

Why Developing Countries Need a Stronger Voice

Running faster at the IMF, but where's the progress?

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TAKE my hand," said the Red Queen from Lewis Carroll's *Alice Through the Looking Glass*, "and I will teach you something." And Alice took the Red Queen's hand. "Run," said the Red Queen, and Alice ran. "Faster, faster," said the Red Queen, and Alice ran faster.

And so began the IMF's extraordinary foray, in December 1999, into the world of poverty reduction and growth in low-income countries, a world of high-flown objectives and obscure acronyms. I recall vividly the three critical Executive Board decisions, made in quick succession, to launch the Poverty Reduction and Growth Facility (PRGF), the Poverty Reduction Strategy Paper (PRSP) process, and the qualification linking the enhanced Heavily Indebted Poor Countries (HIPC) Initiative to both the PRGF and the PRSP.

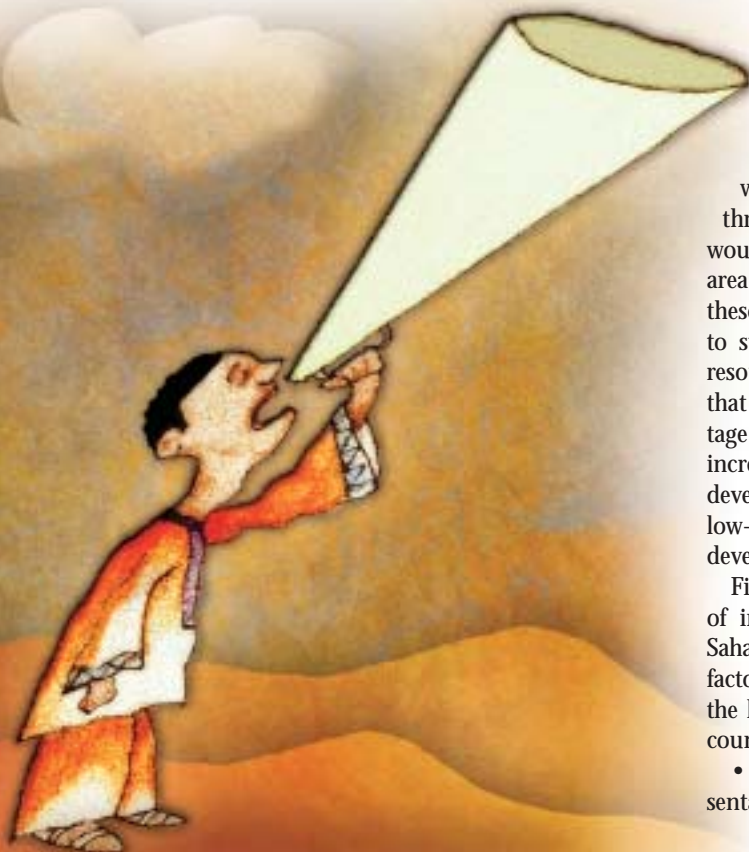
The initiatives were designed to make poverty reduction and economic growth the clear, central objectives of the IMF's work in low-income countries. The traditional focus on short-term stabilization measures, driven particularly by the IMF's focus on financial programming, was intended to give way to a much more nuanced, longer-term approach to economic development that acknowledged institutional, political, economic, and historical limitations in low-income countries and that balanced traditional short-term objectives of macroeconomic stabilization with longer-term objectives of poverty reduction and economic growth.

But, to those unacquainted with the IMF's previous work in low-income countries through the Enhanced Structural Adjustment Facility, it was as if low-income countries were being lured into a vast dungeon, a Shelob's lair, with the Executive Board's decisions representing the final closing of the web around low-income countries' sovereign decision making.

The Executive Board's decisions were not easily achieved. Some constituencies on the Board, such as my own, accepted the proposals very reluctantly. We argued that the success of the three-pronged initiative would hinge on several factors that had not been thought through properly and that, if not adequately addressed, would precipitate the failure of the IMF's venture into an area in which it had little substantive experience. Among these factors were the need to redesign the IMF's approach to stabilization; the need to provide adequate debt relief resources; the need for parallel multilateral trade initiatives that would alter the extraordinary terms of trade disadvantage suffered by low-income countries; the need to rapidly increase resources for human resource capacity building and development, including the IMF's technical assistance in low-income countries; and the need to improve the voice of developing countries in decision making.

Five years later, there have been some successes and a series of important limitations and failures, particularly in sub-Saharan Africa. As the IMF marks its 60th year, several major factors, identified in 1999, can be seen as key reasons for the lack of success of the PRGF in the sub-Saharan African countries:

- the region's wholly inadequate level of voice and representation in the IMF;



- a program design that continues to focus predominantly on the traditional stabilization objectives of the IMF; and
- a series of specific challenges that have been left unaddressed since the launch of the PRGF, PRSPs, and the enhanced HIPC Initiative.

If these factors remain unaddressed, these poverty initiatives will fail and poverty will deepen.

Contrasting outcomes

A number of low-income countries outside sub-Saharan Africa are registering modestly improved GDP growth and are making some headway in reducing poverty. But for many sub-Saharan African countries, GDP growth remains insufficient to establish the momentum they need to exit from profound poverty. Worse still, in many cases, poverty is deepening. This would not be particularly problematic for the integrity of the IMF's overall effort in low-income countries but for the fact that by far the largest proportion of PRGF, PRSP, and HIPC cases are in sub-Saharan Africa, suggesting that, at their center of gravity, the initiatives are failing.

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The sub-Saharan African cases can be split into three categories. The first is a tiny handful of countries that are succeeding in addressing poverty and are registering strong economic growth—for example, Mozambique and Tanzania. The second—comprising the bulk of countries that have entered into PRGF arrangements, many of which have been recipients of HIPC debt relief—are registering no discernible change in growth rates; in several cases, countries are slipping further into poverty. The third category comprises a growing list of failed states that are exhibiting protracted political, economic, and social instability and on which no international multilateral efforts to date have had any significant effect. In addition, in several of the countries that have passed the completion point for HIPC Initiative resources, the combination of adverse terms of trade and other external shocks, coupled with the inadequacy of HIPC resources, has resulted in their slipping back into unsustainable external debt and an adverse balance of payments position.

Too small a voice

The need for improved representation of low-income countries, particularly in sub-Saharan Africa, was a strong theme during my term as Executive Director. This was not a crude attempt to snatch votes and voice but an appeal to reason. Developing countries now account for by far the largest client base of the institution and are the focus of the signifi-

cant majority of the IMF's policies, the entirety of its financing, almost all of its technical assistance, and a large part of IMF surveillance activity. They correctly assert that they should exert a proportionately larger influence over decision making in the institution. But voting strength is extraordinarily skewed in favor of creditors, which command 71 percent of the voting strength in the IMF Executive Board. Extreme creditor domination has resulted in poor decision making, particularly when decisions affect low-income countries, whose representatives on the Board are unable to influence decisions effectively.

Sub-Saharan Africa illustrates the case. Approximately one-fourth of the IMF's member countries are in sub-Saharan Africa. Yet these countries share a combined voting power of 4.4 percent. Forty-four of them are accorded only two Executive Board seats. They represent the majority of PRGF cases, the majority of PRSP cases, and the majority of the IMF's protracted arrears cases and almost all of the IMF member countries that receive postconflict emergency assistance.

Much has been made of the consensus style of decision making in the IMF's Executive Board. During my term on the Board, I witnessed its merits, which were real and effective in many instances. But as a Board member representing a large group of primarily small countries, I also experienced the trap that this model represents. For, in the case of sub-Saharan Africa, when an issue is in dispute among the various shareholders, there is no reasonable possibility of forging a consensus that enables the African members' views to prevail. Instead, consensus means joining a creditor-dominated perspective only to see the specific points of objection that were raised slip away.

Consequences of unbalanced representation

Unbalanced representation is a problem for a number of reasons. First, it breeds inefficiency. A system of decision making that makes it almost impossible for one segment of the membership to achieve an outcome on any matter at all that, on balance, favors its interests above those of the rest of the membership is alienating to that group. In practice, because decisions are always seen to be arrived at based, at best, on a consensus centered on the interests of creditor members, there has been a growing sense of loss of ownership by the developing countries of policies agreed to by the Board. This can be and, indeed, has been costly to the institution and to individual members.

Adequate evidence exists to demonstrate how significantly the imbalance in representation arrangements has affected the efficiency of decision making in the long term. It has been illustrated most vividly during periods of crisis. For example, during the Asian crisis in 1997–98, a host of commentators, including several Asian member countries, argued that IMF program design was inappropriate and failed to take account of the specific circumstances of member countries. The quality of decision making and, in turn, program design and content would have been far improved and the prospects of success strengthened had the recipient members had a

stronger influence. Similar arguments and criticisms have been made not only about many other individual country programs but also about IMF policies in general.

One example is the policy conditions—known as conditionality—attached to lending. IMF conditionality has been the subject of extensive criticism and has affected all developing countries with IMF programs. Despite clear and mounting evidence over many years that program conditionality had become excessive, in many cases irrelevant and in many cases counterproductive, decisions approved by the Executive Board continued, over several years, to favor excessive conditionality, despite repeated and well-argued objections by the debtor countries. Developing countries argue that the lack of votes to carry their view resulted in substantive failure of the IMF's conditionality policy, caused unnecessary reputational damage to the institution, and contributed to program failure in many cases. Fortunately, a fundamental change in conditionality policy was finally agreed after an extensive consultative process, though only after many years of growing policy failure. Inappropriate conditionality was not a costless exercise. In many instances, it resulted in excessively contractionary policies, stunted growth, and postponed poverty reduction. In the process, it alienated even the most committed policymakers.

Similar problems existed with PRSP and HIPC decision making when concerns raised by developing countries were overridden because of the overwhelmingly superior voting power of the creditor group. The consequence was that in almost all instances, both the PRSP and the PRGF processes encountered precisely the challenges and difficulties that developing countries, particularly the PRGF members, had expected. Some of these were subsequently corrected during important reviews of both the PRGF and the PRSP processes in 2002, based again on evidence in the field of mounting and valid objections to several aspects of the process. Yet the objections had been raised three years earlier.

What should be changed?

So, in the context of low-income countries, what should the IMF do differently? Several decisions can be made that can improve the prospects of success.

First, ***the orientation of the PRGF must be shifted away from the overriding preoccupation with demand compression and excessively short term macroeconomic stabilization objectives to more balanced programs incorporating strategies for growth.*** This will necessitate far more PRGF financial resources, a reduction in both the force and the number of quantitative and structural conditions, and improved program design, with a more decisive shift away from the financial programming model to a broader growth-programming orientation that makes possible the shifting of certain responsibilities to the World Bank. Fortunately, there is a solid internal literature on a mixed approach to financial and growth programming, although the underlying logic has not been accepted within the IMF. The evidence of growing failure of both the growth and the poverty reduction elements of the PRGF in sub-Saharan Africa should prompt a rereading of this literature, to find ways to reorient the PRGF or, alternately,

to introduce a new facility for low-income countries. Of the two approaches, having witnessed the significant diversion of human resources in low-income countries between 1999 and 2003 to adjust to the PRSP and the PRGF, I believe a gradual reorientation of the PRGF, over three to five years, would probably be preferred over a sudden adjustment to a new IMF approach to financing low-income countries.

Second, ***the definitions established for debt sustainability, even in the enhanced HIPC Initiative, need revision.*** They were extraordinarily overoptimistic when established in 1999. They might have proved sufficient in an environment of stable exchange rates and steady growth in global trade and financial flows but have certainly been insufficient to afford low-income countries a cushion of sustainability in the face of acute, repetitive, and extraordinarily destabilizing external shocks. In practice, this points to the need for a new initiative to further augment the financial resources available for debt relief.

Third, ***representation arrangements need to be altered in a manner that strengthens the debtors' decision-making capacity.*** The current margin of voting share in favor of creditors beyond that required to ensure a simple majority strikes at the foundation of the principles of collaboration and consensus decision making upon which the IMF operates. It weakens the institution, reduces operational efficiency, gnaws at the institution's legitimacy, erodes ownership of programs and policies by the collective membership, offers no tangible benefit to the collective membership, and has bred understandable resentment in the debtor group. Various potential options to achieve a better balance exist. All require political consensus within the membership, and some would make it possible to preserve some of the factors to which creditors attach importance, including the principle of a perpetual creditor majority, U.S. and European veto power, and relative ranking of creditors.

Fourth, ***global financial resources allocated to human resource development, capacity building, and technical assistance need to be significantly increased.*** One of the clearest lessons of the experience with the PRSP and the PRGF has been the absence of adequate human resources to sustain reforms. The IMF needs to redouble its own efforts, in conjunction with other international agencies, to establish a neutral, effective international agency to address this crucial foundation for sustainable development.

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When the journey was over, the Red Queen asked, "Well, Alice, what did you learn from that experience?" "I'm not sure," said Alice. "But I did notice that the faster I ran, the faster I seemed to stay in the same place." The PRGF/PRSP/HIPC complex has helped some countries. But most remain in the same place, and some, particularly in sub-Saharan Africa, are slipping back. With the IMF at 60, it is time for the institution to take a new road in low-income countries. It is time for the Red Queen to take Alice's hand and learn. ■

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