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Timothy Lane: Directions for Reform of the IMF

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Dr. Lane proceeded in his second lecture to ask how far these five tensions might be attributable to the governance and decision-making structure of the IMF and whether changes to this structure might therefore alleviate the tensions. His starting point was that, while there was a debate to be had about the scope of the IMF's activities, the governance of the IMF was a prior issue to the decisions taken by its members about what its tasks and activities should be.

Dr. Lane summarised the formal decision-making processes of the IMF, drawing attention to the distinct constitutional roles of the Board of Governors, the IMFC, the Executive Board, the Management and the Staff. He illustrated the operation of these roles with reference to the agreement of both a 'standard' financing Agreement and a more high profile case. Dr. Lane noted that the voting structure was only the tip of the iceberg in respect of the IMF's governance as a whole.

A number of constraints operated on the process of drawing up a financial Arrangement for a borrowing member. There was an expectation that any Arrangement adhered to the IMF's general policy guidelines, e.g. on access policy or conditionality. The Arrangement had to be acceptable to the borrower and to the Executive Board. It also had to be supported by financial assurances from other parties, including other donors, the World Bank and private creditors. Dr. Lane noted that the relationship between the IMF and World Bank had been carefully scrutinised in recent years. Since there were both overlapping areas of responsibility and spillover effects from the policies of one institution onto the

¹ Dr. Lane spoke in a personal capacity and noted that the views he presented did not represent the position of the IMF.

operations and policies of the other, close collaboration was necessary and had been somewhat strengthened.

Dr. Lane observed that this process was characterised by certain features. There is discretion within programme design, notwithstanding the constraint of guidelines. Decisions by the Executive Board are conventionally reached by consensus rather than exercising the quota-based voting arrangements, although the views of dissenting Executive Directors are noted in the Summing Up of the Board discussion. The number of actors in any decision made it hard to identify who was ultimately responsible for a given decision, whether within the IMF or between the IMF and the borrower. In the case of high profile borrowing Agreement, the process was characterised by greater time pressure and more informal channels of influence, more involvement by senior officials (of both the IMF, borrower and major shareholders) and more public scrutiny.

Dr. Lane concluded that a number of key issues of governance arose from these decision-making procedures. Firstly, there was concern that developing countries had inadequate 'voice' in the IMF's decisions. The voting structure of the Fund had a certain logic in 1944, when it was assumed that all members were potential borrowers, but had now led to a sharp divide between 'creditors' and 'borrowers'. Developing countries also had fewer support staff, were arguably less well represented through multi-country constituencies, had less access to IMF staff and were excluded from the undignified process of selecting the IMF's Managing Director. Proposals to adjust the voting weights would advantage some developing countries but were, ultimately, a zero-sum game. Secondly, the flip-side of developing country 'weakness' in the decision-making process was disproportionate influence of industrial countries and especially the largest shareholder(s).

Dr. Lane went on to consider how decision-making might be reformed, offering two alternative polar models of governance: direct control and accountability. Under direct control, the discretion of the Management and Staff would be radically curtailed and mechanisms devised to give greater control to members. With an accountability model, drawing on the example of central bank independence, the Management and Staff would be granted greater day-to-day autonomy in return for more accountability against pre-determined criteria. This second approach had the advantage of pushing back against those tensions which arose from political influence over the IMF's decisions. To achieve this, the formal procedures of the Executive Board might be reformed through a smaller number of elected Executive Directors serving fixed terms and taking more transparent decisions. The activities of the Management and Staff would then have to be carefully monitored. Dr. Lane stressed, however, that the indicators of 'success' were inherently very difficult to identify ex ante (or even ex post).

In conclusion, Dr. Lane suggested that some move in the direction of less direct political involvement and greater accountability of the IMF Management and Staff

would be desirable—and could be viewed as preconditions for addressing the main tensions identified in the previous lecture. But at the same time, it was inevitable that the IMF would continue to be subject to direct political control by its members, given the importance of many of its decisions and the inherent difficulty of establishing other forms of accountability given the scope of IMF activities. Furthermore, the political involvement of members did lend the IMF greater legitimacy and influence than it would have as a more independent body.

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