A note on decision-making reform in the IMF

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Prepared for the G24 Technical Meeting
Manila, March 2005

The international community has repeatedly committed itself to enhance the voice and capacity of developing countries to participate in global economic institutions. For this reason in the IMF and World Bank modest steps have been promised to enhance the participation and voice of developing countries such as through an enhancement of the capacity of the two Executive Directors on the Board of each institution who represent African countries, including by enhancing their capacity to communicate with the capitals of their members, a secondment programme within the World Bank, and an Analytical Trust fund to give further support to the two Sub-Saharan African Executive Directors. These are helpful steps but there is some scepticism among many governments as to how effective they will be.

The lack of developing country voice in the IMF and World Bank

There are three factors which entrench developing countries' lack of voice and influence within each of the IMF and World Bank. In the governing boards of the institutions, developing countries suffer:

- a lack of votes on the Board,
- insufficient capacity effectively to prepare and lobby within the institution; and
- a lack of leverage through formal and informal networks in either organization.

At the Board level, developing countries have insufficient voting power to give appropriate incentives to engage meaningfully in deliberations and decisions. The Executive Boards of the IMF and World Bank are dominated by the wealthiest economies who command around 40% of votes in each organization. By contrast, African countries, who account for a quarter of the membership of the IMF and World Bank, have just over 4 percent of the vote. Belgium (population 10 million) has more votes than Nigeria, Ethiopia, Zambia, Tanzania, Mozambique and South Africa combined (total population around 300 million).

Although neither institution's Board typically resorts to voting, voting power and quotas strongly underpin calculations as to when a decision has been reached (typically described as `consensus'). In recent years Board members in both institutions argue that the collegial and consensual nature of decision-making has eroded sharply making voting power yet more important. This renders the voice of developing countries on the Board yet weaker. As one former Executive Director from South Africa has put it, the miniscule voting power of African and other developing countries renders it almost impossible for them to put items on the agenda in either organization (Rustomjee 2003). Simply to muster enough voice to be heard is a gargantuan task. For this reason the issue of `basic votes' has been repeatedly voiced by developing countries.

Increasing basic votes

Basic votes were originally distributed in equal numbers to all members of each institution. They were a symbol of state equality in institutions which otherwise allocated votes proportional to economic weight. Currently basic votes represent just 2.8% of total votes in the World Bank and a similar proportion of votes in the IMF. At the founding of the

institutions, they represented just over 10% of votes. The result has been to erode equality among members in a subtle way.

If basic votes were to be brought back to their original level, the effect on African constituencies would be fairly small. In the 23 member African constituency of the World Bank voting power would rise from 3.41 to 4.06%. In the 25 country African constituency, voting power would rise from 1.99 to 2.81%. A doubling of basic votes would have a more interesting effect – or indeed the increase above combined with an increase in membership shares within the World Bank (perhaps funded for the poorest countries from a Trust Fund).

What implication would arise from this modest change? Clearly this does not alter the power balance within the institutions – and if it did so it would be unlikely to command necessary political support even under auspicious circumstances. However more subtle effects might be achieved. First, an increase in basic votes would permit African countries to change constituencies and to form smaller ones in which each could participate more fully and better hold their representative to account (more on this below). Second, at the margins, a modest increase in voting power could enhance the incentive on powerful members to consult African members. Both the IMF and World Bank have recognized in recent rhetoric the degree to which they need carefully to take account of their full memberships - for the quality of their decision-making, as well as to restrain large stakeholders from pushing imprudent decisions. At present on most decisions, the G7 countries need only garner the support of a couple of other countries in order not just to put an item on the agenda but to pass it as a Board decision. Basic votes would not stop this but could at least put other potential partners on the map.

Applying double-majority voting

An alternative to increasing basic votes or membership shares in the IBRD – and perhaps a more promising avenue given the figures cited above - is a double-voting system which protects the right of small countries within each organization. Proposals in this vein have been prepared by advisers to the German government as well as by scholars working on the governance of multilateral development banks.

Already in the IMF a double majority is required to alter the Articles of Agreement as well as to expel a members or deny a member state benefits. This means not just that there must be 85% of voting power agreeing with an amendment, but a 60% majority of members. Other international organizations also use double-majority voting (e.g. the EU Council of Ministers, the Global Environment Facility in the World Bank). The effect of a double-majority voting rule applied to a wider range of decisions would be to ensure that the Board's consensus reflected not only a majority of voting power but also the support of a majority (or set percentage) of members of the organization – achieving a similar effect to basic votes (as above).

Applying a double-majority voting rule to a wider range of decisions would require amending the articles (which itself requires the double-majority outlined above). But this would not be extraordinary. Many such changes have been undertaken in the past – in particular so as to expand the range of decisions for which a special majority is required (i.e. a simple majority of 85% of voting power as opposed to a double-majority).

The impact? As argued above in respect of basic votes, at present the G7 members of the IMF command just over 45% of voting power and need only find one further Executive Director's vote in order to pass a decision. In other words, ten or so members of the institution can pass a measure. A double-majority voting rule would mean that decisions would have to command not only 50% of voting power, but also the support of say 50% of the membership. In others words, the G7 would have to forge a wider alliance of members in order to pass measures. This would immediately create an incentive for the powerful members of the Board to forge alliances with the numerically-large African constituencies. One obvious issue to which an extension of the decision-making rule is the institutions' leadership selection (more on this below).

Enhancing capacity to prepare, to lobby and to have a voice on the Board

Mustering a coalition of countries within the IMF or World Bank requires extensive preparation and lobbying. For this reason the lack of capacity of many developing countries within the institutions has been highlighted by many. It has several aspects. Traditionally for each `chair' on the Board of either institution, an Alternative Director and a set number of advisers is allocated and paid for by the institution. Clearly this greatly benefits countries who have their own chair or are in a small constituency. Conversely, it means that the resources spent on supporting any chair representing a large number of countries are tiny if measured on a per country basis.

The workload imposed on many developing country representatives is simply unwieldy. The extreme case is the 24-country African constituency within the IMF. Some 21 countries in the constituency are IDA-eligible (very low income). If we assume that all are within PRGF-supported programs, the Executive-Director's office should be involved in some 42 on-site missions which present PRGF semi-annual reviews to the Executive Board. On top of this there is the work required to prepare 24 countries' Article IV Consultations (typically on an annual basis), PRSP Joint Staff Assessments or informal Board meetings on country matters designed to provide Board members with timely updates on country developments. Further to this work since most countries (21 out of 24) are eligible for debt relief under the HIPC Initiative, the Executive Director and other officials will also have to prepare for considerations by the Board of decision and completion points, preparing documents of the respective countries as they progress under the Initiative. On top of all of this, there are field missions for those members undertaking a voluntary assessment of international standards[1], other missions related to Financial Sector Assessment Programs[2], as well as possible technical assistance missions. Importantly, this exercise only takes into account the duties related to the Executive Director holding the chair of the constituency that elected him and does not consider the heavier workload resulting from him being a member of the Executive Board, which is "...responsible for conducting the business of the Fund..." (Art. XII, Sec. 12a) and oversees the whole range of activities and policies carried out by the institution.

[1] Currently, such assessments are available in 12 areas. More information is available at: http://www.imf.org/external/standards/index.htm.

[2] More details are available at: http://www.imf.org/external/np/fsap/fsap.asp.

A second result of large constituencies is that they necessarily imply less scope for consultation, report and accountability to member countries. A modest recognition of this has been made in the recent decision to introduce a communication system which will enable video-conferencing and access to Bank and Fund documents from the capitals. However, the fact that there is already very little support from member country bureaucracies suggests that this will not resolve the problem. Unlike the British, American or Dutch chairs – to name but three – who benefit from substantial back-up technical support from their home bureaucracies, several developing country Chairs do not.

One possibility is for countries to shift constituencies, grouping themselves into smaller units and making the most of the fact that there are no set rules governing how countries group together within either the World Bank or the IMF.[3] For some countries this would permit more effective and more active representation.

The `constituency system' has permitted significant change in groups within the institutions – Indonesia has shifted constituency in the IMF three times. The Australian-led constituency began as a partnership with South Africa and other southern Africa countries, but then as members shifted, became an Asia-Pacific grouping. That said, the overall number of chairs on the Board (currently 24) has to be agreed by the membership as a whole. If African countries were to regroup in smaller constituencies, this would require either that their relative voting share were first bolstered (to meet the minimum required to form a constituency), and/or the number of chairs on the Board to be increased. The alternative is for African members to regroup with large vote-wielding countries – taking into account the necessary trade-offs implied for agenda-setting, influence, and power within the constituency. However, these trade-offs are considerable and to prevent African members in mixed constituencies from simply being drowned out would require careful power-balancing within constituency memberships.

Bolster and build on networks and enhance accountability

Underpinning the influence of powerful countries and groupings within the IMF and World Bank is a degree of networking absent among African countries. In the G7, the EURIMF, and the Asia-Pacific groupings, countries bolster pre-existing links to one another to coordinate their policies, to share information, and to leverage their access to senior management and staff within each organization. Developing countries could initially use trade and other partnerships to attempt to build similar, albeit not-as-powerful networks.

Further to this, the G7 countries – and the United States and Western European countries in particular – informally get to select not just the leader of each organization but also key senior management positions. This gives these countries a direct additional leash on which to hold the institutions. It is for this reason that developing countries made a significant move when they bravely nominated their own candidate to be Managing-Director of the IMF in the selection which culminated in Rodrigo de Rato's appointments. This issue has still not been satisfactorily taken forward. Crucial is for members to recognize that it is not simply a matter of who gets to choose the leader. The selection and appointment of senior management creates a structure of accountability for the whole staff of each organization. It goes to the heart of who holds the institutions to account and how. For developing countries to have more

[3] Constituencies are not written into the IMF's Articles which provide for the membership-wide elections of fifteen Directors (Schedule E), increased to 19 by a Resolution of the Board of Governors in 1992.

voice in either the IMF and the World Bank requires opening up the main lines accountability of leadership within each organization to the full membership.

Finally, the issue of developing country voice and influence within the governance of the IMF and World Bank is not just an issue of capacity and voting-power of Executive-Directors. As intimated above, it also necessitates enhanced accountability of these Directors back to their members. Presently, the links between most member governments and their Directors on the Board are weak. There are few formal mechanisms of consultation, report or account which connect that official to governments or Parliaments ostensibly being represented within the group. Improvements are currently being made to the means of communication between Directors and countries. Several more robust steps could be taken. These include: (1) a closer more formalized system of reporting to Parliament in each constituency country; (2) full transparency of positions taken by Directors on the Board and of decisions taken so as to enable a broader range of national actors to engage and monitor decision-making in each of the institutions; (3) in-region offices for the African chairs (as has been proposed by a former Director); (4) a formal evaluation procedure for all Directors and staff in which constituency members participate.

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Oxford 1 March 2005