, the administrative process which determines Quotas is determined entirely through a process entirely internal to the Fund, through decision-making processes themselves governed by existing voting weights.

Fourth, even if it were possible for an IMF member to sell its stake and voting rights, it would clearly be inappropriate for it to do so, even to another government, let alone to a corporation or individual – precisely because of the Fund’s position as a governance institution. This would be akin to the sale of Parliamentary seats ("rotten boroughs") in Britain prior to the Parliamentary reform of 1832.

Fifth, and most importantly, corporations operate within laws made, implemented and enforced by governance institutions which have sovereign authority over them. This is not the case for the IMF: the IMF’s own decision-making bodies alone establish the framework within which it operates (including its governance structure). They also have sole responsibility for ensuring that such decisions are implemented – a responsibility which in some cases (notably conditionality and the selection of the
Managing Director) they have conspicuously failed to fulfil (Section 1.2.) The Fund enjoys sovereign immunity from judicial and other processes in any country (under Article IX); it is not subject to any international judicial process; and it is not (or at least does not consider itself to be) subject to any international law (Section 1.4).

It seems clear, therefore that parallels between the Fund and the corporate sector are wholly misconceived, and provide no justification for linking voting weights to Quotas based on economic variables. As an institution of governance, in the public sector itself, and with only national governments as members, the only criteria by which its governance structures may legitimately judged are those of public sector governance institutions.

5.2 Proportionality of Votes to Stakes in Decisions

A second possible defence of economically-weighted voting, as noted above, is that countries should have voting shares which reflect the impact on them of the Fund’s decisions. To the extent that the financial impacts of such decisions varied in line to each country’s stake in the global economy, there might at first sight appear to be some justification for such an argument.

Again, however, there are several flaws in this argument. First, it would suggest a significantly different approach to economic weighting than that currently used. Specifically, it would imply the use only of external economic variables, and not, for example, of GDP. This would tend to shift economic power significantly away from more closed (and hence also larger) economies, notably the US.

Second, the financial impacts of IMF decisions are in any case not obviously proportional to relative weights in the global economy. The developed countries, which represent a substantial majority both of global GDP and of international transactions, were much less affected than developing countries, even in purely financial terms, by the debt and financial crises of the 1980s and 1990s and the responses to them – and only partly as a result of their ability to dictate the management of these crises (although this is less clear cut in the case of the current financial crisis).

Thirdly, and most fundamentally, this argument is critically dependent on considering the relative scale of potential impacts purely in financial terms. In terms of human impacts, as Section 4 makes clear, the impacts of IMF decisions and activities have been felt overwhelmingly in developing countries. More generally, the greater vulnerability of poorer countries to crises, in terms of their frequency and scale, coupled with the much greater vulnerability of their populations to economic shocks, means that the human impacts of IMF decisions vary broadly in inverse proportion to GDP per capita, and hence to economic weight for a given level of population.

Thus, unless we consider that potential financial impacts alone matter, to the exclusion of human impacts, unqualified economic weighting is clearly unjustified and inappropriate. If, as seems reasonable, we consider human impacts (broadly defined) to be the determining factor, then any degree of economic weighting (except perhaps inverse weighting) would appear unjustifiable.

5.3 Are Executive Directors “Just Doing their Jobs”?

As noted in Section 1.2, Executive Directors in the IMF are (at least according to the Fund’s General Counsel) not country representatives, there to represent the interests and views of their national authorities, but rather IMF officials whose role is to ensure that the Fund serves its mandated purposes, as laid out in its Articles of Agreement. In principle, therefore, the issue may be that it is the purposes of the Fund (which were also established in 1944) that fail to reflect the interests of the majority of its members rather than its decision-making processes (other than this aspect of the status and role of Executive Directors).

However, a comparison of the management of debt and financial crises over the last 30 years, as described above, with the purposes set out in Article I of the Fund’s Articles of Agreement would again
seem to invalidate this argument, as the Fund’s activities during this period appear to be in serious conflict with one or more aspects of four of the six purposes.

- The Fund’s conspicuous failure to prevent debt and financial crises since the late 1970s indicates a failure “to promote exchange stability” (Article I(iii)).

- The very gradualist approach to management of the debt crisis of low-income countries, in particular, allowing it to persist for some 30 years (to date), appears wholly inconsistent with Article I(vi): “to shorten the duration and lessen the degree of disequilibrium in the international balance of payments of members”.

- The considerable uncertainties associated with policy conditionality, as discussed above, appear at odds with Article I(v): “To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards…”.

- The strong deflationary component of IMF programmes is clearly contrary both to Article I(ii) (“…to contribute… to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy”) and to Article I(v) (“providing [members] with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.”)

- Supporting programmes including exchange rate devaluation simultaneously in a large number of countries competing in the same markets (particularly for primary commodities and labour-intensive manufactured goods), especially in the 1980s, appears directly contrary to the Fund’s purpose “…to avoid competitive exchange rate depreciation” (Article I(iii)).

While the purposes of the Fund undoubtedly leave room for improvement, it thus seems clear that the serious failings of the IMF in crisis prevention and management over the last 30 years are not a reflection of an over-zealous and uncritical pursuit by the Executive Board of these purposes. On the contrary, it appears to reflect a pursuit of national interests and agendas by the Executive Directors of the developed countries, in contravention of the Fund’s mandated purposes – and thus also of their duties as IMF officials.

### 5.4 Democracy versus Effectiveness?

A final possible defence is that a democratic system would be inconsistent with maintaining the Fund’s effectiveness. This view would appear at first sight to receive some support from the IEO (2008a) review of the Fund’s governance, which found the Fund’s decision-making processes to be “effective” (although clearly this does not address the issue of whether a more democratic system would be more or less effective).

However, the IEO finding was based only on the Fund’s ability to take decisions in crisis situations. This has two critically important limitations. First, it explicitly excludes consideration of the Fund’s effectiveness in crisis prevention. In this respect, the IEO’s description of the Executive Board as “largely reactive” could indeed be interpreted as implied criticism. As discussed in Section 3, there would appear to be an overwhelming prima facie case for considering the Fund to have been seriously ineffective in this respect – and that this is attributable, in large part at least, to its governance structures.

Second, the IEO defined “effectiveness” only in terms of the Fund’s ability to take decisions, without considering the appropriateness of those decisions in terms of their economic effects or social impacts, or their consistency with the views or interests of the membership, or even with the Fund’s purposes. Again, the discussion in Sections 3, 4 and 5.3 of this paper suggests that a consideration on any of these bases would lead to a much less favourable conclusion.

In addition, the IEO attributes the Fund’s ability to make decisions in crisis situations in part to a “compact management structure… [which] facilitates centralized control” (IEO, 2008a, para 12, p6), and to such
decisions being taken through “informal governance practices”, which “center on a small network of senior government officials… often the G-7 deputies”.

In effect, therefore, the “effectiveness” of the Fund, in the IEO’s very narrow definition, arises not from the Fund’s own decision-making structures, but rather from the ability of a sub-set of the membership, who have particular interests fundamentally opposed to those of others more affected by the crisis, to divert the effective locus of decision-making out of the Fund’s formal governance structures, and thus to exclude the remainder of the membership from key decisions.

Apart from serious issues about the nature of such “informal governance structures” – described by the IEO report as “lack[ing] transparency and the ability to ensure ex post accountability for decisions taken, and leav[ing] much of the Fund’s membership out of the picture” – it seems at best questionable to interpret this process as demonstrating the effectiveness of the formal governance structures which are so avoided.

More generally, growing concerns about the nature of the Fund’s governance structures, compounded by the (arguably resulting) failure of the Fund to deal with financial crises effectively, has led to a growing crisis of legitimacy and credibility. As well as undermining the Fund’s effectiveness, not least in the context of discussions about reform of the global financial architecture in the early stages of the current financial crisis, this has had a negative effect on “emerging market” countries, who have, at substantial financial cost, adopted a policy of avoiding recourse to the Fund’s resources by accumulating very large foreign exchange reserves as a means of avoiding reliance on the Fund in crisis situations. Prior to the current crisis, this also seriously undermined the Fund’s financial position, due to its reliance on income from members’ use of its resources, requiring the Fund to adopt an “adjustment” programme of its own.

6. How Did We Get Here? The Anachronism of IMF Governance in Historical Context

The previous discussion highlights a bizarre mismatch between, on the one hand, the IMF’s explicitly anti-democratic economically weighted voting system and the almost complete absence of effective mechanisms for accountability; and, on the other, the basic democratic principles which are generally accepted as appropriate to such an institution of governance. Here is an institution of global governance which has had a considerable degree of control over national policy-making across the spectrum of economic and social policies in one set of (poorer) countries for much of the last 30 years; and yet its governance structure gives almost complete control to another set of (richer) countries, over whose national policies it has almost no influence. Far from a democratically accountable institution of global economic governance, it has thus become, to a great extent, an instrument of neo-colonial control.

This extraordinary situation has arisen largely from the fundamental changes in the nature of the Fund and of the world in which it operates since its foundation in 1944, in combination with a conspicuous failure by the Fund to adapt its governance structure to this changing reality.

In 1944, much of the developing world remained under colonial rule. This political context was reflected both in the governance structures adopted for the Fund and in the process of designing them. The 44 (mostly developed and Latin American) countries represented at the Bretton Woods Conference were selected and invited by the US, in (limited) consultation only with the UK; and the chief US negotiator, Harry Dexter White, carefully stage-managed and manipulated the process throughout to produce the outcomes the US Treasury wanted (Skidelsky, 2000, Chapter 10).

The outcome was a system in which voting weights were based on a system of quotas which (ostensibly) reflected economic weights, but which were in practice established “more or less arbitrarily by the US in a series of deals” (Professor Mosse, a member of the French delegation, quoted in Skidelsky, 2000, p351. (Raymond Mikesell, originator of the original quota formula as a member of the US delegation in 1943 was given, and followed, detailed instructions by the chief US negotiator Harry Dexter White as to the
outcome the formula should achieve, including giving the US the highest quota by a factor of two, and the
ordering of the next three largest (the UK, the Soviet Union and China, in that order), while keeping the
formula itself secret (Mikesell, 1994)). The effect was to institutionalise, rather than to off-set, differences
in power arising from economic inequality. Those who joined the IMF after Bretton Woods could do so
only by accepting and taking their place in this system of governance.

Such a weighted voting system might arguably be tenable for an institution of the nature of the Fund as it
was initially established. In 1944, it was effectively a voluntary association of countries, operating as a
credit union, to which members contributed and from which they could (and all expected to) draw
resources in specified circumstances, without policy conditions, in amounts also determined by their
quotas. At the same time, the extent of the discrepancies in voting weights were limited by the relatively
large basic vote (equal for all members).

Since 1944, however, a number of fundamental changes have transformed this situation.

- The Fund has evolved decisively from a voluntary “club” of a limited number of countries to
become a key institution of global economic decision-making.
- Membership has become almost universal (the only significant exceptions being Cuba and North
Korea) and in practice virtually inescapable.
- The accession of low-income countries has substantially widened the degree of inequality in
income, and thus voting weights, among the membership.
- This has been exacerbated by the considerable divergence in incomes between high-income and
“emerging market” economies and low-income countries, particularly since 1980.
- While Quotas were increased by a factor of 37 in successive Quota reviews during the first 50
years of the Fund, basic votes remained unchanged and membership increased only by a factor
of four. This reduced the share of basic votes from 11% to 2%, further widening the disparity in
voting weights. Even the current reforms increase the figure only to 5.5% (IMF, 2012a).

The result is both a much a greater degree of inequality in voting power, and an institution in which such
inequality is much more clearly indefensible.

This indefensibility is vastly increased by the combined effect of two further developments. First, the
Fund’s growing role in relation to conditionality gives it a level of influence over national policies in its
member countries which was not envisaged when it was founded. In fact, such a role was explicitly
rejected by the participants in the Bretton Woods conference, despite considerable US pressure.

In the discussions in Atlantic City in June 1944, prior to the Bretton Woods conference, the US
delegates raised the subject of requiring member countries that requested financial support to
give certain policy undertakings to the Fund, which would decide whether the currency purchase
was consistent with the purposes of the Fund; this notion was strongly rejected. Virtually all other
countries believed that access to Fund resources should be automatic and unchallenged.
Moreover, they felt that Fund intrusion into their internal affairs would be intolerable.

(Buira, 2003e, p84)

However, an Executive Board decision in 1952 established a link between use of IMF resources and
national policies; and the principle of conditionality was incorporated into the Articles of Agreement in the
first amendment in 1969. This was primarily a reflection of the concern on the part of creditor countries for
"ensuring the revolving character of the Fund's resources" (IMF Decision no. 10(52/11), quoted in Buira,
2003e, p85). The scope and detail of conditionality in IMF programmes has expanded enormously since
the late 1970s (Section 3.3) – also the time when IMF lending to developed countries virtually ceased –
with an extension from targets for four or five essential macroeconomic indicators into extensive lists of
conditions relating to the implementation of specific structural policies. Moreover, this has occurred in
direct contravention of guidelines approved by the Executive Board in 1979 and 2001 to "streamline"
conditionality.
Second, successive Quota reviews have failed to keep pace with the evolution of financial markets, so that its own resources have become increasingly inadequate to the scale of ever-larger debt and financial crises. Its financial role in crisis situations has thus shifted from “making the general resources of the Fund available to [members]…, thus providing them with the opportunity to correct maladjustments in their balance of payments without resort to measures destructive of national or international prosperity” (Article I(v)) to a primarily “catalytic role”, mobilising resources from other sources.

Combined with increasing conditionality, and the central role of cross-conditionality on IMF programmes in the mobilisation of resources from other sources, this represents a fundamental change in this primary area of Fund activity – from the provision of resources without policy conditions to the establishment of policy conditions as a basis for the provision of resources by others.

Third, the Fund’s membership, belying its original “mutual” nature”, has become increasingly polarised between structural creditors and structural debtors. This division broadly reflects income levels: developed and other high-income countries have become structural creditors; middle-income countries intermittent borrowers; and low-income countries structural debtors. Since voting weights also (broadly) reflect income levels, the result is to institutionalise the power of creditors over debtors; and, given the pre-eminent role of conditionality, this extends to power over national policies.

Fourth, while the Fund was intended to deal with temporary balance of payments problems, most structural debtors have been in a state of permanent crisis for the last 25-30 years. Thus, while the role of conditionality was originally (until the late 1970s) envisaged as extending to a period of 1-3 years, it has become a basis for more or less continuous Fund involvement in national policy in some borrowing countries for a period of decades.

Together, these four factors represent a fundamental transformation of the Fund’s role since its inception in 1944. In 1944, it was a mutual institution which provided all its members with unconditional access to its own resources to countries for a few years at a time. In 2009, its primary roles are governance of the international financial system, and the establishment and enforcement of detailed policy conditions on a sub-set of its membership, which it routinely does for decades on end. It is hardly surprising that a governance structure which may have seemed acceptable to the former role during the colonial era is markedly different from that which might be considered appropriate to the latter role in the 21st century.

It is also noteworthy that the four factors cited above are all, directly or indirectly, a product of decisions taken (or the failure to take decisions which would need to have been taken) through the Fund itself. In other words, the transformation of the Fund’s role which makes its governance system inappropriate is itself a product of the operation of that increasingly inappropriate governance structure.

- The introduction of conditionality was a product of a decision by the Executive Board, and the subsequent amendment of the Articles was approved by the Board of Governors.
- The increasing inadequacy of the Fund’s own resources was a product, on the one hand of successive Quota reviews (agreed by the Board and endorsed by the Governors) and of the rapid growth and increasing volatility of international capital flows associated with capital account liberalisation, which was actively promoted by the Fund (and driven by developed country governments).
- It is also at least arguable that the polarisation of the Fund’s membership between structural creditors and structural debtors is attributable at least partly to its prioritisation of creditor interests over those of debtors and the inappropriateness or ineffectiveness of the policies on which its programmes were conditional.
- The chronic nature of balance of payments problems can be attributed to the Fund’s failure to deal appropriately with low-income country debt crises, particularly in the 1980s and early 1990s.

However, while both the Fund and the world in which it operates have changed almost beyond recognition in the last 55 years, its governance structure is virtually identical to that established in 1944.
The systemic inertia underlying this failure to adapt to these changes (or to the shift in political culture associated with the end of the colonial era) is similarly a product of the governance system itself.

Voting weights in the Fund are determined by Quotas; and Quotas are reviewed every five years. Because such reviews are conducted by the Executive Board and approved by the Board of Directors, each stage of the process, from determining the variables to be used as a basis for the formulae, through the selection and specification of formulae, to the negotiation/bargaining process and final approval, are themselves all determined by the weighted voting system itself.

As well as allowing the politicisation of the process discussed in Section 2.1, this means that those members with the largest voting weights can use their position to preserve their privileges. The US (or 4-5 other G7 members voting as a group) can veto any changes in voting weights. By contrast, even unanimous opposition to a Quota review by all low-income countries would provide less than one-third of the votes necessary to prevent its approval. The recent process of Quota reform was set in motion by a resolution of the Board of Governors which was reportedly passed against the opposition of 23 countries, including India, Argentina and Brazil (Bretton Woods Project, 2006). The absence of any official information as to how many, or which, IMF members opposed the revolution is indicative of the issues surrounding the transparency of IMF decision-making.

In principle, a large enough block of developing countries could nonetheless block a Quota review. However, they would have no means of ensuring a more favourable outcome. However, this apparent stalemate is broken by the triple role of Quotas, as determinants of access to Fund resources and financial contributions as well as of voting power.

Unless and until new Quotas are formally approved, the existing Quotas remain in place, with no mechanism for adjustment, even for inflation. This would not be an unfavourable outcome for the developed countries, as it would allow them to maintain their dominance of Fund governance, while freezing their financial contributions. Any additional incentive they might have to ensure the adequacy of resources to deal with crises in developing countries (to protect their interests as creditors and/or limit their contributions to “rescue” packages) is arguably off-set by the additional policy leverage dependence on their contributions provides.

For developing countries, however, the incentives are very different. Since Quotas also determine how much each member is entitled to borrow under Fund programmes, the prospect of freezing Quotas places considerable pressure on potential borrowers to accept proposed Quota changes, however unfavourable they may be in terms of voting power.

Together with the use of a weighted average of existing and calculated quotas, this has contributed to the entrenchment of existing inequalities in voting weights in the face of the increasing economic role of the emerging market economies. The link with members’ access to Fund resources also means that limited growth in quotas relative to the scale of global financial flows has resulted in an increasing inadequacy of the Fund’s own resources to meet the needs of its members, as the scale of debt and financial crises has increased – further compounded by the very small share of Quotas held by borrowing (developing) countries. (The majority of Quotas, and thus of the Fund’s lending capacity, are held by structural creditors who have not needed to borrow from the Fund for more than 30 years and are unlikely to do so even in the present crisis.) As discussed in Sections 3.1, 3.2 and 3.6, this was a serious problem in both the 1980s debt crisis and the 1990s financial crisis.

Thus the anomalous nature of the Fund’s governance structure is essentially a product of the fundamental changes both in its own role and in the global economy over the last 65 years, and its failure to adapt to these changes – but both these changes and the failure to adapt to them are themselves products of the system itself.

7. Conclusions and Recommendations
7.1 Conclusions

The accountability mechanisms in the IMF’s governance structure are grossly inadequate, and seriously skewed to the developed country minority of its membership. The staff and management are effectively accountable to the Managing Director; but the Managing Director, who is effectively appointed by the Western European countries, has at best very limited accountability to the Executive Board; and the Executive Board has at best very limited accountability to the membership as a whole.

Influence over IMF decisions lies overwhelmingly in the hands of the developed country governments, as a result of an explicitly anti-democratic voting system which gives a relatively small rich minority a substantial majority of the votes, compounded by a number of more indirect and informal processes. Developing countries, and especially low- and lower-middle-income countries, thus have minimal influence over decisions which impact overwhelmingly on them. This situation is clearly at odds with any concept of democracy or stakeholder accountability. In effect, it transforms the Fund into little more than an institutionalisation of neo-colonial control.

This has seriously undermined the Fund’s effectiveness, both directly and increasingly by undermining its credibility and legitimacy. The result has been a proliferation of debt and financial crises over the last 30 years, which the Fund has failed to anticipate and/or prevent, and to some of which its policies have actually contributed. Its crisis responses have generally been ineffective and/or inappropriate, most notably prolonging the debt crisis of low-income countries leading for 30 years. This has had an enormous adverse impact on global health and health equity.

A number of justifications have been or could be put forward for the Fund’s current voting system, appealing to parallels with the corporate sector, relative stakes in the Fund’s decisions, its mandated purposes and its effectiveness. However, none of these have any validity. They are essentially (highly questionable) rationalisations of an anomalous situation which has come about through the transformation of the Fund’s nature and role, and of the structure of the global economy, since its inception, and the failure of the Fund’s governance structure to change in line with these transformations. Moreover, both the transformations and the inertia are largely attributable to the Fund’s governance structure itself.

The only way of rectifying this anomalous and anachronistic situation, or of limiting its human cost in the future, is not merely incremental reform of the Fund’s governance structure, but a fundamental transformation, based on the principles of democracy, accountability and transparency, and directed explicitly to the goal of “genuine equality of influence” (CSDH, 2008, p19).

As the Fund’s sister institution, the World Bank, has highlighted in a recent edition of its flagship publication, the World Development Report, economic, social and political inequality are mutually reinforcing, and their interaction tends to entrench both over time, with seriously damaging consequences for the disadvantaged.

“Economic and political inequality tend to lead to economic institutions that systematically favour the interests of those with more influence.”

“Economic, political and social inequalities tend to reproduce themselves over time and across generations.”

“When policies challenge privileges, powerful groups may seek to block reforms.”

“Overlapping political, social, cultural and economic inequalities... are perpetuated by the elite and often internalized by the marginalized or oppressed groups, making it difficult for the poor to find their way out of poverty.”

“These patterns of domination persist because economic and social differences are reinforced by the overt and covert use of power... [including] aggressive manipulation or the explicit use of violence.”
“The inequality of opportunity that arises is wasteful and inimical to sustainable development and poverty reduction.”

(World Bank, 2005, pp 2-3; sequencing modified from original)

Democratic governance structures play a key role in overcoming these problems, by tempering the discrepancies in power arising from economic inequality. By contrast, the direct and indirect skewing of power towards richer countries in the IMF’s governance system institutionalises, and thus compounds, the political inequality between rich and poor countries arising from differences in economic power, strengthening the ability of the former to impose policies which add further to their economic strength, and thus to their political power.

While the 2006 World Development Report focuses primarily on governance at the national level, the applicability of the same principles at the global level is explicit.

“There is a clear and urgent need for fundamental democratic reform of the governance structures of the IMF to fulfil the need identified by the Commission on Social Determinants of Health for “a system of global governance, placing ... genuine equality of influence at the heart of decision-making”, and to make the Fund fully and equally accountable to its members and their populations.

1. The first and most important change required is the definitive abandonment of the anomalous, anachronistic and explicitly anti-democratic principle of economically-weighted voting. As in national democratic systems, voting weights should not take into account any consideration other than population. Since neither direct proportionality to population nor “one-country-one-vote” seems likely to provide a generally acceptable basis, consideration should be given to a system in which votes are proportional to a non-linear function of population. (See Woodward, 2007, for a review of alternative approaches.)
2. The composition of the Executive Board should be based on a constituency system in which all IMF member countries have equal status, and none has an automatic right to its own Executive Director. The same principle should apply to all other decision-making bodies and committees, where the only legitimate reason for over-representation relative to (democratically determined) voting shares is disproportionate interest in the issues under consideration.

3. Executive Directors should be elected by the countries whose votes they are entitled to cast, and should remain accountable to those countries. Consideration could also be given to the election of Executive Directors by the pooled votes of Members of Parliament in constituent countries (weighted in accordance with national voting weights in the Fund), rather than by governments.

4. Regardless of the modalities of their election, Executive Directors should be accountable to Parliaments in their constituent countries for their statements and votes in the Executive Board.

5. The present system of “summing up” of Board discussions by the Executive Director should be replaced by formal votes, which should be made public.

6. Consideration should be given to live web-casts of Executive Board meetings discussing policy issues (though not country-specific discussions), except where the Board decides this to be inappropriate due to (clearly defined) exceptional circumstances defined by the global public good.

7. All documents and draft decisions on policy issues presented to the Board should be made publicly available at the time they are issued to the Board, to allow informed discussion and advocacy by civil society, subject to the same proviso.

8. Each Director’s office should be fully funded by the IMF, and its size should be determined according to an assessment of the resources required for the Director to participate fully and effectively in all Executive Board discussions, taking account of the size, nature and circumstances of his or her constituency and the support available to him/her from his/her constituents.

9. Adequate IMF resources should also be provided to low- and middle-income country governments and Parliaments to finance effective engagement with their respective Directors, including technical assistance from independent providers of their choice.

10. The Managing Director should be selected by all IMF members on an equal basis, through an open, transparent and democratic process, subject to independent monitoring. As in the case of Executive Directors, consideration should be given to the election of the Managing Director by the pooled votes of Parliamentarians in all member countries, weighted in accordance with each country’s (democratic) voting weight in the Fund.

11. Effective mechanisms should be put in place to ensure the accountability of the Managing Director to the Executive Board, including mechanisms for censure (and ultimately dismissal) in the case of incompetence or misconduct.

12. Effective mechanisms should also be put in place to prevent attempts by Executive Directors, member states or other parties to exert inappropriate influence on other Directors, eg through diplomatic, economic or financial threats or inducements towards themselves or those they represent.\footnote{While there is little evidence of this in the IMF at present, the experiences of international agencies which have more democratic formal systems, such as the World Trade Organisation (Jawara and Kwa 2004) and the United Nations Security Council (Kuziemko and Werker, 2006) suggests that such safeguards would be important in a reformed system of IMF governance.}
13. The IMF should be brought more effectively into the overall system of global governance, as a specialised agency of the United Nations on a similar footing with other such agencies, through a revision of the agreement which establishes this status.

14. The IMF as an institution should be made explicitly subject to international law, including human rights instruments, and member governments and representatives to the IMF should be explicitly required to observe extra-territorial human rights obligations in exercising their role in IMF decision-making.

15. Both the IMF as an institution and national governments as members of the IMF should be subject to judicial processes in international civil and criminal law for their obligations under international law in relation to IMF decision-making.

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