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The Challenge of Good Governance for the IMF and the World Bank Themselves

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Summary. — Over the last decade, the International Monetary Fund (IMF) and the World Bank have embraced "good governance" as a set of principles to guide their objectives in member countries. Both institutions now face pressures to apply some similar standards of transparency, accountability and participation to themselves. This paper examines the challenges this poses for the organizations, beyond the steps they have already undertaken to disseminate more information and to enhance their relations with nongovernmental organizations (NGOs). The paper argues that if "good governance" is to be furthered within the IMF and the World Bank, then changes in their constitutional rules, their balancing of stakeholders' rights, their decision-making rules and practices, and their staffing and expertise need to be considered. © 2000 Elsevier Science Ltd. All rights reserved.

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1. INTRODUCTION

The International Monetary Fund (IMF) and the World Bank enjoy a special place in the politics of world economic relations. Both organizations can claim a virtually universal membership and accountability to governments across the world. In this they are unlike most other international financial institutions, such as the Group of Seven (G-7), [1] the Bank for International Settlements (BIS), [2] the Group of Ten (G-10), [3] and a host of other regulatory agencies. Indeed the claim to universal membership underpinned the IMF's recent insistence that deliberations on any reform of the global financial system should take place within the Fund's Interim Committee as opposed to in any *ad hoc* or US-selected group of countries. Yet the IMF and the World Bank need to reconsider the grounds on which they claim to be universal, representative and accountable organizations.

In the 1990s, both the IMF and the World Bank became powerful advocates of high standards of legitimacy, representation, and accountability in governments seeking to borrow from them. These standards were given the label "good governance." Yet closer scrutiny suggests that the institutions themselves do not altogether live up to these standards. Although both institutions have undertaken significant organizational reforms in the past decade, applying their own standards of "good governance" reveals that further reforms in both institution ought to be considered.

The voting structure of the IMF and the World Bank is one place to start. Votes have been allocated in a highly politicized way since the organizations were created—a fact, in itself posing problems for "good governance" standards of impartiality and transparency. More importantly, as the roles of the institutions have changed over the past four decades, they have not adequately adapted to the emergence of a new category of stakeholders. While both the IMF and World Bank often write of the necessity of including stakeholders in the initiation and design of programs and policies, neither institution has adequately included all present-day stakeholders in its own governance.

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At the same time, whether or not the voting structure is changed, there are several other decision-making issues that deserve review, and especially the respective roles played by the Executive Board, consensus decision-making, nongovernmental organizations, and the staff, management and research in both organizations. This paper makes a case for change in each of these areas. It does not offer a detailed examination of the everyday workings of the institutions. Rather, the analysis focuses on questions of governance with an eye to informing the current debate about reform.

2. IMF AND WORLD BANK DEFINITIONS OF "GOOD GOVERNANCE"

Over the last decade, the IMF and the World Bank have embraced "good governance" as a set of principles to guide their work with member countries. In its 1989 report on sub-Saharan Africa, the World Bank defined "governance" as encompassing: the state's institutional arrangements; the processes for formulating policy, decision-making, and implementation; information flows within government; and the overall relationship between citizens and government. [4] Subsequently, this understanding of governance has been expanded and refined by both the World Bank and the IMF so as to propound standards which are in keeping with their constitutional mandates and might improve the effectiveness of their members' use of resources. In 1992, the World Bank published a report on *Governance and Development*, followed up in 1994 with *Governance: The World Bank's Experience*. [5] Since these publications, the Bank has focused ever more on the issue of good governance, underlining in the 1997 *World Development Report* that "an effective state is vital for the provision of the goods and services—and the rules and institutions—that allow markets to flourish and people to lead healthier, happier lives," and publishing large numbers of statements and studies on good governance. [6] So too in the IMF, "good governance" has been announced as "important for countries at all stages of development." [7]

In both international financial institutions, the "good governance" agenda includes promoting transparency, accountability, efficiency, fairness, participation and ownership. These values translate into a broad objective to improve political accountability, participation, an effective rule of law, transparency, and flows of information between governments and their citizens. Such overall objectives were expressed by the IMF's Managing Director in 1992, when he referred to the need for "democratizing social decisions" in Latin America, and ensuring "for want of a better term, "good governance"—that is, accountable and active governments that enjoy the trust and support of their societies." [8] The international institutions recognize that this support requires political accountability—such as through elections or other direct links between those who rule and those who are ruled. Limited by their own mandates, however, both the IMF and the World Bank have found narrower ways to implement principles such as "participation" and "ownership" so as to enhance support and commitment from citizens and governments towards Fund and Bank programs. The new orthodoxy is that active participation by local policy-makers and citizens must be sought in planning and designing policies and programs, for this ensures local commitment and action in implementing and maintaining them.

The driving force behind the new attention to "participation" and "ownership" has been a very practical one: both the Fund and the Bank wish to improve their effectiveness and research findings demonstrate that new ways of working could improve results. For example, in 1992 the Bank's evaluation department reported a strong correlation (confirmed by significance tests) between various indicators of ownership and the satisfactoriness of program outcomes: ownership was high in most programs achieving good results and low in ineffective programs, and was predictive of program success in 73% of all cases. [9] In 1994, the *World Development Report* highlighted the need for "user involvement" in project design and operation, as well as in decision-making and agreements as to the sharing of benefits and costs. More strongly, the Wapenhans Report recommended the "mainstreaming" of participatory techniques in project design and implementation in order to improve project performance. [10] The relevant techniques were subsequently outlined in the *World Bank Participation Source Book*. [11]

Operationally, the new thinking about participation has been reflected in repeated Bank expressions of commitment to ensuring, for example, greater involvement of "key stakeholders" in the preparation of country