



CIDSE
Coopération Internationale pour le
Développement
et la Solidarité



Long Due Reform?

*The International Monetary Fund, the World Bank,
and Global Economic Governance 60 Years Later*¹

A CIDSE Background Paper²

April 2005

¹ This paper draws heavily on Working Towards Progressive Global Governance. CIDSE/CI Background Paper. May 2004. Pp. 28-32. It has been prepared by Aldo Caliari, Center of Concern, and includes contributions from the members of CIDSE/CI Working Group on Resources for Development.

² This document is a background paper. The analysis and proposals presented in this paper do not necessarily reflect the views of all CIDSE members.

The International Financial Institutions (IFIs) constitute key players within the current architecture of global governance. Sixty years after the creation of the International Monetary Fund (IMF) and the World Bank in Bretton Woods, New Hampshire, their role and their relationship with other key players such as the UN are being called into question more than ever before.

In this, the sixtieth year of the existence of the IFIs, CIDSE and Caritas Internationalis, as in the past, continue to call for serious reconsideration of their role in a global governance architecture that, we hold, must be geared towards the promotion of the global common good. As international Catholic development networks, our perspective is centred around our guiding values and principles, particularly drawn from Catholic Social Teaching. Many of these principles and values provide critical insights for a framework of reform for the IFIs. The principle of **solidarity** leads us to emphasise that the IFIs are a part of an interdependent human family and that working toward the common good benefits everyone. The principle of **subsidiarity** would affirm that responsibility for decisions and actions lies best at the level closest to the problem and therefore that policy decisions must be driven by local realities. Finally, adherence to the principle of the **preferential option for the poor** would ensure that the purpose of IFI reform is poverty eradication and equitable development.

The founding mandates of the IMF and World Bank specified very different roles for the institutions than those that have developed in the sixty years of their existence, especially in the years since the debt crisis erupted in 1981. The IMF's original task was to stabilise the system of fixed exchange rates, which was in existence until 1973, using temporary cash injections in order to overcome financial crises. And the World Bank's mandate, after helping to promote the economic reconstruction of Europe and Japan following the end of the Second World War, was to help finance the economic and social development of a rapidly expanding number of independent developing countries.

Over time, the World Bank and IMF have become the world's two most powerful financial institutions. Through the loans they make to poor countries and the conditions attached to these, they have come to control public policy in large areas of the developing world which are thus made accountable to the IFIs rather than to their own citizens and communities. The adjustment policies that these international financial institutions require poor countries to adopt have resulted in social upheaval and poverty more often than they have led to economic development. At the global level, the IFIs have failed to adequately respond to global financial crises which have seriously impacted the world economy. Neither have they been able to devise innovative and equitable instruments for responding to these crises. Despite these failures, the IFIs continue to push standard policy approaches. Internally, the IFIs do not adequately represent all their member countries, nor do they make decisions in a transparent way, contributing to the consolidation of power in the hands of a few of the world's richest countries. Furthermore, the IFIs are in a permanent state of conflict-of-interest due to their dual roles as both creditors and policy advisers.

Numerous voices from a range of quarters have recently joined civil society organizations in documenting problems within the IFIs. The Meltzer Report³ pointed to the problems of poor performance within the IFIs and the blurring of functions between them. Liberal voices, including prominent economists formerly employed by the IFIs such as Joseph Stiglitz, have critiqued the structure and interests operating within them. The UN Secretary General stressed that *'significant steps are needed to overcome the perception among developing countries that they are underrepresented in both bodies (IMF and World Bank), which tends to put their (IFI's) legitimacy in doubt'*.⁴ A number of proposals have been suggested to ensure the IFIs would play a positive role

³ Meltzer 2000.

⁴ United Nations 2005, para. 70.

in democratising global governance, rather than undermine it. These proposals have been put forth in international arenas by NGOs, the UN, and both developing and developed countries.⁵

In analysing the current role of the IFIs in relation to their contribution to global governance, three critical clusters of reform can be singled out, each one responding to a particular objective: I) achieving adequate representation, accountability and transparency, II) promoting a plurality of approaches to equitable development and III) ensuring their role in the system of global institutions respects the primacy of international human rights law and equitable economic and social development.

I. Achieving Adequate Representation, Accountability and Transparency

The lack of adequate representation of developing countries within the decision-making structures of the IFIs coupled with the absence of transparency in decision-making pose serious barriers to democratic global governance. The Monterrey Consensus addressed this issue by calling for developing and transition countries to have a larger say on issues of global economic governance.⁶ The governing bodies of the IMF and World Bank, both of whom endorsed the Monterrey Consensus have, since then, included the governance issue on their agendas. However, as pointed out in a recent UN report, no substantive reforms have yet been undertaken.⁷ Enacting, or even debating, significant changes in representation or voting in the IFIs has faced enormous resistance from the shareholders who would have to give up some of their power. So far, the richest countries have favoured a perspective that would limit the debate to strengthening the capacity and improving the staffing of Southern country constituency offices at the IFIs. While undeniably necessary, these proposals fall far short in terms of rectifying the larger problem of inequity in governance of these institutions. This problem can be examined with respect to seven key issues: voting power; composition of the Boards of Directors; the “consensus” system; voting majorities; leadership selection; transparency of the Boards; and conflicts of interest.

• Voting Power

In aggregate terms, developing and transition countries account for 38% of votes in the IMF and 39% in the World Bank, while industrial countries account for 62% and 61% respectively. The situation is worse when considered on a constituency basis—that is, the proportion of votes commanded by the developing and developed country Executive Directors seating at the Board.⁸ An examination from this perspective reveals that Executive Directors belonging to developing countries command only 26 percent of the voting power.⁹ The reform of the voting structure is an essential ingredient in making the IFIs legitimate institutions that contribute to poverty eradication and equitable development.

The allocation of voting shares to member countries in the IFIs is based on two principles. First, the principle of equality of states. Based on this principle, each member country receives an equal number of so-called ‘basic votes’. The remaining part of the voting share depends on the country’s

⁵ See e.g., Buiria 2002; Caliarì 2003; Nayyar and Court 2002; Woods 2000. See also Group of 24 2004 (calling for a new formula to calculate voting quotas which would take into account the vulnerabilities of developing countries, in particular sub-Saharan countries, and correctly reflecting the relative economic position of countries in the world economy by computing gross national income on a purchasing power parity basis).

⁶ International Conference on Financing for Development, Final Outcome (2002), para. 62 and 63.

⁷ United Nations Department of Economics and Social Affairs 2005, 72.

⁸ See next bullet point, on Composition of the Board. A calculation on a constituency basis takes due account of the fact that Executive Directors cannot cast separate votes for each of the members they represent.

⁹ See Rustomjee 2004, 4.

‘quota’. The quota determines the size of the country’s financial contribution to the IFIs and, in turn, depends on an old formula.

With regard to basic votes, their relative importance has declined over time due to large increase in the size of quotas. Therefore, while basic votes represented more than 11 percent of the total voting power at the inception of the IFIs, today they represent just 2.1 percent. As a result, the weight of the principles of equality of states in the allocation of votes has been eroded.

As far as the quota is concerned, the formula used to calculate it is essentially the same which was developed at the foundation of the institutions. Although the quota is allegedly supposed to represent economic size, the formula was originally developed to fulfil a political pre-determined outcome: ensure that the post-World War II allies would enjoy a dominant position within the institutions. The continued application of a formula which – at face value – is based on the relative size of countries’ economies has, given the changed world economy, led to enormous distortions. For instance, China has roughly the same quota as Canada, while the GDP of the former is the double of the GDP of the latter. An additional problem with the quota formula is that GDP, a variable with significant impact on the overall quota, is calculated based on market-based exchange rates, instead of power purchasing parity terms, a modality that systematically underestimates the size of the economies of developing countries.

Quotas today clearly bear no relation to the relative economic size of member countries. However, a more critical look at the purpose of the formula itself justifies taking issue with the absence of or weight given to different elements of it. An analyst has pointed out that the variables in the quota formula tend to measure supply determinants, which are typically partial to developed countries, rather than demand factors that reflect the needs of developing countries.¹⁰ From this perspective, it is legitimate to ask why the formula should not take into account demand-oriented variables such as population, external debt or vulnerability to external shocks. Regarding alternative variables, in the specific case of the Bank where income—including interest payments by borrowing countries-- is periodically capitalized, some have argued the developing country contribution to the capital of the institution should also be weighted in the formula.¹¹ Some commentators have proposed that trade among countries that are part of the same currency union should not be counted as international trade. The application of this principle, recently supported by Leo van Houtven, a former Secretary of the IMF Board, to the twelve euro zone member countries, would result in an 11.4 percentage points decline of their quotas.¹²

Furthermore, the fact that within the IMF the same quota is used to determine the voting power of the country, the country’s level of access to resources and its obligation to contribute to the institution, is not a straightforward conclusion. An alternative has been proposed whereby voting power, access to resources and financial obligations would be determined under three separate quota calculation systems.¹³

¹⁰ See Beltran 2005.

¹¹ Besanzon, Sagasti, and Prada 2004, 111 (“IBRD capital and reserves increase not only by additional subscriptions, but also as a result of allocating a portion of net income for this purpose. As IBRD income is obtained from the interest paid by borrowers on IBRD loans and from the returns on the investments made in capital markets, borrowing countries contribute indirectly to increases in the capital base...”).

¹² Buirra 2003, Adjustment of EU Quotas for Intra Euro Zone Trade; see also van Houtven, 2004 (“the exclusion of intra-EU trade from the quota calculations, which would be appropriate for an economic union, would reduce the combined EU quota and voting power by approximately 9 percentage points, which could then be redistributed to other members.”).

¹³ See for instance Buirra 2003, The Governance of the IMF in a Global Economy.

- **Composition of the Board**

The composition of the Boards of Directors of the World Bank and IMF is also skewed in favour of developed countries. Within both the IMF and the World Bank only 24 Executive Directors (EDs) represent the 184 member countries of the World Bank and the IMF on the day-to-day work of the institutions. However, the distribution of member countries among Executive Directors is far from even. While only two EDs represent more than 42 countries in sub-Saharan Africa, five of the richest countries have each their own ED. Half, or at times more than half of the total number of Executive Directors, are from industrialised countries.

With only one exception, mixed constituencies (constituencies that include both developed and developing country members) are represented by a developed country.¹⁴ In these cases, the fact that split voting is not allowed by the Articles of Agreement compounds the situation of under-representation of the developing country members in the constituency.

- **The “Consensus” System**

In response to the argument that voting power is inequitably distributed, some counter that voting power does not matter in institutions that are ruled by consensus. While it is true that decisions at the Board never come to a vote, this does not mean that voting weight does not have an impact on the outcome. During Board discussions in the IMF and the World Bank, the Secretary keeps a tally of votes on particular decisions which assists the Chairman in formulating the ‘sense of the meeting’. That ‘sense of the meeting’ simply reflects the respective voting powers of those who favour and oppose a particular outcome.¹⁵ In account of this reality, indeed, some issues never even make it directly onto the agenda for discussion if it is predicted they will lack support from key shareholders.

- **Voting Majorities**

The original Articles of Agreement of the IMF and the Bank ensured that only a few key decisions would be taken by special majorities. In the case of the IMF, the US share of 17% meant that in a number of these decisions, which could only be taken with a special majority of the votes (85%), the US would effectively have veto power. Over the years, however, the categories of decisions that require special majority have increased and so has the number of decisions subject to US veto. Within the Bank, the decision to amend the Articles of Agreement was, in 1989, turned into a decision requiring 85% of the votes in order to preserve the US veto.

Some commentators have proposed the introduction of a double majority requirement that would specifically include separate majorities of borrowing countries. This is seen as a way to increase the weight of developing countries in decision-making. While this would require, in principle, an amendment of the Articles of Agreement, if there is genuine desire to increase the participation of developing countries the shareholders could agree to try this option on a pilot basis, restricted to certain types of decisions and for a certain number of years. This would allow stakeholders to evaluate the impact of the model or test different versions before embarking in a reform of Articles of Agreement to make it permanent.

¹⁴ The exception is the constituency comprising Spain, Mexico, Venezuela, Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua, where the representation rotates among Spain, Mexico and Venezuela.

¹⁵ It is also worth noting that the ‘sense of the meeting’ might also, at times, become quite difficult to decipher. This is especially the case when several ED statements present mixed views, such as “on the one hand... on the other.”

- **Leadership and Management Selection**

On the basis of an “unwritten” rule or gentlemen’s agreement, the wealthiest members have traditionally selected the heads of the IFIs, with the US traditionally nominating the President of the World Bank, while Europe nominates the Managing Director of the IMF. In 2001, following the controversy around the European nomination of Caio Koch-Weser to head the Fund, a committee of EDs was established to recommend improvements to the selection process. The committee issued a report in 2001 which recommended an open and competitive process.¹⁶

The flawed nature of the selection mechanism has come under fire twice in the last twelve months with the controversial processes to nomination of a successor to former IMF Managing Director, Mr. Horst Koehler, and World Bank President, Mr. James Wolfensohn. Last year, the sudden vacancy of Mr. Koehler’s post elicited forceful expressions of concern. Calls for an open and transparent selection process came from the African Governors¹⁷, and a statement was issued by a Group of 11 EDs¹⁸. The IMF’s own staff also added its voice to the mix. Eventually the European nominee got appointed. More recently, calls for an open and competitive process in selecting the World Bank president also went unheeded. In what many have termed to be a “one-horse race”, the United States only candidate, Mr. Paul Wolfowitz, in spite of dubious development credentials, was confirmed for the job.

- **Transparency of the Board**

The skewed power structures within these bodies are compounded by an exercise of this power that is hidden from scrutiny. The IFIs do not release records of the discussions, deliberation, votes, and positions taken by the different members of the Boards in their discussions. As a result, it is hard for outsiders to understand the deliberative process and political position taken on the matter by the ED representing their country. The situation is the same for judgments on a country’s compliance with loan conditions or other judgments on performance involving a strong element of subjectivity.

- **Conflicts of Interest**

The IFIs have become large bureaucracies whose many functions give rise to conflicts of interest. While they have a primary responsibility to provide financing, they have been transformed into institutions that also do research that is used to inform loan decision and monitoring, as well as provision of technical assistance and policy advice to the borrowers. A key problem which has arisen is that the impartiality of the knowledge branches of the World Bank and IMF is suspect as they are under pressure to justify the loans and the policies of their lending arms. IFI assessments of a country’s policies will inevitably be clouded by policies which the IFIs have recommended and the fulfilment or otherwise of those policies.

An expression of this conflict of interest arose during recent discussions about a proposed Sovereign Debt Restructuring Mechanism (SDRM). The SDRM was criticized for its lack of sensitivity to the creditor-debtor power relationship, lack of consideration to poverty reduction and for addressing only a portion of the debt. However, even the modest objective of the SDRM, which

¹⁶ Bank Working Group to Review the Process for Selection of the President and Fund Working Group to Review the Process for Selection of the Managing Director 2001.

¹⁷ Consultative Meeting of African Governors of the Bretton Woods Institutions 2004 (also calling for the consideration of an African Deputy Managing Director for the institution).

¹⁸ IMF 2004.

was to achieve better inter-creditor coordination, was frustrated by the proposal's attempt to put forward the IMF, itself a creditor, in a prominent position in the debt resolution process.¹⁹

This shows that IFI reform should focus on creating new mechanisms that build just relationships between creditors and debtors. The Commission for Africa recently proposed a transparent debt compact to address debt cancellation for all sub-Saharan African countries. The Helsinki Process has proposed the establishment of an independent debt arbitration as “an effective mechanism for debt negotiation.”²⁰ Along these lines, CIDSE continues to call for a Fair and Transparent Arbitration Procedure (FTAP): an independent debt workout mechanism approved by creditors and debtors alike, aimed at poverty reduction, and including the participation of representatives of those whose lives would be most seriously affected by its decisions. Such a process would ensure that analytical and political issues on debt sustainability, debt relief and needed levels of new financing are addressed by a separate structure that does not share the IFIs' incentives as lenders.²¹ The proposed ‘debt compact’ should be shaped according to these principles.

Finally, the hegemony of the IFIs in surveillance, research and policy advice is entrenched by their roles as lenders and gatekeepers in development finance. There is an urgent need to both diversify the sources of analysis available to developing country governments and to end the IFIs' gatekeeper role. Sovereign governments must be given the space to adopt policies according to such independent analysis. Donors will need to forgo the comfort blanket of an IMF programme as a signal of sound economic management and take a stance based on their own transparent assessment of the government's economic decision-making, in conjunction with other stakeholders at a national level (see Section II).

Recommendations

- **Voting power within the BWIs should be reallocated so as to fulfil the political outcome mandated by the Monterrey Consensus document of “increasing the participation of developing countries and countries in transition.” This could be achieved by ensuring a review of the quota formula that removes elements that systematically underestimate the size of developing country economies (e.g., the measurement of GDP should be done in Power Purchasing Parity terms). The formula should also incorporate some “demand” measures such as external debt or vulnerability to external shocks. Basic votes should be increased so as to ensure the ratio of basic votes to total votes is, at least, equal to that at the time of the founding of the institutions.**
- **The Board should be restructured so as to increase the number of developing country Board seats. This can be done without expanding the Board's size, by, for instance, a rationalization of European representation, warranted in light of steps taken towards European unification.²² The constituencies represented by each ED should be reshaped, with a ceiling of no more than 10 countries per constituency being established. In the short term, the practice of noting dissenting votes in the constituency should be formalized and institutionalized as a standard practice.**
- **Board members should express their positions with formal votes rather than informal indications of position.**

¹⁹ CIDSE/Caritas Internationalis, 2004b.

²⁰ Report of the Helsinki Process 2005.

²¹ CIDSE/Caritas Internationalis, 2004b.

²² This proposal has been made by Van Houtven, 2004.

- **The use of double-majority voting modalities should be given serious consideration as a tool to increase the weight of borrowing countries in decision-making within the BWIs. As a first step, the shareholders should agree on trying the model on a pilot basis, while a process should be established to reach a decision on how to implement double-majority voting on a permanent basis.**
- **The leaders of the organisations should be selected through open and transparent merit-based processes.**
- **The IFIs should become more transparent by making the transcripts and minutes of board meetings available to the public. Furthermore, real democratic control over the Fund and the Bank activities is necessary through parliamentary control. The IFIs should make it mandatory for shareholders to certify that policy positions taken at the Board are regularly reviewed by a national Parliamentary Committee or other representative forum. Implications of financial commitments to the BWIs should similarly be reviewed by such forums (i.e. low-income members' governments should be held accountable by public representatives and civil society for the implications of loans contracted, as should the IFIs who give the loans).**
- **There is a need to diversify the sources of analysis available to developing country governments and to end the IFIs' gatekeeper role for development finance. Donors should increase support for research and analysis by international institutions such as the UNDP and UNCTAD and country-based policy-oriented research institutions, support that should not be conditioned on adopting particular methodologies or economic models. They should also cease to rely on an 'on-track' IMF programme as a 'signal' of good economic governance.**
- **A debt compact, as recently proposed by the Commission for Africa, should be shaped according to the principles of a Fair and Transparent Arbitration Process, approved by creditors and debtors alike and include representatives of those most affected by its decisions.**

II. Promoting a Plurality of Approaches to Equitable Development²³

Since the advent of policy-based lending, in the early 1980s, the IFIs have generally pursued a standardised approach to managing the economic problems of a country regardless of its particular circumstances. The central tenets of this approach, most commonly termed “neo-liberalism” or the “Washington Consensus” are deregulation, privatisation, ensuring greater openness to foreign investment, trade liberalisation, unrestricted movement of capital and lower taxes. Indeed most of the staff of the World Bank and IMF have studied macroeconomics at western universities, notably in the US, where this neo-liberal economic model is the only one considered viable and, thus, dismisses analyses that differ from its core tenets.

The IFIs do not effectively incorporate local input into their decision-making processes, even when they purposefully solicit it. A good example of this is the experience with the Poverty Reduction Strategy (PRS) process. This process is supposed to be a participatory one led by governments, together with their respective civil societies, in order to devise a country-owned and country-led long-term development plan. The PRS paper that results from the process is to be fully owned by the government, reflecting each country's unique historic, political, and economic circumstances.

²³ This section draws heavily on CIDSE/Caritas Internationalis, 2004b.

While in some countries the PRS has been a very important vehicle for promoting government-civil society dialogue over economic and development policy and some slight variations in policy approaches have been allowed, the PRS papers have not diverged fundamentally from the economic principles of the Washington Consensus.

Three main reasons underlie this lack of variation. Firstly, the BWIs assistance to client countries is less predicated on the PRSP than on other instruments removed from public discussion, notably the CPIA and the PRGF.²⁴ Secondly, the real or perceived fear that the World Bank and IMF will not provide new loans or debt relief to countries that dare to address their economic policies differently has led in many cases to “self-censorship” on the part of borrowing governments. The Boards of the Bank and Fund no longer endorse a PRSP – this is the main action taken in response to the PRSP evaluations carried out by the Independent Evaluation Office (IEO) of the IMF and the Operations Evaluation Department (OED) of the World Bank.²⁵ However, they can reject the macroeconomic policies within it by refusing to agree or by suspending PRGF or PRSC-supported programmes. A third element is the fact that PRSPs are perceived as another bureaucratic conditionality which governments have to deal with in order to get resources from donors, regardless of existing development planning processes at country level. This point is clearly acknowledged in the aforementioned IEO/OED evaluations.

The critical issue is the institutional incapacity to think of economic policy as inherently political and social. Processes for poverty reduction are considered another technical issue that economic models can help resolve, where some countries perform well and others do not. There is no recognition of the highly political dimension to the choices made by governments in these processes. Governments deal constantly in trade-offs where some groups will benefit, while others will not. If genuinely committed to poverty reduction, the IFIs should always take a stance in favour of the poor on the basis of sound evidence – this is the preferential option for the poor in practice.

The IFIs have responded to criticism regarding the one-size-fits-all policies of structural adjustment by augmenting the Washington Consensus with a number of ‘soft’ social and institutional policies. However, consideration of institutional factors has not differed from the traditional economic policy in terms of its lack of diversity and respect for local realities, and the prescriptive nature of IFI policy. Social concerns have been marginally taken into account as an add-on to economic policy models rather than in order to transform them. For example, the increasing role played by governance and social equity indicators in the World Bank’s Country Policy and Institutional Assessment (CPIA) tend to reinforce old-fashioned conditionality.

The IFIs do not adequately incorporate civil society analyses into their lending and policy decisions, despite constant pressure from civil society representatives. Though they have come to accept information about projects gathered by civil society organisations at the local level, the IFIs’ official views come primarily from internal studies produced by their own staff. Although there has been an increase in the number and type of venues for consultation between IFIs and civil society actors, including NGDOs and faith based groups, - a positive change that should not be overlooked - the lack of strategic follow-up has led to a widespread perception that these contributions have had little real impact.²⁶

The most troubling aspect of the IFIs’ homogeneous approach to development is their response to failed adjustment policies. Although they are beginning to acknowledge their failure throughout Africa in the 1990s, for example, they take no responsibility for, much less attempt to reverse, the

²⁴ CIDSE/Caritas Internationalis, 2004a, 8/9.

²⁵ IMF / IEO (2004) and World Bank / OED (2004).

²⁶ Ibid.

damage that has been done. And yet, in many of those countries, generations to come will suffer the consequences of the IFIs' failure to support policies to tackle growing inequality, lack of employment opportunities, degraded environments, and failed health care, education and pension systems. Moreover, while they do so their countries will have accumulated more debt which will further impoverish future generations and bind countries to the policy conditionality of the IFIs. Indeed, since the mid-90s debt relief has been used as an instrument to leverage policy change with little actual impact on the release of additional resources for development.

Evaluations of the PRS approach in 2004 by the Independent Evaluation Office (IEO) of the IMF and the Operations Evaluation Department (OED) of the World Bank have revealed that there still remains much to change. Both evaluations found: the IFIs have failed to facilitate meaningful discussion of alternative policy options; they have failed to align the content of their programmes to PRSPs; they are driven by their own internal process requirements rather than by the needs of each country and its domestic procedures, including budget cycles; they have failed to make micro-macro linkages or to engage adequately in poverty and social impact analysis, particularly in the area of economic growth and poverty reduction; their policy analysis and recommendations are not accessible enough to the public or indeed to policymakers; and their systems for recording conditionality are mutually incompatible, so it is impossible to evaluate whether streamlining of conditionality has taken place.

This affirms much of what had been written by NGOs and networks such as CIDSE / Caritas Internationalis about the role of the IFIs in the PRS initiative.²⁷ Both reports make recommendations which should be taken up and concretised – notably in the area of encouraging country-led management, which can only happen if countries are given freedom to choose policy alternatives preferred by the country rather than imposed by the IFIs.

The ultimate objectives of the IFIs should be to contribute towards poverty eradication and equitable development, based on strategies developed and implemented by sovereign governments who are held to account by their citizens. In contributing to poverty eradication and equitable development, each institution must focus on its core area of competence to ensure that its policies of macroeconomic stabilisation, growth and development are informed by the poor, and implemented only where they are freely adopted by government as the optimal solution, following adequate analysis of alternatives.

Recommendations

- **In the immediate future, the analysis in the IEO and OED evaluations should be used to drive concrete policy change with respect to institutional openness and transparency, processes for negotiating programme agreements and aligning them to national strategies, and development of alternative policy options within and outside the IFIs. In the longer term, a radical revision of the architecture of PRSPs should be undertaken in order to bring all actors, including the IMF and World Bank inside a domestic, partnership-based, decision-making forum.²⁸ According to this model of alignment, all donors, including the World Bank and IMF, should show their commitment to national ownership by aligning their policy procedures to national processes (i.e. budget debates, stakeholder forums, sectoral working groups etc.) and by bringing programme negotiation and implementation issues centre-stage under the PRSP approach rather than conducting business 'in the wings.'**

²⁷ CIDSE/Caritas Internationalis 2004a.

²⁸ Ibid.

- **There is a need to adopt clear and agreed criteria for limiting the parameters of conditionality. Conditionalities should be: drawn from the PRS or equivalent national strategy; limited to areas of policy change identified as government priorities and not imposed to achieve economic policy change; subject to PSIA's in order to identify alternative policy paths, rather than simply building safety nets; transparent, publicly accessible and subject to parliamentary and public scrutiny; coordinated with other donors under a government-led policy framework; and designed so that failure to achieve progress in one area does not result in budget support withdrawal from donors.**
- **The IFIs should consider alternative development policies in the formulation of key IFI programmes, such as the Poverty Reduction Growth Facility (PRGF) and the Poverty Reduction Support Credit (PRSC). To this purpose, they should work with governments, civil society actors and specialised bodies such as the United Nations Development Programme (UNDP) to build on and further develop the capacity to produce ranges of policy options, including undertaking examinations of the economic, social and political trade-offs associated with different policy paths. Such an approach would also serve to develop accountability measures at the political level and improve overall governance.**

III. Ensuring the IFIs' Role in the System of Global Institutions Respects the Primacy of International Human Rights Law and Economic and Social Development

It is important to place the issue of reform of the Bretton Woods Institutions in the broader context of the architecture of institutions responsible for channelling collective global action on development, human rights and security. The UN Charter was conceived as a normative model to ensure that international policies, notably those in the monetary, financial and trade sectors, would be coherent and thereby provide solutions to international problems of an economic, social, cultural or humanitarian character, while promoting respect for human rights for all. To that end, the system relied on two principles: specialisation and coordination. Within this scheme, the World Bank and International Monetary Fund were specialised agencies of the UN. They did not have, per se, jurisdiction on human rights issues. This was not to mean that they would have no obligations under human rights law. In a system where they had limited mandates related to economic policy only, they were subordinated to the UN.²⁹ It was the UN's role (particularly through the Economic and Social Council) to be the guardian of universal human rights standards and to ensure the primacy of human rights across the spectrum of activities of specialised agencies.

However, the IFIs have slowly accumulated additional power and functions within the international system by taking on many of the issues that were once the primary responsibility of the UN and its family of agencies. As a large number of newly independent countries joined the UN during the 1960s and 1970s, the weight of developing countries under the UN's one-country-one-vote system increased. Thus, the leading industrial countries sought to concentrate more decision-making power within the IFIs where a voting power allocation system largely skewed in their favour allowed them

²⁹ See Tilburg Principles on World Bank, IMF and Human Rights 2002, para. 6 (stating that the nature of the IFIs as specialized agencies is "another indication of their international legal personality separate from their members, which carries with it rights and obligations according to international law." See also para. 4 ("The responsibility for implementing human rights is universal and concerns all – state and non-state – actors whose activities may affect people's lives. The primary responsibilities and obligations in the field of domestic human rights enjoyment, however, remain with the State: States cannot 'delegate' human rights obligations to, for instance, international institutions and relieve themselves of these obligations. As international legal persons, the World Bank and the IMF have international legal obligations to take full responsibility for human rights respect in situations where the institutions' own projects, policies or programmes negatively impact or undermine the enjoyment of human rights.").

to exert greater influence. By the end of the 1990s, the IFIs were involved in funding, policy, monitoring and evaluation in areas as diverse as structural adjustment, poverty reduction, environment, health, governance, education and civil society development - a phenomenon that is known as “mission creep”. Yet, they did so without the authorisation of or debate among the international organisations that were formally responsible for multilateral cooperation on these issues.

This process was facilitated by the language in the agreements approved by the IMF and World Bank in 1947 to co-operate with the Economic and Social Council and other UN bodies, which recognized them as ‘specialised agencies,’ as defined in Article 57 of the UN Charter. In fact, such Relationship Agreements grant a significant degree of independence to the Bretton Woods Institutions as compared with that enjoyed by the rest of the UN Agencies. This has been a key factor enabling the richest countries to expand the mandates of the international financial institutions unchecked by the broader international community.

As a result, the international financial institutions today exert significant influence on the ability of client countries to protect and promote human rights. In some cases this influence is exerted directly, by setting actual policy on non-economic areas, while in other cases this influence is exercised indirectly, through the impact of economic policy prescriptions on human rights issues.

Whenever these prescriptions are in conflict with those of other UN specialized agencies and bodies, including those in charge of human rights, the IFIs prescription tends to prevail on account of their power to influence the flows of much-needed official development assistance and private investment to those countries.³⁰

The Monterrey Consensus, by restating the general principles of specialization and coordination enshrined in the UN Charter, provided sound basis for restoring the role of the UN in the normative and agenda-setting arena.³¹ However, the Monterrey implementation process has yet to demonstrate its potential to re-establish this role for the UN. The UN Secretary General once again emphasised the role that the Economic and Social Council should play in his report for the September 2005 review of the Millennium Declaration. He noted that ‘it is the only organ if the United Nations explicitly mandated by the Charter to coordinate the activities of the specialised agencies’.³² Members of the UN should determine concrete means, based on the Secretary General’s recommendations in this report, to bring the IFIs under the explicit coordination function of a reformed ECOSOC.

Recommendations

- **As part of the UN system, the IFIs should be held accountable to international human rights law, including the International Covenant on Economic, Social and Cultural Rights and the interpreting jurisprudence. A good starting point would be the approval and further elaboration of the Draft Guidelines prepared by the Office of the High**

³⁰ The IFIs not only administer a substantial share of all official development assistance, these institutions also exert enormous power by acting as gatekeepers for flows of official development assistance. They give their stamp of approval to countries they deem fit for investment, thereby signalling to the rest of the international community, including bilateral donors, other international financial institutions, and even the private sector, that it is safe to invest.

³¹ See International Conference on Financing for Development Final Outcome Document, para. 52 for coordination (“we should encourage policy and program coordination of international institutions and coherence at the operational and international levels to meet the Millennium Declaration development goals of sustained economic growth, poverty eradication and sustainable development.”) and para. 68 for specialization (“Greater cooperation among existing institutions is needed, based on a clear understanding and respect for their respective mandates and governance structures.”).

³² United Nations 2005, para. 172.

Commissioner on Human Rights on ‘A Human Rights Approach to Poverty Reduction Strategies’³³. The Inspection Panel of the World Bank should be given powers of enforcement and restitution in the event of human rights violations as a result of the World Bank lending decisions.

- **In order to ensure accountability of the IFIs to the international human rights framework the UN’s role in global governance should be strengthened and co-ordination between the IFIs and the UN agencies improved. The follow-up process to the Monterrey Consensus – i.e. the June 2005 High Level Dialogue of the General Assembly with the Bretton Woods Institutions and the World Trade Organization – provides a venue to discuss longer-term means to achieving this goal. Serious consideration should be given to the proposal for establishing an Executive Committee of ECOSOC at the intergovernmental level, responsible for providing ongoing and regular follow up to the mandates emerging from the Monterrey Consensus.**³⁴
- **The Relationship Agreements linking the IMF with the UN and the World Bank with the UN should be renegotiated with an aim to: a) enhance the responsibility of the IMF and World Bank to the UN and b) enhance the ability of the UN to ensure that international financial institutions fully respect the jurisdiction of other agencies, funds and bodies, particularly those with non-economic mandates. In the longer term, permanent mechanisms for solving jurisdictional disputes in a transparent way should be established.**

Conclusion

CIDSE believes that reform of the IFIs should be based on the principles noted at the outset: namely, **solidarity, subsidiarity** and a **preferential option for the poor**. Reform is urgent – it is being demanded by the majority of shareholders of both institutions and it is part of the reform agenda of the UN proposed in the UN Secretary General’s report. This agenda will be discussed in September 2005 at the follow-up to the Millennium Summit. More potently, IFI reform is urgent because the consequences for the life chances of people affected by IFI policies are in the balance.

At the Monterrey International Conference on Financing for Development, 2002, the IMF and World Bank committed to “continue to enhance the participation of all developing countries in their decision making.” Little has changed since then in spite of the fact that it would be in the interest of the IFIs to take steps to ensure that they “represented the diversity of members across regions.”³⁵

CIDSE believes that voting power should be reallocated to fulfil the Monterrey mandate. In addition, transparency around decision-making should be improved through formalised voting and publication of positions taken. Double-majority voting modalities should be introduced on a pilot

³³ Office of the High Commissioner on Human Rights 2002, Draft Guideline 18, para. 244 and 245 (Clearly laying down the responsibility of states as members of the World Bank and the IMF to ensure that the policies of these institutions conform to the states’ human rights duties and that in determining the policies of these institutions, the states should be subject to monitoring and accountability procedures at the state level; the guideline provides that international institutions must also be subject to accessible, transparent and effective monitoring and accountability procedures. If they fail to do so, steps must be taken to establish appropriate monitoring and accountability mechanisms in relation to the poverty reduction and human rights responsibilities of these institutions.)

³⁴ See United Nations 2005, para. 180 (“The [Economic and Social] Council needs an effective, efficient and representative intergovernmental mechanism for engaging its counterparts in the institutions dealing with finance and trade. This could either be achieved by expanding its Bureau or by establishing an Executive Committee with a regionally balanced composition.”)

³⁵ Statement by a Group of IMF Executive Directors on the Selection process for a New Managing Director. IMF Press Release No. 04/55. March 19, 2004.

basis; transcripts and minutes of Board meetings should be made available to the public and shareholders should institute processes of parliamentary monitoring of positions and decisions taken by their government at the Boards. There is a need to diversify the sources of analysis available to developing country governments and to end the IFIs' gatekeeper role for development finance. The 'debt compact' proposed by the Commission for Africa should be implemented on the basis of the principles of a Fair and Transparent Arbitration Process.³⁶

The IMF and World Bank should commit to supporting genuinely country-led development strategies, which will require them to reform both policy conditionality and the manner in which they engage in low-income countries. In the short-term, the IMF and World Bank should develop and implement improved policies on transparency, poverty and social impact analysis of policy conditions, allow and promote meaningful debate of alternative policy options. In the longer term, a radical revision of the architecture of PRSPs should be undertaken in order to bring all actors, including the IMF and World Bank inside a domestic, partnership-based, decision-making forum on economic strategy, policy-making, governance and conditionality.

As part of the UN system, the IFIs should be held accountable to international human rights law, including the International Covenant on Economic, Social and Cultural Rights and the interpreting jurisprudence. Effective accountability requires at least a strengthened role for the UN in global economic governance, supported through the establishment of an Executive Committee of ECOSOC at the intergovernmental level, and a review of the Relationship Agreements linking it to the World Bank and the IMF.

Reform of the World Bank and IMF is inevitable. Indeed, there has been a process of internal evaluations and external pressure which are moving the institutions inexorably though slowly towards change. That change must now be carefully managed to ensure that it amounts to a bold step in favour of poverty reduction, justice and equality.

³⁶ Commission for Africa (2005), p 56.

Bibliography

Bank Working Group to Review the Process for Selection of the President and Fund Working Group to Review the Process for Selection of the Managing Director (2001). Joint Report, April.

Beltran, Gil S. (2005). Governance in Bretton Woods Institutions. Paper prepared for the G24 XX Technical Meeting (available at <http://www.g24.org/GBeltran.pdf>)

Besanzon, K., F. Sagasti and F. Prada (2004). The Future of Development Financing: Challenges and Strategic Choices. Global Development Studies No. 1. Publication of the Ministry for Foreign Affairs, Sweden.

Buira A. 2002. A New Voting Structure for the IMF.

Buira, A. 2003. Adjustment of EU Quotas for Intra Euro Zone Trade.

Buira, A. 2003. The Governance of the IMF in a Global Economy in Challenges to the World Bank and the IMF, Developing Country Perspectives. Edited by Ariel Buira for the G24 Research Program, Anthem Press.

Caliari A., Schroeder F. (2003). Reform Proposals for the Governance Structures of the International Financial Institutions. New Rules for Global Finance Briefing Paper.

CIDSE/ Caritas Internationalis (2004). Working Towards Progressive Global Governance. A CIDSE/CI Background Paper. May. (available at <http://www.cidse.org/docs/200504110959007260.pdf>)

CIDSE/ Caritas Internationalis (2004a). PRSP as Theatre – Backstage policy-making and the future of the PRSP approach. A CIDSE – Caritas Internationalis Background Paper. September. (available at <http://www.cidse.org/docs/200409271723027101.pdf>)

CIDSE/ Caritas Internationalis (2004b). Sustainability and Justice: A Comprehensive Debt Workout for Poor Countries UIT an International fair and Transparent Arbitration Process (FTAP). A CIDSE / Caritas Internationalis Position Paper. September. (available at <http://www.cidse.org/docs/200410291009437888.pdf>)

Commission for Africa (2005). Our Common Interest (available at www.commissionforafrica.org)

Consultative Meeting of African Governors of the Bretton Woods Institutions (2004). Communique.

Group of 24 (2004). Communique, April 24.

IMF (2004). Statement by the G-11 Executive Directors of the IMF on the Selection Procedures for appointing the IMF Managing Director. Press Release No. 04/64, March 31.

IMF / IEO (2004). Report on the Evaluation of Poverty Reduction Strategy Papers (PRSPs) and Poverty Reduction and Growth Facility (PRGF), Washington DC.

International Conference on Financing for Development, Final Outcome or “Monterrey Consensus”, adopted on March 22, 2002.

Meltzer A. (2000). Report of the International Financial Institutions Advisory Commission. Washington, DC.

Nayyar D., Court J. (2002). Governing Globalization: Issues and Institutions. UNU/WIDER Policy Brief No.5.

Office of the High Commissioner on Human Rights (2002). Draft Guidelines: A Human Rights Approach to Poverty Reduction Strategies.

Report of the Helsinki Process on Globalization and Democracy, Track on Global Economic Agenda (2005). “Mobilizing Resources for the Millennium Development Goals”.

Rustomjee, Cyrus (2004). Improving Southern Voice on the IMF Board: Quo Vadis Shareholders? (available at www.new-rules.org).

Tilburg Guiding Principles on World Bank, IMF and Human Rights (2002). Drafted by Group of Experts meeting at Tilburg University, Netherlands. Ed. By Prof. Willem van Genutgen, Prof. Kees Flinterman, Prof. Paul Hunt and Susan Mathews, LL. M.

United Nations (2005). In Larger Freedom: Towards Development, Security and Human Rights for All. Report of the Secretary General. March 21, 2005.

United Nations Department of Economic and Social Affairs (2005). World Economic Situation and Prospects.

Van Houtven, L. (2004). Rethinking IMF Governance, Finance and Development, September.

Woods N. 2000. The Challenge of Good Governance for the IMF and the World Bank Themselves. World Development, Vol. 28 No.5.

World Bank / OED (2004). The Poverty Reduction Strategy Initiative – An independent Evaluation of the World Bank’s support through 2003, Washington DC.

Members of the CIDSE-Caritas Internationalis Working Group on Resources for Development & other Member Organizations working on Global Governance Issues

BROEDERLIJK DELEN

Contact person : Ann De Jonghe
165, Huidevettersstraat
1000 BRUSSELS - BELGIUM
Tel : (32) 2 213 04 31 - Fax : (32) 2 502 81 01
Email : ann.dejonghe@broederlijkdelen.be
Web : <http://www.broederlijkdelen.be>

CAFOD (CIDSE/CI)

Contact person : Henry Northover
2 Romero Close, Stockwell Road
LONDON SW9 9TY - UK
Tel : (44) 20 73265670 - Fax : (44) 20 72749630
Email : hnorthover@cafod.org.uk
Web : <http://www.cafod.org.uk/>

CARITAS SPAIN (CI)

Contact person : Maria Vilanueva
San Bernardo, 99 bis
Apartado de Correos n. 10095
28015 MADRID - SPAIN
Tel : (34) 91-4441000 - Fax : (34) 91-5934882
Email : mvillanueva.ssgg@caritas.es
Web : <http://www.caritas.es/>

CCFD (Comité Catholique contre la Faim et pour le Développement)

Contact person : Jean Merckaert
4, rue Jean Lantier
75001 PARIS - FRANCE
Tel : (33) 1 44 82 80 00 - Fax : (33) 1 44 82 81 43
Email : j.merckaert@ccfd.asso.fr
Web : <http://www.ccfcd.asso.fr/>

CENTER OF CONCERN

Contact person : Aldo Caliani
1225 Otis Street N.E.
WASHINGTON DC 20017 - USA
Tel : (1) 202 6352757 - Fax : (1) 202 8329494
Email : aldo@coc.org
Web : <http://www.coc.org>

CORDAID (CIDSE/CI)

Contact person : Johan van Rixtel
Lutherse Burgwal 10
Postbus 16440
2500 BK DEN HAAG - THE NETHERLANDS
Tel : (31) 70 3136337 - Fax : (31) 70 3136152
Email : johan.van.rixtel@cordaid.nl
Web : <http://www.cordaid.nl/>

ENTRAIDE ET FRATERNITE

Contact person : François Letocart
32, rue du Gouvernement Provisoire
1000 BRUSSELS - BELGIUM
Tel : (32) 2 227 66 80 - Fax : (32) 2 217 32 59
Email : fl@entraide.be
Web : <http://www.entraide.be>

FASTENOPFER/ACTION DE CAREME

Contact person : Markus Brun
44, Habsburgerstrasse - Postfach 2856
6002 LUZERN - SWITZERLAND
Tel : (41) 41 227 59 59 - Fax : (41) 41 227 59 10
Email : brun@fastenopfer.ch
Web : <http://www.fastenopfer.ch>

MISEREOR

Contact person : Georg Stoll
9, Mozartstrasse - Postfach 1450
52064 AACHEN - GERMANY
Tel : (49) 241 44 20 - Fax : (49) 241 44 21 88
Email : hermle@misereor.de
Web : <http://www.misereor.de>

SECOURS CATHOLIQUE - CARITAS FRANCE (CI)

Contact person : Jean-Pol Evrard
106 rue du Bac
75341 PARIS Cedex 07 - FRANCE
Tel: (33) 1 45 49 73 30 - Fax: (33) 1 45 49 94 50
Courriel : jean-pol-evrard@secours-catholique.asso.fr
Web: <http://www.secours-catholique.asso.fr>

TRÓCAIRE – CARITAS IRELAND (CIDSE/CI)

Contact persons : Caoimhe de Barra /Lorna Gold
Maynooth - Co.Kildare - IRELAND
Tel : (353) 1 629 3333 - Fax : (353) 1 629 0661
Email : cdbarra@trocaire.ie - lgold@trocaire.ie
Web : <http://www.trocaire.org>

VOLONTARI NEL MONDO – FOCSIV

Contact person : Cecilia Dall'Oglio
18 Via S. Francesco di Sales
00165 ROME - ITALY
Tel : (39) 06 687 77 96 - Fax : (39) 06 687 23 73
Email : internazionale@focsiv.it
Web : <http://www.focsiv.it>

CIDSE Secretariat

Contact person : Jean Letitia Saldanha
Rue Stévin 16
1000 BRUSSELS - BELGIUM
Tel : (32) 2 233 37 53 - Fax : (32) 2 230 70 82
Email : saldanha@cidse.org
Web : <http://www.cidse.org>

Caritas Internationalis Secretariat

Contact person: Jacques Bertrand
Palazzo San Calisto
00120 VATICAN CITY
Tel: (39) 06 698 797 99 - Fax: (39) 06 698 87 237
Email: bertrand@caritas.va
Web: <http://www.caritas.org>